

TOWN OF RICHLANDS, VIRGINIA

FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**TOWN OF RICHLANDS, VIRGINIA
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2015**

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FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2015

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TOWN OF RICHLANDS, VIRGINIA

TOWN COUNCIL

Jan White, Mayor

Doug Ratliff, Vice Mayor

Larry Johnson

A. Joe McCracken

Frances Meadows

Rod Curry

Mary Ann Strong

Kelly Goodman, Town Clerk

OTHER OFFICIALS

Timothy Taylor	Town Manager
Sue Wade	Office Manager
Adrienne Cordle	Accountant

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Honorable Members of the Town Council
Town of Richlands, Virginia
Richlands, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Richlands, Virginia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Richlands, Virginia, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 17 to the financial statements, in 2015, the Town adopted new accounting guidance, GASB Statement Nos. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension funding on pages 5-16, 64, and 65-67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

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

The supporting schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements 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 supporting schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and statistical information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2015, on our consideration of the Town of Richlands, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Richlands, Virginia's internal control over financial reporting and compliance.

Robinson, Turner, Co. Associates

Blacksburg, Virginia
October 21, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis (MD&A) offers the readers of the Town of Richlands, Virginia (the Town) financial statements a narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2015.

Financial Highlights for fiscal year 2015

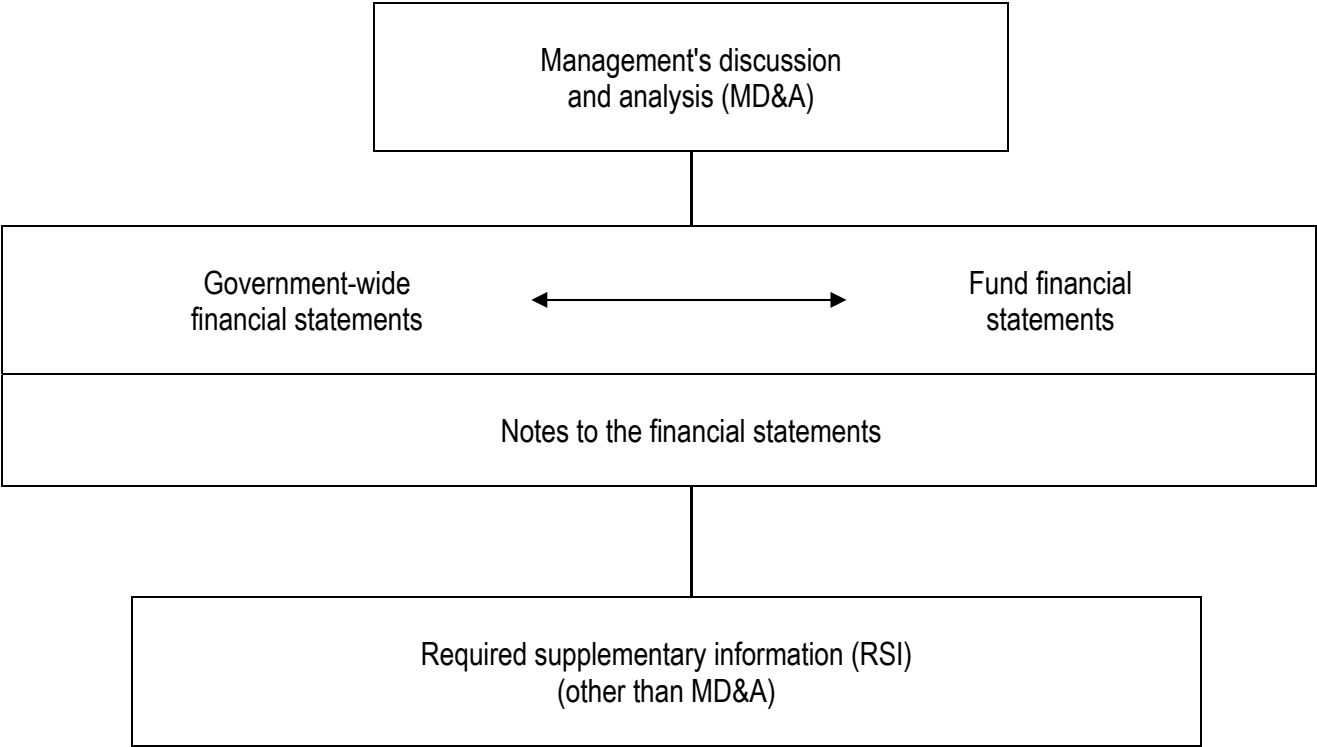
- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$20,740,948 (net position). Of this amount, (\$44,144) (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net position decreased by \$6,976,473. The decrease is attributable to the implementation of Governmental Accounting Standards Board Statement Nos. 68 and 71 related to pension liabilities. Absent the implementation of these Standards, the decrease in net position would have been approximately \$177,481.
- The Town's total liabilities and deferred outflows of resources at the close of the current fiscal year were \$12,065,529, including \$10,213,731 in long-term obligations.
- Long-term obligations primarily represent amounts due on the Town's general obligation bonds and pension liability.
- As of the close of the current fiscal year, the Town's governmental fund reported an ending fund balance of \$1,117,562, an increase of \$389 from the prior year fund balance.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$696,679, or 14% of total general fund expenditures. Such amount is available for spending at the government's discretion.
- At the end of the fiscal year June 30, 2015, the Town has incurred expenses of \$54,691.67 for architectural work performed for the restoration of the Town's Historical Railroad Foreman Section House. The Town was awarded \$438,000 in grant funds for the restoration project.
- The Town had (1) active Revenue Bond at the end of the current fiscal year with a total balance of \$739,920.
- The Town had general obligation bonds at June 30, 2015 with an ending balance of \$1,849,899.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction to the Town’s basic financial statements. The Town’s basic financial statements consist of three major components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Figure A shows how the required parts of this MD&A and the Town’s basic financial statements are arranged and related to one another.

Figure A
Required Components of Richland’s Financial Statements



Government-Wide 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 non-fiduciary activities of the primary government. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

The government-wide financial statements can be found on page 17 and 18 of this report.

Overview of the Financial Statements (Continued)

Fund Financial Statements

The format of the fund financial statements will be more familiar to traditional users of the Town's financial statements. The fund financial statements provide more detailed information about the Town's most significant funds – not the Town as a whole. Funds are accounting mechanisms that the Town uses to keep track of specific sources of funding and spending for particular purposes. Separate financial statements are provided for governmental and proprietary funds. Major individual government funds and enterprise funds are reported as separate columns in the fund financial statements.

Governmental Funds

Governmental funds account for expendable financial resources other than those accounted for in the proprietary funds. The governmental fund measurement focus is upon determination of financial position and cash flows in and out and the balances that remain at year-end that is available for spending (rather than net income determination as would apply to a commercial enterprise). As a result, the governmental fund statements provide a detailed *short-term* view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs.

The Town reports one major government fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, with the exception of those accounted for in another fund.

The basic governmental fund financial statements can be found on pages 19 through 22 of this report.

Proprietary Funds

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Town reports the following major proprietary funds:

The *electric fund* accounts for the activities of the electric operations.

The *water* and *sewer fund* accounts for the activities of the water operations.

The basic proprietary fund statements can be found on pages 23 to 25 of this report.

Budgetary Comparison

The Town adopts an annual appropriated budget for all government funds. A budgetary comparison statement has been provided to demonstrate compliance with this budget and will disclose how accurately the governing body was able to forecast the revenues and expenditures of the Town.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26 through 55 of this report.

Government-Wide Financial Analysis

Statement of Net Position

The following table reflects the Town's condensed net position:

Table 1
Summary of Net Position
As of June 30, 2015

	Governmental Activities		Business-type Activities		Totals	
	2014	2015	2014	2015	2014	2015
Current and other assets	\$ 2,034,835	\$ 2,325,087	\$ 7,084,378	\$ 6,840,261	\$ 9,119,213	\$ 9,165,348
Capital assets	10,926,940	10,774,882	12,743,777	12,304,935	23,670,717	23,079,817
Total assets	12,961,775	13,099,969	19,828,155	19,145,196	32,789,930	32,245,165
Deferred outflows	-	388,462	-	172,850	-	561,312
Long-term liabilities	501,035	5,319,674	3,191,987	4,894,057	3,693,022	10,213,731
Other liabilities	439,855	736,917	915,686	826,130	1,355,541	1,563,047
Total liabilities	940,890	6,056,591	4,107,673	5,720,187	5,048,563	11,776,778
Deferred inflows	24,076	207,678	-	81,073	24,076	288,751
Net position:						
Net investment in capital assets	10,775,030	10,671,349	9,670,642	9,715,116	20,445,672	20,386,465
Restricted	186,625	398,627	-	-	186,625	398,627
Unrestricted	1,035,154	(3,845,814)	6,049,840	3,801,670	7,084,994	(44,144)
Total net position	\$ 11,996,809	\$ 7,224,162	\$ 15,720,482	\$ 13,516,786	\$ 27,717,291	\$ 20,740,948

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets and deferred outflows exceeded liabilities and deferred inflows by \$20,740,948 at the close of fiscal year 2015. The largest portion of the Town's net position (98%) reflects its investment in capital assets (e.g., land, buildings, plant in service, machinery and equipment), less any outstanding related debt used to acquire those assets. The Town uses these capital assets to provide services to citizens and consequently, these assets are not available for future spending. Since the capital assets themselves cannot be used to pay the related debt, the resources needed to service this debt must be provided from other sources.

Government-Wide Financial Analysis (Continued)

Statement of Activities

The following table shows the revenues and expenses of the Town's governmental and business-type activities:

Table 2
Changes in Net Position
For the Fiscal Year Ended June 30, 2015

	Governmental Activities		Business-type Activities	
	2014	2015	2014	2015
Revenues:				
Program revenues :				
Charges for services	\$ 1,583,810	\$ 1,165,830	\$ 8,451,279	\$ 8,384,786
Operating grants & Contributions	1,280,498	980,826	-	-
Capital grants & Contributions	4,607,782	31,432	-	-
General revenue:				
Property taxes	469,162	478,340	-	-
Other local taxes	1,941,856	2,035,854	-	-
Unrestricted investment earnings	8,938	9,139	5,112	4,741
Other / Miscellaneous	158,987	126,508	-	-
Grants and contributions not restricted	4,057	16,754	-	-
Gain on disposal of capital assets	-	-	8,526	4,160
Total revenues	10,055,090	4,844,683	8,464,917	8,393,687
Expenses:				
General gov't adm.	285,960	269,723	-	-
Public safety	2,863,825	2,645,744	-	-
Public works	1,500,829	1,595,057	-	-
Parks, recreation , culture	354,456	343,926	-	-
Community development	58,493	52,705	-	-
Interest-long term debt	7,164	4,949	-	-
Electric	-	-	6,743,677	6,094,861
Water & sewer	-	-	2,392,826	2,408,886
Total expenses	5,070,727	4,912,104	9,136,503	8,503,747
Excess (deficiency) before transfers	4,984,363	(67,421)	(671,586)	(110,060)
Change in net position	4,984,363	(67,421)	(671,586)	(110,060)
Net position-July 1, as restated	7,012,446	7,291,583	16,392,068	13,626,846
Net position-June 30	\$ 11,996,809	\$ 7,224,162	\$ 15,720,482	\$ 13,516,786

During the fiscal year, the Town implemented provisions of GASB Statements No. 68 and 71. Prior year financial statements have not been adjusted retroactively for the implementation of these standards.

Government-Wide Financial Analysis (Continued)

Statement of Activities (Continued)

During the current fiscal year the Town's net position decreased by \$177,481. This is comprised of a decrease from governmental activities of \$67,421 and a decrease in business type activities of \$110,060.

Governmental activities-Governmental activities decreased the Town's net position by \$67,421. Additional factors noted below.

Revenues from governmental activities totaled \$4,844,683, with charges for services (24.1%), other local taxes (42%) and operating grants & contributions (20.2%), being the major sources of revenues. Most revenues in comparison to the previous year had nominal changes with the exception of the following: charges for services decreased \$417,980 due significantly to an increase in bad debt write offs for EMS billings totaling \$337,068.89 during the fiscal year as compared to write offs totaling \$94,191.36 in the prior year and parks, recreation and cultural decreased \$24,359 due to a decrease in donations received during the current year as compared to the prior year.

Expenses for governmental activities totaled \$4,912,104 with parks, recreation and culture (7%), public safety (53.9%), public works (32.5%), accounting for approximately ninety-three percent of total governmental expenses. Public works expenses increased \$94,228 as a result of an increase in operating expenses; however, overall expenses decreased \$158,623.

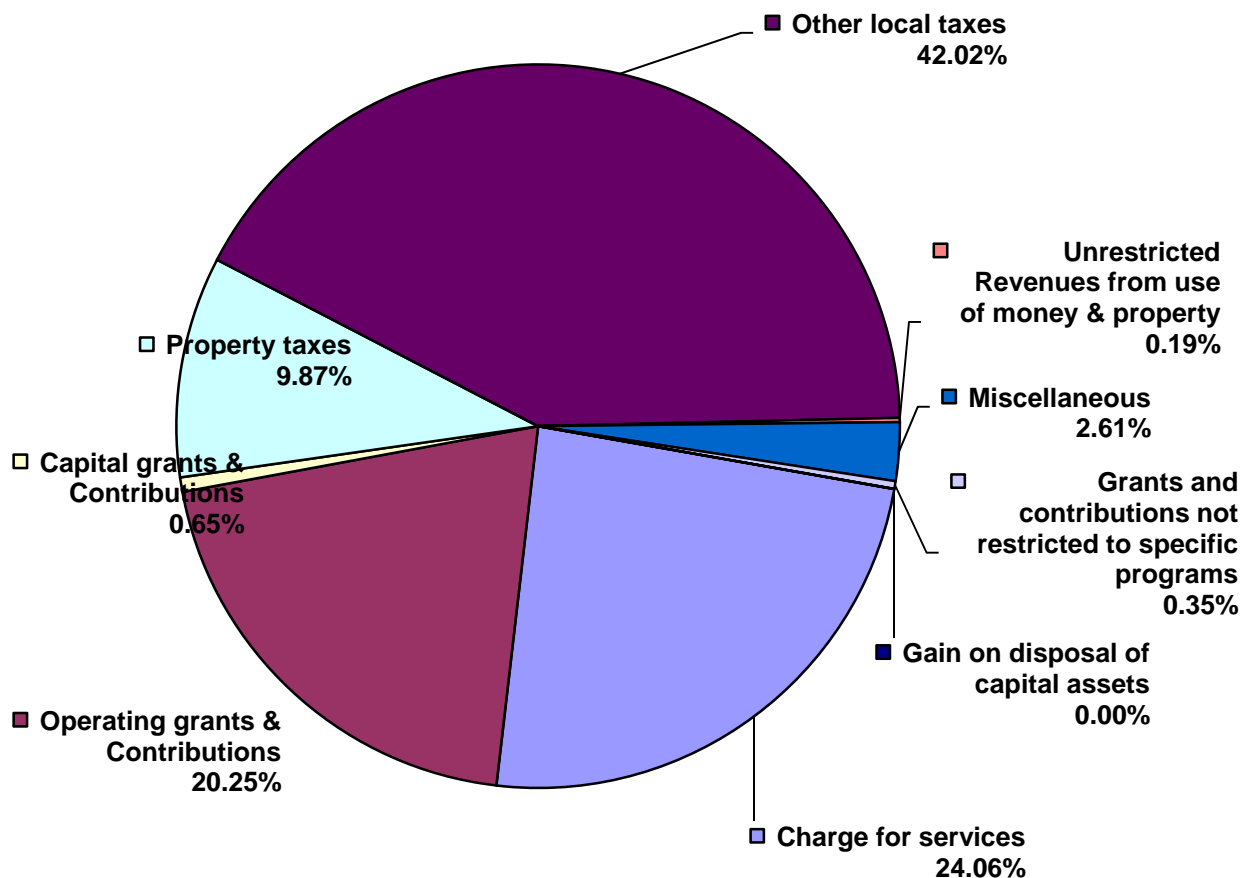
Business-type activities – Net position of the business-type activities was \$13,516,786 at June 30, 2015. This was a decrease of (\$110,060) from the prior year net position. The current year decrease is \$561,526 less than the prior year decrease of (\$671,586) as a result of a decrease in purchased power costs. While the wholesale power cost for the Town increased during the fiscal year, the Town did not experience any weather related event in the fiscal year that was in comparison to the polar vortex phenomenon experienced in the prior year that essentially drove wholesale power rates to an extreme high.

Government-Wide Financial Analysis (continued)

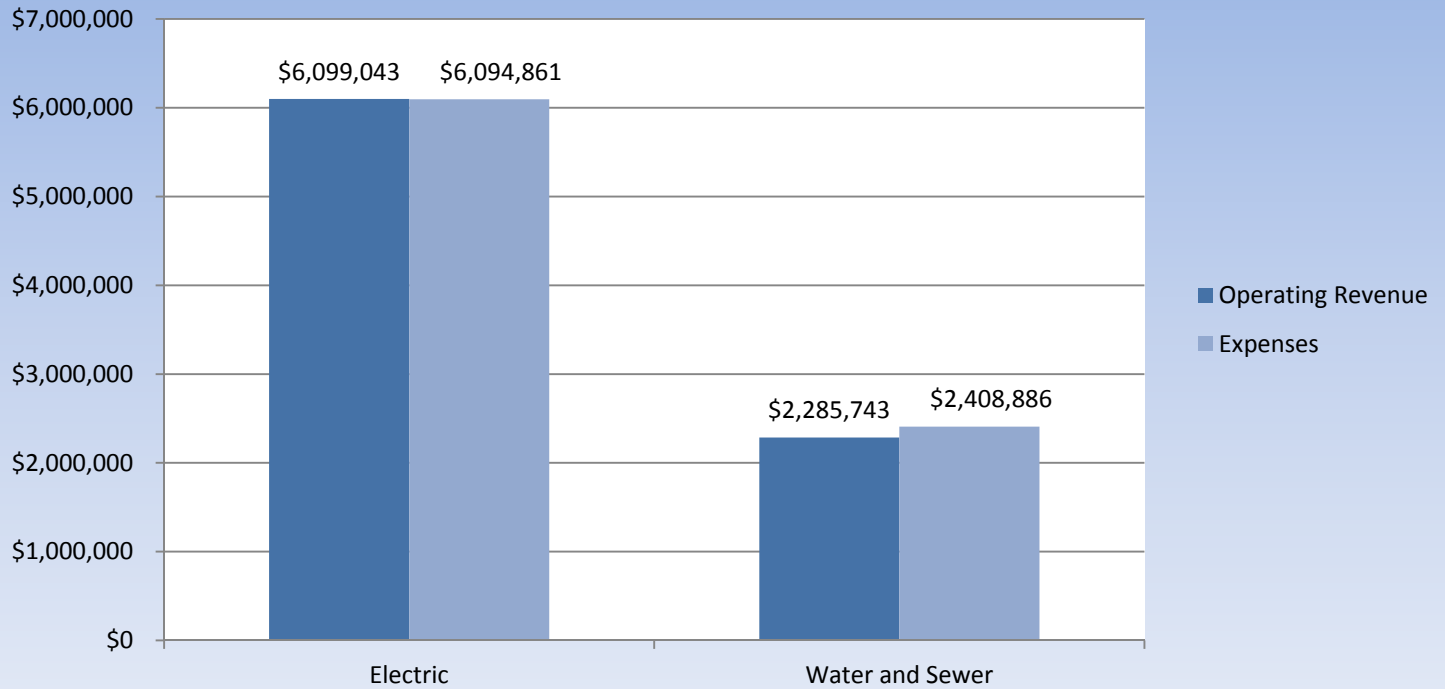
Program revenues for the business-type activities totaled \$8,393,687, of which \$8,384,786 is charges for services. Expenses totaled \$8,503,747.

- Operating revenues decreased from the prior year by \$66,493.
- Proprietary operating expenses decreased from the prior year by \$632,756.

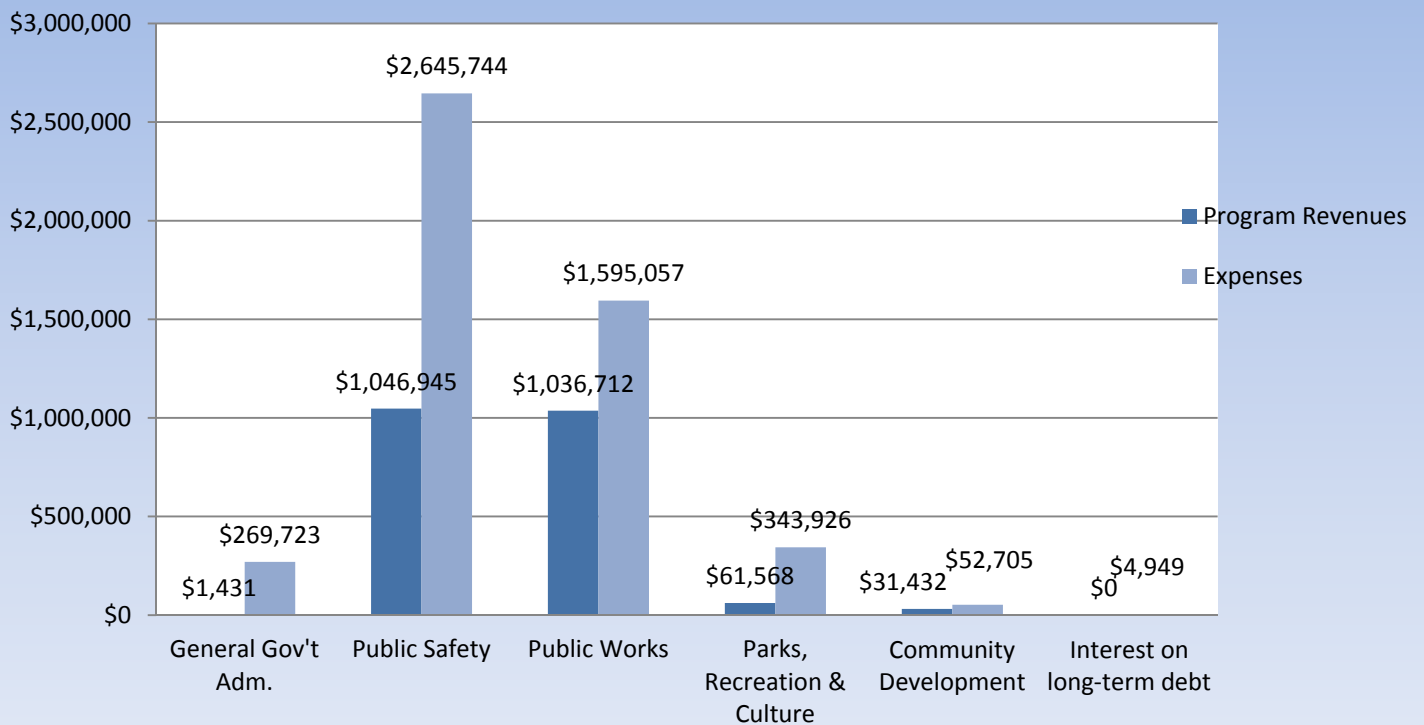
Revenues By Source Governmental Activities



Expenses and Operating Revenues - Business-type Activities



Expenses and Program Revenues - Governmental Activities



Financial Analysis of the Government's Funds

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Town's *governmental fund* is to provide information on near-term inflows, outflows, and balances of spendable resources. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year.

The general fund is the government's primary operating fund. As of the end of the current fiscal year, the Town's general fund reported an ending fund balance of \$1,117,562, including an unreserved fund balance of \$696,679, which is available for spending at the government's discretion. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents approximately 14 % of total fund expenditures.

The fund balance of the Town's general fund increased during the current fiscal year by \$389 from current year activities. Total revenues decreased by \$314,528 specifically due to a decrease in fines and forfeitures and intergovernmental revenues; and total expenditures decreased by \$71,519, as a result primarily of a decrease in public safety operating expenses and capital projects.

Proprietary funds

The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the electric and water and sewer funds amounted to \$1,785,784 and \$2,015,886 respectively. The total decrease in net position was \$110,060 during the current fiscal year.

Electric fund

The electric fund net position increased by \$8,157 from current year activities in fiscal year 2015 compared to a prior year decrease of \$548,737. The increase was a result of a small decrease in operating revenues and a decrease in operating expense. Operating revenues decreased only by \$91,685 (1.5%) due primarily to a decrease in charges for service. Operating expenses decreased by \$648,816 (10.6%) due significantly to a decrease in purchased power which equated to \$643,028.

Electric fund non-operating revenues decreased \$237 from the prior year, which was related to a decrease in investment income during the current fiscal year.

Water and sewer fund

The water and sewer fund net position decreased by \$118,217 from current year activities in fiscal year 2015 compared to the prior year decrease of \$122,849. The decrease in net position is nominal in comparison to the prior year. Operating Revenues increased by \$25,192 (1.1%) due to an increase in contract work as well as an increase in lab testing and septic treatment; however, operating expenses increased \$27,156 (1.1%), as a result of increased personnel cost for employees, supplies and maintenance repairs/upgrades. Non-operating expenses decreased by \$11,096 due primarily to a decrease in interest expense and non-operating revenue decreased by \$4,500 as a result of a decrease in investment earnings and gain on sale of assets.

General Fund Budgetary Highlights

Differences between the budgeted amounts versus the actual amounts are noted below:

- Actual Revenues were less than budgeted revenues by \$649,705. The decrease is a result of a combination of an increase in various revenues and a decrease in general property taxes, charges for service and commonwealth revenues. The most significant budget variances were: \$180,683 positive variance in revenues from local sources; and, a negative variance of \$960,203 under commonwealth revenue.
- Actual Expenditures were less than budgeted expenditures by 1,628,191. This is due to a decrease of various expenditures. Public works and public safety expenses were less than budgeted. In addition, expenditures related to capital projects were less than budgeted.

General Fund Condensed Budget vs. Actual Fiscal Year ended June 30, 2015

	Budgeted Amounts		Actual Amounts
	Original	Final	
Revenues	\$ 5,644,465	\$ 5,644,465	\$ 4,994,760
Expenditures	(6,624,216)	(6,624,216)	(4,996,025)
Other Financing Sources	10,000	10,000	1,654
Change in fund balance	\$ (969,751)	\$ (969,751)	\$ 389

Capital Asset and Debt Administration

Capital Assets

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2015, amounts to \$23,079,817 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, improvements other than buildings, equipment, and public domain infrastructure additions in the current fiscal year.

Major capital asset events during the current year included the following:

- Capital asset acquisitions in governmental activities totaled \$472,956 in the current fiscal year. This was for machinery and equipment (\$385,730) and construction in progress (\$87,226).
- Capital asset acquisitions in business-type activities totaled \$171,032 in the current fiscal year. This was for machinery and equipment.

**The Town's Capital Assets
(Net of Depreciation)
Fiscal Year ended June 30, 2015**

	Governmental Activities		Business-Type Activities	
	2014	2015	2014	2015
Land	\$ 1,357,395	\$ 1,357,395	\$ 517,913	\$ 517,913
Construction in Progress	60,147	153,673	-	-
Buildings and improvements	1,956,440	1,859,068	11,427,248	10,940,841
Improvements other than buildings	6,613,291	6,387,079	-	-
Equipment	939,667	1,017,667	798,616	846,181
Total	\$ 10,926,940	\$ 10,774,882	\$ 12,743,777	\$ 12,304,935

Additional information on the Town's capital assets can be found in Note 9 on pages 57 and 58 of this report.

Long-term debt

At the end of the current fiscal year, the Town had total bonded debt outstanding of 2,589,819. Of this amount, \$739,920 is comprised of (1) active revenue bond and the remaining balance of \$1,849,899 is general obligation bonds.

**The Town's Long-term Bond Debt
Fiscal Year ended June 30, 2015**

	Beginning Balance	Additions	Reductions	Ending Balance
<i>Fiscal year 2014</i>				
Business-Type Activities:				
General obligation bonds	\$ 2,714,671	\$ -	\$ 426,300	\$ 2,288,371
Revenue bonds	829,607	-	44,843	784,764
Total	\$ 3,544,278	\$ -	\$ 471,143	\$ 3,073,135
<i>Fiscal year 2015</i>				
Business-Type Activities:				
General obligation bonds	\$ 2,288,371	\$ -	\$ 438,472	\$ 1,849,899
Revenue bonds	784,764	-	44,844	739,920
Total	\$ 3,073,135	\$ -	\$ 483,316	\$ 2,589,819

Additional information on the Town's long-term liability can be found in Note 5 on pages 35 to 37 of this report.

Economic Factors and Next Year's Budget Rates

- The unemployment rate as of June 30, 2015 for the County of Tazewell, in which The Town of Richlands resides, is 8.0 percent, which is an increase from the average for 2014 of 6.9 percent. This compares to the state's unemployment rate of 4.9 percent and the national rate of 5.3 percent.
- The Town of Richlands is located in the AEP Zone of PJM Interconnection, LLC ("PJM"). Richlands is also a member of American Municipal Power ("AMP") and has purchased block power from the PJM market through AMP to meet a portion of its energy needs. Additionally, through AMP, Richlands is participating in several new generation assets including: 2.588 MW of the Prairie State Coal plant unit #1 and unit #2 PSEC are in full commercial operation, 1.5 MW in the AMP Phase I Hydro projects (Cannelton, Smithland, and Willow Island) with estimated COD in 2016 and 1.675 MW in the Fremont energy campus project is in full commercial operation. The AMP Phase I run-of-the-river hydroelectric projects are being constructed by AMP at existing dam and locks facilities on the Ohio River. Richlands also purchases 0.5 MW of capacity and associated energy from Southeastern Power Administration ("SEPA") through a Purchase Power Agreement ("PPA") that is cancelable by either party. Exposure to the volatile energy commodity market will be greatly reduced by providing over 50% of the Town's load requirements from these projects.
- The evaluation of the American Municipal Power Generating Station (AMPGS) project, a coal fired generation facility in southern Ohio was terminated and final stranded investment costs are still pending, however, cost projections were funded in a rate stabilization fund established by American Municipal Power, Inc (AMP, Inc). The Town has made payments to AMP totaling \$163,226 and had incurred additional costs and interest expense during the fiscal year of \$3,412.
- Wholesale power rates are projected to incrementally increase annually over the next five years.
- The Town will continue to monitor the effects of current economic conditions on energy costs in relation to powering water and wastewater plant facilities and rising costs of raw materials needed to maintain the Town and its infrastructure.

All of these factors are considered in preparing The Town of Richlands' budget for fiscal year 2015.

Unreserved fund balance in the general fund was \$696,679 as of June 30, 2015. It is intended that this available balance will be utilized in order to meet the government's ongoing obligations to citizens and creditors.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Finance, Town of Richlands, 200 Washington Square, Richlands, VA 24641.

Town of Richlands, Virginia
Statement of Net Position
At June 30, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,528,833	\$ 4,516,162	\$ 6,044,995
Receivables (net of allowance for uncollectibles):			
Taxes receivable	77,324	-	77,324
Accounts receivable	605,075	709,599	1,314,674
Notes receivable	22,256	-	22,256
Due from other governmental units	91,599	1,336,366	1,427,965
Prepaid items	-	278,134	278,134
Capital assets (net of accumulated depreciation):			
Land	1,357,395	517,913	1,875,308
Buildings and system	1,859,068	-	1,859,068
Machinery and equipment	1,017,667	846,181	1,863,848
Infrastructure/utility plant and buildings in service	6,387,079	10,940,841	17,327,920
Construction in progress	153,673	-	153,673
Total assets	<u>\$ 13,099,969</u>	<u>\$ 19,145,196</u>	<u>\$ 32,245,165</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension contributions subsequent to measurement date	\$ 388,462	\$ 172,850	\$ 561,312
LIABILITIES			
Accounts payable	\$ 175,137	\$ 484,281	\$ 659,418
Accrued liabilities	151,694	62,786	214,480
Due to other governments	1,922	-	1,922
Customers' deposits	-	279,063	279,063
Accrued interest payable	4,366	-	4,366
Unearned revenue	403,798	-	403,798
Long-term liabilities:			
Due within one year	292,149	226,967	519,116
Due in more than one year	5,027,525	4,667,090	9,694,615
Total liabilities	<u>\$ 6,056,591</u>	<u>\$ 5,720,187</u>	<u>\$ 11,776,778</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue - prepaid taxes	\$ 25,474	\$ -	\$ 25,474
Items related to measurement of net pension liability	182,204	81,073	263,277
Total deferred inflows of resources	<u>\$ 207,678</u>	<u>\$ 81,073</u>	<u>\$ 288,751</u>
NET POSITION			
Net investment in capital assets	\$ 10,671,349	\$ 9,715,116	\$ 20,386,465
Restricted	398,627	-	398,627
Unrestricted	(3,845,814)	3,801,670	(44,144)
Total net position	<u>\$ 7,224,162</u>	<u>\$ 13,516,786</u>	<u>\$ 20,740,948</u>

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

Town of Richlands, Virginia
Statement of Activities
For the Year Ended June 30, 2015

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-Type Activities
PRIMARY GOVERNMENT:						
Governmental activities:						
General government administration	\$ 269,723	1,431 \$	- \$	-	\$ (268,292)	\$ (268,292)
Public safety	2,645,744	653,037	393,908	-	(1,598,799)	(1,598,799)
Public works	1,595,057	450,349	586,363	-	(558,345)	(558,345)
Parks, recreation, and cultural	343,926	61,013	555	-	(282,358)	(282,358)
Community development	52,705	-	-	31,432	(21,273)	(21,273)
Interest on long-term debt	4,949	-	-	-	(4,949)	(4,949)
Total governmental activities	\$ 4,912,104	\$ 1,165,830	\$ 980,826	\$ 31,432	\$ (2,734,016)	\$ (2,734,016)
Business-type activities:						
Water and sewer	\$ 2,408,886	\$ 2,285,743	- \$	-	\$ -	\$ (123,143)
Electric	6,094,861	6,099,043	-	-	-	4,182
Total business-type activities	\$ 8,503,747	\$ 8,384,786	- \$	-	\$ -	\$ (118,961)
Total primary government	\$ 13,415,851	\$ 9,550,616	\$ 980,826	\$ 31,432	\$ (2,734,016)	\$ (2,852,977)
General revenues:						
General property taxes	\$ 478,340	\$ -	\$ -	\$ -	\$ 478,340	\$ -
Other local taxes:						
Local sales and use taxes	397,322				397,322	
Consumers' utility taxes	146,230				146,230	
Business license taxes	495,195				495,195	
Motor vehicle licenses	34,582				34,582	
Bank stock tax	199,407				199,407	
Meals taxes	740,734				740,734	
Other local taxes	22,384				22,384	
Unrestricted revenues from use of money and property	9,139				4,741	13,880
Miscellaneous	126,508				-	126,508
Grants and contributions not restricted to specific programs	16,754				-	16,754
Gain on disposal of capital assets	-				4,160	4,160
Total general revenues	\$ 2,666,595	\$ 8,901	\$ -	\$ -	\$ 2,675,496	\$ -
Change in net position	\$ (67,421)	\$ (110,060)	\$ -	\$ -	\$ (177,481)	\$ -
Net position - beginning, as restated	7,291,583	13,626,846	20,918,429			
Net position - ending	\$ 7,224,162	\$ 13,516,786	\$ 20,740,948			

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

Town of Richlands, Virginia
Balance Sheet
Governmental Funds
At June 30, 2015

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 1,528,833
Receivables (net of allowance for uncollectibles):	
Taxes receivable	77,324
Accounts receivable	605,075
Notes receivable	22,256
Due from other governmental units	91,599
Total assets	<u>\$ 2,325,087</u>
LIABILITIES	
Accounts payable	\$ 175,137
Accrued payroll and related liabilities	151,694
Due to other governments	1,922
Unearned revenue	403,798
Total liabilities	<u>\$ 732,551</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	\$ 73,802
Unavailable revenue - EMS billings	375,698
Unavailable revenue - prepaid taxes	25,474
Total deferred inflows of resources	<u>\$ 474,974</u>
FUND BALANCES	
Nonspendable	\$ 22,256
Restricted	398,627
Unassigned	696,679
Total fund balances	<u>\$ 1,117,562</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,325,087</u>

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

Town of Richlands, Virginia
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
At June 30, 2015

Amounts reported for governmental activities in the Statement of Net Position are different because:

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$	1,117,562
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land	\$ 1,357,395	
Buildings and improvements	1,859,068	
Machinery and equipment	1,017,667	
Infrastructure/utility plant and buildings in service	6,387,079	
Construction in progress	<u>153,673</u>	10,774,882

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

Unavailable revenue - property taxes	\$ 73,802	
Unavailable revenue - EMS billings	375,698	
Items related to measurement of net pension liability	<u>(182,204)</u>	267,296

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.

388,462

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Capital lease	\$ (103,533)	
Accrued interest payable	(4,366)	
Compensated absences	(322,062)	
Net pension liability	<u>(4,894,079)</u>	(5,324,040)

Net position of governmental activities

\$ 7,224,162

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

Town of Richlands, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2015

	<u>General</u>
REVENUES	
General property taxes	\$ 481,056
Other local taxes	2,035,854
Permits, privilege fees, and regulatory licenses	1,755
Fines and forfeitures	99,052
Revenue from the use of money and property	9,139
Charges for services	1,072,943
Miscellaneous	126,508
Recovered costs	139,441
Intergovernmental:	
Commonwealth	899,197
Federal	129,815
Total revenues	<u>\$ 4,994,760</u>
EXPENDITURES	
Current:	
General government administration	\$ 267,560
Public safety	2,535,244
Public works	1,311,842
Parks, recreation, and cultural	300,353
Community development	52,705
Capital projects	472,956
Debt service:	
Principal retirement	48,377
Interest and other fiscal charges	6,988
Total expenditures	<u>\$ 4,996,025</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (1,265)</u>
OTHER FINANCING SOURCES (USES)	
Sale of capital assets	\$ 1,654
Total other financing sources (uses)	<u>\$ 1,654</u>
Net change in fund balances	\$ 389
Fund balances - beginning	1,117,173
Fund balances - ending	<u><u>\$ 1,117,562</u></u>

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

Town of Richlands, Virginia
Reconciliation of Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2015

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

Net change in fund balances - total governmental funds	\$	389
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the depreciation exceeded capital outlays in the current period.

Capital outlays	\$ 472,956	
Loss on disposal of assets	(12,228)	
Depreciation expenses	<u>(612,786)</u>	(152,058)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes	\$ (2,716)	
Rescue squad charges	(7,920)	
Change in deferred inflows related to the measurement of the net pension liability	<u>(182,204)</u>	(192,840)

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.

Principal repayments:		
Capital lease		48,377

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.

Change in compensated absences	\$ 27,063	
Change in accrued interest payable	2,039	
Change in pension liability	156,595	
Change in deferred outflows related to pension payments subsequent to the measurement date	<u>43,014</u>	228,711

Change in net position of governmental activities	\$	<u>(67,421)</u>
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The notes to the financial statements are an integral part of this statement.

Town of Richlands, Virginia
Statement of Net Position
Proprietary Funds
At June 30, 2015

	Enterprise Funds		
	<u>Water and Sewer</u>	<u>Electric</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,140,343	\$ 2,375,819	\$ 4,516,162
Accounts receivable, net of allowances for uncollectibles	174,996	534,603	709,599
Due from other governmental units	1,336,366	-	1,336,366
Prepaid items	-	278,134	278,134
Total current assets	<u>\$ 3,651,705</u>	<u>\$ 3,188,556</u>	<u>\$ 6,840,261</u>
Noncurrent assets:			
Capital assets:			
Utility plant and buildings in service	\$ 21,158,959	\$ 1,053,126	\$ 22,212,085
Machinery and equipment	783,921	1,570,534	2,354,455
Land	517,913	-	517,913
Accumulated depreciation	(11,074,344)	(1,705,174)	(12,779,518)
Total net capital assets	<u>\$ 11,386,449</u>	<u>\$ 918,486</u>	<u>\$ 12,304,935</u>
Total noncurrent assets	<u>\$ 11,386,449</u>	<u>\$ 918,486</u>	<u>\$ 12,304,935</u>
Total assets	<u>\$ 15,038,154</u>	<u>\$ 4,107,042</u>	<u>\$ 19,145,196</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension contributions subsequent to measurement date	<u>\$ 116,240</u>	<u>\$ 56,610</u>	<u>\$ 172,850</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 48,371	\$ 435,910	\$ 484,281
Accrued wages	33,134	29,652	62,786
Customers' deposits	53,369	225,694	279,063
Revenue bonds payable - current portion	44,844	-	44,844
General obligation bonds - current portion	87,195	-	87,195
Compensated absences - current portion	73,652	21,276	94,928
Total current liabilities	<u>\$ 340,565</u>	<u>\$ 712,532</u>	<u>\$ 1,053,097</u>
Noncurrent liabilities:			
Revenue bonds payable - net of current portion	\$ 695,076	\$ -	\$ 695,076
General obligation bond - net of current portion	1,762,704	-	1,762,704
Compensated absences - net of current portion	24,550	7,092	31,642
Net pension liability	1,464,462	713,206	2,177,668
Total noncurrent liabilities	<u>\$ 3,946,792</u>	<u>\$ 720,298</u>	<u>\$ 4,667,090</u>
Total liabilities	<u>\$ 4,287,357</u>	<u>\$ 1,432,830</u>	<u>\$ 5,720,187</u>
DEFERRED INFLOWS OF RESOURCES			
Items related to measurement of net pension liability	<u>\$ 54,521</u>	<u>\$ 26,552</u>	<u>\$ 81,073</u>
NET POSITION			
Net investment in capital assets	\$ 8,796,630	\$ 918,486	\$ 9,715,116
Unrestricted	2,015,886	1,785,784	3,801,670
Total net position	<u>\$ 10,812,516</u>	<u>\$ 2,704,270</u>	<u>\$ 13,516,786</u>

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

Town of Richlands, Virginia
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2015

	Enterprise Funds		
	<u>Water and Sewer</u>	<u>Electric</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services:			
Charges for services	\$ 2,203,002	\$ 5,949,261	\$ 8,152,263
Contract work	4,833	48,581	53,414
Lab testing and septic treatment	44,168	-	44,168
Penalties and service charges	31,490	88,151	119,641
Connection fees	2,250	-	2,250
Utility pole permits	-	13,050	13,050
Total operating revenues	\$ 2,285,743	\$ 6,099,043	\$ 8,384,786
OPERATING EXPENSES			
Salaries, wages and fringes	\$ 1,041,518	\$ 564,457	\$ 1,605,975
Insurance	29,126	11,723	40,849
Audit and legal	28,000	21,327	49,327
Dues, memberships and training	4,441	19,681	24,122
Office supplies and postage	19,983	11,809	31,792
Telecommunications	5,543	3,268	8,811
Equipment and vehicle maintenance	30,182	37,019	67,201
Supplies	287,647	47,566	335,213
Utilities	318,654	21,638	340,292
Heating oil/fuel	40,750	-	40,750
Traffic safety	-	574	574
Misc	18,616	4,337	22,953
Plant parts and repairs	18,665	-	18,665
Maintenance, repairs and upgrades	24,646	112,289	136,935
Instrument calibration	893	-	893
Power purchased	-	5,056,432	5,056,432
Payment in lieu of tax	-	59,142	59,142
Street lighting	-	12,136	12,136
Distribution	-	24,019	24,019
Testing	6,707	3,800	10,507
Capital outlays	4,602	-	4,602
Depreciation	526,230	83,644	609,874
Total operating expenses	\$ 2,406,203	\$ 6,094,861	\$ 8,501,064
Operating income (loss)	\$ (120,460)	\$ 4,182	\$ (116,278)
NONOPERATING REVENUES (EXPENSES)			
Investment income	\$ 3,963	\$ 778	\$ 4,741
Gain on sale of assets	963	3,197	4,160
Interest expense	(2,683)	-	(2,683)
Total nonoperating revenues (expenses)	\$ 2,243	\$ 3,975	\$ 6,218
Change in net position	\$ (118,217)	\$ 8,157	\$ (110,060)
Total net position - beginning, as restated	10,930,733	2,696,113	13,626,846
Total net position - ending	\$ 10,812,516	\$ 2,704,270	\$ 13,516,786

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

Town of Richlands, Virginia
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2015

	Enterprise Fund		
	Water and Sewer	Electric	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 2,281,562	\$ 6,055,461	\$ 8,337,023
Payments to suppliers	(827,553)	(5,365,827)	(6,193,380)
Payments to and for employees	(1,028,864)	(559,826)	(1,588,690)
Net cash provided by (used for) operating activities	\$ 425,145	\$ 129,808	\$ 554,953
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Additions to utility plant	\$ (139,490)	\$ (31,542)	\$ (171,032)
Proceeds from the sale of surplus	963	3,197	4,160
Principal payments on general obligation and revenue bonds	(483,316)	-	(483,316)
Capital contributions	30,924	-	30,924
Interest expense	(5,458)	-	(5,458)
Net cash provided by (used for) capital and related financing activities	\$ (596,377)	\$ (28,345)	\$ (624,722)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	\$ 3,963	\$ 778	\$ 4,741
Net cash provided by (used for) investing activities	\$ 3,963	\$ 778	\$ 4,741
Net increase (decrease) in cash and cash equivalents	\$ (167,269)	\$ 102,241	\$ (65,028)
Cash and cash equivalents - beginning	2,307,612	2,273,578	4,581,190
Cash and cash equivalents - ending	\$ 2,140,343	\$ 2,375,819	\$ 4,516,162
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ (120,460)	\$ 4,182	\$ (116,278)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation expense	\$ 526,230	\$ 83,644	\$ 609,874
(Increase) decrease in accounts receivable	3,231	(18,032)	(14,801)
(Increase) decrease in deferred inflows of resources	54,521	26,552	81,073
(Increase) decrease in deferred outflows of resources	(12,871)	(6,268)	(19,139)
(Increase) decrease in prepaid items	-	162,966	162,966
Increase (decrease) in customer deposits	(7,412)	(25,550)	(32,962)
Increase (decrease) in accounts payable	6,192	(82,033)	(75,841)
Increase (decrease) in wages payable	4,710	17,312	22,022
Increase (decrease) in compensated absences	17,862	(10,144)	7,718
Increase (decrease) in net pension liability	(46,858)	(22,821)	(69,679)
Total adjustments	\$ 545,605	\$ 125,626	\$ 671,231
Net cash provided by (used for) operating activities	\$ 425,145	\$ 129,808	\$ 554,953

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

TOWN OF RICHLANDS, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AT JUNE 30, 2015

Note 1-Summary of Significant Accounting Policies:

The financial statements of Town of Richlands, Virginia (the Town) conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The more significant accounting policies established by GAAP and used by the Town are discussed below.

A. Financial reporting entity:

The Town is a municipal corporation governed by an elected seven-member Town Council. The accompanying financial statements present the government. Related organizations, if any, are described below.

Blended Component Units - None

Discretely Presented Component Units - None

Related Organizations - None

Jointly Governed Organizations - None

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. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 1-Summary of Significant Accounting Policies: (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation:

Budgetary Comparison Schedules demonstrate compliance with the adopted budget, which is an important component of a government's accountability to the public. Many citizens participate in one way or another in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. Many governments revise their original budgets over the course of the year for a variety of reasons. Under the GASB 34 reporting model, governments provide budgetary comparison information in their annual reports including the original budget and comparison of final budget and actual results.

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 1-Summary of Significant Accounting Policies: (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation: (Continued)

The Town reports the following major governmental funds:

The *general fund* is the Town's primary operating fund. It accounts for and reports all financial resources of the general government, except those required to be accounted for in other funds. All general tax revenue and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from the general fund.

The Town reports the following proprietary funds:

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

The Town operates a sewage collection and treatment system and a water distribution system. The activities of the systems are accounted for in the water and sewer fund.

The Town operates an electric distribution system. The activities of the systems are accounted for in the electric fund.

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

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

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

Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance:

1. Cash and Cash Equivalents

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

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." All other outstanding balances between funds are "advances to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectibles. The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis.

3. Allowance for Uncollectible Accounts

For the General Fund, the allowance amounted to approximately \$41,022 for property taxes, \$3,400 for garbage billings, and \$163,368 for EMS billings at June 30, 2015. For the Proprietary Fund, the allowance amounted to approximately \$8,176 for water and sewer billings and \$24,551 for electric billings at June 30, 2015.

4. Property Taxes

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of December 31st. Taxes are payable in December of the following fiscal year. The Town bills and collects its own property taxes.

5. 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.

6. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. In accordance with the provisions of Governmental Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. The Town accrues salary-related payments associated with the payment of compensated absences. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance:
(Continued)

7. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current or previous year.

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

<u>Assets</u>	<u>Years</u>
Buildings	40-50
Plant, equipment and system	10-50
Infrastructure	20-25
Machinery and equipment	3-20
Motor vehicles	5-10

8. Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance:
(Continued)

9. Net Position

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

10. Net Position Flow Assumption

Sometimes the Town 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 government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

11. Concentration of Credit Risk

The Town has a credit risk associated with water, sewer and electric fund accounts receivable due to geographic proximity of the Town's customers. The risk is mitigated by the large number of customers and relatively low individual balances.

12. Prepaid Expenses

Prepaid expenses are for payments made by the Town in the current fiscal year to provide services occurring in the subsequent fiscal year.

13. Fund Equity

The Town follows provisions of 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;

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance:
(Continued)

13. Fund Equity (Continued)

- Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund.

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

The Town establishes (and modifies or rescinds) fund balance commitments by passage of 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 Town Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

14. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Town only has one item that qualifies for reporting in this category. It is comprised of certain items related to the measurement of the net pension liability. These include differences between expected and actual experience, change in assumptions, the net difference between projected and actual earnings on pension plan investments and 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 these items, reference the pension note.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 1-Summary of Significant Accounting Policies: (Continued)

14. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has three types of items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable and EMS billings receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30, prepaid tax amounts, and uncollected EMS revenue and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, prepaid amounts are reported as deferred inflows of resources. In addition, certain items related 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.

Note 2-Stewardship, Compliance, and Accountability:

A. Budgetary information

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

1. The Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them. The General fund has a legally adopted budget.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the function level. Only the Town Council can revise the appropriation for each category. The Town Manager is authorized to transfer budgeted amounts within general government departments.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30, for all Town units.
8. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to commit that portion of the applicable appropriations, is not part of the Town's accounting system.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 2-Stewardship, Compliance, and Accountability: (Continued)**B. Deficit fund equity**

At June 30, 2015, there were no funds with deficit fund equity.

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 local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, bankers' acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). The Town did not have any investments as of June 30, 2015 or for the year then ended.

Note 4-Due from Other Governmental Units:

The following amounts represent receivables from other governments at year-end:

	<u>General Fund</u>	<u>Water and Sewer Fund</u>
<u>Local Government:</u>		
Tazewell County Public Service Authority	\$ -	\$ 1,336,366
<u>Commonwealth of Virginia:</u>		
Non-categorical aid	300	-
State sales tax	71,168	-
<u>Federal Government:</u>		
Categorical aid	20,131	-
Total	<u>\$ 91,599</u>	<u>\$ 1,336,366</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 5-Long-Term Obligations:Governmental Activities Obligations:

The following is a summary of long-term obligation transactions of the Town for the year ended June 30, 2015.

	Balance July 1, 2014	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2015
Capital lease	\$ 151,910	\$ -	\$ (48,377)	\$ 103,533
Compensated absences	349,125	234,781	(261,844)	322,062
Net pension liability	5,050,674	686,383	(842,978)	4,894,079
Total	<u>\$ 5,551,709</u>	<u>\$ 921,164</u>	<u>\$ (1,153,199)</u>	<u>\$ 5,319,674</u>

Details of long-term obligations:

Type/ Project	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
Other Obligations:						
Capital lease	4.60%	2007	2017	\$ 455,992	\$ 103,533	\$ 50,602
Compensated Absences	n/a	n/a	n/a	n/a	322,062	241,547
Net pension liability	n/a	n/a	n/a	n/a	4,894,079	-
Total Other Obligations					<u>\$ 5,319,674</u>	<u>\$ 292,149</u>
Total Long-term obligations					<u>\$ 5,319,674</u>	<u>\$ 292,149</u>

Other obligations are typically liquidated by the general fund.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 5-Long-Term Obligations: (Continued)Business-type Activities Obligations:

The following is a summary of long-term obligation transactions of the Enterprise Fund for the year ended June 30, 2015.

	Balance July 1, 2014	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2015
General obligation bonds	\$ 2,288,371	\$ -	\$ (438,472)	\$ 1,849,899
Revenue bonds	784,764	-	(44,844)	739,920
Compensated absences	118,852	96,857	(89,139)	126,570
Net pension liability	2,247,347	305,413	(375,092)	2,177,668
Total	<u>\$ 5,439,334</u>	<u>\$ 402,270</u>	<u>\$ (947,547)</u>	<u>\$ 4,894,057</u>

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

Year Ending June 30,	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2016	\$ 87,195	\$ -	\$ 44,844	\$ -
2017	87,195	-	44,844	-
2018	87,195	-	44,844	-
2019	87,195	-	44,844	-
2020	87,195	-	44,844	-
2021-2025	435,973	-	224,218	-
2026-2030	435,973	-	224,218	-
2031-2035	412,639	-	67,264	-
2036-2037	129,339	-	-	-
Totals	<u>\$ 1,849,899</u>	<u>\$ -</u>	<u>\$ 739,920</u>	<u>\$ -</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AT JUNE 30, 2015

Note 5-Long-Term Obligations: (Continued)Business-type Activities Obligations: (Continued)Details of long-term obligations:

	<u>Interest Rates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Balance Business-type Activities</u>	<u>Amount Due Within One Year</u>
Revenue Bonds:						
Wastewater Series 2010	0.00%	2010	2024	\$ 1,121,250	\$ 739,920	\$ 44,844
General Obligation Bonds:						
Series 2000	0.00%	2000	2031	175,000	93,333	5,834
Series 2005	0.00%	2005	2037	2,002,799	1,435,339	66,760
Series 2006	0.00%	2006	2037	438,037	321,227	14,601
Total Bonds					<u>\$ 2,589,819</u>	<u>\$ 132,039</u>
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 126,570	\$ 94,928
Net Pension Liability	n/a	n/a	n/a	n/a	2,177,668	-
Total other obligations					<u>\$ 2,304,238</u>	<u>\$ 94,928</u>
Total long-term obligations					<u><u>\$ 4,894,057</u></u>	<u><u>\$ 226,967</u></u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 6-Pension Plan:*Plan Description*

All full-time, salaried permanent employees of the Town are automatically covered by VRS Retirement Plan upon employment. This plan is 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 a 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
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.	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.	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") <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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 6-Pension Plan: (Continued)*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
		<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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 6-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>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 6-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>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 6-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>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 6-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>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 6-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. Defined Contribution Component: Not applicable

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 6-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>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 6-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>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 6-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>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 6-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>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 6-Pension Plan: (Continued)*Employees Covered by Benefit Terms*

As of the June 30, 2013 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	13
Inactive members:	
Vested inactive members	7
Non-vested inactive members	8
Inactive members active elsewhere in VRS	<u>3</u>
Total inactive members	31
Active members	<u>71</u>
Total covered employees	<u><u>102</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 Town's contractually required contribution rate for the year ended June 30, 2015 was 22.95% 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 Town were \$561,312 and \$499,326 for the years ended June 30, 2015 and June 30, 2014, respectively.

Net Pension Liability

The Town's net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 6-Pension Plan: (Continued)*Actuarial Assumptions - General Employees*

The total pension liability for General Employees in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2013, 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, 2014.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 6-Pension Plan: (Continued)

Actuarial Assumptions - General Employees (Continued)

The actuarial assumptions used in the June 30, 2013 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

Actuarial Assumptions - Public Safety Employees

The total pension liability for Public Safety employees in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2013, 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, 2014.

Inflation	2.5%
Salary increases, including inflation	3.5% - 4.75%
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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 6-Pension Plan: (Continued)

Actuarial Assumptions - Public Safety Employees (Continued)

Mortality rates: 60% 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 back 2 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 back 2 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

The actuarial assumptions used in the June 30, 2013 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 - LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) - LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 6-Pension Plan: (Continued)*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:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
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	<u>100.00%</u>		<u>5.83%</u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u>8.33%</u>

* 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%.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015Note 6-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 Town 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, 2013	\$ 11,074,062	\$ 3,776,041	\$ 7,298,021
Changes for the year:			
Service cost	\$ 228,999	\$ -	\$ 228,999
Interest	759,699	-	759,699
Differences between expected and actual experience	-	-	-
Contributions - employer	-	499,158	(499,158)
Contributions - employee	-	119,403	(119,403)
Net investment income	-	599,476	(599,476)
Benefit payments, including refunds of employees contributions	(442,432)	(442,432)	-
Administrative expenses	-	(3,098)	3,098
Other changes	-	33	(33)
Net changes	\$ 546,266	\$ 772,540	\$ (226,274)
Balances at June 30, 2014	\$ 11,620,328	\$ 4,548,581	\$ 7,071,747

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 6-Pension Plan: (Continued)*Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

The following presents the net pension liability of the Town using the discount rate of 7.00%, as well as what the Town'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%)
Town Net Pension Liability	8,535,569	7,071,747	5,844,318

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

For the year ended June 30, 2015, the Town recognized pension expense of \$536,162. At June 30, 2015, the Town 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	\$ -	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	263,277
Employer contributions subsequent to the measurement date	561,312	-
Total	\$ 561,312	\$ 263,277

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 6-Pension Plan: (Continued)*Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)*

\$561,312 reported as deferred outflows of resources related to pensions resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30</u>		
2016	\$	(65,819)
2017		(65,819)
2018		(65,819)
2019		(65,820)
Thereafter		-

Note 7-Unearned Revenue:

Unearned revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Unearned revenue totaling \$403,798 is comprised of the following:

Lease Revenue - Lease revenue proceeds received in advance totaled \$30,877 at year end.

Miscellaneous - Funding received in advance and carried over for use in the next fiscal year from Department of Transportation totaling \$370,158 and Department of Criminal Justice Services totaling \$2,763.

Note 8-Restricted Fund Balance/Net Position:

Fund balance and net position were restricted for the following purposes at year end:

<u>Purpose</u>	<u>Amount</u>
Big Creek payments	\$ 44,765
Public Safety Funds	89,124
Recreation Funds	86,565
Restricted Donations	65,180
Asset Forfeiture/Policing Funds	112,993
Total	<u>\$ 398,627</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AT JUNE 30, 2015

Note 9-Capital Assets:

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,357,395	\$ -	\$ -	\$ 1,357,395
Construction in progress	66,447	87,226	-	153,673
Total capital assets not being depreciated	<u>\$ 1,423,842</u>	<u>\$ 87,226</u>	<u>\$ -</u>	<u>\$ 1,511,068</u>
Capital assets, being depreciated:				
Buildings and system	\$ 3,192,836	\$ -	\$ -	\$ 3,192,836
Infrastructure	8,998,747	-	-	8,998,747
Machinery and equipment	6,145,777	385,730	(35,653)	6,495,854
Total capital assets being depreciated	<u>\$ 18,337,360</u>	<u>\$ 385,730</u>	<u>\$ (35,653)</u>	<u>\$ 18,687,437</u>
Accumulated depreciation:				
Buildings and system	\$ (1,242,696)	\$ (91,072)	\$ -	\$ (1,333,768)
Infrastructure	(2,385,456)	(226,212)	-	(2,611,668)
Machinery and equipment	(5,206,110)	(295,502)	23,425	(5,478,187)
Total accumulated depreciation	<u>\$ (8,834,262)</u>	<u>\$ (612,786)</u>	<u>\$ 23,425</u>	<u>\$ (9,423,623)</u>
Total capital assets being depreciated, net	<u>\$ 9,503,098</u>	<u>\$ (227,056)</u>	<u>\$ (12,228)</u>	<u>\$ 9,263,814</u>
Governmental activities capital assets, net	<u>\$ 10,926,940</u>	<u>\$ (139,830)</u>	<u>\$ (12,228)</u>	<u>\$ 10,774,882</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AT JUNE 30, 2015

Note 9-Capital Assets: (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 517,913	\$ -	\$ -	\$ 517,913
Total capital assets not being depreciated	<u>\$ 517,913</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 517,913</u>
Capital assets, being depreciated:				
Utility plant and buildings in service	\$ 22,212,085	\$ -	\$ -	\$ 22,212,085
Machinery and equipment	2,183,423	171,032	-	2,354,455
Total capital assets being depreciated	<u>\$ 24,395,508</u>	<u>\$ 171,032</u>	<u>\$ -</u>	<u>\$ 24,566,540</u>
Accumulated depreciation:				
Utility plant and buildings in service	\$ (10,784,837)	\$ (486,407)	\$ -	\$ (11,271,244)
Machinery and equipment	(1,384,807)	(123,467)	-	(1,508,274)
Total accumulated depreciation	<u>\$ (12,169,644)</u>	<u>\$ (609,874)</u>	<u>\$ -</u>	<u>\$ (12,779,518)</u>
Total capital assets being depreciated, net	<u>\$ 12,225,864</u>	<u>\$ (438,842)</u>	<u>\$ -</u>	<u>\$ 11,787,022</u>
Business-type activities capital assets, net	<u>\$ 12,743,777</u>	<u>\$ (438,842)</u>	<u>\$ -</u>	<u>\$ 12,304,935</u>

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

Governmental activities:

General government administration	\$ 28,546
Public safety	252,860
Public works	287,244
Parks and recreation	<u>44,136</u>

Total depreciation expense - governmental activities	<u>\$ 612,786</u>
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Business-type activities:

Water and sewer	\$ 526,230
Electric	<u>83,644</u>

Total depreciation expense - business-type activities	<u>\$ 609,874</u>
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 10-Lease Obligations-Capital Lease:

The Town entered into a lease purchase agreement for the acquisition of a Pierce Stock Pumper and Pierce Stock Tanker. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date.

The cost and accumulated depreciation associated with the assets acquired through the capital lease is as follows:

	2015
Machinery and Equipment	\$ 455,992
Accumulated Depreciation	<u>(350,552)</u>
Total	<u>\$ 105,440</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2015, were as follows:

Fiscal Year Ended	Governmental Activities
2016	\$ 55,365
2017	55,365
Total minimum lease payments	<u>110,730</u>
Less: amount representing interest	<u>(7,197)</u>
Present value of minimum lease payments	<u>\$ 103,533</u>

Note 11-Risk Management:

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates with other localities in a public entity risk pool for their coverage of property, general liability and auto insurance with the Virginia Municipal Liability Pool (Pool). Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The Town pays the Pool contributions and assessments into a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of a loss, deficit, or depletion of all available resources, the pool may assess all members in the proportion to which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The Town continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 12-Contingencies:

Grant funds are subject to audit by the funding agencies to determine compliance with various grant requirements. Should any expenditure be disallowed, they must be refunded to the granting agencies. Any liability for reimbursement, which may arise as the result of these audits is believed to be immaterial.

Town of Cedar Bluff, Virginia has a claim against The Town in litigation before the Circuit Court of Tazewell County. The claim alleges that certain meals taxes collected by the Town should have been remitted to Town of Cedar Bluff, Virginia because a portion of the restaurant is physically located in Town of Cedar Bluff, Virginia's corporate limits. At the present time, the Town cannot make a reasonable estimate of the amount due (if any) to Town of Cedar Bluff, Virginia. As such, no liability has been recorded in the financial statements for this claim.

Note 13-Electric Power Agreement:

The Town is a participant in American Municipal Power-Ohio, Inc. (AMP-Ohio), a nonprofit corporation, organized to own and operate facilities for the generation, transmission, and distribution of electrical power. Other participants in MP-Ohio are political subdivisions which operate electric systems in Ohio, Michigan, Pennsylvania, Virginia, and West Virginia. As a participant, the Town has agreed to purchase specified kilowatts of power at AMP-Ohio's incurred cost through December 31, 2057. In accordance with this agreement the Town remits funds to an escrow account for the payment of power bills.

Note 14-Pledged Revenues:

The Town has pledged future water and sewer customer revenues to repay \$739,920 in water and wastewater bonds. Proceeds from the bonds provided financing for the construction of the water and sewer systems. The bonds are payable solely from water and sewer customer revenues and are payable through 2032.

Note 15-Electric Rate Stabilization Plan:

The Town entered into a rate stabilization plan with American Municipal Power, Inc. to reduce the effects of volatility in energy markets. As of June 30, 2015, the Town carried a balance of \$278,134 in an escrow account maintained for the Town's benefit. This amount has been reported in the financial statements as a prepaid items.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 16-Service Agreements:

On September 3, 2003, the Town and Tazewell County Public Service Authority (TCPSA) entered into an agreement to share the costs of construction and operation of a water transmission facility known as Kent's Ridge Road Project. The project was financed by two thirty year, interest-free loans from the Virginia Resources Authority (VRA). The loans are secured by a pledge of revenues from the Town's water and wastewater systems and by a pledge of the Town's full faith and credit. Also, County of Tazewell, Virginia has undertaken, to the extent permitted by law, a non-binding but moral obligation to pay such amounts as may be needed, with respect to the notes, for the payment of principal and interest pursuant to the terms of the agreement. The Town has recorded an amount due from the TCPSA of \$1,336,366 at year end for their share of debt service payments.

The Town has also entered into separate agreements with the TCPSA and Town of Cedar Bluff, Virginia to provide water treatment. The agreements allocate operating costs and the cost of construction based on usage (or an estimate thereof).

The Town; Town of Cedar Bluff, Virginia; and Tazewell County Public Service Authority (TCPSA) entered into an agreement dated March 15, 1989, whereby each of the parties would participate in the allocation of capacity and costs with respect to the design, construction, operation and maintenance of a regional wastewater treatment facility. The Town is responsible for the operation of the facility. The Town is also responsible for budgeting and financing subject to agreed upon procedures by the three participants. Monthly user charges are paid by the participants for their share of the cost of the project.

Payments received by the Town during the fiscal year for the aforementioned agreements are as follow:

<u>Entity</u>	<u>Amounts</u>
Town of Cedar Bluff	\$ 147,900
Tazewell County PSA	620,460
Tazewell County PSA - loan payments	30,924
Total	<u>\$ 799,284</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 17-Adoption of Accounting Principles:

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*:

The Town implemented the financial reporting provisions of the above Statements for the fiscal year ended June 30, 2015. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. Note disclosure and required supplementary information requirements about pensions are also addressed. The requirements of these Statements will improve financial reporting by improving accounting and financial reporting by state and local governments for pensions. The implementation of these Statements resulted in the following restatement of net position:

	Governmental Activities	Business-type Activities
Net Position, July 1, 2014, as previously stated	\$ 11,996,809	\$ 15,720,482
Net pension liability	(5,050,674)	(2,247,347)
Deferred outflow	345,448	153,711
Net Position, July 1, 2014, as restated	<u>\$ 7,291,583</u>	<u>\$ 13,626,846</u>

Note 18-Upcoming Pronouncements:

Statement No. 72, *Fair Value Measurement and Application*, amends the definitions of fair value used throughout GASB literature to be consistent with the definition and principles provided in FASB Accounting Standards Codification Topic 820, *Fair Value Measurement*. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. No formal study or estimate of the impact of this standard has been performed.

Statement 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*, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68 and amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. No formal study or estimate of the impact of this standard has been performed.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2015

Note 18-Upcoming Pronouncements: (Continued)

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. No formal study or estimate of the impact of this standard has been performed.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for fiscal years beginning after June 15, 2017. No formal study or estimate of the impact of this standard has been performed.

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, objective is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. No formal study or estimate of the impact of this standard has been performed.

Statement No. 77, *Tax Abatement Disclosures*, will increase the disclosure of tax abatement agreements to disclose information about the agreements. The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. No formal study or estimate of the impact of this standard has been performed.

Town of Richlands, Virginia
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES				
General property taxes	\$ 488,000	\$ 488,000	\$ 481,056	\$ (6,944)
Other local taxes	1,899,000	1,899,000	2,035,854	136,854
Permits, privilege fees, and regulatory licenses	2,000	2,000	1,755	(245)
Fines and forfeitures	50,500	50,500	99,052	48,552
Revenue from the use of money and property	4,000	4,000	9,139	5,139
Charges for services	1,200,700	1,200,700	1,072,943	(127,757)
Miscellaneous	78,865	78,865	126,508	47,643
Recovered costs	62,000	62,000	139,441	77,441
Intergovernmental:				
Commonwealth	1,859,400	1,859,400	899,197	(960,203)
Federal	-	-	129,815	129,815
Total revenues	<u>\$ 5,644,465</u>	<u>\$ 5,644,465</u>	<u>\$ 4,994,760</u>	<u>\$ (649,705)</u>
EXPENDITURES				
Current:				
General government administration	\$ 373,780	\$ 373,780	\$ 267,560	\$ 106,220
Public safety	2,913,747	2,913,747	2,535,244	378,503
Public works	1,588,241	1,588,241	1,311,842	276,399
Parks, recreation, and cultural	357,952	357,952	300,353	57,599
Community development	15,000	15,000	52,705	(37,705)
Capital projects	1,320,131	1,320,131	472,956	847,175
Debt service:				
Principal retirement	46,250	46,250	48,377	(2,127)
Interest and other fiscal charges	9,115	9,115	6,988	2,127
Total expenditures	<u>\$ 6,624,216</u>	<u>\$ 6,624,216</u>	<u>\$ 4,996,025</u>	<u>\$ 1,628,191</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (979,751)</u>	<u>\$ (979,751)</u>	<u>\$ (1,265)</u>	<u>\$ 978,486</u>
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	\$ 10,000	\$ 10,000	\$ 1,654	\$ (8,346)
Total other financing sources (uses)	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 1,654</u>	<u>\$ (8,346)</u>
Net change in fund balances	<u>\$ (969,751)</u>	<u>\$ (969,751)</u>	<u>\$ 389</u>	<u>\$ 970,140</u>
Fund balances - beginning	969,751	969,751	1,117,173	147,422
Fund balances - ending	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,117,562</u></u>	<u><u>\$ 1,117,562</u></u>

Town of Richlands, Virginia
Schedule of Components of and Changes in Net Pension Liability and Related Ratios
For the Year Ended June 30, 2015

	<u>2014</u>
Total pension liability	
Service cost	\$ 228,999
Interest	759,699
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit payments, including refunds of employee contributions	(442,432)
Net change in total pension liability	<u>\$ 546,266</u>
Total pension liability - beginning	<u>11,074,062</u>
Total pension liability - ending (a)	<u><u>\$ 11,620,328</u></u>
 Plan fiduciary net position	
Contributions - employer	\$ 499,158
Contributions - employee	119,403
Net investment income	599,476
Benefit payments, including refunds of employee contributions	(442,432)
Administrative expense	(3,098)
Other	33
Net change in plan fiduciary net position	<u>\$ 772,540</u>
Plan fiduciary net position - beginning	<u>3,776,041</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 4,548,581</u></u>
 Political subdivision's net pension liability - ending (a) - (b)	 \$ 7,071,747
 Plan fiduciary net position as a percentage of the total pension liability	 39.14%
 Covered-employee payroll (2014 fiscal year)	 \$ 2,391,408
 Political subdivision's net pension liability as a percentage of covered-employee payroll	 295.71%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

Town of Richlands, Virginia
Schedule of Employer Contributions
For the Year Ended June 30, 2015

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
2015	\$ 561,312	\$ 561,312	\$ -	\$ 2,433,045	23.07%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

Town of Richlands, Virginia
Notes to Required Supplementary Information
For the Year Ended June 30, 2015

Changes of benefit terms - There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013 and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

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 - 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

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

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

All Others (Non 10 Largest) - LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

Town of Richlands, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2015

Schedule 1
Page 1 of 3

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 453,000	\$ 453,000	\$ 442,299	\$ (10,701)
Real and personal public service corporation taxes	18,000	18,000	17,303	(697)
Mobile home taxes	13,000	13,000	11,909	(1,091)
Penalties and Interest	4,000	4,000	9,545	5,545
Total general property taxes	\$ 488,000	\$ 488,000	\$ 481,056	\$ (6,944)
Other local taxes:				
Local sales and use taxes	\$ 390,000	\$ 390,000	\$ 397,322	\$ 7,322
Consumers utility tax	150,000	150,000	146,230	(3,770)
Local consumption tax	22,000	22,000	22,331	331
Business license taxes	490,000	490,000	495,195	5,195
Motor vehicle licenses	37,000	37,000	34,582	(2,418)
Bank stock taxes	160,000	160,000	199,407	39,407
Tobacco taxes	-	-	53	53
Meals taxes	650,000	650,000	740,734	90,734
Total other local taxes	\$ 1,899,000	\$ 1,899,000	\$ 2,035,854	\$ 136,854
Permits, privilege fees, and regulatory licenses:				
Zoning permits	\$ 2,000	\$ 2,000	\$ 1,755	\$ (245)
Fines and forfeitures:				
Court fines and forfeitures	\$ 50,000	\$ 50,000	\$ 87,317	\$ 37,317
Asset forfeitures	-	-	10,960	10,960
Parking violations	500	500	775	275
Total fines and forfeitures	\$ 50,500	\$ 50,500	\$ 99,052	\$ 48,552
Revenue from use of money and property:				
Revenue from use of money	\$ 4,000	\$ 4,000	\$ 5,319	\$ 1,319
Revenue from use of property	-	-	3,820	3,820
Total revenue from use of money and property	\$ 4,000	\$ 4,000	\$ 9,139	\$ 5,139
Charges for services:				
Contract work - Streets	\$ 5,000	\$ 5,000	\$ 43,110	\$ 38,110
Fire Department billings	-	-	1,276	1,276
Rescue Squad billings	700,000	700,000	558,874	(141,126)
Swimming pool fees	16,000	16,000	10,043	(5,957)
Concession collections	13,000	13,000	10,871	(2,129)
Basketball fees	4,000	4,000	1,995	(2,005)

Town of Richlands, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2015

Schedule 1
Page 2 of 3

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (continued)				
Revenue from local sources: (continued)				
Charges for services: (continued)				
Indoor tennis fees	\$ 2,500	\$ 2,500	\$ 1,856	\$ (644)
Outdoor tennis fees	700	700	638	(62)
Room rental	6,000	6,000	3,190	(2,810)
Miscellaneous recreation fees	6,000	6,000	3,959	(2,041)
Convenience fees	-	-	1,431	1,431
Garbage collections	447,500	447,500	407,239	(40,261)
Farmer's market revenue	-	-	28,461	28,461
Total charges for services	\$ 1,200,700	\$ 1,200,700	\$ 1,072,943	\$ (127,757)
Miscellaneous revenue:				
Miscellaneous	\$ 3,000	\$ 3,000	\$ 26,167	\$ 23,167
Gifts and donations	2,000	2,000	-	(2,000)
Gifts and donations - Fire	55,365	55,365	73,298	17,933
Gifts and donations - Police	8,000	8,000	9,843	1,843
Gifts and donations - Rescue	10,500	10,500	17,200	6,700
Total miscellaneous revenue	\$ 78,865	\$ 78,865	\$ 126,508	\$ 47,643
Recovered costs:				
County of Tazewell - fire program	\$ 60,000	\$ 60,000	\$ 60,000	\$ -
Drug enforcement funds	-	-	70,286	70,286
Returned check fees	2,000	2,000	2,250	250
Restitution	-	-	6,905	6,905
Total recovered costs	\$ 62,000	\$ 62,000	\$ 139,441	\$ 77,441
Total revenue from local sources	\$ 3,785,065	\$ 3,785,065	\$ 3,965,748	\$ 180,683
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Mobile home titling tax	\$ 1,000	\$ 1,000	\$ 3,000	\$ 2,000
Motor vehicles carrier's tax	2,000	2,000	13,754	11,754
Total noncategorical aid	\$ 3,000	\$ 3,000	\$ 16,754	\$ 13,754
Categorical aid:				
Litter control grant	\$ 2,700	\$ 2,700	\$ 2,432	\$ (268)
Local law enforcement block grant	-	-	2,395	2,395
Police grants	53,232	53,232	-	(53,232)

Town of Richlands, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2015

Schedule 1
Page 3 of 3

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (continued)				
Intergovernmental: (continued)				
Revenue from the Commonwealth: (continued)				
Categorical aid: (continued)				
Highway revenue sharing	\$ 150,000	\$ 150,000	\$ 826	\$ (149,174)
Street maintenance	868,600	868,600	583,105	(285,495)
Law enforcement grant	133,700	133,700	133,700	-
Drug enforcement	93,087	93,087	17,500	(75,587)
EMS grants	83,200	83,200	82,294	(906)
Fire grants	-	-	19,448	19,448
Community improvement grant	455,381	455,381	31,432	(423,949)
Asset forfeitures	-	-	4,402	4,402
Other state revenue	16,500	16,500	4,909	(11,591)
Total categorical aid	<u>\$ 1,856,400</u>	<u>\$ 1,856,400</u>	<u>\$ 882,443</u>	<u>\$ (973,957)</u>
Total revenue from the Commonwealth	<u>\$ 1,859,400</u>	<u>\$ 1,859,400</u>	<u>\$ 899,197</u>	<u>\$ (960,203)</u>
Revenue from the federal government:				
Categorical aid:				
Federal police grants	\$ -	\$ -	\$ 17,405	\$ 17,405
Federal fire grants	-	-	1,000	1,000
Asset forfeitures	-	-	110,855	110,855
Other federal revenue	-	-	555	555
Total categorical aid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 129,815</u>	<u>\$ 129,815</u>
Total revenue from the federal government	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 129,815</u>	<u>\$ 129,815</u>
Total General Fund	<u>\$ 5,644,465</u>	<u>\$ 5,644,465</u>	<u>\$ 4,994,760</u>	<u>\$ (649,705)</u>

Town of Richlands, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2015

<u>Fund, Function and Department Expenditures</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
General government administration:				
General and financial administration:				
Town Council	\$ 17,907	\$ 17,907	\$ 14,278	\$ 3,629
Administration	348,087	348,087	239,880	108,207
Fringe Benefits	7,786	7,786	13,402	(5,616)
Total general and financial administration	<u>\$ 373,780</u>	<u>\$ 373,780</u>	<u>\$ 267,560</u>	<u>\$ 106,220</u>
Public safety:				
Law enforcement and traffic control:				
Police grants	\$ -	\$ -	\$ 14,611	\$ (14,611)
Drug task force	93,087	93,087	100,318	(7,231)
Police Department	1,809,504	1,809,504	1,649,687	159,817
Total law enforcement and traffic control	<u>\$ 1,902,591</u>	<u>\$ 1,902,591</u>	<u>\$ 1,764,616</u>	<u>\$ 137,975</u>
Fire and rescue services:				
Fire Department	\$ 243,395	\$ 243,395	\$ 119,128	\$ 124,267
Rescue Squad	767,761	767,761	651,500	116,261
Total fire and rescue services	<u>\$ 1,011,156</u>	<u>\$ 1,011,156</u>	<u>\$ 770,628</u>	<u>\$ 240,528</u>
Total public safety	<u>\$ 2,913,747</u>	<u>\$ 2,913,747</u>	<u>\$ 2,535,244</u>	<u>\$ 378,503</u>
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highways, streets, bridges and sidewalks	<u>\$ 1,110,951</u>	<u>\$ 1,110,951</u>	<u>\$ 919,883</u>	<u>\$ 191,068</u>
Sanitation and waste removal:				
Refuse collection and disposal	<u>\$ 477,290</u>	<u>\$ 477,290</u>	<u>\$ 391,959</u>	<u>\$ 85,331</u>
Total public works	<u>\$ 1,588,241</u>	<u>\$ 1,588,241</u>	<u>\$ 1,311,842</u>	<u>\$ 276,399</u>
Parks, recreation, and cultural:				
Cultural enrichment:				
Recreation	<u>\$ 345,818</u>	<u>\$ 345,818</u>	<u>\$ 295,949</u>	<u>\$ 49,869</u>
Library:				
Library	<u>\$ 12,134</u>	<u>\$ 12,134</u>	<u>\$ 4,404</u>	<u>\$ 7,730</u>
Total parks, recreation, and cultural	<u>\$ 357,952</u>	<u>\$ 357,952</u>	<u>\$ 300,353</u>	<u>\$ 57,599</u>
Community development:				
Planning and community development:				
Downtown activities	<u>\$ 15,000</u>	<u>\$ 15,000</u>	<u>\$ 52,705</u>	<u>\$ (37,705)</u>
Capital projects/outlays:				
Capital projects and capital outlays	<u>\$ 1,320,131</u>	<u>\$ 1,320,131</u>	<u>\$ 472,956</u>	<u>\$ 847,175</u>
Debt service:				
Principal retirement	\$ 46,250	\$ 46,250	\$ 48,377	\$ (2,127)
Interest and other fiscal charges	9,115	9,115	6,988	2,127
Total debt service	<u>\$ 55,365</u>	<u>\$ 55,365</u>	<u>\$ 55,365</u>	<u>\$ -</u>
Total General Fund	<u><u>\$ 6,624,216</u></u>	<u><u>\$ 6,624,216</u></u>	<u><u>\$ 4,996,025</u></u>	<u><u>\$ 1,628,191</u></u>

Table 1

Town of Richlands, Virginia
Government-Wide Expenses by Function
Last Six Fiscal Years (1)

Fiscal Year	General Government Administration	Public Safety	Public Works	Parks, Recreation, and Cultural	Community Development	Interest on Long-Term Debt	Water and Sewer	Electric	Total
2009-10	\$ 517,043	\$ 2,800,286	\$ 1,406,509	\$ 349,495	\$ 141,269	\$ 17,501	\$ 2,014,444	\$ 6,156,711	\$ 13,403,258
2010-11	271,310	2,764,620	1,544,774	390,015	206,662	16,801	2,106,703	5,833,916	13,134,801
2011-12	270,119	2,688,745	1,636,116	382,314	38,246	11,921	2,259,778	5,227,037	12,514,276
2012-13	290,591	2,838,354	1,551,236	391,472	129,783	9,285	2,282,333	5,291,893	12,784,947
2013-14	285,960	2,863,825	1,500,829	354,456	58,493	7,164	2,392,826	6,743,677	14,207,230
2014-15	269,723	2,645,744	1,595,057	343,926	52,705	4,949	2,408,886	6,094,861	13,415,851

(1) Information has only been available for six years.

Table 2

Town of Richlands, Virginia
Government-Wide Revenues
Last Six Fiscal Years (1)

Fiscal Year	PROGRAM REVENUES				GENERAL REVENUES					
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Miscellaneous	Grants and Contributions Not Restricted to Specific Programs	Total
2009-10	\$ 10,020,767	\$ 1,983,278	\$ -		\$ 461,000	\$ 1,704,768	\$ 39,784	\$ 486,673	\$ -	\$ 14,696,270
2010-11	10,517,188	1,162,629	1,773,617		408,275	1,671,219	27,512	196,854	9,598	15,766,892
2011-12	9,278,334	1,331,617	245,517		434,748	1,751,238	17,868	124,600	4,081	13,188,003
2012-13	9,672,614	1,778,186	93,941		464,070	1,848,254	16,874	364,230	13,685	14,251,854
2013-14	10,035,089	1,280,498	4,607,782		469,162	1,941,856	14,050	167,513	4,057	18,520,007
2014-15	9,550,616	980,826	31,432		478,340	2,035,854	13,880	130,668	16,754	13,238,370

(1) Information has only been available for six years.

Table 3

Town of Richlands, Virginia
General Governmental Expenditures by Function
Last Ten Fiscal Years

Fiscal Year	General and Financial Administration	Public Safety	Public Works	Parks, Recreation, and Cultural	Community Development	Debt Service	Total (1)
2005-06	\$ 1,283,780	\$ 1,510,092	\$ 1,199,328	\$ 249,755	\$ 26,582	\$ -	\$ 4,270,437
2006-07	1,242,646	1,502,021	914,500	259,312	436,033	4,535	4,359,047
2007-08	878,513	2,962,490	1,653,354	325,440	37,783	82,187	5,939,767
2008-09	710,412	2,738,636	1,514,056	392,150	1,205	86,079	5,442,538
2009-10	295,497	2,747,120	1,331,514	356,386	141,269	58,912	4,930,698
2010-11	286,319	2,615,615	1,333,176	451,633	206,662	86,081	4,979,486
2011-12	267,218	2,529,280	1,388,996	340,314	38,246	86,085	4,650,139
2012-13	254,595	2,639,835	1,297,287	349,064	129,783	55,364	4,725,928
2013-14	263,515	2,623,164	1,219,929	310,872	58,493	55,364	4,531,337
2014-15	267,560	2,535,244	1,311,842	300,353	52,705	55,365	4,523,069

(1) Excludes Capital Projects.

Table 4

Town of Richlands, Virginia
General Governmental Revenues by Source
Last Ten Fiscal Years

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, Regulatory Licenses	Fines and Forfeitures	Revenue from the			Recovered Costs	Inter-governmental	Total
					Use of Money and Property	Charges for Services	Miscellaneous			
2005-06	\$ 287,393	\$ 1,270,365	\$ 13,970	\$ 81,884	\$ 64,277	\$ 377,930	\$ 100,716	\$ -	\$ 962,041	\$ 3,158,576
2006-07	443,452	1,353,541	14,645	61,034	60,878	923,874	284,613	-	1,373,804	4,515,841
2007-08	408,501	1,386,360	14,615	135,107	76,011	1,071,321	518,389	-	1,275,563	4,885,867
2008-09	419,861	1,437,774	2,035	181,716	34,833	1,106,721	296,866	-	1,118,771	4,598,577
2009-10	425,420	1,704,768	1,585	85,661	19,021	1,264,454	286,617	-	1,338,364	5,125,890
2010-11	432,840	1,671,219	2,225	162,930	15,894	1,121,649	185,927	150,408	1,339,879	5,082,971
2011-12	433,863	1,751,238	2,090	50,562	11,853	1,190,198	117,765	140,780	1,373,185	5,071,534
2012-13	458,103	1,848,254	1,715	62,675	8,747	1,142,404	351,811	62,726	1,856,074	5,792,509
2013-14	460,876	1,941,856	1,270	237,281	8,938	1,116,902	158,987	63,189	1,319,989	5,309,288
2014-15	481,056	2,035,854	1,755	99,052	9,139	1,072,943	126,508	139,441	1,029,012	4,994,760

Table 5

Town of Richlands, Virginia
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy (1)	Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (2)	Percent of Delinquent Taxes to Tax Levy
2005-06	\$ 250,862	\$ 227,322	90.62%	\$ 28,435	\$ 255,757	101.95%	\$ 21,523	8.58%
2006-07	403,792	378,197	93.66%	34,954	413,151	102.32%	20,979	5.20%
2007-08	407,711	384,290	94.26%	19,408	403,698	99.02%	26,167	6.42%
2008-09	414,990	391,112	94.25%	19,082	410,194	98.84%	29,226	7.04%
2009-10	418,224	372,689	89.11%	19,895	392,584	93.87%	34,252	8.19%
2010-11	421,699	394,301	93.50%	21,144	415,445	98.52%	58,811	13.95%
2011-12	424,866	392,515	92.39%	24,079	416,594	98.05%	63,755	15.01%
2012-13	457,827	434,546	94.91%	18,364	452,910	98.93%	72,597	15.86%
2013-14	458,280	431,776	94.22%	22,171	453,947	99.05%	81,578	17.80%
2014-15	453,872	443,378	97.69%	28,133	471,511	103.89%	77,324	17.04%

(1) Exclusive of penalties and interest.

(2) Delinquent taxes include only amounts that have been delinquent less than three years.

Table 6

Town of Richlands, Virginia
Assessed Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Real Estate	Public Service Corporation	Total
2005-06	\$ 145,408,200	\$ 10,885,065	\$ 156,293,265
2006-07	242,387,600	11,234,553	253,622,153
2007-08	243,153,600	11,665,588	254,819,188
2008-09	249,235,687	10,132,899	259,368,586
2009-10	250,972,225	10,417,493	261,389,718
2010-11	253,304,900	9,916,473	263,221,373
2011-12	254,672,500	10,460,117	265,132,617
2012-13	274,891,300	11,250,521	286,141,821
2013-14	274,606,600	11,818,369	286,424,969
2014-15	275,127,700	10,719,704	285,847,404

Table 7

Town of Richlands, Virginia
Property Tax Rates
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Real Estate (1)</u>
2005-06	0.16
2006-07	0.16
2007-08	0.16
2008-09	0.16
2009-10	0.16
2010-11	0.16
2011-12	0.16
2012-13	0.16
2013-14	0.16
2014-15	0.16

(1) Per \$100 of assessed value.

Table 8

Town of Richlands, Virginia
Ratio of Net General Bonded Debt to
Assessed Value and Net Bonded Debt Per Capita
Last Ten Fiscal Years

Fiscal Year	Population (1)	Assessed Value (in thousands)	Gross and Net Bonded Debt (2)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2005-06	5,639	\$ 156,293	\$ 3,876,297	2.48%	\$ 687
2006-07	5,639	253,622	4,958,860	1.96%	879
2007-08	5,639	254,819	4,647,573	1.82%	824
2008-09	5,639	259,369	4,321,534	1.67%	766
2009-10	5,639	261,390	3,934,684	1.51%	698
2010-11	5,823	263,221	3,567,306	1.36%	613
2011-12	5,823	265,133	3,133,236	1.18%	538
2012-13	5,823	286,142	2,714,671	0.95%	466
2013-14	5,823	286,425	2,288,371	0.80%	393
2014-15	5,823	285,847	1,849,899	0.65%	318

(1) U.S. Census Bureau.

(2) Includes all long-term general obligation bonded debt and bonded anticipation notes.
Excludes revenue bonds, capital leases, and compensated absences.

Table 9

Town of Richlands, Virginia
Computation of Legal Debt Margin
At June 30, 2015

Total assessed value of taxed real property	\$ 285,847,404
Debt limit - 10 percent of total assessed value	28,584,740
Amount of debt applicable to debt limit	<u>(1,849,899)</u>
Legal debt margin	<u>\$ 26,734,841</u>

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*

To the Honorable Members of Town Council
Town of Richlands, Virginia
Richlands, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Richlands, Virginia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town of Richlands, Virginia's basic financial statements, and have issued our report thereon dated October 21, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Robinson, Turner, Cox Associates

Blacksburg, Virginia
October 21, 2015