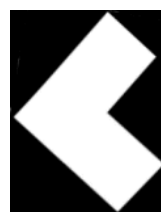


***Town of McKenney, Virginia***  
***Comprehensive Annual Financial Report***  
***Year Ended June 30, 2013***



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

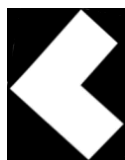
## Town of McKenney, Virginia

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## **FINANCIAL SECTION**



**Creedle  
Jones  
& Alga**

*A Professional Corporation*

*Robin B. Jones, CPA, CFP  
David V. Alga, CPA, CVA, CFF  
Denise C. Williams, CPA, CSEP  
Scott A. Thompson, CPA  
Nadia A. Rogers, CPA*

*James A. Allen, Jr., CPA  
Nadine L. Chase, CPA  
Kimberly N. Walker, CPA*

*Sherwood H. Creedle, Emeritus*

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

## INDEPENDENT AUDITOR'S REPORT

To the Town Council  
Town of McKenney, Virginia

### Report on the Financial Statements

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

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

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

### *Auditor's Responsibility*

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

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

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

## Opinions

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

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1-8 and 33-35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2014, on our consideration of the Town of McKenney, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of McKenney, Virginia's internal control over financial reporting and compliance.

*Creedle, Jones & Alga, P.C.*

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

South Hill, Virginia  
May 8, 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Town of McKenney, Virginia presents the following discussion and analysis as an overview of the Town of McKenney, Virginia's financial activities for the fiscal year ending June 30, 2013. We encourage readers to read this discussion and analysis in conjunction with the transmittal letter and the Town's financial statements.

### Financial Highlights for Fiscal Year 2013

#### Highlights for Government-Wide Financial Statements

- At the close of the fiscal year, the assets of the Town exceeded its liabilities by \$1,111,542.61. Of this amount, \$406,444.96 is unassigned 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 Town's governmental activities were \$67,530.96 and expenses amounted to \$151,158.88. The Town's total net position decreased \$83,627.92.

#### Highlights for Fund Financial Statements

- As of June 30, 2013, the Town's Governmental Funds reported combined fund balances of \$140,223.34, a decrease of \$68,733.49 in comparison with the prior year. The entire amount of the combined fund balances is available to meet the Town'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 *Government 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 Town as a whole using accounting methods similar to those found in the private sector. They also report the Town's net position and how they have changed during the fiscal year.

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

The second statement - the Statement of Activities - presents information using the accrual basis accounting method and shows how the Town's net position 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 Town's basic services are reported here, including general government administration; public safety; public works; and planning 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: Town of McKenney, Virginia has a Proprietary Enterprise Fund that accounts for the water and sewer system for the Town.

### **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 Town'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 Town has three kinds of funds:

Governmental Funds - Most of the Town'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 Town'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 Town and, therefore, the largest of the Governmental Funds. All other Governmental Funds, which include Special Revenue Funds and Capital Projects Funds, are collectively referred to as nonmajor 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 Town 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 Town 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 Town's programs. The Town's Fiduciary Funds consist of Agency Funds. The Town does not have any Fiduciary Funds at this time.

## FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

### Statement of Net Position

The following table reflects the condensed Statement of Net Position:

#### Summary of Net Position

As of June 30, 2013 and 2012

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b>Assets</b>						
Current and other assets	\$ 148,331.60	\$ 214,913.56	\$ 268,409.61	\$ 322,472.89	\$ 416,741.21	\$ 537,386.45
Capital assets (net)	<u>311,923.73</u>	<u>327,993.00</u>	<u>393,173.92</u>	<u>446,815.36</u>	<u>705,097.65</u>	<u>774,808.36</u>
Total Assets	<u>\$ 460,255.33</u>	<u>\$ 542,906.56</u>	<u>\$ 661,583.53</u>	<u>\$ 769,288.25</u>	<u>\$ 1,121,838.86</u>	<u>\$ 1,312,194.81</u>
<b>Liabilities</b>						
Other liabilities	\$ 4,870.87	\$ 5,956.73	\$ 5,425.38	\$ 20,784.09	\$ 10,296.25	\$ 26,740.82
Long-term liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,946.72</u>	<u>-</u>	<u>69,946.72</u>
Total Liabilities	<u>4,870.87</u>	<u>5,956.73</u>	<u>5,425.38</u>	<u>90,730.81</u>	<u>10,296.25</u>	<u>96,687.54</u>
<b>Net Position</b>						
Net investment in capital assets	<u>311,923.73</u>	<u>327,993.00</u>	<u>393,173.92</u>	<u>361,606.41</u>	<u>705,097.65</u>	<u>689,599.41</u>
Unrestricted	<u>143,460.73</u>	<u>208,956.83</u>	<u>262,984.23</u>	<u>316,951.03</u>	<u>406,444.96</u>	<u>525,907.86</u>
Total Net Position	<u>455,384.46</u>	<u>536,949.83</u>	<u>656,158.15</u>	<u>678,557.44</u>	<u>1,111,542.61</u>	<u>1,215,507.27</u>
Total Liabilities and Net Position	<u>\$ 460,255.33</u>	<u>\$ 542,906.56</u>	<u>\$ 661,583.53</u>	<u>\$ 769,288.25</u>	<u>\$ 1,121,838.86</u>	<u>\$ 1,312,194.81</u>

## Statement of Activities

The following table summarizes revenues and expenses for the primary government as of June 30, 2013:

### Summary of Changes in Net Position

For the Fiscal Years Ended June 30, 2013 and 2012

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b>Revenues</b>						
<b>Program Revenues</b>						
Charges for services	\$ 650.79	\$ 412.40	\$ 182,887.96	\$ 227,837.68	\$ 183,538.75	\$ 228,250.08
Operating grants and contributions	18,652.00	18,703.93	-	-	18,652.00	18,703.93
<b>General Revenues</b>						
General property taxes, real and personal	25,947.14	25,866.67	-	-	25,947.14	25,866.67
Other taxes	51,162.32	55,975.78	-	-	51,162.32	55,975.78
Noncategorical aid from state	16,139.00	14,487.81	-	-	16,139.00	14,487.81
Investment earnings	580.88	1,284.33	1,214.91	2,473.85	1,795.79	3,758.18
Miscellaneous	28,173.62	31,080.17	-	-	28,173.62	31,080.17
Transfers	(73,774.79)	8,877.33	73,774.79	(8,877.33)	-	-
Total Revenues	67,530.96	156,688.42	257,877.66	221,434.20	325,408.62	378,122.62
<b>Expenses</b>						
General government administration	47,720.10	48,044.21	-	-	47,720.10	48,044.21
Public safety	69,865.38	68,130.89	-	-	69,865.38	68,130.89
Public works	33,133.40	29,643.81	-	-	33,133.40	29,643.81
Community development	440.00	-	-	-	440.00	-
Water and sewer	-	-	278,894.36	307,607.42	278,894.36	307,607.42
Interest on long-term debt	-	-	1,382.59	4,221.57	1,382.59	4,221.57
Total Expenses	151,158.88	145,818.91	280,276.95	311,828.99	431,435.83	457,647.90
Increase (Decrease) in Net Position	(83,627.92)	10,869.51	(22,399.29)	(90,394.79)	(106,027.21)	(79,525.28)
Prior Period Adjustment	2,062.55	-	-	-	2,062.55	-
Beginning Net Position	536,949.83	526,080.32	678,557.44	768,952.23	1,215,507.27	1,295,032.55
Ending Net Position	<u>\$ 455,384.46</u>	<u>\$ 536,949.83</u>	<u>\$ 656,158.15</u>	<u>\$ 678,557.44</u>	<u>\$ 1,111,542.61</u>	<u>\$ 1,215,507.27</u>

Governmental activities decreased the Town's net position by \$83,627.92. Revenues from governmental activities totaled \$140,130.91. Taxes comprise the largest source of these revenues, totaling \$75,934.62 or 54.19 percent of all governmental activities revenue. Of this amount, real and personal property taxes comprise 32.62 percent of the taxes collected.

The total cost of all governmental activities for this fiscal year was \$224,933.67. Public Safety is the Town's largest program with expenses totaling \$69,865.38. General Government Administration expenses, which total \$47,720.10, represent the second largest expense, followed by Public Works expenses which total \$33,133.40.

For the Town'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, 2013 and 2012

	<u>2013</u>		<u>2012</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	\$ 47,720.10	\$ (47,720.10)	\$ 48,044.21	\$ (48,044.21)
Public safety	69,865.38	(50,562.59)	68,130.89	(49,014.56)
Public works	33,133.40	(33,133.40)	29,643.81	(29,643.81)
Community development	<u>440.00</u>	<u>(440.00)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 151,158.88</u>	<u>\$ (131,856.09)</u>	<u>\$ 145,818.91</u>	<u>\$ (126,702.58)</u>

## FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As of June 30, 2013, the Town's Governmental Funds reported a combined ending fund balance of \$140,223.34, a decrease of \$68,733.49 in comparison with the prior year. The entire amount is available for spending at the government's discretion (unassigned fund balance).

The General Fund is the main operating fund of the Town. At the end of the current fiscal year, the General Fund had an unassigned fund balance of \$140,223.34. The General Fund's liquidity can be measured by comparing unassigned fund balance to total fund expenditures. Unassigned fund balance represents 103.80 percent of total fund expenditures, while total fund balance represents 103.80 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, 2013 and 2012

	<u>2013</u>			<u>2012</u>		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
<b>Revenues</b>						
Taxes	\$ 23,500.00	\$ 23,500.00	\$ 24,772.30	\$ 20,500.00	\$ 20,500.00	\$ 25,866.67
Other	57,765.00	57,765.00	51,162.32	62,600.00	62,600.00	54,975.78
Fines and forfeitures	700.00	700.00	350.79	700.00	700.00	182.40
Use of money and property	200.00	200.00	580.88	500.00	500.00	1,284.33
Miscellaneous	21,500.00	21,500.00	28,473.62	21,500.00	21,500.00	31,310.17
Intergovernmental	<u>33,768.00</u>	<u>33,768.00</u>	<u>34,791.00</u>	<u>25,485.00</u>	<u>25,485.00</u>	<u>34,191.74</u>
Total	137,433.00	137,433.00	140,130.91	131,285.00	131,285.00	147,811.09
<b>Expenditures</b>	<u>137,433.00</u>	<u>137,433.00</u>	<u>135,089.61</u>	<u>131,285.00</u>	<u>131,285.00</u>	<u>158,420.44</u>
Excess (Deficiency) of Revenues over Expenditures	-	-	5,041.30	-	-	(10,609.35)
<b>Other Financing Sources (Uses)</b>						
Transfers out	<u>-</u>	<u>-</u>	<u>(73,774.79)</u>	<u>-</u>	<u>-</u>	<u>8,877.33</u>
Total	<u>-</u>	<u>-</u>	<u>(73,774.79)</u>	<u>-</u>	<u>-</u>	<u>8,877.33</u>
Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (68,733.49)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,732.02)</u>

The final amended budget appropriations, including expenditures and transfers out, exceeded the original appropriation by \$-0-. No major budget amendments took place this year.

Actual revenues were higher than final budget amounts by \$2,697.91 or 1.96 percent, while actual expenditures were \$2,343.49 or 1.71 percent less than final budget amounts.

## CAPITAL ASSETS AND LONG-TERM DEBT

### Capital Assets

As of June 30, 2013, the Town's net investment in capital assets totals \$705,097.65 which is net capital assets less related debt.

During fiscal year 2013, the Town's net capital assets (including additions, decreases, and depreciation) decreased \$69,710.71, or 10.11 percent, as summarized below:

## Change in Capital Assets

### Governmental Activities

	<u>Balance July 1, 2012</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2013</u>
Land and land improvements	\$ 99,986.32	\$ -	\$ 99,986.32
Buildings and improvements	495,800.00	-	495,800.00
Furniture, equipment, and vehicles	83,038.16	-	83,038.16
Total Capital Assets	678,824.48	-	678,824.48
Less: Accumulated depreciation and amortization	(350,831.48)	(16,069.27)	(366,900.75)
Total Capital Assets, Net	<u>\$ 327,993.00</u>	<u>\$ (16,069.27)</u>	<u>\$ 311,923.73</u>

### Business-Type Activities

	<u>Balance July 1, 2012</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2013</u>
Buildings and systems	\$ 2,278,563.91	\$ -	\$ 2,278,563.91
Furniture, equipment, and vehicles	72,133.80	-	72,133.80
Total Capital Assets	2,350,697.71	-	2,350,697.71
Less: Accumulated depreciation and amortization	(1,903,882.35)	(53,641.44)	(1,957,523.79)
Total Capital Assets, Net	<u>\$ 446,815.36</u>	<u>\$ (53,641.44)</u>	<u>\$ 393,173.92</u>

## Long-Term Debt

As of June 30, 2013, the Town's long-term obligations total \$-0-.

	<u>Balance July 1, 2012</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2013</u>
<b>Business-Type Activities</b>			
<b>Enterprise Fund</b>	\$ 85,208.95	\$ (85,208.95)	\$ -
Total Business-Type Activities	<u>85,208.95</u>	<u>(85,208.95)</u>	<u>-</u>
Total Primary Government	<u>85,208.95</u>	<u>(85,208.95)</u>	<u>-</u>
Total Reporting Entity	<u>\$ 85,208.95</u>	<u>\$ (85,208.95)</u>	<u>\$ -</u>

More detailed information on the Town's long-term obligations is presented in Note 7 to the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- According to the 2010 U.S. Census, the population in the Town of McKenney, Virginia was 483, an increase of 9.52 percent, since the 2000 U.S. Census.
- The per capita income in the Town of McKenney, Virginia was \$19,150.00, compared to \$27,705.00 for the state, according to the 2010 U.S. Census data.

The fiscal year 2014 adopted budget anticipates General Fund revenues and expenditures to be \$132,333.00, a 3.71 percent decrease over the fiscal year 2013 budget. Revenues are comprised primarily of taxes at 68.69 percent with Real Estate and Personal Property Taxes comprising 32.57 percent. The Town's Public Safety expenses are the largest expenditure area at 40.18 percent of total expenditures.

The fiscal year 2014 adopted budget anticipates water and sewer revenue to be \$219,230.00, an 11.03 percent increase over the fiscal year 2013 budget. Revenues are comprised primarily of sales of water and sewer services at 96.65 percent. Salaries continue to be the largest expense at 31.02 percent of the total.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. Questions concerning this report or requests for additional information should be directed to Charles T. Mansfield, Mayor, Town of McKenney, Virginia, P. O. Box 309, McKenney, Virginia 23872, telephone 804-478-4621.

# **BASIC FINANCIAL STATEMENTS**

# **Town of McKenney, Virginia**

## Statement of Net Position

At June 30, 2013

### Primary Government

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 145,094.21	\$ 245,538.80	\$ 390,633.01
Receivables, net	3,237.39	22,870.81	26,108.20
<b>Capital Assets</b>			
Capital assets, net of accumulated depreciation	311,923.73	393,173.92	705,097.65
Capital Assets, Net	<u>311,923.73</u>	<u>393,173.92</u>	<u>705,097.65</u>
Total Assets	<u>\$ 460,255.33</u>	<u>\$ 661,583.53</u>	<u>\$ 1,121,838.86</u>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 4,870.87	\$ 5,425.38	\$ 10,296.25
<b>Long-Term Liabilities</b>			
<i>Due within one year</i>			
Bonds, loans, and capital leases payable	-	-	-
<i>Due in more than one year</i>			
Bonds, loans, and capital leases payable	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	4,870.87	5,425.38	10,296.25
<b>Net Position</b>			
Net investment in capital assets	311,923.73	393,173.92	705,097.65
Unrestricted	<u>143,460.73</u>	<u>262,984.23</u>	<u>406,444.96</u>
Total Net Position	<u>455,384.46</u>	<u>656,158.15</u>	<u>1,111,542.61</u>
Total Liabilities and Net Position	<u>\$ 460,255.33</u>	<u>\$ 661,583.53</u>	<u>\$ 1,121,838.86</u>

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

## Town of McKenney, Virginia

## Statement of Activities

For the Year Ended June 30, 2013

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
<b>Primary Government</b>						
<b>Governmental Activities</b>						
General government administration	\$ 47,720.10	\$ -	\$ -	\$ (47,720.10)	\$ -	\$ (47,720.10)
Public safety	69,865.38	650.79	18,652.00	(50,562.59)	-	(50,562.59)
Public works	33,133.40	-	-	(33,133.40)	-	(33,133.40)
Community development	440.00	-	-	(440.00)	-	(440.00)
Total Governmental Activities	151,158.88	650.79	18,652.00	(131,856.09)	-	(131,856.09)
<b>Business-Type Activities</b>						
Water and Sewer Fund	280,276.95	182,887.96	-	-	(97,388.99)	(97,388.99)
Total Business-Type Activities	280,276.95	182,887.96	-	-	(97,388.99)	(97,388.99)
Total Primary Government	<u>\$ 431,435.83</u>	<u>\$183,538.75</u>	<u>\$ 18,652.00</u>	(131,856.09)	(97,388.99)	(229,245.08)
<b>General Revenues</b>						
<b>Taxes</b>						
General property taxes, real and personal				25,947.14	-	25,947.14
Other local taxes				51,162.32	-	51,162.32
Noncategorical aid from state				16,139.00	-	16,139.00
Investment earnings				580.88	1,214.91	1,795.79
Miscellaneous				28,173.62	-	28,173.62
Transfers				(73,774.79)	73,774.79	-
Total General Revenues				48,228.17	74,989.70	123,217.87
Change in Net Position				(83,627.92)	(22,399.29)	(106,027.21)
Prior Period Adjustment				2,062.55	-	2,062.55
Net Position - Beginning of Year				536,949.83	678,557.44	1,215,507.27
Net Position - End of Year				<u>\$ 455,384.46</u>	<u>\$ 656,158.15</u>	<u>\$ 1,111,542.61</u>

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

**Town of McKenney, Virginia**

Balance Sheet

Governmental Funds

At June 30, 2013

	<b>General Fund</b>
<b>Assets</b>	
Cash and investments	\$ 145,094.21
Property taxes receivable, net	<u>3,237.39</u>
Total Assets	<u><u>\$ 148,331.60</u></u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 4,870.87
Deferred revenue - property taxes	<u>3,237.39</u>
Total Liabilities	8,108.26
<b>Fund Balance</b>	
Unassigned	<u>140,223.34</u>
Total Fund Balance	<u><u>140,223.34</u></u>
Total Liabilities and Fund Balance	<u><u>\$ 148,331.60</u></u>

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

**Town of McKenney, Virginia**

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

At June 30, 2013

Total Fund Balances for Governmental Funds	\$ 140,223.34
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Total net position reported for governmental activities in the Statement of Net Position is different because:

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

Land	\$ 99,986.32
Buildings and improvements, net of accumulated depreciation	189,800.00
Furniture, equipment, and vehicles, net of accumulated depreciation	<u>22,137.41</u>

Total Capital Assets	311,923.73
----------------------	------------

Other assets are not available to pay for current period expenditures and, therefore, are deferred in the funds financial statements.

Deferred revenue - taxes	<u>3,237.39</u>
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Total Net Position of Governmental Activities	<u><u>\$ 455,384.46</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

**Town of McKenney, Virginia**

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2013

	<b>General Fund</b>
<b>Revenues</b>	
Property taxes	\$ 24,772.30
Other local taxes	51,162.32
Fines and forfeitures	350.79
Use of money and property	580.88
Miscellaneous	28,473.62
<i>Intergovernmental</i>	
Revenue from the Commonwealth of Virginia	23,339.00
Revenue from the Federal Government	<u>11,452.00</u>
Total Revenues	140,130.91
<b>Expenditures</b>	
<b>Current</b>	
General government administration	44,214.30
Public safety	57,711.71
Public works	32,723.60
Community development	<u>440.00</u>
Total Expenditures	<u>135,089.61</u>
Excess (Deficiency) of Revenues Over Expenditures	5,041.30
<b>Other Financing Sources (Uses)</b>	
Transfers out	<u>(73,774.79)</u>
Total Other Financing Sources (Uses)	<u>(73,774.79)</u>
Net Change in Fund Balance	(68,733.49)
Fund Balance - Beginning of Year	<u>208,956.83</u>
Fund Balance - End of Year	<u><u>\$ 140,223.34</u></u>

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

**Town of McKenney, 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, 2013

Net Change in Fund Balances - Total Governmental Funds	\$ (68,733.49)
--	----------------

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	(16,069.27)
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Revenues in the statement of activities that do not provide current financial resources are deferred in the fund statements. This amount represents the difference in the amounts deferred in the fund financial statements, but recognized in the statement of activities.	<u>1,174.84</u>
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Change in Net Position of Governmental Activities	<u><u>\$ (83,627.92)</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

# **Town of McKenney, Virginia**

## Statement of Net Position

### Proprietary Funds

At June 30, 2013

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

#### **Assets**

##### **Current Assets**

Cash	\$	245,538.80
Receivables, net		<u>22,870.81</u>

Total Current Assets	268,409.61
----------------------	------------

##### **Noncurrent Assets**

Capital assets, net	<u>393,173.92</u>
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Total Noncurrent Assets	<u>393,173.92</u>
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Total Assets	<u><u>\$ 661,583.53</u></u>
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#### **Liabilities**

##### **Current Liabilities**

Accounts payable and accrued expenses	\$	5,425.38
Short-term portion of debt		<u>-</u>

Total Current Liabilities	5,425.38
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##### **Noncurrent Liabilities**

Long-term debt	<u>-</u>
----------------	----------

Total Noncurrent Liabilities	<u>-</u>
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Total Liabilities	5,425.38
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#### **Net Position**

Net investment in capital assets	393,173.92
Unrestricted	<u>262,984.23</u>

Total Net Position	<u>656,158.15</u>
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Total Liabilities and Net Position	<u><u>\$ 661,583.53</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

**Town of McKenney, Virginia**

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

Proprietary Funds

Year Ended June 30, 2013

	<b>Business-Type Activities - Enterprise Fund Water and Sewer Fund</b>
<b>Operating Revenues</b>	
Water and sewer charges	\$ 166,312.03
Connection fees	16,446.33
Other income	<u>129.60</u>
Total Operating Revenues	182,887.96
<b>Operating Expenses</b>	
Salaries	68,078.38
Treasurer salary	6,248.64
Salary bonus	700.00
Miscellaneous	2,591.52
Supplies	8,055.75
Attorney fees	390.00
Repairs and maintenance	76,369.89
Vehicle	6,118.62
Utilities/telephone	28,077.97
Insurance	4,814.00
Engineering fees and lab	7,625.00
Accounting and legal	2,607.50
Depreciation	53,641.44
Taxes and licenses	5,603.89
Permits and fees	2,893.75
Water study	734.17
VRS - retirement	1,137.91
Hospital insurance	<u>3,205.93</u>
Total Operating Expenses	<u>278,894.36</u>
Operating Loss	(96,006.40)
<b>Nonoperating Revenues (Expenses)</b>	
Interest income	1,214.91
Interest expense	<u>(1,382.59)</u>
Total Nonoperating Revenues (Expenses)	<u>(167.68)</u>
Loss Before Transfers	(96,174.08)
<b>Transfers In (Out)</b>	<u>73,774.79</u>
Change in Net Position	(22,399.29)
Total Net Position - Beginning of Year	<u>678,557.44</u>
Total Net Position - End of Year	<u><u>\$ 656,158.15</u></u>

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

## Town of McKenney, Virginia

## Statement of Cash Flows

## Proprietary Funds

Year Ended June 30, 2013

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

**Cash Flows from Operating Activities**

Receipts from customers	\$ 181,324.23
Payments to suppliers	<u>(225,349.40)</u>
Net Cash Used in Operating Activities	(44,025.17)

**Cash Flows from Noncapital Financing Activities**

Transfers from other funds	<u>73,774.79</u>
Net Cash Provided by Noncapital Financing Activities	73,774.79

**Cash Flows from Capital and Related Financing Activities**

Principal paid on capital debt	(85,208.95)
Interest paid on capital debt	<u>(1,382.59)</u>
Net Cash Used in Capital and Related Financing Activities	(86,591.54)

**Cash Flows from Investing Activities**

Interest income	<u>1,214.91</u>
Net Cash Provided by Investing Activities	<u>1,214.91</u>

Net Decrease in Cash and Cash Equivalents (55,627.01)

Cash and Cash Equivalents - Beginning of Year 301,165.81

Cash and Cash Equivalents - End of Year \$ 245,538.80

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

Operating loss	\$ (96,006.40)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation expense	53,641.44
Changes in assets and liabilities	
Receivables, net	(1,563.73)
Accounts payable and accrued expenses	<u>(96.48)</u>
Net Cash Used in Operating Activities	<u><u>\$ (44,025.17)</u></u>

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

## Town of McKenney, Virginia

### Notes to Financial Statements

Year Ended June 30, 2013

## 1 Summary of Significant Accounting Policies

### *Narrative Profile*

The Town of McKenney, Virginia (the "Town"), which was incorporated in 1922, has a population of approximately 482 living within an area of .74 square miles. The Town is located in the southern area of Dinwiddie County, Virginia. The Town is governed by an elected Mayor and a five-member Council with each serving administrative and legislative functions.

The Town of McKenney, Virginia engages in a comprehensive range of municipal services, including water, sewer, and sanitation.

The financial statements of the Town of McKenney, 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 Town 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 Position: The Statement of Net Position is designed to display the financial position of the primary government (government and business-type activities). Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Position and report depreciation expense – the cost of “using up” capital assets – in the Statement of Activities. The net position of a government will be broken down into three categories: 1) net investment in capital assets; 2) restricted; and 3) unrestricted.
- 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 Town 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, entities for which the government is considered to be financially accountable. The Town only reports activities for itself. It has no component units.

## **B. Government-Wide and Fund Financial Statements**

The basic financial statements include both government-wide (based on the Town as a whole) and fund financial statements. The focus is on both the Town as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the Fiduciary Funds (by category). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the government-wide Statement of Net Position, 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 Town generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The Town may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, 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 Town does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

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

In the fund financial statements, financial transactions and accounts of the Town are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The fund statements are presented on a current financial resource and modified accrual basis of accounting.

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

The Town 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 Town's Fiduciary Funds are 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 Town in fiscal year 2013:

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 Town and accounts for all revenues and expenditures applicable to the general operations of the Town 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. There are no Special Revenue Funds as of June 30, 2013.
- c. Debt Service Funds – The Town does not account for its debt service in a separate fund. The debt is paid from either the General Fund or the Water and Sewer Fund. There are no Debt Service Funds as of June 30, 2013.
- 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. There are no Capital Projects Funds as of June 30, 2013.

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 Funds.

Enterprise Funds – Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the Town 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.

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. There are no Fiduciary Funds as of June 30, 2013.

### **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 position.

The government-wide Statements of Net Position 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 Position or on the Statement of Fiduciary Net Position. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position.

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 Town 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 Town in establishing the budgetary data reflected in the financial statements:

1. The Town Mayor submits to the Town 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 between the Town Council are conducted on the budget.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the fund, function, and departmental level. The appropriation for each fund, function, and department can be revised only by the Town Council. Supplemental appropriations in addition to the appropriated budget were necessary during the year. Supplemental appropriations may not be made without amending the budget.
5. The Town legally adopted budgets for the following funds:  
  

General Fund and Water and Sewer Fund

The Town may adopt budgets for other 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 Town funds.
8. All budget data presented in the accompanying financial statements is the original budget as of June 30, 2013, as adopted, appropriated, and legally amended.
9. The expenditure budget is enacted through an annual appropriations ordinance. Appropriations are made at the departmental level for the primary government. State law requires that if budget amendments exceed 1 percent of the original adopted budget, the Town Council may legally amend the budget only by following procedures used in the adoption of the original budget. The Town Council must approve all appropriations and transfers of appropriated amounts.

#### **E. Investments**

Investments are reported at fair value, if applicable.

#### **F. Capital Assets**

Capital outlays are recorded as expenditures of the Governmental Funds of the primary government, and as assets in the government-wide financial statements to the extent the Town's capitalization threshold of \$5,000 is met. The Town does not have any infrastructure in its capital assets since roads, streets, bridges, and similar assets within its boundaries are property of the Commonwealth of Virginia. 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	10 to 50 years
Furniture and other equipment	3 to 25 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 Town 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.

#### **G. 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.

#### **H. Long-Term Obligations**

The Town 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**

### ***Cash and Cash Equivalents***

For purposes of reporting cash flows for proprietary-type funds, cash and cash equivalents include cash on hand, money market funds, certificates of deposit, and investments with maturities of three months or less.

The Town maintains a pool of cash and investments in which each fund participates on a dollar equivalent and daily transaction basis. Interest is distributed monthly based on average monthly balances. The majority of funds in the Town's accounts are invested at all times.

### ***Deposits***

All cash of the Town 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.

The following is a summary and reconciliation of the pooled cash and investments at June 30, 2013:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Primary Government</b>			
Cash and cash equivalents	\$ 145,094.21	\$ 245,538.80	\$ 390,633.01

**Cash on Hand.** The Town had no cash on hand.

### 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 Town Council. Personal property taxes are assessed on property located in the Town on January 1.

Real estate and personal property taxes are due December 31 each year.

A ten percent penalty or \$10.00 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 beginning on January 1.

Property taxes for calendar year 2012 were levied by the Town Council in June 2012 on the assessed value listed as of January 1, 2012.

Property taxes for calendar year 2013 were levied by the Town Council in June 2013 on the assessed value listed as of January 1, 2013.

Property taxes levied in the current and prior year have been recorded as receivables as of the date the Town 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, 2013 consist of the following:

	<u>Primary Government</u>	
	<u>Governmental Activities</u>	
	<u>General</u>	<u>Business-Type Activities</u>
<b>Receivables</b>		
Property taxes	\$ 3,237.39	\$ -
Water and sewer	-	22,870.81
	<u>          </u>	<u>          </u>
Total Receivables	<u>\$ 3,237.39</u>	<u>\$ 22,870.81</u>

## 5 Interfund Balances and Activity

Balance due to/from other funds at June 30, 2013:

### Primary Government

There are no interfund obligations (Due to/Due from's).

#### Transfers To/From Other Funds

##### General Fund

	<u>Transfer to</u>	<u>Transfer from</u>
To Water Fund	\$ 73,774.79	\$ -
Total General Fund	73,774.79	-

##### Enterprise Fund

From General Fund	-	73,774.79
Total Transfers	<u>\$ 73,774.79</u>	<u>\$ 73,774.79</u>

## 6 Capital Assets

Following is a summary of changes in capital assets for primary government:

### Primary Government

	<u>Balance July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2013</u>
<b>Capital Assets Not Being Depreciated</b>				
Land and land improvements	\$ 99,986.32	\$ -	\$ -	<u>\$ 99,986.32</u>
Total Capital Assets Not Being Depreciated	99,986.32	-	-	<u>99,986.32</u>
<b>Other Capital Assets</b>				
Buildings and improvements	495,800.00	-	-	<u>495,800.00</u>
Furniture, equipment, and vehicles	<u>83,038.16</u>	<u>-</u>	<u>-</u>	<u>83,038.16</u>
Total Other Capital Assets	578,838.16	-	-	<u>578,838.16</u>
<b>Less: Accumulated depreciation for</b>				
Buildings and improvements	(296,471.50)	(9,528.50)	-	<u>(306,000.00)</u>
Furniture, equipment, and vehicles	<u>(54,359.98)</u>	<u>(6,540.77)</u>	<u>-</u>	<u>(60,900.75)</u>
Total Accumulated Depreciation	<u>(350,831.48)</u>	<u>(16,069.27)</u>	<u>-</u>	<u>(366,900.75)</u>
Other Capital Assets, Net	<u>228,006.68</u>	<u>(16,069.27)</u>	<u>-</u>	<u>211,937.41</u>
Net Capital Assets	<u>\$ 327,993.00</u>	<u>\$ (16,069.27)</u>	<u>\$ -</u>	<u>\$ 311,923.73</u>

Depreciation expense was allocated as follows:

General government administration	\$ 3,505.80
Public works	12,153.67
Public safety	<u>409.80</u>
Total Depreciation Expense	<u>\$ 16,069.27</u>

Following is a summary of changes in capital assets for business-type activities:

#### Business-Type Activities

	<u>Balance July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2013</u>
<b>Other Capital Assets</b>				
Infrastructure - buildings and systems	\$ 2,278,563.91	\$ -	\$ -	\$ 2,278,563.91
Furniture, equipment, and vehicles	<u>72,133.80</u>	<u>-</u>	<u>-</u>	<u>72,133.80</u>
Total Other Capital Assets	2,350,697.71	-	-	2,350,697.71
<b>Less: Accumulated depreciation for</b>				
Buildings and systems	(1,833,677.97)	(52,792.02)	-	(1,886,469.99)
Furniture, equipment, and vehicles	<u>(70,204.38)</u>	<u>(849.42)</u>	<u>-</u>	<u>(71,053.80)</u>
Total Accumulated Depreciation	(1,903,882.35)	(53,641.44)	-	(1,957,523.79)
Other Capital Assets, Net	<u>446,815.36</u>	<u>(53,641.44)</u>	<u>-</u>	<u>393,173.92</u>
Net Capital Assets	<u>\$ 446,815.36</u>	<u>\$ (53,641.44)</u>	<u>\$ -</u>	<u>\$ 393,173.92</u>

Depreciation expense for water and sewer \$ 53,641.44

## 7 Long-Term Debt

### PRIMARY GOVERNMENT

#### Changes in Long-Term Debt

The following is a summary of long-term debt transactions of the Town for the year ended June 30, 2013:

	<u>Balance July 1, 2012</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2013</u>	<u>Due Within One Year</u>
<b>Business-Type Activities</b>					
<b>Enterprise Funds</b>					
Bonds payable	\$ 85,208.95	\$ -	\$ 85,208.95	\$ -	\$ -
Total Business-Type Activities	<u>\$ 85,208.95</u>	<u>\$ -</u>	<u>\$ 85,208.95</u>	<u>\$ -</u>	<u>\$ -</u>

## 8 Claims, Judgments, and Compensated Absences

NCGA Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, requires the Town to accrue the liability arising from outstanding claims, judgments, and compensated absences. No accrual has been recorded and management does not believe it is material to the financial statements.

## 9 Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for resources that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet recognizable. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

## Primary Government

Property taxes	\$ 3,237.39
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Total Primary Government	<u>\$ 3,237.39</u>
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## 10 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, 2013, there were no matters of litigation involving the Town which would materially affect the Town's financial position should any court decision or pending matter not be favorable to the Town.

## 11 Defined Benefit Pension Plan

### A. Plan Description

<b>Name of Plan:</b>	Virginia Retirement System (VRS)
<b>Identification of Plan:</b>	Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
<b>Administering Entity:</b>	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 service credit in their plan.

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

- Members hired before July 1, 2010 and who were vested as of January 1, 2013 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs, and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

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

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2012-annual-report.pdf> or by writing to the System's Chief Financial Officer at P. O. Box 2500, Richmond, 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. Beginning July 1, 2012, new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2013 was 10.36% of annual covered payroll.

**C. Annual Pension Cost**

For fiscal year 2013 the Town's annual pension cost of \$4,460.74 was equal to the Town's required and actual contributions.

**Three-Year Trend Information for Town**

<b>Fiscal Year Ending</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
June 30, 2011	\$ 3,415	100%	\$ -
June 30, 2012	3,355	100%	-
<b>June 30, 2013</b>	<b>4,461</b>	<b>100%</b>	<b>-</b>

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

**D. Funded Status and Funding Progress**

As of June 30, 2012, the most recent actuarial valuation date, the plan was 76.25% funded. The actuarial accrued liability for benefits was \$305,390, and the actuarial value of assets was \$232,852, resulting in an unfunded actuarial accrued liability (UAAL) of \$72,538. The covered payroll (annual payroll of active employees covered by the plan) was \$52,016 and ratio of the UAAL to the covered payroll was 139.45%.

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 Town

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, 2010	\$ 216,285	\$ 270,202	\$ 53,917	80.05%	\$ 49,966	107.91%
June 30, 2011	226,942	287,185	60,243	79.02%	50,976	118.18%
June 30, 2012	232,852	305,390	72,538	76.25%	52,016	139.45%

### 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, 2012
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent, Open
Payroll Growth Rate	3.00%
Remaining Amortization Period	29 years (decreasing by one each year in subsequent valuations until reaching 20 years)
Asset Valuation Method	Five-Year Smoothed Market Value
Actuarial Assumptions	
Investment rate of return <sup>1</sup>	7.00%
Projected salary increases <sup>1</sup>	
NonLaw Enforcement Officer Employees	3.75% to 5.60%
Law Enforcement Officer Employees	3.50% to 4.75%
Cost-of-living adjustments	2.50%

<sup>1</sup>Includes inflation of 2.50%

## 12 Legal Compliance

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

## 13 Surety Bond Information

The following constitutional officers are insured through the Commonwealth of Virginia Faithful Performance of Duty Bond Plan in effect at June 30, 2013:

### Virginia Municipal League Insurance Program

Martha Stone - Treasurer

\$75,000.00

## 14 Prior Period Adjustment

Due to the implementation of GASB Statement No. 63 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," only specific deferred items belong in the Statement of Net Position. Therefore, deferred revenue for taxes is a reconciling item between the government-wide statements and the fund statements from this point forward. The beginning balance for deferred taxes of \$2,062.55 needed to be an adjustment to unrestricted net position.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**Town of McKenney, Virginia**

Budgetary Comparison Schedule

Year Ended June 30, 2013

**General Fund**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
<b>Revenues</b>				
<b>General Property Taxes</b>				
Real property taxes	\$ 19,100.00	\$ 19,100.00	\$ 19,528.61	\$ 428.61
Personal property taxes	<u>4,400.00</u>	<u>4,400.00</u>	<u>5,243.69</u>	<u>843.69</u>
Total General Property Taxes	23,500.00	23,500.00	24,772.30	1,272.30
<b>Other Local Taxes</b>				
Bank franchise taxes	23,000.00	23,000.00	16,847.98	(6,152.02)
Sales taxes	9,100.00	9,100.00	9,578.82	478.82
Motor vehicle taxes	5,600.00	5,600.00	4,846.00	(754.00)
Business licenses	7,000.00	7,000.00	6,720.49	(279.51)
Utility taxes	<u>13,065.00</u>	<u>13,065.00</u>	<u>13,169.03</u>	<u>104.03</u>
Total Other Local Taxes	57,765.00	57,765.00	51,162.32	(6,602.68)
<b>Fines and Forfeitures</b>	700.00	700.00	350.79	(349.21)
<b>Revenue from Use of Money and Property</b>				
Interest earned	<u>200.00</u>	<u>200.00</u>	<u>580.88</u>	<u>380.88</u>
Total Revenue from Use of Money and Property	200.00	200.00	580.88	380.88
<b>Miscellaneous</b>				
Miscellaneous	500.00	500.00	1,611.74	1,111.74
County funds	<u>21,000.00</u>	<u>21,000.00</u>	<u>26,861.88</u>	<u>5,861.88</u>
Total Miscellaneous	<u>21,500.00</u>	<u>21,500.00</u>	<u>28,473.62</u>	<u>6,973.62</u>
Total Revenue from Local Sources	103,665.00	103,665.00	105,339.91	1,674.91
<b>Intergovernmental</b>				
<i>Revenue from the Commonwealth of Virginia</i>				
Personal Property Tax Relief Act	5,500.00	5,500.00	5,500.46	0.46
Communications tax	9,435.00	9,435.00	9,435.54	0.54
Litter Grant	833.00	833.00	1,203.00	370.00
Fire Department Grant	<u>8,000.00</u>	<u>8,000.00</u>	<u>7,200.00</u>	<u>(800.00)</u>
Total Revenue from the Commonwealth of Virginia	23,768.00	23,768.00	23,339.00	(429.00)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
<i>Revenue from the Federal Government</i>				
<i>Categorical Aid</i>				
Local Law Enforcement - Block Grant	10,000.00	10,000.00	11,452.00	1,452.00
Total Revenue from the Federal Government	10,000.00	10,000.00	11,452.00	1,452.00
 Total Intergovernmental Revenue	33,768.00	33,768.00	34,791.00	1,023.00
 Total General Fund Revenues	137,433.00	137,433.00	140,130.91	2,697.91

## Current Expenditures

### General Government Administration

Treasurer salary	6,550.00	6,550.00	6,615.28	(65.28)
Town Clerk salary	-	-	1,313.02	(1,313.02)
Town Council	4,833.00	4,833.00	5,333.32	(500.32)
Payroll bonus	600.00	600.00	-	600.00
Town Attorney	780.00	780.00	325.00	455.00
Auditor	2,250.00	2,250.00	2,277.50	(27.50)
Other accounting and legal	1,100.00	1,100.00	595.00	505.00
Office expense	5,000.00	5,000.00	4,849.56	150.44
Miscellaneous	4,250.00	4,250.00	893.49	3,356.51
Utilities/telephone	4,800.00	4,800.00	4,922.89	(122.89)
Advertising	200.00	200.00	244.91	(44.91)
Civil events	500.00	500.00	254.31	245.69
Auto decals	890.00	890.00	892.87	(2.87)
Capital outlay	9,441.00	9,441.00	-	9,441.00
Insurance	2,400.00	2,400.00	3,371.00	(971.00)
Payroll tax	5,500.00	5,500.00	4,809.41	690.59
VRS - retirement	3,100.00	3,100.00	3,322.83	(222.83)
Hospital insurance	2,875.00	2,875.00	3,205.97	(330.97)
Dues and subscriptions	506.00	506.00	987.94	(481.94)
Total General Government Administration	55,575.00	55,575.00	44,214.30	11,360.70

### Public Safety

#### Police Department

Sergeant salary	4,800.00	4,800.00	5,244.00	(444.00)
Police salary	10,000.00	10,000.00	9,515.00	485.00
Insurance	2,500.00	2,500.00	3,409.00	(909.00)
Supplies	175.00	175.00	481.67	(306.67)
Vehicle	1,500.00	1,500.00	1,722.26	(222.26)
Uniforms and equipment	200.00	200.00	-	200.00
Utilities/telephone	550.00	550.00	87.40	462.60
Miscellaneous	100.00	100.00	-	100.00
Total Police Department	19,825.00	19,825.00	20,459.33	(634.33)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
<i>Fire Department</i>				
Supplies	5,000.00	5,000.00	21,228.74	(16,228.74)
Vehicle	5,950.00	5,950.00	2,961.74	2,988.26
Insurance	2,300.00	2,300.00	2,583.00	(283.00)
Miscellaneous	200.00	200.00	424.22	(224.22)
Utilities/telephone	16,000.00	16,000.00	10,054.68	5,945.32
Total Fire Department	<u>29,450.00</u>	<u>29,450.00</u>	<u>37,252.38</u>	<u>(7,802.38)</u>
Total Public Safety	49,275.00	49,275.00	57,711.71	(8,436.71)
<b>Public Works</b>				
<i>Sanitation</i>				
Salary	<u>6,850.00</u>	<u>6,850.00</u>	<u>6,459.83</u>	<u>390.17</u>
Total Sanitation	6,850.00	6,850.00	6,459.83	390.17
<i>Building and Grounds</i>				
Salary	17,300.00	17,300.00	17,666.13	(366.13)
Supplies	100.00	100.00	542.35	(442.35)
Miscellaneous	500.00	500.00	100.00	400.00
Utilities	3,000.00	3,000.00	3,939.32	(939.32)
Repairs	<u>4,333.00</u>	<u>4,333.00</u>	<u>4,015.97</u>	<u>317.03</u>
Total Building and Grounds	<u>25,233.00</u>	<u>25,233.00</u>	<u>26,263.77</u>	<u>(1,030.77)</u>
Total Public Works	32,083.00	32,083.00	32,723.60	(640.60)
<b>Planning and Community Development</b>				
Planning Commission and Zoning	<u>500.00</u>	<u>500.00</u>	<u>440.00</u>	<u>60.00</u>
Total Expenditures	<u>137,433.00</u>	<u>137,433.00</u>	<u>135,089.61</u>	<u>2,343.39</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ -</u>	5,041.30	<u>\$ 5,041.30</u>
<b>Other Financing Sources (Uses)</b>				
Operating transfers in (out)			<u>(73,774.79)</u>	
Net Change in Fund Balance			(68,733.49)	
Fund Balance - Beginning of Year			<u>208,956.83</u>	
Fund Balance - End of Year			<u>\$ 140,223.34</u>	

## **COMPLIANCE SECTION**



**Creedle  
Jones  
& Alga**

*A Professional Corporation*

*Robin B. Jones, CPA, CFP  
David V. Alga, CPA, CVA, CFF  
Denise C. Williams, CPA, CSEP  
Scott A. Thompson, CPA  
Nadia A. Rogers, CPA*

*James A. Allen, Jr., CPA  
Nadine L. Chase, CPA  
Kimberly N. Walker, CPA*

*Sherwood H. Creedle, Emeritus*

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

## **INDEPENDENT AUDITOR'S 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 Town Council  
Town of McKenney, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities and each major fund of Town of McKenney, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Town of McKenney, Virginia's basic financial statements and have issued our report thereon dated May 8, 2014.

### **Internal Control Over Financial Reporting**

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

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

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

### Compliance and Other Matters

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

### Purpose of this Report

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

*Creedle, Jones & Alga, P.C.*

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

South Hill, Virginia  
May 8, 2014