



TOWN OF NEW MARKET, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2013

**TOWN OF NEW MARKET, VIRGINIA
FINANCIAL REPORT
YEAR ENDED JUNE 30, 2013**

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FINANCIAL REPORT
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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

INDEPENDENT AUDITORS' REPORT

TO THE HONORABLE MEMBERS OF THE TOWN COUNCIL TOWN OF NEW MARKET, VIRGINIA

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 aggregate remaining fund information of Town of New Market, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Emphasis of Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-13, budgetary comparison information, and schedules of pension and OPEB funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

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

The other supplementary information and the supporting schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information and supporting schedules are 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 November 26, 2013, on our consideration of the Town of New Market, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of New Market, Virginia's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Staunton, Virginia
November 26, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Town of New Market's financial performance provides an overview of the Town's financial activities for the year ended June 30, 2013. Please read it in conjunction with the Town's financial statements, which begin on page 14.

FINANCIAL HIGHLIGHTS

- The assets of the Town exceeded its liabilities by \$14,045,718 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 governmental type activities increased by \$479,144, net position of the business-type activities decreased by \$118,673.
- In the Town's business-type activities, revenues increased \$121,644 from the previous year and expenses increased by \$89,305. Non-operating expenses increased by \$18,054 and non-operating income decreased by \$2,659.
- In the Town's governmental activities, revenues decreased by \$280,319 from the previous year while expenses increased by \$153,910. Non-operating income decreased by \$1,670.
- Actual revenues were \$23,039 less than budgeted for the General Fund. General Fund expenditures were \$123,680 more than budgeted.
- The Town spent \$1,018,188 for capital additions during the current fiscal year.
- The Town's long-term debt decreased by \$459,897 during the current fiscal year.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements. The Statement of Net position and the Statement of Activities (on pages 14 and 15-16) 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 17. 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 that occur in them. You can think of the Town's net position – the difference between assets and liabilities – 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 and condition of the Town's infrastructure, 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, cultural and economic development, 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 Fund

The fund financial statements begin on page 16 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 balance left at year-end that is available for spending. This fund is reported using an accounting method call *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 the 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 A WHOLE

The Town's *combined* net position increased from \$13,685,248 to \$14,045,718. During the year, the net position of the governmental activities increased by 10.0% and the business-type activities decreased 1.3%. Below is a summary of the net position as of June 30, 2013 and 2012.

NET POSITION

	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 1,482,798	\$ 1,841,886	\$ 680,826	\$ 776,491	\$ 2,163,624	\$ 2,618,377
Capital assets	4,015,302	3,188,716	14,649,437	15,129,862	18,664,739	18,318,578
Total	\$ 5,498,100	\$ 5,030,602	\$ 15,330,263	\$ 15,906,353	\$ 20,828,363	\$ 20,936,955
Long-term liabilities	\$ 48,948	\$ 40,510	\$ 6,396,908	\$ 6,853,073	\$ 6,445,856	\$ 6,893,583
Other liabilities	103,142	262,284	94,588	95,840	197,730	358,124
Total	\$ 152,090	\$ 302,794	\$ 6,491,496	\$ 6,948,913	\$ 6,643,586	\$ 7,251,707
Deferred inflows of resources	\$ 139,059	\$ -	\$ -	\$ -	\$ 139,059	\$ -
Net assets invested in capital assets, net of related debt	\$ 4,015,302	\$ 3,188,716	\$ 8,273,584	\$ 8,294,112	\$ 12,288,886	\$ 11,482,828
Restricted	100,000	100,000	-	-	100,000	100,000
Unrestricted	1,091,649	1,439,092	565,183	663,328	1,656,832	2,102,420
Total net position	\$ 5,206,951	\$ 4,727,808	\$ 8,838,767	\$ 8,957,440	\$ 14,045,718	\$ 13,685,248

The largest portion of the Town's net position (87%) reflects its investments in capital assets (e.g., land, buildings, equipment, improvements, and infrastructure), 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 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.

An additional portion of the Town's net position (\$100,000) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position (\$1,656,832) may be used to meet the government's ongoing obligation to citizens and creditors.

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

	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Charges for services	\$ 137,223	\$ 155,950	\$ 1,606,977	\$ 1,485,333	\$ 1,744,200	\$ 1,641,283
General property taxes	279,685	268,006	-	-	279,685	268,006
Other local taxes	843,482	813,850	-	-	843,482	813,850
Intergovernmental	635,327	1,046,258	-	-	635,327	1,046,258
DEQ water grant	-	-	-	-	-	-
Miscellaneous	115,616	7,588	-	-	115,616	7,588
Total Revenues	<u>\$ 2,011,333</u>	<u>\$ 2,291,652</u>	<u>\$ 1,606,977</u>	<u>\$ 1,485,333</u>	<u>\$ 3,618,310</u>	<u>\$ 3,776,985</u>
Program Expenses:						
General government	\$ 351,501	\$ 334,811	\$ -	\$ -	\$ 351,501	\$ 334,811
Public safety	477,024	440,402	-	-	477,024	440,402
Public works	576,337	436,926	-	-	576,337	436,926
Culture and economic development	44,021	65,036	-	-	44,021	65,036
Parks and recreation	86,949	104,747	-	-	86,949	104,747
Water and sewer	-	-	1,512,799	1,423,494	1,512,799	1,423,494
Total Expenses	<u>\$ 1,535,832</u>	<u>\$ 1,381,922</u>	<u>\$ 1,512,799</u>	<u>\$ 1,423,494</u>	<u>\$ 3,048,631</u>	<u>\$ 2,805,416</u>
Operating income	<u>\$ 475,501</u>	<u>\$ 909,730</u>	<u>\$ 94,178</u>	<u>\$ 61,839</u>	<u>\$ 569,679</u>	<u>\$ 971,569</u>
Nonoperating:						
Interest income	\$ 3,643	\$ 5,313	\$ 448	\$ 3,107	\$ 4,091	\$ 8,420
Interest and fiscal charges	-	-	(159,878)	(175,633)	(159,878)	(175,633)
Bond issuance costs	-	-	(35,172)	-	(35,172)	\$ -
Gain (loss) on sale of property	-	-	(18,249)	(19,612)	(18,249)	(19,612)
Total nonoperating income	<u>\$ 3,643</u>	<u>\$ 5,313</u>	<u>\$ (212,851)</u>	<u>\$ (192,138)</u>	<u>\$ (209,208)</u>	<u>\$ (186,825)</u>
Change in net position	<u><u>\$ 479,144</u></u>	<u><u>\$ 915,043</u></u>	<u><u>\$ (118,673)</u></u>	<u><u>\$ (130,299)</u></u>	<u><u>\$ 360,471</u></u>	<u><u>\$ 784,744</u></u>

The Town's total revenues decreased by \$158,675 (4.0%). The total cost of all programs and services increased by \$243,215 (8.67%). Interest income decreased by \$4,329 and interest expense decreased by \$15,755. Other non-operating costs increased \$33,809. Our analysis that follows separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenues for the Town's governmental activities decreased by \$280,319 (12.23%) and expenses increased by \$153,910 (11.14%). The factors driving these results include:

Revenues

- *Charges for services* overall decreased by \$18,727. Charges for services consist of refuge collection fees, revenues from pool attendance and concession stand sales, fees collected from shelter rentals, zoning permits and fees, and court fines. Pool revenues were down \$8,430 from the previous fiscal year primarily due to a decrease in pool attendance. Court fines were down \$9,061.
- *General property taxes* which are comprised of real estate and person property taxes increased \$11,679 from the previous fiscal year. The Town's real estate tax rate was \$0.12 per \$100 of assessed value for the 2012 and 2013 tax years. The Town's personal property tax rate was \$0.80 per \$100 of assessed value for the 2012 and 2013 tax years. Under the provisions of the Personal Property Tax Relief Act (PPTRA), the State's share of local personal property tax was \$45,157.
- *Other local taxes* increased by \$29,632. Other local taxes consist of meals taxes, transient occupancy taxes, bank franchise taxes, utility taxes, cigarette taxes, county sales taxes, licenses and fees, and other taxes. In July 2012, the Town increased the Meals Tax rate by 1%, from 4% to 5%. This tax is collected by restaurants and convenience stores on all prepared foods sold in the Town. As a result of this rate change the Meals Tax revenues increased \$63,383 from the previous fiscal year. On July 1, 2012 the Town enacted a \$0.05 per pack increase in the cigarette tax rate from \$0.10 to \$0.15 per pack. Cigarette stamp sales were down from the previous fiscal year by 18%. However, with the increase in the tax rate the Town ended the year with an increase in cigarette tax revenues of \$8,469. These increases were offset by decreases in other revenues. County sales taxes were down \$28,256. The percentage the Town received went from 3.05% in FY11-12 to 2.24% in FY12-13. This percentage is based on the new school census. Bank Franchise Taxes, utility taxes, transient occupancy taxes, and vehicle license fees decreased from the previous fiscal year by \$9,068, \$1,147, \$1,370 and \$2,988 respectively.
- *Intergovernmental revenues* overall decreased by \$410,931. Intergovernmental revenues consist of funds received from the Commonwealth of Virginia and the federal government. This decrease is largely due to the completion of the downtown streetscape project. The Town began incurring expenses related to this project in FY08-09 and received federal reimbursement to cover costs incurred. Phase I construction was completed in 2011. Phase II began in 2012 and was completed in the spring of 2013. All federal funds have been depleted on this project. In addition, stimulus funds under the Urban Forestry Program for the removal and replacement with more urban-friendly trees in the downtown streetscape area were received in the previous fiscal year.

Another contributing factor to the decrease in intergovernmental revenues was the reclassification of funding for the Shady Lane project. The drainage improvement project on Shady Lane in the Pleasant View Subdivision which started in the spring of 2012 was completed earlier this year. In the previous fiscal year, the Town received reimbursement directly from the Virginia Department of Transportation to cover costs incurred. In this fiscal year, the funding for this revenue sharing project was channeled through Shenandoah County. Funding received from Shenandoah County is classified as miscellaneous revenue in the financial statements.

Funding from VDOT for snow removal was \$13,030 higher than in the previous fiscal year.

- *Miscellaneous revenues* overall increased by \$108,028. This increase is largely due to the receipt of funds from Shenandoah County for the Shady Lane Project referenced above. Also contributing to the increase were insurance recoveries received from storm damage to ball nets in both Rebel and Community Parks. In addition, the Police Department received donations which were used in the purchase of a utility trailer.

Expenses

- *General government and administration expenses* overall increased by \$16,690. This is largely due to a 7% increase in compensation for all full-time employees of which 5% was mandated through the General Assembly legislation. Beginning July 1, 2012 all employees were required to contribute 5% of their salary to the Virginia Retirement System (VRS). In the past, the employee's portion was paid by the Town. In order to offset any reduction in take home pay which would have resulted due to higher payroll taxes, the Town gave all full time employees a 7% salary increase. This also included a 1.3% cost of living adjustment (COLA).
- *Public safety expenses* overall increased by \$36,622. Full-time salaries and benefits increased due to the 7% increase in compensation referenced above. In addition, more full-time and part-time hours were worked than in the previous fiscal year to perform the job and to cover for officers out in training and sick leave.
- *Public works* overall increased \$139,411. Full-time salaries and benefits increased due to the 7% increase in compensation referenced above. In addition, part-time salaries increased with the hiring of seasonal employees to help with mowing, landscaping and other general maintenance over the spring and summer months. With the completion of phase II of the downtown streetscape project, expenditures were down compared to the previous year. This was offset by increased spending on the Shady Lane drainage improvement project. A delayed start in the previous fiscal year pushed more work into this fiscal year.
- *Cultural and Economic Development expenses* overall decreased \$21,015. The Town's budgeted donation amount to the New Market Area Library was \$4,000 less than the previous fiscal year. Last fiscal year's expenses included the costs of two fireworks displays; one in July 2011 and one in June 2012. The July 2012 fireworks were moved up to June 2012 in conjunction with the New Market Fire and Rescue Department's Summer Celebration.
- *Parks and Recreation expenses* overall decreased \$17,798. This decrease was primarily due to an overall reduction in expenses including pool chemicals, pool repairs and supplies, concessions, and park supplies and maintenance.

The Town's governmental activities also included a decrease in interest income in the amount of \$1,670. This decrease is attributable to a continual decrease in the rates that financial institutions are paying on interest checking and certificates of deposit, as well as the continual increase in the rates charged for financial services.

Business-Type Activities

Revenues for the Town's business-type activities increased by \$121,644 (8.19%) and expenses increased by \$89,305 (6.27 %). The factors driving these results include:

Revenues

- *Water and sewer revenues* overall increased \$121,644. Much of this increase was due to a 10.0% increase in water and sewer rates that went into effect July 2012. This increase was offset by decreases in penalties, connection/reconnection fees and miscellaneous revenue.

Expenses

- *Water and sewer expenses* overall increased by \$89,305. This was largely due to an increase in employee salaries and benefits. Beginning July 1, 2012 all employees were required to contribute 5% of their salary to the Virginia Retirement System (VRS). This was mandated through General Assembly legislation. In the past, the employee's portion was paid by the Town. In order to offset any reduction in take home pay which would have resulted due to higher payroll taxes, the Town gave all full time employees a 7% salary increase. This also included a 1.3% cost of living adjustment (COLA). In addition, sewer treatment costs paid to the Town of Broadway increased \$42,517 which is partly due to a wetter winter and spring.

The Town's business-type activities also included a decrease in interest income in the amount of \$2,659. This decrease is attributable to a continual decrease in the rates that financial institutions are paying on interest checking. Interest expense on outstanding debt decreased by \$15,755 and bond issue costs associated with the 2009 VRA Loan were written off in accordance with the new GASB Statement.

THE TOWN'S FUNDS

As the Town completed the year, its governmental funds (as presented in the balance sheet on page 17) reported a fund balance of \$1,225,910, which is a decrease of \$331,282 over last year's total of \$1,557,192. The primary reasons for the General Fund's decrease mirror the changes noted in the previous section under "governmental" activities. In addition, The Town expended \$1,018,188 on capital additions (see pages 35 and 36), a decrease of \$688,222 from the prior year.

As the Town completed the year, its proprietary fund (as presented in the balance sheet on page 21) reported net position of \$8,838,767, which is a decrease of \$118,673 from last year's total of \$8,957,440. Significant changes in the change in net position are noted in the previous section under "business-type" activities.

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GENERAL FUND BUDGETARY HIGHLIGHTS

The significant variations of actual results to the final General Fund budget are summarized below.

Account	Variance Positive (Negative)
Revenues	
General Property Taxes	\$ 14,564
Other local Taxes	
Motor vehicle licenses	3,355
Cigarette tax	(4,056)
Sales tax	(23,982)
Bank stock tax	(3,366)
Other local Taxes	981
Permits, privilege fees, and regulatory licenses	(475)
Fines and forfeitures	(11,957)
Revenue from the use of money and property	206
Charges for services	
Trash Collection	255
Pool & Park Revenue	(12,100)
Miscellaneous	111,616
Intergovernmental revenues	
VDOT Snow Removal	15,380
VDOT Revenue Sharing (Shady Lane)	(22,162)
TEA-21 streetscape grant	(90,305)
Other	(993)
Total revenues	\$ <u>(23,039)</u>
Expenditures	
General Government Administration	\$ 1,824
Public Safety	
Police Department	(33,419)
Fire and rescue services	(500)
Public Works	
Maintenance of highways, streets, bridges and sidewalks	(106,062)
Sanitation and waste removal	(401)
Cultural and Economic Development	8,054
Parks, recreation, and culture	6,824
Total expenditures	\$ <u>(123,680)</u>

Actual revenues were less than budgeted by \$23,039. Several revenues such as real estate taxes, personal property taxes, motor vehicle licenses fees, and meals taxes did better than expected. However, county sales tax, court fines and pool revenues were significantly lower than budgeted. Miscellaneous revenue was grossly higher than budgeted because of the Shady Lane Revenue Sharing Project. As stated previously, the funding for this revenue sharing project was channeled through Shenandoah County. Funding received from Shenandoah County is classified as miscellaneous revenue in the financial statements.

Intergovernmental revenues were less than budgeted. TEA-21 funds generated through federal appropriations that are administered by VDOT for the downtown streetscape project have been depleted. The streetscape project Phase II is complete.

Total expenditures were more than budgeted by \$123,680. Police department expenditures were significantly higher than budgeted. This was primarily due to more hours worked than budgeted to perform the job and to cover for officers out in training and sick leave. In addition, in August 2012 a Town police car was involved in a traffic crash at which time the vehicle was totaled. A new police vehicle was purchased and placed in service. The budget included an appropriation for a restricted fund for police vehicle acquisitions made on alternating years but was not enough to cover the replacement of a new vehicle in this fiscal year.

Public works expenditures were higher than budgeted. This was largely due to the delayed start of the Shady Lane drainage improvement project in the previous fiscal year pushing more work into this fiscal year than had been anticipated.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the Town had \$18.7 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 \$346,162, or 1.89% over last year.

	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 276,070	\$ 276,070	\$ 321,739	\$ 321,739	\$ 597,809	\$ 597,809
Construction in progress	2,455	168,804	4,237	-	6,692	168,804
Buildings	387,168	396,577	-	-	387,168	396,577
Park and improvements	419,972	447,185	-	-	419,972	447,185
Equipment	215,365	193,527	20,022	31,600	235,387	225,127
Infrastructure	2,714,272	1,706,552	-	-	2,714,272	1,706,552
Utility system	-	-	12,171,588	12,580,387	12,171,588	12,580,387
Intangible	-	-	2,131,851	2,196,136	2,131,851	2,196,136
Total	<u>\$ 4,015,302</u>	<u>\$ 3,188,715</u>	<u>\$ 14,649,437</u>	<u>\$ 15,129,862</u>	<u>\$ 18,664,739</u>	<u>\$ 18,318,577</u>

This year's major additions included:

2 John Deere Deck Mowers	\$	17,400
Pool Pump		5,076
Computer Server for Town Office		11,344
2013 Ford Exploer (Police Department)		33,314
Heatpump / Air Handler, Strip Heater for Town Office		6,355
Police Utility Trailer		4,213
Streetscape Phase 2 Project		650,524
Shady Lane Curb & Guttering Project		282,548
Fairway Manor & Clark Street Water Loops - Engineering Costs		4,237
Total	\$	<u><u>1,015,011</u></u>

Debt

At year-end, the Town had \$6,375,853 in outstanding loans compared to \$6,835,750 last year. This is a decrease of 7% as shown in the following table.

Business-Type Activities	Outstanding, June 30,	
	2013	2012
Water & Sewer Fund loans payable	\$ <u><u>6,375,853</u></u>	\$ <u><u>6,835,750</u></u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In FY13-14 the Town anticipates a decrease in the General Fund revenues from last year. Streetscape Phase II was completed in FY12-13 as well as the Shady Lane Drainage Improvement project.

No real estate or personal property tax increases are proposed at this time.

Revenues from local taxes are down slightly in cigarette taxes. The budgeted amount is based on previous year's actual costs.

Interest income is also projected to go down due to the decline in rates that banks are paying.

No new positions are anticipated for FY13-14. A 3% pool of salaries has been set aside for distribution in FY13-14.

The Water and Sewer Fund is expecting an increase in revenues from water and sewer service of \$58,000. The Town council authorized a 3.5% increase in the water and sewer rates. This increase is necessary to cover operating costs. Other revenues including water and sewer connection fees are projected to remain stagnant.

With the completion of the Streetscape Phase II and Shady Lane Drainage Improvement projects, General Fund capital project expenditures are projected to decrease 53% in FY13-14. Major capital additions in governmental activities include the replacement of the financial software including tax billing, redevelopment of the Town's website, a mobile radar unit for the Police Department, and upgrades to the Community Park bathrooms.

Major capital additions in business-type activities for FY13-14 include Water Treatment Plant roof replacement, comprehensive water planning, Fairway Manor Water Extension and replacement of the financial software including utility billing.

CONTRACTING 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 9418 John Sevier Road, New Market, VA.

FINANCIAL STATEMENTS

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Statement of Net Position
June 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 925,308	\$ 451,705	\$ 1,377,013
Restricted cash and cash equivalents	100,000	22,933	122,933
Receivables (net of allowance for uncollectibles):			
Property taxes	152,071	-	152,071
Accounts	59,154	206,188	265,342
Due from other governmental units	246,265	-	246,265
Capital assets not being depreciated:			
Land	276,070	321,739	597,809
Construction in progress	2,455	4,237	6,692
Capital assets, net of accumulated depreciation:			
Park and improvements	419,972	-	419,972
Buildings and improvements	387,168	-	387,168
Machinery, equipment, and vehicles	215,365	20,022	235,387
Infrastructure	2,714,272	12,171,588	14,885,860
Intangible, net of accumulated amortization	-	2,131,851	2,131,851
Total Assets	\$ 5,498,100	\$ 15,330,263	\$ 20,828,363
LIABILITIES			
Accounts payable	\$ 73,874	\$ 32,517	\$ 106,391
Retainage payable	10,000	-	10,000
Accrued interest payable	-	39,138	39,138
Unearned revenue	19,268	-	19,268
Customer deposits	-	22,933	22,933
Noncurrent liabilities:			
Due within one year	-	472,878	472,878
Due in more than one year	48,948	5,924,030	5,972,978
Total Liabilities	\$ 152,090	\$ 6,491,496	\$ 6,643,586
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-property taxes	\$ 139,059	-	\$ 139,059
NET POSITION			
Net investment in capital assets	\$ 4,015,302	\$ 8,273,584	\$ 12,288,886
Restricted:			
Permanent fund	100,000	-	100,000
Unrestricted	1,091,649	565,183	1,656,832
Total Net Position	\$ 5,206,951	\$ 8,838,767	\$ 14,045,718

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

Town of New Market, Virginia

Statement of Activities
For the Year Ended June 30, 2013

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General government administration	\$ 351,501	\$ 1,025	\$ -	\$ -
Public safety	477,024	28,043	63,407	-
Public works	576,337	78,755	51,968	571,463
Cultural and economic development	44,021	-	-	-
Parks and recreation	86,949	29,400	1,374	-
Total governmental activities	\$ 1,535,832	\$ 137,223	\$ 116,749	\$ 571,463
Business-type activities:				
Water and sewer	\$ 1,707,849	\$ 1,606,977	\$ -	\$ -
Total business-type activities	\$ 1,707,849	\$ 1,606,977	\$ -	\$ -
Total primary government	\$ 3,243,681	\$ 1,744,200	\$ 116,749	\$ 571,463
General revenues:				
General Property Taxes				
Sales tax				
Utility taxes				
Meals tax				
Other local taxes				
Gain on sale of capital assets				
Unrestricted revenue from the use of money and property				
Grants and contributions not restricted to specific programs				
Insurance recoveries				
Miscellaneous				
Total general revenues				
Change in net position				
Net position - beginning				
Net position - ending				

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

Exhibit 2

<u>Net (Expense) Revenue and</u> <u>Change in Net Assets</u> <u>Primary Government</u>		
<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
\$ (350,476)	\$ -	\$ (350,476)
(385,574)	-	(385,574)
125,849	-	125,849
(44,021)	-	(44,021)
<u>(56,175)</u>	<u>-</u>	<u>(56,175)</u>
\$ <u>(710,397)</u>	\$ <u>-</u>	\$ <u>(710,397)</u>
\$ <u>-</u>	\$ <u>(100,872)</u>	\$ <u>(100,872)</u>
\$ <u>-</u>	\$ <u>(100,872)</u>	\$ <u>(100,872)</u>
\$ <u>(710,397)</u>	\$ <u>(100,872)</u>	\$ <u>(811,269)</u>
\$ 279,685	\$ -	\$ 279,685
91,018	-	91,018
101,819	-	101,819
351,658	-	351,658
298,987	-	298,987
9,000	(18,249)	(9,249)
3,643	448	4,091
45,157	-	45,157
4,150	-	4,150
<u>4,424</u>	<u>-</u>	<u>4,424</u>
\$ <u>1,189,541</u>	\$ <u>(17,801)</u>	\$ <u>1,171,740</u>
\$ 479,144	\$ (118,673)	\$ 360,471
<u>4,727,807</u>	<u>8,957,440</u>	<u>13,685,247</u>
\$ <u><u>5,206,951</u></u>	\$ <u><u>8,838,767</u></u>	\$ <u><u>14,045,718</u></u>

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FUND FINANCIAL STATEMENTS

Balance Sheet
Governmental Funds
June 30, 2013

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 907,693	\$ 17,615	\$ 925,308
Restricted cash and cash equivalents	-	100,000	100,000
Receivables (net of allowance for uncollectibles):			
Property taxes	152,071	-	152,071
Accounts receivable	59,154	-	59,154
Due from other governmental units	246,265	-	246,265
Total assets	<u>\$ 1,365,183</u>	<u>\$ 117,615</u>	<u>\$ 1,482,798</u>
LIABILITIES			
Accounts payable	\$ 73,874	\$ -	\$ 73,874
Retainage payable	10,000	-	10,000
Unearned revenue - other	19,268	-	19,268
Total liabilities	<u>\$ 103,142</u>	<u>\$ -</u>	<u>\$ 103,142</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	\$ 153,746	\$ -	\$ 153,746
Total deferred inflows of resources	<u>\$ 153,746</u>	<u>\$ -</u>	<u>\$ 153,746</u>
FUND BALANCES			
Nonspendable:			
Permanent fund principal	\$ -	\$ 100,000	\$ 100,000
Municipal building sinking fund	-	17,615	17,615
Unassigned			
Total fund balances	<u>\$ 1,108,295</u>	<u>\$ -</u>	<u>\$ 1,108,295</u>
Total fund balances	<u>\$ 1,108,295</u>	<u>\$ 117,615</u>	<u>\$ 1,225,910</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,365,183</u>	<u>\$ 117,615</u>	<u>\$ 1,482,798</u>

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

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

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$	1,225,910
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Capital assets used in governmental activities are not financial resources, and therefore are not reported in the funds.		4,015,302
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Other long-term assets are not available to pay for current period expenditures, and therefore, are reported as unavailable revenue in the funds.		14,687
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Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.		<u>(48,948)</u>
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Net position of governmental activities	\$	<u><u>5,206,951</u></u>
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The notes to the financial statements are an integral part of this statement.

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

	General Fund	Nonmajor Governmental Fund	Total Governmental Funds
REVENUES			
General property taxes	\$ 287,407	\$ -	\$ 287,407
Other local taxes	843,482	-	843,482
Permits, privilege fees, and regulatory licenses	1,025	-	1,025
Fines and forfeitures	28,043	-	28,043
Revenue from the use of money and property	2,706	937	3,643
Charges for services	108,155	-	108,155
Miscellaneous	115,616	-	115,616
Intergovernmental revenues:			
Commonwealth	147,937	-	147,937
Federal	487,390	-	487,390
Total revenues	\$ <u>2,021,761</u>	\$ <u>937</u>	\$ <u>2,022,698</u>
EXPENDITURES			
General government administration	\$ 333,226	\$ -	\$ 333,226
Public safety	485,164	-	485,164
Public works	1,435,313	-	1,435,313
Cultural and economic development	44,021	-	44,021
Parks and recreation	56,256	-	56,256
Total expenditures	\$ <u>2,353,980</u>	\$ <u>-</u>	\$ <u>2,353,980</u>
Net change in fund balances	\$ (332,219)	\$ 937	\$ (331,282)
Fund balances - beginning	1,440,514	116,678	1,557,192
Fund balances - ending	\$ <u><u>1,108,295</u></u>	\$ <u><u>117,615</u></u>	\$ <u><u>1,225,910</u></u>

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

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

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

Net change in fund balances - total governmental funds	\$	(331,282)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current period.		826,587
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. The change in deferred property taxes is reported as revenues in the governmental funds.		(7,723)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.		<u>(8,438)</u>
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Change in net position of governmental activities	\$	<u><u>479,144</u></u>
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The notes to the financial statements are an integral part of this statement.

Statement of Net Position
 Proprietary Funds
 June 30, 2013

	Enterprise Fund Water & Sewer
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 451,705
Restricted cash and cash equivalents	22,933
Accounts receivable	206,188
Total current assets	<u>\$ 680,826</u>
Noncurrent assets:	
Capital assets:	
Land	\$ 321,739
Construction in progress	4,237
Utility plants, distribution and collection systems	16,904,469
Equipment	207,756
Intangible, Broadway Regional Wastewater Treatment Facility hookup fee	2,250,000
Intangible, Regional water study	10,422
Accumulated amortization and depreciation	<u>(5,049,186)</u>
Total noncurrent assets	<u>\$ 14,649,437</u>
Total assets	<u><u>\$ 15,330,263</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 32,517
Accrued interest payable	39,138
Customer deposits	22,933
General obligation bonds, current portion	472,878
Total current liabilities	<u>\$ 567,466</u>
Noncurrent liabilities:	
General obligation bonds, net of current portion	\$ 5,902,975
Compensated absences	21,055
Total noncurrent liabilities	<u>\$ 5,924,030</u>
Total liabilities	<u>\$ 6,491,496</u>
NET POSITION	
Net investment in capital assets	\$ 8,273,584
Unrestricted	565,183
Total net position	<u>\$ 8,838,767</u>
Total liabilities and net position	<u><u>\$ 15,330,263</u></u>

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

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

	Enterprise Fund Water & Sewer
OPERATING REVENUES	
Water service billings	\$ 647,621
Sewer service billings	940,585
Connection fees	5,608
Late charges	11,305
Water meters	230
Miscellaneous	1,628
Total operating revenue	\$ <u>1,606,977</u>
OPERATING EXPENSES	
Personal services	\$ 264,906
Fringe benefits	92,941
Contractual services	40,319
Other supplies and expenses	56,023
Insurance claims and expense	28,509
Other charges	563,688
Depreciation and amortization	466,413
Total operating expenses	\$ <u>1,512,799</u>
Net operating income (loss)	\$ <u>94,178</u>
NONOPERATING REVENUE (EXPENSE)	
Interest earned	\$ 448
Interest and fiscal charges	(159,878)
Bond issuance costs	(35,172)
Gain (loss) on sale of property	(18,249)
Total nonoperating revenue (expense)	\$ <u>(212,851)</u>
Change in net position	\$ (118,673)
Net position - beginning	\$ <u>8,957,440</u>
Net position - ending	\$ <u><u>8,838,767</u></u>

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

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended June 30, 2013

	Enterprise Fund Water & Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,597,926
Cash payments to suppliers of goods and services	(686,806)
Cash payments to employees	(354,115)
Net cash provided by (used for) operating activities	\$ 557,005
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase and construction of capital assets	\$ (4,237)
Principal payments on bonds	(459,897)
Interest payments	(159,878)
Net cash provided by (used for) capital and related financing activities	\$ (624,012)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earned	\$ 448
Net cash provided by (used for) investing activities	\$ 448
Net increase (decrease) in cash and cash equivalents	\$ (66,559)
Cash and cash equivalents - beginning - including restricted	\$ 541,197
Cash and cash equivalents - ending - including restricted	\$ 474,638
Reconciliation of operating income to net cash provided by (used for)	
Operating activities:	
Operating income (loss)	\$ 94,178
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:	
Depreciation and amortization expense	466,413
(increase) decrease in prepaid expenses	3,858
(Increase) decrease in accounts receivable	(9,924)
Increase (decrease) in accounts payable	273
Increase (decrease) in accrued interest payable	(2,398)
Increase (decrease) in compensated absences	3,732
Increase (decrease) in customer deposits	873
Net cash provided by (used for) operating activities	\$ 557,005

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

TOWN OF NEW MARKET, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

A. Financial Reporting Entity

The Town of New Market, 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. Government-Wide and Fund Financial Statements

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

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

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

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
JUNE 30, 2013 (CONTINUED)

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as deferred revenues. Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the Town.

Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following governmental funds:

The *general fund* is the government's primary operating fund. It accounts for and reports all financial resources of the general government, except those required to be accounted for in another fund.

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 business, residents, schools, and churches. It operates the water treatment and sewer treatment plants, water distribution systems, sewer collection systems, and pump stations.

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

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise fund are charges to customers for sales and services. The water and sewer fund also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Additionally, the Town reports the following fund type:

The *permanent fund* is used to account for and report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the Town's programs.

D. Assets, Liabilities and Deferred Outflows/Inflows of Resources and Equity

Cash and cash equivalents

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

TOWN OF NEW MARKET, VIRGINIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 (CONTINUED)

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

D. Assets, Liabilities and Deferred Outflows/Inflows of Resources and Equity (continued)

Property taxes

Real estate and personal property taxes are assessed annually by Shenandoah 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 a semi-annual basis (one-half due June 5, one half due December 5). The portion of the tax receivable that is not collected within 60 days after June 30 is shown as deferred revenue in the fund financial statements. A penalty of 10 percent of the tax is assessed after the applicable payment date.

The taxes receivable balance at June 30, 2013, includes amounts not yet billed or received from the second-half January 1, 2013, levy (due December 5, 2013). These items are included in deferred revenue since these taxes are restricted for use until fiscal year 2014.

Allowance for uncollectible accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and specific account analysis. The allowance is composed of property taxes, refuse, and water and sewer accounts receivable, and amounts for June 30, 2013 respectively were \$25,471, \$1,330, \$8,852 and \$15,236. The portion of the allowance for property taxes represents 14.21% of the taxes receivable balance at June 30, 2013. The portion of the allowance attributable to refuse and water and sewer represents 10.73% of the accounts receivable balance at June 30, 2013.

Prepaid Items

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

Use of estimates

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

Net Position Flow Assumption

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

TOWN OF NEW MARKET, VIRGINIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 (CONTINUED)

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

D. Assets, Liabilities and Deferred Outflows/Inflows of Resources and Equity (continued)

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 the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current or previous year.

Property, plant and equipment and infrastructure of the primary government, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	20-50 years
Utility System	25-50 years
Machinery and Equipment	5-15 years
Infrastructure	20 years
Parks and Improvements	20-50 years

Intangible asset

During the year ended June 30, 2009, the Town entered into an agreement to purchase wastewater treatment services from the Town of Broadway. As part of the agreement, the Town of New Market contributed \$2,250,000 toward the capital costs of expansion to Broadway Regional Wastewater Treatment Facility. The Town will amortize the costs by the straight-line method over the term of the agreement (35 years).

During the year ended June 30, 2012, the Town entered into an agreement with the Towns of Broadway and Timberville to share the cost of a Regional Water Feasibility Study. As part of the agreement, the Town of New Market contributed \$10,422 toward this Feasibility Study.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)

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

D. Assets, Liabilities and Deferred Outflows/Inflows of Resources and Equity (continued)

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

Compensated absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the government-wide financial statements. No expenditure is reported for these amounts in the fund financial statements. In accordance with the provisions of Governmental Accounting Standards No. 16, Accounting for Compensated Absences, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement. The Town accrues salary-related payments associated with the payment of compensated absences.

Deferred revenue

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

Restricted assets

The municipal building perpetual fund totaling \$100,000 is classified as restricted assets because it is maintained in a separate bank account and its use is legally restricted to the extent that only earnings, not principal may be used for purposes that support the Town's programs.

TOWN OF NEW MARKET, VIRGINIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 (CONTINUED)

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

E. Fund Equity

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

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

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

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

In the general fund, the Town strives to maintain an unassigned fund balance to be used for unanticipated emergencies of approximately 15% of the actual GAAP basis expenditures and other financing sources and uses.

TOWN OF NEW MARKET, VIRGINIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 (CONTINUED)

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

F. Net Position

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

G. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Town does not have any deferred outflows of resources as of June 30, 2013.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has one type of item that qualifies for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30, 2nd half installments levied during the fiscal year but due after June 30th, and amounts prepaid on the 2nd half installments and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2nd half installments levied during the fiscal year but due after June 30th and amounts prepaid on the 2nd half installments are reported as deferred inflows of resources.

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

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

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

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

TOWN OF NEW MARKET, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)

NOTE 2—RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes a reconciliation between *fund balance—total governmental funds* and *net position—governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this (\$48,948) difference for the primary government are as follows:

	Primary Government
Compensated absences	\$ (48,948)
Net adjustment to reduce <i>fund balance—total governmental funds</i> to arrive at <i>net position—governmental activities</i>	\$ (48,948)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances—total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$826,587 difference for the primary government are as follows:

	Primary Government
Capital outlay	\$ 1,013,951
Depreciation expense	(187,364)
Net adjustment to increase (decrease) <i>net changes in fund balances—total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ 826,587

TOWN OF NEW MARKET, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)

**NOTE 2—RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:
(CONTINUED)**

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities (continued)

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this (\$8,438) difference for the primary government are as follows:

	Primary Government
Compensated absences	\$ (8,438)
Net adjustment to increase (decrease) <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ <u>(8,438)</u>

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

A. Budgetary Information

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

1. Prior to March 30, the Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them. All funds have legally adopted budgets.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the function level. The appropriation for each department or category can be revised only by the Town Council. The Town Manager is authorized to transfer budgeted amounts within general government departments.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

TOWN OF NEW MARKET, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)**

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY: (CONTINUED)

A. Budgetary Information (continued)

7. Appropriations lapse on June 30 for all Town units.
8. All budgetary data presented in the accompanying financial statements is the revised budget as of June 30.

B. Excess of expenditures over appropriations

For the year ended June 30, 2013, General Fund expenditures exceeded appropriations in Public Safety by \$33,919. General Fund expenditures also exceeded appropriations in Public Works by \$106,463. These over expenditures were funded by the revenues in that fund.

C. Deficit fund equity

At June 30, 2013, there were no funds with deficit fund equity.

NOTE 4 – DUE FROM OTHER GOVERNMENTAL UNITS:

Amounts due from other governmental units at June 30, 2013, are as follows:

	<u>General</u>
Commonwealth of Virginia:	
Department of Taxation, communications tax collected for the Town	\$ 8,305
Department of Taxation, local sales tax	14,949
VDOT-Shady Lane	220,173
Other	800
Federal Government:	
Department of Motor Vehicles, Highway Safety Program grant	2,038
Total	\$ <u><u>246,265</u></u>

TOWN OF NEW MARKET, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)**

NOTE 5 – CAPITAL ASSETS:

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Governmental Activities					
Capital asset not being depreciated:					
Land	\$ 276,070	\$ -	\$ -	\$ -	\$ 276,070
Construction in progress	168,804	933,771	-	(1,100,120)	2,455
Total capital assets not being depreciated	<u>\$ 444,874</u>	<u>\$ 933,771</u>	<u>\$ -</u>	<u>\$ (1,100,120)</u>	<u>\$ 278,525</u>
Capital assets being depreciated:					
Buildings and improvements	\$ 657,211	\$ 6,354	\$ -	\$ -	\$ 663,565
Park and improvements	1,202,782	7,555	-	-	1,210,337
Machinery and equipment	667,230	66,271	(35,474)	-	698,027
Infrastructure	1,861,605	-	-	1,100,120	2,961,725
Total capital assets being depreciated	<u>\$ 4,388,828</u>	<u>\$ 80,180</u>	<u>\$ (35,474)</u>	<u>\$ 1,100,120</u>	<u>\$ 5,533,654</u>
Accumulated depreciation:					
Buildings and improvements	\$ 260,634	\$ 15,763	\$ -	\$ -	\$ 276,397
Park and improvements	755,597	34,768	-	-	790,365
Machinery and equipment	473,703	44,433	(35,474)	-	482,662
Infrastructure	155,053	92,400	-	-	247,453
Total accumulated depreciation	<u>\$ 1,644,987</u>	<u>\$ 187,364</u>	<u>\$ (35,474)</u>	<u>\$ -</u>	<u>\$ 1,796,877</u>
Total capital assets being depreciated, net	<u>\$ 2,743,841</u>	<u>\$ (107,184)</u>	<u>\$ -</u>	<u>\$ 1,100,120</u>	<u>\$ 3,736,777</u>
Governmental activities capital assets, net	<u><u>\$ 3,188,715</u></u>	<u><u>\$ 826,587</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,015,302</u></u>

TOWN OF NEW MARKET, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)**

NOTE 5 – CAPITAL ASSETS: (CONTINUED)

	Beginning Balance	Increases	Decreases	Transfers and Adjustments	Ending Balance
Business-type Activities					
Capital asset not being depreciated:					
Land	\$ 321,739	\$ -	\$ -	\$ -	\$ 321,739
Construction in progress	-	4,237	-	-	4,237
Total capital assets not being depreciated	\$ 321,739	\$ 4,237	\$ -	\$ -	\$ 325,976
Capital assets being depreciated:					
Utility plants	\$ 16,955,942	\$ -	\$ (51,473)	\$ -	\$ 16,904,469
Machinery and equipment	222,610	-	(14,854)	-	207,756
Total capital assets being depreciated	\$ 17,178,552	\$ -	\$ (66,327)	\$ -	\$ 17,112,225
Accumulated depreciation:					
Utility plants	\$ 4,375,555	\$ 390,550	\$ (33,224)	\$ -	\$ 4,732,881
Machinery and equipment	191,010	11,578	(14,854)	-	187,734
Total accumulated depreciation	\$ 4,566,565	\$ 402,128	\$ (48,078)	\$ -	\$ 4,920,615
Total capital assets being depreciated, net	\$ 12,611,987	\$ (402,128)	\$ (18,249)	\$ -	\$ 12,191,610
Intangible assets being amortized:					
Broadway Regional Wastewater Treatment Facility hookup fee	\$ 2,250,000	\$ -	\$ -	\$ -	\$ 2,250,000
Regional Water Study	10,422	-	-	-	10,422
Total capital assets being amortized	\$ 2,260,422	\$ -	\$ -	\$ -	\$ 2,260,422
Accumulated amortization:					
Treatment Facility hookup fee	\$ 64,286	\$ 64,285	\$ -	\$ -	\$ 128,571
Total capital assets being amortized, net	\$ 2,196,136	\$ (64,285)	\$ -	\$ -	\$ 2,131,851
Business-type activities capital assets, net	\$ 15,129,862	\$ (462,176)	\$ (18,249)	\$ -	\$ 14,649,437

Depreciation and amortization expenses were charged to functions/programs of the primary government as follows:

Governmental activities

General government administration	\$ 24,689
Public safety	22,014
Public works	102,414
Parks and recreation	38,247
Total depreciation expense-governmental activities	<u>\$ 187,364</u>

Business-type activities

Water and sewer	\$ 466,413
Total depreciation and amortization expense-business-type activities	<u>\$ 466,413</u>

TOWN OF NEW MARKET, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)**

NOTE 6 – LONG-TERM OBLIGATIONS:

Primary Government-Governmental Activity Indebtedness:

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

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013
Compensated absences	\$ <u>40,510</u>	\$ <u>8,438</u>	\$ <u>-</u>	\$ <u>48,948</u>

Primary Government-Enterprise Activity Indebtedness:

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

	Balance July 1, 2012	Issuances/ Additions	Retirements/ Reductions	Balance June 30, 2013
General obligation bonds	\$ 6,684,005	\$ -	\$ 451,467	\$ 6,232,538
Unamortized bond premium	151,745	-	8,430	143,315
Compensated absences	17,323	3,732	-	21,055
Total	\$ <u>6,853,073</u>	\$ <u>3,732</u>	\$ <u>459,897</u>	\$ <u>6,396,908</u>

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

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2014	\$ 464,448	\$ 154,741
2015	442,350	143,089
2016	431,814	132,149
2017	443,649	121,086
2018	455,690	109,560
2019	467,945	97,565
2020	480,419	85,094
2021	493,118	72,142
2022	369,856	195,044
2023	240,677	51,372
2024	250,677	45,572
2025	255,677	39,438
2026	260,677	33,022
2027	265,677	26,300
2028	275,677	19,159
2029	280,677	11,597
2030	290,677	3,869
2031	62,833	-
Total	\$ <u>6,232,538</u>	\$ <u>1,340,799</u>

TOWN OF NEW MARKET, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)**

NOTE 6 – LONG-TERM OBLIGATIONS: (CONTINUED)

Primary Government-Enterprise Activity Indebtedness: (continued)

Details of indebtedness:

	<u>Total Amount Due</u>	<u>Amount Due Within One Year</u>
<u>General Obligation Bonds:</u>		
\$4,000,000 VRA General Obligation Bond, Series 1998A, issued November 1, 1998, bearing interest at 3%, with payments due semi-annually commencing October 1, 2003, and continuing through October 1, 2021. Principal installments are due semiannually in the amount of \$136,193.	\$ 2,030,318	\$ 213,063
\$497,250 General Obligation water and sewer refunding note, issued April 1, 2003, bearing interest at 3.50% per annum. Payments are due monthly in the amount of \$4,357 until the note matures November 1, 2014.	67,879	50,708
\$2,140,000 VRA General Obligation Bond, Series 2009, issued May 17, 2009, with an interest rate between 4.125% and 5.125%. Principal payments are due annually and range from \$65,000 to \$165,000. Additionally, interest payments are due semi-annually. Payments commence October 1, 2010, and will continue through October 1, 2029.	1,935,000	75,000
\$2,721,876 VRA General Obligation Bond, issued June 1, 2010, bearing no interest. Semi-annual payments of \$68,047 are to begin May 1, 2011 and are payable through November 1, 2030.	2,199,341	125,677
Sub-total general obligation bonds	\$ 6,232,538	\$ 464,448
Unamortized premium on bond issues	\$ 143,315	\$ 8,430
Compensated absences	\$ 21,055	\$ -
Total long-term obligations	<u>\$ 6,396,908</u>	<u>\$ 472,878</u>

TOWN OF NEW MARKET, VIRGINIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 (CONTINUED)

NOTE 7—COMPENSATED ABSENCES:

It is the Town's policy to permit employees to accumulate earned but not used annual leave and sick leave benefits. The Town pays a benefit for accumulated annual leave upon an employee's separation from service to the extent the employee meets certain criteria. Annual leave is 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 as a result of employee resignations and retirements. Sick leave is recorded in the same manner for employees eligible for retirement. The town has no policy to pay unused sick leave when employees resign. The Town has outstanding accrued compensated absences totaling \$48,948 in the Primary Government, and \$21,055 in the Enterprise Funds.

NOTE 8 – DEFINED BENEFIT PENSION OBLIGATION:

A. Plan Description

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

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

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

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

TOWN OF NEW MARKET, VIRGINIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 (CONTINUED)

NOTE 8 – DEFINED BENEFIT PENSION OBLIGATION: (CONTINUED)

A. Plan Description (Continued)

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

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

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

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2013 was 10.20% of annual covered payroll.

TOWN OF NEW MARKET, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)**

NOTE 8 – DEFINED BENEFIT PENSION OBLIGATION: (CONTINUED)

C. Annual Pension Cost

For fiscal year 2013, the Town's annual pension cost of \$81,385 was equal to the Town's required and actual contributions.

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2013	\$ 81,385	100.00%	\$ -
June 30, 2012	68,263	100.00%	-
June 30, 2011	66,727	100.00%	-

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

D. Funded Status and Funding Progress:

As of June 30, 2012, the most recent actuarial valuation date, the Town's plan was 76.45% funded. The actuarial accrued liability for benefits was \$2,739,755, and the actuarial value of assets was \$2,094,444, resulting in an unfunded actuarial accrued liability (UAAL) of \$645,311. The covered payroll (annual payroll of active employees covered by the plan) was \$748,665, and ratio of the UAAL to the covered payroll was 86.19%.

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

NOTE 9—UNEARNED REVENUE:

Unearned revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the accrual basis of accounting, such amounts are measurable, but not available. Unearned revenue totaled \$19,268 at June 30, 2013.

TOWN OF NEW MARKET, VIRGINIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 (CONTINUED)

NOTE 10—DEPOSITS AND INVESTMENTS:

Deposits

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

Investments

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

Credit Risk of Debt Securities

Custodial credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town’s investing activities are managed under the custody of the Treasurer. The Town has not adopted a policy regarding credit risk of debt securities.

Interest Rate Risk

The Town has no policy regarding interest rate risk.

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 several public entity risk pools that operate 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 and VA Risk. 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.

TOWN OF NEW MARKET, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)**

NOTE 12—CONTINGENT LIABILITIES

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

NOTE 13—UPCOMING PRONOUNCEMENTS:

The GASB has issued Statement No. 68, "Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27." This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that area administered through trusts or equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. The Town has not determined the impact of this pronouncement on its financial statements.

NOTE 14—LITIGATION:

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

REQUIRED SUPPLEMENTARY INFORMATION

General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
REVENUES				
General property taxes	\$ 272,843	\$ 272,843	\$ 287,407	\$ 14,564
Other local taxes	870,550	870,550	843,482	(27,068)
Permits, privilege fees, and regulatory licenses	1,500	1,500	1,025	(475)
Fines and forfeitures	40,000	40,000	28,043	(11,957)
Revenue from the use of money and property	2,500	2,500	2,706	206
Charges for services	120,000	120,000	108,155	(11,845)
Miscellaneous	4,000	4,000	115,616	111,616
Intergovernmental revenues:				
Commonwealth	153,407	153,407	147,937	(5,470)
Federal	580,000	580,000	487,390	(92,610)
Total revenues	<u>\$ 2,044,800</u>	<u>\$ 2,044,800</u>	<u>\$ 2,021,761</u>	<u>\$ (23,039)</u>
EXPENDITURES				
General government administration	\$ 335,050	\$ 335,050	\$ 333,226	\$ 1,824
Public safety	451,245	451,245	485,164	(33,919)
Public works	1,328,850	1,328,850	1,435,313	(106,463)
Cultural and economic development	52,075	52,075	44,021	8,054
Parks and recreation	63,080	63,080	56,256	6,824
Total expenditures	<u>\$ 2,230,300</u>	<u>\$ 2,230,300</u>	<u>\$ 2,353,980</u>	<u>\$ (123,680)</u>
Excess (deficiency) of revenues				
over (under) expenditures	\$ (185,500)	\$ (185,500)	\$ (332,219)	\$ (146,719)
Fund balances - beginning	185,500	185,500	1,440,514	1,255,014
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,108,295</u>	<u>\$ 1,108,295</u>

Schedule of Pension Funding Progress
As of June 30, 2013

Town Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
06/30/12	\$ 2,094,444	\$ 2,739,755	\$ 645,311	76.45%	\$ 748,665	86.19%
06/30/11	2,102,048	2,622,140	520,092	80.17%	759,699	68.46%
06/30/10	2,040,038	2,101,533	61,495	97.07%	701,192	8.77%
06/30/09	1,994,288	1,809,567	(184,721)	110.21%	746,050	(24.76%)
06/30/08	1,930,561	1,636,447	(294,114)	118.00%	658,270	(44.68%)

OTHER SUPPLEMENTARY INFORMATION

Balance Sheet
Nonmajor Governmental Funds
June 30, 2013

	<u>Permanent Fund</u>
ASSETS	
Cash and cash equivalents	\$ 117,615
Total assets	<u>\$ 117,615</u>
FUND BALANCE	
Fund Balance	
Nonspendable:	
Permanent fund principal	\$ 100,000
Assigned:	
Municipal building sinking fund	<u>\$ 17,615</u>
Total fund balance	<u><u>\$ 117,615</u></u>

Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2013

	Permanent Fund
	<hr/>
REVENUES	
Revenue from the use of money and property	\$ 937
Total revenues	<u>\$ 937</u>
 Excess (deficiency) of revenues over (under) expenditures	 \$ 937
Fund balances - beginning	<u>116,678</u>
Fund balances - ending	<u><u>\$ 117,615</u></u>

SUPPORTING SCHEDULES

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
General Fund:				
Revenue from local sources:				
General property taxes:				
Real estate taxes	\$ 205,000	\$ 205,000	\$ 213,271	\$ 8,271
Personal property taxes	64,843	64,843	68,277	3,434
Penalties and interest	3,000	3,000	5,859	2,859
Total general property taxes	<u>\$ 272,843</u>	<u>\$ 272,843</u>	<u>\$ 287,407</u>	<u>\$ 14,564</u>
Other local taxes:				
Sales tax	\$ 115,000	\$ 115,000	\$ 91,018	\$ (23,982)
Utility taxes	102,000	102,000	101,819	(181)
Bank stock tax	60,000	60,000	56,634	(3,366)
Cigarette tax	70,000	70,000	65,944	(4,056)
Meals tax	350,550	350,550	351,658	1,108
Transient occupancy tax	85,000	85,000	83,260	(1,740)
Business and professional licenses	50,000	50,000	51,794	1,794
Motor vehicle licenses	38,000	38,000	41,355	3,355
Total other local taxes	<u>\$ 870,550</u>	<u>\$ 870,550</u>	<u>\$ 843,482</u>	<u>\$ (27,068)</u>
Permits, privilege fees and regulatory licenses:				
Rezoning and subdividing fees	<u>\$ 1,500</u>	<u>\$ 1,500</u>	<u>\$ 1,025</u>	<u>\$ (475)</u>
Fines and forfeitures:				
Court fines	<u>\$ 40,000</u>	<u>\$ 40,000</u>	<u>\$ 28,043</u>	<u>\$ (11,957)</u>
Revenue from the use of money and property:				
Interest earned	\$ 2,500	\$ 2,500	\$ 1,706	\$ (794)
Sale of equipment	-	-	1,000	1,000
Total revenue from use of money and property	<u>\$ 2,500</u>	<u>\$ 2,500</u>	<u>\$ 2,706</u>	<u>\$ 206</u>
Charges for services:				
Trash collection fees	\$ 78,500	\$ 78,500	\$ 78,755	\$ 255
Parks and recreation:				
Pool	37,500	37,500	26,570	(10,930)
Shelters, lights, etc.	4,000	4,000	2,830	(1,170)
Total charges for services	<u>\$ 120,000</u>	<u>\$ 120,000</u>	<u>\$ 108,155</u>	<u>\$ (11,845)</u>
Miscellaneous revenue:				
Donations, police	\$ -	\$ -	\$ 4,900	\$ 4,900
Park	1,500	1,500	1,374	(126)
Other	2,500	2,500	4,424	1,924
Gain on sale of general capital assets	-	-	9,000	9,000
Insurance recoveries	-	-	4,150	4,150
County share of Shady Lane Project	-	-	91,768	91,768
Total miscellaneous revenue	<u>\$ 4,000</u>	<u>\$ 4,000</u>	<u>\$ 115,616</u>	<u>\$ 111,616</u>
Total revenue from local sources	<u>\$ 1,311,393</u>	<u>\$ 1,311,393</u>	<u>\$ 1,386,434</u>	<u>\$ 75,041</u>

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
General Fund: (Continued)				
Intergovernmental revenues:				
Revenue from the Commonwealth:				
Fire program funds	\$ 7,500	\$ 7,500	\$ 8,000	\$ 500
Law enforcement assistance	42,000	42,000	42,812	812
Personal property tax reimbursement	45,157	45,157	45,157	-
VDOT snow removal	2,000	2,000	17,380	15,380
VDOT revenue sharing	56,750	56,750	34,588	(22,162)
Total revenue from the Commonwealth	<u>\$ 153,407</u>	<u>\$ 153,407</u>	<u>\$ 147,937</u>	<u>\$ (5,470)</u>
Revenue from the federal government:				
DMV highway safety program grants	\$ 10,000	\$ 10,000	\$ 7,695	\$ (2,305)
TEA-21 streetscape grant	570,000	570,000	479,695	(90,305)
Total revenue from the federal government	<u>\$ 580,000</u>	<u>\$ 580,000</u>	<u>\$ 487,390</u>	<u>\$ (92,610)</u>
Total General Fund	<u>\$ 2,044,800</u>	<u>\$ 2,044,800</u>	<u>\$ 2,021,761</u>	<u>\$ (23,039)</u>
Nonmajor Governmental Fund:				
Permanent Fund:				
Revenue from use of money and property:				
Revenue from use of money	\$ 2,200	\$ 2,200	\$ 937	\$ (1,263)
Total revenue from local sources	<u>\$ 2,200</u>	<u>\$ 2,200</u>	<u>\$ 937</u>	<u>\$ (1,263)</u>
Total Permanent Fund	<u>\$ 2,200</u>	<u>\$ 2,200</u>	<u>\$ 937</u>	<u>\$ (1,263)</u>

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

Fund, Function, Activity, and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
General government administration:				
Legislative:				
Town council and planning commission	\$ 17,300	\$ 17,300	\$ 16,447	\$ 853
General and financial administration:				
Town manager	\$ 164,100	\$ 164,100	\$ 162,017	\$ 2,083
Legal services	17,000	17,000	21,223	(4,223)
Independent auditor	9,000	9,000	9,125	(125)
Treasurer	127,650	127,650	124,414	3,236
Total general and financial administration	\$ 317,750	\$ 317,750	\$ 316,779	\$ 971
Total general government administration	\$ 335,050	\$ 335,050	\$ 333,226	\$ 1,824
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 403,745	\$ 403,745	\$ 437,164	\$ (33,419)
Fire and rescue services:				
Fire department	\$ 7,500	\$ 7,500	\$ 8,000	\$ (500)
Volunteer emergency operations	40,000	40,000	40,000	-
Total fire and rescue services	\$ 47,500	\$ 47,500	\$ 48,000	\$ (500)
Total public safety	\$ 451,245	\$ 451,245	\$ 485,164	\$ (33,919)
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highways, streets, bridges and sidewalks	\$ 1,241,850	\$ 1,241,850	\$ 1,347,912	\$ (106,062)
Sanitation and waste removal:				
Refuse collection and disposal	\$ 87,000	\$ 87,000	\$ 87,401	\$ (401)
Total public works	\$ 1,328,850	\$ 1,328,850	\$ 1,435,313	\$ (106,463)
Parks, recreation, and cultural:				
Parks and recreation:				
Supervision of parks and recreation	\$ 63,080	\$ 63,080	\$ 56,256	\$ 6,824
Total parks, recreation, and cultural	\$ 63,080	\$ 63,080	\$ 56,256	\$ 6,824
Cultural and economic development:				
General:				
Community support, donations	\$ 27,000	\$ 27,000	\$ 26,558	\$ 442
Downtown revitalization	10,000	10,000	6,353	3,647
Economic development	5,100	5,100	517	4,583
Fourth of July events	9,975	9,975	10,593	(618)
Total general	\$ 52,075	\$ 52,075	\$ 44,021	\$ 8,054
Total cultural and economic development	\$ 52,075	\$ 52,075	\$ 44,021	\$ 8,054
Total General Fund	\$ 2,230,300	\$ 2,230,300	\$ 2,353,980	\$ (123,680)

COMPLIANCE

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

THE HONORABLE MEMBERS OF THE TOWN COUNCIL TOWN OF NEW MARKET, VIRGINIA

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of New Market, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of New Market, Virginia's basic financial statements, and have issued our report thereon dated November 26, 2013.

Internal Control Over Financial Reporting

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

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

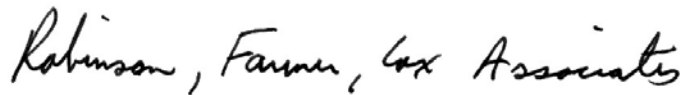
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Robinson, Farmer, Cox Associates". The script is cursive and fluid.

Staunton, Virginia
November 26, 2013