

**TOWN OF LEBANON, VIRGINIA
COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2014**

**TOWN OF LEBANON, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Lebanon, Virginia

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 Lebanon, Virginia, as of and for the year ended June 30, 2014, 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.

Auditor's 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. 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 Lebanon, Virginia, as of June 30, 2014, 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, budgetary comparison information, and the Schedule of Funding Progress on pages 3-11, 52-58, and 59 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 Lebanon, Virginia's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section 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.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2015, on our consideration of the Town of Lebanon, Virginia's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Lebanon, Virginia's internal control over financial reporting and compliance

Bostic, Tucker & Company, PC

Lebanon, Virginia
April 15, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

**TOWN OF LEBANON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014**

The following is a narrative overview and analysis of the financial activities of the Town of Lebanon, Virginia for the fiscal year ended. Please read it in conjunction with the Town's financial statements, which follow this section.

Financial Highlights

- The assets of the Town of Lebanon exceeded its liabilities at the close of the most recent fiscal year by \$18,051,939 (net position). Of this amount, \$4,573,731 is unrestricted, or may be used to meet the government's ongoing obligations to creditors and citizens.
- The Government's net position decreased by \$1,352,958.
- In the Town's business-type activities, revenues and expenses experienced some changes from last year's levels. Revenues from operations increased by 7.4% or \$97,439 over the preceding year, and operating expenses increased by 29.8% or \$546,187. Overall there was a net increase in net position of \$813,252.
- The general fund reported a surplus this year of \$7,534,131.
- The resources available for appropriation were \$1,154,769 more than budgeted for the general fund. Expenditures were more than budgeted amounts by \$2,332,027.

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 12 and 13) 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 14. 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 a trustee or agent for the benefit of those outside of the government.

Reporting the Town as a Whole

Our analysis of the Town as a whole begins on page 5. 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 when cash is received or paid.

These two statements report the Town's *net assets* 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 need to consider other non-financial factors, however, such as changes in the Town's property tax base and other items, to assess the *overall health* of the Town.

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

- Government activities – Most of the Town's basic services are reported here, including the police department, public safety, public works, and general administration. Property taxes, other local taxes (such as sales, meals and lodging, bank stock, and utility), and state and federal grants finance most of these activities.
- Business-type activities – The Town charges a fee to customers to help cover all or most of the cost of certain services it provides. The Town's water and sewer system is reported here.

Reporting the Town's Most Significant Funds

Our analysis of the Town's major funds begins on page 9. The fund financial statements begin on page 14 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 or by bond covenants. However, the Town Council establishes many other funds to help it control and manage money for particular purposes (like emergency services) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like the water and sewer fund). The Town has 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 be readily converted to cash. The governmental fund statements provide a detailed *short-term* view of the Town's general government operations and the basic service 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 a 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 fund (a component of proprietary funds) is the same as 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 decreased from a year ago – decreasing from \$19.4 to \$18.1 million. 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
Current and other assets	\$ 8,147,602	\$ 405,900	\$ 8,553,502
Capital assets	<u>8,067,330</u>	<u>8,127,236</u>	<u>16,194,566</u>
Total assets	16,214,932	8,533,136	24,748,068
Long-term debt outstanding	2,344,000	2,676,803	5,020,803
Other liabilities	<u>1,109,650</u>	<u>565,676</u>	<u>1,675,326</u>
Total liabilities	<u>3,453,650</u>	<u>3,242,479</u>	<u>6,696,129</u>
Net position:			
Net investment in capital assets	8,027,775	5,450,433	13,478,208
Restricted	-	-	-
Unrestricted	<u>4,733,507</u>	<u>(159,776)</u>	<u>4,573,731</u>
Total net position	<u>\$ 12,761,282</u>	<u>\$ 5,290,657</u>	<u>\$ 18,051,939</u>

Nepaget position of the Town's governmental activities decreased by \$2,166,210. *Unrestricted* net position – the part of net position that can be used to finance day to day operations without constraints established by debt covenants, enabling legislation or other legal requirements – changed from a \$7,241,408 surplus at June 30, 2013 to a \$4,733,507 surplus at the end of the fiscal year.

The decrease in net position arose primarily due to increased industrial development contributions of \$1.51 million and supplementing several proprietary fund projects. The General Fund disbursed transfers of \$1.84 million to the Enterprise Funds.

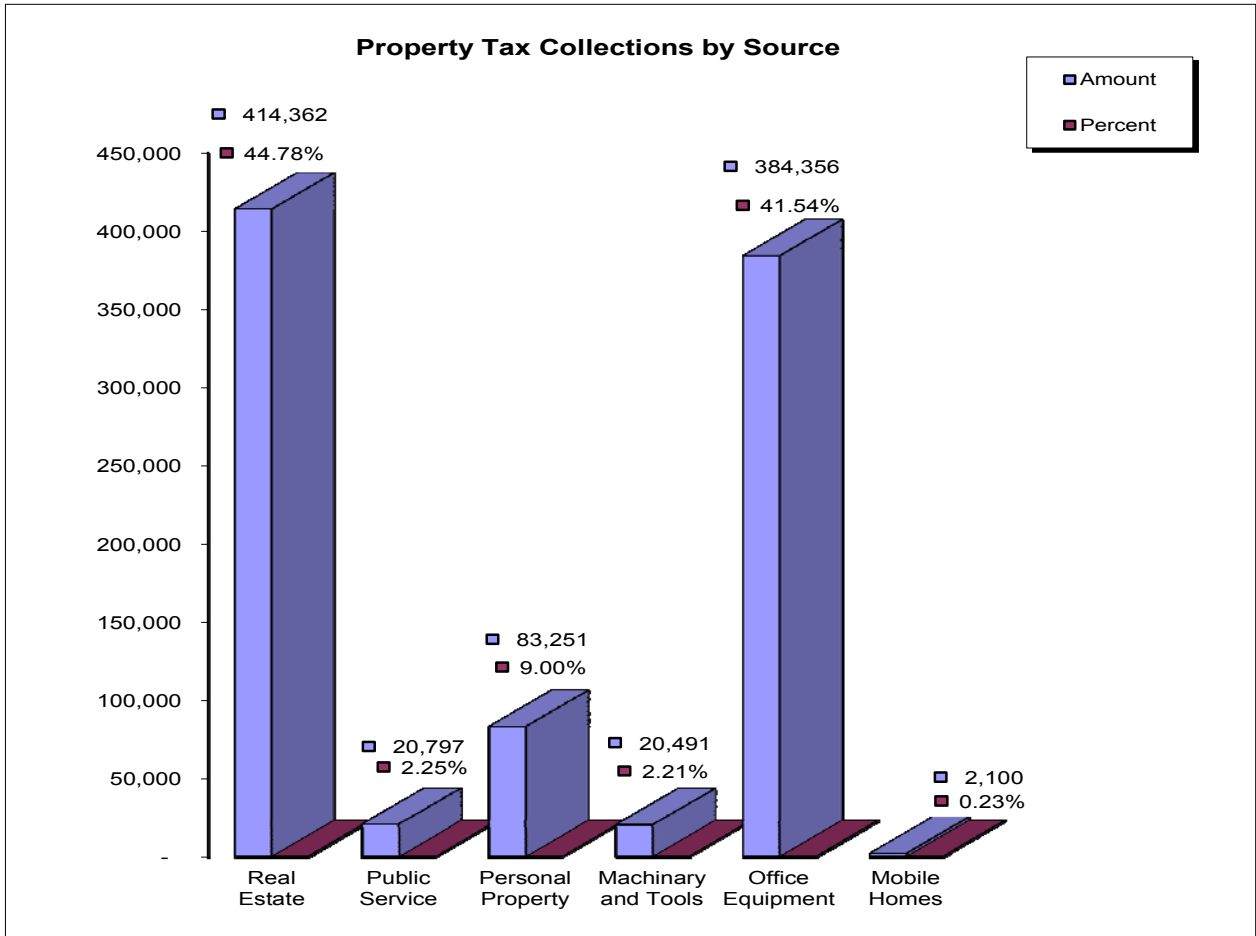
The net position of our business-type activities increased by about 18.2% or \$813,252 in 2014. Business-type activities showed an increase in revenue of \$97,439 mainly due to increased utility rates and the installation of high efficient water meters. Operating expenses increased by \$546,187 mainly due to the purchase of new efficient water meters in the amount of approximately \$519,000. The General Fund transferred \$1.84 million to the Enterprise Funds which was used to purchase and/or construct fixed assets in the amount of \$688,509 and covered the \$1.02 million loss which includes the purchase of water meters in the amount of \$519,000.

Table 2
Changes in Net Position

	Governmental Activities	Business-type Activities	Total Primary Government
Revenues			
Program revenues:			
Charges for services	\$ 554,543	\$ 1,411,416	\$ 1,965,959
Federal grants and entitlements	12,550	-	12,550
State grants and entitlements	1,965,976	-	1,965,976
Local government contributions	279,751	-	279,751
Contributions from localities	9,588	-	9,588
Property taxes	930,690	-	930,690
Other taxes	1,663,630	-	1,663,630
Other general revenues	109,708	-	109,708
	<u>5,526,436</u>	<u>1,411,416</u>	<u>6,937,852</u>
Total revenues			
	<u>5,526,436</u>	<u>1,411,416</u>	<u>6,937,852</u>
Program expenses			
General government	854,074	-	854,074
Board of elections	-	-	-
Public safety	1,062,686	-	1,062,686
Public works	2,284,599	-	2,284,599
Nondepartmental	43,042	-	43,042
Parks and recreation	110,832	-	110,832
Community development	1,455,320	-	1,455,320
Interest	44,525	57,500	102,025
Water and sewer operations	-	2,378,232	2,378,232
	<u>5,855,078</u>	<u>2,435,732</u>	<u>8,290,810</u>
Total expenses			
	<u>5,855,078</u>	<u>2,435,732</u>	<u>8,290,810</u>
Excess (deficiency) before transfers	<u>(328,642)</u>	<u>(1,024,316)</u>	<u>(1,352,958)</u>
Transfers	<u>(1,837,568)</u>	<u>1,837,568</u>	<u>-</u>
Increase (decrease) in net position	<u>\$ (2,166,210)</u>	<u>\$ 813,252</u>	<u>\$ (1,352,958)</u>

- Property taxes exhibited a decrease during the year of about \$38,553. This was a result of decreased rates to offset the current year reassessment. Other local tax collections increased approximately \$15,103 due to fluctuation in sales, meals, lodging, and utility tax consumption by consumers.

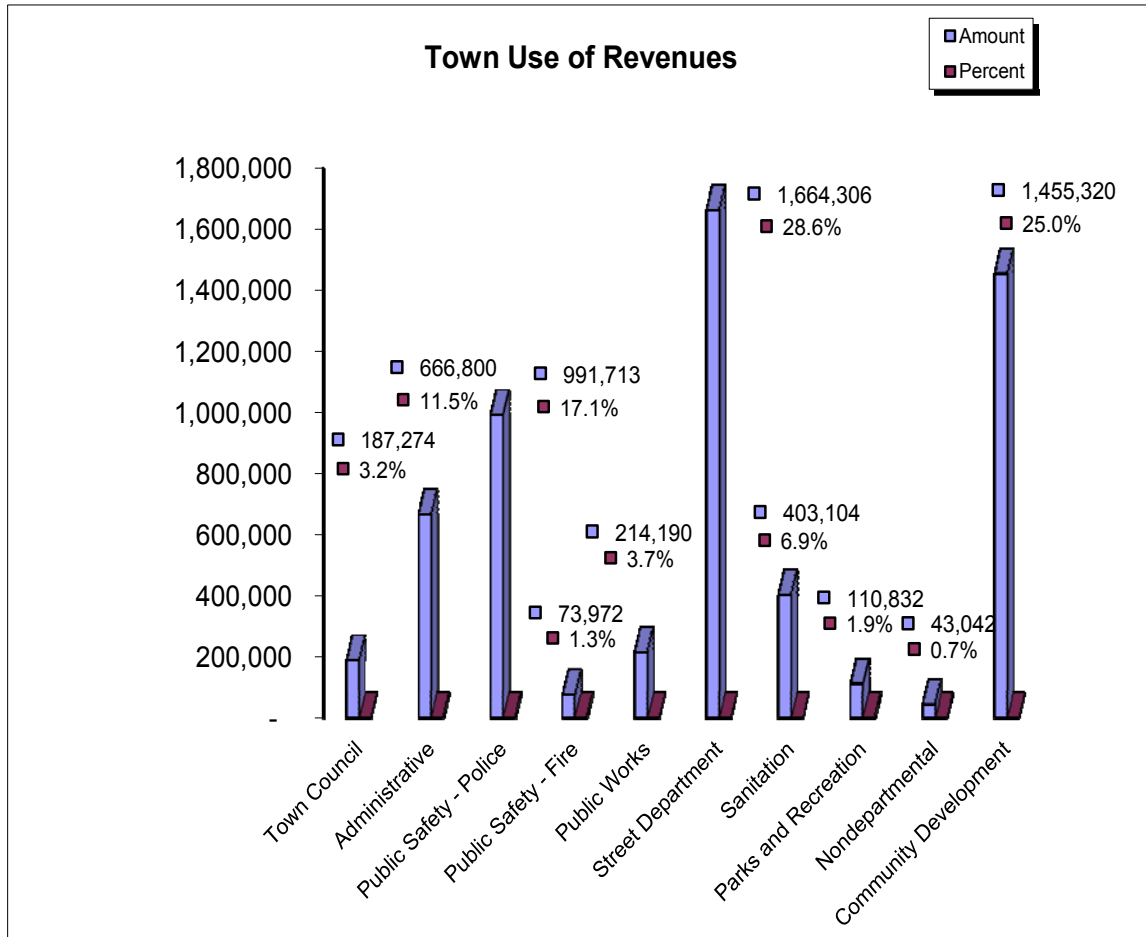
The following chart shows tax collections for the current fiscal year:



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- For the most part, increases in expenses paralleled growth in demand for services.

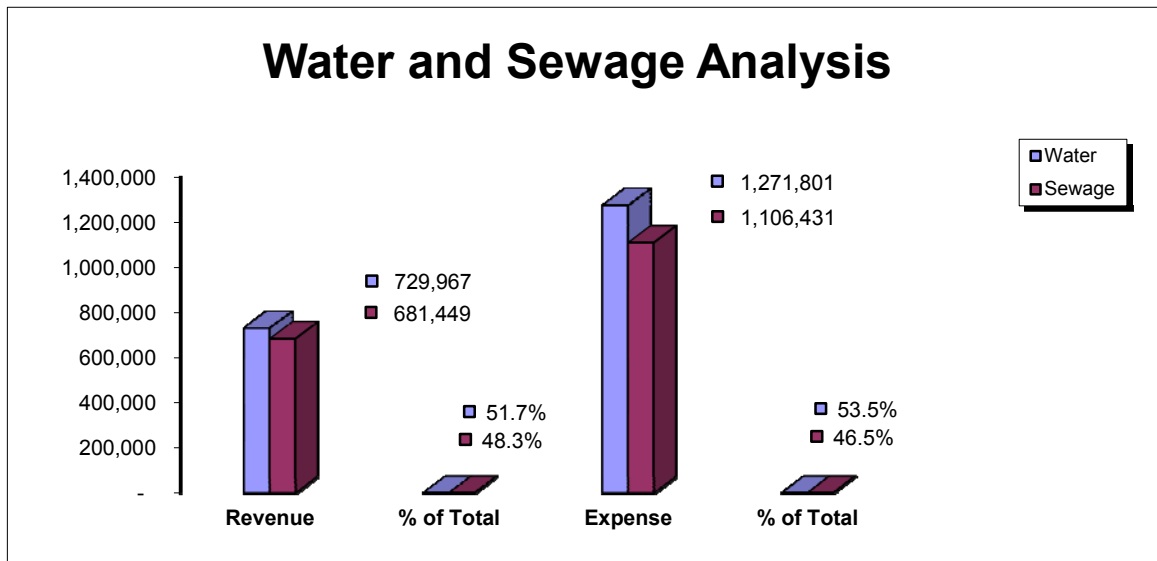
The following chart shows the Town's use of revenues:



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- Business-type activities reflected some fluctuations from last year. Revenues increased about \$97,439 and expenses increased by about \$546,187. The increase in revenue was a reflection of customer usage, efficient water meters, and increased utility rates. Expenses increased due to increases in payroll costs, material and supply purchases, increased utility rates, and depreciation from capital asset projects. The major increase in expenses was due to the purchase of efficient water meters in the amount of \$519,000.

The following chart shows revenue and expenses of the water and sewage funds:



Financial Analysis of the Governmental Funds

As earlier mentioned, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of financial resources. Such information is useful in assessing the Town's financing requirements. Unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the fiscal year, the Town's governmental funds reported a combined fund balance of \$7,534,131, a decrease of \$254,438 from the prior year. The ending fund balance is unreserved and available for spending at the government's discretion.

The general fund is the chief operating fund of the Town. As of June 30, 2014 the general fund had a surplus of \$7.53 million. The general fund is the only governmental fund that maintains a fund balance.

The fund balance of the Town's General Fund decreased by \$254,438 during the current fiscal year. The key factors for this decrease is due to the Town having net transfers of \$1.84 million to subsidize the Enterprise Funds and the Town expending \$1.51 million in industrial development funds that were paid from \$2.34 million of governmental bonds.

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

The unrestricted net position of the Water and Sewer Funds at the end of the year were \$0. Other factors concerning the finances of this fund were discussed in the Town's business-type activities of this letter.

General Fund Budgetary Highlights

Resources available for appropriation were \$1,154,769 more than budgeted. The most significant variance of \$997,970 occurred due to infrastructure improvements completed with state funds. Tax revenues were less than budgeted by \$96,975. Expenditures were more than budgeted amounts by \$2,332,027 due to Town expenditures for industrial development in the amount of \$1,509,320 that was not budgeted and the Town did not budget for the new infrastructure improvements completed with the state funds in the amount of \$989,181.

Capital Asset and Debt Administration

Capital Assets

The Town's investment in capital assets for its governmental activities as of June 30, 2014 is \$8,067,330 (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, buildings and improvements, vehicles, equipment, and construction in progress.

- The Town expended funds in the amount of \$1,041,403 for equipment purchases in the governmental activities and \$902,666 in the business-type activities. Capital asset retirements totaled \$192,680 in the governmental activities and \$187,162 in the business-type activities.

Table 3

Capital Assets at Year-end (Net of Depreciation)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Land	\$ 238,300	\$ 104,944
Infrastructure	6,508,786	-
Buildings and improvements	871,188	-
Distribution and collection systems	-	7,727,682
Vehicles	174,241	29,759
Furniture and equipment	263,399	229,105
Construction in progress	<u>11,416</u>	<u>35,746</u>
Totals	<u>\$ 8,067,330</u>	<u>\$ 8,127,236</u>

More detailed information about the Town's capital assets is presented in Note 13 to the financial statements.

Long-term debt

At the end of the fiscal year the Town had the following outstanding debt:

	Governmental Activities	Business-type Activities	Total
General obligation bonds	\$ 2,344,000	\$ 2,676,803	\$ 5,020,803
Claims, judgements, and compensated absences	582,759	284,490	867,249
Total	<u>\$ 2,926,759</u>	<u>\$ 2,961,293</u>	<u>\$ 5,888,052</u>

Additional information on the Town's long-term debt can be found in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The Town's elected and appointed officials considered many factors when setting the fiscal-year 2015 budget, tax rates and fees that will be charged for the business type activities. One of those factors is the economy.

- Unemployment in the Town now stands at 8.7% versus 9.4% a year ago. The State's unemployment rate was 5.4% and the national rate was 6.3%.
- The Town continues to see a slump in the housing market due to national economic troubles that has continued for over five years. The Town is seeing an increase in rental housing.
- The Town continues to see growth in consumption services and has seen an increase in the manufacturing sector within the Town. The loss of key manufacturing industries in prior years has had a negative effect on utility billing revenue along with real estate, machinery and tools, and office equipment tax revenues. The Town has seen some growth in the manufacturing industry. The Town has seen continued growth in the technology industry that has stimulated the local economy.

All of these factors were considered in preparing the Town's budget for the 2015 fiscal year.

Requests for Information

This financial report is designed to provide reader's with a general overview of the Town of Lebanon's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Manager, PO Drawer 309, Lebanon, Virginia 24266.

BASIC FINANCIAL STATEMENTS

**TOWN OF LEBANON, VIRGINIA
STATEMENT OF NET POSITION
JUNE 30, 2014**

Exhibit 1

	Primary Government		Total Reporting Entity
	Governmental Activities	Business-type Activities	
Assets			
Cash and cash equivalents	\$ 7,856,644	\$ -	\$ 7,856,644
Receivables, net	40,775	152,420	193,195
Taxes receivable, net	146,281	-	146,281
Due from other governments	11,333	3,200	14,533
Inventory	11,044	201,511	212,555
Prepaid expense	32,025	2,866	34,891
Bond issuance expenses, net of amortization	49,500	45,903	95,403
Capital assets, net	8,067,330	8,127,236	16,194,566
Total assets	\$ 16,214,932	\$ 8,533,136	\$ 24,748,068
Liabilities			
Accounts payable	\$ 419,402	\$ 59,582	\$ 478,984
Accrued liabilities	542,893	194,907	737,800
Accrued interest payable	3,715	4,048	7,763
Compensated absences	143,640	113,971	257,611
Deposits and advances	-	193,168	193,168
Noncurrent liabilities:			
Due within one year	213,872	424,609	638,481
Due in more than one year	2,130,128	2,252,194	4,382,322
Total liabilities	3,453,650	3,242,479	6,696,129
Net Position			
Net investment in capital assets	8,027,775	5,450,433	13,478,208
Unrestricted (deficit)	4,733,507	(159,776)	4,573,731
Total net position	\$ 12,761,282	\$ 5,290,657	\$ 18,051,939

**TOWN OF LEBANON, VIRGINIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
Legislative	\$ 187,274	\$ -	\$ -	\$ -	\$ (187,274)	\$ -	\$ (187,274)
General governmental	666,800	-	-	-	(666,800)	-	(666,800)
Board of elections	-	-	-	-	-	-	-
Public safety	1,062,686	610	142,029	-	(920,047)	-	(920,047)
Public works	2,284,599	553,383	844,811	989,181	102,776	-	102,776
Nondepartmental	43,042	-	-	-	(43,042)	-	(43,042)
Parks, recreation and cultural	110,832	550	1,909	-	(108,373)	-	(108,373)
Community development	1,455,320	-	12,550	-	(1,442,770)	-	(1,442,770)
Interest on long-term debt	44,525	-	-	-	(44,525)	-	(44,525)
Total government activities	\$ 5,855,078	\$ 554,543	\$ 1,001,299	\$ 989,181	\$ (3,310,055)	\$ -	\$ (3,310,055)
Business-type activities:							
Water	\$ 1,322,770	\$ 729,967	\$ -	\$ -	\$ -	\$ (592,803)	\$ (592,803)
Sewer	1,112,962	681,449	-	-	-	(431,513)	(431,513)
Total business type-activities	2,435,732	1,411,416	-	-	-	(1,024,316)	(1,024,316)
Total primary government	\$ 8,290,810	\$ 1,965,959	\$ 1,001,299	\$ 989,181	\$ (3,310,055)	\$ (1,024,316)	\$ (4,334,371)
General Revenues:							
Taxes					\$ 2,628,677	\$ -	\$ 2,628,677
Payment from County					243,028	-	243,028
Investment and investment earnings					53,010	-	53,010
Permits, fines, & forfeitures					18,348	-	18,348
Miscellaneous					38,350	-	38,350
Transfers					(1,837,568)	1,837,568	-
Total general revenues, special items and transfers					1,143,845	1,837,568	2,981,413
Change in net position					(2,166,210)	813,252	(1,352,958)
Net position July 1, 2013					14,927,492	4,477,405	19,404,897
Net position June 30, 2014					\$ 12,761,282	\$ 5,290,657	\$ 18,051,939

**TOWN OF LEBANON, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

Exhibit A-1

	General	Highway Funds	Total Governmental Funds
Assets			
Cash and cash equivalents (Note 4)	\$ 7,856,644	\$ -	\$ 7,856,644
Receivables (Net of allowances for uncollectibles):			
Taxes (Note 1)	146,281	-	146,281
Accounts	40,775	-	40,775
Inventory	11,044	-	11,044
Prepaid expense	32,025	-	32,025
Due from other funds (Note 14)	-	340,936	340,936
Due from other governmental units (Note 5)	11,333	-	11,333
	<u> </u>	<u> </u>	<u> </u>
Total assets	\$ 8,098,102	\$ 340,936	\$ 8,439,038
	<u> </u>	<u> </u>	<u> </u>
Liabilities			
Accounts payable	\$ 78,466	\$ 340,936	\$ 419,402
Accrued liabilities	103,774	-	103,774
Due to other funds (Note 14)	340,936	-	340,936
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	\$ 523,176	\$ 340,936	\$ 864,112
	<u> </u>	<u> </u>	<u> </u>
Deferred Inflows of Resources			
Deferred revenue (Note 11)	\$ 40,795	\$ -	\$ 40,795
	<u> </u>	<u> </u>	<u> </u>
Fund Equity			
Fund balance (Deficit):			
Reserved for			
Inventory	\$ 11,044	\$ -	\$ 11,044
Prepaid expense	32,025	-	32,025
Undesignated	7,491,062	-	7,491,062
	<u> </u>	<u> </u>	<u> </u>
Total fund equity	7,534,131	-	7,534,131
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund equity	\$ 8,098,102	\$ 340,936	\$ 8,439,038
	<u> </u>	<u> </u>	<u> </u>

Total fund balances per Balance Sheet for Governmental Funds \$ 7,534,131

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

Other long-term assets are not available to pay current period expenditures and therefore deferred in the governmental funds and are not included in the fund balance.

90,295

Capital assets used in government activities are not financial resources and therefore not reported in the funds. The Statement of Net Position, however, includes net assets, net of accumulated depreciation.

8,067,330

Some liabilities are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities are recorded in the Statement of Net Position.

(2,930,474)

Net position of governmental activities

\$ 12,761,282

TOWN OF LEBANON, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

Exhibit A-2

	<u>General</u>	<u>Highway Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
General property taxes	\$ 960,840	\$ -	\$ 960,840
Other local taxes	1,663,630	-	1,663,630
Fines and forfeitures	7,700	-	7,700
Revenue from use of money and property	53,010	-	53,010
Charges for services	413,948	-	413,948
Miscellaneous	30,502	-	30,502
Recovered costs	205,818	-	205,818
Intergovernmental:			
Local government	279,751	-	279,751
Federal	12,550	-	12,550
State	1,121,165	844,811	1,965,976
	<u>4,748,914</u>	<u>844,811</u>	<u>5,593,725</u>
Total revenues			
		<u>844,811</u>	<u>5,593,725</u>
Expenditures:			
Current:			
Legislative	180,870	-	180,870
General governmental administration	637,205	-	637,205
Board of elections	-	-	-
Public safety	986,132	-	986,132
Public works	846,753	878,212	1,724,965
Nondepartmental	1,084,445	-	1,084,445
Parks, recreation and cultural	91,245	-	91,245
Community development	1,509,320	-	1,509,320
Debt service:			
Principal retirement	104,555	-	104,555
Interest and finance charges	35,858	-	35,858
	<u>5,476,383</u>	<u>878,212</u>	<u>6,354,595</u>
Total expenditures			
	<u>5,476,383</u>	<u>878,212</u>	<u>6,354,595</u>
Excess (deficiency) of revenues over expenditures	(727,469)	(33,401)	(760,870)
Other financing sources (uses):			
Proceeds from long-term debt	2,344,000	-	2,344,000
Operating transfers in	-	33,401	33,401
Operating transfers out	(1,870,969)	-	(1,870,969)
	<u>473,031</u>	<u>33,401</u>	<u>506,432</u>
Total other financing sources (uses)			
	<u>473,031</u>	<u>33,401</u>	<u>506,432</u>
Net change in fund balances	(254,438)	-	(254,438)
Fund balance (deficit) at beginning of year	7,788,569	-	7,788,569
Fund balance (deficit) at end of year	<u><u>\$ 7,534,131</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 7,534,131</u></u>

TOWN OF LEBANON, VIRGINIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Exhibit A-3

Net change in fund balances - total government funds \$ (254,438)

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

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

Add current year deferred property tax revenue	\$ 40,795	
Subtract last year's deferred property tax revenue	<u>(70,945)</u>	
		(30,150)

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.

Add capital acquisitions	1,041,403	
Subtract depreciation	<u>(662,573)</u>	
		378,830

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 Position.

Add debt repayment	104,555	
Subtract debt proceeds	<u>(2,344,000)</u>	
		(2,239,445)

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 (such as compensated absences, accrued interest on long-term debt, and bond amortization).

(21,007)

Change in Net Position of Governmental Activities	<u>\$ (2,166,210)</u>
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TOWN OF LEBANON, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

Exhibit A-4

	Original and Final Budget	Actual	Positive (Negative) Variance
Revenues:			
General property taxes	\$ 1,057,815	\$ 960,840	\$ (96,975)
Other local taxes	1,640,000	1,663,630	23,630
Fines and forfeitures	6,500	7,700	1,200
Revenue from use of money and property	57,000	53,010	(3,990)
Charges for services	425,250	413,948	(11,302)
Miscellaneous	7,050	30,502	23,452
Recovered costs	168,500	205,818	37,318
Intergovernmental:			
Local government	102,335	279,751	177,416
Federal	6,500	12,550	6,050
State	123,195	1,121,165	997,970
Total revenues	<u>3,594,145</u>	<u>4,748,914</u>	<u>1,154,769</u>
Expenditures:			
Current:			
Legislative	193,496	180,870	12,626
General governmental administration	580,364	637,205	(56,841)
Board of elections	3,600	-	3,600
Public safety	938,828	986,132	(47,304)
Public works	776,727	846,753	(70,026)
Nondepartmental	455,669	1,084,445	(628,776)
Parks, recreation and cultural	59,887	91,245	(31,358)
Community development	29,000	1,509,320	(1,480,320)
Debt service:			
Principal retirement	104,555	104,555	-
Interest and finance charges	2,230	35,858	(33,628)
Total expenditures	<u>3,144,356</u>	<u>5,476,383</u>	<u>(2,332,027)</u>
Excess (deficiency) of revenues over expenditures	<u>449,789</u>	<u>(727,469)</u>	<u>(1,177,258)</u>
Other financing sources (uses):			
Proceeds from long-term debt	-	2,344,000	2,344,000
Operating transfers in	-	-	-
Operating transfers out	(449,789)	(1,870,969)	(1,421,180)
Total other financing sources (uses)	<u>(449,789)</u>	<u>473,031</u>	<u>922,820</u>
Net change in fund balance	<u>-</u>	<u>(254,438)</u>	<u>(254,438)</u>
Fund balance (deficit) - July 1, 2013	<u>-</u>	<u>7,788,569</u>	<u>7,788,569</u>
Fund balance (deficit) - June 30, 2014	<u>\$ -</u>	<u>\$ 7,534,131</u>	<u>\$ 7,534,131</u>

TOWN OF LEBANON, VIRGINIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

Exhibit B-1

	Business-type Activities		
	Water	Sewer	Totals
Assets			
Cash and cash equivalents	\$ -	\$ -	\$ -
Receivables, net of allowances for uncollectibles	84,282	68,138	152,420
Due from other governmental units	-	3,200	3,200
Prepaid expense	1,525	1,341	2,866
Inventories	185,216	16,295	201,511
Bond issuance expenses, net of amortization	39,144	6,759	45,903
Capital assets, net	4,682,956	3,444,280	8,127,236
Total assets and other debits	\$ 4,993,123	\$ 3,540,013	\$ 8,533,136
Liabilities			
Accounts payable	\$ 22,677	\$ 36,905	\$ 59,582
Accrued liabilities	117,354	77,553	194,907
Accrued interest payable	3,733	315	4,048
Compensated absences	57,041	56,930	113,971
Deposits and advances	193,168	-	193,168
Noncurrent liabilities:			
Due within one year	300,711	123,898	424,609
Due in more than one year	2,150,658	101,536	2,252,194
Total liabilities	2,845,342	397,137	3,242,479
Net Position			
Net investment in capital assets	2,231,587	3,218,846	5,450,433
Unrestricted (deficit)	(83,806)	(75,970)	(159,776)
Total net position	\$ 2,147,781	\$ 3,142,876	\$ 5,290,657

**TOWN OF LEBANON, VIRGINIA
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014**

Exhibit B-2

	Business-type Activities		
	Water	Sewer	Total
Operating revenues:			
Charges for services	\$ 716,946	\$ 679,540	\$ 1,396,486
Other	13,021	1,909	14,930
Total operating revenues	729,967	681,449	1,411,416
Operating expenses:			
Salaries and wages	359,471	281,484	640,955
Payroll taxes	24,881	19,417	44,298
Fringe benefits	154,857	116,456	271,313
Workmans compensation	6,543	4,284	10,827
Legal and professional	11,468	11,144	22,612
Contractual services	717	322	1,039
Equipment rentals	-	-	-
Auto gas, oil & repairs	11,819	11,237	23,056
Maintenance & repairs	13,892	18,476	32,368
Utilities	63,892	115,596	179,488
Telephone	2,602	1,963	4,565
Office supplies	1,298	1,338	2,636
Advertising	600	-	600
Postage	3,924	2,371	6,295
Insurance	10,523	8,256	18,779
Subscriptions & dues	8,265	6,899	15,164
Materials and supplies	362,060	287,069	649,129
Uniforms	3,839	3,271	7,110
Education	792	200	992
Travel	52	-	52
Bad debts	1,178	952	2,130
Depreciation	222,637	202,032	424,669
Equipment replacement	6,491	13,664	20,155
Total operating expenses	1,271,801	1,106,431	2,378,232
Net operating income (loss)	(541,834)	(424,982)	(966,816)
Nonoperating revenues (expenses)			
Gain (loss) on sale of assets	-	-	-
Interest on long-term debt	(50,969)	(6,531)	(57,500)
Net non-operating revenues (expense)	(50,969)	(6,531)	(57,500)
Income (loss) before contributions & transfers	(592,803)	(431,513)	(1,024,316)
Capital contributions	-	-	-
Operating transfers - net	1,379,230	458,338	1,837,568
Change in net position	786,427	26,825	813,252
Net position - beginning of year (as adjusted)	1,361,354	3,116,051	4,477,405
Net position - end of year	\$ 2,147,781	\$ 3,142,876	\$ 5,290,657

TOWN OF LEBANON, VIRGINIA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

Exhibit B-3

	Business-type Activities		
	Water	Sewer	Total
Cash Flows From Operating Activities:			
Cash Received from Customers	\$ 709,091	\$ 679,152	\$ 1,388,243
Cash Payments to Suppliers for Goods & Services	(573,209)	(543,461)	(1,116,670)
Cash Payments to Employees for Services	(520,707)	(405,078)	(925,785)
Other Operating Revenues	<u>13,021</u>	<u>1,909</u>	<u>14,930</u>
Net Cash Provided by Operating Activities	(371,804)	(267,478)	(639,282)
Cash Flows From Financing Activities:			
Interest Earned	-	-	-
Operating Transfers (To) From General Fund	1,379,230	458,338	1,837,568
Operating Transfers (To) From Proprietary Fund	<u>-</u>	<u>-</u>	<u>-</u>
Net Cash Used by Noncapital Financing Activities	1,379,230	458,338	1,837,568
Cash Flows From Capital and Related Financing Activities:			
New Borrowings (Repayments): General Obligation Bonds	(299,808)	(123,389)	(423,197)
Capital Grants	-	-	-
Purchase of Property, Plant, & Equipment	(661,835)	(62,419)	(724,254)
Interest Paid on Revenue Bonds	<u>(45,783)</u>	<u>(5,052)</u>	<u>(50,835)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(1,007,426)</u>	<u>(190,860)</u>	<u>(1,198,286)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	-	-	-
Cash at Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>
Cash at End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	\$ (541,834)	\$ (424,982)	\$ (966,816)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	222,637	202,032	424,669
Receivables	(10,933)	(388)	(11,321)
Inventory	(57,646)	4,238	(53,408)
Prepaid Expense	95	84	179
Accounts Payable	(5,703)	(60,741)	(66,444)
Water Deposits	3,078	-	3,078
Compensated Absences	4,762	3,397	8,159
Accrued Liabilities	<u>13,740</u>	<u>8,882</u>	<u>22,622</u>
Total Adjustments	<u>170,030</u>	<u>157,504</u>	<u>327,534</u>
Net Cash Provided by Operating Activities	<u>\$ (371,804)</u>	<u>\$ (267,478)</u>	<u>\$ (639,282)</u>

NOTES TO FINANCIAL STATEMENTS

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Reporting Entity

The Town of Lebanon, Virginia (government) is a municipal corporation governed by an elected six-member Council and an elected Mayor. The accompanying financial statements present the government and its component units, entities for which the government is considered financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. The Town has determined that the Lebanon Volunteer Fire Department is reported as a blended component unit of the Town.

Government – wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

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

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Measurement focus, basis of accounting, and financial statement presentation
(continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period. For this purpose, the government considers revenues to be available if they are collected within 45 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 45 days after year-end are reflected as deferred revenues. Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the Town.

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

The government reports the following **major** governmental funds:

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

The government reports the following **major** proprietary funds:

The *Water and Sewer Funds* accounts for activities related to a water distribution and sewer treatment system in the Town.

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Measurement focus, basis of accounting, and financial statement presentation – (continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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

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

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

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Assets, liabilities, and net position or equity

Deposits and investments

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

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Assets, liabilities, and net position or equity – (continued)

Receivables and payables

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

Inventory

Inventory consists of repair parts and supplies used to maintain the water and sewer system stated at cost. Inventory in the proprietary fund is accounted for under the consumption method. Cost is recorded as an expense at the time the individual inventory items are used.

Property taxes

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien as of January 1. Real estate taxes are payable in one installment on December 5th. Personal property taxes are due and collectible annually on December 5th. The Town bills and collects its own taxes.

Allowance for uncollectible accounts

The Town calculates its allowance for uncollectible accounts using historical collection data, and, in certain cases, specific account analysis. The allowance amounted to approximately \$247,958 at June 30, 2014 and is comprised of \$155,627 for property taxes, \$9,693 for utility billings, and \$82,638 for fire calls.

Use of estimates

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

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Assets, liabilities, and net position or equity – (continued)

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial individual cost of \$5,000 for machinery and equipment, land, and buildings, and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building improvements	15 - 40
Infrastructure	20 - 50
Structures, lines, and accessories	25
Machinery and equipment	3 - 15

Compensated absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available resources are reported in the general long-term debt account group. No expenditure is reported for these amounts. In accordance with the provisions of Government Accounting Standard's No. 16, Accounting for Compensated Absences no liability is recorded for nonvesting accumulating rights to receive benefits. The Town accrues salary - related costs associated with the payment of compensated absences.

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Assets, liabilities, and net position or equity – (continued)

Long-term obligations

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

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

Fund equity

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net position

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

Financial reporting of deferred outflows of resources, deferred inflows of resources, and net position, Statement No. 63 of the Governmental Accounting Standards Board

The town has implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2014. The Statement provides guidance for reporting deferred inflows and deferred outflows of resources. The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on an entity's net position. With the implementation of this Statement certain terminology has changed and financial statement descriptions have changed from "net assets" to "net position". The net equity reported in the financial statement has not changed as a result of implementing this Statement and no restatement of prior balances is required.

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Assets, liabilities, and net position or equity – (continued)

Items previously reported as Assets and Liabilities, Statement No. 65 of Governmental Accounting Standards Board

This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The net equity reported in the financial statements was not charged as a result of implementing this Statement and no restatement of prior balances is required.

Net position flow assumption

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

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes a reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The detail of this \$(2,930,474) difference for the primary government is as follows:

Primary Government	
General obligation bonds and loans payable	\$ (2,344,000)
Accrued interest	(3,715)
OPEB liability	(439,119)
Compensated absences	<u>(143,640)</u>
Net adjustment to reduce <i>fund balance-total governmental funds</i> to arrive at <i>net assets-governmental activities</i>	<u>\$ (2,930,474)</u>

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS –
(continued)

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances-total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The detail of this \$378,830 difference for the primary government is as follows:

Primary Government	
Capital outlays	\$ 1,041,403
Depreciation expense	<u>(662,573)</u>
Net adjustments to increase (decrease) <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 378,830</u>

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

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The detail of this \$(21,007) difference for the primary government is as follows:

Primary Government	
(Increase) Decrease in compensated absences	\$ 19,606
(Increase) Decrease in OPEB liability	(48,807)
(Increase) Decrease in accrued interest	(3,429)
Bond amortization	48,762
Proceeds from asset sale	<u>(37,139)</u>
Net adjustment to increase (decrease) <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (21,007)</u>

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

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

1. Prior to the June meeting the Town Manager, Deputy Treasurer, and the Budget Committee submit to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally adopted.
4. The Town Council places legal restrictions on expenditures at the department level or category level. Only the Town Council can revise the appropriation for each department or category. The Town Council is authorized to transfer budgeted amounts within general government departments.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund, Proprietary Funds and the Special Revenue Funds.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30, for all Town units except for the Capital Project Funds, which carry, unexpended balances into the following year on a continuing appropriation basis.
8. All budget data presented in the accompanying financial statements reflects the revised budget as of June 30.

NOTE 4. DEPOSITS AND INVESTMENTS

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

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 4. DEPOSITS AND INVESTMENTS – (continued)

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

NOTE 5. DUE FROM OTHER GOVERNMENTAL UNITS

Consists of the following at June 30, 2014

Primary Government

Federal Government	\$ -
Commonwealth of Virginia	1,343
County of Russell, Virginia	9,990
	<u>11,333</u>

Enterprise Funds

Russell County IDA	<u>3,200</u>
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Total Due From Other Governmental Units	<u><u>\$ 14,533</u></u>
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NOTE 6. INTERFUND TRANSFERS

Transfers are used to (1) move revenues from the fund that a statute or budget requires a collection to the fund that a statute or budget requires expending them and (2) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgeting authorization.

<u>Fund</u>	<u>Transfers in</u>	<u>Transfers out</u>
General Fund	\$ -	\$ 1,870,969
Highway Maintenance	33,401	-
Water Fund	1,379,230	-
Sewer Fund	458,338	-
	<u><u>\$ 1,870,969</u></u>	<u><u>\$ 1,870,969</u></u>

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 7. LONG-TERM DEBT

Changes in long-term obligations

The following is a summary of long-term obligation transactions of the Town for the year ended June 30, 2014

GOVERNMENTAL ACTIVITIES					
Governmental Activities	Amounts Payable at July 1, 2013	Increases	Decreases	Amounts Payable at June 30, 2014	Amounts Due Within One Year
General obligation bonds	\$ 104,555	\$ 2,344,000	\$ 104,555	\$ 2,344,000	\$ 213,872
Total Bonds	104,555	2,344,000	104,555	2,344,000	213,872
Other liabilities:					
Capital lease obligations	-	-	-	-	-
Claims, judgements, and compensated absences payable	553,558	29,201	-	582,759	582,759
Total other liabilities	553,558	29,201	-	582,759	582,759
Total long-term liabilities	\$ 658,113	\$ 2,373,201	\$ 104,555	\$ 2,926,759	\$ 796,631

ENTERPRISE FUNDS					
Business-type activities	Amounts Payable at July 1, 2013	Increases	Decreases	Amounts Payable at June 30, 2014	Amounts Due Within One Year
General obligation bonds	\$ 3,100,000	\$ -	\$ 423,197	\$ 2,676,803	\$ 424,609
Total Bonds	3,100,000	-	423,197	2,676,803	424,609
Other liabilities:					
Claims, judgements, and compensated absences payable	257,568	26,922	-	284,490	284,490
Total other liabilities	257,568	26,922	-	284,490	284,490
Total long-term liabilities	\$ 3,357,568	\$ 26,922	\$ 423,197	\$ 2,961,293	\$ 709,099

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 7. LONG-TERM DEBT – (continued)

General obligation bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities of the primary government. General obligation bonds are direct obligations and pledge the full faith and credit of the Town.

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30	General Obligation Bonds		
	Principal	Interest	Total
<u>Governmental Activities:</u>			
2015	\$ 213,872	\$ 44,741	\$ 258,613
2016	218,192	40,420	258,612
2017	222,600	36,012	258,612
2018	227,097	31,515	258,612
2019	231,685	26,928	258,613
2020 - 2024	1,230,554	62,514	1,293,068
	<u>\$ 2,344,000</u>	<u>\$ 242,130</u>	<u>\$ 2,586,130</u>
<u>Business-type Activities:</u>			
2015	\$ 424,609	\$ 43,376	\$ 467,985
2016	381,021	36,286	417,307
2017	286,905	30,408	317,313
2018	289,069	25,340	314,409
2019	291,223	20,233	311,456
2020 - 2022	1,003,976	30,712	1,034,688
	<u>\$ 2,676,803</u>	<u>\$ 186,355</u>	<u>\$ 2,863,158</u>

Claims, Judgments, and Compensated Absences

In accordance with NCGA Statement 4 "Accounting and financial reporting principles for claims and judgments and compensated absences," the Town has accrued the liability arising from outstanding claims and judgments and compensated absences. Town employees earn vacation and sick leave at the rate of:

- Four hours per month for employment of zero to three years.
- Six hours per month for employment of three to five years.
- Eight hours per month for employment of five to fifteen years.
- Ten hours per month for employment of fifteen to twenty years.
- Twelve hours per month for employment of twenty or more years.

Employees earn eight hours of personal leave for every 120 hours of unused sick time, up to a maximum of thirty-two hours per year. Employees with 1040 hours of sick leave and twenty years of service earn an additional eight hours of personal leave. Each employee is allowed to carryover ten days of vacation leave each year, one hundred thirty days of sick leave, and zero personal leave days.

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 7. LONG-TERM DEBT – (continued)

Claims, Judgments, and Compensated Absences – (continued)

Upon termination an employee with ten or more years of service will be paid thirty-five percent of sick leave earned up to a maximum of \$10,000. All accumulated vacation is paid upon termination. The Town has outstanding accrued vacation, sick leave, and personal leave pay totaling \$257,611 of which \$113,971 was accrued by the water and sewer fund and \$143,640 is reflected in the general long-term obligation account group. The Town has outstanding accrued retiree health insurance totaling \$542,067 of which \$390,312 is reflected in the general long-term obligation account group and \$151,755 was accrued by the water and sewer fund.

Note 8. RISK MANGEMENT

The Town is a member of the Virginia Municipal League Insurance Program (VML) for all risk of loss.

Each member of the risk pool jointly and severally agrees to assume, pay, and discharge any liability. The Town pays VML contributions and assessments based upon classification and rates into a designated cash reserve fund out of which expenses of the Association and claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the League may assess all members an amount based upon the premium of each member in proportion to the total premiums of all members in the year in which such deficits occurs. The Town has the following surety bonds thru the VML:

Nelson A. Dodi – Mayor	\$ 1,000,000
Michael Duty – Town Manager	\$ 1,000,000
Jackie Hubbard – Financial Controller	\$ 1,000,000
Stephanie Burke – Accountant	\$ 1,000,000
Clerical Workers (3)	\$ 1,000,000

NOTE 9. PENSION PLAN

A. Plan Description

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

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

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 9. PENSION PLAN – (continued)

A. Plan Description - continued

Within the VRS Plan, the System administers three different benefit plans for local government employees – Plan 1, Plan 2, and Hybrid – Each plan has different eligibility and benefit structures as set out in the table below:

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>About VRS Plan 1 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>About VRS Plan 2 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>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as 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"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • 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.

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 9. PENSION PLAN – (continued)

A. Plan Description - continued

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Eligible Members 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>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1, through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible 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>Eligible Members 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>Hybrid Opt-In Election VRS 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 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 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>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • State employees* • School division employees • Political subdivision employees* • Judges appointed or elected to an original term on or after January 1, 2014 • 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 <p>*Non-Eligible Members</p> <p>Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Members of the State Police Officers' Retirement System (SPORS) • Members of the Virginia Law Officers' Retirement System (VaLORS) • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 9. PENSION PLAN – (continued)

A. Plan Description - continued

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
		<p>Eligible Members (continued) 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>
<p>Retirement Contributions Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions Same as VRS Plan 1.</p>	<p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 9. PENSION PLAN – (continued)

A. Plan Description - continued

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Creditable Service Same as VRS Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It may also count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service</p>	<p>Vesting Same as VRS Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service.</p>

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 9. PENSION PLAN – (continued)

A. Plan Description - continued

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Vesting (continued) 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><u>Vesting Defined Benefit Component (continued)</u> 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><u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <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> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 9. PENSION PLAN – (continued)

A. Plan Description - continued

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
		<u>Defined Contributions Component (continued):</u> Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	Calculating the Benefit See definition under VRS Plan 1.	Calculating the Benefit <u>Defined Benefit Component:</u> See definition under VRS Plan 1. <u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	Average final Compensation A member's average final compensation is the average of the 60 consecutive months of highest compensation as a covered employee.	Average final Compensation Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier 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 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than	Service Retirement Multiplier Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.	Service Retirement Multiplier The retirement multiplier is 1.0% For members that 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.

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 9. PENSION PLAN – (continued)

A. Plan Description - continued

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Service Retirement Multiplier (continued) Sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.		
Normal Retirement Age Age 65.	Normal Retirement Age Normal Social Security retirement age.	Normal Retirement Age <u>Defined Benefit Component:</u> Same as VRS Plan 2. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	Earliest Unreduced Retirement Eligibility Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 29 years of creditable service.	Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 9. PENSION PLAN – (continued)

A. Plan Description - continued

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Earliest Reduced Retirement Eligibility Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restriction.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as VRS Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as VRS Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as VRS Plan 1 and VRS Plan 2.</p>

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 9. PENSION PLAN – (continued)

A. Plan Description - continued

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

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 9. PENSION PLAN – (continued)

A. Plan Description - continued

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Disability Coverage: Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage: Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage: Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan 2 opt-ins participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>Hybrid members (including VRS Plan 1 and VRS Plan 2 Opt-ins) covered under the VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>
<p>Purchase of Prior Service: Members may be eligible to purchase service from previous public employment, active duty military service, and 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</p>	<p>Purchase of Prior Service: Same as VRS Plan 1.</p>	<p>Purchase of Prior Service: <u>Defined Benefit Component:</u> Same as VRS Plan 1.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p>

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 9. PENSION PLAN – (continued)

A. Plan Description - continued

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Purchase of Prior Service (continued) purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.		

The System issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2013-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

B. Funding Policy

Primary Government:

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution was originally eligible to be assumed by the employer but effective July 1, 2012 must be reverted back to the employee or phased in over a five (5) year period by FY 2017 for Plan 1 employees. The employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Plan 2 and Hybrid Plan employees are required to pay the 5.00% member contribution at employment. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended June 30, 2014 was 17.91% of the annual covered payroll (including the employee share of 5.00% of which 3.00% is paid by the employer).

C. Annual Pension Cost

For fiscal year 2014, the Town's annual pension cost of \$340,708 was equal to the Town's required and actual contributions. The FY 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%. The actuarial value of the Town assets is equal to the modified market value of assets. This method uses techniques that

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 9. PENSION PLAN – (continued)

C. Annual Pension Cost - continued

smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

Three-Year Trend Information for the Town

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2014	\$ 340,708	100%	\$ -
June 30, 2013	332,638	100%	-
June 30, 2012	347,093	100%	-

D. Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the plan was 45.37% funded. The actuarial accrued liability for benefits was \$5,859,035 and the actuarial value of assets was \$2,658,151, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,200,884. The covered payroll (annual payroll of active employees covered by the plan) was \$1,849,292, and the ratio of the UAAL to the covered payroll was 173.09%.

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

NOTE 10. POST-EMPLOYMENT HEALTH CARE BENEFITS (OBEB)

From an accrual accounting perspective, the cost of post-employment healthcare benefits, like the cost of the pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. The Town recognizes the cost of post-employment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the Town's future cash flows. Recognition of the liability accumulated for prior years will be phased in over 30 years, commencing with the 2010 liability.

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 10. POST-EMPLOYMENT HEALTH CARE BENEFITS (OBEB) – (continued)

Plan Description

The Town administers a single-employer defined benefit healthcare plan. The plan provides healthcare and dental insurance for eligible retirees and their spouses through the Town's group health insurance plan, which covers both active and retired members. Retirees hired before January 1, 1993 can have the option of a single or dual employee plan rate to include a spouse until the spouse reaches the Medicare retirement age of 65 and then the retiree can continue a single rate plan as a supplement to the retiree's Medicare. Retirees hired after January 1, 1993 are allowed to continue on a single employee plan rate until they reach the age of 65 and then the retiree can continue a single rate plan as a supplement to the retiree's Medicare.

A retiring employee, who is participating in the employer's medical program is eligible to elect post employment coverage if the employee attains a combination of years of service and age which is equal to or greater than eighty years. The retiree electing post employment coverage pays the same percentage of the monthly premium that current employees are responsible for paying.

Funding Policy

The contribution requirements of plan members are based on pay-as-you go financing requirements.

Annual OPEB Cost and Net OPEB Obligation

The Town's other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's OPEB obligation.

Annual Required Contribution (ARC)	\$ 161,122
Interest on Net OPEB Obligation	2,710
Adjustment to Annual Required Contribution	<u>(12,071)</u>
Annual OPEB Cost (Expense)	151,761
Contributions Made	<u>(84,191)</u>
Increase in Net OPEB Pension Obligation	67,570
Net OPEB Obligation - beginning of year	<u>542,067</u>
Net OPEB Obligation - end of year	<u><u>\$ 609,637</u></u>

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 10. POST-EMPLOYMENT HEALTH CARE BENEFITS (OPEB) – (continued)

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the OPEB obligation for fiscal year 2014 is as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (ARC)</u>	<u>Percentage Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2014	\$ 161,122	55.5%	\$ 609,637
June 30, 2013	176,652	38.9%	542,067
June 30, 2012	174,551	30.9%	438,843

Funded Status and Funding Progress

As of June 30, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$2,063,847.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2014 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a .5% investment rate of return and an annual healthcare cost trend rate of 8% initially, reduced by decrements to an ultimate rate of 4.7% after ten years. The UAAL is being amortized as a level percentage of payroll over 30 years beginning with July 1, 2010.

NOTE 11. DEFERRED REVENUE

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Deferred revenue totaling \$40,795 is comprised of the following:

Deferred Property Tax Revenue

Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled \$40,795.

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 12. INTERFUND OBLIGATIONS

Consisted of the following at June 30, 2014:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$ -	\$ 340,936
State Highway Maintenance Fund	340,936	-
Enterprise Fund	-	-
Total	<u>\$ 340,936</u>	<u>\$ 340,936</u>

NOTE 13. CAPITAL ASSETS

Primary Government

Capital asset activity for the year ended June 30, 2014 was as follows:

	<u>Balance July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2014</u>
Primary Government				
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 238,300	\$ -	\$ -	\$ 238,300
Other capital assets:				
Infrastructure	14,821,776	989,181	129,888	15,681,069
Buildings and improvements	1,918,993	-	-	1,918,993
Vehicles	1,999,404	30,306	44,735	1,984,975
Furniture and equipment	1,338,470	10,500	18,058	1,330,912
Construction-in-progress	-	11,416	-	11,416
Total other capital assets at cost	<u>20,078,643</u>	<u>1,041,403</u>	<u>192,681</u>	<u>20,927,365</u>
Less accumulated depreciation:				
Infrastructure	8,838,918	426,588	93,223	9,172,283
Buildings and improvements	995,068	52,737	-	1,047,805
Vehicles	1,751,906	106,897	48,069	1,810,734
Furniture and equipment	998,789	76,351	7,627	1,067,513
Total accumulated depreciation	<u>12,584,681</u>	<u>662,573</u>	<u>148,919</u>	<u>13,098,335</u>
Other capital assets, net	<u>7,493,962</u>	<u>378,830</u>	<u>43,762</u>	<u>7,829,030</u>
Governmental activities capital assets, net	<u>\$ 7,732,262</u>	<u>\$ 378,830</u>	<u>\$ 43,762</u>	<u>\$ 8,067,330</u>
Depreciation expense was charged to the following functions:				
General government				\$ 25,150
Public safety				77,463
Public works				540,707
Parks, recreation & cultural				19,253
				<u>\$ 662,573</u>

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 13. CAPITAL ASSETS – (continued)

Business-type activities

Primary Government Business-type activities:	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Other capital assets:				
Land	\$ 104,944	\$ -	\$ -	\$ 104,944
Distribution and collection systems	13,835,492	801,803	-	14,637,295
Vehicles	231,149	-	-	231,149
Furniture and equipment	721,549	65,117	187,162	599,504
Construction in progress	49,888	35,746	49,888	35,746
Total other capital assets at cost	<u>14,943,022</u>	<u>902,666</u>	<u>237,050</u>	<u>15,608,638</u>
Less accumulated depreciation:				
Land	-	-	-	-
Distribution and collection systems	6,548,319	361,294	-	6,909,613
Vehicles	184,806	16,584	-	201,390
Furniture and equipment	332,358	46,791	8,750	370,399
Total accumulated depreciation	<u>7,065,483</u>	<u>424,669</u>	<u>8,750</u>	<u>7,481,402</u>
Other capital assets, net	<u>7,877,539</u>	<u>477,997</u>	<u>228,300</u>	<u>8,127,236</u>
Business-type activities capital assets, net	<u>\$ 7,877,539</u>	<u>\$ 477,997</u>	<u>\$ 228,300</u>	<u>\$ 8,127,236</u>
Depreciation expense was charged to the following functions:				
Enterprise Fund - Water				\$ 222,637
Enterprise Fund - Sewer				<u>202,032</u>
				<u>\$ 424,669</u>

**NOTE 14. CONTINGENT LIABILITIES (INCLUDING FEDERALLY ASSISTED PROGRAMS
- COMPLIANCE AUDITS)**

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

NOTE 15. NEW ACCOUNTING STANDARDS

There are several new GASB Statements that have been issued that will be effective in future years. Management has not yet evaluated the effects, if any, of adopting these standards, but does not expect them to be material.

NOTE 16. SUBSEQUENT EVENTS/COMMITMENTS

On July 15, 2014, the Town purchased a 2014 Chevrolet Silverado pickup truck in the amount of \$23,779 to be used in the Administration Department.

On September 30, 2014, the Town purchased a 2015 International 7400 dump truck for \$91,650 to be used in the Street Department.

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 16. SUBSEQUENT EVENTS/COMMITMENTS – (continued)

On September 23, 2014, the Town purchased a LED message sign to provide information to the public outside the Town Hall building in the amount of \$16,887.

The Town is in the process of installing a new UV system at the wastewater plant for the treatment of wastewater that will replace the use of chemicals. The estimated cost of the project is \$225,000 and the Town has expended \$193,000 as of April 21, 2015.

The Town is in the process of replacing the traffic light at the intersection of Rt. 71 and Main Street with an estimated cost of \$201,000. Project costs will be covered by monies in the Town's capital improvement funds with the Virginia Department of Transportation.

Subsequent events were evaluated thru April 15, 2015. The financial statements were available to be issued as of that date.

NOTE 17. GASB 54 FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DEFINITIONS

The Town Council of the Town of Lebanon is dedicated to maintaining an appropriate level of fund balance sufficient to mitigate current and future financial risks and to ensure stable tax rates; and therefore, formally establishes this policy for the Town's Fund Balance. This policy also authorizes and directs the Financial Director to prepare financial reports which accurately categorizes fund balance as required by GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Components of Fund Balance

Fund balance is the difference between the assets and liabilities reported in a governmental fund. The following five fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which the resources can be used:

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

**TOWN OF LEBANON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 17. GASB 54 FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DEFINITIONS – (continued)

- Unassigned fund balance – amounts that are available for any purpose; positive amounts are only reported in the general fund.

Committed Fund Balance Policy

The Town Council is the Town's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Town made. The amount subject to the constraint may be determined in the subsequent period Council. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is.

Assigned Fund Balance Policy

The Town Council has authorized the Town's Finance Director as the official authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

Minimum Unassigned Fund Balance Policy

The Town does not maintain an unassigned fund balance policy.

Resource Flow Policy

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

REQUIRED SUPPLEMENTARY INFORMATION

STATEMENT OF REVENUES - BUDGET AND ACTUAL
GOVERNMENTAL FUNDS - PRIMARY GOVERNMENT
FOR THE YEAR ENDED JUNE 30, 2014

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Primary Government:			
General Fund:			
Revenue From Local Sources:			
General Property Taxes:			
Real estate	\$ 551,000	\$ 428,410	\$ (122,590)
Public service	17,217	20,797	3,580
Personal property	108,500	77,647	(30,853)
Machinery and tools	35,000	20,105	(14,895)
Office equipment	329,000	406,563	77,563
Mobile homes	4,098	1,985	(2,113)
Penalties and interest	13,000	5,333	(7,667)
Total General Property Taxes	1,057,815	960,840	(96,975)
Other Local Taxes:			
Telephone receipts tax	84,000	81,319	(2,681)
Lodging tax	45,000	37,628	(7,372)
Meals tax	751,000	789,025	38,025
Business license	295,000	292,002	(2,998)
Vehicle decals	36,000	28,762	(7,238)
Bank stock	177,000	190,678	13,678
Sales tax	112,000	113,050	1,050
Utility tax	140,000	131,166	(8,834)
Total Other Local Taxes	1,640,000	1,663,630	23,630
Fines	6,500	7,700	1,200
Revenues From Use of Money and Property:			
Revenue from the use of money	57,000	53,010	(3,990)
Total Revenues From Use of Money and Property	57,000	53,010	(3,990)
Recovered Costs:			
Quasi rentals - street department	35,000	29,917	(5,083)
Administrative	133,500	110,678	(22,822)
Other	-	65,223	65,223
Total Recovered Costs	168,500	205,818	37,318
Charges For Services:			
Recreation	750	550	(200)
Fire	1,000	610	(390)
Garbage	423,500	412,788	(10,712)
Total Charges for Services	425,250	413,948	(11,302)
Permits and fees	2,950	10,648	7,698
Miscellaneous Revenues	4,100	19,854	15,754
Total Revenue From Local Sources	3,362,115	3,335,448	(26,667)

STATEMENT OF REVENUES - BUDGET AND ACTUAL
GOVERNMENTAL FUNDS - PRIMARY GOVERNMENT
FOR THE YEAR ENDED JUNE 30, 2014

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Primary Government:			
General Fund - continued			
Revenue From the County:			
Industrial bonds	\$ 66,235	\$ 243,028	\$ 176,793
Donation - Fire Department	<u>36,100</u>	<u>36,723</u>	<u>623</u>
Total Revenue From The County	<u>102,335</u>	<u>279,751</u>	<u>177,416</u>
Revenue From the Commonwealth:			
PPTRA funds	34,357	34,357	-
Fire program	11,000	10,283	(717)
Criminal justice	76,838	87,344	10,506
Highway funds	-	989,181	989,181
Miscellaneous	<u>1,000</u>	<u>-</u>	<u>(1,000)</u>
Total Revenue From The Commonwealth	<u>123,195</u>	<u>1,121,165</u>	<u>997,970</u>
Revenue From the Federal Government:			
ASD Grant	6,000	12,550	6,550
CDBG Housing	<u>500</u>	<u>-</u>	<u>(500)</u>
Total Revenue From The Federal Government	<u>6,500</u>	<u>12,550</u>	<u>6,050</u>
Total General Fund	<u>\$ 3,594,145</u>	<u>\$ 4,748,914</u>	<u>\$ 1,154,769</u>
Special Revenue Funds:			
State Highway Maintenance Fund:			
Revenue from the Commonwealth			
State highway maintenance funds	<u>\$ 797,360</u>	<u>\$ 844,811</u>	<u>\$ 47,451</u>
Total Revenue from the Commonwealth	<u>\$ 797,360</u>	<u>\$ 844,811</u>	<u>\$ 47,451</u>
Total State Highway Maintenance Fund	<u>\$ 797,360</u>	<u>\$ 844,811</u>	<u>\$ 47,451</u>
Total Special Revenue Funds	<u>\$ 797,360</u>	<u>\$ 844,811</u>	<u>\$ 47,451</u>
Grand Total - Revenues, all Governmental Funds	<u>\$ 4,391,505</u>	<u>\$ 5,593,725</u>	<u>\$ 1,202,220</u>

GOVERNMENTAL FUNDS
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE PERIOD ENDED JUNE 30, 2014

Fund, Function, Activity and Elements	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
General Fund:			
General Government Administration:			
Legislative:			
Mayor Salary	\$ 5,400	\$ 6,655	\$ (1,255)
Town council salary	39,009	38,141	868
Payroll taxes	2,705	2,335	370
Fringe benefits	40,812	42,876	(2,064)
Meeting expense	15,000	6,272	8,728
Legal and professional	23,800	22,178	1,622
Contractual services	-	3,237	(3,237)
Office supplies	1,000	763	237
Advertising	-	1,201	(1,201)
Utilities	-	158	(158)
Donations	54,920	53,077	1,843
Subscriptions & dues	3,500	1,675	1,825
Material & supplies	5,100	1,662	3,438
Travel expense	1,250	640	610
Education	-	-	-
Equipment replacement	1,000	-	1,000
Total Legislative	<u>193,496</u>	<u>180,870</u>	<u>12,626</u>
Administration:			
Salaries and wages	349,401	346,938	2,463
Payroll taxes	25,800	25,731	69
Fringe benefits	123,870	125,140	(1,270)
Workman's compensation	285	263	22
Meeting expense	1,500	991	509
Legal and professional	375	1,855	(1,480)
Contractual services	17,500	29,900	(12,400)
Equipment rentals	5,000	5,655	(655)
Auto gas, oil & repairs	5,000	4,370	630
Maintenance & repairs	3,000	4,357	(1,357)
Advertising	1,500	184	1,316
Utilities	11,900	15,619	(3,719)
Telephone	7,100	7,758	(658)
Office supplies	5,500	7,732	(2,232)
Postage	5,000	3,395	1,605
Insurance	-	590	(590)
Subscriptions & dues	3,300	3,718	(418)
Material & supplies	5,500	37,860	(32,360)
Education	2,000	1,578	422
Travel expense	1,000	1,049	(49)
Bank service charges	250	66	184
Cash shortage	83	9	74
Equipment replacement	5,500	12,447	(6,947)
Total Administration	<u>580,364</u>	<u>637,205</u>	<u>(56,841)</u>
Board of Elections:			
Electoral board	3,500	-	3,500
Materials and supplies	100	-	100
Total Board of Elections	<u>3,600</u>	<u>-</u>	<u>3,600</u>
Total General Government Administration	<u>777,460</u>	<u>818,075</u>	<u>(40,615)</u>

GOVERNMENTAL FUNDS
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE PERIOD ENDED JUNE 30, 2014

Fund, Function, Activity and Elements	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
General Fund:			
Public Safety:			
Law Enforcement:			
Salaries and wages	\$ 531,910	\$ 571,169	\$ (39,259)
Payroll taxes	37,171	39,783	(2,612)
Fringe benefits	218,346	220,156	(1,810)
Workman's compensation	10,921	11,672	(751)
Professional / Contractual services	8,200	9,362	(1,162)
Equipment rentals	3,500	3,465	35
Auto gas, oil, & repairs	37,500	43,734	(6,234)
Maintenance & repairs	1,000	628	372
Utilities	4,000	-	4,000
Telephone	6,200	5,456	744
Office supplies	1,050	1,942	(892)
Postage	100	95	5
Insurance	-	3,461	(3,461)
Subscriptions & dues	1,000	8,707	(7,707)
Material & supplies	6,500	9,324	(2,824)
Uniforms	1,300	3,571	(2,271)
Education	500	-	500
Travel expense	750	613	137
Equipment replacement	5,000	1,419	3,581
Total Law Enforcement	874,948	934,557	(59,609)
Fire and Rescue Service:			
Workman's compensation	6,930	3,831	3,099
Meeting expense	4,500	3,702	798
Professional / Contractual services	3,100	2,569	531
Auto gas, oil, & repairs	4,250	4,453	(203)
Maintenance & repairs	3,250	3,652	(402)
Utilities	11,000	9,755	1,245
Telephone	900	929	(29)
Office supplies	500	302	198
Postage	100	129	(29)
Insurance	10,100	3,081	7,019
Donations	1,000	2,500	(1,500)
Subscriptions & dues	250	145	105
Materials & supplies	2,250	12,612	(10,362)
Uniforms	250	-	250
Education	250	-	250
Travel expense	250	-	250
Equipment replacement	15,000	3,915	11,085
Total Fire and Rescue Service	63,880	51,575	12,305
Total Public Safety	938,828	986,132	(47,304)

GOVERNMENTAL FUNDS
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE PERIOD ENDED JUNE 30, 2014

Fund, Function, Activity and Elements	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
General Fund:			
Public Works:			
Maintenance of Highways, Streets, Bridges and Sidewalks:			
Salaries and wages	\$ 135,549	\$ 128,579	\$ 6,970
Payroll taxes	9,642	8,508	1,134
Fringe benefits	55,018	65,353	(10,335)
Workman's compensation	4,315	3,712	603
Professional / Contractual services	3,750	3,372	378
Auto gas, oil, & repairs	25,000	27,785	(2,785)
Maintenance & repairs	11,000	13,270	(2,270)
Utilities	6,000	6,064	(64)
Telephone	500	363	137
Office supplies	200	298	(98)
Subscriptions & dues	200	1,028	(828)
Materials & supplies	9,250	17,006	(7,756)
Uniforms	5,000	3,745	1,255
Travel	-	-	-
Street improvements & maintenance	15,000	-	15,000
Traffic services	1,000	118	882
Emergency needs - snow	1,500	-	1,500
Right of way/easements	-	-	-
Equipment replacement	2,500	260	2,240
	<u>285,424</u>	<u>279,461</u>	<u>5,963</u>
Total Maintenance of Highways, Streets, Bridges and Sidewalks	<u>285,424</u>	<u>279,461</u>	<u>5,963</u>
Sanitation and Waste Removal:			
Salaries and wages	124,676	143,759	(19,083)
Payroll taxes	8,352	10,012	(1,660)
Fringe benefits	66,835	75,989	(9,154)
Workman's compensation	5,305	5,669	(364)
Legal and professional	350	150	200
Contractual services	47,500	57,036	(9,536)
Auto gas, oil, & repairs	51,500	54,032	(2,532)
Maintenance & repairs	2,500	75	2,425
Utilities	7,800	8,693	(893)
Office supplies	550	420	130
Postage	1,200	1,227	(27)
Materials & supplies	1,200	810	390
Uniforms	1,200	1,105	95
Bad debt expense	-	571	(571)
Equipment Replacement / Dumpsters	10,000	9,713	287
	<u>328,968</u>	<u>369,261</u>	<u>(40,293)</u>
Total Sanitation and Waste Removal	<u>328,968</u>	<u>369,261</u>	<u>(40,293)</u>
Maintenance of General Buildings, Grounds and Equipment:			
Salaries and wages	82,128	83,559	(1,431)
Payroll taxes	5,617	5,877	(260)
Fringe benefits	38,636	34,868	3,768
Workman's compensation	1,504	1,428	76
Professional / Contractual services	3,550	5,597	(2,047)
Auto gas, oil, & repairs	650	909	(259)
Maintenance & repairs	5,800	31,919	(26,119)
Utilities	10,200	9,827	373
Telephone	900	893	7
Office supplies	100	350	(250)
Materials & supplies	3,100	10,367	(7,267)
Uniforms	1,400	709	691
Equipment replacement	1,550	4,528	(2,978)
	<u>155,135</u>	<u>190,831</u>	<u>(35,696)</u>
Total Maintenance of General Buildings, Grounds and Equipment	<u>155,135</u>	<u>190,831</u>	<u>(35,696)</u>

GOVERNMENTAL FUNDS
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE PERIOD ENDED JUNE 30, 2014

Fund, Function, Activity and Elements	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
General Fund:			
Public Works:			
Transportation Services:			
Contractual services	\$ 7,200	\$ 7,200	\$ -
Total Transportation Services	<u>7,200</u>	<u>7,200</u>	<u>-</u>
Total Public Works	<u>776,727</u>	<u>846,753</u>	<u>(70,026)</u>
Parks, Recreation and Culture:			
Salaries and wages	2,500	10,420	(7,920)
Payroll taxes	192	797	(605)
Fringe benefits	1,127	6,321	(5,194)
Workman's compensation	43	163	(120)
Meeting expense	75	-	75
Legal and professional	500	-	500
Contractual services	16,350	17,866	(1,516)
Auto gas, oil and repairs	1,750	1,478	272
Maintenance & repairs	14,250	29,780	(15,530)
Advertising	150	449	(299)
Utilities	13,250	12,778	472
Telephone	200	229	(29)
Office supplies	100	523	(423)
Subscriptions & dues	-	-	-
Materials & supplies	5,400	9,244	(3,844)
Education	-	-	-
Equipment replacement	<u>4,000</u>	<u>1,197</u>	<u>2,803</u>
Total Parks, Recreation and Culture	<u>59,887</u>	<u>91,245</u>	<u>(31,358)</u>
Non-Department General Services:			
Capital outlay	214,711	1,041,403	(826,692)
Insurance - marine-boiler	929	856	73
Insurance - property	5,329	6,962	(1,633)
Insurance - auto	14,454	17,077	(2,623)
Insurance - employee bond	3,461	-	3,461
Insurance - general liability	11,240	12,839	(1,599)
Insurance - umbrella	4,545	5,308	(763)
Capital savings	<u>201,000</u>	<u>-</u>	<u>201,000</u>
Total Non-Department General Services	<u>455,669</u>	<u>1,084,445</u>	<u>(628,776)</u>
Community Development:			
Industrial recruitment	10,000	1,509,320	(1,499,320)
Housing projects	<u>19,000</u>	<u>-</u>	<u>19,000</u>
Total Community Development	<u>29,000</u>	<u>1,509,320</u>	<u>(1,480,320)</u>
Debt Service:			
Principal retirement	104,555	104,555	-
Interest and fiscal charges	<u>2,230</u>	<u>35,858</u>	<u>(33,628)</u>
Total Debt Service	<u>106,785</u>	<u>140,413</u>	<u>(33,628)</u>
Total General Fund	<u>\$ 3,144,356</u>	<u>\$ 5,476,383</u>	<u>\$ (2,332,027)</u>

GOVERNMENTAL FUNDS
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE PERIOD ENDED JUNE 30, 2014

Fund, Function, Activity and Elements	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Special Revenue:			
State Highway Maintenance Fund:			
Public Works:			
Salaries and wages	\$ 142,512	\$ 127,802	\$ 14,710
Payroll taxes	10,113	8,895	1,218
Fringe benefits	59,603	44,688	14,915
Workman's compensation	4,675	3,814	861
Administration	133,500	110,678	22,822
Legal and professional	-	-	-
Contractual services	5,000	5,270	(270)
Equipment rentals	35,000	29,917	5,083
Utilities	37,000	38,454	(1,454)
Materials & supplies	2,500	519	1,981
Street improvements & maintenance	362,259	487,722	(125,463)
Traffic services	3,500	256	3,244
Emergency needs - snow	25,000	20,197	4,803
Total Public Works	<u>820,662</u>	<u>878,212</u>	<u>(57,550)</u>
Total State Highway Maintenance Fund	<u>820,662</u>	<u>878,212</u>	<u>(57,550)</u>
Total Special Revenue	<u>\$ 820,662</u>	<u>\$ 878,212</u>	<u>\$ (57,550)</u>
Grand Total Expenditures			
All Governmental Funds	<u>\$ 3,965,018</u>	<u>\$ 6,354,595</u>	<u>\$ (2,389,577)</u>

REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN
AND OTHER POST-EMPLOYMENT BENEFITS
JUNE 30, 2014

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
<u>Pension Plan</u>						
June 30, 2013	\$ 2,658,151	\$ 5,859,035	\$ 3,200,884	45.37%	\$ 1,849,292	173.09%
June 30, 2012	2,320,102	5,625,916	3,305,814	41.24%	1,739,945	190.00%
June 30, 2011	2,020,420	4,766,455	2,746,035	42.39%	1,781,792	154.12%
June 30, 2010	1,538,895	3,704,400	2,165,505	41.54%	1,661,711	130.32%
<u>Other Post-Employment Benefits</u>						
June 30, 2014	\$ -	\$ 2,063,847	\$ 2,063,847	0.00%	\$ 1,976,115	104.44%
June 30, 2013	-	2,106,218	2,106,218	0.00%	1,999,608	105.33%
June 30, 2012	-	2,095,811	2,095,811	0.00%	2,007,480	104.40%
June 30, 2011	-	2,024,184	2,024,184	0.00%	1,909,827	105.99%
June 30, 2010	-	1,495,972	1,495,972	0.00%	1,797,565	83.22%

STATISTICAL SECTION

TOWN OF LEBANON, VIRGINIA

Schedule 4

**FUND BALANCES - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS**

Fiscal Year	General Fund Reserved	General Fund Unreserved	Total General Fund Balance
2004-05	\$ -	\$ 3,842,364	\$ 3,842,364
2005-06	-	4,784,714	4,784,714
2006-07	-	5,291,596	5,291,596
2007-08	-	5,869,549	5,869,549
2008-09	-	6,228,276	6,228,276

	Reserved	Undesignated	Total Fund Balance
2009-10	\$ 53,680	\$ 6,801,640	\$ 6,855,320
2010-11	62,756	7,489,569	7,552,325
2011-12	63,681	6,839,291	6,902,972
2012-13	48,707	7,739,862	7,788,569
2013-14	43,069	7,491,062	7,534,131

TOWN OF LEBANON, VIRGINIA

Schedule 5

**NET POSITION - GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES
LAST TEN FISCAL YEARS**

Fiscal Year	Governmental Activities			Business-type Activities		
	Invested in Capital Assets Net of Related Debt	Restricted	Unrestricted	Invested in Capital Assets Net of Related Debt	Restricted	Unrestricted
2004-05	\$ 9,852,976	\$ -	\$ (2,686,429)	\$ 4,015,836	\$ -	\$ 61,544
2005-06	10,092,033	-	(938,184)	4,218,317	-	21,147
2006-07	9,877,106	-	344,520	4,228,967	-	48,839
2007-08	9,568,248	-	1,725,035	4,223,996	-	(41,971)
2008-09	9,196,278	-	2,931,948	4,193,116	-	(64,593)
2009-10	8,758,472	-	4,353,462	4,121,486	-	(123,168)
2010-11	8,533,754	-	5,777,238	4,441,533	-	(179,509)
2011-12	8,182,748	-	5,913,816	5,268,460	-	(194,868)
2012-13	7,686,084	-	7,241,408	4,727,651	-	(250,246)
2013-14	8,027,775	-	4,733,507	5,450,433	-	(159,776)

TOWN OF LEBANON, VIRGINIA

Schedule 6

**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS**

Fiscal Year	General Government Revenue	General Government Expenditures	Capital Outlay	Excess of Revenues over (under) Expenditures	Debt Issued	Grant Proceeds/ Contributions	Transfers In	Transfers Out	Total Other Financing Sources (Uses)	Net Change in Fund Balance
2004-05	\$ 4,115,643	\$ 3,405,119	\$ 237,324	\$ 473,200	\$ 75,000	\$ -	\$ -	\$ (97,568)	\$ (22,568)	\$ 450,632
2005-06	5,447,846	3,676,852	761,532	1,009,462	-	-	10,559	(77,671)	(67,112)	942,350
2006-07	4,885,011	4,022,774	303,516	558,721	-	-	19,317	(36,817)	(17,500)	541,221
2007-08	4,550,858	3,559,413	309,471	681,974	-	-	18,797	(117,782)	(98,985)	582,989
2008-09	4,261,406	3,476,164	262,154	523,088	-	-	3,275	(159,569)	(156,294)	366,794
2009-10	4,449,700	3,560,459	224,487	664,754	-	-	34,452	(72,162)	(37,710)	627,044
2010-11	4,869,928	3,647,128	113,753	1,109,047	-	-	-	(412,042)	(412,042)	697,005
2011-12	4,014,726	3,722,837	260,851	31,038	-	-	-	(680,391)	(680,391)	(649,353)
2012-13	4,111,976	3,312,629	5,955	793,392	-	-	92,205	-	92,205	885,597
2013-14	4,748,914	4,434,980	1,041,403	(727,469)	2,344,000	-	-	(1,870,969)	473,031	(254,438)

CHANGES IN NET POSITION - GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES
LAST TEN FISCAL YEARS

Fiscal Year	Government Wide Expense	Government Wide Program Revenues	Net (Expense) Revenue	Government Wide General Revenues	Transfers	Change in Net Position
2004-05	\$ 5,195,449	\$ 2,948,107	\$ (2,247,342)	\$ 3,114,050	\$ -	\$ 866,708
2005-06	5,463,708	4,244,280	(1,219,428)	3,368,812	-	2,149,384
2006-07	5,939,293	3,614,499	(2,324,794)	3,462,544	-	1,137,750
2007-08	5,613,770	3,099,381	(2,514,389)	3,502,678	-	988,289
2008-09	5,569,831	2,834,452	(2,735,379)	3,524,887	-	789,508
2009-10	5,749,152	2,998,262	(2,750,890)	3,604,393	-	853,503
2010-11	5,965,293	3,459,318	(2,505,975)	3,982,129	-	1,476,154
2011-12	6,039,294	3,395,041	(2,644,253)	3,266,393	-	622,140
2012-13	6,256,836	3,132,717	(3,124,119)	3,358,860	-	234,741
2013-14	8,290,810	3,956,439	(4,334,371)	2,981,413	-	(1,352,958)

TOWN OF LEBANON, VIRGINIA

Schedule 8

**GOVERNMENT-WIDE EXPENSES BY FUNCTION
LAST TEN FISCAL YEARS**

Fiscal Year	General Government Administration	Public Safety	Public Works	Parks Recreation, and Cultural	Community Development	Non- Departmental	Interest on Long- Term Debt	Water and Sewer	Total
2004-05	\$ 582,014	\$ 775,655	\$ 1,627,716	\$ 100,893	\$ 513,526	\$ 43,528	\$ 260,780	\$ 1,291,337	\$ 5,195,449
2005-06	604,720	740,153	1,656,029	75,519	754,294	40,466	232,932	1,359,595	5,463,708
2006-07	624,465	721,769	1,655,838	46,536	937,405	349,492	200,968	1,402,820	5,939,293
2007-08	740,205	786,551	1,984,680	142,220	339,175	31,596	174,680	1,414,663	5,613,770
2008-09	797,485	839,292	2,114,550	137,119	103,088	48,128	149,553	1,380,616	5,569,831
2009-10	933,787	940,388	2,095,092	101,297	19,355	45,362	121,658	1,492,213	5,749,152
2010-11	812,148	981,681	2,344,281	116,294	32,500	44,275	91,958	1,542,156	5,965,293
2011-12	852,099	1,004,754	2,232,859	173,809	38,750	43,953	48,661	1,644,409	6,039,294
2012-13	851,101	1,040,922	2,223,683	119,733	4,550	42,885	16,033	1,957,929	6,256,836
2013-14	854,074	1,062,686	2,284,599	110,832	1,455,320	43,042	44,525	2,435,732	8,290,810

TOWN OF LEBANON, VIRGINIA

Schedule 9

**GOVERNMENT-WIDE REVENUES
LAST TEN FISCAL YEARS**

Fiscal Year	PROGRAM REVENUES			GENERAL REVENUES							Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Grants and Contributions Not Restricted to Specific Programs	Payment from County	Unrestricted Investment Earnings	License and Permits	Miscellaneous	Gain (Loss) on Disposal of Capital Assets	
2004-05	\$ 1,700,032	\$ 1,248,075	\$ -	\$ 2,139,509	\$ -	\$ 866,003	\$ 43,459	\$ 23,198	\$ 12,268	\$ 29,613	\$ 6,062,157
2005-06	1,883,594	1,469,349	891,337	2,380,444	-	835,091	123,563	11,060	18,328	326	7,613,092
2006-07	1,917,667	1,696,832	-	2,267,533	38,287	796,318	214,000	15,644	130,762	-	7,077,043
2007-08	1,879,784	1,219,597	-	2,518,600	-	807,483	145,120	9,248	20,697	1,530	6,602,059
2008-09	1,943,997	890,455	-	2,570,774	-	794,770	125,755	12,276	9,459	11,853	6,359,339
2009-10	2,004,144	994,118	-	2,602,148	-	809,753	173,017	11,098	8,377	-	6,602,655
2010-11	1,945,117	980,134	534,067	2,510,397	-	1,293,967	135,040	13,690	29,035	-	7,441,447
2011-12	1,882,047	977,994	535,000	2,511,514	-	618,776	76,750	9,991	49,362	-	6,661,434
2012-13	1,876,087	970,619	286,011	2,652,127	-	620,703	62,304	9,479	21,934	(7,687)	6,491,577
2013-14	1,965,959	1,001,299	989,181	2,628,677	-	243,028	53,010	18,348	65,632	(27,282)	6,937,852

TOWN OF LEBANON, VIRGINIA

Schedule 10

**GENERAL GOVERNMENT REVENUES BY SOURCE (1)
LAST TEN FISCAL YEARS**

Fiscal Year	General Property Taxes	Other Local Taxes	Permits Fines and Forfeitures	Revenue from the Use of Money and Property	Charges for Services	Miscell- aneous	Recovered Costs	Inter- governmental	Total
2004-05	\$ 934,145	\$ 1,209,150	\$ 23,198	\$ 86,358	\$ 366,190	\$ 32,151	\$ 108,844	\$ 1,974,845	\$ 4,734,881
2005-06	1,110,215	1,273,430	11,060	149,600	383,620	727,427	136,209	2,296,424	6,087,985
2006-07	825,388	1,416,939	6,035	214,000	420,145	14,546	148,901	2,528,589	5,574,543
2007-08	1,029,885	1,429,664	13,534	145,120	398,257	9,238	171,583	2,065,367	5,262,648
2008-09	962,188	1,533,776	12,276	125,755	432,990	20,303	194,263	1,718,082	4,999,633
2009-10	985,626	1,504,079	9,137	173,017	434,386	10,700	240,572	1,829,869	5,187,386
2010-11	925,598	1,638,186	9,864	135,040	402,566	33,238	213,560	2,280,696	5,638,748
2011-12	856,399	1,604,783	7,562	76,750	416,981	61,664	205,631	1,582,316	4,812,086
2012-13	997,844	1,648,527	5,772	62,304	393,860	5,081	192,161	1,627,089	4,932,638
2013-14	960,840	1,663,630	7,700	53,010	413,948	30,502	205,818	2,258,277	5,593,725

NOTE:

(1) Includes General, Special Revenue, and Capital Projects Funds

TOWN OF LEBANON, VIRGINIA

Schedule 11

**GENERAL GOVERNMENT EXPENDITURES BY SOURCE (1)
LAST TEN FISCAL YEARS**

Fiscal Year	General Government Administration	Public Safety	Public Works	Recreation and Cultural	Non- Departmental	Capital Projects	Community Development	Debt Service	Total
2004-05	\$ 552,858	\$ 666,938	\$ 1,200,146	\$ 86,262	\$ 280,852	\$ -	\$ 513,526	\$ 1,013,798	\$ 4,314,380
2005-06	575,481	653,574	1,284,153	60,263	801,998	-	754,294	1,026,431	5,156,194
2006-07	590,950	690,157	1,401,975	83,958	349,492	-	937,405	1,015,516	5,069,453
2007-08	696,405	701,583	1,456,305	120,523	341,067	-	339,175	1,026,483	4,681,541
2008-09	746,598	754,171	1,579,763	108,519	310,282	-	103,088	1,024,035	4,626,456
2009-10	854,634	803,666	1,501,745	73,434	269,849	-	19,355	1,012,834	4,535,517
2010-11	761,463	845,904	1,754,972	88,581	158,028	-	32,500	1,004,934	4,646,382
2011-12	799,559	873,103	1,655,371	146,290	304,878	-	38,750	995,884	4,813,835
2012-13	802,476	912,230	1,660,411	92,462	48,840	-	4,550	626,245	4,147,214
2013-14	818,075	986,132	1,724,965	91,245	1,084,445	-	1,509,320	140,413	6,354,595

NOTE:

(1) Includes General, Special Revenue, and Capital Projects Funds

TOWN OF LEBANON, VIRGINIA

Schedule 12

BUSINESS-TYPE ACTIVITIES LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Revenue</u>	<u>Expenses</u>	<u>Depreciation</u>	<u>Interest</u>	<u>Profit Loss</u>	<u>Transfer In (Out)</u>
<u>Water Fund:</u>						
2004-05	\$ 637,613	\$ 479,490	\$ 106,717	\$ 41,152	\$ 10,254	\$ 59,928
2005-06	748,698	509,705	109,647	37,366	91,980	19,103
2006-07	705,423	548,237	109,742	36,126	11,318	40,083
2007-08	669,621	568,832	116,523	32,376	(48,110)	16,915
2008-09	662,578	532,426	117,384	29,740	(16,972)	9,658
2009-10	650,772	600,290	114,743	26,758	(91,019)	59,277
2010-11	776,053	629,226	112,458	24,437	9,932	210,586
2011-12	656,771	592,058	148,906	98,976	(183,169)	476,956
2012-13	653,701	730,210	221,367	101,283	(399,159)	(345,016)
2013-14	729,967	1,049,164	222,637	50,969	(592,803)	1,379,230
<u>Sewer Fund:</u>						
2004-05	\$ 697,379	\$ 461,992	\$ 163,129	\$ 38,857	\$ 33,401	\$ (15,059)
2005-06	783,540	503,607	162,960	36,310	80,663	(29,662)
2006-07	769,022	508,971	164,080	35,664	60,307	(76,214)
2007-08	647,496	492,632	172,389	31,911	(49,436)	(18,797)
2008-09	658,153	495,048	176,566	29,452	(42,913)	(3,275)
2009-10	686,411	548,125	175,596	26,701	(64,011)	(34,452)
2010-11	734,448	574,284	178,059	23,692	(41,587)	84,775
2011-12	641,602	602,398	181,575	20,496	(162,867)	170,648
2012-13	652,589	678,385	202,083	24,601	(252,480)	244,843
2013-14	681,449	904,399	202,032	6,531	(431,513)	458,338

TOWN OF LEBANON, VIRGINIA

Schedule 13

**ASSESSED VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Real Estate</u>	<u>Personal Property</u>	<u>Machinery, Tools, & Office Equipment</u>	<u>Public Utility</u>	<u>Total</u>
2004-05	\$ 150,388,445	\$ 14,973,819	\$ 73,354,360	\$ 9,346,126	\$ 248,062,750
2005-06	143,864,430	19,151,151	91,916,462	8,910,868	263,842,911
2006-07	143,892,650	22,527,428	95,388,621	6,506,529	268,315,228
2007-08	176,802,630	14,649,740	86,061,307	7,569,688	285,083,365
2008-09	205,786,500	16,845,051	73,731,441	7,368,047	303,731,039
2009-10	236,865,075	18,031,982	61,311,420	7,519,109	323,727,586
2010-11	206,451,980	18,248,873	52,757,563	8,033,930	285,492,346
2011-12	219,906,100	16,329,575	43,539,857	7,448,471	287,224,003
2012-13	217,939,550	16,261,701	47,248,804	7,795,612	289,245,667
2013-14	240,103,850	17,502,465	58,332,819	9,446,068	325,385,202

PROPERTY TAX RATES - LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Real Estate</u>	<u>Personal Property</u>	<u>Machinery, Tools, & Office Equipment</u>
2004-05	0.20	0.50	0.75
2005-06	0.20	0.50	0.75
2006-07	0.20	0.50	0.75
2007-08	0.20	0.50	0.75
2008-09	0.20	0.50	0.75
2009-10	0.20	0.75	0.75
2010-11	0.20	0.75	0.75
2011-12	0.20	0.75	0.75
2012-13	0.20	0.75	0.75
2013-14	0.20	0.75	0.75

TOWN OF LEBANON, VIRGINIA

Schedule 14

PROPERTY TAX LEVIES AND COLLECTIONS LAST TEN FISCAL YEARS

Fiscal Year	Total (1) Tax Levy	Current Tax (1)(2) Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Levy	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
2004-05	\$ 899,519	\$ 872,630	97.01%	\$ 16,681	\$ 889,311	98.87%	\$ 61,495	6.84%
2005-06	1,036,723	1,011,152	97.53%	18,630	1,029,782	99.33%	61,709	5.95%
2006-07	899,843	815,476	90.62%	2,172	817,648	90.87%	65,515	7.28%
2007-08	1,043,527	1,002,444	96.06%	18,679	1,021,123	97.85%	106,174	10.17%
2008-09	1,025,341	943,107	91.98%	12,579	955,686	93.21%	91,622	8.94%
2009-10	1,042,482	887,812	85.16%	72,909	960,721	92.16%	101,390	9.73%
2010-11	916,727	864,551	94.31%	57,074	921,625	100.53%	104,975	11.45%
2011-12	857,732	766,491	89.36%	68,389	834,880	97.34%	157,849	18.40%
2012-13	885,729	825,045	93.15%	130,206	955,251	107.85%	116,947	13.20%
2013-14	989,082	924,169	93.44%	28,998	953,167	96.37%	133,896	13.54%

NOTE:

- (1) Exclusive of Penalties and Interest
- (2) Does not include Land Redemptions

TOWN OF LEBANON, VIRGINIA

Schedule 15

**RATIO OF NET GENERAL OBLIGATION DEBT
TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Population (1)</u>	<u>Assessed Value</u>	<u>Net Bonded Debt</u>	<u>Ratio of Net General Obligation Debt To Assessed Value</u>	<u>Net Bonded Debt Per Capita</u>
2004-05	3277	\$ 150,388,445	\$ 6,848,015	4.6%	\$ 2,089.72
2005-06	3277	143,864,430	6,051,953	4.2%	1,846.80
2006-07	3277	143,892,650	7,119,140	4.9%	2,172.46
2007-08	3277	176,802,630	6,074,477	3.4%	1,853.67
2008-09	3277	205,786,500	5,002,852	2.4%	1,526.66
2009-10	3277	236,865,075	3,899,172	1.6%	1,189.86
2010-11	3424	206,451,980	4,508,312	2.2%	1,316.68
2011-12	3424	219,906,100	3,345,150	1.5%	976.97
2012-13	3424	217,939,550	3,204,555	1.5%	935.91
2013-14	3424	240,103,850	5,020,803	2.1%	1,466.36

NOTE:

(1) Tayloe Murphy Institute

RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL BONDED
DEBT (1) TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES
LAST TEN FISCAL YEARS

Fiscal Year	Principal	Interest (2)	Total Debt Service	Total General Governmental Expenditures (3)	Ratio of Debt Service to General Governmental Expenditures
2004-05	\$ 772,332	\$ 241,466	\$ 1,013,798	\$ 4,314,380	23.5%
2005-06	811,333	215,098	1,026,431	5,156,194	19.9%
2006-07	817,813	182,949	1,000,762	5,069,453	19.7%
2007-08	817,152	155,087	972,239	4,681,541	20.8%
2008-09	892,721	131,314	1,024,035	4,626,456	22.1%
2009-10	909,208	103,626	1,012,834	4,535,517	22.3%
2010-11	930,860	74,074	1,004,934	4,646,382	21.6%
2011-12	953,162	42,722	995,884	4,813,835	20.7%
2012-13	610,595	15,650	626,245	4,147,214	15.1%
2013-14	104,555	35,858	140,413	6,354,595	2.2%

(1) General obligation bonds reported in the enterprise funds and special assessment debt with government commitment have been excluded.

(2) Excludes bond issuance and other costs.

(3) Includes general, special revenue and debt service funds.

TOWN OF LEBANON, VIRGINIA

Schedule 17

PRINCIPAL TAXPAYERS
JUNE 30, 2014

<u>Taxpayer</u>	<u>Type of Business</u>	<u>2013 Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
Real Estate:			
COPT Southwest VA, LLC	Technology	\$ 18,070,600	7.53%
Wal-Mart Real Estate Business Trust	Retail	10,086,600	4.20%
IDA - CGI	Technology	7,205,700	3.00%
K-VA-T Food Stores, Inc.	Retail	2,680,700	1.12%
IAC Lebanon LLC	Manufacturing	2,476,600	1.03%
G&E HC REIT II	Medical	2,238,200	0.93%
Alcoa Wheel Products, Inc.	Manufacturing	2,191,800	0.91%
IDA - AT & T	Technology	2,056,600	0.86%
Alliance 2009, LLC	Rental	2,026,600	0.84%
Leonard Companies	Rental	1,837,800	0.77%
		<u>\$ 50,871,200</u>	21.19%
Total 2013 Assessed Valuation		<u><u>\$ 240,103,850</u></u>	
Machinery & Tools			
BMW Manufacturing	Manufacturing	\$ 1,020,540	35.89%
G.M. Corporation	Rental	932,340	32.79%
IAC Lebanon, LLC	Manufacturing	626,350	22.03%
Yeary Broadcasting	Retail	130,790	4.60%
Riggs Oil	Retail	33,770	1.19%
Gary Ward Broadcasting	Retail	33,640	1.18%
Russell Memorial Cemetery	Retail	28,560	1.00%
BAMM Equipment & Construction	Construction	14,520	0.51%
Lebanon Apparel	Manufacturing	7,980	0.28%
Inergy Propane, LLC	Retail	5,320	0.19%
		<u>\$ 2,833,810</u>	99.67%
Total 2013 Assessed Valuation		<u><u>\$ 2,843,150</u></u>	

TOWN OF LEBANON, VIRGINIA

Schedule 18

**PRINCIPAL CUSTOMERS
WATER AND SEWAGE
JUNE 30, 2014**

Customer	Type of Business	Usage in Gallons	Percentage of Total Gallons Sold
Russell County PSA - Pioneer Drive	Utility	\$ 13,974,762	11.95%
Northrup-Grumman	Technology	4,968,810	4.25%
Russell County Medical Center	Medical	3,345,380	2.86%
Maple Grove Health	Medical	3,170,800	2.71%
Lebanon Apparel	Manufacturing	1,770,440	1.51%
Russell County Dialysis	Medical	1,431,300	1.22%
Carriage House Motel	Motel	1,378,850	1.18%
SECOR	Professional	1,291,110	1.10%
Town & Country Motel	Motel	1,177,400	1.01%
Wal-Mart, Inc.	Retail	764,020	0.65%
		<u>\$ 33,272,872</u>	28.44%
Total Gallons Sold		<u>\$ 116,985,231</u>	

TOWN OF LEBANON, VIRGINIA

Schedule 19

**COMPUTATION OF LEGAL DEBT MARGIN
LAST TEN FISCAL YEARS**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2013
Assessed valuations:										
Assessed value	<u>\$ 150,388,445</u>	<u>\$ 143,864,430</u>	<u>\$ 143,892,650</u>	<u>\$ 176,802,630</u>	<u>\$ 205,786,500</u>	<u>\$ 236,865,075</u>	<u>\$ 206,451,980</u>	<u>\$ 219,906,100</u>	<u>\$ 217,939,550</u>	<u>\$ 240,103,850</u>
Legal debt margin:										
Debt limitation - (1)	\$ 15,038,845	\$ 14,386,443	\$ 14,389,265	\$ 17,680,263	\$ 20,578,650	\$ 23,686,508	\$ 20,645,198	\$ 21,990,610	\$ 21,793,955	\$ 24,010,385
Debt applicable to limitation:										
General obligation bonds	6,848,015	6,051,953	7,119,140	6,074,477	5,002,852	3,899,172	4,508,312	3,345,150	3,204,555	5,020,803
Less: Amount set aside for repayment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total debt applicable to limitation	<u>6,848,015</u>	<u>6,051,953</u>	<u>7,119,140</u>	<u>6,074,477</u>	<u>5,002,852</u>	<u>3,899,172</u>	<u>4,508,312</u>	<u>3,345,150</u>	<u>3,204,555</u>	<u>5,020,803</u>
Legal debt margin	<u>\$ 8,190,830</u>	<u>\$ 8,334,490</u>	<u>\$ 7,270,125</u>	<u>\$ 11,605,786</u>	<u>\$ 15,575,798</u>	<u>\$ 19,787,336</u>	<u>\$ 16,136,886</u>	<u>\$ 18,645,460</u>	<u>\$ 18,589,400</u>	<u>\$ 18,989,582</u>
Total net debt applicable to the limit as a percentage of debt limit	45.54%	42.07%	49.48%	34.36%	24.31%	16.46%	21.84%	15.21%	14.70%	20.91%

(1) 10% of total assessed value

PRINCIPAL EMPLOYEES
JUNE 30, 2014

Date of incorporation	1819
Form of government	Council - Manager
Number of employees:	
Town Council and Mayor	7
General government administration	6
Public safety	14
Public works	12.5
Parks, recreation, and cultural	0.5
Community development	0
Water and sewer	16
Pool - part time	0
Summer - part time	5
Total number of employees	61

COMPLIANCE SECTION



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

To the Town Council
Town of Lebanon, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Lebanon, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Lebanon, Virginia's basic financial statements, and have issued our report thereon dated April 15, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Bostic, Tucker & Company, PC

Lebanon, Virginia
April 15, 2015