

**TOWN OF CHATHAM, VIRGINIA**

**ANNUAL FINANCIAL REPORT**

**Fiscal Year Ended**

**June 30, 2016**

TABLE OF C O N T E N T S

	<u>Page</u>	
<b><u>FINANCIAL SECTION</u></b>		
<b>INDEPENDENT AUDITORS' REPORT</b>	1-3	
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	4-9	
<b>BASIC FINANCIAL STATEMENTS</b>	10	
<b><u>Exhibits</u></b>		
<b>Government-Wide Financial Statements</b>		
Exhibit 1	Statement of Net Position	11
Exhibit 2	Statement of Activities	12
<b>Fund Financial Statements</b>		
<b>Governmental Fund Financial Statements</b>		
Exhibit 3	Balance Sheet	13
Exhibit 4	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	14
Exhibit 5	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
<b>Proprietary Fund Financial Statements</b>		
Exhibit 6	Statement of Net Position	16
Exhibit 7	Statement of Revenues, Expenditures, and Changes in Net Position	17
Exhibit 8	Statement of Cash Flows	18
<b>Notes to the Financial Statements</b>	19-45	
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	46	
<b>Budgetary Comparison Schedule-Major Funds</b>		
Exhibit 9	General Fund	47
Exhibit 10	Schedule of Changes in Net Pension Liability and Related Ratios and Schedule of Employer Contributions and Notes to Schedule of Changes in Net Pension Liability and Related Ratios and Schedule of Employer Contributions	48-49
<b>OTHER SUPPLEMENTARY INFORMATION</b>	50	
<b>Combining and Individual Fund Statements and Schedules</b>		
Exhibit 11	Combining Balance Sheet-Nonmajor Governmental Funds	51
Exhibit 12	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances-Nonmajor Governmental Funds	52
<b><u>COMPLIANCE SECTION</u></b>		
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	54-55	

## FINANCIAL SECTION

## INDEPENDENT AUDITORS' REPORT

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chatham, Virginia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

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

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chatham, Virginia, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on page 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Chatham, Virginia's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements 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 combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2017, on our consideration of the Town of Chatham, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Chatham, Virginia's internal control over financial reporting and compliance.

*Harris Harvey Neal & Co. LLP*

Danville, Virginia  
January 15, 2017

**TOWN OF CHATHAM, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016**

Our discussion and analysis of Town of Chatham, Virginia's financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the Town's financial statements, which begin on page 10.

**USING THIS ANNUAL REPORT**

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

**Government-Wide Financial Statements**

Our analysis of the Town as a whole begins on page 10. One of the most important questions asked about the Town's finances is, "Is the Town, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements report the Town's Net Position and changes in them. You can think of the Town's Net Position—the difference between assets and liabilities—as one way to measure the Town's financial health, or financial position. Over time, increases or decreases in the Town's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Town's property tax base and the condition of the Town's roads, to assess the overall health of the Town.

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

- Governmental activities—Most of the Town's basic services are reported here, including the police, fire, public works, parks departments, and general administration. Property taxes, franchise fees, and state and federal grants finance most of these activities.
- Business-type activities—The Town charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Town's water and sewer system is reported here.

## Fund Financial Statements

Our analysis of the Town’s major funds begins on page 13. The fund financial statements begin on page 13 and provide detailed information about the most significant funds—not the Town as a whole. Some funds are required to be established by State law and by bond covenants. However, the Town Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The Town’s two kinds of funds—governmental and proprietary—use different accounting approaches.

- Governmental funds—Most of the Town’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town’s general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town’s programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in the reconciliation at the bottom of the fund financial statements.
- Proprietary funds—When the Town charges customers for the services it provides, (whether to outside customers or to other units of the Town) these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the Town’s enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

## THE TOWN AS A WHOLE

The Town’s combined net position increased 8.4 percent from the prior year. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Town’s governmental and business-type activities.

Table 1  
Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 1,246,831	\$ 1,199,383	\$ 2,060,519	\$ 1,758,720	\$ 3,307,350	\$ 2,958,103
Capital assets	1,386,126	1,416,137	4,405,941	3,761,996	5,792,067	5,178,133
Total assets	<u>\$ 2,632,957</u>	<u>\$ 2,615,520</u>	<u>\$ 6,466,460</u>	<u>\$ 5,520,716</u>	<u>\$ 9,099,417</u>	<u>\$ 8,136,236</u>
Long-term debt outstanding	\$ 581,303	\$ 654,636	\$ 2,264,617	\$ 1,521,865	\$ 2,845,920	\$ 2,176,501
Other liabilities	140,033	115,887	81,683	281,288	221,716	397,175
Total liabilities	<u>\$ 721,336</u>	<u>\$ 770,523</u>	<u>\$ 2,346,300</u>	<u>\$ 1,803,153</u>	<u>\$ 3,067,636</u>	<u>\$ 2,573,676</u>

Invested in capital						
assets, net of debt	\$ 858,804	\$ 823,495	\$ 2,182,361	\$ 2,288,385	\$ 3,041,165	\$ 3,111,880
Restricted	395,701	380,356	88,954	65,656	484,655	446,012
Unrestricted	<u>657,116</u>	<u>641,146</u>	<u>1,848,845</u>	<u>1,363,522</u>	<u>2,505,961</u>	<u>2,004,668</u>
Total net position	<u>\$ 1,911,621</u>	<u>\$ 1,844,997</u>	<u>\$ 4,120,160</u>	<u>\$ 3,717,563</u>	<u>\$ 6,031,781</u>	<u>\$ 5,562,560</u>

That reflects an increase of 3.6 percent for governmental activities and a 10.8 percent increase for business-type activities.

The increase in governmental net position is due to a transfer from the business-type activities. The increase in net position of business-type activities is a result of an increase in rates during the year.

Table 2  
Changes in Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues:						
Charges for services	\$ 117,161	\$ 125,653	\$ 1,645,526	\$ 1,619,729	\$ 1,762,687	\$ 1,745,382
Grants and contributions	50,534	65,874	169,570	10,000	220,104	75,874
General revenues:						
Property taxes	313,673	293,662	-	-	313,673	293,662
Other taxes	414,486	414,401	-	-	414,486	414,401
Sale of cemetery lots	12,750	32,250	-	-	12,750	32,250
Investment earnings	3,362	1,783	1,025	812	4,387	2,595
Total revenues	<u>\$ 911,966</u>	<u>\$ 933,623</u>	<u>\$ 1,816,121</u>	<u>\$ 1,630,541</u>	<u>\$ 2,728,087</u>	<u>\$ 2,564,164</u>
Program expenses:						
General government	\$ 135,580	\$ 156,868	\$ -	\$ -	\$ 135,580	\$ 156,868
Judicial administration	275,952	275,299	-	-	275,952	275,299
Public safety	58,667	80,609	-	-	58,667	80,609
Public works	259,366	285,936	-	-	259,366	285,936
Cemetery maintenance	52,857	51,269	-	-	52,857	51,269
Parks, recreation, and cultural	58,480	49,129	-	-	58,480	49,129
Interest on long-term debt	19,777	18,475	-	-	19,777	18,475
Water and sewer	-	-	1,436,823	1,356,026	1,436,823	1,356,026
Total expenses	<u>860,679</u>	<u>917,585</u>	<u>1,436,823</u>	<u>1,356,026</u>	<u>2,297,502</u>	<u>2,273,611</u>
Transfers	<u>-</u>	<u>200,000</u>	<u>-</u>	<u>(200,000)</u>	<u>-</u>	<u>-</u>
Increase in net position	<u>\$ 51,287</u>	<u>\$ 216,038</u>	<u>\$ 379,298</u>	<u>\$ 74,515</u>	<u>\$ 430,585</u>	<u>\$ 290,553</u>

The Town's total revenues increased by 6.4 percent. The total cost of all programs and services increased by 1.1 percent. Our analysis below separately considers the operations of governmental and business-type activities.

### **Governmental Activities**

Revenues for the Town's governmental activities decreased 2.3 percent, while expenses decreased 6.2 percent. The revenue decrease is due primarily to an decrease in cemetery lot sales in the current year. Expenses decreased due to a turnover in employees in the current year.

### **Business-type Activities**

Revenues for the Town's business-type activities increased 11.4 percent due to a grant received in the current year for improvements to the dam analysis. Expenses increased 6.0 percent from the prior year due to an increase in depreciation expense related to water plant improvements and grant expenses increase.

### **THE TOWN'S FUNDS**

As the Town completed the year, its governmental funds (as presented in the balance sheet on page 13) reported a fund balance of \$1,024,201, which is 1.4 percent higher than last year. The primary reason for the increase is due to less payroll expense in the current year.

### **General Fund Budgetary Highlights**

There were no differences between the original budget and the final budget.

Actual disbursements were \$79,538 lower than budgeted amounts. The Town's general government expenses were less than budgeted. Actual revenues were \$47,187 higher than budgeted amounts.

## 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, 2016, amounts to \$5,792,067 (net of accumulated depreciation). This investment in capital assets includes police and fire equipment, buildings, park facilities, improvements, and water and sewer lines. This amount represents a net increase (including additions and deductions) of approximately \$613,934, or 11.8 percent, above last year.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 133,110	\$ 133,110	\$ -	\$ -	\$ 133,110	\$ 133,110
Building and Improvements	1,153,610	1,178,936	-	-	1,153,610	1,178,936
Machinery, Equipment and Vehicles	99,406	104,091	2,136	4,465	101,542	108,556
Water/Sewer Lines	-	-	<u>4,403,805</u>	<u>3,757,531</u>	<u>4,403,805</u>	<u>3,757,531</u>
Totals	<u>\$ 1,386,126</u>	<u>\$ 1,416,137</u>	<u>\$ 4,405,941</u>	<u>\$ 3,761,996</u>	<u>\$ 5,792,067</u>	<u>\$ 5,178,133</u>

This year's major additions included:

Police car, paid for with revenues	\$ 25,916
New filters, paid for with revenues	42,865
Water plant improvements, paid for with grant revenues	<u>758,303</u>
	<u>\$827,084</u>

### Debt

At year-end, the Town had \$2,750,902 in bonds and notes outstanding compared to \$2,066,253 last year – an increase of 33.1 percent as shown in the following table.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
General obligation bonds	\$ -	\$ -	\$ 2,161,305	\$ 1,401,825	\$ 2,161,305	\$ 1,401,825
Lease revenue bond	378,135	425,402	-	-	378,135	425,402
Lease purchase	-	-	62,275	71,786	62,275	71,786
Notes payable	<u>149,187</u>	<u>167,240</u>	<u>-</u>	<u>-</u>	<u>149,187</u>	<u>167,240</u>
Totals	<u>\$ 527,322</u>	<u>\$ 592,642</u>	<u>\$ 2,223,580</u>	<u>\$ 1,473,611</u>	<u>\$ 2,750,902</u>	<u>\$ 2,066,253</u>

The Commonwealth limits the amount of general obligation debt that the Town can issue to 10 percent of the assessed value of all taxable property within the Town's corporate limits.

Other obligations include accrued vacation pay and sick leave. More detailed information about the Town's long-term liabilities is presented in Note 5 to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The rates for real estate and personal property tax, as well as garbage collection fees, will remain unchanged. The fee to purchase a cemetery plot will also endure.

Business type activities (e.g., water/sewer revenue) will also remain unchanged.

All of these factors were considered in preparing the Town's budget for the 2017 fiscal year.

## **CONTACTING THE TOWN'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town Finance Office at P.O. Box 370, Chatham, Virginia 24531. Phone 434-432-9515.

## BASIC FINANCIAL STATEMENTS

TOWN OF CHATHAM, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2016

Exhibit 1

ASSETS	Governmental Activities	Business-type Activities	Total
Cash	\$ 629,231	\$ 1,547,839	\$ 2,177,070
Cash designated for capital improvements	183,060	-	183,060
Receivables (net of allowances for uncollectibles):			
Taxes, including penalties	57,099	-	57,099
Accounts	20,030	292,079	312,109
Prepays	25,408	40,447	65,855
Restricted assets:			
Cash	35,532	-	35,532
Certificate of deposit	191,032	-	191,032
Fixed assets (net of accumulated depreciation)	1,386,126	4,405,941	5,792,067
Bond issuance costs (net of accumulated amortization)	10,173	50,228	60,401
Deferred outflows of resources-pension contributions	17,416	23,753	41,169
Net pension asset	77,850	106,173	184,023
Total assets	<u>\$ 2,632,957</u>	<u>\$ 6,466,460</u>	<u>\$ 9,099,417</u>
LIABILITIES			
Accrued interest payable	\$ 3,043	\$ -	\$ 3,043
Accounts payable	93,369	36,951	130,320
Accrued payroll	23,822	17,729	41,551
Long-term obligations:			
Due within one year	76,865	105,683	182,549
Due beyond one year	504,438	2,158,934	2,663,371
Deferred inflows of resources-VRS	19,799	27,003	46,802
Total liabilities	<u>721,336</u>	<u>2,346,300</u>	<u>3,067,636</u>
NET POSITION			
Invested in capital assets, net of related debt	\$ 858,804	\$ 2,182,361	\$ 3,041,165
Restricted for:			
Perpetual care:			
Unexpendable	330,328	-	330,328
Pension	65,373	88,954	154,327
Unrestricted	657,116	1,848,845	2,505,961
Total net position	<u>\$ 1,911,621</u>	<u>\$ 4,120,160</u>	<u>\$ 6,031,781</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CHATHAM, VIRGINIA

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2016

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 135,580	\$ 32	\$ -	\$ -	\$ (135,548)	\$ -	\$ (135,548)
Judicial administration	275,952	-	-	-	(275,952)	-	(275,952)
Public safety	58,667	34,206	49,194	-	24,733	-	24,733
Public works	259,366	82,923	1,340	-	(175,103)	-	(175,103)
Cemetery maintenance	52,857	-	-	-	(52,857)	-	(52,857)
Parks, recreation, and cultural	58,480	-	-	-	(58,480)	-	(58,480)
Interest on long-term debt	19,777	-	-	-	(19,777)	-	(19,777)
Total governmental activities	<u>860,679</u>	<u>117,161</u>	<u>50,534</u>	<u>-</u>	<u>(692,984)</u>	<u>-</u>	<u>(692,984)</u>
Business-type activities:							
Water and sewer	<u>1,436,823</u>	<u>1,645,526</u>	<u>-</u>	<u>169,570</u>	<u>-</u>	<u>378,273</u>	<u>378,273</u>
Total primary government	<u>\$ 2,297,502</u>	<u>\$ 1,762,687</u>	<u>\$ 50,534</u>	<u>\$ 169,570</u>	<u>\$ (692,984)</u>	<u>\$ 378,273</u>	<u>\$ (314,711)</u>
General Revenues:							
Property taxes					\$ 313,673	\$ -	\$ 313,673
Other taxes and revenues					414,486	-	414,486
Sale of cemetery lots					12,750	-	12,750
Unrestricted investment earnings					<u>3,362</u>	<u>1,025</u>	<u>4,387</u>
Total general revenues					<u>744,271</u>	<u>1,025</u>	<u>745,296</u>
Transfers					<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets					51,287	379,298	430,585
Net position - beginning					<u>1,860,334</u>	<u>3,740,862</u>	<u>5,601,196</u>
Net position - ending					<u>\$ 1,911,621</u>	<u>\$ 4,120,160</u>	<u>\$ 6,031,781</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CHATHAM, VIRGINIA

BALANCE SHEET  
GOVERNMENTAL FUNDS

June 30, 2016

Exhibit 3

ASSETS	<u>General</u>	Other Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Cash	\$ 629,231	\$ -	\$ 629,231
Cash designated for capital improvements	183,060	-	183,060
Receivables (net of allowances for uncollectibles):			
Taxes, including penalties	57,099	-	57,099
Accounts	20,030	-	20,030
Prepays	25,408		25,408
Due from other funds	-	112,742	112,742
Restricted assets:			
Cash	-	35,532	35,532
Certificate of deposit	-	191,032	191,032
	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 914,828</u>	<u>\$ 339,306</u>	<u>\$ 1,254,134</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 93,369	\$ -	\$ 93,369
Accrued payroll	23,822	-	23,822
Due to other funds	112,742	-	112,742
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>229,933</u>	<u>-</u>	<u>229,933</u>
Fund balances:			
Restricted for:			
Perpetual care	-	339,306	339,306
Assigned to:			
Capital improvements	183,060	-	183,060
Unassigned	501,835	-	501,835
	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	<u>684,895</u>	<u>339,306</u>	1,024,201
Total liabilities and fund balances	<u>\$ 914,828</u>	<u>\$ 339,306</u>	
 Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			1,386,126
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.			(584,345)
Some assets and liabilities, including net pension assets, are not due and payable in the current period and, therefore, are not reported in the funds			88,022
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds			<u>(2,383)</u>
Net position of governmental activities			<u>\$ 1,911,621</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CHATHAM, VIRGINIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 For the Year Ended June 30, 2016

Exhibit 4

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
General property taxes	\$ 313,673	\$ -	\$ 313,673
Other local taxes	173,022	-	173,022
Consumer utility tax	117,627	-	117,627
Permits, privilege fees, and regulatory licenses	100,660	-	100,660
Fines and forfeitures	34,208	-	34,208
Interest and investment revenue	1,631	1,738	3,369
Charges for service	82,955	-	82,955
Recovered costs	4,099	-	4,099
Sale of cemetery lots	-	12,750	12,750
Intergovernmental	50,534	-	50,534
Miscellaneous	19,078	-	19,078
	<u>897,487</u>	<u>14,488</u>	<u>911,975</u>
<b>Expenditures:</b>			
<b>Current:</b>			
General government administration	109,687	-	109,687
Judicial administration	292,394	-	292,394
Public safety	28,148	-	28,148
Public works	274,521	-	274,521
Cemetery maintenance	51,366	-	51,366
Parks, recreation, and cultural	58,910	-	58,910
<b>Debt service:</b>			
Principal and interest retirement	82,910	-	82,910
	<u>897,936</u>	<u>-</u>	<u>897,936</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(449)</u>	<u>14,488</u>	<u>14,039</u>
<b>Other financing sources (uses):</b>			
Operating transfers in	5,100	-	5,100
Operating transfers out	-	(5,100)	(5,100)
	<u>5,100</u>	<u>(5,100)</u>	<u>-</u>
Net change in fund balances	4,651	9,388	14,039
Fund balance at beginning of year	680,244	329,918	1,010,162
Fund balance at end of year	<u>\$ 684,895</u>	<u>\$ 339,306</u>	<u>\$ 1,024,201</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CHATHAM, VIRGINIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 For the Year Ended June 30, 2016

Exhibit 5

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

Net change in fund balances - total governmental funds (page 14)	\$ 14,039
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 depreciation exceeded capital outlays in the current period.	(30,012)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds.	73,701
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.	(2,570)
Governmental funds report pension contributions as expenditures. However in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.	<u>(3,871)</u>
Change in net position before prior period adjustment of governmental activities	<u><u>\$ 51,287</u></u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CHATHAM, VIRGINIA

STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS

June 30, 2016

Exhibit 6

Business-type  
Activities

Water and  
Sewer Fund

ASSETS	
Current assets:	
Cash	\$ 1,547,839
Accounts receivables (net of allowances for uncollectibles)	292,079
Prepaid expenses	<u>40,447</u>
Total current assets	<u>1,880,365</u>
Noncurrent assets:	
Fixed assets (net of accumulated depreciation)	4,405,941
Bond issuance costs (net of accumulated amortization)	50,228
Deferred outflows of resources-pension contributions	23,753
Net pension asset	<u>106,173</u>
Total noncurrent assets	<u>4,586,095</u>
Total assets	<u><u>\$ 6,466,460</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 36,951
Accrued payroll	17,729
Compensated absences	8,207
Long-term debt	<u>73,176</u>
Total current liabilities	<u>136,063</u>
Noncurrent liabilities:	
Compensated absences	32,830
Long-term debt	2,150,404
Due to other funds	-
Deferred inflows of resources - VRS	<u>27,003</u>
Total noncurrent liabilities	<u>2,210,237</u>
Total liabilities	<u>2,346,300</u>
NET POSITION	
Invested in capital assets, net of related debt	2,182,361
Restricted	88,954
Unrestricted	<u>1,848,845</u>
Total net position	<u><u>\$ 4,120,160</u></u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CHATHAM, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION  
 PROPRIETARY FUNDS  
 For the Year Ended June 30, 2016

	Exhibit 7
	Business-type <u>Activities</u>
	Water and <u>Sewer Fund</u>
Operating revenues:	
Charges for services	\$ 1,635,430
Tap fees	1,500
Grant income	169,570
Miscellaneous	8,596
Total operating revenues	<u>1,815,096</u>
Operating expenses:	
Personal services	435,409
Fringe benefits	133,824
Contractual services	229,658
Waste removal	31,922
Waste water and water use fee	36,161
Analysis fees	19,766
Repairs and maintenance	46,471
Vehicle expenses	43,238
Materials and supplies	20,224
Chemicals	71,244
Depreciation	188,761
Utilities	61,410
Telephone	7,022
Insurance	11,922
Data processing	2,436
Other expenses	8,550
Total operating expenses	<u>1,348,018</u>
Operating income	<u>467,078</u>
Nonoperating income (expense):	
Interest income	1,025
Interest expense	(88,805)
Total nonoperating (expense)	<u>(87,780)</u>
Transfers out	<u>-</u>
Net income	379,298
Total net position-beginning	<u>3,740,862</u>
Total net position-ending	<u>\$ 4,120,160</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CHATHAM, VIRGINIA

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 For the Year Ended June 30, 2016

Exhibit 8

	<u>Business-type Activities</u>
	<u>Water and Sewer Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 1,615,239
Receipts from grants	169,570
Payments to suppliers	(617,817)
Payments to employees	<u>(571,011)</u>
Net cash provided by operating activities	<u>595,981</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from debt	821,000
Transfer to other funds	(162,448)
Purchase of capital assets	(832,706)
Principal paid on capital debt	(71,031)
Interest paid on capital debt	<u>(106,587)</u>
Net cash (used in) capital and related financing activities	<u>(351,772)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received	<u>1,025</u>
Net increase in cash	245,234
Cash and cash equivalents	
Beginning	<u>1,302,605</u>
Ending	<u>\$ 1,547,839</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income	\$ 467,078
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	188,761
Change in operating assets and liabilities:	
Decrease in accounts receivable	(30,287)
Decrease in prepaid expenses	(19,874)
(Decrease) in accounts payable	(7,919)
Increase in accrued payroll	1,069
(Decrease) in deferred inflows/outflows	4,369
Increase in compensated absences	<u>(7,216)</u>
Net cash provided by operating activities	<u>\$ 595,981</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CHATHAM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Town of Chatham, Virginia (the primary government) is a municipal corporation governed by a seven-member council. The Town's major operations include police and fire protection, parks and recreation, public works, and general administrative services. In addition, the Town owns and operates a water and sewer system.

The Town's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Town has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Town has chosen not to do so. The more significant accounting policies established in GAAP and used by the Town are discussed below.

B. Basic Financial Statements - Government-Wide Statements

The Town's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental and Business-Type Activities for the Town accompanied by a total column. Fiduciary activities of the Town are not included in these statements.

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

The Town does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net position resulting from the current year's activities.

TOWN OF CHATHAM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

C. Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the Government-Wide financial statements. The Town has presented all major funds that met those qualifications.

All governmental funds are accounted for on a spending or “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. (The Town’s deferred outflows of resources and deferred inflows of resources are noncurrent.) The Statement of Revenues, Expenditures, and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Town, are property tax, sales tax, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

D. Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenditures, and Changes in Net Position, and a Statement of Cash Flows for the proprietary fund.

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

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

TOWN OF CHATHAM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Financial Statement Amounts

1. Cash and Cash Equivalents:

The Town has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agents. Additionally, each fund's equity in the Town's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

2. Allowances for Uncollectible Accounts:

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowances amounted to \$2,500 in the Governmental Activities at June 30, 2016.

3. Capital Assets:

Capital assets purchased or acquired with an original cost of \$2,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20-50 years
Water and sewer system	30-50 years
Machinery and equipment	5-10 years
Improvements	10-20 years
Other infrastructure	10-50 years

GASB No. 34 requires the Town to report and depreciate new infrastructure assets effective with the beginning of the current year. No new infrastructure assets were constructed or purchased for the year. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the Town. Neither their historical cost nor related depreciation has historically been reported in the financial statements.

4. Revenues:

Substantially all governmental fund revenues are accrued. Property taxes are billed and collected within the same period in which the taxes are levied. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASB No. 33. In applying GASB No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

TOWN OF CHATHAM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

5. Expenditures:

Expenditures are recognized when the related fund liability is incurred.

6. Compensated Absences:

The Town accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The non-current portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

Note 2. Cash

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.

At year-end, the carrying value of the Town's deposits with banks and savings institutions was \$2,586,694, and the bank balance was \$2,588,577.

Note 3. Property Taxes Receivable

Property tax is levied on or about October 15th annually on the assessed (appraised) value listed as of the prior January 1st for all real and personal property located in the Town. Taxable assessed value represents the appraisal value less applicable exemptions authorized by the Town Council. Appraised values are established by the Pittsylvania County Tax Assessor at 100% of estimated fair market value.

Taxes are due on December 5th immediately following the levy date and are delinquent on December 6th. Current tax collections for the year ended June 30, 2016 were 95.5% of the tax levy.

Property taxes are recorded as receivables and deferred revenues at the time the tax levy is billed. Revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the year, and therefore susceptible to accrual in accordance with generally accepted accounting principles, have been recognized as revenue.

TOWN OF CHATHAM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2016, was as follows:

	<u>Balance</u> <u>7/1/15</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/16</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 133,110	\$ -	\$ -	\$ 133,110
Capital assets, being depreciated:				
Buildings and improvements	2,083,448	25,000	-	2,108,448
Equipment	<u>1,149,077</u>	<u>38,200</u>	<u>-</u>	<u>1,187,277</u>
Total capital assets being depreciated	<u>3,232,525</u>	<u>63,200</u>	<u>-</u>	<u>3,295,725</u>
Less accumulated depreciation for:				
Buildings and improvements	904,512	50,326	-	954,838
Equipment	<u>1,044,986</u>	<u>42,885</u>	<u>-</u>	<u>1,087,871</u>
Total accumulated depreciation	<u>1,949,498</u>	<u>93,211</u>	<u>-</u>	<u>2,042,709</u>
Governmental activities capital assets, net	<u>\$ 1,416,137</u>	<u>\$ (30,011)</u>	<u>\$ -</u>	<u>\$ 1,386,126</u>
Business-type activities:				
Capital assets, being depreciated:				
Water plant	\$ 1,578,465	\$ 830,564	\$ -	\$ 2,409,029
Sewer plant	2,552,157	2,142	-	2,554,299
Lines, tank, etc.	3,020,869	-	-	3,020,869
Machinery and equipment	<u>247,219</u>	<u>-</u>	<u>-</u>	<u>247,219</u>
Total capital assets being depreciated	<u>7,398,710</u>	<u>832,706</u>	<u>-</u>	<u>8,231,416</u>
Less accumulated depreciation for:				
Water plant	340,190	52,796	-	392,986
Sewer plant	1,495,745	63,253	-	1,558,998
Lines, tank, etc.	1,558,024	70,383	-	1,628,407
Machinery and equipment	<u>242,755</u>	<u>2,329</u>	<u>-</u>	<u>245,084</u>
Total accumulated depreciation	<u>3,636,714</u>	<u>188,761</u>	<u>-</u>	<u>3,825,475</u>
Business-type activities capital assets, net	<u>\$ 3,761,996</u>	<u>\$ 643,945</u>	<u>\$ -</u>	<u>\$ 4,405,941</u>

TOWN OF CHATHAM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets (Continued)

Depreciation expense was charged to governmental functions as follows:

Governmental activities:	
General government	\$ 25,754
Public safety	44,775
Public works	12,903
Cemetery maintenance	3,034
Parks, recreation, and cultural	<u>6,745</u>
 Total depreciation expense-governmental activities	 <u>\$ 93,211</u>
 Business-type activities:	
Water and sewer	<u>\$ 188,761</u>

Note 5. Long-Term Debt

Governmental activities:

The Town of Chatham entered into a \$275,000 loan with First Citizen's Bank to finance a fire truck. The loan is payable in fifteen annual installments of \$24,993 beginning on September 5, 2007 with an interest rate of 4.15% for ten years and the remaining five years will adjust to a variable rate set at 75% of the bank's prime rate. The Chatham Volunteer Fire Department is required to reimburse the Town \$10,000 annually.

Annual requirements are summarized as follows:

Year Ending June 30:	Principal	Interest
2017	\$ 18,803	\$ 6,191
2018	19,583	5,411
2019	20,396	4,598
2020	21,242	3,752
2021	22,124	2,870
Thereafter	<u>47,039</u>	<u>2,948</u>
 Total	 <u>\$ 149,187</u>	 <u>\$ 25,770</u>

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (Continued)

On June 24, 2014, the Industrial Development Authority of Pittsylvania County issued a \$472,669 lease revenue refunding bond for the purpose of payment, refinancing and refunding of the Industrial Development Authority's \$726,000 lease revenue bond which was used to construct a new fire station for the Chatham Volunteer Fire Department. The bond was issued pursuant to a lease agreement dated June 1, 2014 between the Industrial Development Authority of Pittsylvania County and the Town Council of the Town of Chatham. The Town is not empowered to make any binding commitment beyond the current fiscal year of the Town although the current intention of the Town Council is to make sufficient annual appropriation during the lease term to pay all rental payments and other amounts required to be paid by the Town under the lease. Interest is payable at 2.50%. Installments of principal are due annually on June 1, through June 1, 2024. Installments of interest are due on each December 1 and June 1, through June 1, 2024.

Annual requirements are summarized as follows:

Year Ending June 30:	Principal	Interest
2017	\$ 47,266	\$ 9,453
2018	47,266	8,272
2019	47,266	7,090
2020	47,266	5,908
2021	47,266	4,727
Thereafter	<u>141,805</u>	<u>7,090</u>
	<u>\$ 378,135</u>	<u>\$ 42,540</u>

Business-type activities:

On March 29, 2012, the Town Council entered into a refunding bond issue of \$1,640,552, for the purpose of refunding the Town's General Obligation Water and Sewer Refunding Bond, Series 2008 and to pay the redemption price and issuance costs related thereto. Interest is payable at 3.10%. Installments of principal are due annually on June 15, through June 15, 2033. Installments of interest are due on each June 15 and December 15, through June 15, 2033.

Future maturities for bonds payable are as follows:

Year Ending June 30:	Principal	Interest
2017	\$ 63,427	\$ 41,550
2018	65,393	39,584
2019	67,420	37,556
2020	69,510	33,311
2021	71,665	31,090
Thereafter	<u>1,002,890</u>	<u>173,245</u>
Total	<u>\$ 1,340,305</u>	<u>\$ 356,336</u>

TOWN OF CHATHAM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (Continued)

Town Council entered into a lease purchase agreement during the 2013 fiscal year in the amount of \$98,950, for the purpose of relocating a booster station to increase water pressure to the Olde Dominion Agricultural Center and the northern area of Town. Interest is payable at 2.50%. Installments of principal and interest are due annually on August 1, through June 1, 2021.

Future maturities for bonds payable are as follows:

Year Ending June 30:	Principal	Interest
2017	\$ 9,749	\$ 1,557
2018	9,993	1,313
2019	10,243	1,063
2020	10,499	807
2021	10,761	545
Thereafter	<u>11,030</u>	<u>276</u>
Total	<u>\$ 62,275</u>	<u>\$ 5,561</u>

On September 22, 2015, the Town Council entered into a utility revenue bond issue of \$821,000, for the purpose of renovating the water treatment plant and to pay the issuance costs related thereto. Interest is payable at 2.50%. Installments of principal and interest are due on each August 1 and February 1, through August 1, 2030.

Future maturities for bonds payable are as follows:

Year Ending June 30:	Principal	Interest
2017	\$ 24,300	\$ 22,331
2018	49,600	21,336
2019	50,900	19,977
2020	52,300	18,583
2021	53,800	17,151
Thereafter	<u>590,100</u>	<u>83,499</u>
Total	<u>\$ 821,000</u>	<u>\$ 182,877</u>

TOWN OF CHATHAM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (Continued)

Changes in Long-Term Debt:

The following is a summary of long-term debt transactions of the Town for the year ended June 30, 2016:

	Payable at <u>7/1/15</u>	Plus <u>Additions</u>	Less <u>Retirements</u>	Payable at <u>6/30/16</u>	Due within <u>One year</u>
Governmental activities:					
Bonds and notes payable:					
Lease revenue bond:					
06/24/14 Issue	\$ 425,402	\$ -	\$ 47,267	\$ 378,135	\$ 47,266
Note payable - 09/05/07	<u>167,240</u>	<u>-</u>	<u>18,053</u>	<u>149,187</u>	<u>18,803</u>
Total bonds and notes payable	<u>592,642</u>	<u>-</u>	<u>65,320</u>	<u>527,322</u>	<u>66,069</u>
Other liabilities:					
Compensated absences	<u>61,994</u>	<u>19,875</u>	<u>27,888</u>	<u>53,981</u>	<u>10,796</u>
Governmental activities long-term liabilities	<u>\$ 654,636</u>	<u>\$ 19,875</u>	<u>\$ 93,208</u>	<u>\$ 581,303</u>	<u>\$ 76,865</u>
Business-type activities:					
Bonds:					
General obligation bonds:					
03/29/12 Issue	<u>\$ 1,401,825</u>	<u>\$ -</u>	<u>\$ 61,520</u>	<u>\$ 1,340,305</u>	<u>\$ 63,427</u>
Utility Revenue bonds:					
09/22/15 Issue	<u>-</u>	<u>821,000</u>	<u>-</u>	<u>821,000</u>	<u>24,300</u>
Total bonds payable	<u>\$ 1,401,825</u>	<u>\$ 821,000</u>	<u>\$ 61,520</u>	<u>\$ 2,161,305</u>	<u>\$ 87,727</u>
Lease purchase agreement	<u>71,786</u>	<u>-</u>	<u>9,511</u>	<u>62,275</u>	<u>9,749</u>
Other liabilities:					
Compensated absences	<u>48,254</u>	<u>19,742</u>	<u>26,959</u>	<u>41,037</u>	<u>8,207</u>
Business-type activities long-term liabilities	<u>\$ 1,521,865</u>	<u>\$ 840,742</u>	<u>\$ 97,990</u>	<u>\$ 2,264,617</u>	<u>\$ 105,683</u>

TOWN OF CHATHAM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (Continued)

Details of Long-Term Indebtedness

Governmental Activities:	<u>Amount Outstanding</u>
<p>\$275,000 loan with First Citizen’s Bank to finance a fire truck, payable in fifteen annual installments of \$24,993. The 4.15% interest rate adjusts to a variable rate after ten years.</p>	\$ 149,187
<p>\$472,669 authorized and issued - Lease Revenue Bond issued June 24, 2014, maturing annually with interest payable annually.</p>	378,135
<p>Bonds bearing interest at 2.50% maturing on June 1, 2024</p>	378,135
<p>Compensated absences:</p>	
<p>Vacation and sick leave</p>	<u>53,981</u>
	<u>\$ 581,303</u>
Business-type activities:	<u>Amount Outstanding</u>
<p>\$1,640,552 authorized and issued Water and Sewer Fund General Obligation Refunding Bond issued March 29, 2012, maturing annually with interest payable semi-annually.</p>	\$1,340,305
<p>Bonds bearing interest at 3.10% maturing on June 15, 2033</p>	\$1,340,305
<p>\$821,000 authorized and issued Water and Sewer Utility Revenue Bond, Series 2015 issued September 22, 2015. The revenue bond is due in varying annual installments through August 2030 with interest payable semi-annually at a rate of 2.50%.</p>	821,000
<p>\$98,950 lease purchase agreement with Pittsylvania County, payable in ten installments of \$11,306 bearing interest at 2.50%.</p>	62,275
<p>Compensated absences:</p>	
<p>Vacation and sick leave</p>	<u>41,037</u>
	<u>\$2,264,617</u>

## TOWN OF CHATHAM, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

#### Note 6. Fund Balance Disclosure

The Town of Chatham, Virginia implemented GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year 2012. The purpose of GASB No. 54 is to improve the consistency and usefulness of the fund balance information to the financial user. The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the organization is bound to honor constraints on the specific purpose for which amounts in the funds can be spent.

Governmental Fund Financial Statements. In accordance with GASBS No. 54, the Town classifies fund balances in the government funds as follows:

- Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. The Town has not reported any amounts that are not spendable in form or legally or contractually required to be maintained intact.
- Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.
- Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to ordinances passed by the Town Council, the Town's highest level of decision making authority. Commitments may be modified or rescinded only through ordinances approved by the Town's Council. The Town has not reported any amounts that are committed in the current year.
- Assigned – includes amounts that the Town intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance.
- Unassigned – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources (committed, assigned, and unassigned) as they are needed. When unrestricted resources (committed, assigned, and unassigned) are available for use in the General Fund, it is the Town's policy to use unassigned resources first, then assigned, and then committed as needed. When unrestricted resources (committed, assigned, and unassigned) are available for use in any other governmental fund, it is the Town's policy to use committed resources first, then assigned, and then unassigned as needed.

The Town does not have a formal minimum fund balance requirement. However, the Town has adopted a Reserve Policy, which addresses various targeted reserve amounts in the General Fund and the action that will be taken if the reserves fall below the targeted amount.

TOWN OF CHATHAM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS

Note 6. Fund Balance Disclosure (Continued)

Government-wide and Proprietary Fund Financial Statements. The Town classifies net position in the government-wide and proprietary fund financial statements as follows:

- Net Investment in Capital Assets - includes the Town's capital assets (net of accumulated depreciation) reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted Net Position - includes assets that have third-party (statutory, bond covenant, or granting agency) limitations on their use. The Town typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.
- Unrestricted Net Position - typically includes unrestricted liquid assets. The Town Council has the authority to revisit or alter this designation.

Note 7. Defined Benefit Pension Plan

A. Plan Description

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

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

TOWN OF CHATHAM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

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

TOWN OF CHATHAM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Eligible Members</b> Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p><b>Hybrid Opt In Election</b> VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.</p>	<p><b>Eligible Members</b> Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p><b>Hybrid Opt in Election</b> Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1, through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 2, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.</p>	<p><b>Eligible Members</b> Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This include:</p> <ul style="list-style-type: none"> <li>• Political subdivision employees*</li> <li>• Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1- April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.</li> </ul> <p><b>*Non-Eligible Members</b> Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> <li>• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees</li> </ul> <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.</p>

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Retirement Contributions</b> Employees contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p> <p><b>Creditable Service</b> Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p><b>Retirement Contributions</b> Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.</p> <p><b>Creditable Service</b> Same as VRS Plan 1.</p>	<p><b>Retirement Contributions</b> A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p> <p><b>Creditable Service</b> <b><u>Defined Benefit Component:</u></b> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

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

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Calculating the Benefit</b> The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p> <p><b>Average Final Compensation</b> A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p><b>Calculating the Benefit</b> See definition under VRS Plan 1.</p> <p><b>Average Final Compensation</b> A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distribution is not required by law until age 70 1/2.</p> <p><b>Calculating the Benefit</b> <b><u>Defined Benefit Component:</u></b> See definition under VRS Plan 1</p> <p><b><u>Defined Contribution Component:</u></b> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p> <p><b>Average Final Compensation</b> Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>

TOWN OF CHATHAM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Service Retirement Multiplier</b> <b>VRS:</b> The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p>	<p><b>Service Retirement Multiplier</b> <b>VRS:</b> Same as Plan1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p>	<p><b>Service Retirement Multiplier</b> <b>Defined Benefit Component: VRS:</b> The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p>
<p><b>Sheriffs and regional jail superintendents:</b> The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p>	<p><b>Sheriffs and regional jail superintendents:</b> Same as Plan 1.</p>	<p><b>Sheriffs and regional jail superintendents:</b> Not applicable.</p>
<p><b>Political subdivision hazardous duty employees:</b> The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p>	<p><b>Political subdivision hazardous duty employees:</b> Same as VRS Plan 1.</p>	<p><b>Political subdivision hazardous duty employees:</b> Not applicable.</p>
<p><b>Normal Retirement Age</b> <b>VRS:</b> Age 65.</p>	<p><b>Normal Retirement Age</b> <b>VRS:</b> Normal Social Security retirement age.</p>	<p><b>Normal Retirement Age</b> <b>Defined Benefit Component:</b> <b>VRS:</b> Same as VRS Plan 2.</p>
<p><b>Political subdivisions hazardous duty employees:</b> Age 60.</p>	<p><b>Political subdivisions hazardous duty employees:</b> Same as VRS Plan 1.</p>	<p><b>Political subdivisions hazardous duty employees:</b> Not applicable.</p> <p><b>Defined Contribution Component:</b> Not applicable.</p> <p><b>Defined Contribution Component:</b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Earliest Unreduced Retirement Eligibility</b>  <b>VRS:</b> Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p><b>Political subdivisions hazardous duty employees:</b> Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p> <p><b>Earliest Reduced Retirement Eligibility</b>  <b>VRS:</b> Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p><b>Political subdivisions hazardous duty employees:</b> 50 with at least five years of creditable service.</p> <p><b>Cost-of-Living Adjustment (COLA) in Retirement</b>                      The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b>  <b>VRS:</b> Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p><b>Political subdivisions hazardous duty employees:</b> Same as Plan 1.</p> <p><b>Earliest Reduced Retirement Eligibility</b>  <b>VRS:</b> Age 60 with at least five years (60 months) of creditable service.</p> <p><b>Political subdivisions hazardous duty employees:</b> Same as Plan 1.</p> <p><b>Cost-of-Living Adjustment (COLA) in Retirement</b>                      The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b>  <b>Defined Benefit Component:</b>  <b>VRS:</b> Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p><b>Political subdivisions hazardous duty employees:</b> Not applicable.</p> <p><b>Defined Contribution Component:</b>                      Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p> <p><b>Earliest Reduced Retirement Eligibility</b>  <b>Defined Benefit Component:</b>  <b>VRS:</b> Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p><b>Political subdivisions hazardous duty employees:</b> Not applicable.</p> <p><b>Defined Contribution Component:</b>                      Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p> <p><b>Cost-of-Living Adjustment (COLA) in Retirement</b>  <b>Defined Benefit Component:</b>                      Same as VRS Plan 2.</p> <p><b>Defined Contribution Component:</b>                      Not applicable.</p>

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p><b><u>Eligibility:</u></b> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> <li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>• The member retires on disability.</li> <li>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</li> <li>• The member is involuntarily separated from employment for uses other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.</li> <li>• The member dies in service and the member’s survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.</li> </ul>	<p><b><u>Eligibility:</u></b> Same as VRS Plan 1.</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b> Same as VRS Plan 1.</p>	<p><b><u>Eligibility:</u></b> Same as VRS Plan 1 and VRS Plan 2.</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b> Same as VRS Plan 1 and VRS Plan 2.</p>

TOWN OF CHATHAM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Disability Coverage</b> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p> <p><b>Purchase of Prior Service</b> Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p><b>Disability Coverage</b> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p> <p><b>Purchase of Prior Service</b> Same as VRS Plan 1.</p>	<p><b>Disability Coverage</b> Employees of political subdivisions (including VRS Plan 1 and VRS Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p> <p><b>Purchase of Prior Service</b> <b>Defined Benefit Component:</b> Same as VRS Plan 1 with the following exceptions:</p> <ul style="list-style-type: none"> <li>• Hybrid Retirement Plan members are ineligible for ported service.</li> <li>• The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.</li> <li>• Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost./ After that one year period, the rate for most categories of service will change to actuarial cost.</li> </ul> <p><b>Defined Contribution Component:</b> Not Applicable.</p>

TOWN OF CHATHAM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

Employees Covered by Benefit Terms

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

	Number
Inactive members or their beneficiaries currently receiving benefits	<u>7</u>
Inactive members:	
Vested inactive members	1
Non-vested inactive members	4
Inactive members active elsewhere in VRS	<u>5</u>
Total inactive members	<u>10</u>
Active members	<u>20</u>
Total covered employees	<u><u>37</u></u>

Contributions

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

If the employer used the certified rate: The political subdivision's contractually required contribution rate for the year ended June 30, 2015 was 17.09% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$37,978 and \$38,643 for the years ended June 30, 2016 and June 30, 2015, respectively.

TOWN OF CHATHAM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

Net Pension Liability

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

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Political Subdivision’s Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.35%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

\*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.00%. However, since the difference was minimal, and a more conservative 7.00% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.00% to simplify preparation of pension liabilities.

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

TOWN OF CHATHAM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS

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

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

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

Long-Term Expected Rate of Return

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

TOWN OF CHATHAM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return (Continued)

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

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

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the BRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 7, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

TOWN OF CHATHAM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return (Continued)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2014	\$ 1,461,642	\$ 1,669,225	\$ (207,583)
Changes for the year:			
Service cost	73,926	-	73,926
Interest	100,993	-	100,993
Changes of assumptions			
Difference between expected and actual experience	(3,836)		(3,836)
Contributions - employer	-	38,643	(38,643)
Contributions - employee	-	31,884	(31,884)
Net investment income	-	78,033	(78,033)
Benefit payments, including refunds of employee contributions	(37,783)	(37,783)	-
Administrative expense	-	(1,020)	1,020
Other changes	-	(17)	17
Net changes	133,300	109,740	23,560
Balances at June 30, 2015	\$ 1,594,942	\$ 1,778,965	\$ (184,023)

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

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

	<u>(6.00%)</u>	<u>Rate (7.00%)</u>	<u>(8.00%)</u>
Political subdivision's Net Pension Liability	\$ 18,967	\$ (184,023)	\$ (352,075)

TOWN OF CHATHAM, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS

Note 8. Subsequent Events

Management has evaluated subsequent events through January 15, 2017, the date which the financial statements were available for issue.

## REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF CHATHAM, VIRGINIA

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
For the Year ended June 30, 2016

Exhibit 9

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget
				Positive (Negative)
<b>Revenues:</b>				
General property taxes	\$ 307,000	\$ 307,000	\$ 313,673	\$ 6,673
Other local taxes	147,000	147,000	173,022	26,022
Consumer utility tax	114,000	114,000	117,627	3,627
Permits, privilege fees, and regulatory licenses	90,000	90,000	100,660	10,660
Fines and forfeitures	33,000	33,000	34,208	1,208
Interest and investment revenue	500	500	1,631	1,131
Charges for service	78,000	78,000	82,955	4,955
Recovered costs	-	-	4,099	4,099
Intergovernmental	58,500	58,500	50,534	(7,966)
Miscellaneous	22,300	22,300	19,078	(3,222)
<b>Total revenues</b>	<b>850,300</b>	<b>850,300</b>	<b>897,487</b>	<b>47,187</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General government administration	163,420	163,420	109,687	53,733
Judicial administration	307,554	307,554	292,394	15,160
Public safety	33,300	33,300	28,148	5,152
Public works	301,673	301,673	274,521	27,152
Cemetery maintenance	57,487	57,487	51,366	6,121
Parks, recreation, and cultural	69,540	69,540	58,910	10,630
<b>Debt service:</b>				
Principal and interest retirement	44,500	44,500	82,910	(38,410)
<b>Total expenditures</b>	<b>977,474</b>	<b>977,474</b>	<b>897,936</b>	<b>79,538</b>
Excess (deficiency) of revenues over (under) expenditures	(127,174)	(127,174)	(449)	126,725
<b>Other financing sources (uses):</b>				
Operating transfers in	69,960	69,960	5,100	64,860
<b>Total other financing sources</b>	<b>69,960</b>	<b>69,960</b>	<b>5,100</b>	<b>64,860</b>
Net change in fund balances			4,651	
Fund balance at beginning of year			680,244	
Fund balance at end of year			<u>\$ 684,895</u>	

The accompanying notes are an integral part of the financial statements.

TOWN OF CHATHAM, VIRGINIA

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS  
For the Year Ended June 30, 2016

Exhibit 10

SCHEDULE OF CHANGES IN NET PENSION LIABILITY

	2015
<b>Total pension liability</b>	
Service costs	\$ 73,926
Interest	100,993
Changes of benefit terms	-
Differences between expected and actual experience	(3,836)
Changes in assumptions	-
Benefit payments, including refunds of employee contributions	(37,783)
Net change in total pension liability	133,300
Total pension liability - beginning	1,461,642
Total pension liability - ending (a)	<u>\$ 1,594,942</u>
<b>Plan fiduciary net position</b>	
Contributions - employer	\$ 38,643
Contributions - employee	31,884
Net investment income	78,033
Benefit payments, including refunds of employee contributions	(37,783)
Administrative expenses	(1,020)
Other expenses	(17)
Net change in plan fiduciary net position	109,740
Plan fiduciary net position - beginning	1,669,225
Plan fiduciary net position - ending (b)	<u>\$ 1,778,965</u>
Political subdivision's net pension (asset) - ending (a) - (b)	<u>\$ (184,023)</u>
Plan fiduciary net position as a percentage of the total pension liability	114.81%
Covered-employee payroll	\$ 637,685
Political subdivision's net pension liability as a percentage of covered-employee payroll	-28.86%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Date	Contributions in			Employer's Covered Employees Payroll	Contribution as a % of Covered Employees Payroll
	Contractually Required Contributions	Relation to Contractually Required Contributions	Contribution Deficiency (Excess)		
2015	\$ 38,643	\$ 38,643	\$ -	\$ 637,685	6.06%
2016	\$ 37,978	\$ 37,978	\$ -	\$ 656,605	5.73%

Schedule is intended to show information for 10 years. Since 2016 is the second year for this presentation, only 2016 and 2015 data is available. However, additional years will be included as they become available.

TOWN OF CHATHAM, VIRGINIA

NOTES TO SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS  
For the Year Ended June 30, 2016

Exhibit 10

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

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

Largest 10 – Non-LEOS:

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

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All others (Non 10 Largest) – LEOS:

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

## OTHER SUPPLEMENTARY INFORMATION

TOWN OF CHATHAM, VIRGINIA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 June 30, 2016

Exhibit 11

	<u>Permanent Fund</u>
ASSETS	<u>Perpetual Care</u>
Cash - restricted	\$ 226,565
Due from other funds	<u>112,741</u>
Total assets	<u><u>\$ 339,306</u></u>
 LIABILITIES AND FUND BALANCES	
Liabilities:	
Total liabilities	<u>\$ -</u>
Fund balances:	
Reserved for:	
Perpetual care	<u>339,306</u>
Total fund balances	
Total liabilities and fund balances	<u><u>\$ 339,306</u></u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CHATHAM, VIRGINIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES-NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2016

	Exhibit 12
	<u>Permanent Fund</u>
	<u>Perpetual Care</u>
Revenues:	
Interest and investment revenue	\$ 1,738
Sale of cemetery lots	<u>12,750</u>
Total revenues	<u>14,488</u>
Total expenditures	<u>-</u>
Excess of revenues over expenditures	<u>14,488</u>
Other financing sources:	
Operating transfers out	<u>(5,100)</u>
Total other financing sources	<u>(5,100)</u>
Net change in fund balances	9,388
Fund balance at beginning of year	<u>329,918</u>
Fund balance at end of year	<u><u>\$ 339,306</u></u>

The accompanying notes are an integral part of the financial statements.

## COMPLIANCE SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Chatham, Virginia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Town of Chatham, Virginia's basic financial statements and have issued our report thereon dated January 15, 2017.

### **Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the separate SAS 115 letter to be material weaknesses.

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. We consider the deficiencies described in the separate letter to be significant deficiencies.

### **Compliance**

As part of obtaining reasonable assurance about whether the Town of Chatham, Virginia's financial statements and schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 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.

*Harris Harvey Neal & Co. LLP*

Danville, Virginia  
January 15, 2017