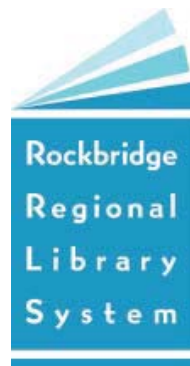


ROCKBRIDGE REGIONAL LIBRARY



FINANCIAL REPORT

YEAR ENDED JUNE 30, 2016

ROCKBRIDGE REGIONAL LIBRARY

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2016

ROCKBRIDGE REGIONAL LIBRARY

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ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

OFFICERS AND TRUSTEES ROCKBRIDGE REGIONAL LIBRARY LEXINGTON, VIRGINIA

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, and each major fund of the Rockbridge Regional Library, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents. We did not audit the financial statements of the Rockbridge Regional Library Foundation, which is both a major fund and 41%, 49%, and 3%, respectively, of the assets, net assets, and revenues of the governmental activities.

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 did not audit the financial statements of the Rockbridge Regional Library Foundation, which represent 41%, 49%, and 3%, respectively, of the assets, net position, and revenues of the Rockbridge Regional Library. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Rockbridge Regional Library Foundation, is based solely on the report of the other auditors. 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 Authorities, Boards, and Commissions*, 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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, and each major fund of the Rockbridge Regional Library, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2016, the Library adopted new accounting guidance, GASB Statement 79 Certain External Investment Pools and Pool Participants, and No. 82 Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73. 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 management's discussion and analysis and the schedules relating to pension funding on pages 3-7 and 44-46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Rockbridge Regional Library's basic financial statements. The other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2017, on our consideration of the Rockbridge Regional Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Rockbridge Regional Library's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Staunton, Virginia
January 12, 2017



MANAGEMENT DISCUSSION & ANALYSIS FY 2015-2016

The following is a discussion and analysis of the financial performance for Rockbridge Regional Library System (the Library) for the fiscal year ended June 30, 2016. This section is a summary of the library's financial activities based on current knowledge, decisions and conditions. The results of fiscal year 2015-2016 are discussed in comparison with the prior year. This section is only an introduction and should be read in conjunction with library financial statements.

FINANCIAL HIGHLIGHTS

- The Library's government-wide net position for the year ending June 30, 2016 is \$1,369,773, an increase of \$44,342 or 3%.
- The net position of the component unit of the Library (Rockbridge Regional Library Foundation) for the year ending June 30, 2016 is \$1,291,019.
- The total fund balance for the year ending June 30, 2016 is \$268,340, a decrease of \$7,510 or -2.7%.

OVERVIEW OF FINANCIAL STATEMENTS

A. GOVERNMENT-WIDE FINANCIAL STATEMENTS

The *Government-wide* financials (Exhibits 1 & 2) look at the Library as a whole. Rockbridge Regional Library Foundation is the endowment fund for the Library and is considered a component unit that is linked to the Library. The component unit is only shown on *Government-wide* financial statements. The *Government-wide* financial statements are on an accrual basis. The Statement of Net Position and the Statement of Activities report information about the Library as a whole and about its activities. These statements include all assets and deferred outflows of resources, and liabilities and deferred inflows of resources, using the accrual basis of accounting which is similar to the accounting used by most private-sector companies. All of the revenues and expenses for the current year are taken into account.

These two statements report the *net position* for the Library as well as changes in the statements. Consider the net position of the Library, the difference between assets and deferred outflows, and liabilities and deferred inflows, as one way to measure the financial health or financial *position* of the Library. Over time, increases or decreases in the net position of the Library are one indicator of whether the financial health of the Library is improving or declining. However, other nonfinancial factors will need to be considered as well, such as contributions to the library foundation or changes in taxes for state and local governments which ultimately affect allocations to the Library.

Summary of Statement of Net Position
June 30, 2016 and 2015

	Governmental Activities		Component Unit Foundation	
	2016	2015	2016	2015
Assets:				
Current and other assets	\$ 302,824	\$ 316,344	\$ 1,291,019	\$ 1,309,129
Capital assets	1,553,424	1,551,301	-	-
Total assets	\$ 1,856,248	\$ 1,867,645	\$ 1,291,019	\$ 1,309,129
Deferred outflows of resources	\$ 51,882	\$ 46,272	\$ -	\$ -
Liabilities:				
Current and other liabilities	\$ 34,484	\$ 63,689	\$ -	\$ -
Noncurrent liabilities	443,881	418,931	-	-
Total liabilities	\$ 478,365	\$ 482,620	\$ -	\$ -
Deferred inflows of resources	\$ 59,992	\$ 105,866	\$ -	\$ -
Net Position:				
Net investment in capital assets	\$ 1,413,760	\$ 1,390,474	\$ -	\$ -
Restricted	38,637	37,037	934,026	931,999
Unrestricted	(82,624)	(102,080)	356,993	377,130
Total net position	\$ 1,369,773	\$ 1,325,431	\$ 1,291,019	\$ 1,309,129

Changes in Net Position
Years Ended June 30, 2016 and 2015

	Governmental Activities	
	2016	2015
Revenues:		
Program Revenues		
Charges for services	\$ 36,800	\$ 36,244
Grants and contributions	1,479,210	1,442,641
Total program revenues	<u>\$ 1,516,010</u>	<u>\$ 1,478,885</u>
General revenues:		
Use of money and property	\$ 516	\$ 943
Miscellaneous	64,731	30,778
Total general revenues	<u>\$ 65,247</u>	<u>\$ 31,721</u>
Total revenues	<u>\$ 1,581,257</u>	<u>\$ 1,510,606</u>
Expenses:		
Parks, recreation and cultural	\$ 1,536,915	\$ 1,701,204
Total expenses	<u>\$ 1,536,915</u>	<u>\$ 1,701,204</u>
Change in net position	\$ 44,342	\$ (190,598)
Net position, beginning	<u>1,325,431</u>	<u>1,516,029</u>
Net position, ending	<u><u>\$ 1,369,773</u></u>	<u><u>\$ 1,325,431</u></u>

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the most significant funds, not the Library as a whole.

- Governmental funds

The Library's operating fund, the general fund, is reported in governmental funds and includes money received from state and local governments to manage library operations, and money spent by the library for such items as salaries, library materials, maintenance and other costs of operating the library.

- Component Units

The Rockbridge Regional Library Foundation is a 501(c)(3) charitable organization and is listed in a separate column of the *Government-wide* Statement of Activities (Exhibit 2). The Foundation is linked to the purposes and governance of the Library.

SELECTED REVENUE AND EXPENDITURES

	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>% Change</u>
Selected Revenue Items				
Local government revenue	\$ 1,004,175	\$ 960,445	\$ 43,730	5%
State revenue	282,118	278,201	3,917	1%
Donations	93,679	110,140	(16,461)	-15%
Foundation funding-endowment	55,536	52,855	2,681	5%
Insurance recovery	31,351	-	31,351	100%
Fines & fees	36,800	36,244	556	2%
Total Revenue	\$ 1,581,257	\$ 1,510,606	\$ 70,651	5%
Selected Expenditures				
Compensation & benefits	\$ 953,467	\$ 948,450	\$ 5,017	0.5%
Library materials & direct costs	32,983	175,586	(142,603)	-81.2%
State aid expenses	282,118	-	282,118	100.0%
Contributions to Foundation	-	206,725	(206,725)	-100.0%
Capital outlay	77,903	126,805	(48,902)	-38.6%
Occupancy costs	125,907	221,753	(95,846)	-43.2%
Other expenses	59,990	52,840	7,150	13.5%
Total expenditures	\$ 1,588,767	\$ 1,765,759	\$ (176,992)	-10.0%
Total assets of Component Unit	\$ 1,291,019	\$ 1,309,129	(18,110)	-1.4%

Expenditures decreased by \$176,992, or 10% as compared to the prior fiscal year. The primary reason for the decrease in expenditures was the contribution of \$206,725 in donor restricted funds to the component unit Foundation in the prior fiscal year. Variances in state aid expenses, and Library materials & direct costs all occurred as a result of the Library adopting a revised chart of accounts. Occupancy costs were 43.2% higher in the prior fiscal year due to contractual costs for data lines. Occupancy costs include maintenance, insurance, utilities, rent, furniture & equipment and contractual services (data lines, copiers).

Areas of revenue saw increases though there was a significant decrease in donations at -15%. Much of the significant increase in donations in 2015 was due to the bookmobile retrofit project. Even after the project was complete and the vehicle was on the road, the library continued receive donations. The library did not have a high profile project supported by donations in 2016. The largest increase was 5% in appropriations from local funds. Local governments responded favorably to a request increasing funding for HVAC system replacement and IT support. The Foundation endowment also increased by 5%, state aid increased by 1% and funding from the fines and fees increased 2%. Overall, revenue increased by \$70,651.

Selected Revenue Items	Percentage of Total Revenue for 2016
Local government revenue	64%
State revenue	18%
Donations	6%
Foundation funding-endowment	4%
Fines & fees	2%

CAPITAL ASSET AND DEBT ADMINISTRATION

	Governmental Activities	
	2016	2015
Capital assets not being depreciated:		
Land	\$ 138,560	\$ 138,560
Total capital assets not being depreciated	\$ 138,560	\$ 138,560
Capital assets being depreciated:		
Buildings	\$ 1,900,431	\$ 1,807,464
Leasehold improvements	280,987	280,987
Furniture & fixtures	1,176,626	1,175,127
Vehicles	129,190	167,922
Library books	1,129,137	1,144,531
Total capital assets being depreciated	\$ 4,616,371	\$ 4,576,031
Less accumulated depreciation for:		
Buildings	\$ 1,283,352	\$ 1,224,869
Leasehold improvements	268,482	266,212
Furniture & fixtures	1,083,148	1,038,418
Vehicles	3,124	61,373
Library books	563,401	572,418
Total accumulated depreciation	\$ 3,201,507	\$ 3,163,290
Total capital assets being depreciated, net	\$ 1,414,864	\$ 1,412,741
Capital assets, net	\$ 1,553,424	\$ 1,551,301

At the end of 2016 the Library had invested \$1,553,424 in capital assets, including land, buildings, equipment, and the library's collection. This amount represents a net increase of \$2,123 over fiscal year 2015.

At year-end the Library had a note payable outstanding in the amount of \$139,664, a decrease of \$21,163 or 13% compared to the outstanding balance at June 30, 2015. More detailed information about the Library's long-term liabilities is presented in Note 9 to the financial statements.

ECONOMIC FACTORS AND THE 2018 BUDGET

As shown above, the majority of revenue for Rockbridge Regional Library System comes from state and local governments. An economic downturn could severely decrease revenue for the library system. Though we have received some increases in funding, we are still working to recover from the drastic cuts of fiscal years 2010 and 2011. Unfortunately, we expect a decrease in state aid for fiscal year 2018.

Rockbridge Regional Library System provides essential services to our patrons, particularly since so much of our region is rural. Computers, online resources and eBooks are all necessary to work and do business in the 21st century. The public library provides a large number of patrons internet access. For many patrons the library is their only option. Library staff work hard to provide the highest quality of customer service to our patrons but funding has not kept up with essential technological advances and training.

CONTACT INFORMATION

This report is designed to provide the Library's citizens, taxpayers, patrons, investors and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for funds received. For additional financial information, contact

Rockbridge Regional Library System
Julie Goyette, Director
138 South Main Street
Lexington, VA 24450
540-463-4324

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE STATEMENTS

Statement of Net Position
June 30, 2016

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>Governmental Fund</u>	<u>Rockbridge Regional Library Foundation</u>
ASSETS		
Cash and cash equivalents	\$ 200,719	\$ 4,049
Investments	-	1,286,620
Receivables:		
Accounts receivable	33,427	-
Prepaid items	30,041	350
Restricted assets:		
Cash and cash equivalents	38,637	-
Capital assets (net of accumulated depreciation):		
Land	138,560	-
Buildings	617,079	-
Leasehold improvements	12,505	-
Furniture and fixtures	93,478	-
Vehicles	126,066	-
Library books	565,736	-
Total assets	<u>\$ 1,856,248</u>	<u>\$ 1,291,019</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension contributions subsequent to measurement date	\$ 51,882	\$ -
Total deferred outflows of resources	<u>\$ 51,882</u>	<u>\$ -</u>
LIABILITIES		
Accounts payable	\$ 34,484	\$ -
Long-term liabilities:		
Due within one year	22,890	-
Due in more than one year	420,991	-
Total liabilities	<u>\$ 478,365</u>	<u>\$ -</u>
DEFERRED INFLOWS OF RESOURCES		
Items related to measurement of net pension liability	\$ 59,992	\$ -
Total deferred inflows of resources	<u>\$ 59,992</u>	<u>\$ -</u>
NET POSITION		
Investment in capital assets	\$ 1,413,760	\$ -
Restricted:		
Acquisitions and materials	12,568	-
Debt service reserve	26,069	-
Rockbridge Regional Library Foundation	-	934,026
Unrestricted	(82,624)	356,993
Total net position	<u>\$ 1,369,773</u>	<u>\$ 1,291,019</u>

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

Statement of Activities
Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Unit
					Governmental Activities	Rockbridge Regional Library Foundation
Governmental Activities:						
Parks, recreation, and cultural	\$ 1,536,915	\$ 36,800	\$ 1,446,210	\$ 33,000	\$ (20,905)	\$ -
Total governmental activities	\$ 1,536,915	\$ 36,800	\$ 1,446,210	\$ 33,000	\$ (20,905)	\$ -
COMPONENT UNIT:						
Rockbridge Regional Library						
Foundation	\$ 82,223	\$ -	\$ 8,577	\$ -	\$ -	\$ (73,646)
Total component units	\$ 82,223	\$ -	\$ 8,577	\$ -	\$ -	\$ (73,646)
General revenues:						
Unrestricted revenues from use of money and property					\$ 516	\$ 51,203
Restricted revenues from use of money and property					-	4,333
Miscellaneous					64,731	-
Total general revenues					\$ 65,247	\$ 55,536
Change in net position					\$ 44,342	\$ (18,110)
Net position - beginning					1,325,431	1,309,129
Net position - ending					\$ 1,369,773	\$ 1,291,019

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

FUND STATEMENTS

Balance Sheet - Governmental Funds
June 30, 2016

ASSETS

Current Assets:

Cash and cash equivalents	\$ 200,719
Restricted cash and cash equivalents	38,637
Receivables	33,427
Prepaid items	<u>30,041</u>

Total assets \$ 302,824

LIABILITIES AND FUND BALANCE

Current Liabilities:

Accounts payable	\$ <u>34,484</u>
Total liabilities	\$ <u><u>34,484</u></u>

Fund Balance:

Nonspendable:

Prepaid items \$ 30,041

Restricted:

Acquisitions and materials 12,568
 Debt service reserve 26,069

Committed:

Bath friends of the library 37,011
 Buena Vista improvements 15,948
 Rockbridge friends of the library 35,365

Assigned:

Literacy programs 12,464
 Library branches discretionary 20,312
 Acquisitions and materials 4,276

Unassigned 74,286

Total fund balance \$ 268,340

Total liabilities and fund balance \$ 302,824

The accompanying notes to 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, 2016**

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

Total fund balances per Exhibit 3 - Balance Sheet	\$	268,340
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		1,553,424
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.		(59,992)
Pension contributions subsequent to the measurement date will be a reduction to the net pension liability in the next fiscal year and, therefore, are not reported in the funds.		51,882
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		<u>(443,881)</u>
Net position of governmental activities	\$	<u><u>1,369,773</u></u>

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

**Statement of Revenues, Expenditures and Changes in Fund Balance -
Governmental Funds
Year Ended June 30, 2016**

Revenues:

From local sources:

Locality appropriations	\$ 1,004,175
Capital grants and contributions	33,000
Operating grants and contributions	10,702
Foundation funding	55,536
Donations	41,872
Friends	51,807
Charges for services	36,800
Interest income	516
E-rate revenue	31,351
Insurance recovery	33,250
Miscellaneous	130

Intergovernmental:

Noncategorical aid:

Commonwealth of Virginia	282,118
Total revenues	\$ <u>1,581,257</u>

Expenditures:

Parks, recreation, and cultural:

Compensation and benefits	\$ 946,101
Capital outlay	77,903
Rent	15,000
Furniture & fixtures	2,012
Insurance	10,787
Maintenance	42,713
Other Expenses	59,990
Professional Fees	19,140
Programming	18,008
State Aid Expenses	282,118
Staff Development	7,366
Transportation	14,975
Communication	9,659
Utilities	55,395

Debt service:

Principal	21,163
Interest	6,437
Total expenditures	\$ <u>1,588,767</u>

Excess (deficiency) of revenues over (under) expenditures	\$ <u>(7,510)</u>
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Net change in fund balances	\$ (7,510)
-----------------------------	------------

Fund balance, beginning of year	<u>275,850</u>
---------------------------------	----------------

Fund balance, end of year	\$ <u><u>268,340</u></u>
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The accompanying notes to 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
Year Ended June 30, 2016**

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

Net change in fund balances	\$ (7,510)
-----------------------------	------------

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.	2,123
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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.	45,874
--	--------

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	21,163
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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.	(17,308)
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Change in net position of governmental activities	\$ <u>44,342</u>
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The notes to the financial statements are an integral part of this statement.

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements June 30, 2016

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Financial Reporting Entity

The Rockbridge Regional Library is a regional library created pursuant to Section 42, 1-37 of the *Code of Virginia*. It serves Bath and Rockbridge Counties and the cities of Buena Vista and Lexington, all in Virginia. In addition to its facilities in each service jurisdiction, the Library maintains a bookmobile for outlying services. Members of the Board of Trustees are appointed to rotating terms by the Board of Supervisors of Bath and Rockbridge Counties and by the City Councils of Buena Vista and Lexington. As a political subdivision of state and local governments, all funds of the Rockbridge Regional Library are exempt from federal and state income taxes.

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. *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 Library does not have any business-type activities to report.

The Statement of Net Position is designed to display the financial position of the primary government (governmental activities) and its discretely presented component unit. 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 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).

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. Other items not properly included among program revenues are reported instead as *general revenues*.

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements June 30, 2016 (Continued)

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

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

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

Management's Discussion and Analysis – GASB statement No. 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A).

Discretely Presented Component Unit – The component unit column in the financial statements includes the financial data of the Library's discretely presented component unit. The component unit is reported in a separate column to emphasize that it is legally separate from the Library.

The Rockbridge Regional Library Foundation (the Foundation) is a legally separate Virginia nonstock corporation that is exempt from federal and state income taxes under Section 501 (c)(3) of the Internal Revenue Code. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the Library in support of its programs. The Foundation is self-perpetuating. The Library does not control the timing or amount of receipts from the Foundation. However, the majority of resources or income thereon that the Foundation holds and invests is restricted to the activities of the Library by the Articles of Incorporation of the Foundation and by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the Library, the Foundation is considered a component unit of the Library under Governmental Accounting Standards and, accordingly, is discretely presented in the Library's financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 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.

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

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements June 30, 2016 (Continued)

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

C. Measurement Focus, Basis of Accounting, and Financial Statements Presentation (continued)

Governmental Funds are those through which most governmental functions typically are financed. The Library reports the following major governmental fund.

General Fund - The General Fund is the primary operating fund of the Library. This fund is used to account for and report all financial transactions and resources except those required to be accounted for and reported in another fund. Revenues are derived primarily from state and local distributions, donations and gifts, and interest income.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The Rockbridge Regional Library considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government.

State statutes authorize the government to invest in U.S. Treasury notes, Federal Home Loan notes, and repurchase agreements.

Money market investments, and external investment pools are measured at amortized cost. All other investments are measured at fair value.

Restricted cash of \$38,637 was held for the purposes of meeting debt service reserve requirements, and donor imposed restrictions on the use of funds contributed to the Library. As of June 30, 2016 the debt service reserve carried a balance of \$26,069, and funds restricted by donors for Library acquisitions and materials amounted to \$12,568.

2. 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.

3. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental activities columns in the financial statements. Capital assets are defined by the Library as assets with 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 acquisition 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. No interest was capitalized during the current or previous year.

Property, plant, and equipment of the Library are depreciated using the straight line method over the following estimated useful lives:

Buildings	30 years
Leasehold improvements	10-30 years
Furniture and fixtures	5-10 years
Vehicles	15 years
Library books	10 years

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements June 30, 2016 (Continued)

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

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

4. Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances.

5. Prepaid Items

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

6. Compensated Absences

Earned but unused vacation payable to employees has been recorded as an accrued liability. Employees vest in vacation based on policies approved by the Library's Board of Trustees. Employees do not receive payment of accumulated sick leave or unused vacation upon retirement or leaving the employment of the Library. At June 30, 2016 the liability for compensated absences was \$94,466.

7. Non-monetary Transactions

Numerous volunteers contribute their efforts to the operations of the Library. Contributed labor has not been recorded as current support or expense. Securities contributed in satisfaction of contributions have been recorded at their subsequent liquidation value.

8. Revenue Recognition

Appropriations from participating local governments are recognized in the period designated by the local government. Aid received from state and federal sources is recognized in the period designated by the grantor and after qualifying expenditures have been made that are reimbursable. Unrestricted contributions are recognized in the period the donor intended. Library fines, copier charges, and other expense reimbursements are recognized when collected.

9. Net Position

Net position is the difference between assets and deferred outflows of resources and 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.

10. Net Position Flow Assumption

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

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements June 30, 2016 (Continued)

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

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

11. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Library has one item that qualifies for reporting in this category. It is comprised of contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date, which will be recognized as a reduction of the net pension liability next fiscal year. For more detailed information on this item, reference the pension note.

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 Library has one type of item that qualifies for reporting under this category. Certain items relating to the measurement of the net pension liability are reported as deferred inflows of resources. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments. For more detailed information on these items, reference the pension note.

12. Fund Equity

The Library 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 Library's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements June 30, 2016 (Continued)

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

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

12. Fund Equity (Continued)

The Board establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. 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 the Board 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).

E. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Library's Retirement Plan and the additions to/deductions from the Library's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

F. Budget Process

A budget is prepared for information and fiscal planning purposes. The budget is adopted as a planning document and is not a legal control on expenses. The budget is prepared on the same basis of accounting as the actual amounts in the financial statements.

G. Adoption of Accounting Principles

Governmental Accounting Standards Board Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*

The Library early implemented provisions of the above Statement during the fiscal year ended June 30, 2016. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. No restatement was required as a result of this implementation.

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements June 30, 2016 (Continued)

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

G. Adoption of Accounting Principles (Continued)

Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*

The Library implemented the provisions of the above statement during the fiscal year ended Jun 30, 2016. The statement generally requires investments to be measured at fair value. The Statement requires the Library to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or an income approach. The Statement establishes a hierarchy of inputs used to measure fair value. There was no material impact on the Library's financial statement as a result of the implementation of Statement No. 72. All required disclosures are located in Note 11.

Governmental Accounting Standards Board Statement No. 79, *Certain External Investment Pools and Pool Participants*

The Library implemented the provisions of the above Statement during the fiscal year ended June 30, 2016. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. There was no material impact on the Library's financial statement as a result of the implementation of Statement No. 79. All required disclosures are located in Note 3.

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 “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.” The details of this \$1,553,424 difference are as follows:

Land	\$	138,560
Buildings		1,900,431
Less: Accumulated depreciation - buildings		(1,283,352)
Leasehold improvements		280,987
Less: Accumulated depreciation - leasehold improvements		(268,482)
Furniture and fixtures		1,176,626
Less: Accumulated depreciation - furniture and fixtures		(1,083,148)
Vehicles		129,190
Less: Accumulated depreciation - vehicles		(3,124)
Library books		1,129,137
Less: Accumulated depreciation - library books		<u>(563,401)</u>
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	\$	<u><u>1,553,424</u></u>

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements June 30, 2016 (Continued)

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

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

Another element of that reconciliation states that “other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.” The details of this (\$59,992) difference are as follows:

Items related to measurement of net pension liability	\$ <u>(59,992)</u>
Adjustment to reduce <i>fund balance-total governmental funds</i> to arrive at <i>net position-governmental activities</i>	\$ <u><u>(59,992)</u></u>

Another 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 (\$443,881) difference are as follows:

Note payable	\$ (139,664)
Compensated absences	(94,466)
Termination benefits payable	(798)
Net pension liability	<u>(208,953)</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	\$ <u><u>(443,881)</u></u>

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 these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.” The details of this \$2,123 difference are as follows:

Capital outlay	\$ 214,096
Depreciation expense	<u>(211,973)</u>
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><u>2,123</u></u>

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements June 30, 2016 (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 (\$17,308) difference are as follows:

Compensated absences	\$ (18,135)
Termination benefits payable	1,262
Deferred outflows related to pension payments	5,610
Net pension liability	(6,045)
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i> .	<u>\$ (17,308)</u>

NOTE 3—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 Library to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, prime quality commercial paper and certain corporate notes, banker’s acceptance, repurchase agreements and the State Treasurer’s Local Government Investment Pool (LGIP).

Investment securities consisted of the following stated at amortized cost:

LGIP	\$ 147,519
Total	<u>\$ 147,519</u>

Segregated pools of investment securities are held for the following purposes:

Any activity of the Rockbridge Regional Library	\$ 3,395
Debt service reserve	26,069
Buena Vista improvements	15,948
Materials acquisition	28,121
Friends of the library	37,011
Literacy	12,464
Other branch activities	24,511
For the benefit of the Goshen branch	
Total investment securities	<u>\$ 147,519</u>

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements June 30, 2016 (Continued)

NOTE 3—DEPOSITS AND INVESTMENTS: (CONTINUED)

Credit Risk of Debt Securities

The Library investment policy for credit risk is consistent with the investments allowed by statutes as detailed above.

The Library's rated debt investments as of June 30, 2016 were rated by Standard & Poor's and the ratings are presented below using the Standard & Poor's rating scale.

<u>Rated Debt Investments' Values</u>	
<u>Rated Debt Investments</u>	<u>Fair Quality Ratings</u>
	<u>AAAm</u>
Local Government Investment Pool	\$ <u>147,519</u>
Total	\$ <u>147,519</u>

External Investment Pools

The fair value of the positions in the external investment pool (Local Government Investment Pool) is the same as the value of the pool shares. As LGIP is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. LGIP is an amortized cost basis portfolio under the provisions of GASB Statement No. 79. There are no withdrawal limitations or restrictions imposed on participants.

Interest Rate Risk

All Library investments must be in securities maturing within five years. Maturities of the Library's investments are as follows:

<u>Investments</u>	<u>Fair Value</u>	<u>Maturity</u>
		<u>Less than 1 year</u>
Local Government Investment Pool	\$ <u>147,519</u>	\$ <u>147,519</u>
Total	\$ <u>147,519</u>	\$ <u>147,519</u>

NOTE 4—OPERATING LEASES:

Two library locations are available as a result of gift leases. The estimated fair rental value of the premises is not reported as support and expense in the period in which the premises are used. A summary of the terms of each is as follows:

Buena Vista – Part of the old Buena Vista courthouse is gift leased by the Rockbridge Regional Library from the City of Buena Vista. The Rockbridge Regional Library is responsible for the heat and utilities.

Warm Springs – The building was a personal residence, donated in 1979 to the Bath County government with the provision that it be used as a library. A significant expansion was constructed between 1982 and 1984 by the Rockbridge Regional Library that is reported as leasehold improvements in the accompanying financial statements. Bath County pays insurance and maintenance costs. The library pays for all utilities.

The Goshen Library branch is leased to the Rockbridge Regional Library for \$1,250 monthly. The lease began May 1, 1998 and now runs month to month. Rent expense was \$15,000 in 2016. The Rockbridge Regional Library is responsible for utilities. The lessor is responsible for insurance, property taxes and repairs or maintenance costs which exceed \$500.

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements June 30, 2016 (Continued)

NOTE 5—CAPITAL ASSETS:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets not being depreciated:				
Land	\$ 138,560	\$ -	\$ -	\$ 138,560
Total capital assets not being depreciated	\$ 138,560	\$ -	\$ -	\$ 138,560
Capital assets being depreciated:				
Buildings	\$ 1,807,464	\$ 92,967	\$ -	\$ 1,900,431
Leasehold improvements	280,987	-	-	280,987
Furniture and fixtures	1,175,127	1,499	-	1,176,626
Vehicles	167,922	22,754	(61,486)	129,190
Library books	1,144,531	96,876	(112,270)	1,129,137
Total capital assets being depreciated	\$ 4,576,031	\$ 214,096	\$ (173,756)	\$ 4,616,371
Accumulated Depreciation:				
Buildings	\$ (1,224,869)	\$ (58,483)	\$ -	\$ (1,283,352)
Leasehold improvements	(266,212)	(2,270)	-	(268,482)
Furniture & fixtures	(1,038,418)	(44,730)	-	(1,083,148)
Vehicles	(61,373)	(3,237)	61,486	(3,124)
Library books	(572,418)	(103,253)	112,270	(563,401)
Total accumulated depreciation	\$ (3,163,290)	\$ (211,973)	\$ 173,756	\$ (3,201,507)
Capital assets being depreciated, net	\$ 1,412,741	\$ 2,123	\$ -	\$ 1,414,864
Capital assets, net	\$ 1,551,301	\$ 2,123	\$ -	\$ 1,553,424

Depreciation expense for the fiscal year totaled \$211,973.

NOTE 6—APPROPRIATIONS:

Participating localities appropriated the following support for the year ended June 30, 2016:

Bath County	\$ 158,939
Buena Vista	119,993
Lexington	148,644
Rockbridge County	575,099
Glasgow	1,500
	<u>\$ 1,004,175</u>

NOTE 7—TERMINATION BENEFITS PAYABLE:

In May 2010, three employees signed early retirement agreements with the Rockbridge Regional Library. Under these agreements, the Library will include the employee as a member of the group health benefit plan (if any) maintained for regular library employees until the 66th birthday of the retiring employee, at which time the benefit will terminate. The final coverage under these agreements would be complete in September 2016.

The cost of termination benefits accrued was measured at the discounted present value of expected future benefit payments, assuming a 10% annual increase in the cost of the group health benefit plan and using a discount rate of 3.06%. Accrued termination benefits at June 30, 2016 include the following:

Current portion	\$ 798
Total	<u>\$ 798</u>

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements June 30, 2016 (Continued)

NOTE 8—PENSION PLAN:

Plan Description

All full-time, salaried permanent employees of the Library are automatically covered by VRS Retirement Plan upon employment. This plan is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and, Hybrid. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

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

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements June 30, 2016 (Continued)

NOTE 8—PENSION PLAN: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 (Cont.)</p>	<p>About Plan 2 (Cont.)</p>	<p>About the Hybrid Retirement Plan (Cont.)</p> <ul style="list-style-type: none"> • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements June 30, 2016 (Continued)

NOTE 8—PENSION PLAN: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>*Non-Eligible Members (Cont.) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.</p>	<p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements June 30, 2016 (Continued)

NOTE 8—PENSION PLAN: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Creditable Service Same as Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements
June 30, 2016 (Continued)

NOTE 8—PENSION PLAN: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p>

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements
June 30, 2016 (Continued)

NOTE 8—PENSION PLAN: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting (Cont.)	Vesting (Cont.)	<p>Vesting (Cont.) <u>Defined Contributions Component: (Cont.)</u> Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1</p>

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements June 30, 2016 (Continued)

NOTE 8—PENSION PLAN: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Calculating the Benefit (Cont.) An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	Calculating the Benefit (Cont.)	Calculating the Benefit (Cont.) <u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. Sheriffs and regional jail superintendents: Same as Plan 1. Political subdivision hazardous duty employees: Same as Plan 1.	Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. Sheriffs and regional jail superintendents: Not applicable. Political subdivision hazardous duty employees: Not applicable. <u>Defined Contribution Component:</u> Not applicable.

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements
June 30, 2016 (Continued)

NOTE 8—PENSION PLAN: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p>

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements
June 30, 2016 (Continued)

NOTE 8—PENSION PLAN: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p>

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements
June 30, 2016 (Continued)

NOTE 8—PENSION PLAN: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements June 30, 2016 (Continued)

NOTE 8—PENSION PLAN: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p>Disability Coverage Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>
<p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. <p><u>Defined Contribution Component:</u> Not applicable.</p>

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements June 30, 2016 (Continued)

NOTE 8—PENSION PLAN: (Continued)

Plan Description (Continued)

The System issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2015-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Employees Covered by Benefit Terms

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	9
Inactive members:	
Vested inactive members	3
Non-vested inactive members	3
Inactive members active elsewhere in VRS	<u>1</u>
Total inactive members	7
Active members	<u>10</u>
Total covered employees	<u><u>26</u></u>

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Library's contractually required contribution rate for the year ended June 30, 2016 was 10.09% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Library were \$51,882 and \$46,273 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension Liability

The Library's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements June 30, 2016 (Continued)

NOTE 8—PENSION PLAN: (Continued)

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Library's Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	2.5%
Salary increases, including inflation	3.5% – 5.35%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: 14% of deaths are assumed to be service related

Largest 10 – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

All Others (Non 10 Largest) – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements June 30, 2016 (Continued)

NOTE 8—PENSION PLAN: (Continued)

Actuarial Assumptions – General Employees (Continued)

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
		Inflation	2.50%
		*Expected arithmetic nominal return	8.33%

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements June 30, 2016 (Continued)

NOTE 8—PENSION PLAN: (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Library Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2014	\$ 1,927,994	\$ 1,725,086	\$ 202,908
Changes for the year:			
Service cost	\$ 42,144	\$ -	\$ 42,144
Interest	131,560	-	131,560
Differences between expected and actual experience	(21,491)	-	(21,491)
Contributions - employer	-	46,273	(46,273)
Contributions - employee	-	22,448	(22,448)
Net investment income	-	78,551	(78,551)
Benefit payments, including refunds of employee contributions	(97,143)	(97,143)	-
Administrative expenses	-	(1,087)	1,087
Other changes	-	(17)	17
Net changes	\$ 55,070	\$ 49,025	\$ 6,045
Balances at June 30, 2015	\$ 1,983,064	\$ 1,774,111	\$ 208,953

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements June 30, 2016 (Continued)

NOTE 8—PENSION PLAN: (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Library using the discount rate of 7.00%, as well as what the Library's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Rate		
	(6.00%)	(7.00%)	(8.00%)
Rockbridge Regional Library			
Net Pension Liability	\$ 432,268	\$ 208,953	\$ 20,379

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2016, the Library recognized pension expense of \$6,444. At June 30, 2016, the Library reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 13,531
Net difference between projected and actual earnings on pension plan investments	-	46,461
Employer contributions subsequent to the measurement date	51,882	-
Total	\$ 51,882	\$ 59,992

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

\$51,882 reported as deferred outflows of resources related to pensions resulting from the Library's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	
2017	\$ (26,192)
2018	(23,804)
2019	(18,231)
2020	8,235
Thereafter	-

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements June 30, 2016 (Continued)

NOTE 9—LONG-TERM OBLIGATIONS:

Summary of changes in long-term obligations:

	July 1, 2015	Increase/ Issuances	Decrease/ Retirements	June 30, 2016	Amount Due Within One Year
Note Payable	\$ 160,827	\$ -	\$ (21,163)	\$ 139,664	\$ 22,092
Termination Benefits Payable	2,060	-	(1,262)	798	798
Compensated Absences	76,331	18,135	-	94,466	-
Net pension liability	202,908	174,808	(168,763)	208,953	-
Total Long-Term Obligations	\$ <u>442,126</u>	\$ <u>192,943</u>	\$ <u>(191,188)</u>	\$ <u>443,881</u>	\$ <u>22,890</u>

Details of Indebtedness:

	Total Amount Outstanding	Amount Due Within One Year
\$525,000 note payable to the U.S. Department of Agriculture payable in monthly installments of \$2,300, including interest at 4.25%, beginning March 2, 2007, and maturing February 2, 2046, secured by building and land	\$ 139,664	\$ 22,092
Termination benefits payable	798	798
Compensated absences	94,466	-
Net pension liability	208,953	-
Total balance at June 30, 2016	\$ <u>443,881</u>	\$ <u>22,890</u>

The Library made an additional principal payment of \$3,000 in 2016 from restricted funds for Glasgow debt service. Interest expense paid in 2016 was \$6,437.

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

Year Ending June 30,	Note Payable	
	Principal	Interest
2017	\$ 22,092	\$ 5,508
2018	23,049	4,551
2019	24,048	3,552
2020	25,090	2,510
2021	26,178	1,422
2022	19,207	321
	\$ <u>139,664</u>	\$ <u>17,864</u>

NOTE 10—EMPLOYEE BENEFITS:

The Rockbridge Regional Library participates in a group insurance plan comprised primarily of employees of Rockbridge County for purposes of obtaining group hospitalization coverage. The Library's employer contributions were \$90,168 for 2016.

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements June 30, 2016 (Continued)

NOTE 11—COMPONENT UNIT DISCLOSURES:

Disclosures that supplement the component unit financial statements of the Foundation are as follows:

Investment Securities

The Foundation is required to report its fair value measurements in one of three levels, which are based on the ability to observe in the market place the inputs to the Foundation's valuation techniques. Level 1, the most observable level of inputs, is for investments measured at quoted prices in active markets for identical investments as of June 30, 2016. Level 2 is for investments measured using inputs such as quoted prices for similar assets, quoted prices for the identical asset in inactive markets, and for investments measured at net asset value that can be redeemed in near term. The Foundation uses a brokerage firm pricing service to price most of its level 2 investments. The service employs a proprietary market approach method that uses as inputs observed interest rates and yield curves, prices in active markets for similar assets, and prices for identical assets in active markets that have been adjusted by observable indexes. Level 3 is for investments measured using inputs that are unobservable, and is used in situations for which there is little, if any, independent market activity for the investment.

The following table summarizes the levels in the fair value hierarchy of the Foundation's investments at June 30, 2016:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 5,302	\$ -	\$ -	\$ -
Mutual funds	1,281,318	-	-	-
Total	<u>\$ 1,286,620</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Restricted Net Position

Restricted net position of the Foundation represents resources that are restricted by a donor for a particular purpose or for use in a particular future period. The Foundation's unspent contributions are classified in this class if the donor limited their use, as are the unspent appreciation of its donor-restricted endowment funds. The portion of the Foundation's donor-restricted endowment funds that must be maintained in perpetuity are also reported in this net position class. Restricted net position of the Foundation as of June 30, 2016 amounted to \$934,026.

Complete financial statements for the Foundation can be obtained from the Rockbridge Regional Library at 138 South Main Street in Lexington, Virginia 24450. The Foundation is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the Library's financial reporting entity for these differences.

NOTE 12—RELATED PARTIES:

The Rockbridge Regional Library provides offices and equipment to the Foundation without charge.

The Foundation solicits and accumulates funds that are used for construction, equipment acquisition, debt service, and operations of the Library.

ROCKBRIDGE REGIONAL LIBRARY

Notes to Financial Statements June 30, 2016 (Continued)

NOTE 13—ECONOMIC DEPENDENCY:

The Library receives a substantial amount of its support from federal, state, and local governments. A significant reduction in the level of this support, if this were to occur, would have an effect on the Library's programs and activities.

NOTE 14—COMMITMENTS AND CONTINGENCIES:

Certain contracts and grants received by the Library are subject to audit or review by the grantor/payor agencies. As a result of these audits or reviews, the Library may be required to repay a portion of grant or contract funds received. However, management believes any liability related to its grants and contracts, if any, would be immaterial.

NOTE 15—SUBSEQUENT EVENTS:

The Library has evaluated events and transactions for possible disclosure and recognition through January 12, 2017, the date which these financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Components of and Changes in Net Pension Liability and Related Ratios
Year Ended June 30, 2016

	2015	2014
Total pension liability		
Service cost	\$ 42,144	\$ 40,401
Interest	131,560	126,396
Differences between expected and actual experience	(21,491)	-
Benefit payments, including refunds of employee contributions	(97,143)	(88,906)
Net change in total pension liability	\$ 55,070	\$ 77,891
Total pension liability - beginning	1,927,994	1,850,103
Total pension liability - ending (a)	<u>\$ 1,983,064</u>	<u>\$ 1,927,994</u>
Plan fiduciary net position		
Contributions - employer	\$ 46,273	\$ 45,535
Contributions - employee	22,448	20,981
Net investment income	78,551	237,306
Benefit payments, including refunds of employee contributions	(97,143)	(88,906)
Administrative expense	(1,087)	(1,287)
Other	(17)	12
Net change in plan fiduciary net position	\$ 49,025	\$ 213,641
Plan fiduciary net position - beginning	1,725,086	1,511,445
Plan fiduciary net position - ending (b)	<u>\$ 1,774,111</u>	<u>\$ 1,725,086</u>
Political subdivision's net pension liability - ending (a) - (b)	\$ 208,953	\$ 202,908
Plan fiduciary net position as a percentage of the total pension liability	89.46%	89.48%
Covered payroll	\$ 458,603	\$ 420,452
Political subdivision's net pension liability as a percentage of covered payroll	45.56%	48.26%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

Schedule of Employer Contributions
 Year Ended June 30, 2016

Date	Contributions in Relation to Contractually Required Contribution					Contributions as a % of Covered Payroll	
	Contractually Required Contribution (1)	Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)		Contributions as a % of Covered Payroll (5)	
2016	\$ 51,882	\$ 51,882	\$ -	\$ 514,193		10.09%	
2015	46,273	46,273	-	458,603		10.09%	
2014	45,535	45,535	-	420,452		10.83%	
2013	44,641	44,641	-	412,194		10.83%	
2012	41,549	41,549	-	415,906		9.99%	
2011	46,208	46,208	-	462,546		9.99%	
2010	45,101	45,101	-	453,735		9.94%	
2009	42,513	42,513	-	427,699		9.94%	
2008	29,646	29,646	-	377,652		7.85%	
2007	27,755	27,755	-	353,561		7.85%	

Current year contributions are from Rockbridge Regional Library records and prior year contributions are from the VRS actuarial valuation performed each year.

Notes to Required Supplementary Information
Year Ended June 30, 2016

In 2015, Covered Employee Payroll (as defined by GASB 68) included the total payroll for employees covered under the pension plan whether that payroll is subject to pension coverage or not. This definition was modified in GASB Statement No. 82 and now is the payroll on which contributions to a pension plan are based. The ratios presented use the same measure.

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 are not material.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest):

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

OTHER SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
From local sources:				
Locality appropriations	\$ 1,003,294	\$ 1,003,294	\$ 1,004,175	\$ 881
Capital grants and contributions	33,000	33,000	33,000	-
Operating grants and contributions	11,000	11,000	10,702	(298)
Foundation funding	48,862	48,862	55,536	6,674
Donations	15,508	15,508	41,872	26,364
Friends	60,000	60,000	51,807	(8,193)
Charges for services	34,000	34,000	36,800	2,800
Interest Income	-	-	516	516
E-rate revenue	34,205	34,205	31,351	(2,854)
Insurance recovery	-	-	33,250	33,250
Miscellaneous	925	925	130	(795)
Intergovernmental:				
Noncategorical aid:				
Commonwealth of Virginia	282,118	282,118	282,118	-
Total revenues	\$ 1,522,912	\$ 1,522,912	\$ 1,581,257	\$ 58,345
Expenditures:				
Parks, recreation, and cultural:				
Compensation and benefits	\$ 950,924	950,924	\$ 946,101	\$ 4,823
Capital outlay	87,000	87,000	77,903	9,097
Rent	15,000	15,000	15,000	-
Furniture & fixtures	3,000	3,000	2,012	988
Insurance	10,201	10,201	10,787	(586)
Maintenance	29,964	29,964	42,713	(12,749)
Other Expenses	11,998	11,998	59,990	(47,992)
Professional Fees	23,795	23,795	19,140	4,655
Programming	10,250	10,250	18,008	(7,758)
State Aid Expenses	282,118	282,118	282,118	-
Staff Development	11,693	11,693	7,366	4,327
Transportation	15,500	15,500	14,975	525
Communication	10,097	10,097	9,659	438
Utilities	61,372	61,372	55,395	5,977
Debt service:				
Principal	-	-	21,163	(21,163)
Interest	-	-	6,437	(6,437)
Total expenditures	\$ 1,522,912	\$ 1,522,912	\$ 1,588,767	\$ (65,855)
Net change in fund balances	\$ -	\$ -	\$ (7,510)	\$ (7,510)
Fund balance, beginning of year	-	-	275,850	275,850
Fund balance, end of year	\$ -	\$ -	\$ 268,340	\$ 268,340

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

COMPLIANCE

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

OFFICERS AND TRUSTEES ROCKBRIDGE REGIONAL LIBRARY LEXINGTON, 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 Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the discretely presented component unit, and each major fund of the Rockbridge Regional Library as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Rockbridge Regional Library's basic financial statements and have issued our report thereon dated January 12, 2017. Our report includes a reference to other auditors who audited the financial statements of the Rockbridge Regional Library Foundation, as described in our report on the Rockbridge Regional Library's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Rockbridge Regional Library Foundation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable non-compliance associated with the Rockbridge Regional Library Foundation.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Rockbridge Regional Library's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rockbridge Regional Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rockbridge Regional Library'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 the Rockbridge Regional Library's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Robinson, Farmer, Cox Associates

Staunton, Virginia
January 12, 2017