

TOWN OF RICHLANDS, VIRGINIA
FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2013

**TOWN OF RICHLANDS, VIRGINIA
FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2013**

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INTRODUCTORY SECTION

TOWN OF RICHLANDS, VIRGINIA

TOWN COUNCIL

Jan White, Mayor

Doug Ratliff, Vice Mayor

Rod Cury

Larry Worrell

Frances Meadows

Larry Johnson

T. Shea Cook

OTHER OFFICIALS

Timothy Taylor Town Manager
Sue Wade Office Manager
Adrienne Cordle Accountant

FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

To the Honorable Members of the Town Council
Town of 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, 2013, and the related notes to the financial statements, which collectively comprise the Town of Richlands, Virginia'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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of 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 28, 2013, 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, Cox Associates

Blacksburg, Virginia
October 28, 2013

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, 2013.

Financial Highlights for fiscal year 2013

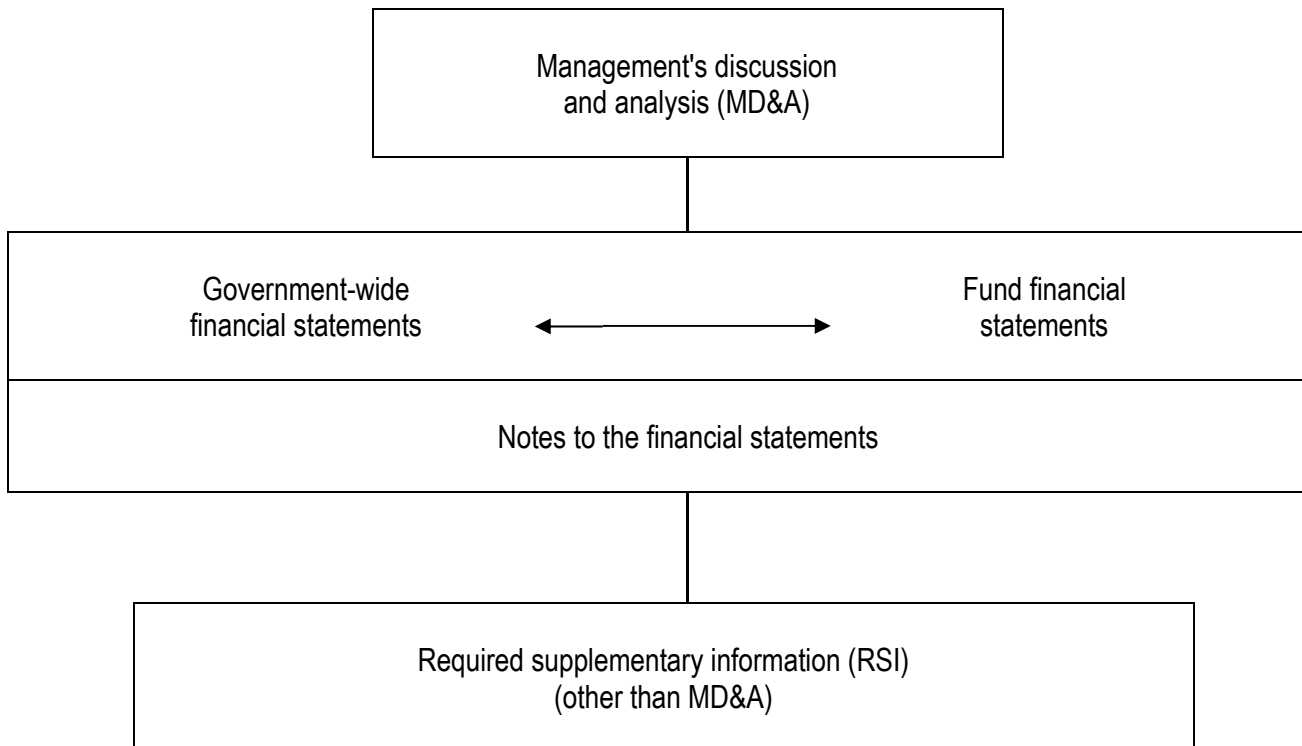
- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$23,404,514 (net position). Of this amount, \$7,300,664 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net position increased by \$1,466,907. The increase is attributable to an increase in the Town's Business type activities and Governmental type activities for the year.
- The Town's total liabilities at the close of the current fiscal year were \$5,388,133, including \$4,206,749 in long-term debt.
- Long-term debt primarily represents the amount due on the Town's general obligation and revenue bonds for public improvements and the water and wastewater treatment systems, respectively.
- As of the close of the current fiscal year, the Town's governmental fund reported an ending fund balance of \$859,537, a decrease of 2,935 from the prior year fund balance. Such amount is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$821,276, or 14% of total general fund expenditures.
- At the end of the fiscal year June 30, 2013, the Town spent a total of \$666,573.27 in grant and local funds for construction of the Burn Building. The project was completed in June 2013.
- At the close of the current fiscal year, the Town also completed the street lighting project along Route 609 in Richland's Corporate limits. The Town spent a total of \$203,578.26 in grant and local funds as of the end of the fiscal year June 30, 2013.
- The Town had (1) active Revenue Bonds at the end of the current fiscal year with a total balance of \$829,607.
- The Town had general obligation bonds at June 30, 2013 with an ending balance of \$2,714,671.

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 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*.

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 are 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 3 through 6 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 7 to 9 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 48 of this report.

Government-Wide Financial Analysis

Statement of Net Assets

The following table reflects the Town's condensed Net Position:

**Table 1
Summary of Net Position
As of June 30, 2013**

	Governmental Activities		Business-type Activities		Totals	
	2012	2013	2012	2013	2012	2013
Current and other assets	\$ 1,551,110	\$ 1,514,787	\$ 6,311,715	\$ 7,458,713	\$ 7,862,825	\$ 8,973,500
Capital assets	6,004,664	6,493,271	13,989,107	13,353,016	19,993,771	19,846,287
Total assets	7,555,774	8,008,058	20,300,822	20,811,729	27,856,596	28,819,787
Long-term liabilities	597,613	555,499	4,136,047	3,651,250	4,733,660	4,206,749
Other liabilities	461,355	412,973	698,088	768,411	1,159,443	1,181,384
Total liabilities	1,058,968	968,472	4,834,135	4,419,661	5,893,103	5,388,133
Deferred inflows	25,886	27,140	-	-	25,886	27,140
Net position:						
Net investment in capital assets	5,762,290	6,295,112	9,981,420	9,808,738	15,743,710	16,103,850
Restricted			-		-	-
Unrestricted	708,630	717,334	5,485,267	6,583,330	6,193,897	7,300,664
Total net position	\$ 6,470,920	\$ 7,012,446	\$ 15,466,687	\$ 16,392,068	\$ 21,937,607	\$ 23,404,514

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$23,404,514 at the close of fiscal year 2013. The largest portion of the Town's net position (69%) 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.

The unrestricted net position (\$7,300,664) may be used to meet the government's ongoing obligations to the citizens and creditors.

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, 2013

	Governmental Activities		Business-Type Activities	
	2012	2013	2012	2013
Revenues:				
Program revenues :				
Charges for services	\$ 936,327	\$ 1,212,704	\$ 8,342,007	\$ 8,459,910
Operating grants & Contributions	1,331,617	1,778,186	-	-
Capital grants & Contributions	37,487	64,203	208,030	29,738
General revenue:				
Property taxes	434,748	464,070	-	-
Other local taxes	1,751,238	1,848,254	-	-
Unrestricted investment earnings	11,853	8,747	6,015	8,127
Other / Miscellaneous	117,765	351,811	-	-
Grants and contributions not restricted	4,081	13,685	-	-
Gain on disposal of capital assets	6,494	10,587	341	1,832
Total revenues	<u>4,631,610</u>	<u>5,752,247</u>	<u>8,556,393</u>	<u>8,499,607</u>
Expenses:				
General gov't adm.	270,119	290,591	-	-
Public safety	2,688,745	2,838,354	-	-
Public works	1,636,116	1,551,236	-	-
Parks, recreation , culture	382,314	391,472	-	-
Community development	38,246	129,783	-	-
Interest-long term debt	11,921	9,285	-	-
Electric	-	-	5,227,037	5,291,893
Water & sewer	-	-	2,248,005	2,282,333
Total expenses	<u>5,027,461</u>	<u>5,210,721</u>	<u>7,475,042</u>	<u>7,574,226</u>
Excess (deficiency) before transfers	(395,851)	541,526	1,081,351	925,381
Transfers	148,726	-	(148,726)	-
Change in net position	<u>(247,125)</u>	<u>541,526</u>	<u>932,625</u>	<u>925,381</u>
Net position-July 1	<u>6,718,045</u>	<u>6,470,920</u>	<u>14,534,062</u>	<u>15,466,687</u>
Net position-June 30	<u>\$ 6,470,920</u>	<u>\$ 7,012,446</u>	<u>\$ 15,466,687</u>	<u>\$ 16,392,068</u>

Government-Wide Financial Analysis (Continued)

Statement of Activities (Continued)

During the current fiscal year the Town's net position increased by \$1,466,907. This is comprised of an increase from governmental activities of \$541,526 and an increase in business type activities of \$925,381.

Governmental activities-Governmental activities increased the Town's net position by \$541,526. Additional factors noted below.

Revenues from governmental activities totaled \$5,752,247, with charges for services (21%), other local taxes (32.1%) and operating grants & contributions (30.9%), 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 increased \$276,377 due significantly to a decrease in bad debt write offs for EMS billings totaling \$264,038.81 during the fiscal year as compared to write offs totaling \$394,443.62 in the prior year, operating grants & contributions increased \$446,569 due primarily to an increase of grant funding and Other / Miscellaneous increased \$234,046 due primarily to an increase in donations received for the public services and recreation departments.

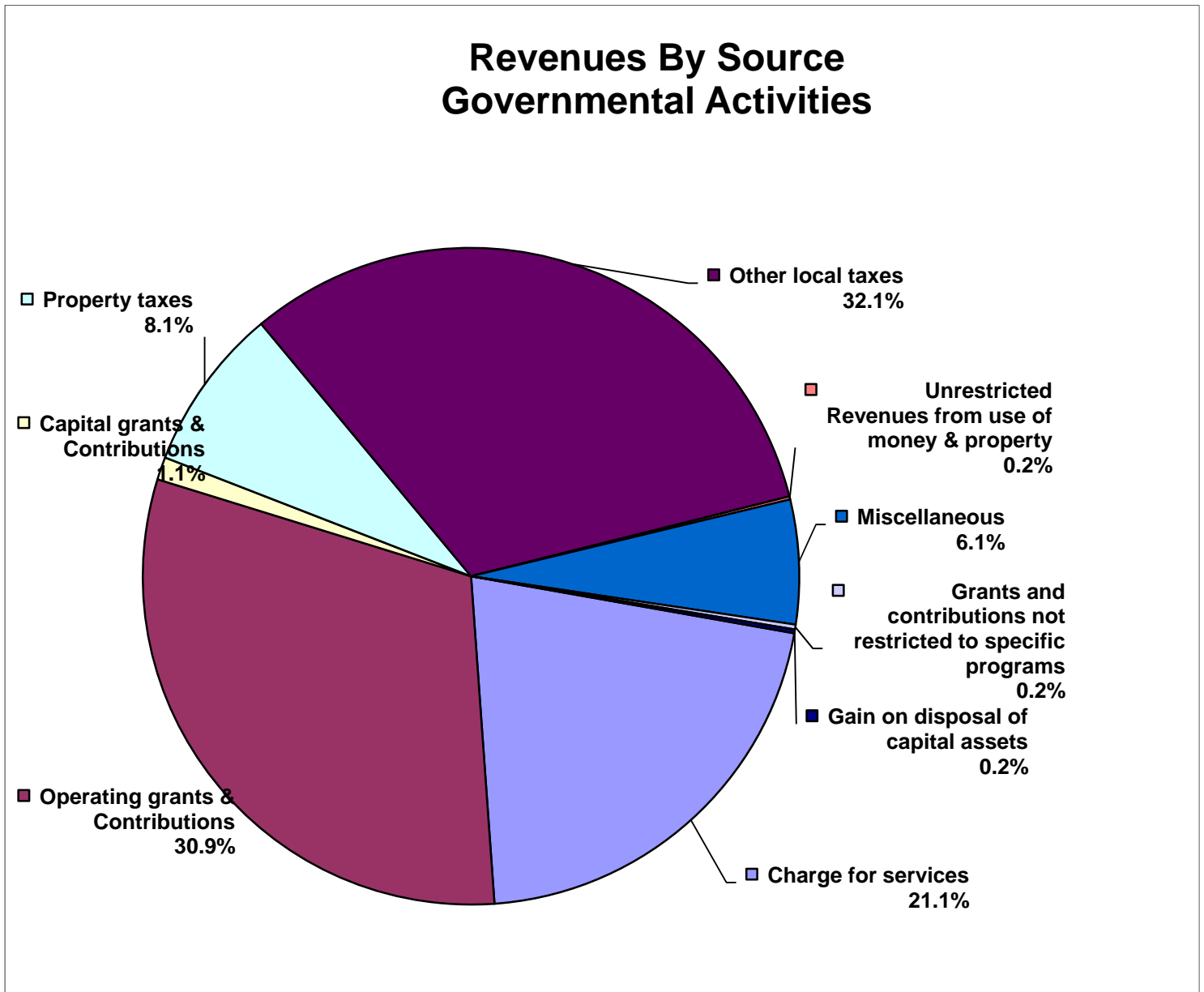
Expenses for governmental activities totaled \$5,210,721 with parks, recreation and culture (7.5%), public safety (54.4%), public works (29.7%), accounting for approximately ninety-two percent of total governmental expenses. Public safety expenses increased \$149,609 as a result of more capital investments; as well as an increase in community development expenses of \$91,537 due to work performed to complete the Big Creek Housing Project.

Business-type activities – Net assets of the business-type activities were \$16,392,068 at June 30, 2013. This was an increase of \$925,381 from the restated prior year net position. The current year increase is \$4,529 more than the prior year increase of \$920,852 as a result of a combination of a decrease in grant funding due to the completion of the grant funded Birmingham sewer line project and no transfer to governmental activities.

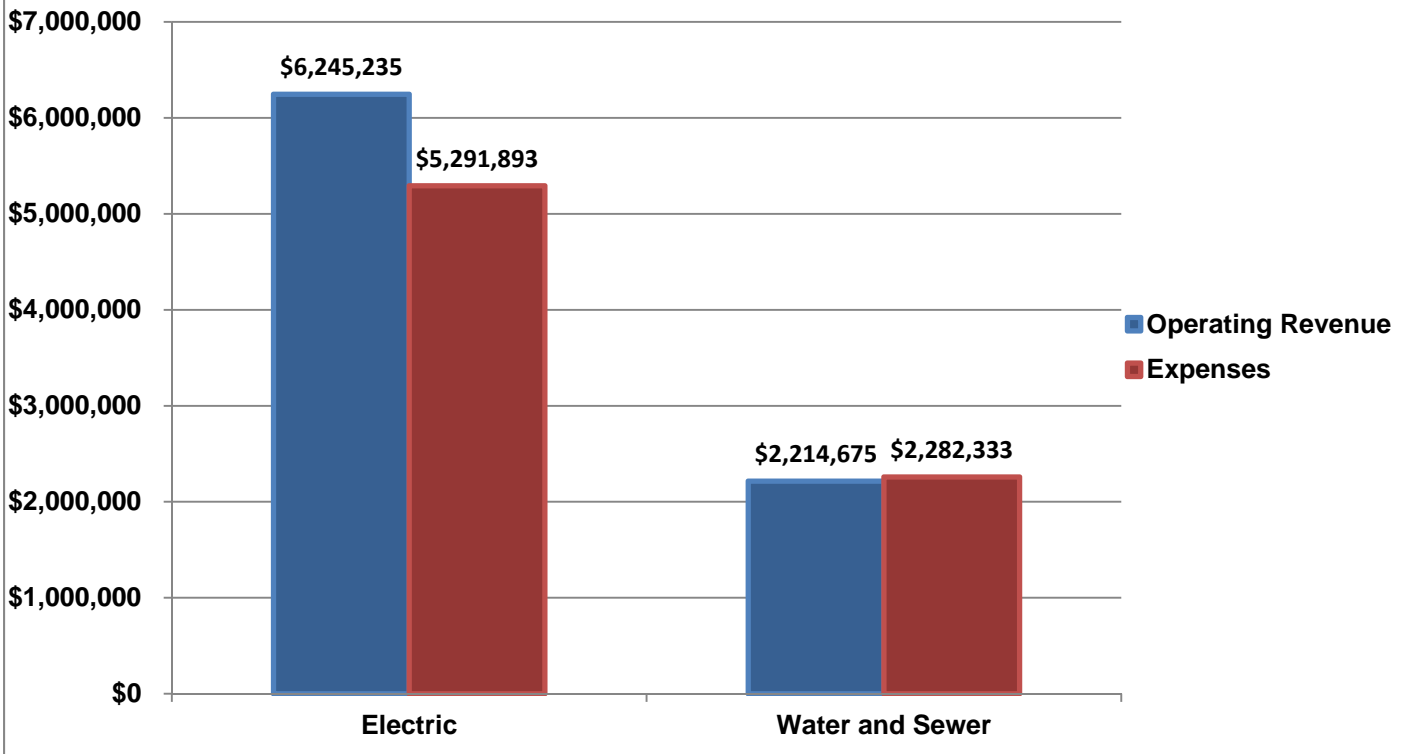
Government-Wide Financial Analysis (continued)

Program revenues for the business-type activities totaled \$8,499,607 of which \$8,459,910 is charges for services. Expenses totaled \$7,574,226.

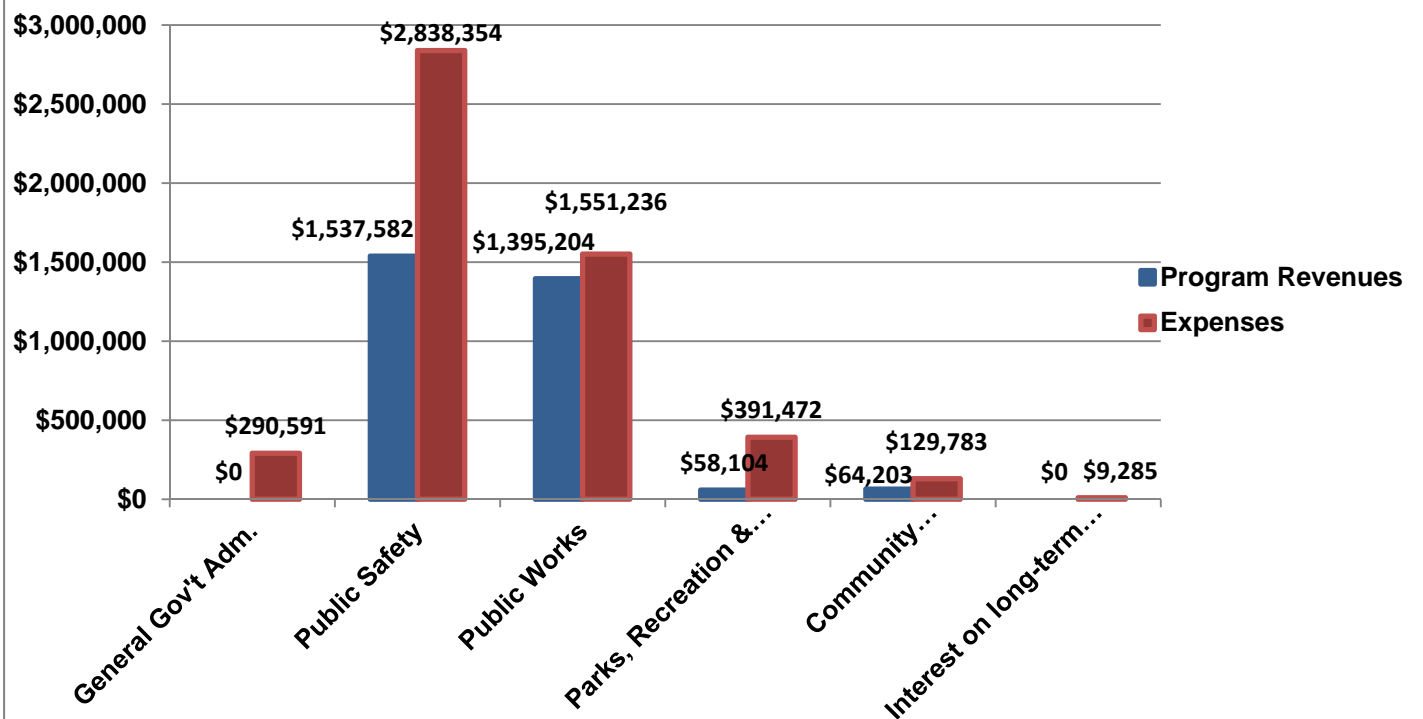
- Operating revenues increased from the prior year by \$117,903.
- Proprietary operating expenses experienced a 1.4 percent increase in comparison to prior year expenses.



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 \$859,537, which all constitutes *unreserved fund balance* and 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 15 % of total fund expenditures.

The fund balance of the Town's general fund decreased during the current fiscal year by \$2,935 from current year activities. Total revenues increased by \$720,975 specifically due to an increase in donations and intergovernmental revenues; and total expenditures increased by \$190,330, as a result of a combination of an increase and decrease of various expenditures.

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 \$2,873,807 and \$3,709,523 respectively. The total increase in net position was \$925,381 during the current fiscal year.

Electric fund

The electric fund net position increased by \$986,312 from current year activities in fiscal year 2013 compared to a prior year increase of \$739,710.

Electric fund non-operating revenues increased \$3,083 from the prior year, which was related to an increase in investment earnings during the current fiscal year.

Water and sewer fund

The water and sewer fund net position decreased by (\$60,931) from current year activities in fiscal year 2013 compared to the prior year increase of \$192,915. The change in net position is comprised of a couple of factors. Capital contributions decreased by \$208,030. Operating expenses increased \$46,203 (2%), as a result of increased personnel cost for employees, plant parts and repairs, depreciation expense. Non-operating expenses decreased by \$23,648 due primarily to a decrease in interest expense. Non-operating revenue increased by \$520 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 more than budgeted revenues by \$733,986. The increase is a result of an increase in various revenues: other local taxes, miscellaneous revenues and intergovernmental revenues.
- Actual Expenditures were less than budgeted expenditures by 89,971. This is due to a combination of a decrease and increase of various expenditures. Primarily public works and public safety expenses being less than estimated, and community development and capital projects being more than estimated.

General Fund Condensed Budget vs. Actual Fiscal Year ended June 30, 2013

	Budgeted Amounts		Actual
	Original	Final	Amounts
Revenues	\$ 5,058,523	\$ 5,058,523	\$ 5,792,509
Expenditures	(5,896,002)	(5,896,002)	(5,806,031)
Other Financing Sources	10,000	10,000	10,587
Change in fund balance	\$ (827,479)	\$ (827,479)	\$ (2,935)

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, 2013, amounts to \$19,846,287 (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 \$1,140,744 in the current fiscal year. The majority was construction of the fire department burn building and new machinery and equipment.
- Capital asset acquisitions in business-type activities totaled \$28,481 in the current fiscal year. This was for machinery and equipment purchases.

**The Town's Capital Assets
(Net of Depreciation)
Fiscal Year ended June 30, 2013**

	Governmental Activities		Business-Type Activities	
	2012	2013	2012	2013
Land	\$ 321,106	\$ 428,106	\$ 517,913	\$ 517,913
Construction in Progress	255,753	42,940	-	-
Buildings and improvements	1,373,514	2,015,787	12,172,086	11,916,066
Improvements other than buildings	2,856,756	2,858,997	-	-
Equipment	1,197,535	1,147,441	1,299,108	919,037
Total	\$ 6,004,664	\$ 6,493,271	\$ 13,989,107	\$ 13,353,016

Additional information on the Town's capital assets can be found in Note 9 on pages 43 through 44 of this report.

Long-term debt

At the end of the current fiscal year, the Town had total bonded debt outstanding of \$3,544,278. Of this amount, \$829,607 is comprised of (1) active Revenue bond and the remaining balance of \$2,714,671 is General Obligation Bonds.

**The Town's Long-term Bond Debt
Fiscal Year ended June 30, 2013**

	Beginning Balance	Additions	Reductions	Ending Balance
<i>Fiscal year 2012</i>				
Business-Type Activities:				
General obligation bonds	\$ 3,538,416	\$ -	\$ 405,180	\$ 3,133,236
Revenue bonds	999,200	204,424	329,173	874,451
Total	\$ 4,537,616	\$ 204,424	\$ 734,353	\$ 4,007,687
<i>Fiscal year 2013</i>				
Business-Type Activities:				
General obligation bonds	\$ 3,133,236	\$ -	\$ 418,565	\$ 2,714,671
Revenue bonds	874,451	-	44,844	829,607
Total	\$ 4,007,687	\$ -	\$ 463,409	\$ 3,544,278

Additional information on the Town's long-term liabilities can be found in Note 6 on pages 37 to 39 of this report.

Economic Factors and Next Year's Budget Rates

- The unemployment rate as of June 30, 2013 for the County of Tazewell, in which The Town of Richlands resides, is 7.0 percent, which is an increase from the average for 2012 of 6.9 percent. This compares to the state's unemployment rate of 5.8 percent and the national rate of 7.6 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: 2.6 MW of the Prairie State Coal plant with Commercial Operation Date ("COD") for unit #1 of June 2012 and COD for unit #2 PSEC of November 2012, 1.5 MW in the AMP Phase I Hydro projects (Cannelton, Smithland, and Willow Island) with estimated COD between June 2013 and January 2015 and 1.675 MW in the Fremont energy campus project with a COD of January 2012. 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 market commodity 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 stranded investment costs are still pending, however, cost projections are being funded in a rate stabilization fund established by American Municipal Power, Inc (AMP, Inc).
- 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.
- The Town of Richlands was awarded a grant for \$438,000 with Virginia Department of Transportation for funding of the preservation and restoration of the Downtown Richlands Railroad Section House. Plans to restore the house and property will not only ensure the preservation of this historic railroad structure, but will give the town the opportunity to improve downtown pedestrian connections, improve parking availability, provide additional public community spaces and resources in the downtown, and provide an opportunity to improve visitor services and to interpret the story of the railroad's influence on Richlands.

All of these factors are considered in preparing The Town of Richlands' budget for fiscal year 2013.

Unreserved fund balance in the general fund was \$859,537 as of June 30, 2013. 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.

Basic Financial Statements

Town of Richlands, Virginia
Statement of Net Position
At June 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 926,194	\$ 4,662,657	\$ 5,588,851
Receivables (net of allowance for uncollectibles):			
Taxes receivable	72,597	-	72,597
Accounts receivable	397,270	799,870	1,197,140
Notes receivable	38,261	-	38,261
Due from other governmental units	80,465	1,427,950	1,508,415
Prepaid expenses	-	568,236	568,236
Capital assets (net of accumulated depreciation):			
Land	428,106	517,913	946,019
Buildings and system	2,015,787	-	2,015,787
Machinery and equipment	1,147,441	919,037	2,066,478
Plant and lines in service/infrastructure	2,858,997	11,916,066	14,775,063
Construction in progress	42,940	-	42,940
Total assets	<u>\$ 8,008,058</u>	<u>\$ 20,811,729</u>	<u>\$ 28,819,787</u>
LIABILITIES			
Accounts payable	\$ 198,844	\$ 404,926	\$ 603,770
Accrued liabilities	147,956	48,229	196,185
Due to other governments	17,299	-	17,299
Customers' deposits	-	309,802	309,802
Accrued interest payable	8,356	5,454	13,810
Unearned revenue	40,518	-	40,518
Long-term liabilities:			
Due within one year	314,254	551,372	865,626
Due in more than one year	241,245	3,099,878	3,341,123
Total liabilities	<u>\$ 968,472</u>	<u>\$ 4,419,661</u>	<u>\$ 5,388,133</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - prepaid taxes	\$ 27,140	\$ -	\$ 27,140
Total deferred inflows of resources	<u>\$ 27,140</u>	<u>\$ -</u>	<u>\$ 27,140</u>
NET POSITION			
Net investment in capital assets	\$ 6,295,112	\$ 9,808,738	\$ 16,103,850
Unrestricted (deficit)	717,334	6,583,330	7,300,664
Total net position	<u>\$ 7,012,446</u>	<u>\$ 16,392,068</u>	<u>\$ 23,404,514</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, 2013

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Operating		Governmental Activities	Business-type Activities	Total
		Charges for Services	Grants and Contributions			
PRIMARY GOVERNMENT:						
Governmental activities:						
General government administration	\$ 290,591	\$ -	\$ -	\$ (290,591)	\$ -	\$ (290,591)
Public safety	2,838,354	707,751	829,831	(1,300,772)	-	(1,300,772)
Parks, recreation, and cultural	1,551,236	446,849	948,355	(156,032)	-	(156,032)
Community development	391,472	58,104	-	(333,368)	-	(333,368)
Interest on long-term debt	129,783	-	64,203	(65,580)	-	(65,580)
Total governmental activities	9,285	-	-	(9,285)	-	(9,285)
	\$ 5,210,721	\$ 1,212,704	\$ 1,778,186	\$ (2,155,628)	\$ -	\$ (2,155,628)
Business-type activities:						
Water and sewer	\$ 2,282,333	\$ 2,214,675	\$ -	\$ -	\$ (67,658)	\$ (67,658)
Electric	5,291,893	6,245,235	29,738	-	983,080	983,080
Total business-type activities	\$ 7,574,226	\$ 8,459,910	\$ 29,738	\$ -	\$ 915,422	\$ 915,422
Total primary government	\$ 12,784,947	\$ 9,672,614	\$ 1,778,186	\$ (2,155,628)	\$ 915,422	\$ (1,240,206)
General revenues:				\$ 464,070	\$ -	\$ 464,070
General property taxes						
Other local taxes:						
Local sales and use taxes				402,340	-	402,340
Consumers' utility taxes				149,299	-	149,299
Business license taxes				496,892	-	496,892
Motor vehicle licenses				36,667	-	36,667
Bank stock tax				151,741	-	151,741
Meals taxes				588,471	-	588,471
Other local taxes				22,844	-	22,844
Unrestricted revenues from use of money and property				8,747	8,127	16,874
Miscellaneous				351,811	-	351,811
Grants and contributions not restricted to specific programs				13,685	-	13,685
Gain on disposal of capital assets				10,587	1,832	12,419
Total general revenues and transfers				\$ 2,697,154	\$ 9,959	\$ 2,707,113
Change in net position				\$ 541,526	\$ 925,381	\$ 1,466,907
Net position - beginning, as restated				6,470,920	15,466,687	21,937,607
Net position - ending				\$ 7,012,446	\$ 16,392,068	\$ 23,404,514

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

Town of Richlands, Virginia
Balance Sheet
Governmental Funds
At June 30, 2013

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 926,194
Receivables (net of allowance for uncollectibles):	
Taxes receivable	72,597
Accounts receivable	397,270
Notes receivable	38,261
Due from other governmental units	80,465
Total assets	<u>\$ 1,514,787</u>
LIABILITIES	
Liabilities:	
Accounts payable	\$ 198,844
Accrued payroll and related liabilities	147,956
Due to other governments	17,299
Unearned revenue	40,518
Total liabilities	<u>\$ 404,617</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	\$ 68,232
Unavailable revenue - EMS Billings	155,261
Unavailable revenue - prepaid taxes	27,140
Total deferred inflows of resources	<u>\$ 250,633</u>
FUND BALANCES	
Nonspendable	\$ 38,261
Unassigned	821,276
Total fund balances	<u>\$ 859,537</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,514,787</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, 2013

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$	859,537
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		6,493,271
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Unavailable revenue - property taxes	\$ 68,232	
Unavailable revenue - EMS billings	<u>155,261</u>	
		223,493

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		(563,855)
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Net position of governmental activities	<u>\$</u>	<u>7,012,446</u>
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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, 2013

	<u>General</u>
REVENUES	
General property taxes	\$ 458,103
Other local taxes	1,848,254
Permits, privilege fees, and regulatory licenses	1,715
Fines and forfeitures	62,675
Revenue from the use of money and property	8,747
Charges for services	1,142,404
Miscellaneous	351,811
Recovered costs	62,726
Intergovernmental revenues:	
Commonwealth	1,744,243
Federal	111,831
Total revenues	<u>\$ 5,792,509</u>
EXPENDITURES	
Current:	
General government administration	\$ 254,595
Public safety	2,639,835
Public works	1,297,287
Parks, recreation, and cultural	349,064
Community development	129,783
Capital projects	1,080,103
Debt service:	
Principal retirement	44,215
Interest and other fiscal charges	11,149
Total expenditures	<u>\$ 5,806,031</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (13,522)</u>
OTHER FINANCING SOURCES (USES)	
Sale of capital assets	\$ 10,587
Total other financing sources (uses)	<u>\$ 10,587</u>
Net change in fund balances	\$ (2,935)
Fund balances - beginning	862,472
Fund balances - ending	<u><u>\$ 859,537</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, 2013

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

Net change in fund balances - total governmental funds	\$	(2,935)
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.		488,607
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	\$	5,967
Rescue squad charges		5,910
		11,877
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.		44,215
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		(238)
Change in net position of governmental activities	\$	541,526

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, 2013

	Enterprise Funds		
	Water and Sewer	Electric	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,328,489	\$ 2,334,168	\$ 4,662,657
Accounts receivable, net of allowances for uncollectibles	187,471	612,399	799,870
Due from other governmental units	1,427,950	-	1,427,950
Prepaid items	-	568,236	568,236
Total current assets	<u>\$ 3,943,910</u>	<u>\$ 3,514,803</u>	<u>\$ 7,458,713</u>
Noncurrent assets:			
Capital assets:			
Utility plant and buildings in service	\$ 21,158,959	\$ 1,053,126	\$ 22,212,085
Machinery and equipment	644,431	1,538,992	2,183,423
Land	517,913	-	517,913
Accumulated depreciation	(10,025,015)	(1,535,390)	(11,560,405)
Total net capital assets	<u>\$ 12,296,288</u>	<u>\$ 1,056,728</u>	<u>\$ 13,353,016</u>
Total noncurrent assets	<u>\$ 12,296,288</u>	<u>\$ 1,056,728</u>	<u>\$ 13,353,016</u>
Total assets	<u>\$ 16,240,198</u>	<u>\$ 4,571,531</u>	<u>\$ 20,811,729</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 67,316	\$ 337,610	\$ 404,926
Accrued wages	24,576	23,653	48,229
Customers' deposits	59,881	249,921	309,802
Accrued interest payable	5,454	-	5,454
Compensated absences - current portion	57,870	22,359	80,229
Revenue bonds payable - current portion	44,844	-	44,844
General obligation bonds - current portion	426,299	-	426,299
Total current liabilities	<u>\$ 686,240</u>	<u>\$ 633,543</u>	<u>\$ 1,319,783</u>
Noncurrent liabilities:			
Revenue bonds payable - net of current portion	\$ 784,763	\$ -	\$ 784,763
General obligation bond - net of current portion	2,288,372	-	2,288,372
Compensated absences - net of current portion	19,290	7,453	26,743
Total noncurrent liabilities	<u>\$ 3,092,425</u>	<u>\$ 7,453</u>	<u>\$ 3,099,878</u>
Total liabilities	<u>\$ 3,778,665</u>	<u>\$ 640,996</u>	<u>\$ 4,419,661</u>
NET POSITION			
Net investment in capital assets	\$ 8,752,010	\$ 1,056,728	\$ 9,808,738
Unrestricted	3,709,523	2,873,807	6,583,330
Total net position	<u>\$ 12,461,533</u>	<u>\$ 3,930,535</u>	<u>\$ 16,392,068</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, 2013

	Enterprise Funds		
	Water and Sewer	Electric	Total
OPERATING REVENUES			
Charges for services:			
Charges for services	\$ 2,125,075	\$ 6,038,946	\$ 8,164,021
Contract work	8,185	108,143	116,328
Lab testing and septic treatment	42,218	-	42,218
Penalties and service charges	31,997	91,186	123,183
Connection fees	7,200	-	7,200
Utility pole permits	-	6,960	6,960
Total operating revenues	<u>\$ 2,214,675</u>	<u>\$ 6,245,235</u>	<u>\$ 8,459,910</u>
OPERATING EXPENSES			
Salaries, wages and fringes	\$ 891,341	\$ 560,896	\$ 1,452,237
Insurance	29,059	8,824	37,883
Audit and legal	31,594	23,390	54,984
Dues, memberships and training	1,979	17,571	19,550
Office supplies and postage	21,339	13,493	34,832
Telecommunications	5,894	2,984	8,878
Equipment and vehicle maintenance	31,187	17,435	48,622
Supplies	221,982	39,701	261,683
Utilities	316,546	14,237	330,783
Heating oil/fuel	58,091	-	58,091
Traffic safety	-	6,264	6,264
Misc	19,599	4,154	23,753
Plant parts and repairs	14,235	-	14,235
Maintenance, repairs and upgrades	32,982	62,070	95,052
Instrument calibration	825	-	825
Power purchased	-	4,317,700	4,317,700
Payment in lieu of tax	-	60,741	60,741
Street lighting	-	21,983	21,983
Distribution	-	27,378	27,378
Testing	6,335	2,050	8,385
Capital outlays	1,448	-	1,448
Depreciation	573,550	91,022	664,572
Total operating expenses	<u>\$ 2,257,986</u>	<u>\$ 5,291,893</u>	<u>\$ 7,549,879</u>
Operating income (loss)	<u>\$ (43,311)</u>	<u>\$ 953,342</u>	<u>\$ 910,031</u>
NONOPERATING REVENUES (EXPENSES)			
Investment income	\$ 5,267	\$ 2,860	\$ 8,127
Gain on sale of assets	1,460	372	1,832
Interest expense	(24,347)	-	(24,347)
Total nonoperating revenues (expenses)	<u>\$ (17,620)</u>	<u>\$ 3,232</u>	<u>\$ (14,388)</u>
Income before contributions	<u>\$ (60,931)</u>	<u>\$ 956,574</u>	<u>\$ 895,643</u>
Capital contributions	-	29,738	29,738
Change in net position	<u>\$ (60,931)</u>	<u>\$ 986,312</u>	<u>\$ 925,381</u>
Total net position - beginning, as restated	12,522,464	2,944,223	15,466,687
Total net position - ending	<u>\$ 12,461,533</u>	<u>\$ 3,930,535</u>	<u>\$ 16,392,068</u>

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, 2013

	Enterprise Fund		
	Water and Sewer	Electric	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 2,234,821	\$ 6,222,168	\$ 8,456,989
Payments to suppliers	(770,851)	(5,154,649)	(5,925,500)
Payments to and for employees	(905,581)	(568,044)	(1,473,625)
Net cash provided by (used for) operating activities	<u>\$ 558,389</u>	<u>\$ 499,475</u>	<u>\$ 1,057,864</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Additions to utility plant	\$ (28,481)	\$ -	\$ (28,481)
Proceeds from the sale of assets	1,460	372	1,832
Principal payments on revenue bonds	(463,409)	-	(463,409)
Capital contributions	60,660	29,738	90,398
Interest payments	(26,965)	-	(26,965)
Net cash provided by (used for) capital and related financing activities	<u>\$ (456,735)</u>	<u>\$ 30,110</u>	<u>\$ (426,625)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received	\$ 5,267	\$ 2,860	\$ 8,127
Net cash provided by (used for) investing activities	<u>\$ 5,267</u>	<u>\$ 2,860</u>	<u>\$ 8,127</u>
Net increase (decrease) in cash and cash equivalents	\$ 106,921	\$ 532,445	\$ 639,366
Cash and cash equivalents - beginning	2,221,568	1,801,723	4,023,291
Cash and cash equivalents - ending	<u>\$ 2,328,489</u>	<u>\$ 2,334,168</u>	<u>\$ 4,662,657</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ (43,311)	\$ 953,342	\$ 910,031
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation expense	573,550	91,022	664,572
(Increase) decrease in accounts receivable	20,051	(20,107)	(56)
(Increase) decrease in prepaid items	-	(568,236)	(568,236)
Increase (decrease) in customer deposits	95	(2,960)	(2,865)
Increase (decrease) in accounts payable	19,142	44,781	63,923
Increase (decrease) in wages payable	3,102	8,781	11,883
Increase (decrease) in compensated absences	(14,240)	(7,148)	(21,388)
Total adjustments	<u>601,700</u>	<u>(453,867)</u>	<u>147,833</u>
Net cash provided by (used for) operating activities	<u>\$ 558,389</u>	<u>\$ 499,475</u>	<u>\$ 1,057,864</u>

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

TOWN OF RICHLANDS, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2013

Note 1-Summary of Significant Accounting Policies:

The financial statements of 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 of Richlands, Virginia (government) 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 (government and business-type activities). Governments will report all capital assets in the government-wide Statement of Net Position and will report depreciation expense –the cost of “using up” capital assets – in the Statement of Activities. The net position of a government will be broken down into three categories – 1) invested in capital assets, net of related debt; 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*.

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as 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 deferred revenues. Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the Town.

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

The government reports the following major governmental funds:

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

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

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

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 *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 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 non-operating revenues and expenses.

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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 \$38,149 for property taxes and \$2,790 for garbage billings at June 30, 2013. For the Proprietary Fund, the allowance amounted to approximately \$6,251 for water and sewer billings and \$21,133 for electric billings at June 30, 2013.

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.

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 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.

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. 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.

11. 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.

12. Fund equity

The Town of Richlands, Virginia 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;
- 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.

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

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

12. Fund equity (Continued)

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

The Town of Richlands, Virginia 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).

13. 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 (expenditure/expense) until then. The Town does not have any deferred outflows of resources as of June 30, 2013.

13. 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 two 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.

14. 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.

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

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

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

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

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

The Town implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Due to the implementation of this standard, beginning net position was restated to remove unamortized bond issuance costs as detailed in Note 18.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AS OF JUNE 30, 2013

Note 2-Reconciliation of Government-Wide and Fund Financial Statements:

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

The governmental fund balance sheet includes a reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The detail of this (\$563,855) difference for the primary government is as follows:

Capital Leases	\$ (198,159)
Accrued Interest payable	(8,356)
Compensated absences	<u>(357,340)</u>
Net adjustment to reduce <i>fund balance-total governmental funds</i> to arrive at <i>net position-governmental activities</i>	<u>\$ (563,855)</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances-total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The detail of this \$488,607 difference for the primary government is as follows:

	<u>Primary Government</u>
Capital outlays	\$ 1,140,744
Depreciation expense	<u>(652,137)</u>
Net adjustment to increase (decrease) <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 488,607</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AS OF JUNE 30, 2013

Note 2-Reconciliation of Government-Wide and Fund Financial Statements: (Continued)

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

Another element of that reconciliation states “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.” The details of this \$44,215 difference in the primary government are as follows:

Principal repayments:	
Capital leases payments	\$ 44,215
	<u> </u>
Net adjustment to increase (decrease) <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ 44,215
	<u><u> </u></u>

Another element of that reconciliation states, “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this (\$238) difference for the primary government are as follows:

	<u>Primary Government</u>
(Increase) Decrease in Compensated absences	\$ (2,102)
(Increase) Decrease in Accrued Interest payable	<u>1,864</u>
Net adjustment to increase (decrease) <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ <u><u>(238)</u></u>

Note 3-Stewardship, Compliance, and Accountability:

A. Budgetary information

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

1. 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.

B. Deficit fund equity

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

Note 4-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, 2013 or for the year then ended.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2013

Note 5-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>Tazewell County</u>		
Construction contribution	\$ -	\$ 1,427,950
<u>Commonwealth of Virginia:</u>		
Categorical aid	2,598	-
Non-categorical aid	1,455	-
State sales tax	69,286	-
<u>Federal Government:</u>		
Categorical aid	5,842	-
	<u>\$ 79,181</u>	<u>\$ 1,427,950</u>
Total	<u>\$ 79,181</u>	<u>\$ 1,427,950</u>

Note 6-Long-Term Obligations:

Primary Government - Governmental Activity Obligations:

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

	<u>Balance July 1, 2012</u>	<u>Increases/ Issuances</u>	<u>Decreases/ Retirements</u>	<u>Balance June 30, 2013</u>
Capital lease	\$ 242,374	\$ -	\$ (44,215)	\$ 198,159
Compensated absences	355,238	266,429	(264,327)	357,340
Total	<u>\$ 597,612</u>	<u>\$ 266,429</u>	<u>\$ (308,542)</u>	<u>\$ 555,499</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2013

Note 6-Long-Term Obligations: (Continued)

Primary Government - Governmental Activity Obligations: (Continued)

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:						
Comp. Absences	n/a	n/a	n/a	n/a	\$ 357,340	\$ 268,005
Capital lease	4.60%	2007	2017	\$ 455,992	198,159	46,249
Total Other Obligations					<u>\$ 555,499</u>	<u>\$ 314,254</u>
Total Long-term liabilities					<u>\$ 555,499</u>	<u>\$ 314,254</u>

Primary Government-Enterprise Activity Obligations:

The following is a summary of long-term obligations transactions of the Enterprise Fund for the year ended June 30, 2013.

	Balance July 1, 2012	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2013
General Obligation bonds	\$ 3,133,236	\$ -	\$ (418,565)	\$ 2,714,671
Revenue bonds	874,451	-	(44,844)	829,607
Compensated absences	128,360	96,270	(117,658)	106,972
Total	<u>\$ 4,136,047</u>	<u>\$ 96,270</u>	<u>\$ (581,067)</u>	<u>\$ 3,651,250</u>

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TOWN OF RICHLANDS, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2013

Note 6-Long-Term Obligations: (Continued)

Primary Government-Enterprise Activity Obligations: (Continued)

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
2014	\$ 426,299	\$ 16,458	\$ 44,844	\$ -
2015	438,472	5,550	44,844	-
2016	87,194	-	44,844	-
2017	87,194	-	44,844	-
2018	87,194	-	44,844	-
2019-2023	435,973	-	224,218	-
2024-2028	435,973	-	224,218	-
2029-2033	424,306	-	156,951	-
2034-2038	292,066	-	-	-
Totals	<u>\$ 2,714,671</u>	<u>\$ 22,008</u>	<u>\$ 829,607</u>	<u>\$ -</u>

Details of long-term obligations:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Business-type Activities	Amount Due Within One Year
Revenue Bonds:						
Wastewater Series 2010	0.00%	2010	2024	\$ 1,121,250	\$ 829,607	\$ 44,844
General Obligation Bonds:						
Series 2000	0.00%	2000	2031	175,000	105,000	5,833
Series 2003	3.16%	2003	2015	3,308,029	690,382	339,105
Series 2005	0.00%	2005	2037	2,002,799	1,568,859	66,760
Series 2006	0.00%	2006	2037	438,037	350,430	14,601
Total Bonds					<u>\$ 3,544,278</u>	<u>\$ 471,143</u>
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	<u>\$ 106,972</u>	<u>\$ 80,229</u>
Total Long-term obligations					<u>\$ 3,651,250</u>	<u>\$ 551,372</u>

Note 7—Defined Benefit Pension Plan:

A. Plan Description

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AS OF JUNE 30, 2013

Note 7-Defined Benefit Pension Plan: (Continued)

A. Plan Description (Continued)

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

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

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2013 was 20.88% of annual covered payroll.

C. Annual Pension Cost

For fiscal year 2013, the Town of Richlands, Virginia's annual pension cost of \$496,596 was equal to the Town of Richlands, Virginia's required and actual contributions.

Fiscal Year Ending	Three-Year trend Information*		Net Pension Obligation
	Annual Pension Cost (APC) (1)	Percentage of APC Contributed	
June 30, 2012	\$ 554,563	100.00%	\$ -
June 30, 2013	496,596	100.00%	-

*The Town joined VRS during the fiscal year ended June 30, 2011

(1) Employer portion only

Note 7-Defined Benefit Pension Plan: (Continued)

C. Annual Pension Cost (Continued)

The FY 2013 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

D. Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was 30.94% funded. The actuarial accrued liability for benefits was \$10,138,313, and the actuarial value of assets was \$3,136,693, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,001,620. The covered payroll (annual payroll of active employees covered by the plan) was \$2,328,506 and the ratio of the UAAL to covered payroll was 300.69%.

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

Note 8-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 \$40,518 is comprised of the following:

Lease Revenue – Lease revenue proceeds received in advance totaled \$38,518 at year end.

Miscellaneous – The Town received \$2,000 for a house demolition that was not started until fiscal year 2014.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2013

Note 9-Capital Assets:

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

	Beginning Balance	Increases	Decreases	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 321,106	\$ 107,000	\$ -	\$ 428,106
Construction in progress	255,753	657,338	(870,151)	42,940
Total capital assets not being depreciated	<u>\$ 576,859</u>	<u>\$ 764,338</u>	<u>\$ (870,151)</u>	<u>\$ 471,046</u>
Capital assets, being depreciated:				
Buildings and system	\$ 2,446,627	\$ 719,239	\$ -	\$ 3,165,866
Improvements other than buildings	4,819,013	203,578	-	5,022,591
Machinery and equipment	5,817,875	323,740	(63,228)	6,078,387
Total capital assets being depreciated	<u>\$ 13,083,515</u>	<u>\$ 1,246,557</u>	<u>\$ (63,228)</u>	<u>\$ 14,266,844</u>
Accumulated depreciation:				
Buildings and system	\$ (1,073,113)	\$ (76,966)	\$ -	\$ (1,150,079)
Improvements other than buildings	(1,962,257)	(201,337)	-	(2,163,594)
Machinery and equipment	(4,620,340)	(373,834)	63,228	(4,930,946)
Total accumulated depreciation	<u>\$ (7,655,710)</u>	<u>\$ (652,137)</u>	<u>\$ 63,228</u>	<u>\$ (8,244,619)</u>
Total capital assets being depreciated, net	<u>\$ 5,427,805</u>	<u>\$ 594,420</u>	<u>\$ -</u>	<u>\$ 6,022,225</u>
Governmental activities capital assets, net	<u><u>\$ 6,004,664</u></u>	<u><u>\$ 1,358,758</u></u>	<u><u>\$ (870,151)</u></u>	<u><u>\$ 6,493,271</u></u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2013

Note 9-Capital Assets: (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
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 equipment	\$ 22,212,085	\$ -	\$ -	\$ 22,212,085
Machinery and equipment	2,166,790	28,481	(11,848)	2,183,423
Total capital assets being depreciated	<u>\$ 24,378,875</u>	<u>\$ 28,481</u>	<u>\$ (11,848)</u>	<u>\$ 24,395,508</u>
Accumulated depreciation:				
Utility plant and equipment	\$ (10,039,999)	\$ (256,020)	\$ -	\$ (10,296,019)
Machinery and equipment	(867,682)	(408,552)	11,848	(1,264,386)
Total accumulated depreciation	<u>\$ (10,907,681)</u>	<u>\$ (664,572)</u>	<u>\$ 11,848</u>	<u>\$ (11,560,405)</u>
Total capital assets being depreciated, net	<u>\$ 13,471,194</u>	<u>\$ (636,091)</u>	<u>\$ -</u>	<u>\$ 12,835,103</u>
Business-type activities capital assets, net	<u><u>\$ 13,989,107</u></u>	<u><u>\$ (636,091)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 13,353,016</u></u>

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

Governmental activities:	
General government administration	\$ 33,635
Public safety	322,145
Public works	253,949
Parks and recreation	42,408
Total depreciation expense - governmental activities	<u>\$ 652,137</u>
Business-type activities:	
Water and sewer	\$ 573,550
Electric	91,022
Total depreciation expense - business-type activities	<u>\$ 664,572</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2013

Note 10-Lease Obligations-Capital Lease:

The Town of Richlands 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:

	2013
Machinery and Equipment	\$ 455,992
Accumulated Depreciation	<u>(259,228)</u>
Total	<u>\$ 196,764</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2013, were as follows:

<u>Fiscal Year Ended</u>	<u>Governmental Activities</u>
2014	\$ 55,365
2015	55,365
2016	55,365
2017	4,614
Total minimum lease payments	<u>170,709</u>
Less: amount representing interest	<u>(14,185)</u>
Present value of minimum lease payments	<u>\$ 156,524</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.

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 not believed to be material.

The Town of Cedar Bluff has a claim against the Town of Richlands, Virginia in litigation before the Circuit Court of Tazewell County. The claim alleges that certain meals taxes collected by the Town of Richlands should have been remitted to the Town of Cedar Bluff because a portion of the restaurant is physically located in the Town of Cedar Bluff's corporate limits. At the present time, the Town of Richlands, Virginia cannot make a reasonable estimate of the amount due (if any) to the Town of Cedar Bluff. 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 \$829,607 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, 2013, the Town carried a balance of \$568,236 in an escrow account maintained for the Town's benefit. This amount has been reported in the financial statements as a prepaid expense.

Remainder of page intentionally left blank.

Note 16 – Service Agreements:

On September 3, 2003, the Town and the 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 the 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, the 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 \$1,427,950 at year end for their share of debt service payments.

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

The Town of Richlands, Virginia, The Town of Cedar Bluff, Virginia, and the 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 of Richlands, Virginia is responsible for the operation of the facility. The Town of Richlands, Virginia 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	\$ 143,112
Tazewell County PSA	595,291
Tazewell County PSA - loan payments	60,660
Total	<u>\$ 799,063</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2013

Note 17 – Deferred Inflows (Outflows) of Resources:

At June 30, 2013, the Town’s deferred inflows (outflows) of resources consisted of the following:

	<u>Statements</u>		<u>Sheet</u>
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Governmental Funds</u>
Primary Government:			
Deferred property tax revenue representing uncollected property tax billings that are not available for the funding of current expenditures.	\$ -	\$ -	\$ 68,232
Prepaid taxes relating to taxes due in a future period.	27,140	-	27,140
Deferred EMS revenue representing uncollected EMS billings that are not available for funding of current expenditures.	-	-	155,261
	<u>-</u>	<u>-</u>	<u>155,261</u>
Total deferred inflows (outflows) of resources	\$ 27,140	\$ -	\$ 250,633
	<u>\$ 27,140</u>	<u>\$ -</u>	<u>\$ 250,633</u>

Note 18 – Restatement of beginning net position:

During the fiscal year, the Town implemented Governmental Accounting Standards Board (GASB) Statements 63 and 65. GASB Statement number 65 requires an expense to be recognized in the period in which the cost to issue indebtedness was incurred. As a result of the implementation, the Town wrote off unamortized bond issuance costs. The resulting restatement of beginning net position is summarized below.

	<u>Water and Sewer Fund</u>
Net position, as previously reported	\$ 12,537,938
Adjustments:	
Unamortized bond issuance costs	\$ (15,474)
Net position, as restated	\$ 12,522,464

Required Supplementary Information

Town of Richlands, Virginia
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 464,515	\$ 464,515	\$ 458,103	\$ (6,412)
Other local taxes	1,632,000	1,632,000	1,848,254	216,254
Permits, privilege fees, and regulatory licenses	2,000	2,000	1,715	(285)
Fines and forfeitures	36,500	36,500	62,675	26,175
Revenue from the use of money and property	8,000	8,000	8,747	747
Charges for services	1,067,000	1,067,000	1,142,404	75,404
Miscellaneous	82,365	82,365	351,811	269,446
Recovered costs	62,100	62,100	62,726	626
Intergovernmental revenues:				
Commonwealth	1,704,043	1,704,043	1,744,243	40,200
Federal	-	-	111,831	111,831
Total revenues	<u>\$ 5,058,523</u>	<u>\$ 5,058,523</u>	<u>\$ 5,792,509</u>	<u>\$ 733,986</u>
EXPENDITURES				
Current:				
General government administration	\$ 300,188	\$ 300,188	\$ 254,595	\$ 45,593
Public safety	2,782,788	2,782,788	2,639,835	142,953
Public works	1,514,165	1,514,165	1,297,287	216,878
Parks, recreation, and cultural	381,496	381,496	349,064	32,432
Community development	13,500	13,500	129,783	(116,283)
Capital projects	848,501	848,501	1,080,103	(231,602)
Debt service:				
Principal retirement	44,215	44,215	44,215	-
Interest and other fiscal charges	11,149	11,149	11,149	-
Total expenditures	<u>\$ 5,896,002</u>	<u>\$ 5,896,002</u>	<u>\$ 5,806,031</u>	<u>\$ 89,971</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (837,479)</u>	<u>\$ (837,479)</u>	<u>\$ (13,522)</u>	<u>\$ 823,957</u>
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	\$ 10,000	\$ 10,000	\$ 10,587	\$ 587
Total other financing sources (uses)	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 10,587</u>	<u>\$ 587</u>
Net change in fund balances	\$ (827,479)	\$ (827,479)	\$ (2,935)	\$ 824,544
Fund balances - beginning	827,479	827,479	862,472	34,993
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 859,537</u>	<u>\$ 859,537</u>

Town of Richlands, Virginia
 Schedule of Pension Funding Progress
 For the Year Ended June 30, 2013

Town Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (3) - (2)	Funded Ratio (2) / (3)	Covered Payroll	UAAL as a % of Covered Payroll (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2012	\$ 3,136,693	\$ 10,138,313	\$ 7,001,620	30.94%	\$ 2,328,506	300.69%
6/30/2011	2,684,788	9,458,868	6,774,080	28.38%	2,319,507	292.05%

Information is only available for two years as the Town joined the Virginia Retirement System as of July 1, 2010.

Other Supplementary Information

SUPPORTING SCHEDULES

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

<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	\$ 431,000	\$ 431,000	\$ 422,827	\$ (8,173)
Real and personal public service corporation taxes	16,515	16,515	17,925	1,410
Mobile home taxes	13,000	13,000	12,158	(842)
Penalties and Interest	4,000	4,000	5,193	1,193
Total general property taxes	<u>464,515</u>	<u>464,515</u>	<u>458,103</u>	<u>(6,412)</u>
Other local taxes:				
Local sales and use taxes	243,000	243,000	402,340	159,340
Consumers utility tax	150,000	150,000	149,299	(701)
Local consumption tax	22,000	22,000	22,844	844
Business license taxes	440,000	440,000	496,892	56,892
Motor vehicle licenses	37,000	37,000	36,667	(333)
Bank stock taxes	170,000	170,000	151,741	(18,259)
Meals taxes	570,000	570,000	588,471	18,471
Total other local taxes	<u>1,632,000</u>	<u>1,632,000</u>	<u>1,848,254</u>	<u>216,254</u>
Permits, privilege fees, and regulatory licenses:				
Zoning permits	2,000	2,000	1,715	(285)
Total permits, privilege fees, and regulatory licenses	<u>2,000</u>	<u>2,000</u>	<u>1,715</u>	<u>(285)</u>
Fines and forfeitures:				
Court fines and forfeitures	36,000	36,000	56,333	20,333
Asset forfeitures	-	-	3,962	3,962
Parking violations	500	500	2,380	1,880
Total fines and forfeitures	<u>36,500</u>	<u>36,500</u>	<u>62,675</u>	<u>26,175</u>
Revenue from use of money and property:				
Revenue from use of money	8,000	8,000	4,927	(3,073)
Revenue from use of property	-	-	3,820	3,820
Total revenue from use of money and property	<u>8,000</u>	<u>8,000</u>	<u>8,747</u>	<u>747</u>
Charges for services:				
Contract work - Streets	5,000	5,000	64,551	59,551
Fire Department billings	40,000	40,000	-	(40,000)
Rescue Squad billings	600,000	600,000	637,451	37,451
Swimming pool fees	15,000	15,000	13,307	(1,693)
Concession collections	10,000	10,000	14,878	4,878
Basketball fees	5,000	5,000	5,030	30
Indoor tennis fees	4,500	4,500	3,401	(1,099)
Outdoor tennis fees	500	500	582	82
Room rental	8,000	8,000	8,373	373
Miscellaneous recreation fees	4,000	4,000	6,648	2,648
Garbage collections	375,000	375,000	382,298	7,298
Farmer's market revenue	-	-	5,885	5,885
Total charges for services	<u>1,067,000</u>	<u>1,067,000</u>	<u>1,142,404</u>	<u>75,404</u>
Miscellaneous revenue:				
Miscellaneous	3,000	3,000	23,277	20,277
Gifts and donations	2,000	2,000	120,014	118,014
Gifts and donations - Fire	55,365	55,365	119,965	64,600

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

<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)				
Miscellaneous revenue: (continued)				
Gifts and donations - Recreation	\$ 1,500	\$ 1,500	\$ 40,306	\$ 38,806
Gifts and donations - Police	10,000	10,000	31,339	21,339
Gifts and donations - Rescue	10,500	10,500	16,910	6,410
Total miscellaneous revenue	<u>82,365</u>	<u>82,365</u>	<u>351,811</u>	<u>269,446</u>
Recovered costs:				
County of Tazewell - fire program	60,000	60,000	60,000	-
Returned check fees	2,000	2,000	2,600	600
Restitution	100	100	126	26
Total recovered costs	<u>62,100</u>	<u>62,100</u>	<u>62,726</u>	<u>626</u>
Total revenue from local sources	<u>3,354,480</u>	<u>3,354,480</u>	<u>3,936,435</u>	<u>581,955</u>
Intergovernmental revenues:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Mobile home titling tax	1,000	1,000	2,160	1,160
Motor vehicles carrier's tax	2,000	2,000	11,525	9,525
Total noncategorical aid	<u>3,000</u>	<u>3,000</u>	<u>13,685</u>	<u>10,685</u>
Categorical aid:				
Other categorical aid:				
Litter control grant	2,000	2,000	2,761	761
Local law enforcement block grant	-	-	3,197	3,197
Police grants	66,576	66,576	21,428	(45,148)
Highway revenue sharing	117,500	117,500	101,789	(15,711)
Street maintenance	828,000	828,000	843,805	15,805
Law enforcement grant	133,700	133,700	133,700	-
Drug enforcement	95,500	95,500	93,212	(2,288)
EMS grants	-	-	100,206	100,206
Fire grants	443,367	443,367	416,608	(26,759)
Other state revenue	14,400	14,400	13,852	(548)
Total other categorical aid	<u>1,701,043</u>	<u>1,701,043</u>	<u>1,730,558</u>	<u>29,515</u>
Total categorical aid	<u>1,701,043</u>	<u>1,701,043</u>	<u>1,730,558</u>	<u>29,515</u>
Total revenue from the Commonwealth	<u>1,704,043</u>	<u>1,704,043</u>	<u>1,744,243</u>	<u>40,200</u>
Revenue from the federal government:				
Categorical aid:				
Housing grant	-	-	64,203	64,203
Federal police grants	-	-	23,809	23,809
FEMA grant	-	-	23,819	23,819
Total categorical aid	<u>-</u>	<u>-</u>	<u>111,831</u>	<u>111,831</u>
Total revenue from the federal government	<u>-</u>	<u>-</u>	<u>111,831</u>	<u>111,831</u>
Total General Fund	<u>\$ 5,058,523</u>	<u>\$ 5,058,523</u>	<u>\$ 5,792,509</u>	<u>\$ 733,986</u>

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

<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	\$ 17,446	\$ 17,446	\$ 14,612	\$ 2,834
Administration	276,042	276,042	239,342	36,700
Fringe Benefits	6,700	6,700	641	6,059
Total general and financial administration	<u>300,188</u>	<u>300,188</u>	<u>254,595</u>	<u>45,593</u>
Public safety:				
Law enforcement and traffic control:				
Police grants	82,292	82,292	56,519	25,773
Drug task force	81,390	81,390	108,803	(27,413)
Police Department	1,765,814	1,765,814	1,659,193	106,621
Total law enforcement and traffic control	<u>1,929,496</u>	<u>1,929,496</u>	<u>1,824,515</u>	<u>104,981</u>
Fire and rescue services:				
Fire Department	219,835	219,835	143,164	76,671
Rescue Squad	633,457	633,457	672,156	(38,699)
Total fire and rescue services	<u>853,292</u>	<u>853,292</u>	<u>815,320</u>	<u>37,972</u>
Total public safety	<u>2,782,788</u>	<u>2,782,788</u>	<u>2,639,835</u>	<u>142,953</u>
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highways, streets, bridges and sidewalks	1,074,684	1,074,684	919,278	155,406
Total maintenance of highways, streets, bridges & sidewalks	<u>1,074,684</u>	<u>1,074,684</u>	<u>919,278</u>	<u>155,406</u>
Sanitation and waste removal:				
Refuse collection and disposal	439,481	439,481	378,009	61,472
Total sanitation and waste removal	<u>439,481</u>	<u>439,481</u>	<u>378,009</u>	<u>61,472</u>
Total public works	<u>1,514,165</u>	<u>1,514,165</u>	<u>1,297,287</u>	<u>216,878</u>
Parks, recreation, and cultural:				
Cultural enrichment:				
Recreation	378,832	378,832	342,775	36,057
Centennial fund	-	-	2,394	(2,394)
Total cultural enrichment	<u>378,832</u>	<u>378,832</u>	<u>345,169</u>	<u>33,663</u>
Library:				
Library	2,664	2,664	3,895	(1,231)
Total parks, recreation, and cultural	<u>\$ 381,496</u>	<u>\$ 381,496</u>	<u>\$ 349,064</u>	<u>\$ 32,432</u>

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

<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: (Continued)				
Community development:				
Planning and community development:				
Downtown activities	\$ 13,500	\$ 13,500	\$ 23,048	\$ (9,548)
Big Creek Project	-	-	106,735	(106,735)
Total planning and community development	<u>13,500</u>	<u>13,500</u>	<u>129,783</u>	<u>(116,283)</u>
Total community development	<u>13,500</u>	<u>13,500</u>	<u>129,783</u>	<u>(116,283)</u>
Capital projects/outlays:				
Capital projects and capital outlays	848,501	848,501	973,103	(124,602)
Land purchase (donation)	-	-	107,000	(107,000)
Total capital projects	<u>848,501</u>	<u>848,501</u>	<u>1,080,103</u>	<u>(231,602)</u>
Debt service:				
Principal retirement	44,215	44,215	44,215	-
Interest and other fiscal charges	11,149	11,149	11,149	-
Total debt service	<u>55,364</u>	<u>55,364</u>	<u>55,364</u>	<u>-</u>
Total General Fund	<u>\$ 5,896,002</u>	<u>\$ 5,896,002</u>	<u>\$ 5,806,031</u>	<u>\$ 89,971</u>

OTHER STATISTICAL INFORMATION

Table 1

Town of Richlands, Virginia
Government-Wide Expenses by Function
Last Four 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

(1) Information has only been available for 4 years.

Table 2

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

Fiscal Year	PROGRAM REVENUES				GENERAL REVENUES						Total
	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		
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	

(1) Information has only been available for 4 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)
	\$		\$		\$		\$		\$		\$		
2003-04	841,486		1,583,312		892,535		372,353		192,555		-		3,882,241
2004-05	967,392		965,021		968,106		236,306		103,368		-		3,240,193
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

(1) Excludes Capital Projects

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 Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental	Total
2003-04	\$ 267,326	\$ 1,156,958	\$ 19,510	\$ 36,412	\$ 58,831	\$ 311,270	\$ 74,060	\$ -	\$ 1,206,708	\$ 3,131,075
2004-05	265,131	1,164,925	16,095	45,671	54,775	371,759	66,265	-	755,276	2,739,897
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

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
2003-04	\$ 248,494	\$ 230,016	92.56%	\$ 21,711	\$ 251,727	101.30%	\$ 25,055	10.08%
2004-05	248,376	227,508	91.60%	16,613	244,121	98.29%	30,268	12.19%
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%

(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
2003-04	\$ 143,277,300	\$ 11,981,714	\$ 155,259,014
2004-05	144,079,700	11,027,057	155,106,757
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

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

<u>Fiscal Year</u>	<u>Real Estate (1)</u>
2003-04	0.16
2004-05	0.16
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

(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
2003-04	4,144	\$ 155,259	\$ 3,440,891	2.22%	\$ 830
2004-05	4,144	155,107	3,179,160	2.05%	767
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

(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
As of June 30, 2013

Total assessed value of taxed real property	\$ 286,141,821
Debt limit - 10 percent of total assessed value	28,614,182
Amount of debt applicable to debt limit	<u>(2,714,671)</u>
Legal debt margin	<u>\$ 25,899,511</u>

COMPLIANCE SECTION

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Honorable Members of Town Council
Town of 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 Town of Richlands, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Richlands, Virginia's basic financial statements, and have issued our report thereon dated October 28, 2013.

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, Farmer, Cox Associates

Blacksburg, Virginia
October 28, 2013