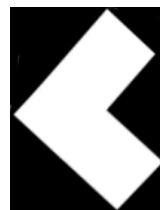


City of Emporia, Virginia
Comprehensive Annual Financial Report
Year Ended June 30, 2011



*Creedle, Jones
& Alga, P.C.*
Certified Public Accountants

City of Emporia, Virginia

Table of Contents

Year Ended June 30, 2011

	Pages
FINANCIAL SECTION	
Independent Auditor's Report	i-ii
Management's Discussion and Analysis	1-8
Basic Financial Statements	
Exhibits	
Government-Wide Financial Statements	
1 Statement of Net Assets	9
2 Statement of Activities	10
Fund Financial Statements	
3 Balance Sheet – Governmental Funds and Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	11-12
4 Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds and Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13-14
5 Statement of Net Assets – Proprietary Funds	15
6 Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	16
7 Statement of Cash Flows – Proprietary Funds	17
Notes to Financial Statements	18-42
Required Supplementary Information	
Exhibit	
8 Budgetary Comparison Schedule – General Fund	43-47
COMPLIANCE SECTION	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	48-49
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	50-51
Schedule of Expenditures of Federal Awards	52-53
Schedule of Findings and Questioned Costs	54
Summary Schedule of Prior Audit Findings	55

FINANCIAL SECTION





**Creedle
Jones
& Alga**

A Professional Corporation

*Sherwood H. Creedle, CPA
Robin B. Jones, CPA, CFP
David V. Alga, CPA, CVA, CFF
Denise C. Williams, CPA, CSEP*

*James A. Allen, Jr., CPA
Nadine L. Chase, CPA
Nadia A. Rogers, CPA
Scott A. Thompson, CPA
Kimberly N. Walker, CPA*

*Members of
American Institute of Certified Public Accountants
Virginia Society of Certified Public Accountants*

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the
City Council
City of Emporia, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Emporia, Virginia, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Emporia, Virginia's management. 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 and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Emporia, Virginia, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2012, on our consideration of the City of Emporia, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 8 and 43 through 47 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Emporia, Virginia's financial statements as a whole. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information, directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Creedle, Jones & Alga, P.C.

Creedle, Jones & Alga, P.C.
Certified Public Accountants

South Hill, Virginia
February 21, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the City of Emporia, Virginia presents the following discussion and analysis as an overview of the City of Emporia, Virginia's financial activities for the fiscal year ending June 30, 2011. We encourage readers to read this discussion and analysis in conjunction with the transmittal letter and the City's financial statements.

Financial Highlights for Fiscal Year 2011

Highlights for Government-Wide Financial Statements

- At the close of the fiscal year, the assets of the City exceeded its liabilities by \$18,445,477. Of this amount, \$5,851,596 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- For the fiscal year, general and program revenues of the City's total governmental activities were \$16,525,150 and expenses amounted to \$15,728,610. The City's total net assets increased \$846,196, after inclusion of changes in encumbrances and a prior period adjustment.

Highlights for Fund Financial Statements

- As of June 30, 2011, the City Governmental Funds reported combined fund balances of \$5,031,369, an increase of \$1,079,661 in comparison with the prior year. Approximately 83.6 percent of the combined fund balances, \$4,208,738, is available to meet the City's current and future needs.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Comprehensive Annual Financial Report consists of two sections: financial and compliance.

- The ***financial section*** has three component parts - management's discussion and analysis (this section), the basic financial statements which include government-wide financial statements and fund financial statements, and required supplementary information.
- The ***compliance section*** is required under the provisions of *Governmental Auditing Standards* and, in some cases, the Single Audit Act of 1984 and the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Government-Wide Financial Statements

The government-wide financial statements report information about the City as a whole using accounting methods similar to those found in the private sector. They also report the City's net assets and how they have changed during the fiscal year.

The first government-wide statement - the Statement of Net Assets - presents information on all of the City's assets and liabilities. The difference between assets and liabilities, net assets, can be used as one way to measure the City's financial health, or financial condition. Over time, increases or decreases in the net assets can be one indicator of whether the City's financial condition is improving or deteriorating. Other non-financial factors will also need to be considered, such as changes in the City's property tax base and the condition of City facilities.

The second statement - the Statement of Activities - presents information using the accrual basis accounting method and shows how the City's net assets changed during the fiscal year. All of the current year's revenues and expenses are shown in the Statement of Activities, regardless of when cash is received or paid.

The government-wide statements are divided into the following two categories:

Governmental Activities: Most of the City's basic services are reported here, including general government administration; judicial administration; public safety; public works; health and welfare; education; parks, recreation, and cultural; and community development. These activities are financed primarily by property taxes, other local taxes, and Federal and State grants. Governmental Funds are included in the governmental activities.

Business-Type Activities: The City of Emporia, Virginia has a Proprietary Enterprise Fund that accounts for the water and sewer system for the City.

Fund Financial Statements

Traditional users of government financial statements will find the fund financial statements more familiar. These statements provide more detailed information about the City's most significant funds. Funds are used to ensure compliance with finance-related legal requirements and are used to keep track of specific sources of revenue and expenses for particular purposes. The City has three kinds of funds:

Governmental Funds - Most of the City's basic services are included in Governmental Funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances remaining at year-end that are available for spending. The Governmental Funds financial statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided with the fund's financial statements to explain the relationship (or differences). The General Fund is the main operating account of the City and, therefore, the largest of the Governmental Funds.

Proprietary Funds - Proprietary Funds, which consist of Enterprise Funds, operate in a manner similar to private business enterprises in which costs are recovered primarily through a user charge. Proprietary Fund financial statements provide both long and short-term financial information. The City has a Water and Sewer Fund that generates revenue based on consumer charges.

Fiduciary Funds - Fiduciary Funds are used to account for resources held by the City for the benefit of parties outside the government. Fiduciary Funds are not reflected in the government-wide statements because the funds are not available to support the City's programs. The City's Fiduciary Funds consist of an Agency Fund. The funds are used to account for monies received, held, and disbursed on behalf of the Emporia Redevelopment and Housing Authority.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets:

Summary of Net Assets

As of June 30, 2011 and 2010

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Government</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Assets						
Current and other assets	\$ 6,711,102	\$ 5,146,889	\$ 1,712,750	\$ 1,404,526	\$ 8,423,852	\$ 6,551,415
Capital assets (net)	<u>15,724,936</u>	<u>16,353,996</u>	<u>10,123,434</u>	<u>10,459,985</u>	<u>25,848,370</u>	<u>26,813,981</u>
Total Assets	<u>\$ 22,436,038</u>	<u>\$ 21,500,885</u>	<u>\$ 11,836,184</u>	<u>\$ 11,864,511</u>	<u>\$ 34,272,222</u>	<u>\$ 33,365,396</u>
Liabilities						
Other liabilities	\$ 1,703,722	\$ 1,231,719	\$ 501,912	\$ 501,957	\$ 2,205,634	\$ 1,733,676
Long-term liabilities	<u>3,727,951</u>	<u>4,110,998</u>	<u>9,893,160</u>	<u>10,214,203</u>	<u>13,621,111</u>	<u>14,325,201</u>
Total Liabilities	<u>5,431,673</u>	<u>5,342,717</u>	<u>10,395,072</u>	<u>10,716,160</u>	<u>15,826,745</u>	<u>16,058,877</u>
Net Assets						
Invested in capital assets, net of related debt	12,320,475	11,192,365	230,274	269,902	12,550,749	11,462,267
Reserved for encumbrances	43,132	17,750	-	-	43,132	17,750
Unrestricted	<u>4,640,758</u>	<u>4,948,053</u>	<u>1,210,838</u>	<u>878,449</u>	<u>5,851,596</u>	<u>5,826,502</u>
Total Net Assets	<u>17,004,365</u>	<u>16,158,168</u>	<u>1,441,112</u>	<u>1,148,351</u>	<u>18,445,477</u>	<u>17,306,519</u>
Total Liabilities and Net Assets	<u>\$ 22,436,038</u>	<u>\$ 21,500,885</u>	<u>\$ 11,836,184</u>	<u>\$ 11,864,511</u>	<u>\$ 34,272,222</u>	<u>\$ 33,365,396</u>

The Commonwealth of Virginia requires that cities, as well as their financial dependent component units, be financed under a single taxing structure. This results in cities issuing debt to finance capital assets, such as infrastructure and governmental buildings. For the purpose of this financial statement, the debt and correlating asset (or portion therefore) is recorded as a long-term liability and an asset of the City. The net assets of the total financial reporting entity best represent the entity's financial position. In the case of the City's reporting entity, assets exceeded liabilities by \$18,445,477 at June 30, 2011. The largest portion of the reporting entity's net assets, \$12,550,749 reflects investment in capital assets (e.g., land, buildings, and equipment), less the outstanding debt associated with the asset acquisition. Net assets which are unrestricted total \$5,851,595.

Statement of Activities

The following table summarizes revenues and expenses for the City as of June 30, 2011:

Summary of Changes in Net Assets

For the Fiscal Years Ended June 30, 2011 and 2010

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Government</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues						
Program Revenues						
Charges for services	\$ 2,069,946	\$ 1,846,435	\$ 2,662,089	\$ 3,040,257	\$ 4,732,035	\$ 4,886,692
Operating grants and contributions	3,449,230	2,975,720	-	-	3,449,230	2,975,720
General Revenues						
General property taxes, real and personal	4,401,856	4,433,227	-	-	4,401,856	4,433,227
Other taxes	5,621,347	5,484,332	-	-	5,621,347	5,484,332
Noncategorical aid from state	606,713	595,513	-	-	606,713	595,513
Use of property	(44,324)	6,301	-	-	(44,324)	6,301
Investment earnings	50,943	68,046	3,809	8,108	54,752	76,154
Miscellaneous	369,439	668,189	225,733	13,130	595,172	681,319
Total Revenues	16,525,150	16,077,763	2,891,631	3,061,495	19,416,781	19,139,258
Expenses						
General government administration	1,262,892	1,730,370	-	-	1,262,892	1,730,370
Judicial administration	2,198,544	2,205,907	-	-	2,198,544	2,205,907
Public safety	3,430,887	3,446,175	-	-	3,430,887	3,446,175
Public works	2,644,477	2,615,426	-	-	2,644,477	2,615,426
Health and welfare	436,870	678,382	-	-	436,870	678,382
Education	4,097,690	4,072,916	-	-	4,097,690	4,072,916
Parks, recreation, and cultural	225,446	223,086	-	-	225,446	223,086
Community development	1,305,239	953,120	-	-	1,305,239	953,120
Water and sewer	-	-	2,227,016	2,027,897	2,227,016	2,027,897
Interest on long-term debt	126,565	148,520	371,854	430,594	498,419	579,114
Total Expenses	15,728,610	16,073,902	2,598,870	2,458,491	18,327,480	18,532,393
Increase in Net Assets	796,540	3,861	292,761	603,004	1,089,301	606,865
Beginning Net Assets	16,158,168	16,127,898	1,148,351	542,074	17,306,519	16,669,972
Change in Reserve for Encumbrances	25,382	10,689	-	3,273	25,382	13,962
Prior Year Adjustment	24,274	15,720	-	-	24,274	15,720
Ending Net Assets	\$ 17,004,364	\$ 16,158,168	\$ 1,441,112	\$ 1,148,351	\$ 18,445,476	\$ 17,306,519

Governmental activities increased the City's net assets by \$796,540. Revenues from governmental activities totaled \$16,525,150. Other taxes comprise the largest source of these revenues, totaling \$5,621,347, or 34.0 percent, of all governmental activities revenue.

The total cost of all governmental activities for this fiscal year was \$15,728,610. Education continues to be the City's largest program and highest priority with expenses totaling \$4,097,690. Public safety expenses, which total \$3,430,887, represent the second largest expense, followed by public works expenses which total \$2,664,477.

For the City's governmental activities, the net expense (total cost less fees generated by the activities and program-specific governmental aid) is illustrated in the following table:

Net Cost of Governmental Activities

For the Fiscal Years Ended June 30, 2011 and 2010

	<u>2011</u>		<u>2010</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
General government administration	\$ 1,262,892	\$ 2,224,405	\$ 1,730,370	\$ 1,286,129
Judicial administration	2,198,544	(972,505)	2,205,907	(1,208,620)
Public safety	3,430,887	(3,290,109)	3,446,175	(3,318,845)
Public works	2,644,477	(1,985,344)	2,615,426	(1,939,750)
Health and welfare	436,870	(436,870)	678,382	(678,382)
Education	4,097,690	(4,097,690)	4,072,916	(4,072,916)
Parks, recreation, and cultural	225,446	(225,446)	223,086	(223,086)
Community development	1,305,239	(1,299,310)	953,120	(947,757)
Interest on long-term debt	<u>126,565</u>	<u>(126,565)</u>	<u>148,520</u>	<u>(148,520)</u>
Total	<u>\$ 15,728,610</u>	<u>\$ (10,209,434)</u>	<u>\$ 16,073,902</u>	<u>\$ (11,251,747)</u>

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As of June 30, 2011, the City's Governmental Funds reported a combined ending fund balance of \$5,031,369, an increase of \$1,079,661 in comparison with the prior year. Approximately 83.6 percent or \$4,208,738 is available for spending at the government's discretion (unassigned fund balance).

The General Fund is the main operating fund of the City. At the end of the current fiscal year, the General Fund had an unassigned fund balance of \$4,153,683, a restricted fund balance of \$739,158, and an assigned balance of \$43,132. The General Fund's liquidity can be measured by comparing unassigned fund balance to total fund expenditures. Unassigned fund balance represents 26.6 percent of total fund expenditures, while total fund balance represents 31.6 percent of that same amount.

BUDGETARY HIGHLIGHTS

General Fund

The following table provides a comparison of original budget, final budget, and actual revenues and expenditures in the General Fund:

Budgetary Comparison

General Fund

For the Fiscal Years Ended June 30, 2011 and 2010

	<u>2011</u>			<u>2010</u>		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Revenues						
Taxes	\$ 9,649,180	\$ 9,649,180	\$ 10,023,203	\$ 9,802,201	\$ 9,802,201	\$ 9,917,559
Other	2,471,424	3,259,634	2,593,701	2,430,834	2,639,949	2,584,787
Intergovernmental	<u>3,478,543</u>	<u>4,923,179</u>	<u>4,050,014</u>	<u>3,571,967</u>	<u>4,065,603</u>	<u>3,565,870</u>
Total Revenues	15,599,147	17,831,993	16,666,918	15,805,002	16,507,753	16,068,216
Expenditures	<u>15,681,747</u>	<u>17,914,593</u>	<u>15,618,923</u>	<u>15,805,002</u>	<u>16,617,153</u>	<u>15,734,123</u>
Excess (Deficiency) of Revenues Over Expenditures	(82,600)	(82,600)	1,047,995	-	(109,400)	334,093
Other Financing Sources (Uses)						
Proceeds of debt	22,600	22,600	21,420	-	109,400	109,400
Transfer from Housing Development	<u>60,000</u>	<u>60,000</u>	<u>85,000</u>	-	-	-
Total Other Financing Sources (Uses)	82,600	82,600	106,420	-	109,400	109,400
Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,154,415</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 443,493</u>

The final amended budget appropriations exceeded the original appropriation by \$2,232,846.

Actual revenues were \$1,165,075, or 6.5 percent less than final budget amounts, while actual expenditures were \$2,295,670, or 12.8 percent less than final budget amounts. Highlights of the comparison of final budget to actual figures for the fiscal year ended June 30, 2011, include the following:

Less Than Budget

Real property taxes	\$ 115,613
Tax on recordation of wills	19,592

Exceeded Budget

Delinquent taxes	336,905
Meals taxes	87,539

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

As of June 30, 2011, the City's investment in capital assets totals \$12,550,749 which is net capital assets less related debt.

During fiscal year 2011, the City's net capital assets (including additions, increases, and depreciation) decreased \$816,411 or 3 percent, as summarized below:

Change in Capital Assets

Governmental Activities

	<u>Balance June 30, 2010</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2011</u>
Land and land improvements	\$ 1,737,515	\$ 80,538	\$ 1,818,053
Buildings and improvements	5,431,030	84,329	5,515,359
Infrastructure	16,494,631	5,600	16,500,231
Furniture, equipment, and vehicles	4,922,234	338,220	5,260,454
Total Capital Assets	28,585,410	508,687	29,094,097
Less: Accumulated depreciation and amortization	(12,231,414)	(1,137,747)	(13,369,161)
Total Capital Assets, Net	<u>\$ 16,353,996</u>	<u>\$ (629,060)</u>	<u>\$ 15,724,936</u>

Business-Type Activities

	<u>Balance June 30, 2010</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2011</u>
Land and land improvements	\$ 102,471	\$ -	\$ 102,471
Buildings and systems	17,254,309	-	17,254,309
Furniture, equipment, and vehicles	1,108,503	32,434	1,140,937
Total Capital Assets	18,465,283	32,434	18,497,717
Less: Accumulated depreciation and amortization	(8,005,298)	(368,985)	(8,374,283)
Total Capital Assets, Net	<u>\$ 10,459,985</u>	<u>\$ (336,551)</u>	<u>\$ 10,123,434</u>

Long-Term Debt

As of June 30, 2011, the City's long-term obligations total \$13,297,621 exclusive of compensated absences and unfunded OPEB liability.

	<u>Balance June 30, 2010</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2011</u>
Governmental Activities			
Long-term debt	\$ 3,740,406	\$ (335,945)	\$ 3,404,461
Unfunded OPEB liability	5,726	10,453	16,179
Compensated absences	340,592	(33,281)	307,311
Total Governmental Activities	4,086,724	(358,773)	3,727,951
Business-Type Activities			
Long-term debt	10,214,203	(321,043)	9,893,160
Compensated absences	111,971	3,030	115,001
Total Business-Type Activities	10,326,174	(318,013)	10,008,161
Total Primary Government	<u>\$ 14,412,898</u>	<u>\$ (676,786)</u>	<u>\$ 13,736,112</u>

More detailed information on the City's long-term obligations is presented in Note 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The average unemployment rate for the City of Emporia, Virginia in June 2011 was 11.8 percent. This compares unfavorably to the state's rate of 6.3 percent and the national rate of 9.3 percent.
- According to the 2010 U. S. Census, the population in the City of Emporia, Virginia was 5,927, an increase of 4.6 percent, since the 2000 U. S. Census.
- The per capita income in the City of Emporia, Virginia was \$19,245 compared to \$32,145 for the state, according to the 2010 U. S. Census data.

The fiscal year 2012 adopted budget anticipates General Fund revenues and expenditures to be \$18,682,011, a 4.3 percent increase over the fiscal year 2011 budget. Revenues are comprised primarily of General Property Taxes at 23.2 percent with Other Local Taxes comprising 29.0 percent. The City's expenditures on education continue to be the largest expenditure area at 23.1 percent of total expenditures with public safety at 21.5 percent as the next largest expenditure.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Questions concerning this report or requests for additional information should be directed to Brian S. Thrower, City Manager, or Sheila J. Cutrell, Finance Director, City of Emporia, Virginia, 201 South Main Street, Emporia, Virginia 23847, telephone 434-634-3332, or visit the City's website at www.ci.emporia.va.us.

BASIC FINANCIAL STATEMENTS



City of Emporia, Virginia

Statement of Net Assets

At June 30, 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 5,715,176	\$ 1,309,148	\$ 7,024,324
Receivables, net	767,708	277,313	1,045,021
Due from other governments	173,016	-	173,016
Other assets	12,070	126,289	138,359
Encumbrances outstanding	43,132	-	43,132
Capital Assets			
Land	1,818,053	102,471	1,920,524
Other capital assets, net of accumulated depreciation	<u>13,906,883</u>	<u>10,020,963</u>	<u>23,927,846</u>
Capital Assets, Net	<u>15,724,936</u>	<u>10,123,434</u>	<u>25,848,370</u>
 Total Assets	 <u>\$ 22,436,038</u>	 <u>\$ 11,836,184</u>	 <u>\$ 34,272,222</u>
Liabilities			
Accounts payable and accrued expenses	\$ 863,853	\$ 121,118	\$ 984,971
Accrued interest payable	23,990	80,822	104,812
Customer deposits	-	184,971	184,971
Unfunded OPEB obligation	16,179	-	16,179
Compensated absences	307,311	115,001	422,312
Deferred revenue	815,879	-	815,879
Long-Term Liabilities			
<i>Due within one year</i>			
Bonds, loans, and capital leases payable	274,381	289,674	564,055
<i>Due in more than one year</i>			
Bonds, loans, and capital leases payable	<u>3,130,080</u>	<u>9,603,486</u>	<u>12,733,566</u>
 Total Liabilities	 5,431,673	 10,395,072	 15,826,745
Net Assets			
Invested in capital assets, net of related debt	12,320,475	230,274	12,550,749
Restricted for encumbrances	43,132	-	43,132
Unrestricted	<u>4,640,758</u>	<u>1,210,838</u>	<u>5,851,596</u>
 Total Net Assets	 <u>17,004,365</u>	 <u>1,441,112</u>	 <u>18,445,477</u>
 Total Liabilities and Net Assets	 <u>\$ 22,436,038</u>	 <u>\$ 11,836,184</u>	 <u>\$ 34,272,222</u>

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

City of Emporia, Virginia
Statement of Activities
For the Year Ended June 30, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Primary Government							
Governmental Activities							
General government administration	\$ 1,262,892	\$ 43,996	\$ 3,443,301	\$ -	\$ 2,224,405	\$ -	\$ 2,224,405
Judicial administration	2,198,544	1,226,039	-	-	(972,505)	-	(972,505)
Public safety	3,430,887	140,778	-	-	(3,290,109)	-	(3,290,109)
Public works	2,644,477	659,133	-	-	(1,985,344)	-	(1,985,344)
Health and welfare	436,870	-	-	-	(436,870)	-	(436,870)
Education	4,097,690	-	-	-	(4,097,690)	-	(4,097,690)
Parks, recreation, and cultural	225,446	-	-	-	(225,446)	-	(225,446)
Community development	1,305,239	-	5,929	-	(1,299,310)	-	(1,299,310)
Interest on long-term debt	126,565	-	-	-	(126,565)	-	(126,565)
Total Governmental Activities	15,728,610	2,069,946	3,449,230	-	(10,209,434)	-	(10,209,434)
Business-Type Activities							
Water and Sewer Fund	2,598,870	2,887,822	-	-	-	288,952	288,952
Total Business-Type Activities	2,598,870	2,887,822	-	-	-	288,952	288,952
Total Primary Government	<u>\$ 18,327,480</u>	<u>\$ 4,957,768</u>	<u>\$ 3,449,230</u>	<u>\$ -</u>	(10,209,434)	288,952	(9,920,482)
General Revenues							
Taxes							
General property taxes, real and personal					4,401,856	-	4,401,856
Other local taxes					5,621,347	-	5,621,347
Noncategorical aid from state					606,713	-	606,713
Use of property					(44,324)	-	(44,324)
Investment earnings					50,943	3,809	54,752
Miscellaneous					369,439	-	369,439
Total General Revenues					11,005,974	3,809	11,009,783
Change in Net Assets					796,540	292,761	1,089,301
Net Assets - Beginning of Year					16,158,168	1,148,351	17,306,519
Prior Period Adjustment					24,274	-	24,274
Change in Reserve for Encumbrances					25,382	-	25,382
Net Assets - End of Year					<u>\$ 17,004,364</u>	<u>\$ 1,441,112</u>	<u>\$ 18,445,476</u>

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

City of Emporia, Virginia

Balance Sheet

Governmental Funds

At June 30, 2011

	General Fund	Housing Authority Fund	Total Governmental Funds
Assets			
Cash and investments	\$ 5,634,942	\$ 80,234	\$ 5,715,176
Property taxes receivable, net	261,930	-	261,930
Accounts receivable	490,580	15,198	505,778
Due from other governments	173,016	-	173,016
Other assets	12,070	-	12,070
Encumbrances outstanding	<u>43,132</u>	<u>-</u>	<u>43,132</u>
Total Assets	<u>\$ 6,615,670</u>	<u>\$ 95,432</u>	<u>\$ 6,711,102</u>
Liabilities			
Accounts payable	\$ 331,031	\$ 36	\$ 331,067
Accrued liabilities	532,787	-	532,787
Deferred revenue	<u>815,879</u>	<u>-</u>	<u>815,879</u>
Total Liabilities	1,679,697	36	1,679,733
Fund Balance			
Restricted for			
Fire programs	116,512	-	116,512
Bank building	113,672	-	113,672
Drug seizure	32,120	-	32,120
Courthouse security	476,854	-	476,854
Housing program projects	-	40,341	40,341
Assigned to			
Encumbrances	43,132	-	43,132
Unassigned	<u>4,153,683</u>	<u>55,055</u>	<u>4,208,738</u>
Total Fund Balance	<u>4,935,973</u>	<u>95,396</u>	<u>5,031,369</u>
Total Liabilities and Fund Balance	<u>\$ 6,615,670</u>	<u>\$ 95,432</u>	<u>\$ 6,711,102</u>

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

City of Emporia, Virginia

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

At June 30, 2011

Total Fund Balances for Governmental Funds \$ 5,031,369

Total net assets reported for governmental activities in the Statement of Net Assets is different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

Land	\$ 1,818,053
Buildings and improvements, net of accumulated depreciation	3,423,780
Furniture, equipment, and vehicles, net of accumulated depreciation	1,247,423
Infrastructure, net of accumulated depreciation	<u>9,235,680</u>

Total Capital Assets 15,724,936

Liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities.

Balances of long-term liabilities affecting net assets are as follows:

Bonds and notes payable	(3,404,461)
Accrued interest payable	(23,990)
Unfunded OPEB obligation	(16,179)
Compensated absences	<u>(307,311)</u>

Total (3,751,941)

Total Net Assets of Governmental Activities \$ 17,004,364

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

City of Emporia, Virginia

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2011

	<u>General Fund</u>	<u>Housing Authority Fund</u>	<u>Total Governmental Funds</u>
Revenues			
Property taxes	\$ 4,401,856	\$ -	\$ 4,401,856
Other local taxes	5,621,347	-	5,621,347
Permits, privilege fees, and regulatory licenses	43,996	-	43,996
Fines and forfeitures	1,226,039	-	1,226,039
Use of money and property	154,316	1,503	155,819
Charges for services	799,911	-	799,911
Miscellaneous	21,979	-	21,979
Recovered costs	347,460	-	347,460
<i>Intergovernmental</i>			
Revenue from the Commonwealth of Virginia	3,474,298	5,929	3,480,227
Revenue from the Federal Government	<u>575,716</u>	<u>-</u>	<u>575,716</u>
Total Revenues	16,666,918	7,432	16,674,350
Expenditures			
Current			
General government administration	1,244,544	-	1,244,544
Judicial administration	2,198,544	-	2,198,544
Public safety	3,485,802	-	3,485,802
Public works	2,150,878	-	2,150,878
Health and welfare	436,870	-	436,870
Education - public school system	4,097,690	-	4,097,690
Parks, recreation, and cultural	225,446	-	225,446
Community development	1,282,671	22,568	1,305,239
Debt service	<u>496,478</u>	<u>-</u>	<u>496,478</u>
Total Expenditures	<u>15,618,923</u>	<u>22,568</u>	<u>15,641,491</u>
Excess (Deficiency) of Revenues Over Expenditures	1,047,995	(15,136)	1,032,859
Other Financing Sources (Uses)			
Proceeds of notes	21,420	-	21,420
Transfer from Housing Authority Fund	85,000	-	85,000
Transfer to General Fund	<u>-</u>	<u>(85,000)</u>	<u>(85,000)</u>
Total Other Financing Sources (Uses)	<u>106,420</u>	<u>(85,000)</u>	<u>21,420</u>
Net Change in Fund Balance	1,154,415	(100,136)	1,054,279
Fund Balance - Beginning of Year	3,756,176	195,532	3,951,708
Change in Encumbrances	<u>25,382</u>	<u>-</u>	<u>25,382</u>
Fund Balance - End of Year	<u>\$ 4,935,973</u>	<u>\$ 95,396</u>	<u>\$ 5,031,369</u>

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

City of Emporia, Virginia

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds		\$ 1,054,279
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 depreciation exceeded capital outlays in the current period.		(629,060)
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 Assets, 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 Assets.		
Debt issued	\$ (21,420)	
Repayments on debt	<u>357,365</u>	
Net Adjustment		335,945
Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following:		
Compensated absences	33,281	
Unfunded OPEB obligation	(10,453)	
Interest payable	<u>12,548</u>	
Net Adjustment		<u>35,376</u>
Change in Net Assets of Governmental Activities		<u>\$ 796,540</u>

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

City of Emporia, Virginia

Statement of Net Assets

Proprietary Funds

At June 30, 2011

**Business-Type
Activities -
Enterprise Fund
Water and Sewer
Fund**

Assets**Current Assets**

Cash and investments	\$ 1,309,148
Receivables, net	277,313
Total Current Assets	1,586,461

Noncurrent Assets

Unamortized bond issue costs	126,289
Capital assets, net	10,123,434
Total Noncurrent Assets	10,249,723
Total Assets	\$ 11,836,184

Liabilities**Current Liabilities**

Accounts payable	\$ 121,118
Accrued expenses	80,822
Short-term portion of debt	289,674
Total Current Liabilities	491,614

Noncurrent Liabilities

Compensated absences	115,001
Customer deposits	184,971
Long-term debt	9,603,486
Total Noncurrent Liabilities	9,903,458
Total Liabilities	10,395,072

Net Assets

Invested in capital assets, net of related debt	230,274
Unrestricted	1,210,838
Total Net Assets	1,441,112
Total Liabilities and Net Assets	\$ 11,836,184

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

City of Emporia, Virginia

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Proprietary Funds

Year Ended June 30, 2011

**Business-Type
Activities -
Enterprise Fund
Water and Sewer
Fund**

Operating Revenues

Charges for services, net	\$ 2,570,291
Penalties income	91,798
Miscellaneous	<u>225,733</u>

Total Operating Revenues	2,887,822
--------------------------	-----------

Operating Expenses

Personal services and benefits	1,038,803
Maintenance, supplies, and vehicle expenses	232,582
Utilities	160,725
Chemicals	75,763
Depreciation	368,985
Other charges	<u>350,158</u>

Total Operating Expenses	<u>2,227,016</u>
--------------------------	------------------

Operating Income	660,806
------------------	---------

Nonoperating Revenues (Expenses)

Interest income	3,809
Interest expense	<u>(371,854)</u>

Total Nonoperating Revenues (Expenses)	<u>(368,045)</u>
--	------------------

Income Before Operating Transfers	<u>292,761</u>
-----------------------------------	----------------

Change in Net Assets	292,761
----------------------	---------

Total Net Assets - Beginning of Year	<u>1,148,351</u>
--------------------------------------	------------------

Total Net Assets - End of Year	<u><u>\$ 1,441,112</u></u>
--------------------------------	----------------------------

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

City of Emporia, Virginia

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2011

**Business-Type
Activities -
Enterprise Fund
Water and Sewer
Fund**

Cash Flows from Operating Activities

Receipts from customers	\$ 2,677,058
Other receipts	190,309
Payments to personnel and suppliers	<u>(1,823,470)</u>
Net Cash Provided by Operating Activities	1,043,897

Cash Flows from Capital and Related Financing Activities

Purchases and construction of capital assets	(32,434)
Principal paid on capital debt	(321,044)
Interest paid on capital debt	<u>(394,301)</u>
Net Cash Used in Capital and Related Financing Activities	(747,779)

Cash Flows from Investing Activities

Interest income	<u>3,809</u>
-----------------	--------------

Net Increase in Cash and Cash Equivalents 299,927

Cash and Cash Equivalents - Beginning of Year 1,009,221

Cash and Cash Equivalents - End of Year \$ 1,309,148

Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities

Operating income	\$ 660,806
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation expense	368,985
Amortization expense	12,646
Changes in assets and liabilities	
Receivables, net	(20,940)
Accounts payable and accrued expenses	18,886
Compensated absences	3,029
Customer deposits	<u>485</u>
Net Cash Provided by Operating Activities	<u><u>\$ 1,043,897</u></u>

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

City of Emporia, Virginia

Notes to Financial Statements

Year Ended June 30, 2011

1 Summary of Significant Accounting Policies

Narrative Profile

The City of Emporia, Virginia (the "City") has a population of approximately 5,900 living within its corporate limits. The City is located in the Southside area in Southeastern Virginia. The City is governed by an appointed City Manager and a seven-member City Council with each serving administrative and legislative functions.

The City is governed under the City Executive – City Council form of government. The City of Emporia, Virginia engages in a comprehensive range of municipal services, including general government administration, judicial administration, public safety, public works, health and welfare, education, parks, recreation, and cultural, and community development.

The financial statements of the City of Emporia, Virginia have been prepared in conformity with the 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. The Financial Reporting Entity

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This statement, known as the "Reporting Model" statement, affects the way the City prepares and presents financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private sector financial reports.

GASB Statement No. 34 established requirements and a reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

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

- Statement of Net Assets: The Statement of Net Assets 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 Assets and report depreciation expense – the cost of “using up” capital assets – in the Statement of Activities. The net assets of a government will be broken down into three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.
- Statement of Program 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 City and many other governments revise their original budgets over the course of the year for a variety of reasons.

As required by the accounting principles generally accepted in the United States, these financial statements 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 City has no component units at this time.

Inclusions in the Reporting Entity

Blended Component Units

Emporia Redevelopment and Housing Authority Fund – This fund accounts for monies held by the City for the future use of the Emporia Redevelopment and Housing Authority. Although this entity is a separate corporate and legal entity, the City Council appoints the entity’s governing body and significantly influences the projects, activities, and level of service performed by the entity.

Exclusions from the Reporting Entity

Jointly Governed Organizations

Jointly governed organizations are regional governments or other multi-governmental arrangements that are governed by representation from each of the governments that create the organizations, and the participants do not retain an ongoing financial interest or responsibility in the organization.

The financial activities of the following organizations are excluded from the accompanying financial statements for the reasons indicated:

Greensville County School Board

The Greensville County School Board provides educational services to the City of Emporia, Virginia and the County of Greensville, Virginia. The two localities provide annual contributions for operations and capital improvements based upon an agreed-upon shared services agreement. The City appoints two representatives to a six-member School Board, with the remaining representatives coming from the County of Greensville, Virginia. The City appropriated to the School Board \$4,161,631 during fiscal year 2011.

Greensville-Emporia Department of Social Services

The Greensville-Emporia Department of Social Services provides social services to the residents of the City of Emporia, Virginia and the County of Greensville, Virginia. The County of Greensville, Virginia reports the entity as a discretely presented component unit due to its financial accountability and a majority representation on the governing body of the Department. The City appropriated \$208,107 during fiscal year 2011 to the Department.

Southside Regional Jail Authority

The Southside Regional Jail Authority was created by the participating localities of the City of Emporia, Virginia and the County of Greensville, Virginia in May 1995. The jail is considered a jointly governed organization of the localities with each locality equally represented on the Board of the Authority. The City appropriated \$934,488 during fiscal year 2011 to the Authority for services rendered.

B. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. While the previous reporting model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on either the City as a whole or major individual funds (within the fund financial statements). The focus is on both the City 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). 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 Assets, the governmental activities columns (a) are presented on a consolidated basis, 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 City generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The City 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, health and welfare, 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, health and welfare, 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 City 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.

Proprietary Fund operating revenues consist of charges for services and related revenues. Non-operating revenues consist of contributions, grants, investment earnings, and other revenues not directly derived from the providing of services.

In the fund financial statements, financial transactions and accounts of the City 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.

The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.

The City's Fiduciary Fund is presented in the fund financial statements by type (agency). Since by definition, these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The following is a brief description of the specific funds used by the City in fiscal year 2011:

1. *Governmental Funds*

Governmental Funds account for the expendable financial resources, other than those accounted for in Proprietary and Fiduciary Funds. The Governmental Funds utilize the modified accrual basis of accounting where the measurement focus is upon determination of financial position and changes in financial position, rather than upon net income

determination as would apply to a commercial enterprise. The individual Governmental Funds are:

- a. General Fund – The General Fund is the primary operating fund of the City and accounts for all revenues and expenditures applicable to the general operations of the City which are not accounted for in other funds. Revenues are derived primarily from property and other local taxes, licenses, permits, charges for services, use of money and property, and intergovernmental grants. The General Fund is considered a major fund for financial reporting purposes.
- b. Special Revenue Funds – Special Revenue Funds account for the proceeds of specific revenue sources (other than those derived from special assessments, expendable trusts, or dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. Special Revenue Funds consist of the Emporia Redevelopment and Housing Authority Fund.
- c. Debt Service Funds – The City does not account for its debt service in a separate fund. The debt is paid from either the General Fund or the Capital Projects Fund.
- d. Capital Projects Funds – Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by Proprietary Funds. The City has no Capital Projects Funds at this time.

2. *Proprietary Funds*

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

- a. Enterprise Funds – Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the City is that the cost of providing services to the general public be financed or recovered through user charges. The Enterprise Fund consists of the Water and Sewer Fund.
- b. Internal Service Funds – Internal Service Funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the City government on a cost-reimbursement basis. Internal Service Funds are not used by the City at this time.

3. *Fiduciary Funds (Trust and Agency Funds)*

Fiduciary Funds (Trust and Agency Funds) account for assets held by a governmental unit in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds.

The funds include Private Purpose Trust and Agency Funds. Private Purpose Trust Funds utilize the accrual basis of accounting as described in the Proprietary Funds presentation. Agency Funds utilize the modified accrual basis of accounting described in the Governmental Funds presentation. The Private Purpose Trust and Agency Funds consist of the following:

- a. Private Purpose Trust Funds – The City has no Private Purpose Trust Funds at this time.
- b. Agency Funds – The City has no Agency Funds at this time.

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 the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of the Governmental Funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide Statements of Net Assets and Statements of Activities and the Proprietary Fund 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 activities are either included on the Statement of Net Assets or on the Statement of Fiduciary Net Assets. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The fund financial statements of the General, Special Revenue, Capital Projects, and Agency Funds (for the primary government) are maintained and reported on the modified accrual basis of accounting using the current financial resources measurement focus. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenue and other local taxes, the term “available” is limited to collection within forty-five days of the fiscal year-end. Levies made prior to the fiscal year-end but which are not available are deferred. Interest income is recorded as earned. Federal and State reimbursement-type grants are recorded as revenue when related eligible expenditures are incurred. Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

D. Budgets and Budgetary Accounting

The City Council annually adopts budgets for the various funds of the primary government. All appropriations are legally controlled at the department level for the primary Government Funds.

The budgets are integrated into the accounting system, and the budgetary data, as presented in the financial statements for all major funds with annual budgets, compare the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the Budgetary Comparison Schedule for the major funds presents actual expenditures in

accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

Budgetary Data

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

1. Prior to May 1, the City Manager submits to the City Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating budget and capital budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments. Work sessions among the City Council are conducted on the budget.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Ordinance.
4. The Appropriations Ordinance places legal restrictions on expenditures at the fund, function, and departmental level. The appropriation for each fund, function, and department can be revised only by the City Council.
5. The City legally adopted budgets for the General Fund.

The City may adopt budgets for other funds, such as the Agency Funds, for use as a management control device over such funds.

6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. All appropriations lapse on June 30 for all City funds.
8. All budget data presented in the accompanying financial statements is the original budget as of June 30, 2011, as adopted, appropriated, and legally amended.

E. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, excluding amounts whose use is limited by Council designation or other arrangements under trust agreements with third-party payers.

F. Investments

Investments, consisting of certificates of deposit and U. S. Government Securities, are stated at cost, which approximates market. These investments are reported in the accompanying financial statements as cash and cash equivalents.

G. Allowance for Uncollectible Accounts

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. Using these methods, the allowance amounted to approximately \$350,548 at June 30, 2011 and is composed of the following:

General Fund - taxes receivable	\$38,598
General Fund - accounts receivable	311,950

H. Capital Assets

Capital outlays are recorded as expenditures of the Governmental Funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold of \$5,000 is met.

Depreciation is recorded on general fixed assets on a government-wide basis using the straight-line method and the following estimated useful lives:

Buildings and improvements	25 to 50 years
Furniture and other equipment	3 to 10 years
Vehicles	5 to 15 years
Infrastructure	15 to 50 years

All fixed assets are valued at historical cost or estimated historical cost, if actual cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated. The City does not capitalize historical treasures or works of art.

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

I. Compensated Absences

The City accrues compensated absences (annual and sick leave benefits) when vested. The current portions of the Governmental and Water and Sewer Funds compensated absences liabilities are recorded as other liabilities in the Governmental and Water and Sewer Funds. The current and non-current portions are recorded in the government-wide financial statements.

J. Use of Estimates

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

K. Long-Term Obligations

The City reports long-term debt of Governmental Funds at face value in the general long-term debt account group. The face value of the debt is believed to approximate fair value. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group. Long-term debt and other obligations financed by Proprietary Funds are reported as liabilities in the appropriate funds.

2 Cash and Investments

Deposits

All cash of the City is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et seq. of the Code of Virginia or covered by Federal Depository Insurance.

Investments

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

The City of Emporia, Virginia only invests in Certificates of Deposit at local banks. Therefore, there is no custodial risk, credit risk of debt securities, concentration of credit risk, or foreign currency risk. The only risk of interest rates is that associated with short-term rates at the local banks which are generally invested in Certificates of Deposit held less than one year.

The following is a summary of pooled cash and investments at June 30, 2011:

	<u>Carrying Amount</u>
Total Deposits	\$ 7,023,224
Cash on Hand	<u>1,100</u>
All Cash - City	<u><u>\$ 7,024,324</u></u>

The following is a summary and reconciliation of the pooled cash and investments at June 30, 2011:

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
Cash and cash equivalents	\$ 5,715,176	\$ 1,309,148	\$ 7,024,324

Cash on Hand. The City had cash on hand of \$1,100 that was included in cash and cash equivalents.

3 Property Taxes

Real property taxes are assessed on property values as of January 1 and attached as an enforceable lien on property as of the date levied by the City Council. Personal property taxes are assessed on a prorated basis for the period the property is located in the City and also attached as an enforceable lien on the property.

Real estate taxes are due December 5 and personal property taxes are due July 1.

A ten percent penalty or \$10 minimum is levied on all taxes not collected on or before their due date. An interest charge of ten percent per annum is also levied on such taxes after their due date.

Real estate taxes for calendar year 2010 were levied by the City Council in September 2010 on the assessed value listed as of January 1, 2010. Personal property taxes for calendar year 2010 were levied by the City Council in June 2010 on the assessed value listed as of January 1, 2010.

Real estate taxes for calendar year 2011 were levied by the City Council in September 2011 on the assessed value listed as of January 1, 2011. Personal property taxes for calendar year 2011 were levied by the City Council in June 2011 on the assessed value listed as of January 1, 2011.

Property taxes levied in the current and prior year have been recorded as receivables as of the date the City has the legal right to receive payments thereon. The receivables collected during the fiscal year and during the first 45 days of the succeeding fiscal year are recognized as revenues in the current fiscal year. Taxes receivable as of the end of the year (June 30) and not collected until the succeeding year are reported as deferred revenues.

4 Receivables

Receivables at June 30, 2011 consist of the following:

Governmental Activities

	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Business-Type Activities</u>
Property taxes	\$ 289,057	\$ -	\$ 289,057	\$ -
Utility taxes	21,094	-	21,094	-
Sanitation fees	53,583	-	53,583	-
Meals and lodging taxes	250,900	-	250,900	-
Court fines	78,030	-	78,030	-
Other	414,085	-	414,085	57,667
Water and sewer	-	-	-	384,941
Local organizations	<u>36</u>	<u>-</u>	<u>36</u>	<u>-</u>
Total	1,106,785	-	1,106,785	442,608
Allowance for uncollectibles	<u>(339,077)</u>	<u>-</u>	<u>(339,077)</u>	<u>(165,295)</u>
Net Receivables	<u>\$ 767,708</u>	<u>\$ -</u>	<u>\$ 767,708</u>	<u>\$ 277,313</u>

5 Due from Other Governmental Units

Governmental Activities

	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>
County of Greenville, Virginia			
School Board - Education	\$ 74,742	\$ -	\$ 74,742
Total County of Greenville, Virginia	74,742	-	74,742
Commonwealth of Virginia	<u>98,274</u>	<u>-</u>	<u>98,274</u>
Total	<u>\$ 173,016</u>	<u>\$ -</u>	<u>\$ 173,016</u>

6 Interfund Balances and Activity

Balance due to/from other funds at June 30, 2011:

<u>Interfund Obligations</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ -	\$ -
Utility Fund	-	-

7 Capital Assets

Governmental Activities

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital Assets Not Being Depreciated				
Land and land improvements	\$ 1,737,515	\$ 229,738	\$ 149,200	\$ 1,818,053
Total Capital Assets Not Being Depreciated	1,737,515	229,738	149,200	1,818,053
Other Capital Assets				
Buildings and improvements	5,431,030	84,329	-	5,515,359
Infrastructure	16,494,631	5,600	-	16,500,231
Furniture, equipment, and vehicles	4,922,234	338,220	-	5,260,454
Total Other Capital Assets	26,847,895	428,149	-	27,276,044
Less: Accumulated depreciation for				
Buildings and improvements	1,951,136	140,443	-	2,091,579
Infrastructure	6,604,941	659,610	-	7,264,551
Furniture, equipment, and vehicles	3,675,337	337,694	-	4,013,031
Total Accumulated Depreciation	12,231,414	1,137,747	-	13,369,161
Other Capital Assets, Net	14,616,481	(709,598)	-	13,906,883
Net Capital Assets	\$ 16,353,996	\$ (479,860)	\$ 149,200	\$ 15,724,936

Depreciation Expense was Allocated to

General government administration	\$ 270,913
Public safety	299,684
Public works	567,150
Total	\$ 1,137,747

Business-Type Activities

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital Assets Not Being Depreciated				
Land and land improvements	\$ 102,471	\$ -	\$ -	\$ 102,471
Total Capital Assets Not Being Depreciated	102,471	-	-	102,471
Other Capital Assets				
Buildings and systems	17,254,309	-	-	17,254,309
Furniture, equipment, and vehicles	1,108,503	32,434	-	1,140,937
Total Other Capital Assets	18,362,812	32,434	-	18,395,246
Less: Accumulated depreciation for				
Buildings and systems	7,137,353	329,507	-	7,466,860
Furniture, equipment, and vehicles	867,945	39,478	-	907,423
Total Accumulated Depreciation	8,005,298	368,985	-	8,374,283
Other Capital Assets, Net	10,357,514	(336,551)	-	10,020,963
Net Capital Assets	\$ 10,459,985	\$ (336,551)	\$ -	\$ 10,123,434
Depreciation expense was allocated to water and sewer		\$ 368,985		

8 Long-Term Debt

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

Year(s) Ended June 30,	Governmental Activities General Bonds Payable		Business-Type Activities	
	Principal	Interest	Principal	Interest
2012	\$ 286,917	\$ 87,480	\$ 289,674	\$ 298,246
2013	247,175	7,993	286,664	289,243
2014	256,317	71,696	295,133	280,352
2015	265,402	63,618	306,484	271,133
2016	271,205	55,299	318,248	261,562
2017-2021	517,286	216,968	2,887,953	1,090,413
2022-2026	431,434	160,543	1,698,576	687,125
2027-2031	524,760	106,589	2,059,749	413,096
2032 and thereafter	603,965	41,580	1,750,679	109,408
Unfunded OPEB	16,179	-	-	-
Compensated absences	307,311	-	115,001	-
Total	\$ 3,727,951	\$ 811,766	\$ 10,008,161	\$ 3,700,578

Changes in Long-Term Debt

As of December 15, 2005, the City entered into a Service Agreement Resolution with the County of Greenville, Virginia, as additional security for the payment of the Southside Regional Jail Authority Revenue Refund Bond Series 2005 in the amount of \$6,335,900. The City pledged its full faith and credit to pay such amounts as may be needed to make up any deficit in the amount required to pay the Debt Service. Therefore, the City would be responsible for fifty percent of the Bond amount should the Southside Regional Jail default on the debt.

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2011:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due Within</u> <u>One Year</u>
Primary Government					
Governmental Activities					
General Fund					
USDA note dated November 16, 2010 with payments of \$393 of interest and principal due monthly commencing December 16, 2010 and ending November 16, 2015. Interest rate is fixed at 3.75% per annum.	\$ -	\$ 21,420	\$ 2,304	\$ 19,116	\$ 4,069
General Obligation Refunding Bond, Series 2006 with Community National Bank, principal amount of \$7,560,000, issued June 15, 2006, with interest at 4.00 percent, subject to be reset in future years, interest due and payable in semi-annual installments on May 1 and November 1, commencing November 1, 2006. Principal shall be due and payable in annual installments on May 1 of each year, commencing May 1, 2007 through and including the maturity date of May 1, 2036. (General Fund Portion)	2,204,217	-	49,725	2,154,492	51,734
Installment note with the Bank of Southside Virginia, principal of \$109,400 entered into on August 11, 2009 with interest at 4.35 percent due monthly commencing September 11, 2009 until maturity on August 11, 2019.	101,952	-	9,251	92,701	9,642
General Obligation Public Improvement Bond, Series 2004B, with SunTrust Bank, principal amount of \$455,000, issued October 21, 2004, with interest at 3.64 percent due and payable in semi-annual installments on January 15 and July 15 commencing January 15, 2005 through and including the maturity date. Payments of principal will be due and payable in annual installments on July 15 of each year, commencing July 15, 2005 through and including the maturity date.	276,100	-	23,300	252,800	24,200

	<u>Balance</u> <u>July 1, 2010</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due Within</u> <u>One Year</u>
General Obligation Refunding Bond, Series 2004A, with SunTrust Bank, principal amount of \$1,770,700, issued October 21, 2004, with interest at 3.21 percent due and payable in semi-annual installments on January 15 and July 15 commencing January 15, 2005 through and including the maturity date. Payments of principal will be due and payable in annual installments on July 15 of each year, commencing July 15, 2005 through and including the maturity date. (General Fund Portion)	933,345	-	144,639	788,706	150,578
Note payable to the Virginia Retirement System for prior years of unreported creditable compensation for thirteen employees, principal amount of \$440,172, with interest at 7.50 percent, payments due and payable in annual installments of \$100,852, (interest included) through June 30, 2011. (General Fund Portion)	78,782	-	78,782	-	
General Obligation Refunding Bond, Series 2008, with SunTrust Bank, principal amount of \$3,905,254 issued April 23, 2008 with interest at 3.85 percent due and payable in semi-annual installments on December 15 and June 15 commencing June 15, 2008 through and including the maturity date. Payments of principal will be due and payable in annual installments on June 15 of each year, commencing June 15, 2008 through and including the maturity date. (General Fund Portion)	66,632	-	2,204	64,428	1,940
Capital lease with Carter, Bank & Trust; principal amount of \$140,000, entered into on February 19, 2009 with interest at 3.25 percent due and payable in monthly installments commencing March 15, 2009 and continuing to maturity on February 15, 2012.	79,378	-	47,160	32,218	32,218
Unfunded OPEB obligation	5,726	10,453	-	16,179	-
Compensated Absences - General Fund	<u>340,592</u>	<u>-</u>	<u>33,281</u>	<u>307,311</u>	<u>-</u>
Total Governmental Activities	4,086,724	31,873	390,646	3,727,951	274,381

	<u>Balance</u> <u>July 1, 2010</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due Within</u> <u>One Year</u>
Business-Type Activities					
General Obligation Refunding Bond, Series 2004A, with SunTrust Bank, principal amount of \$1,770,700, issued October 21, 2004, with interest at 3.21 percent due and payable in semi-annual installments on January 15 and July 15 commencing January 15, 2005 through and including the maturity date. Payments of principal will be due and payable in annual installments on July 15 of each year, commencing July 15, 2005 through and including the maturity date. (Utility Fund Portion)	88,155	-	13,661	74,494	14,222
General Obligation Public Improvement Bond, Series 2004B, with SunTrust Bank, principal amount of \$1,950,880, issued October 21, 2004, with interest at 3.64 percent due and payable in semi-annual installments on January 15 and July 15 commencing January 15, 2005 through and including the maturity date. Payments of principal will be due and payable in annual installments on July 15 of each year, commencing July 15, 2005 through and including the maturity date.	1,779,800	-	44,500	1,735,300	46,100
General Obligation Refunding Bond, Series 2006 with Community National Bank, principal amount of \$7,560,000, issued June 15, 2006, with interest at 4.00 percent, subject to be reset in future years, interest due and payable in semi-annual installments on May 1 and November 1, commencing November 1, 2006. Principal shall be due and payable in annual installments on May 1 of each year, commencing May 1, 2007 through and including the maturity date of May 1, 2036. (Utility Fund Portion)	4,878,802	-	110,120	4,768,682	114,505
Note payable to the Virginia Retirement System for prior years of unreported creditable compensation for thirteen employees, principal amount of \$498,299, with interest at 7.50 percent, payments due and payable in annual installments of \$114,857, (interest included) through June 30, 2011. (Enterprise Fund Portion)	24,120	-	24,120	-	-
Note payable with First Citizens Bank, \$72,440 payable \$1,339 monthly through August 2012, including interest at 4.16 percent.	33,244	-	14,972	18,272	15,607

	<u>Balance</u> <u>July 1, 2010</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due Within</u> <u>One Year</u>
General Obligation Refunding Bond, Series 2008, with SunTrust Bank, principal amount of \$3,905,254 issued April 23, 2008 with interest at 3.85 percent due and payable in semi-annual installments on December 15 and June 15 commencing June 15, 2008 through and including the maturity date. Payments of principal will be due and payable in annual installments on June 15 of each year, commencing June 15, 2008 through and including the maturity date. (General Fund Portion)	3,410,082	-	113,670	3,296,412	99,240
Compensated Absences - Enterprise Fund	<u>111,971</u>	<u>3,030</u>	<u>-</u>	<u>115,001</u>	<u>-</u>
Total Business-Type Activities	<u>10,326,174</u>	<u>3,030</u>	<u>321,043</u>	<u>10,008,161</u>	<u>289,674</u>
Total Primary Government	<u>\$ 14,412,898</u>	<u>\$ 34,903</u>	<u>\$ 711,689</u>	<u>\$ 13,736,112</u>	<u>\$ 564,055</u>

9 Claims, Judgments, and Compensated Absences

In accordance with NCGA Statement 4 "Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences," the City has accrued the liability arising from outstanding claims, judgments, and compensated absences. Each City employee earns vacation based on years of service:

<u>Years of Service</u>	<u>Hours Accrued</u> <u>Per Month</u>
Under 5 years	8 hours
5-9 years	10 hours
10-14 years	12 hours
15-19 years	14 hours
20-24 years	16 hours
25 years or more	18 hours

Sick leave is earned at the rate of 5 hours of sick leave each pay period. There is no maximum of accumulated days of sick leave and 54 accumulated days of vacation may be carried from one year to the next. Accrued sick leave may be paid if not used prior to termination at a rate of 25 percent of time left up to a maximum of \$5,000 for employees who have at least 5 years of service. Accrued vacation may be paid based on years of service as follows:

<u>Years of Service</u>	<u>Maximum</u> <u>Payment</u>
Under 5 years	24 days
5-9 years	30 days
10-19 years	36 days
20 years or more	42 days

The City has outstanding compensated absences totaling \$307,311 in the governmental activities. The balance in the business-type activities is \$115,001.

10 Deferred Revenue

Deferred revenue represents amounts for which asset recognition criteria have been met but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable but not available. Deferred revenue totaling \$815,879 is comprised of the following:

Property taxes	\$ 469,553
Insurance proceeds	325,951
Vehicle licenses	<u>20,375</u>
Total Deferred Revenue	<u>\$ 815,879</u>

11 Contingent Liabilities (Including Federally Assisted Programs - Compliance Audits)

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

At June 30, 2011, there were no matters of litigation involving the City which would materially affect the City's financial position should any court decision or pending matter not be favorable to the City.

12 Defined Benefit Pension Plan

A. Plan Description

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

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

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

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.

- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs, and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. 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. 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 report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2010-annual-report.pdf> or by writing to the System's Chief Financial Officer at P. O. Box 2500, Richmond, Virginia 23218-2500.

B. *Funding Policy*

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. In addition, the City 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 City's contribution rate for the fiscal year ended 2011 was 10.16% of annual covered payroll.

C. Annual Pension Cost

For fiscal year 2011, the City's annual pension cost of \$605,984 was equal to the City's required and actual contributions.

Three-Year Trend Information for City

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2009	\$ 744,398	100.0%	\$ -
June 30, 2010	626,827	100.0%	-
June 30, 2011	605,984	100.0%	-

The FY 2011 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of **7.50%**, (b) projected salary increases ranging from **3.75% to 5.60%** per year for general government employees 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. Both the investment rate of return and the projected salary increases include an inflation component of **2.50%**. The actuarial value of the City'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 City'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, 2009 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

D. Funded Status and Funding Progress

As of June 30, 2010, the most recent actuarial valuation date, the plan, was 81.29% funded. The actuarial accrued liability for benefits was \$20,274,527, and the actuarial value of assets was \$16,482,125, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,792,402. The covered payroll (annual payroll of active employees covered by the plan) was \$4,038,261 and the ratio of the UAAL to the covered payroll was 93.91%.

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.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for City

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded Actuarial Accrued Liability (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
June 30, 2008	\$15,601,372	\$ 17,494,875	\$ 1,893,503	89.18%	\$4,054,422	46.70%
June 30, 2009	16,107,797	18,680,822	2,573,025	86.23%	4,165,139	61.78%
June 30, 2010	16,482,125	20,274,527	3,792,402	81.29%	4,038,261	93.91%

E. Notes to Required Supplementary Information

This information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	June 30, 2010
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent, Open
Payroll Growth Rate	3.00%
Remaining Amortization Period	20 years
Asset Valuation Method	Five-Year Smoothed Market Value
Actuarial Assumptions	
Investment rate of return ¹	7.00%
Projected salary increases ¹	
NonLaw Enforcement Officer Employees	3.75% to 5.60%
Law Enforcement Officer Employees	3.50% to 4.75%
Cost-of-living adjustments	2.50%

¹Includes inflation of 2.50%

13 Legal Compliance

- A. Expenditures in Excess of Appropriations
 - No funds had excess expenditures.
- B. Fund Deficits
 - No funds had fund deficits.

14 Surety Bond Information

The following constitutional officers are insured through the Commonwealth of Virginia, Department of the Treasury, and Division of Risk Management in effect at June 30, 2011:

W. S. Harris, Jr., Treasurer	\$500,000
Joyce E. Prince, Commissioner of Revenue	3,000
Sam C. Brown, City Sheriff	30,000

Also, all employees, volunteers, and members of Council of the City of Emporia, Virginia are insured for \$100,000 through the Virginia Municipal League.

15 Other Postemployment Benefits

Plan Description

A. Health Plan Eligibility

Future retirees of the City are not eligible for medical benefits. Current retirees and spouses who are currently receiving medical benefits may continue for the lifetime of the retiree. If the retiree predeceases the spouse, the spouse may continue coverage through COBRA only.

Health Benefits include medical, dental, and vision. Current retirees who are not eligible for Medicare may elect one of the following medical options:

- Anthem KA 500 (PPO)
- Anthem KA Expanded (PPO)

Current retirees who are Medicare eligible may only elect the Medicare supplement.

B. Health Plan Benefits

Coverage is for the retiree and eligible dependents. The monthly premiums below are for the year beginning July 1, 2011. Dental and vision are included in the premium.

<u>Medical Option</u>	<u>Retiree</u>	<u>Retiree and One Dependent</u>	<u>Retiree and Family</u>
Anthem KA 500	\$ 417	\$ 771	\$ 1,126
Anthem KA Expanded	480	888	1,296
Medicare Supplement	127	254	N/A

C. Employer Contributions

Non-Medicare Eligible Retirees – The City contributes \$400 per month towards the retiree's elected coverage. The retiree must pay the remainder.

Medicare Eligible Retirees – The retiree must pay 100 percent of the premium cost.

D. Disability Retirement Benefit

There is no benefit.

E. Death Benefit

The Plan does not include a pre-retirement death benefit. If an employee dies prior to retirement, the employee's spouse may continue medical coverage through COBRA.

F. Withdrawal Benefit

The Plan does not include a withdrawal benefit.

G. Benefit Service

The Plan is closed to future retirees.

H. Life Insurance

The Plan offers retiree life insurance through VRS only. The life insurance benefit is fully paid up at retirement and is funded through VRS, so there is no GASB 45 liability.

Cash and Cash Equivalents

The City has not set aside funds to fund the liability.

Funding Policy

The City uses an unfunded approach using a discount rate of 4.0 percent with a 6-year amortization period. Amortization of the Unfunded Actuarial Accrued Liability is a level dollar amount.

Actuarial Methods and Assumptions

Valuation Date	June 30, 2011
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar
Amortization Period	6 years
Asset Valuation Method	N/A
Actuarial Assumptions	7.50% for funded ARC
Investment rate of return	4.00% for unfunded ARC
Medical Cost Trend Assumption	Health: Getzen Trend Model - 6.30% graded to 4.70% over 80 years
Payroll Growth	N/A

Net OPEB Obligations and Annual OPEB Cost

This summary identifies the value of benefits at June 30, 2011 and costs for the fiscal years through June 30, 2011, reflecting the unfunded approach, utilizing a discount rate of 4.0 percent (10-Year Phase In), and amortizing the Unfunded Actuarial Accrued Liability as a level dollar amount. A summary of the net OPEB obligation is as follows:

	<u>City</u>
Annual OPEB Cost (Expense)	
Annual Required Contribution (ARC)	\$ 38,900
Interest on Net OPEB Obligation	229
Adjustment to ARC	<u>(1,286)</u>
Annual OPEB Cost (Expense)	37,843
Contributions Made	
To Trust Fund	-
Implicit rate subsidy	<u>27,390</u>
Increase in Net OPEB Obligation	10,453
Net OPEB Obligation - Beginning of Year	<u>5,726</u>
Net OPEB Obligation - End of Year	<u>\$ 16,179</u>

Current Year Information

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2010	\$ 30,000	80.91%	\$ 5,726
6/30/2011	38,900	70.41%	16,179

Required Supplementary Information

<u>Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) - Projected Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/(c)</u>
6/30/2010	\$ -	\$ 163,600	\$ 163,600	0.00%	\$ -	N/A
6/30/2011	-	180,100	180,100	0.00%	-	N/A

16 Prior Period Adjustment – OPEB Benefits

The actuarial valuation was amended for the estimate of OPEB benefits owed by the City. The change affected the following balances:

Page 8 Notes - Long-Term Debt

Governmental Activities	Before	After	Result
Unfunded OPEB Obligation - July 1, 2010	\$ 30,000	\$ 5,726	\$ 24,274

Page 32 Summary - Long-Term Debt

Governmental Activities	Before	After	Result
Unfunded OPEB Obligation - July 1, 2010	30,000	5,726	24,274

The resulting change of \$24,274 is shown as a prior period adjustment on page 10, Statement of Activities.

REQUIRED SUPPLEMENTARY INFORMATION



City of Emporia, Virginia

Budgetary Comparison Schedule

General Fund

Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
General Property Taxes				
Real property taxes	\$ 2,913,000	\$ 2,913,000	\$ 2,797,387	\$ (115,613)
Personal property taxes	1,140,000	1,140,000	1,003,631	(136,369)
Public service corporation property taxes	120,000	120,000	151,943	31,943
Delinquent taxes	60,000	60,000	396,905	336,905
Penalties and interest on taxes	65,000	65,000	51,990	(13,010)
Total General Property Taxes	4,298,000	4,298,000	4,401,856	103,856
Other Local Taxes				
Local sales and use taxes	1,400,000	1,400,000	1,429,695	29,695
Consumers' utility taxes	395,000	395,000	396,157	1,157
Business license taxes	705,000	705,000	722,617	17,617
Motor vehicle licenses	80,000	80,000	110,301	30,301
Bank stock taxes	105,000	105,000	137,525	32,525
Tax on recordation and wills	35,000	35,000	15,408	(19,592)
Lodging taxes	821,180	821,180	889,262	68,082
Meals taxes	1,550,000	1,550,000	1,637,539	87,539
Emergency 911 taxes	260,000	260,000	282,843	22,843
Total Other Local Taxes	5,351,180	5,351,180	5,621,347	270,167
Permits, Privilege Fees, and Regulatory Licenses				
Animal licenses	2,500	2,500	2,982	482
Planning and zoning	4,000	4,000	6,242	2,242
Building permits	37,000	37,000	34,132	(2,868)
Other permits, licenses, and fees	500	500	640	140
Total Permits, Privilege Fees, and Regulatory Licenses	44,000	44,000	43,996	(4)
Fines and Forfeitures	910,000	945,123	1,226,039	280,916
Revenue from Use of Money and Property				
Revenue from use of money	65,500	65,500	49,440	(16,060)
Revenue from use of property	4,500	106,500	104,876	(1,624)
Total Revenue from Use of Money and Property	70,000	172,000	154,316	(17,684)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Charges for Services				
Charges for fire services	120,000	134,251	140,443	6,192
Charges for animal control	50	50	335	285
Charges for sanitation and waste removal	661,500	661,500	659,133	(2,367)
Total Charges for Services	781,550	795,801	799,911	4,110
Recovered Costs				
From Greensville County, Virginia	100,000	100,000	70,738	(29,262)
Insurance refunds	1,000	338,336	7,661	(330,675)
Other recovered costs	354,916	354,916	269,061	(85,855)
Total Recovered Costs	455,916	793,252	347,460	(445,792)
Miscellaneous	209,958	509,458	21,979	(487,479)
Total Miscellaneous	209,958	509,458	21,979	(487,479)
Intergovernmental				
<i>Revenue from the Commonwealth of Virginia</i>				
<i>Noncategorical Aid</i>				
Auto rental taxes	1,000	1,000	20,234	19,234
Rolling stock taxes - motor vehicle carriers tax	9,580	9,580	10,829	1,249
Personal Property Tax Relief	570,319	570,319	570,319	-
Recordation and grantors' tax - State	5,285	5,285	5,331	46
Total Noncategorical Aid	586,184	586,184	606,713	20,529
<i>Categorical Aid</i>				
Shared Expenses				
Sheriff	140,288	140,288	134,805	(5,483)
Commissioner of the Revenue	61,959	61,959	61,916	(43)
Treasurer	62,235	62,235	59,903	(2,332)
Registrar/Electoral Board	28,088	28,088	27,650	(438)
Law enforcement grants	241,054	241,054	410,287	169,233
State sales tax - education	881,948	918,649	918,649	-
Street and highway maintenance	933,491	939,401	967,531	28,130
Family violence prevention	55,221	130,000	67,940	(62,060)
Virginia Juvenile Community Crime Control	117,687	117,687	99,195	(18,492)
Criminal justice service - Victim Witness	58,386	58,386	55,135	(3,251)
Other State funds	193,327	230,827	64,574	(166,253)
Total Categorical Aid	2,773,684	2,928,574	2,867,585	(60,989)
Total Revenue from the Commonwealth of Virginia	3,359,868	3,514,758	3,474,298	(40,460)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenue from the Federal Government				
Department of Health - Sexual Assault Grant	35,655	44,188	44,188	-
Other Federal funds	83,020	1,364,233	531,528	(832,705)
Total Revenue from the Federal Government	118,675	1,408,421	575,716	(832,705)
Total Intergovernmental Revenues	3,478,543	4,923,179	4,050,014	(873,165)
Total Revenues	15,599,147	17,831,993	16,666,918	(1,165,075)
Expenditures				
Current				
<i>General Government Administration</i>				
Legislative	166,133	166,635	166,655	(20)
City Manager	425,515	428,613	423,865	4,748
Legal services	38,970	40,470	41,326	(856)
Commissioner of Revenue	201,059	201,059	195,490	5,569
Equalization Board	39,558	39,558	37,888	1,670
Treasurer	110,856	110,856	105,712	5,144
Director of Finance	189,098	189,098	187,951	1,147
Data processing	22,525	23,164	23,164	-
Board of Elections	67,289	63,289	62,493	796
Total General Government Administration	1,261,003	1,262,742	1,244,544	18,198
<i>Judicial Administration</i>				
Circuit Court - shared services	1,606,771	1,617,655	1,617,203	452
Juvenile and Domestic Relations Court	128,544	96,544	86,935	9,609
Sheriff	225,319	225,319	214,596	10,723
Family violence	90,876	174,188	112,128	62,060
Victim Witness	60,182	60,182	59,570	612
VJCCC Grant	126,604	126,604	108,112	18,492
Total Judicial Administration	2,238,296	2,300,492	2,198,544	101,948
<i>Public Safety</i>				
Police Department	2,716,369	3,031,767	2,984,671	47,096
Volunteer Fire Department	232,401	733,871	227,720	506,151
Ambulance and rescue service	42,016	43,533	43,533	-
Animal control	63,658	62,258	62,485	(227)
Emergency services	75,340	357,640	167,393	190,247
Total Public Safety	3,129,784	4,229,069	3,485,802	743,267

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
<i>Public Works</i>				
Maintenance of highways, streets, bridges, sidewalks	829,058	844,147	824,992	19,155
Refuse collection	834,449	832,734	799,638	33,096
Engineering	107,104	108,479	107,480	999
City Shop	152,302	159,394	156,127	3,267
General buildings and grounds	<u>346,503</u>	<u>349,728</u>	<u>262,641</u>	<u>87,087</u>
Total Public Works	2,269,416	2,294,482	2,150,878	143,604
<i>Health and Welfare</i>				
Local health	78,028	78,028	77,994	34
Mental Health and Mental Retardation	39,471	39,471	39,471	-
Comprehensive services	107,414	107,414	107,414	-
Mosquito control	2,813	2,813	1,138	1,675
Welfare and social services	<u>214,674</u>	<u>214,674</u>	<u>210,853</u>	<u>3,821</u>
Total Health and Welfare	442,400	442,400	436,870	5,530
<i>Education</i>				
Superintendent	500	500	500	-
Contract services (shared costs)	4,161,131	4,197,832	4,095,960	101,872
Community Colleges	<u>1,230</u>	<u>1,230</u>	<u>1,230</u>	<u>-</u>
Total Education	4,162,861	4,199,562	4,097,690	101,872
<i>Parks, Recreation, and Cultural</i>				
Parks and recreation	136,761	136,761	132,911	3,850
Regional library	<u>92,535</u>	<u>92,535</u>	<u>92,535</u>	<u>-</u>
Total Parks, Recreation, and Cultural	229,296	229,296	225,446	3,850
<i>Community Development</i>				
Zoning Board	291,770	291,770	268,482	23,288
Economic development	1,039,931	1,963,996	919,895	1,044,101
Airport Commission	60,000	60,000	60,000	-
Cooperative Extension Program	<u>40,597</u>	<u>40,597</u>	<u>34,294</u>	<u>6,303</u>
Total Community Development	1,432,298	2,356,363	1,282,671	1,073,692
<i>Debt Service</i>				
	<u>516,393</u>	<u>600,187</u>	<u>496,478</u>	<u>103,709</u>
Total Expenditures	<u>15,681,747</u>	<u>17,914,593</u>	<u>15,618,923</u>	<u>2,295,670</u>
Excess (Deficiency) of Revenues Over Expenditures	(82,600)	(82,600)	1,047,995	1,130,595

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Other Financing Sources (Uses)				
Proceeds of debt	22,600	22,600	21,420	(1,180)
Transfer from Redevelopment Fund	<u>60,000</u>	<u>60,000</u>	<u>85,000</u>	<u>25,000</u>
Total Other Financing Sources (Uses)	<u>82,600</u>	<u>82,600</u>	<u>106,420</u>	<u>23,820</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	1,154,415	<u>\$ 1,154,415</u>
Fund Balance - Beginning of Year			3,756,176	
Change in Encumbrances			<u>25,382</u>	
Fund Balance - End of Year			<u>\$ 4,935,973</u>	

COMPLIANCE SECTION





**Creedle
Jones
& Alga**

A Professional Corporation

*Sherwood H. Creedle, CPA
Robin B. Jones, CPA, CFP
David V. Alga, CPA, CVA, CFF
Denise C. Williams, CPA, CSEP*

*James A. Allen, Jr., CPA
Nadine L. Chase, CPA
Nadia A. Rogers, CPA
Scott A. Thompson, CPA
Kimberly N. Walker, CPA*

*Members of
American Institute of Certified Public Accountants
Virginia Society of Certified Public Accountants*

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
City Council
City of Emporia, Virginia

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Emporia, Virginia, as of and for the year ended June 30, 2011, which collectively comprise the City of Emporia, Virginia's basic financial statements and have issued our report thereon dated February 21, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Emporia, Virginia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Emporia, Virginia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Emporia, Virginia's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the audit committee, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Creedle, Jones & Alga, P.C.
Certified Public Accountants

South Hill, Virginia
February 21, 2012



**Creedle
Jones
& Alga**

A Professional Corporation

*Sherwood H. Creedle, CPA
Robin B. Jones, CPA, CFP
David V. Alga, CPA, CVA, CFF
Denise C. Williams, CPA, CSEP*

*James A. Allen, Jr., CPA
Nadine L. Chase, CPA
Nadia A. Rogers, CPA
Scott A. Thompson, CPA
Kimberly N. Walker, CPA*

*Members of
American Institute of Certified Public Accountants
Virginia Society of Certified Public Accountants*

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Members of the
City Council
City of Emporia, Virginia

Compliance

We have audited City of Emporia, Virginia's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of City of Emporia, Virginia's major federal programs for the year ended June 30, 2011. City of Emporia, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Emporia, Virginia's management. Our responsibility is to express an opinion on City of Emporia, Virginia's compliance based on our audit.

We conducted our audit of compliance 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards, OMB Circular A-133, and specifications require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Emporia, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Emporia, Virginia's compliance with those requirements.

In our opinion, City of Emporia, Virginia complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of City of Emporia, Virginia is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Emporia, Virginia's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Emporia, Virginia's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the audit committee, City Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Creedle, Jones & Alga, P.C.

Creedle, Jones & Alga, P.C.
Certified Public Accountants

South Hill, Virginia
February 21, 2012

City of Emporia, Virginia

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal Catalog Number	State Agency Number	Expenditures
U. S. Department of Agriculture			
Direct Payments			
Community Facilities Grant	10.766	N/A	\$ 26,180
Subtotal - U. S. Department of Agriculture			26,180
U. S. Department of Transportation			
Pass-Through Payments			
<i>Virginia Department of Motor Vehicles</i>			
Highway Safety - 2011	20.607	154	15,199
Subtotal - U. S. Department of Transportation			15,199
U. S. Department of Housing and Urban Development			
Pass-Through Payments			
<i>Office of Community Planning and Development</i>			
Community Development Block Grants/State's Programs	*14.228	165	242,111
Subtotal - U. S. Department of Housing and Urban Development			242,111
U. S. Department of Homeland Security			
Pass-Through Payments			
<i>Commonwealth of Virginia Department of Criminal Justice Services</i>			
State Homeland Security Program Grant No:10-A2182HS09 License Plate Reader	97.073	140	17,000
State Homeland Security Program Grant No:11-A2291HS10 Crime Records Information Sharing Network Expansion and Enhancement Grant	97.073	140	2,165
<i>Commonwealth of Virginia Department of Emergency Management</i>			
Emergency Management Performance Grants			
Local Emergency Management Performance Grant No. LEMPG 10	97.042	127	10,285
State Homeland Security Program	*97.067	127	117,489
Subtotal - U. S. Department of Homeland Security			146,939

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal Catalog Number	State Agency Number	Expenditures
U. S. Department of Justice			
Direct Payments			
<i>Office of Community Oriented Policing Services</i> ARRA - COPS Hiring Recovery Program	16.710	N/A	47,174
<i>Office of Justice Programs</i> Edward Byrne Memorial Justice Assistance Grant	16.738	N/A	10,547
ARRA - Edward Byrne Memorial Justice Assistance Grant	16.804	N/A	43,378
<i>Bureau of Justice Assistance</i> Bulletproof Vest Partnership	16.607	N/A	2,165
Pass-Through Payments			
<i>Commonwealth of Virginia Department of Justice Services</i> Byrne Justice Assistance Grant, 11-E1216LO10	16.738	140	9,999
Sexual Assault Grant Program 11-L3465SA10	16.575	140	<u>32,024</u>
Subtotal - U. S. Department of Homeland Security			<u>145,287</u>
Grand Totals			<u><u>\$ 575,716</u></u>

*Denotes Major Program

Note to Schedule of Expenditures of Federal Awards

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the City and is presented on GAAP. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

City of Emporia, Virginia

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

1. SUMMARY OF AUDIT RESULTS

- a. The auditor's report expresses an **unqualified opinion** on the financial statements of City of Emporia, Virginia.
- b. **No deficiencies** relating to the audit of the financial statements are reported in the 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*.
- c. **No instances of noncompliance** material to the financial statements of City of Emporia, Virginia were disclosed during the audit.
- d. **No deficiencies** relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.
- e. The auditor's report on compliance for the major federal award programs for City of Emporia, Virginia expresses an **unqualified opinion** on all major federal programs.
- f. There were **no audit findings** relative to the major federal award programs for City of Emporia, Virginia to be reported in this schedule.
- g. The programs tested as a major programs included:

CFDA #14.228 Community Block Grants/State's Programs

CFDA #97.067 State Homeland Security Grant

- h. The **threshold for** distinguishing Types A and B programs was **\$300,000**.
- i. City of Emporia, Virginia was determined **not** to be a **low-risk auditee**.

2. Findings Relating to the Financial Statements Reported in Accordance With *Government Auditing Standards*

None

3. Findings and Questioned Costs Relating to Federal Awards

None

City of Emporia, Virginia

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2011

FINANCIAL STATEMENTS

There were no prior audit findings relative to federal awards.