

**TOWN OF TIMBERVILLE, VIRGINIA**  
**FINANCIAL AND COMPLIANCE REPORTS**  
**JUNE 30, 2014**

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## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the fiduciary fund of the Town of Timberville, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Timberville's basic financial statements as listed in the table of contents.

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

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

### **Auditors' Responsibility**

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

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the fiduciary fund of the Town of Timberville, Virginia, as of June 30, 2014, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

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

### *Other Information*

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

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

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2014, on our consideration of the Town of Timberville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Timberville's internal control over financial reporting and compliance.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the Town of Timberville's financial performance provides an overview of the Town's financial activities for the year ended June 30, 2014. Please read it in conjunction with the Town's financial statements, which begin on page 11.

### **FINANCIAL HIGHLIGHTS**

- The assets of the Town exceeded its liabilities by \$3,092,814 at the close of the most recent fiscal year.
- The Town's net position increased as a result of this year's operations. While net position of the business-type activities increased by \$94,890, net position of the governmental activities increased by \$247,190.
- In the Town's business-type activities, revenues increased by \$111,366 from the previous year while expenses increased by \$6,413.
- In the Town's governmental activities, revenues increased by \$150,917 from the previous year while expenses increased by \$33,403.
- Actual revenues were \$217,483 more than budgeted for the General Fund. General Fund expenditures were \$293,217 more than budgeted.
- Operating revenues and interest earned were \$69,541 more than budgeted for the Water and Sewer Fund. Water and Sewer Fund operating expenses, excluding depreciation, and interest expense were \$6,914 less than budgeted.
- The Town spent \$709,713 for capital outlays during the current fiscal year.
- The Town's long-term debt increased by \$359,011 during the current fiscal year.

### **USING THIS ANNUAL REPORT**

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

## Reporting the Town as a Whole

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

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

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

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

## Reporting the Town's Most Significant Funds

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

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

## THE TOWN AS TRUSTEE

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

## THE TOWN AS A WHOLE

The Town's *combined* net position changed slightly from a year ago – *increasing* from \$2,750,734 to \$3,092,814. During the year, the net position of the governmental activities increased by 21.9 percent and the business-type activities increased by 5.9 percent. Below is a summary of the net position as of June 30, 2014 and 2013.

NET POSITION						
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 616,476	\$ 593,968	\$ 935,660	\$ 832,324	\$ 1,552,136	\$ 1,426,292
Capital assets	<u>1,021,532</u>	<u>798,046</u>	<u>1,459,830</u>	<u>1,105,888</u>	<u>2,481,362</u>	<u>1,903,934</u>
Total assets	<u>\$ 1,638,008</u>	<u>\$ 1,392,014</u>	<u>\$ 2,395,490</u>	<u>\$ 1,938,212</u>	<u>\$ 4,033,498</u>	<u>\$ 3,330,226</u>
Long-term liabilities	\$ -	\$ -	\$ 617,860	\$ 258,849	\$ 617,860	\$ 258,849
Other liabilities	<u>64,171</u>	<u>67,314</u>	<u>62,020</u>	<u>58,643</u>	<u>126,191</u>	<u>125,957</u>
Total liabilities	<u>\$ 64,171</u>	<u>\$ 67,314</u>	<u>\$ 679,880</u>	<u>\$ 317,492</u>	<u>\$ 744,051</u>	<u>\$ 384,806</u>
Total deferred inflows of resources	<u>\$ 196,633</u>	<u>\$ 194,686</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 196,633</u>	<u>\$ 194,686</u>
Net position:						
Net investment in capital assets	\$ 1,021,532	\$ 798,046	\$ 841,970	\$ 847,039	\$ 1,863,502	\$ 1,645,085
Unrestricted	<u>355,672</u>	<u>331,968</u>	<u>873,640</u>	<u>773,681</u>	<u>1,229,312</u>	<u>1,105,649</u>
Total net position	<u>\$ 1,377,204</u>	<u>\$ 1,130,014</u>	<u>\$ 1,715,610</u>	<u>\$ 1,620,720</u>	<u>\$ 3,092,814</u>	<u>\$ 2,750,734</u>

The largest portion of the Town's net position (60 percent) reflects its investments in capital assets (e.g., land, buildings, equipment and improvements), less any debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide service to citizens; consequently these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of unrestricted net position (\$1,229,312) may be used to meet the government's ongoing obligation to citizens and creditors.

The following is a summary of the change in net position for the governmental and business-type activities for the years ended June 30, 2014 and 2013.

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Revenues</b>						
Charges for services	\$ 172,456	\$ 166,978	\$ 663,357	\$ 549,326	\$ 835,813	\$ 716,304
General property taxes	185,268	182,272	-	-	185,268	182,272
Other local taxes	562,299	532,313	-	-	562,299	532,313
Intergovernmental	227,052	113,520	-	2,665	227,052	116,185
Miscellaneous	-	1,075	-	-	-	1,075
Total revenues	<u>\$ 1,147,075</u>	<u>\$ 996,158</u>	<u>\$ 663,357</u>	<u>\$ 551,991</u>	<u>\$ 1,810,432</u>	<u>\$ 1,548,149</u>

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Program expenses</b>						
General government	\$ 325,023	\$ 320,217	\$ -	\$ -	\$ 325,023	\$ 320,217
Public safety	338,194	319,404	-	-	338,194	319,404
Public works	283,109	271,276	-	-	283,109	271,276
Parks and recreation	62,174	64,200	-	-	62,174	64,200
Water and sewer	-	-	451,417	445,004	451,417	445,004
Total expenses	<u>\$ 1,008,500</u>	<u>\$ 975,097</u>	<u>\$ 451,417</u>	<u>\$ 445,004</u>	<u>\$ 1,459,917</u>	<u>\$ 1,420,101</u>
Operating income	<u>\$ 138,575</u>	<u>\$ 21,061</u>	<u>\$ 211,940</u>	<u>\$ 106,987</u>	<u>\$ 350,515</u>	<u>\$ 128,048</u>
<b>Nonoperating</b>						
Interest income	\$ 1,101	\$ 6,840	\$ 1,284	\$ 2,954	\$ 2,385	\$ 9,794
Interest expense	-	(303)	(12,593)	(1,617)	(12,593)	(1,920)
Gain (loss) on sale of equipment	1,773	(793)	-	-	1,773	(793)
Total nonoperating	<u>\$ 2,874</u>	<u>\$ 5,744</u>	<u>\$ (11,309)</u>	<u>\$ 1,337</u>	<u>\$ (8,435)</u>	<u>\$ 7,081</u>
Income before transfers	\$ 141,449	\$ 26,805	\$ 200,631	\$ 108,324	\$ 342,080	\$ 135,129
Transfers	<u>105,741</u>	<u>253,815</u>	<u>(105,741)</u>	<u>(253,815)</u>	<u>-</u>	<u>-</u>
<b>Increase (decrease) in net position</b>	<u>\$ 247,190</u>	<u>\$ 280,620</u>	<u>\$ 94,890</u>	<u>\$ (145,491)</u>	<u>\$ 342,080</u>	<u>\$ 135,129</u>

The Town's total revenues increased by \$262,283 (16.9 percent). The total cost of all programs and services increased by \$39,816 (2.8 percent). Our analysis that follows separately considers the operations of governmental and business-type activities.

### Governmental Activities

Revenues for the Town's governmental activities increased by \$150,917 (15.1 percent) and expenses increased by \$33,403 (3.4 percent). The factors driving these results include:

#### Revenues

- *Other local taxes* overall increased by \$29,986. Sales tax increased by \$9,305, meals tax increased by \$7,255, and business and professional licenses increased by \$4,024. All of these categories increased as a result of the Town's experiencing small growth during the current fiscal year. Bank stock taxes increased by \$8,140 due to an increase in bank assets during the year.
- *Intergovernmental revenues* overall increased by \$113,532. The most significant increase (by \$129,839) is due to receiving reimbursements from the Safe Routes to School Program grant. The purpose of the project is to construct sidewalks on American Legion Drive from the intersection of Lone Pine Drive and the American Legion to the Plains Elementary School entrance, for a total sidewalk length of 808 feet. The project was completed during the current fiscal year, and the Town received the final reimbursements from the program. Snow removal revenue increased by \$6,337 due to more inclement weather during winter. A decrease of \$24,939 is from the Town's receiving a Federal Emergency Management Agency (FEMA) storm grant passed through the Virginia Department of Energy Management during the prior fiscal year.



### Expenses

- *Public safety* overall increased by \$18,790. Police salaries for full-time officers increased by \$7,497. This increase is due to current year raises. An increase to part-time officers' salaries, by \$2,036, is attributable to additional help required during the current year. Depreciation expense increased by \$5,084 due to the addition of capital assets. Police employee insurance increased by \$2,662 due to an increase in rates. Police car maintenance increased by \$2,243 as a result of additional upkeep necessary on the older vehicles.
- *Public works* overall increased by \$11,833. The maintenance supervisor salary increased by \$3,005 from an annual pay raise. Depreciation expense increased by \$12,481 due to the addition of several capital assets, including completion of the Church Street project. Sanitation overall increased by \$7,626 as a result of the recycling being handled by the sanitation company, instead of the Town. Several decreases included buildings and grounds maintenance, by \$6,888, and Christmas lights, by \$1,878. Prior year buildings and grounds maintenance included the purchase of street lights and the derecho storm damage clean-up. The Town incurred several repairs to the Christmas lights in the prior year which led to the purchase of new lights in the current year.

### **Business-Type Activities**

Revenues for the Town's business-type activities increased by \$111,366 (20.2 percent) and expenses increased by \$6,413 (1.4 percent). The factors driving these results include:

#### Revenues

- *Water and sewer revenues* overall increased by \$111,366. The most significant increase was from water and sewer connection fees, which increased by \$117,000. Several developers purchased connection fees in the current year for homes in their subdivisions. A decrease, by \$2,665, is from the Town's receiving a fluoride grant in the prior year.

#### Expenses

- *Water and sewer expenses* overall increased by \$6,413. Salaries increased by \$7,587 from annual pay raises. Equipment repairs and maintenance increased by \$5,698. The Town is in the process of upgrading and installing water meters and incurred added costs for meters purchased. An increase in the sewer disposal contract, by \$10,365, is from the Town's share of the cost of sludge removal required at the Broadway plant. Professional fees decreased by \$7,039. A water modeling study was completed in the prior year resulting in some additional costs. Chemicals decreased, by \$4,206, related to the purchase of fluoride in the prior year. Vehicle repairs and maintenance decreased by \$11,795. The primary decrease is from backhoe damage suffered during the derecho storm clean-up in the prior year.

## THE TOWN'S FUNDS

As the Town completed the year, its governmental fund (as presented in the balance sheet on page 13) reported a fund balance of \$329,016, which is an increase of \$17,300 over last year's total of \$311,716. The primary reasons for the General Fund's increase mirror the changes noted in the previous section under "governmental" activities. In addition, the Town expended \$300,972 on capital additions (see page 54), an increase of \$191,627 over the prior year.

As the Town completed the year, its proprietary fund (as presented in the statement of net position on page 17) reported net position of \$1,715,610, which is an increase of \$94,890 over last year's total of \$1,620,720. Significant changes in the change in net position are noted in the previous section under "business-type" activities.

## GENERAL FUND BUDGETARY HIGHLIGHTS

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

<u>Account</u>	<u>Variance Positive (Negative)</u>
<b>Revenues</b>	
Sales tax	\$ 10,652
Meals tax	7,789
Business and professional licenses	15,419
Vehicle license fees	(4,047)
Safe Routes to School Program grant	142,653
VDOT winter storm assistance	11,322
<b>Expenditures</b>	
<i><b>General Government</b></i>	
Salary - Clerk/Treasurer	\$ (4,432)
Capital outlay	(8,550)
<i><b>Public Safety</b></i>	
Police Chief salary	(7,784)
Police salaries	(8,018)
Capital outlay	(6,655)
<i><b>Public Works</b></i>	
Capital outlay	(238,207)
Vehicle gas and oil	3,227
<i><b>Parks and Recreation</b></i>	
Salaries - managers	4,405
Capital outlay	(10,360)

Actual revenues exceeded the final budgeted amounts by \$217,483. Sales tax, meals tax, and business and professional licenses revenue increased by more than expected indicating some small growth in the local economy. The Town received reimbursements from the Safe Routes to School Program Grant. The purpose of the project is to construct sidewalks on American Legion Drive from the intersection of Lone Pine Drive and the American Legion to the Plains Elementary School entrance for a total sidewalk length of 808 feet. The project was completed during the current fiscal year, and the Town received the final reimbursements from the program. VDOT winter storm assistance increased by more than expected during the current year. Inclement weather including several heavy snowfalls during the winter caused a greater need for winter storm assistance.

Actual expenditures were more than the final budget by \$293,217. Greater capital outlays than planned caused actual expenditures in all categories to exceed the budget. A general government capital outlay for a server (\$8,550) was required to replace the current failing server. The police department purchased a Dodge Charger at the end of the last fiscal year and incurred capital outlays at the beginning of the current year to outfit the vehicle. Public works capital outlays included amounts related to paving for the Church Street project (\$103,374) and the Safe Routes to School Program grant (\$141,582). Parks and recreation capital outlays included replacing a roof at the pool and the purchase of land adjacent to the park. An increase in the Treasurer's salary included overtime for attending regular and special council meetings, working special events, and being reimbursed for unused vacation time. Increases in police salaries were due mainly to overtime devoted to public safety; however, these increases were funded by Federal grants.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2014, the Town had \$2.48 million invested in capital assets including public works and police equipment, buildings, park facilities, sidewalks, and the water and sewer system. (See table below.) This represents a net increase of \$577,428, or 30.3 percent, over last year.

	Governmental Activities		Business-Type Activities		Totals	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$ 52,505	\$ 47,200	\$ 43,900	\$ -	\$ 96,405	\$ 47,200
Buildings	304,595	314,779	11,973	13,502	316,568	328,281
Infrastructure	518,878	295,994	-	-	518,878	295,994
Equipment	145,554	140,073	28,838	41,020	174,392	181,093
Utility system	-	-	<u>1,375,119</u>	<u>1,051,366</u>	<u>1,375,119</u>	<u>1,051,366</u>
Totals	<u>\$1,021,532</u>	<u>\$ 798,046</u>	<u>\$1,459,830</u>	<u>\$1,105,888</u>	<u>\$ 2,481,362</u>	<u>\$ 1,903,934</u>

This year's major additions included:

Safe Routes to School Program grant, infrastructure	\$ 141,582
Church Street project - paving	103,374
Church Street project - water	165,399
Church Street project - sewer	144,724
Land for water tank	43,900
Christmas lights	<u>21,135</u>
	<u>\$ 620,114</u>

## Debt

At year-end, the Town had \$617,860 in outstanding loans compared to \$258,849 last year. This is an increase of 138.7 percent as shown in the following table.

### Business-Type Activities

	Outstanding June 30,	
	<u>2014</u>	<u>2013</u>
Water & Sewer Fund loans payable	<u>\$ 617,860</u>	<u>\$ 258,849</u>

New debt was issued for infrastructure improvements in the Water and Sewer Fund. The total amount of new debt was \$467,011, for the year ended June 30, 2014.

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

The FY 2014-2015 budget has increased over the FY 2013-2014 budget by \$154,325. This is a 10.1 percent increase in revenue over the prior year. The main increase (\$107,839) is a transfer from savings. The savings consists of prior years' connection fees that will be used for infrastructure improvements.

Some increases include sales tax, meals tax, business and professional license revenue, cigarette tax, and connection fees. The sales and meals tax revenues as well as the business and professional license revenue are increasing to reflect increases in actual revenues due to some small growth in the Town. The prior year connection fees increased due to some building in the Town, so the current year budget is being increased in anticipation of continued growth. Cigarette taxes are being increased in order to more closely match the greater than anticipated actual revenues.

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

A capital outlay for \$7,000 is budgeted in streets for paving the parking area behind the Town office. Capital outlays for \$25,000 are budgeted in the public works department for the final portion of the cost of a dump truck (\$15,000), a snow plow (\$6,000), and a trailer for the sewer camera (\$4,000). Capital outlays totaling \$124,350 are budgeted in the Water and Sewer Fund. The main capital outlay (\$100,000) is for infrastructure the Town is providing to accommodate the construction of a satellite health center by Sentara RMH Medical Center. The Town also budgeted \$22,500 for the purchase of one hundred regular water meters and \$1,850 for the purchase of a two-inch water meter.

Funds are allocated in the FY 2014-2015 budget for raises. A 3 percent pool of increases is distributed among personnel. The majority of employees received 3 percent raises. Three percent is consistent with the average cost-of-living increase for the Town.

## CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

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

## **Government-Wide Financial Statements**

## TOWN OF TIMBERVILLE, VIRGINIA

## STATEMENT OF NET POSITION

June 30, 2014

	----- Primary Government -----		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 284,754	\$ 866,696	\$ 1,151,450
Receivables (net of allowance for uncollectibles):			
Property taxes	221,987	-	221,987
Utility taxes	3,805	-	3,805
Vehicle license fees	25,031	-	25,031
Meals and occupancy taxes	14,637	-	14,637
Accounts	23,092	89,932	113,024
Accrued interest	29	115	144
Container deposits	-	500	500
Due from other governmental units	18,399	-	18,399
Internal balances	23,092	(23,092)	-
Inventory, at cost	1,650	-	1,650
Prepaid expenses	-	1,509	1,509
Capital assets:			
Non-depreciable	52,505	43,900	96,405
Depreciable, net of accumulated depreciation	<u>969,027</u>	<u>1,415,930</u>	<u>2,384,957</u>
<b>Total assets</b>	<u>\$ 1,638,008</u>	<u>\$ 2,395,490</u>	<u>\$ 4,033,498</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 34,666	\$ 17,545	\$ 52,211
Renters' deposits	-	30,919	30,919
Accrued compensated absences	29,505	5,595	35,100
Accrued interest payable	-	1,186	1,186
Water and sewer hook-ups	-	6,775	6,775
Long-term liabilities:			
Due within one year	<u>-</u>	<u>617,860</u>	<u>617,860</u>
<b>Total liabilities</b>	<u>\$ 64,171</u>	<u>\$ 679,880</u>	<u>\$ 744,051</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue	<u>\$ 196,633</u>	<u>\$ -</u>	<u>\$ 196,633</u>
<b>Total deferred inflows of resources</b>	<u>\$ 196,633</u>	<u>\$ -</u>	<u>\$ 196,633</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 1,021,532	\$ 841,970	\$ 1,863,502
Unrestricted	<u>355,672</u>	<u>873,640</u>	<u>1,229,312</u>
<b>Total net position</b>	<u>\$ 1,377,204</u>	<u>\$ 1,715,610</u>	<u>\$ 3,092,814</u>

See Notes to Financial Statements.

**TOWN OF TIMBERVILLE, VIRGINIA**

**STATEMENT OF ACTIVITIES  
Year Ended June 30, 2014**

Functions/ Programs	Expenses	----- Program Revenues -----		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government administration	\$ 325,023	\$ 6,245	\$ -	\$ -
Public safety	338,194	5,408	53,363	-
Public works	283,109	137,317	14,322	142,653
Parks and recreation	<u>62,174</u>	<u>23,486</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 1,008,500</u>	<u>\$ 172,456</u>	<u>\$ 67,685</u>	<u>\$ 142,653</u>
Business-type activities:				
Water and sewer	<u>\$ 464,010</u>	<u>\$ 663,357</u>	<u>\$ -</u>	<u>\$ -</u>
Total business-type activities	<u>\$ 464,010</u>	<u>\$ 663,357</u>	<u>\$ -</u>	<u>\$ -</u>
Total primary government	<u>\$ 1,472,510</u>	<u>\$ 835,813</u>	<u>\$ 67,685</u>	<u>\$ 142,653</u>

General revenues:

General property taxes

Other local taxes

Unrestricted revenue from the use of money and property

Grants and contributions not restricted to specific programs

Gain (loss) on sale of assets

Transfers

Total general revenues and transfers

Change in net position

Net position at beginning of year

Net position at end of year

**See Notes to Financial Statements.**

Net (Expense) Revenue and Changes in Net Position		
----- Primary Government -----		
<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (318,778)	\$ -	\$ (318,778)
(279,423)	-	(279,423)
11,183	-	11,183
<u>(38,688)</u>	<u>-</u>	<u>(38,688)</u>
<u>\$ (625,706)</u>	<u>\$ -</u>	<u>\$ (625,706)</u>
<u>\$ -</u>	<u>\$ 199,347</u>	<u>\$ 199,347</u>
<u>\$ -</u>	<u>\$ 199,347</u>	<u>\$ 199,347</u>
<u>\$ (625,706)</u>	<u>\$ 199,347</u>	<u>\$ (426,359)</u>
\$ 185,268	\$ -	\$ 185,268
562,299	-	562,299
1,101	1,284	2,385
16,714	-	16,714
1,773	-	1,773
<u>105,741</u>	<u>(105,741)</u>	<u>-</u>
<u>\$ 872,896</u>	<u>\$ (104,457)</u>	<u>\$ 768,439</u>
\$ 247,190	\$ 94,890	\$ 342,080
<u>1,130,014</u>	<u>1,620,720</u>	<u>2,750,734</u>
<u>\$ 1,377,204</u>	<u>\$ 1,715,610</u>	<u>\$ 3,092,814</u>



## **Fund Financial Statements**

## TOWN OF TIMBERVILLE, VIRGINIA

---GOVERNMENTAL FUND---  
**BALANCE SHEET**  
**June 30, 2014**

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 284,754
Receivables (net of allowance for uncollectibles):	
Property taxes	221,987
Utility taxes	3,805
Vehicle license fees	25,031
Meals and occupancy taxes	14,637
Accounts	23,092
Accrued interest	29
Due from other governmental units	18,399
Inventory, at cost	1,650
Due from other funds	<u>23,092</u>
<b>Total assets</b>	<u><u>\$ 616,476</u></u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>	
<b>Liabilities</b>	
Accounts payable	\$ 34,666
Accrued compensated absences	<u>5,910</u>
<b>Total liabilities</b>	<u>\$ 40,576</u>
<b>Deferred Inflows of Resources</b>	
Unavailable revenue	<u>\$ 246,884</u>
<b>Total deferred inflows of resources</b>	<u>\$ 246,884</u>
<b>Fund Balance</b>	
Nonspendable, inventory	\$ 1,650
Unassigned	<u>327,366</u>
<b>Total fund balance</b>	<u>\$ 329,016</u>
<b>Total liabilities, deferred inflows of resources, and fund balance</b>	<u><u>\$ 616,476</u></u>

See Notes to Financial Statements.

**TOWN OF TIMBERVILLE, VIRGINIA**  
**----GOVERNMENTAL FUND----**  
**RECONCILIATION OF THE BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**June 30, 2014**

<b>FUND BALANCE-TOTAL GOVERNMENTAL FUND</b>	<b>\$ 329,016</b>
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Amounts reported for governmental activities in the statement of net position are different because:

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

Governmental capital assets	\$ 1,758,859	
Less accumulated depreciation	<u>(737,327)</u>	1,021,532

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

Deferred revenues	\$ <u>50,251</u>	50,251
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Certain liabilities are not payable from current financial resources and therefore are not reported in the governmental fund.

Compensated absences	\$ <u>(23,595)</u>	<u>(23,595)</u>
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<b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ <u>1,377,204</u></b>
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**See Notes to Financial Statements.**

**TOWN OF TIMBERVILLE, VIRGINIA**  
**----GOVERNMENTAL FUND----**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
**Year Ended June 30, 2014**

	<u>General Fund</u>
<b>REVENUES</b>	
General property taxes	\$ 183,966
Other local taxes	556,322
Permits, privilege fees, and regulatory licenses	1,818
Fines and forfeitures	5,408
Revenue from the use of money and property	4,787
Charges for services	160,803
Miscellaneous	4,427
Intergovernmental revenues:	
Commonwealth	81,588
Federal	<u>145,464</u>
Total revenues	<u>\$ 1,144,583</u>
 <b>EXPENDITURES</b>	
General government administration	\$ 327,751
Public safety	313,791
Public works	531,223
Parks and recreation	<u>60,259</u>
Total expenditures	<u>\$ 1,233,024</u>
 Excess (deficiency) of revenues over expenditures	 <u>\$ (88,441)</u>
 <b>OTHER FINANCING SOURCES (USES)</b>	
Transfers in	\$ 112,851
Transfers out	<u>(7,110)</u>
Total other financing sources (uses)	<u>\$ 105,741</u>
 Net change in fund balance	 \$ 17,300
 <b>FUND BALANCE AT BEGINNING OF YEAR</b>	 <u>311,716</u>
 <b>FUND BALANCE AT END OF YEAR</b>	 <u><u>\$ 329,016</u></u>

See Notes to Financial Statements.

## TOWN OF TIMBERVILLE, VIRGINIA

## ----GOVERNMENTAL FUND----

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN THE FUND BALANCE OF THE GOVERNMENTAL FUND  
TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2014**

**NET CHANGE IN FUND BALANCE-TOTAL GOVERNMENTAL FUND** \$ 17,300

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

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

Expenditures for capital assets	\$ 300,972	
Unrecovered cost of disposed assets	(1,913)	
Less current year depreciation	<u>(75,573)</u>	223,486

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

Property taxes	\$ 1,302	
Vehicle license fees	<u>5,977</u>	7,279

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund.

Change in long-term compensated absences	\$ <u>(875)</u>	<u>(875)</u>
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**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ 247,190

**See Notes to Financial Statements.**

## TOWN OF TIMBERVILLE, VIRGINIA

---PROPRIETARY FUND---  
**STATEMENT OF NET POSITION**  
**June 30, 2014**

	<u>Enterprise Fund</u> <u>Water &amp; Sewer</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 835,777
Restricted cash and cash equivalents, renters' deposits	30,919
Accounts receivable, less allowance for doubtful accounts of \$10,937	89,932
Prepaid expenses	1,509
Accrued interest receivable	115
Container deposits	500
Total current assets	<u>\$ 958,752</u>
Noncurrent assets:	
Capital assets:	
Land	\$ 43,900
Buildings	28,623
Utility plants, distribution and collection systems	3,003,056
Equipment	245,277
Less accumulated depreciation	<u>(1,861,026)</u>
Total noncurrent assets	<u>\$ 1,459,830</u>
<b>Total assets</b>	<u>\$ 2,418,582</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 17,545
Renters' deposits	30,919
Accrued compensated absences	5,595
Accrued interest payable	1,186
Due to other funds	23,092
Water and sewer hook-ups	6,775
Bonds, notes and loans payable	617,860
Total current liabilities	<u>\$ 702,972</u>
<b>Total liabilities</b>	<u>\$ 702,972</u>
<b>NET POSITION</b>	
Net investment in capital assets	\$ 841,970
Unrestricted	<u>873,640</u>
<b>Total net position</b>	<u>\$ 1,715,610</u>

See Notes to Financial Statements.

**TOWN OF TIMBERVILLE, VIRGINIA**  
**---PROPRIETARY FUND---**  
**STATEMENT OF REVENUES, EXPENSES,**  
**AND CHANGES IN FUND NET POSITION**  
**Year Ended June 30, 2014**

	<b><u>Enterprise Fund</u></b> <b><u>Water &amp; Sewer</u></b>
<b>OPERATING REVENUES</b>	
Water service charges	\$ 247,914
Sewer service charges	266,440
Connection fees	135,000
Penalties and interest	13,676
Miscellaneous	<u>327</u>
Total operating revenues	<u>\$ 663,357</u>
<b>OPERATING EXPENSES</b>	
Water department	\$ 197,133
Sewer department	199,485
Depreciation	<u>54,799</u>
Total operating expenses	<u>\$ 451,417</u>
Operating income	<u>\$ 211,940</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>	
Interest earned	\$ 1,284
Interest expense	<u>(12,593)</u>
Total nonoperating revenue (expense)	<u>\$ (11,309)</u>
Income before transfers	<u>\$ 200,631</u>
<b>TRANSFERS</b>	
Transfers in	\$ 7,110
Transfers out	<u>(112,851)</u>
Total transfers	<u>\$ (105,741)</u>
Change in net position	\$ 94,890
<b>NET POSITION AT BEGINNING OF YEAR</b>	<u>1,620,720</u>
<b>NET POSITION AT END OF YEAR</b>	<u><u>\$ 1,715,610</u></u>

See Notes to Financial Statements.

## TOWN OF TIMBERVILLE, VIRGINIA

---PROPRIETARY FUND---  
**STATEMENT OF CASH FLOWS**  
**Year Ended June 30, 2014**

	<u><b>Enterprise Fund</b></u> <u><b>Water &amp; Sewer</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 664,797
Cash payments to suppliers of goods and services	(275,814)
Cash payments to employees	<u>(121,627)</u>
Net cash provided by (used in) operating activities	\$ <u>267,356</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Operating transfers from other funds	\$ 7,110
Operating transfers to other funds	(112,851)
Payment from other fund	<u>347</u>
Net cash provided by (used in) noncapital financing activities	\$ <u>(105,394)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Borrowings used for infrastructure improvements	\$ 467,011
Acquisition of property and equipment	(408,741)
Principal payments on long-term borrowings	(108,000)
Interest expense	<u>(11,469)</u>
Net cash provided by (used in) capital and related financing activities	\$ <u>(61,199)</u>

(Continued)



## TOWN OF TIMBERVILLE, VIRGINIA

---PROPRIETARY FUND---  
**STATEMENT OF CASH FLOWS**  
 Year Ended June 30, 2014

**Enterprise Fund**  
**Water & Sewer**

**CASH FLOWS FROM INVESTING  
 ACTIVITIES**

Interest earned on investments	\$ <u>1,275</u>
Net cash provided by (used in) investing activities	\$ <u>1,275</u>
Net increase (decrease) in cash	\$ 102,038
<b>Cash and cash equivalents:</b>	
Beginning	<u>764,658</u>
Ending	<u><u>\$ 866,696</u></u>

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

Operating income	\$ 211,940
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:	
Depreciation	54,799
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(127)
(Increase) decrease in prepaid expenses	(1,509)
Increase (decrease) in accounts payable and accrued expenses	686
Increase (decrease) in renters' deposits	<u>1,567</u>
Net cash provided by (used in) operating activities	<u><u>\$ 267,356</u></u>

**See Notes to Financial Statements.**

**TOWN OF TIMBERVILLE, VIRGINIA**  
**---FIDUCIARY FUND---**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**June 30, 2014**

	<b><u>EDA</u></b> <b><u>Fund (Agency)</u></b>
<b>ASSETS</b>	
Cash	\$ <u>3,485</u>
<b>Total assets</b>	<b>\$ <u><u>3,485</u></u></b>
<b>LIABILITIES</b>	
Amounts held for others	\$ <u>3,485</u>
<b>Total liabilities</b>	<b>\$ <u><u>3,485</u></u></b>

See Notes to Financial Statements.

## TOWN OF TIMBERVILLE, VIRGINIA

---FIDUCIARY FUND---  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**Year Ended June 30, 2014**

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

See Notes to Financial Statements.

**TOWN OF TIMBERVILLE, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 1. Summary of Significant Accounting Policies**

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

**A. Reporting Entity**

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

**B. Governmental Accounting Standards**

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

**C. Government-Wide and Fund Financial Statements**

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

## NOTES TO FINANCIAL STATEMENTS

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

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

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

##### Government-Wide Financial Statements

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

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

##### Governmental Fund Financial Statements

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

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

## NOTES TO FINANCIAL STATEMENTS

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

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

#### Proprietary Fund Financial Statements

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

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

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

The Town reports the following major proprietary fund:

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

#### Fiduciary Fund Financial Statements

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

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

### **E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity**

#### Cash and Cash Equivalents

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

**NOTES TO FINANCIAL STATEMENTS****Note 1. Summary of Significant Accounting Policies (Continued)**Receivables

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

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

Property Taxes

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

The taxes receivable balance at June 30, 2014, includes amounts not yet billed or received from the January 1, 2014, levy. These items are included in deferred inflows of resources since these taxes are restricted for use until fiscal year 2015. The real estate taxes will be due December 31, 2014, and the personal property taxes will be due February 28, 2015.

The Town calculates its allowance for uncollectible delinquent property tax accounts using historical collection data and specific account analysis. The allowance at June 30, 2014, amounted to \$9,260.

Prepaid Items

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

Interfund Receivables and Payables

During the course of operations, transactions occur that may result in amounts owed between funds. Those related to goods and service type transactions are classified as “due to and from other funds.” Short-term interfund loans are reported as “interfund receivables and payables.” Long-term interfund loans (noncurrent portion) are reported as “advances from and to other funds.” Interfund receivables and payables between funds are eliminated in the Statement of Net Position. The Town’s General Fund has a due from the Water and Sewer Fund in the amount of \$23,092 at June 30, 2014.

Fixed Assets

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

## NOTES TO FINANCIAL STATEMENTS

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

#### *Government-Wide Statements*

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

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

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

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

#### *Fund Financial Statements*

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

#### Long-Term Debt

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

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

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



## NOTES TO FINANCIAL STATEMENTS

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

#### Compensated Absences

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

#### Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town currently has no items that qualify for reporting in this category.

In addition to liabilities, the statement of net position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town currently only has two types of items (property taxes and vehicle license billing) that qualify for reporting in this category.

#### Equity Classifications

##### *Government-Wide Statements*

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

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

##### *Fund Statements*

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

- **Nonspendable** - Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- **Restricted** - Amounts that can be spent only for specific purposes because of the Town Charter, the Town Code, state or federal laws, or externally imposed conditions by grantors or creditors.

## NOTES TO FINANCIAL STATEMENTS

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

- **Committed** - Amounts that can be used only for specific purposes determined by a formal action by Town Council ordinance or resolution. This includes the Budget Reserve Account.
- **Assigned** - Amounts that are designated by the Town Council for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by Town Council.
- **Unassigned** - All amounts not included in other spendable classifications.

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

### F. Revenues, Expenditures, and Expenses

#### Governmental Fund Revenues

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

#### Operating Revenues and Expenses

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

#### Expenditures/Expenses

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

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

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

#### Interfund Transfers

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

#### Advertising

The Town expenses advertising production costs as they are incurred and advertising communication costs the first time the advertising takes place. Advertising expenditures in the General Fund were \$922, for the year ended June 30, 2014. Advertising expense in the Water and Sewer Fund was \$1,045, for the year ended June 30, 2014.

## NOTES TO FINANCIAL STATEMENTS

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

#### Fringe benefits

Fringe benefits of the Town include:

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

#### **G. Estimates and Assumptions**

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

#### **H. Use of Restricted Resources**

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

### Note 2. Stewardship, Compliance, and Accountability

#### **A. Budgetary Information**

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the General Fund. Amounts shown in the accompanying financial statements as "budget" represent the original and final operating budgets for the fiscal year 2014.

A budget is also adopted for the Enterprise Fund as an operating guideline. Budget to actual information is shown as other supplementary information. On the following page is a summary of budgeted information that is not included in the Enterprise Fund's Statements of Revenues, Expenses and Changes in Fund Net Position - Budget and Actual:

## NOTES TO FINANCIAL STATEMENTS

**Note 2. Stewardship, Compliance, and Accountability (Continued)**

	<u>Budget</u>	<u>Actual</u>
WATER AND SEWER FUND		
Loan proceeds:		
Farmers and Merchants Bank	\$ -	\$ 467,011
Principal payments on debt:		
Farmers and Merchants Bank	(95,407)	(108,000)
Capital outlay:		
Water department	(17,861)	(264,017)
Sewer department	-	(144,724)
	<u>\$ (113,268)</u>	<u>\$ (49,730)</u>

**B. Excess of Expenditures Over Appropriations**

For the year ended June 30, 2014, General Fund expenditures exceeded appropriations in General Government Administration by \$29,454, Public Safety by \$19,874, Public Works by \$234,652, and Parks and Recreation by \$9,237. These over expenditures were funded by actual revenues and operating transfers into that fund.

**Note 3. Cash and Cash Equivalents**Deposits

Below is a summary of the Town's accounts/deposits at June 30, 2014:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
<u>General</u>		
Checking (Farmers and Merchants Bank)	\$ 144,228	\$ 149,072
Savings Account (Farmers and Merchants Bank)	140,076	140,076
Petty cash	450	-
<u>Water and Sewer</u>		
Checking (Farmers and Merchants Bank)	\$ 306,229	\$ 306,416
Checking (Farmers and Merchants Bank)	224	224
Certificates of deposit (Farmers and Merchants Bank)	<u>560,243</u>	<u>560,243</u>
Total reporting entity	<u>\$ 1,151,450</u>	<u>\$ 1,156,031</u>

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. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50 percent to 130 percent of excess deposits. Accordingly, all deposits are considered fully collateralized.

## NOTES TO FINANCIAL STATEMENTS

**Note 4. Receivables**

Receivables as of June 30, 2014, for the government's individual major funds including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Water and Sewer</u>	<u>Total</u>
Receivables:			
Interest	\$ 29	\$ 115	\$ 144
Property taxes	231,247	-	231,247
Other taxes:			
Utilities	3,805	-	3,805
Vehicle license fees	25,031	-	25,031
Meals and occupancy	14,637	-	14,637
Accounts	23,092	100,869	123,961
Container deposits	-	500	500
Gross receivables	\$ 297,841	\$ 101,484	\$ 399,325
Less: allowance for uncollectibles	<u>(9,260)</u>	<u>(10,937)</u>	<u>(20,197)</u>
Net total receivables	<u>\$ 288,581</u>	<u>\$ 90,547</u>	<u>\$ 379,128</u>

**Note 5. Due from Other Governmental Units**

Due from other governmental units consists of the following:

Commonwealth of Virginia:	
Department of Motor Vehicles, Highway Safety Program grant	\$ 932
Department of Taxation, communications tax collected for the Town	5,553
Department of Fire Programs grant	1,000
County of Rockingham, Virginia:	
Sales tax collected for the Town	9,788
Court fines collected for the Town	<u>1,126</u>
	<u>\$ 18,399</u>

**Note 6. Capital Assets**

Capital asset activity for the year ended June 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets not being depreciated				
Land	\$ 47,200	\$ 5,305	\$ -	\$ 52,505
Total capital assets not being depreciated	<u>\$ 47,200</u>	<u>\$ 5,305</u>	<u>\$ -</u>	<u>\$ 52,505</u>
Capital assets being depreciated				
Buildings	\$ 508,305	\$ 5,055	\$ (7,088)	\$ 506,272
Machinery and equipment	485,305	45,656	(35,445)	495,516
Infrastructure	<u>462,200</u>	<u>244,956</u>	<u>(2,590)</u>	<u>704,566</u>
Total capital assets being depreciated	<u>\$ 1,455,810</u>	<u>\$ 295,667</u>	<u>\$ (45,123)</u>	<u>\$ 1,706,354</u>

## NOTES TO FINANCIAL STATEMENTS

## Note 6. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation for				
Buildings	\$ 193,526	\$ 13,326	\$ (5,175)	\$ 201,677
Machinery and equipment	345,232	40,175	(35,445)	349,962
Infrastructure	<u>166,206</u>	<u>22,072</u>	<u>(2,590)</u>	<u>185,688</u>
Total accumulated depreciation	<u>\$ 704,964</u>	<u>\$ 75,573</u>	<u>\$ (43,210)</u>	<u>\$ 737,327</u>
Total capital assets being depreciated, net	<u>\$ 750,846</u>	<u>\$ 220,094</u>	<u>\$ (1,913)</u>	<u>\$ 969,027</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 798,046</u>	<u>\$ 225,399</u>	<u>\$ (1,913)</u>	<u>\$ 1,021,532</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital assets not being depreciated				
Land	\$ -	\$ 43,900	\$ -	\$ 43,900
Total capital assets not being depreciated	<u>\$ -</u>	<u>\$ 43,900</u>	<u>\$ -</u>	<u>\$ 43,900</u>
Capital assets being depreciated				
Utility system	\$ 2,639,419	\$ 363,637	\$ -	\$ 3,003,056
Buildings	28,623	-	-	28,623
Machinery and equipment	<u>244,073</u>	<u>1,204</u>	<u>-</u>	<u>245,277</u>
Total capital assets being depreciated	<u>\$ 2,912,115</u>	<u>\$ 364,841</u>	<u>\$ -</u>	<u>\$ 3,276,956</u>
Less accumulated depreciation for				
Utility system	\$ 1,588,053	\$ 39,884	\$ -	\$ 1,627,937
Buildings	15,121	1,529	-	16,650
Machinery and equipment	<u>203,053</u>	<u>13,386</u>	<u>-</u>	<u>216,439</u>
Total accumulated depreciation	<u>\$ 1,806,227</u>	<u>\$ 54,799</u>	<u>\$ -</u>	<u>\$ 1,861,026</u>
Total capital assets being depreciated, net	<u>\$ 1,105,888</u>	<u>\$ 310,042</u>	<u>\$ -</u>	<u>\$ 1,415,930</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 1,105,888</u>	<u>\$ 353,942</u>	<u>\$ -</u>	<u>\$ 1,459,830</u>

## NOTES TO FINANCIAL STATEMENTS

**Note 6. Capital Assets (Continued)**

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

**GOVERNMENTAL ACTIVITIES**

General government administration	\$ 6,458
Public safety	30,287
Public works	26,553
Parks and recreation	<u>12,275</u>

Total depreciation expense-governmental activities	<u>\$ 75,573</u>
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**BUSINESS-TYPE ACTIVITIES**

Water and sewer	<u>\$ 54,799</u>
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Total depreciation expense-business-type activities	<u>\$ 54,799</u>
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**Note 7. Deferred Inflows of Resources**

The following is a summary of deferred inflows of resources by fund/activity at June 30, 2014:

**Fund Statements**

	<u>General Fund</u>
Unavailable revenue:	
Property taxes billed in fiscal year 2015	\$ 196,633
Uncollected property tax billing	25,320
Uncollected vehicle license billing	<u>24,931</u>
	<u>\$ 246,884</u>

**Government-Wide Statements**

	<u>Governmental Activities</u>
Unavailable revenue:	
Property taxes billed in fiscal year 2015	<u>\$ 196,633</u>

**Note 8. Long-Term Debt**

A summary of long-term debt activity for the year ended June 30, 2014, is as follows. Additional detailed information is available below and on the following page.

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due within One Year</u>
<b><u>Business-type activities</u></b>					
<i>Water and Sewer Fund</i>					
Loan payable:					
Farmers and Merchants Bank	<u>\$ 258,849</u>	<u>\$ 467,011</u>	<u>\$ (108,000)</u>	<u>\$ 617,860</u>	<u>\$ 617,860</u>

## NOTES TO FINANCIAL STATEMENTS

**Note 8. Long-Term Debt (Continued)**

The Town signed a financing agreement with Farmers and Merchants Bank on February 7, 2013. Proceeds from the demand note are to be used for infrastructure improvements in the Water and Sewer Fund. The loan bears interest at a rate of 2.19 percent and is secured by the assets of the Town. The loan states that the maximum amount of funds available to the Town is \$1,500,000. The Town had borrowed \$617,860 as of June 30, 2014. Commencing March 7, 2013, and continuing monthly thereafter, the Town is required to make interest payments. The loan matures February 7, 2015; however, the Town plans to secure permanent financing when the improvements are complete. Total interest expense incurred on the loan for the year ended June 30, 2014 was \$12,593.

**Debt Maturity**

Annual requirements to amortize long-term debt and related interest at June 30, 2014, are as follows:

**Principal:**

	Farmers and Merchants <u>Bank</u>
2015	\$ <u>617,860</u>

**Interest:**

	Farmers and Merchants <u>Bank</u>
2015	\$ <u>9,021</u>

**Note 9. Interfund Transfers**

Interfund transfers during the year ended June 30, 2014, were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 112,851	\$ 7,110
Water and Sewer Fund	<u>7,110</u>	<u>112,851</u>
	\$ <u>119,961</u>	\$ <u>119,961</u>

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



## NOTES TO FINANCIAL STATEMENTS

**Note 10. Pension Plan**Plan Description

The Town contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer pension plan administered by the Virginia Retirement System. All full-time, salaried permanent (professional) employees of participating employers are automatically covered by VRS upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to 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.

Within the VRS Plan, the System administers three different benefit plans for local government employees – Plan 1, Plan 2, and, Hybrid. Each plan has a different eligibility and benefit structure as set out in the table below:

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p><b>About VRS Plan 1</b> VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p><b>About VRS Plan 2</b> VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p><b>About the Hybrid Retirement Plan</b> The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members")</p> <ul style="list-style-type: none"> <li>• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</li> <li>• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.</li> <li>• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.</li> </ul>

## NOTES TO FINANCIAL STATEMENTS

## Note 10. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Eligible Members</b> Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.</p>	<p><b>Eligible Members</b> Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.</p>	<p><b>Eligible Members</b> Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> <li>• State employees*</li> <li>• School division employees</li> <li>• Political subdivision employees*</li> <li>• Judges appointed or elected to an original term on or after January 1, 2014</li> <li>• Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014</li> </ul> <p><b>*Non-Eligible Members</b> Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> <li>• Members of the State Police Officers' Retirement System (SPORS)</li> <li>• Members of the Virginia Law Officers' Retirement System (VaLORS)</li> <li>• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees</li> </ul> <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.</p>
<p><b>Retirement Contributions</b> Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p><b>Retirement Contributions</b> Same as VRS Plan 1.</p>	<p><b>Retirement Contributions</b> A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

## NOTES TO FINANCIAL STATEMENTS

## Note 10. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Creditable Service</b> Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p><b>Creditable Service</b> Same as VRS Plan 1.</p>	<p><b>Creditable Service</b> <b>Defined Benefit Component:</b> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><b>Defined Contributions Component:</b> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>
<p><b>Vesting</b> Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p><b>Vesting</b> Same as VRS Plan 1.</p>	<p><b>Vesting</b> <b>Defined Benefit Component:</b> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><b>Defined Contributions Component:</b> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distribution is not required by law until age 70½.</p>

## NOTES TO FINANCIAL STATEMENTS

## Note 10. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Calculating the Benefit</b> The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p><b>Calculating the Benefit</b> See definition under VRS Plan 1.</p>	<p><b>Calculating the Benefit</b> <b><u>Defined Benefit Component:</u></b> See definition under VRS Plan 1</p> <p><b><u>Defined Contribution Component:</u></b> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p><b>Average Final Compensation</b> A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b> A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b> Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p><b>Service Retirement Multiplier</b> The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.</p>	<p><b>Service Retirement Multiplier</b> Same as Plan1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p>	<p><b>Service Retirement Multiplier</b> The retirement multiplier is 1.0%.</p> <p>For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p>
<p><b>Normal Retirement Age</b> Age 65.</p>	<p><b>Normal Retirement Age</b> Normal Social Security retirement age.</p>	<p><b>Normal Retirement Age</b> <b><u>Defined Benefit Component:</u></b> Same as VRS Plan 2.</p> <p><b><u>Defined Contribution Component:</u></b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Unreduced Retirement Eligibility</b> Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b> Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b> <b><u>Defined Benefit Component:</u></b> Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p><b><u>Defined Contribution Component:</u></b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

## NOTES TO FINANCIAL STATEMENTS

## Note 10. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Earliest Reduced Retirement Eligibility</b> Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p><b>Earliest Reduced Retirement Eligibility</b> Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b> <b><u>Defined Benefit Component:</u></b> Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p><b><u>Defined Contribution Component:</u></b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><b><u>Eligibility:</u></b> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> <li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>• The member retires on disability.</li> <li>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</li> <li>• The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.</li> <li>• The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.</li> </ul>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><b><u>Eligibility:</u></b> Same as VRS Plan 1</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b> Same as VRS Plan 1</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> <b><u>Defined Benefit Component:</u></b> Same as VRS Plan 2.</p> <p><b><u>Defined Contribution Component:</u></b> Not applicable.</p> <p><b><u>Eligibility:</u></b> Same as VRS Plan 1 and VRS Plan 2.</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b> Same as VRS Plan 1 and VRS Plan 2.</p>

## NOTES TO FINANCIAL STATEMENTS

## Note 10. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Disability Coverage</b> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><b>Disability Coverage</b> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><b>Disability Coverage</b> Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.</p> <p>State employees (including VRS Plan 1 and VRS Plan2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>
<p><b>Purchase of Prior Service</b> Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p><b>Purchase of Prior Service</b> Same as VRS Plan 1.</p>	<p><b>Purchase of Prior Service</b> <u><b>Defined Benefit Component:</b></u> Same as VRS Plan 1.</p> <p><u><b>Defined Contribution Component:</b></u> Not applicable.</p>

The System issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of that report is available at the VRS website ([www.varetire.org](http://www.varetire.org)) or may be obtained by writing to the Systems Chief Financial Officer at P. O. Box 2500, Richmond, VA 23218-2500.

**Special Elected Benefit**

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

## NOTES TO FINANCIAL STATEMENTS

### Note 10. Pension Plan (Continued)

#### Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5 percent of their compensation toward their retirement. All or part of the 5.00 percent member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5 percent member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5 percent member contribution. This could be phased in over a period of 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 of Timberville, Virginia is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town of Timberville's contribution rate for the fiscal year ended June 30, 2014, was 14.28 percent (excluding 5 percent member contribution) of the annual covered payroll.

#### Annual Pension Cost

For 2014, the Town's annual pension cost of \$82,295 for VRS was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2011, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.00 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 3.75 percent to 5.60 percent per year for general government employees and 3.50 percent to 4.75 percent per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs and (c) a cost-of-living adjustment of 2.50 percent per year for Plan 1 employees and 2.25 percent for Plan 2 employees. Both (a) and (b) included an inflation component of 2.50 percent. The actuarial value of the Plan's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013, for the Unfunded Actuarial Accrued Liability (UAAL), was 30 years.

#### **Three-Year Trend Information for the Town of Timberville**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/12	\$ 58,365	100%	\$ -
6/30/13	83,669	100%	-
6/30/14	82,295	100%	-

#### Funding Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the plan was 91.72 percent funded. The actuarial accrued liability for benefits was \$1,573,031, and the actuarial value of assets was \$1,442,747, resulting in an unfunded actuarial accrued liability (UAAL) of \$130,284. The covered payroll (annual payroll of active employees covered by the plan) was \$457,639, and the ratio of the UAAL to the covered payroll was 28.47 percent.

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

**NOTES TO FINANCIAL STATEMENTS****Note 11. Risk Management**

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

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

**Note 12. Accounting Changes and Accounting Standards**

In fiscal year 2014, the Town implemented Governmental Accounting Standards Board (GASB) Statement 65, *Items Previously Reported as Assets and Liabilities*. The objective of Statement 65 is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

The GASB has issued several other Statements that will become effective in future years. Of those Statements, the one that is most likely to have a material effect on the Town's financial statements is Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. The Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. The Statement also establishes the methods of assumptions that should be used for the various calculations in a pension plan. Note disclosure and required supplementary information requirements about pensions also are addressed. The provisions of the Statement will become effective for the Town in fiscal year 2015.



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

## TOWN OF TIMBERVILLE, VIRGINIA

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**Year Ended June 30, 2014**

	<u>Budget - Original &amp; Final</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES</b>			
General property taxes	\$ 167,917	\$ 183,966	\$ 16,049
Other local taxes	520,250	556,322	36,072
Permits, privilege fees, and regulatory licenses	1,050	1,818	768
Fines and forfeitures	7,500	5,408	(2,092)
Revenue from the use of money and property	6,100	4,787	(1,313)
Charges for services	151,700	160,803	9,103
Miscellaneous	1,000	4,427	3,427
Intergovernmental revenues:			
Commonwealth	67,583	81,588	14,005
Federal	4,000	145,464	141,464
Total revenues	<u>\$ 927,100</u>	<u>\$ 1,144,583</u>	<u>\$ 217,483</u>
<b>EXPENDITURES</b>			
General government administration	\$ 298,297	\$ 327,751	\$ (29,454)
Public safety	293,917	313,791	(19,874)
Public works	296,571	531,223	(234,652)
Parks and recreation	51,022	60,259	(9,237)
Total expenditures	<u>\$ 939,807</u>	<u>\$ 1,233,024</u>	<u>\$ (293,217)</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (12,707)</u>	<u>\$ (88,441)</u>	<u>\$ (75,734)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	\$ 12,707	\$ 112,851	\$ 100,144
Transfers out	<u>-</u>	<u>(7,110)</u>	<u>(7,110)</u>
Total other financing sources (uses)	<u>\$ 12,707</u>	<u>\$ 105,741</u>	<u>\$ 93,034</u>
Net change in fund balance	\$ -	\$ 17,300	\$ 17,300
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<u>311,716</u>	<u>311,716</u>	<u>-</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 311,716</u>	<u>\$ 329,016</u>	<u>\$ 17,300</u>

## TOWN OF TIMBERVILLE, VIRGINIA

SCHEDULE OF FUNDING PROGRESS -  
DEFINED BENEFIT PENSION PLAN

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL) --Entry Age</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
6/30/11	\$ 1,332,630	\$ 1,741,871	\$ 409,241	76.51%	\$ 422,650	96.83%
6/30/12	1,346,661	1,786,677	440,016	75.37%	438,174	100.42%
6/30/13	1,442,747	1,573,031	130,284	91.72%	457,639	28.47%

## **Other Supplementary Information**

## TOWN OF TIMBERVILLE, VIRGINIA

**GENERAL FUND**  
**STATEMENT OF REVENUES, COMPARED TO BUDGET**  
**Year Ended June 30, 2014**

	<u>Budget - Original &amp; Final</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>GENERAL PROPERTY TAXES</b>			
Real estate taxes	\$ 150,000	\$ 157,708	\$ 7,708
Personal property taxes	15,917	22,547	6,630
Mobile home tax	-	138	138
Penalties and interest	<u>2,000</u>	<u>3,573</u>	<u>1,573</u>
	<u>\$ 167,917</u>	<u>\$ 183,966</u>	<u>\$ 16,049</u>
<b>OTHER LOCAL TAXES</b>			
Sales tax	\$ 89,000	\$ 99,652	\$ 10,652
Utility taxes	47,750	49,052	1,302
Bank stock tax	90,000	94,929	4,929
Cigarette tax	25,000	27,075	2,075
Meals tax	133,500	141,289	7,789
Communications tax	35,000	32,953	(2,047)
Business and professional licenses	60,000	75,419	15,419
Vehicle license fees	<u>40,000</u>	<u>35,953</u>	<u>(4,047)</u>
	<u>\$ 520,250</u>	<u>\$ 556,322</u>	<u>\$ 36,072</u>
<b>PERMITS, PRIVILEGE FEES AND REGULATORY LICENSES</b>			
Zoning fees	\$ 1,000	\$ 1,798	\$ 798
Yard sale permits	<u>50</u>	<u>20</u>	<u>(30)</u>
	<u>\$ 1,050</u>	<u>\$ 1,818</u>	<u>\$ 768</u>
<b>FINES AND FORFEITURES</b>			
Court fines	<u>\$ 7,500</u>	<u>\$ 5,408</u>	<u>\$ (2,092)</u>
<b>REVENUE FROM THE USE OF MONEY AND PROPERTY</b>			
Interest earned	\$ 100	\$ 1,101	\$ 1,001
Sale of equipment	<u>6,000</u>	<u>3,686</u>	<u>(2,314)</u>
	<u>\$ 6,100</u>	<u>\$ 4,787</u>	<u>\$ (1,313)</u>
<b>CHARGES FOR SERVICES</b>			
Trash collection fees	\$ 135,000	\$ 137,317	\$ 2,317
Parks and recreation:			
Daily and seasonal passes	8,000	14,553	6,553
Concession stand	6,500	6,413	(87)
Rental fees	2,000	2,395	395
Swimming lessons	<u>200</u>	<u>125</u>	<u>(75)</u>
	<u>\$ 151,700</u>	<u>\$ 160,803</u>	<u>\$ 9,103</u>
<b>MISCELLANEOUS</b>			
Other	<u>\$ 1,000</u>	<u>\$ 4,427</u>	<u>\$ 3,427</u>

(Continued)

**TOWN OF TIMBERVILLE, VIRGINIA**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, COMPARED TO BUDGET**  
**Year Ended June 30, 2014**

	<b><u>Budget - Original &amp; Final</u></b>	<b><u>Actual</u></b>	<b><u>Variance Positive (Negative)</u></b>
<b>INTERGOVERNMENTAL REVENUES</b>			
<b>Commonwealth</b>			
Rolling stock tax	\$ 2,500	\$ 2,631	\$ 131
Law enforcement grant	40,000	40,552	552
VDOT winter storm assistance	3,000	14,322	11,322
Personal property tax reimbursement	14,083	14,083	-
Fire program grant	8,000	10,000	2,000
	<u>\$ 67,583</u>	<u>\$ 81,588</u>	<u>\$ 14,005</u>
<b>Federal</b>			
DMV grants - police	\$ 4,000	\$ 2,811	\$ (1,189)
Safe Routes to School Program grant	-	142,653	142,653
	<u>\$ 4,000</u>	<u>\$ 145,464</u>	<u>\$ 141,464</u>
<b>Total revenues</b>	<u>\$ 927,100</u>	<u>\$ 1,144,583</u>	<u>\$ 217,483</u>

## TOWN OF TIMBERVILLE, VIRGINIA

**GENERAL FUND**  
**STATEMENT OF EXPENDITURES, COMPARED TO BUDGET**  
**Year Ended June 30, 2014**

	<u>Budget - Original &amp; Final</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>GENERAL GOVERNMENT ADMINISTRATION</b>			
<b>General Government</b>			
Mayor and council fees	\$ 13,200	\$ 13,200	\$ -
Salary - Town Manager	60,890	63,636	(2,746)
- Clerk/Treasurer	44,577	49,009	(4,432)
- Office Assistant	32,788	33,870	(1,082)
- Part-time office help	9,500	10,090	(590)
Social security taxes	11,410	11,086	324
Workmen's compensation	432	2,643	(2,211)
Retirement	23,894	23,890	4
Advertising	700	922	(222)
Billing expense	-	702	(702)
Cigarette stamps	2,200	2,473	(273)
Donations	17,050	19,182	(2,132)
Dues, manuals, registration fees	2,331	2,081	250
Training and seminars	1,200	781	419
Cleaning	1,200	1,300	(100)
Heat	250	-	250
Miscellaneous	850	1,020	(170)
Computer maintenance and supplies	3,000	4,050	(1,050)
Office supplies	3,000	2,390	610
Other office expenses	5,500	5,144	356
Postage	3,000	1,894	1,106
Planning and zoning	100	-	100
Historic planning district expenses	-	334	(334)
Insurance - general	6,000	8,331	(2,331)
- health/flex	24,703	27,952	(3,249)
- group	922	922	-
Professional - accounting	8,500	8,500	-
- legal	10,000	11,589	(1,589)
- planners	1,600	700	900
Telephone	9,000	11,196	(2,196)
Uniforms	500	314	186
	<u>\$ 298,297</u>	<u>\$ 319,201</u>	<u>\$ (20,904)</u>
<b>Capital Outlay</b>			
General government	<u>\$ -</u>	<u>\$ 8,550</u>	<u>\$ (8,550)</u>
<b>Total general government administration</b>	<u>\$ 298,297</u>	<u>\$ 327,751</u>	<u>\$ (29,454)</u>

(Continued)

## TOWN OF TIMBERVILLE, VIRGINIA

**GENERAL FUND**  
**STATEMENT OF EXPENDITURES, COMPARED TO BUDGET**  
**Year Ended June 30, 2014**

	<u>Budget - Original &amp; Final</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>PUBLIC SAFETY</b>			
<b>Police Department</b>			
Police Chief salary	\$ 50,171	\$ 57,955	\$ (7,784)
Police salaries	117,640	125,658	(8,018)
Part-time officers' salaries	7,000	7,575	(575)
Social security taxes	13,373	13,613	(240)
Workmen's compensation	4,200	3,238	962
Retirement	28,998	28,998	-
Wireless air cards - laptops	2,000	960	1,040
Police car - gas and oil	10,000	9,021	979
- maintenance	3,500	6,562	(3,062)
Computer software maintenance	2,400	2,963	(563)
Line of Duty Act	1,250	1,950	(700)
Miscellaneous	500	626	(126)
Dues and subscriptions	2,300	1,578	722
Uniforms and cleaning	2,100	1,194	906
Supplies	7,000	2,110	4,890
Reimburse attorney fees	650	473	177
Translation services	175	-	175
Professional development	1,000	643	357
Insurance - health/flex	31,555	31,078	477
- group	805	806	(1)
Repairs and maintenance, building	100	135	(35)
	<u>\$ 286,717</u>	<u>\$ 297,136</u>	<u>\$ (10,419)</u>
<b>Other</b>			
Fire program funds	<u>\$ 7,200</u>	<u>\$ 10,000</u>	<u>\$ (2,800)</u>
<b>Capital Outlay</b>			
Public safety	<u>\$ -</u>	<u>\$ 6,655</u>	<u>\$ (6,655)</u>
<b>Total public safety</b>	<u>\$ 293,917</u>	<u>\$ 313,791</u>	<u>\$ (19,874)</u>
<b>PUBLIC WORKS</b>			
<b>Buildings and Streets</b>			
Maintenance supervisor salary	\$ 53,795	\$ 56,158	\$ (2,363)
Social security taxes	4,009	4,092	(83)
Workmen's compensation	168	965	(797)
Retirement	9,292	9,296	(4)
Health insurance	9,607	8,788	819
Buildings and grounds maintenance	1,300	810	490
Christmas lights expense	350	240	110
Vehicles - gas and oil	13,000	9,773	3,227
- maintenance	400	397	3

(Continued)



## TOWN OF TIMBERVILLE, VIRGINIA

**GENERAL FUND**  
**STATEMENT OF EXPENDITURES, COMPARED TO BUDGET**  
**Year Ended June 30, 2014**

	<b><u>Budget - Original &amp; Final</u></b>	<b><u>Actual</u></b>	<b><u>Variance Positive (Negative)</u></b>
Equipment - repairs and maintenance	\$ 850	\$ 669	\$ 181
Electricity - other	7,700	7,694	6
- street lights	26,500	25,372	1,128
Heat	1,200	1,505	(305)
Small tools	1,200	558	642
Supplies	-	708	(708)
Uniforms and rags	-	540	(540)
Snow removal	-	1,050	(1,050)
	<u>\$ 129,371</u>	<u>\$ 128,615</u>	<u>\$ 756</u>
<b>Sanitation</b>			
Disposal contract	<u>\$ 130,000</u>	<u>\$ 127,201</u>	<u>\$ 2,799</u>
<b>Capital Outlay</b>			
Public works	<u>\$ 37,200</u>	<u>\$ 275,407</u>	<u>\$ (238,207)</u>
<b>Total public works</b>	<u>\$ 296,571</u>	<u>\$ 531,223</u>	<u>\$ (234,652)</u>
<b>PARKS AND RECREATION</b>			
<b>General</b>			
Salaries - managers	\$ 12,500	\$ 8,095	\$ 4,405
- others	18,500	19,552	(1,052)
Social security taxes	2,372	2,114	258
Chemicals	2,200	3,131	(931)
Electricity	7,800	5,155	2,645
Workmen's compensation	250	470	(220)
Repairs and maintenance - buildings and grounds	1,500	1,547	(47)
-equipment	-	1,356	(1,356)
Supplies	400	799	(399)
Miscellaneous	-	259	(259)
Concession expenses	5,500	6,932	(1,432)
Permits	-	40	(40)
Sales tax	-	449	(449)
	<u>\$ 51,022</u>	<u>\$ 49,899</u>	<u>\$ 1,123</u>
<b>Capital Outlay</b>			
Parks and recreation	<u>\$ -</u>	<u>\$ 10,360</u>	<u>\$ (10,360)</u>
<b>Total parks and recreation</b>	<u>\$ 51,022</u>	<u>\$ 60,259</u>	<u>\$ (9,237)</u>
<b>Total expenditures</b>	<u>\$ 939,807</u>	<u>\$ 1,233,024</u>	<u>\$ (293,217)</u>

## TOWN OF TIMBERVILLE, VIRGINIA

**WATER AND SEWER FUND**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION-**  
**BUDGET AND ACTUAL**  
**Year Ended June 30, 2014**

	<u>Budget - Original &amp; Final</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>OPERATING REVENUES</b>			
Water service charges	\$ 283,250	\$ 247,914	\$ (35,336)
Sewer service charges	272,950	266,440	(6,510)
Connection fees	36,000	135,000	99,000
Penalties and interest	1,500	13,676	12,176
Miscellaneous	<u>1,200</u>	<u>327</u>	<u>(873)</u>
Total operating revenues	\$ 594,900	\$ 663,357	\$ 68,457
<b>OPERATING EXPENSES</b>			
Water department	\$ 204,680	\$ 197,133	\$ 7,547
Sewer department	198,852	199,485	(633)
Depreciation	<u>53,000</u>	<u>54,799</u>	<u>(1,799)</u>
Total operating expenses	\$ 456,532	\$ 451,417	\$ 5,115
Operating income	\$ 138,368	\$ 211,940	\$ 73,572
<b>NONOPERATING REVENUE (EXPENSE)</b>			
Interest earned	\$ 200	\$ 1,284	\$ 1,084
Interest expense	<u>(12,593)</u>	<u>(12,593)</u>	<u>-</u>
Total nonoperating revenue (expense)	\$ (12,393)	\$ (11,309)	\$ 1,084
Income before transfers	\$ 125,975	\$ 200,631	\$ 74,656
<b>TRANSFERS</b>			
Transfers in	\$ -	\$ 7,110	\$ 7,110
Transfers out	<u>(12,707)</u>	<u>(112,851)</u>	<u>(100,144)</u>
	\$ (12,707)	\$ (105,741)	\$ (93,034)
Change in net position	\$ 113,268	\$ 94,890	\$ (18,378)
<b>NET POSITION AT BEGINNING OF YEAR</b>	<u>1,620,720</u>	<u>1,620,720</u>	<u>-</u>
<b>NET POSITION AT END OF YEAR</b>	<u>\$ 1,733,988</u>	<u>\$ 1,715,610</u>	<u>\$ (18,378)</u>

## TOWN OF TIMBERVILLE, VIRGINIA

**WATER AND SEWER FUND**  
**STATEMENT OF OPERATING EXPENSES, COMPARED TO BUDGET**  
**Year Ended June 30, 2014**

	<u>Budget - Original &amp; Final</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>WATER DEPARTMENT</b>			
Salaries	\$ 85,026	\$ 81,767	\$ 3,259
Social security taxes	6,504	6,174	330
Retirement	14,692	13,814	878
Advertising	100	1,045	(945)
Bad debts	-	3,898	(3,898)
Billing expense	6,300	3,307	2,993
Chemicals	2,800	2,751	49
Dues and manuals	700	350	350
Training schools, seminars	1,000	863	137
Electricity	16,450	15,302	1,148
Lab fees	7,050	6,361	689
Office supplies	2,700	1,291	1,409
Professional fees	9,300	6,540	2,760
Vehicle gas and oil	2,250	1,377	873
Uniforms and laundry	1,000	1,100	(100)
Telephone - filtration plant	1,800	1,863	(63)
Answering service	900	840	60
Water purchases	3,000	6,925	(3,925)
Workmen's compensation	2,200	1,425	775
Insurance - general	2,000	4,166	(2,166)
- health	12,000	9,967	2,033
- group	408	384	24
Repairs and maintenance:			
Equipment	24,000	23,936	64
Vehicles	1,000	405	595
Small tools	250	462	(212)
Supplies	1,000	465	535
Miss Utility	250	355	(105)
	<u>\$ 204,680</u>	<u>\$ 197,133</u>	<u>\$ 7,547</u>
<b>SEWER DEPARTMENT</b>			
Salaries	\$ 31,239	\$ 37,895	\$ (6,656)
Social security taxes	2,390	2,835	(445)
Retirement	5,398	6,276	(878)
Billing expense	1,700	1,279	421
Lab fees	1,800	1,629	171
Professional fees	9,300	4,250	5,050
Vehicle gas and oil	2,275	768	1,507
Uniforms and laundry	500	500	-

(Continued)

## TOWN OF TIMBERVILLE, VIRGINIA

**WATER AND SEWER FUND**  
**STATEMENT OF OPERATING EXPENSES, COMPARED TO BUDGET**  
**Year Ended June 30, 2014**

	<b><u>Budget - Original &amp; Final</u></b>	<b><u>Actual</u></b>	<b><u>Variance Positive (Negative)</u></b>
Workmen's compensation	\$ 1,500	\$ 643	\$ 857
Insurance - general	2,000	4,166	(2,166)
- health	6,000	5,200	800
- group	150	174	(24)
Repairs and maintenance:			
Buildings and grounds	2,050	436	1,614
Equipment	7,000	2,166	4,834
Vehicles	2,750	280	2,470
Electricity	2,800	3,011	(211)
Sewer disposal contract	<u>120,000</u>	<u>127,977</u>	<u>(7,977)</u>
	<u>\$ 198,852</u>	<u>\$ 199,485</u>	<u>\$ (633)</u>
<b>DEPRECIATION</b>	<u>\$ 53,000</u>	<u>\$ 54,799</u>	<u>\$ (1,799)</u>
<b>Total operating expenses</b>	<u><u>\$ 456,532</u></u>	<u><u>\$ 451,417</u></u>	<u><u>\$ 5,115</u></u>

## TOWN OF TIMBERVILLE, VIRGINIA

SCHEDULE OF CAPITAL OUTLAYS  
Year Ended June 30, 2014**GENERAL FUND**

Server	\$ 8,550
2014 Dodge Charger, additions	6,655
Pool house improvements - roof	5,055
.71 acres land (Zigler)	5,305
Exmark 60" zero turn mower	9,316
Christmas lights	21,135
Safe Routes to School Program grant, infrastructure	141,582
Church Street project - paving	<u>103,374</u>

**Total general fund** \$ 300,972

**WATER AND SEWER FUND**

Water tank (engineering fees)	\$ 17,838
Sparmine project (engineering fees)	17,838
Lone Pine projects (engineering fees)	17,838
Church Street project - water	165,399
Church Street project - sewer	144,724
Land for water tank	43,900
115/230 volt plasma cutter	<u>1,204</u>

**Total water and sewer fund** \$ 408,741

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the fiduciary fund of the Town of Timberville, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Timberville's basic financial statements, and have issued our report thereon dated September 29, 2014.

**Internal Control Over Financial Reporting**

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

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

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

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

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

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

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

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

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

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

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

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

## **Compliance and Other Matters**

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

## **Response to Findings**

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

## **Purpose of this Report**

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

Harrisonburg, VA  
September 29, 2014