

TOWN OF RICHLANDS, VIRGINIA

FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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**TOWN OF RICHLANDS, VIRGINIA  
FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2018**

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## INTRODUCTORY SECTION

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## TOWN OF RICHLANDS, VIRGINIA

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### TOWN COUNCIL

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Jan White, Mayor

Doug Ratliff, Vice Mayor

Vikki England

Larry Johnson

Rod Cury

Mary Ann Strong

Rick Wood

Connie Allen, Town Clerk

### OTHER OFFICIALS

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Timothy Taylor ..... Town Manager

Adrienne Cordle ..... Office Manager/Accountant

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## FINANCIAL SECTION

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# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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## Independent Auditors' Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Richlands, Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

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

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

### *Auditors' Responsibility*

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

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

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

## *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Richlands, Virginia, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Change in Accounting Principles*

As described in Note 18 to the financial statements, in 2018, the Town adopted new accounting guidance, GASB Statement Nos. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and 85 *Omnibus 2017*. Our opinion is not modified with respect to this matter.

## *Restatement of Beginning Balances*

As described in Note 19 to the financial statements, in 2018, the Town restated beginning balances to reflect the requirements of GASB Statement No. 75 and to adjust prior accounts payable. Our opinion is not modified with respect to this matter.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension and OPEB funding on pages 5-17, 79, and 80-85 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### *Supplementary and Other Information*

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

The supporting schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing



standards generally accepted in the United States of America. In our opinion, the supporting schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2018, on our consideration of the Town of Richlands, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the Town of Richlands, Virginia's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Richlands, Virginia's internal control over financial reporting and compliance.

*Robinson, Farmer, Cox Associates*

Blacksburg, Virginia  
November 20, 2018

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis (MD&A) offers the readers of the Town of Richlands, Virginia (the Town) financial statements a narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2018.

### Financial Highlights for fiscal year 2018

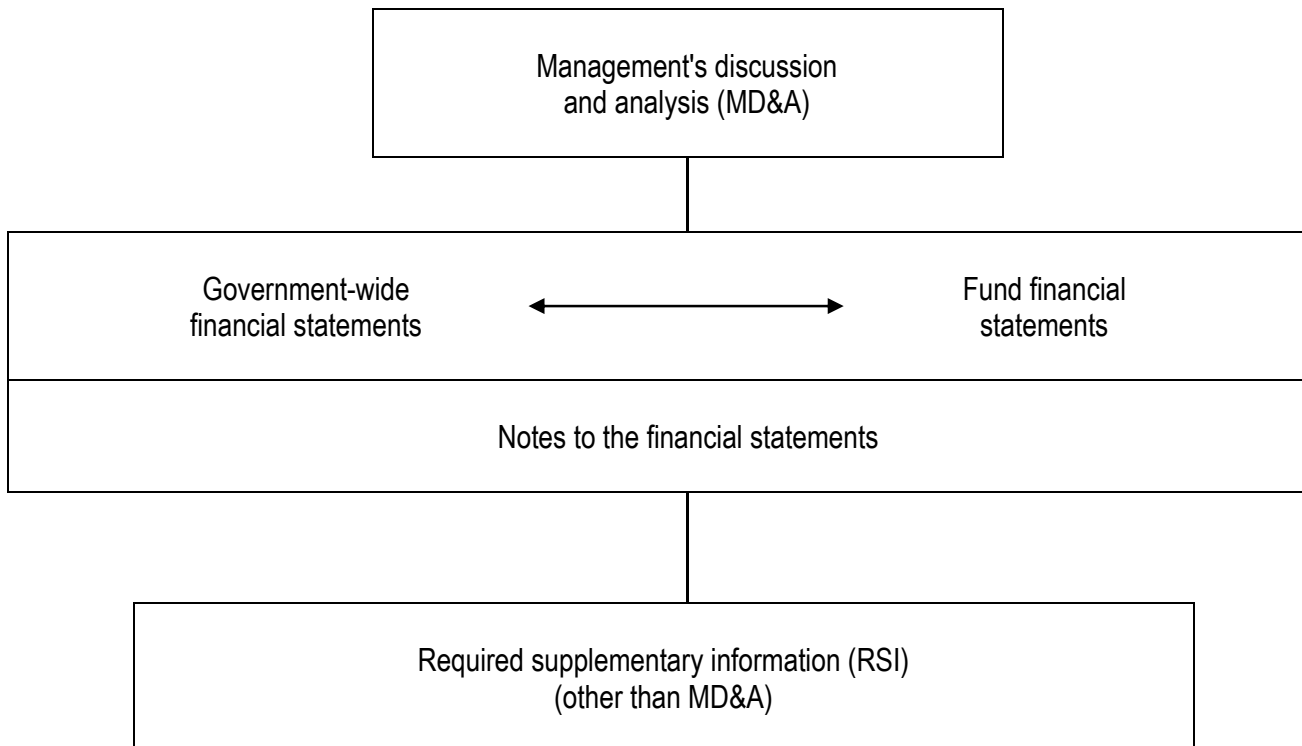
- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$18,076,782 (net position). Of this amount, (\$1,460,716) (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net position decreased by \$492,031. The decrease is attributable to a decrease in both governmental and business-type assets and an increase in liabilities.
- The Town's total liabilities and deferred outflows of resources at the close of the current fiscal year were \$12,961,648, including \$10,161,320 in long-term obligations.
- Long-term obligations primarily represent amounts due on the Town's general obligation bonds and net pension liability.
- As of the close of the current fiscal year, the Town's general fund reported an ending fund balance of \$453,523, a decrease of \$54,763 from the prior year fund balance.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$170,547, or 3.0% of total general fund expenditures. Such amount is available for spending at the government's discretion.
- At the end of the fiscal year June 30, 2018, the Town incurred expenses of \$398,148 for architectural and construction work performed for the restoration of the Town's Historical Railroad Foreman Section House. The Town was awarded \$438,000 in grant funds for the restoration project.
- During the current fiscal year, the Town made capital improvements/renovations to its recreational facility totaling approximately \$13,000. The renovations include the construction of new bathrooms, as well as a new heating system for the bathrooms.
- The Town had one revenue bond at the end of the current fiscal year with a total balance of \$605,389.
- The Town had general obligation bonds at June 30, 2018 with an ending balance of \$1,588,315.

## Overview of the Financial Statements

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

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

**Figure A**  
**Required Components of Richland's Financial Statements**



## Government-Wide Financial Statements

The *government-wide financial statements* (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

The government-wide financial statements can be found on page 18-19 of this report.

## Fund Financial Statements

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

### Governmental Funds

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

The Town reports one major government fund:

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

The basic governmental fund financial statements can be found on pages 20 and 22 of this report.

### Proprietary Funds

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

The Town reports the following major proprietary funds:

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

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

The basic proprietary fund statements can be found on pages 24-26 of this report.

## Budgetary Comparison

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

## Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-78 of this report.

## Government-Wide Financial Analysis

### Statement of Net Position

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

**Table 1**  
**Summary of Net Position**  
**As of June 30, 2018**

	Governmental Activities		Business-type Activities		Totals	
	2017*	2018	2017*	2018	2017*	2018
Current and other assets	\$ 1,754,504	\$ 1,478,954	\$ 6,781,788	\$ 7,193,558	\$ 8,348,977	\$ 8,672,512
Capital assets	10,679,243	10,532,590	11,583,631	10,970,203	23,093,258	21,502,793
Total assets	12,433,747	12,011,544	18,365,419	18,163,761	31,442,235	30,175,305
Deferred outflows of resources	685,698	569,644	356,924	293,481	596,056	863,125
Long-term liabilities	5,484,583	5,699,444	4,786,148	4,461,876	9,920,472	10,161,320
Other liabilities	1,193,408	943,866	760,022	1,127,948	1,583,716	2,071,814
Total liabilities	6,677,991	6,643,310	5,546,170	5,589,824	11,504,188	12,233,134
Deferred inflows of resources	230,166	544,339	115,446	184,175	472,945	728,514
Net position:						
Net investment in capital assets	10,641,889	10,532,590	9,220,534	8,776,499	20,438,095	19,309,089
Restricted	276,432	228,409	-	-	294,175	228,409
Unrestricted	(4,707,033)	(5,367,460)	3,840,193	3,906,744	(671,112)	(1,460,716)
Total net position	\$ 6,211,288	\$ 5,393,539	\$ 13,060,727	\$ 12,683,243	\$ 20,061,158	\$ 18,076,782

\*2017 numbers do not reflect GASB 75 restatement

Over time, net position may serve as a useful indicator of a government's financial position. In the case of the Town, assets and deferred outflows exceeded liabilities and deferred inflows by \$18,076,782 at the close of fiscal year 2018. The largest portion of the Town's net position (106.8%) reflects its net investment in capital assets (e.g., land, buildings, plant in service, machinery and equipment), less any outstanding related debt used to acquire those assets. The Town uses these capital assets to provide services to citizens and consequently, these assets are not available for future spending. Since the capital assets themselves cannot be used to pay the related debt, the resources needed to service this debt must be provided from other sources.

## Statement of Activities

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

**Table 2**  
**Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2018**

	Governmental Activities		Business-type Activities	
	2017*	2018	2017*	2018
Revenues:				
Program revenues :				
Charges for services	\$ 1,060,669	\$ 1,082,893	\$ 8,356,287	\$ 9,102,539
Operating grants & Contributions	1,105,238	1,458,570	-	-
Capital grants & Contributions	23,760	354,578	10,078	9,922
General revenue:				
Property taxes	485,587	538,056	-	-
Other local taxes	1,961,647	2,044,120	-	-
Unrestricted investment earnings	7,985	8,219	5,784	8,568
Other / Miscellaneous	101,516	59,575	-	1,962
Grants and contributions not restricted	15,893	4,954	-	-
Gain on disposal of capital assets	-	-	1,564	-
Total revenues	<u>4,762,295</u>	<u>5,550,965</u>	<u>8,373,713</u>	<u>9,122,991</u>
Expenses:				
General gov't adm.	333,731	235,766	-	-
Public safety	2,828,938	2,795,730	-	-
Public works	1,773,908	2,200,116	-	-
Parks, recreation , culture	377,855	403,439	-	-
Community development	25,850	30,235	-	-
Nondepartmental	-	-	-	-
Interest-long term debt	3,873	226	-	-
Electric	-	-	6,091,102	6,780,758
Water & sewer	-	-	2,489,894	2,719,717
Total expenses	<u>5,344,155</u>	<u>5,665,512</u>	<u>8,580,996</u>	<u>9,500,475</u>
Excess (deficiency) before transfers	(581,860)	(114,547)	(207,283)	(377,484)
Change in net position	<u>(581,860)</u>	<u>(114,547)</u>	<u>(207,283)</u>	<u>(377,484)</u>
Net position-July 1, as restated*	<u>6,793,148</u>	<u>5,508,086</u>	<u>13,268,010</u>	<u>13,060,727</u>
Net position-June 30	<u>\$ 6,211,288</u>	<u>\$ 5,393,539</u>	<u>\$ 13,060,727</u>	<u>\$ 12,683,243</u>

\*2017 numbers and do not reflect GASB 75 implementation. Beginning net position for 2018 reflects GASB 75 implementation.

## Statement of Activities (Continued)

During the current fiscal year the Town's net position decreased by \$492,031. This is comprised of a decrease from governmental activities of \$114,547 and a decrease in business type activities of \$377,484.

**Governmental activities** – Governmental activities decreased the Town's net position by \$114,547. Additional factors are noted below.

Revenues from governmental activities totaled \$5,550,965, with charges for services (19.5%), other local taxes (36.8%) and operating grants & contributions (32.7%), being the major sources of revenues. Most revenues in comparison to the previous year had nominal changes with the exception of operating grants & contributions, which increased \$353,332 and capital grants & contributions, which increased \$330,818. The increase in operating grants & contributions was due significantly to an increase in VDOT grant funding for Street and Highway Maintenance (paving to be specific). There was a significant increase in operating grants & contributions as well, which is contributed to a VDOT Enhancement Grant for the Restoration of the Town's Railroad Foreman Section House. The project was complete, and all grant funding disbursed during the current fiscal year.

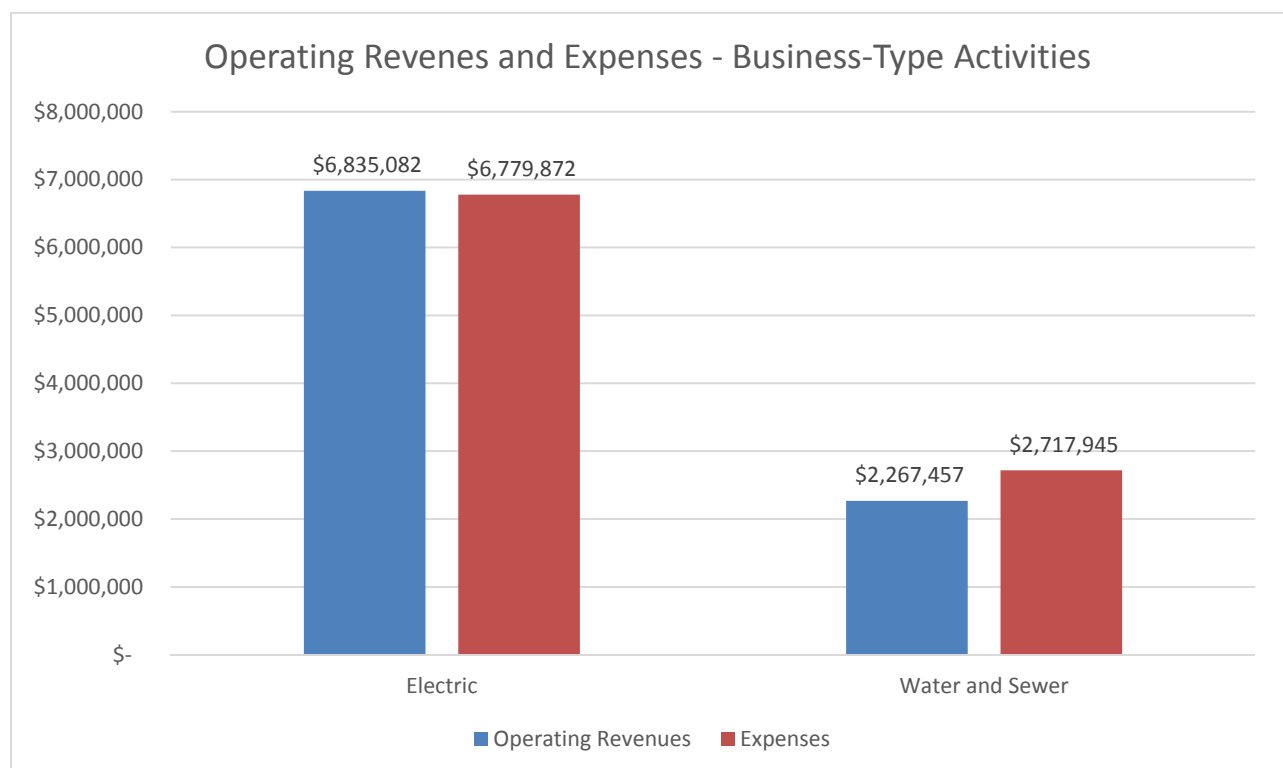
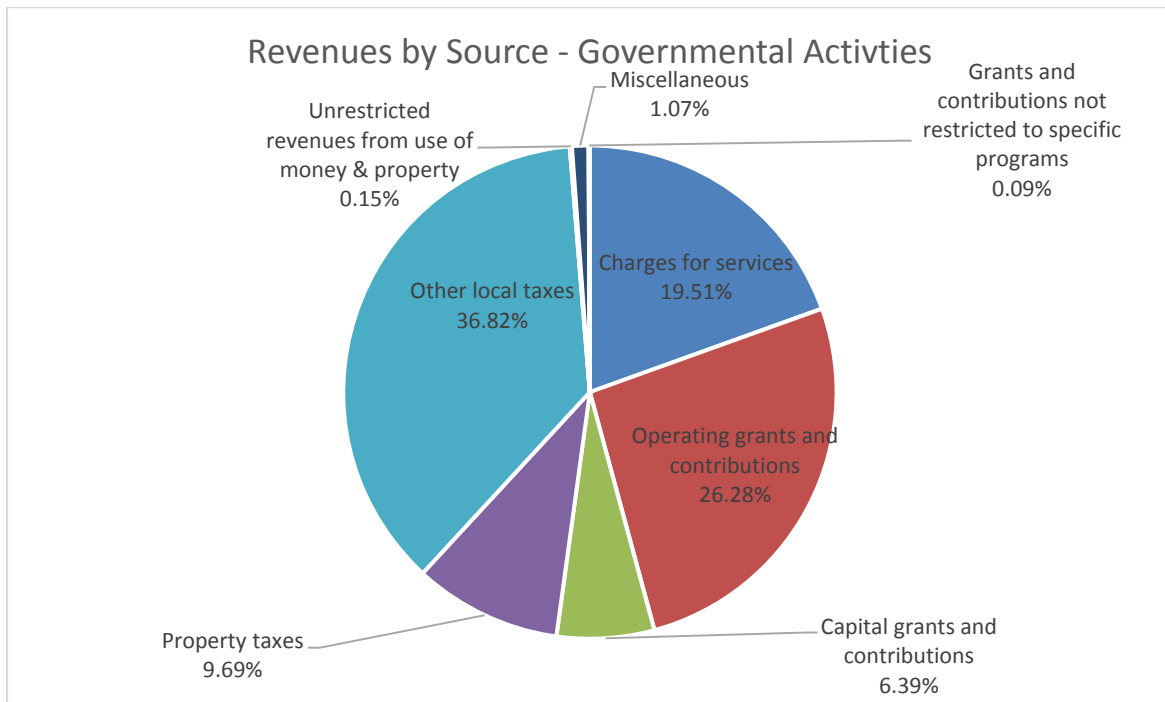
Expenses for governmental activities totaled \$5,665,512 with parks, recreation and culture (7.1%), public safety (49.3%), public works (38.8%), accounting for approximately 95.2% of total governmental expenses. Public works expenses increased \$426,208, parks, recreation and culture increased by \$25,584, while public safety decreased by \$33,208 and general government administration decreased by \$97,965. The increase in expenses for parks & recreation is due to facility renovations & improvements and the increase in expenses for public works is due to paving of street and highways. The decreases in expenses were attributed to a decrease in operating and maintenance.

**Business-type activities** – Net position of the business-type activities was \$12,683,243 at June 30, 2018. This was a decrease of \$377,484 from the prior year net position. The current year decrease is \$170,201 more than the prior year decrease of \$207,283. This is as a result of an increase in purchased power costs and decrease in operating expenses as well as an increase in water and sewer operating expenses.

## Statement of Activities (Continued)

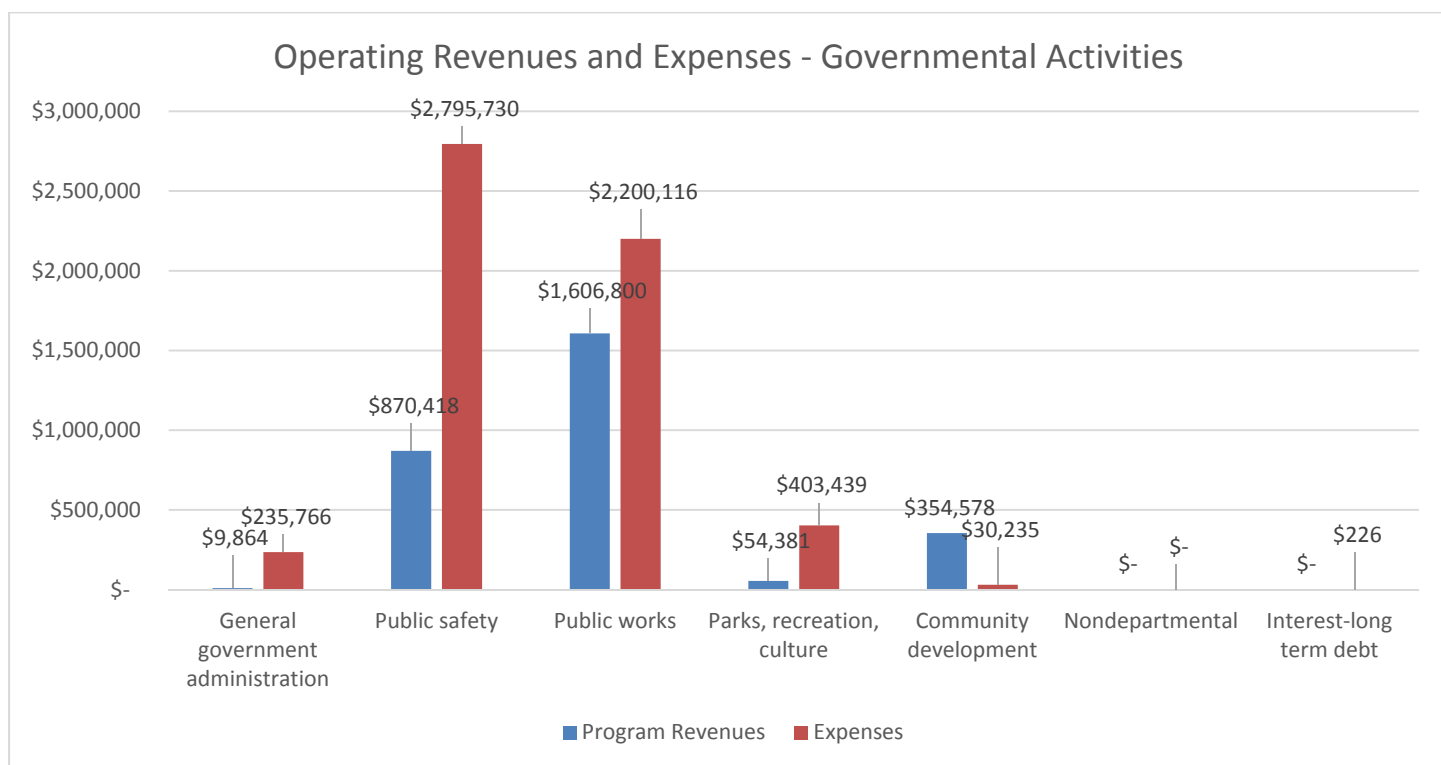
Program revenues for the business-type activities totaled \$9,122,991, of which \$9,102,539 is charges for services. Expenses totaled \$9,500,475.

- Operating revenues increased from the prior year by \$746,252.
- Proprietary operating expenses increased from the prior year by \$921,960.





## Statement of Activities (Continued)



## Financial Analysis of the Government's Funds

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

### Governmental Funds

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

The general fund is the government's primary operating fund. At the end of the current fiscal year, the Town's general fund reported an ending fund balance of \$453,523, including an unassigned fund balance of \$170,547, which is available for spending at the government's discretion. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents approximately 3.0% of total fund expenditures.

The fund balance of the Town's general fund decreased during the current fiscal year by \$54,763 from current year activities. Total revenues increased by \$816,340 due primarily to an increase in intergovernmental revenues; however total expenditures increased as well by \$615,527 significantly due to an increase in public works operating expenses (street & highway maintenance-paving).

## Proprietary funds

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

Unrestricted net position of the electric and water and sewer funds amounted to \$1,768,513 and \$2,138,231 respectively. The total decrease in net position was \$377,484 during the current fiscal year.

### Electric fund

The electric fund net position increased by \$59,402 from current year activities in fiscal year 2018 compared to a prior year decrease of \$73,359. The increase was primarily a result of an increase in operating revenues. Operating expenses increased by \$690,483 (11.3%) due significantly to an increase in purchased power which equated to \$643,295, as well as a slight increase in personnel cost for employees.

Electric fund non-operating revenues increased \$3,285 from the prior year, which was related primarily to an increase in investment income during the current fiscal year. Electric fund non-operating expense decreased \$827 from the prior year due to a decrease in interest expense on Dell capital lease.

### Water and sewer fund

The water and sewer fund net position decreased by \$436,886 from current year activities in fiscal year 2018 compared to the prior year decrease of \$133,924. The decrease in net position was a result of a decrease in operating revenues and an increase in operating expenses. Operating revenues decreased by \$72,880 (3.1%) due primarily to a decrease in charges for services. Operating expenses increased \$231,477 (9.3%), as a result of increased equipment maintenance and supplies, utility cost and employee and personnel expenses. Non-operating expenses decreased by \$1,654 due to a decrease in interest expense and non-operating revenue decreased by only \$103 as a result of a combination of a decrease in investment earnings and increase in gain on sale of assets.

## General Fund Budgetary Highlights

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

- Actual revenues were more than budgeted revenues by \$128,981. The increase is a result of a combination of an increase in several revenues; however, a decrease in a few revenues. The most significant budget variances were: \$98,120 positive variance in revenues from other local taxes which is attributed largely to the implementation of the tobacco tax; a positive variance of \$71,985 under general property tax revenue due to delinquent tax collections; a positive variance of \$56,572 under intergovernmental revenues as well as a negative variance of \$60,426 in charges for services.
- Actual Expenditures were less than budgeted expenditures by 422,648. This is due to a combination of a decrease of various expenditures and an increase in the public works expenditures. Public safety expenses and capital projects were both less than budgeted.

## General Fund Budgetary Highlights (Continued)

### General Fund Condensed Budget vs. Actual Fiscal Year ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	
Revenues	\$ 5,525,830	\$ 5,525,830	\$ 5,654,811
Expenditures	(6,138,530)	(6,138,530)	(5,715,882)
Other Financing Sources	<u>10,000</u>	<u>10,000</u>	<u>6,308</u>
Change in fund balance	<u>\$ (602,700)</u>	<u>\$ (602,700)</u>	<u>\$ (54,763)</u>

## Capital Asset and Debt Administration

### Capital Assets

The Town's net investment in capital assets for its governmental and business-type activities as of June 30, 2018, amounts to \$19,309,089. The net investment in capital assets includes land, construction in progress, buildings and improvements, improvements other than buildings, equipment, and public domain infrastructure additions in the current fiscal year.

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

- Capital asset acquisitions in governmental activities totaled \$465,390 (gross) in the current fiscal year. This was for construction in progress (\$416,963) and machinery and equipment (\$48,427).
- Capital asset acquisitions in business-type activities totaled \$5,676 in the current fiscal year. This was for construction in progress (\$5,676).

## Capital Assets (Continued)

### The Town's Capital Assets (Net of Depreciation) Fiscal Year ended June 30, 2018

	Governmental Activities		Business-Type Activities	
	2017	2018	2017	2018
Land	\$ 1,357,395	\$ 1,357,395	\$ 517,913	\$ 517,913
Construction in progress	170,229	-	74,014	26,959
Buildings and system	1,869,026	2,341,228	9,837,484	9,352,572
Infrastructure/utility plant and buildings in service	6,353,391	6,106,448	-	-
Equipment	929,202	727,519	1,154,220	1,072,759
Total	\$ 10,679,243	\$ 10,532,590	\$ 11,583,631	\$ 10,970,203

Additional information on the Town's capital assets can be found in Note 11 on pages 72-73 of this report.

## Long-term debt

At the end of the current fiscal year, the Town had total bonded debt outstanding of \$2,193,704. Of this amount, \$605,389 is comprised of one revenue bond and the remaining balance of \$1,588,315 is general obligation bonds.

### The Town's Long-term Bond Debt Fiscal Year ended June 30, 2018

	Beginning Balance	Additions	Reductions	Ending Balance
<i>Fiscal year 2017</i>				
<b>Business-Type Activities:</b>				
General obligation bond:	\$ 1,762,704	\$ -	\$ 87,193	\$ 1,675,511
Revenue bonds	695,078	-	44,845	650,233
<b>Total</b>	<b>\$ 2,457,782</b>	<b>\$ -</b>	<b>\$ 132,038</b>	<b>\$ 2,325,744</b>
<i>Fiscal year 2018</i>				
<b>Business-Type Activities:</b>				
General obligation bond:	\$ 1,675,511	\$ -	\$ 87,196	\$ 1,588,315
Revenue bonds	650,233	-	44,844	605,389
<b>Total</b>	<b>\$ 2,325,744</b>	<b>\$ -</b>	<b>\$ 132,040</b>	<b>\$ 2,193,704</b>

Additional information on the Town's long-term liability can be found in Note 5 on pages 37-39 of this report.

## Economic Factors and Next Year's Budget Rates

- The unemployment rate as of June 30, 2018 for the County of Tazewell, in which the Town resides, is 4.9%, which is a decrease from the average for 2017 of 6.3%. This compares to the state's unemployment rate of 3.2% and the national rate of 4.0%.
- The Town is located in the AEP Zone of PJM Interconnection, LLC ("PJM"). The Town is also a member of American Municipal Power ("AMP") and has purchased block power from the PJM market through AMP to meet a portion of its energy needs. Additionally, through AMP, the Town is participating in several generation assets including: 2.588 MW of the Prairie State Coal plant unit #1 and unit #2 PSEC are in full commercial operation, 1.5 MW in the AMP Hydroelectric run-of-the river project (Cannelton, Smithland, and Willow Island) located on the Ohio River and 2.2 MW in the Fremont energy campus project is in full commercial operation. The Town also purchases 0.5 MW of capacity and associated energy from Southeastern Power Administration ("SEPA") through a Purchase Power Agreement ("PPA") that is cancelable by either party. Exposure to the volatile energy commodity market will be greatly reduced by providing over 50% of the Town's load requirements from these projects.

## Economic Factors and Next Year's Budget Rates

- The Town will continue to monitor the effects of current economic conditions on energy costs in relation to powering water and wastewater plant facilities and rising costs of raw materials needed to maintain the Town and its infrastructure.
- The Town's Water and Wastewater Treatment Facilities are between 25-30 years old with equipment nearing its useful life. The Town has retained Thompson & Litton Engineering Firm to prepare a Water and Wastewater Asset Management/Capital Improvements Plan. Because of the needed improvements and upgrades; the Town will propose an increase in the water and sewer rates for the upcoming fiscal year 2019 based on recommendations from a Cost of Service Study.

All of these factors were considered in preparing the Town's budget for fiscal year 2019.

Unassigned fund balance in the general fund was \$170,547 as of June 30, 2018. It is intended that this available balance will be utilized in order to meet the government's ongoing obligations to citizens and creditors.

## Requests for Information

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

## Basic Financial Statements

Town of Richlands, Virginia  
Statement of Net Position  
At June 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 771,312	\$ 4,606,844	\$ 5,378,156
Investments	111,242	425,469	536,711
Receivables (net of allowance for uncollectibles):			
Taxes receivable	68,263	-	68,263
Accounts receivable	251,081	754,502	1,005,583
Notes receivable	5,011	-	5,011
Due from other governmental units	222,489	1,124,650	1,347,139
Prepaid items	49,556	282,093	331,649
Capital assets (net of accumulated depreciation):			
Land	1,357,395	517,913	1,875,308
Buildings and system	2,341,228	-	2,341,228
Machinery and equipment	727,519	1,072,759	1,800,278
Infrastructure/utility plant and buildings in service	6,106,448	9,352,572	15,459,020
Construction in progress	-	26,959	26,959
Total assets	\$ 12,011,544	\$ 18,163,761	\$ 30,175,305
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension related items	\$ 539,573	\$ 293,481	\$ 833,054
OPEB related items	30,071	-	30,071
Total deferred outflows of resources	\$ 569,644	\$ 293,481	\$ 863,125
<b>LIABILITIES</b>			
Accounts payable	\$ 170,156	\$ 827,898	\$ 998,054
Accrued liabilities	113,704	20,478	134,182
Customers' deposits	-	279,572	279,572
Unearned revenue	660,006	-	660,006
Long-term liabilities:			
Due within one year	201,088	234,047	435,135
Due in more than one year	5,498,356	4,227,829	9,726,185
Total liabilities	\$ 6,643,310	\$ 5,589,824	\$ 12,233,134
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred revenue - prepaid taxes	\$ 27,115	\$ -	\$ 27,115
Pension related items	398,224	184,175	582,399
OPEB related items	119,000	-	119,000
Total deferred inflows of resources	\$ 544,339	\$ 184,175	\$ 728,514
<b>NET POSITION</b>			
Net investment in capital assets	\$ 10,532,590	\$ 8,776,499	\$ 19,309,089
Restricted	228,409	-	228,409
Unrestricted	(5,367,460)	3,906,744	(1,460,716)
Total net position	\$ 5,393,539	\$ 12,683,243	\$ 18,076,782

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



Town of Richlands, Virginia  
Statement of Activities  
For the Year Ended June 30, 2018

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position				
	Expenses	Charges for Services	Operating		Primary Government				
			Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total		
PRIMARY GOVERNMENT:									
Governmental activities:									
General government administration	\$ 235,766	\$ 9,864	\$ -	\$ -	\$ (225,902)	\$ -	\$ (225,902)		
Public safety	2,795,730	606,925	263,493	-	(1,925,312)	-	(1,925,312)		
Public works	2,200,116	411,723	1,195,077	-	(593,316)	-	(593,316)		
Parks, recreation, and cultural	403,439	54,381	-	-	(349,058)	-	(349,058)		
Community development	30,235	-	-	354,578	324,343	-	324,343		
Interest on long-term debt	226	-	-	-	(226)	-	(226)		
Total governmental activities	\$ 5,665,512	\$ 1,082,893	\$ 1,458,570	\$ 354,578	\$ (2,769,471)	\$ -	\$ (2,769,471)		
Business-type activities:									
Water and sewer	\$ 2,719,717	\$ 2,267,457	\$ -	\$ 9,922	\$ -	\$ (442,338)	\$ (442,338)		
Electric	6,780,758	6,835,082	-	-	-	54,324	54,324		
Total business-type activities	\$ 9,500,475	\$ 9,102,539	\$ -	\$ 9,922	\$ -	\$ (388,014)	\$ (388,014)		
Total primary government	\$ 15,165,987	\$ 10,185,432	\$ 1,458,570	\$ 364,500	\$ (2,769,471)	\$ (388,014)	\$ (3,157,485)		
General revenues:									
General property taxes					\$ 538,056	\$ -	\$ 538,056		
Other local taxes:									
Local sales and use taxes					393,531	-	393,531		
Consumers' utility taxes					142,610	-	142,610		
Business license taxes					453,828	-	453,828		
Motor vehicle licenses					29,900	-	29,900		
Bank stock tax					211,764	-	211,764		
Meals taxes					746,468	-	746,468		
Other local taxes					66,019	-	66,019		
Unrestricted revenues from use of money and property					8,219	8,568	16,787		
Miscellaneous					59,575	1,962	61,537		
Grants and contributions not restricted to specific programs					4,954	-	4,954		
Total general revenues					\$ 2,654,924	\$ 10,530	\$ 2,665,454		
Change in net position					\$ (114,547)	\$ (377,484)	\$ (492,031)		
Net position - beginning, as restated					5,508,086	13,060,727	18,568,813		
Net position - ending					\$ 5,393,539	\$ 12,683,243	\$ 18,076,782		

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

Town of Richlands, Virginia  
Balance Sheet  
Governmental Fund  
At June 30, 2018

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	<u>General</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 771,312
Investments	111,242
Receivables (net of allowance for uncollectibles):	
Taxes receivable	68,263
Accounts receivable	251,081
Notes receivable	5,011
Due from other governmental units	222,489
Prepaid expenses	49,556
Total assets	<u>\$ 1,478,954</u>
<b>LIABILITIES</b>	
Accounts payable	\$ 170,156
Accrued payroll and related liabilities	113,704
Unearned revenue	660,006
Total liabilities	<u>\$ 943,866</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable revenue - property taxes	\$ 54,450
Unavailable revenue - prepaid taxes	27,115
Total deferred inflows of resources	<u>\$ 81,565</u>
<b>FUND BALANCES</b>	
Nonspendable	\$ 54,567
Restricted	228,409
Unassigned	170,547
Total fund balances	<u>\$ 453,523</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,478,954</u>

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

Town of Richlands, Virginia  
Reconciliation of the Balance Sheet of Governmental Fund  
to the Statement of Net Position  
At June 30, 2018

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Fund	\$	453,523
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land	\$ 1,357,395	
Buildings and improvements	2,341,228	
Machinery and equipment	727,519	
Infrastructure/utility plant and buildings in service	6,106,448	10,532,590

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

Unavailable revenue - property taxes		54,450
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Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds.

Pension related items	\$ 539,573	
OPEB related items	30,071	569,644

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

Compensated absences	\$ (268,117)	
Net pension liability	(4,740,327)	
Net OPEB liability	(691,000)	(5,699,444)

Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.

Pension related items	\$ (398,224)	
OPEB related items	(119,000)	(517,224)

Net position of governmental activities	\$	5,393,539
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The notes to the financial statements are an integral part of this statement.

Town of Richlands, Virginia  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Fund  
For the Year Ended June 30, 2018

	<u>General</u>
<b>REVENUES</b>	
General property taxes	\$ 558,985
Other local taxes	2,044,120
Permits, privilege fees, and regulatory licenses	1,265
Fines and forfeitures	66,354
Revenue from the use of money and property	8,219
Charges for services	1,015,274
Miscellaneous	59,575
Recovered costs	82,917
Intergovernmental	1,818,102
Total revenues	<u>\$ 5,654,811</u>
<b>EXPENDITURES</b>	
Current:	
General government administration	\$ 285,390
Public safety	2,704,981
Public works	1,883,504
Parks, recreation, and cultural	356,127
Community development	30,235
Capital projects	416,964
Debt service:	
Principal retirement	37,354
Interest and other fiscal charges	1,327
Total expenditures	<u>\$ 5,715,882</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (61,071)</u>
<b>OTHER FINANCING SOURCES (USES)</b>	
Sale of capital assets	<u>\$ 6,308</u>
Net change in fund balances	\$ (54,763)
Fund balances - beginning, as restated	508,286
Fund balances - ending	<u><u>\$ 453,523</u></u>

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

Town of Richlands, Virginia  
Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances of Governmental Fund  
to the Statement of Activities  
For the Year Ended June 30, 2018

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

Net change in fund balances - total governmental fund	\$	(54,763)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the depreciation expense exceeded capital outlays in the current period.

Capital outlays	\$ 465,390	
Depreciation expense	<u>(612,043)</u>	(146,653)

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

Property taxes		(20,929)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal repayments:

Capital lease		37,354
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.

Change in compensated absences	\$ 71,218	
Change in accrued interest payable	1,101	
Pension expense	22,423	
OPEB expense	<u>(24,298)</u>	70,444

Change in net position of governmental activities	\$	<u><u>(114,547)</u></u>
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The notes to the financial statements are an integral part of this statement.

Town of Richlands, Virginia  
Statement of Net Position  
Proprietary Funds  
At June 30, 2018

	Enterprise Funds		
	Water and Sewer	Electric	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 2,263,429	\$ 2,343,415	\$ 4,606,844
Investments	165,456	260,013	425,469
Accounts receivable, net of allowances for uncollectibles	152,435	602,067	754,502
Due from other governmental units	1,124,650	-	1,124,650
Prepaid items	-	282,093	282,093
Total current assets	\$ 3,705,970	\$ 3,487,588	\$ 7,193,558
Noncurrent assets:			
Capital assets:			
Utility plant and buildings in service	\$ 21,198,354	\$ 1,097,521	\$ 22,295,875
Machinery and equipment	962,640	1,699,866	2,662,506
Land	517,913	-	517,913
Accumulated depreciation	(12,653,070)	(1,879,980)	(14,533,050)
Construction in progress	26,959	-	26,959
Total net capital assets	\$ 10,052,796	\$ 917,407	\$ 10,970,203
Total noncurrent assets	\$ 10,052,796	\$ 917,407	\$ 10,970,203
Total assets	\$ 13,758,766	\$ 4,404,995	\$ 18,163,761
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension related items	\$ 177,938	\$ 115,543	\$ 293,481
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 48,862	\$ 779,036	\$ 827,898
Accrued wages	13,747	6,731	20,478
Customers' deposits	56,444	223,128	279,572
Revenue bonds payable - current portion	44,844	-	44,844
General obligation bonds - current portion	87,195	-	87,195
Compensated absences - current portion	76,602	25,406	102,008
Total current liabilities	\$ 327,694	\$ 1,034,301	\$ 1,361,995
Noncurrent liabilities:			
Revenue bonds payable - net of current portion	\$ 560,545	\$ -	\$ 560,545
General obligation bond - net of current portion	1,501,120	-	1,501,120
Compensated absences - net of current portion	25,534	8,468	34,002
Net pension liability	1,398,778	733,384	2,132,162
Total noncurrent liabilities	\$ 3,485,977	\$ 741,852	\$ 4,227,829
Total liabilities	\$ 3,813,671	\$ 1,776,153	\$ 5,589,824
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension related items	\$ 125,710	\$ 58,465	\$ 184,175
<b>NET POSITION</b>			
Net investment in capital assets	\$ 7,859,092	\$ 917,407	\$ 8,776,499
Unrestricted	2,138,231	1,768,513	3,906,744
Total net position	\$ 9,997,323	\$ 2,685,920	\$ 12,683,243

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

Town of Richlands, Virginia  
Statement of Revenues, Expenses, and Changes in Net Position  
Proprietary Funds  
For the Year Ended June 30, 2018

	Enterprise Funds		
	<u>Water and Sewer</u>	<u>Electric</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Charges for services:			
Charges for services	\$ 2,200,785	\$ 6,716,901	\$ 8,917,686
Contract work	1,760	23,285	25,045
Lab testing and septic treatment	30,818	-	30,818
Penalties and service charges	32,244	81,684	113,928
Connection fees	1,850	-	1,850
Utility pole permits	-	13,175	13,175
Miscellaneous	-	37	37
Total operating revenues	\$ 2,267,457	\$ 6,835,082	\$ 9,102,539
<b>OPERATING EXPENSES</b>			
Salaries, wages and fringes	\$ 1,207,465	\$ 626,738	\$ 1,834,203
Insurance	27,786	11,030	38,816
Audit and legal	32,250	19,389	51,639
Dues, memberships and training	4,175	18,454	22,629
Office supplies and postage	23,190	15,700	38,890
Telecommunications	6,332	3,575	9,907
Equipment and vehicle maintenance	77,646	18,897	96,543
Supplies	285,768	54,605	340,373
Utilities	376,532	19,235	395,767
Heating oil/fuel	30,992	-	30,992
Miscellaneous	32,558	14,785	47,343
Plant parts and repairs	22,108	-	22,108
Maintenance, repairs and upgrades	28,005	98,098	126,103
Instrument calibration	893	-	893
Power purchased	-	5,776,589	5,776,589
Street lighting	-	5,099	5,099
Distribution	-	4,153	4,153
Engineering	14,401	-	14,401
Testing	16,242	3,746	19,988
Capital outlays	2,277	-	2,277
Depreciation	529,325	89,779	619,104
Total operating expenses	\$ 2,717,945	\$ 6,779,872	\$ 9,497,817
Operating income (loss)	\$ (450,488)	\$ 55,210	\$ (395,278)
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment income	\$ 3,970	\$ 4,598	\$ 8,568
Miscellaneous	1,482	480	1,962
Interest expense	(1,772)	(886)	(2,658)
Total nonoperating revenues (expenses)	\$ 3,680	\$ 4,192	\$ 7,872
Income (loss) before contributions	\$ (446,808)	\$ 59,402	\$ (387,406)
Capital contributions	9,922	-	9,922
Change in net position	\$ (436,886)	\$ 59,402	\$ (377,484)
Total net position - beginning	10,434,209	2,626,518	13,060,727
Total net position - ending	\$ 9,997,323	\$ 2,685,920	\$ 12,683,243

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

Town of Richlands, Virginia  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2018

	Enterprise Fund		
	Water and Sewer	Electric	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers and users	\$ 2,331,668	\$ 6,777,014	\$ 9,108,682
Payments to suppliers	(984,269)	(5,709,697)	(6,693,966)
Payments to and for employees	(1,225,572)	(629,892)	(1,855,464)
Net cash provided by (used for) operating activities	\$ 121,827	\$ 437,425	\$ 559,252
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Additions to utility plant	\$ (5,182)	\$ (494)	\$ (5,676)
Proceeds from the sale of surplus	1,482	480	1,962
Principal payments on general obligation and revenue bonds	(132,040)	-	(132,040)
Principal payments on capital leases	(24,902)	(12,451)	(37,353)
Capital contributions	70,582	-	70,582
Interest expense	(1,772)	(886)	(2,658)
Net cash provided by (used for) capital and related financing activities	\$ (91,832)	\$ (13,351)	\$ (105,183)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest income	\$ 3,532	\$ 3,184	\$ 6,716
Net cash provided by (used for) investing activities	\$ 3,532	\$ 3,184	\$ 6,716
Net increase (decrease) in cash and cash equivalents	\$ 33,527	\$ 427,258	\$ 460,785
Cash and cash equivalents - beginning	2,229,902	1,916,157	4,146,059
Cash and cash equivalents - ending	\$ 2,263,429	\$ 2,343,415	\$ 4,606,844
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>			
Operating income (loss)	\$ (450,488)	\$ 55,210	\$ (395,278)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	\$ 529,325	\$ 89,779	\$ 619,104
(Increase) decrease in accounts receivable	61,161	(67,771)	(6,610)
(Increase) decrease in deferred outflows of resources	23,009	40,434	63,443
(Increase) decrease in prepaid items	-	(3,183)	(3,183)
Increase (decrease) in customer deposits	3,050	9,703	12,753
Increase (decrease) in accounts payable	(3,114)	356,841	353,727
Increase (decrease) in wages payable	1,401	45	1,446
Increase (decrease) in compensated absences	10,614	3,930	14,544
Increase (decrease) in net pension liability	(90,291)	(79,132)	(169,423)
Increase (decrease) in deferred inflows of resources	37,160	31,569	68,729
Total adjustments	\$ 572,315	\$ 382,215	\$ 954,530
Net cash provided by (used for) operating activities	\$ 121,827	\$ 437,425	\$ 559,252

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



TOWN OF RICHLANDS, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
AT JUNE 30, 2018

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**Note 1-Summary of Significant Accounting Policies:**

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

A. Financial reporting entity:

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

Blended Component Units - None

Discretely Presented Component Units - None

Related Organizations - None

Jointly Governed Organizations - None

B. Government-wide and fund financial statements:

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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

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

The Town reports the following major governmental fund:

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

The Town reports the following major proprietary funds:

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

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

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

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

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

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

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

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

1. Cash and Cash Equivalents

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

2. Prepaid Expenses

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

3. Receivables and Payables

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

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

4. Allowance for Uncollectible Accounts

For the General Fund, the allowance amounted to approximately \$60,357 for property taxes, \$2,436 for garbage billings, and \$89,749 for EMS billings at June 30, 2018. For the Proprietary Funds, the allowance amounted to approximately \$5,620 for water and sewer billings and \$22,005 for electric billings at June 30, 2018.

5. Property Taxes

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

6. 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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

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

7. Compensated Absences

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

8. Capital Assets

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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

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

9. Deferred Outflows/Inflows of Resources

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

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

10. Long-Term Obligations

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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

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

11. Pensions

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

12. Other Postemployment Benefits (OPEB) - Line of Duty Act Program

The Virginia Retirement System (VRS) Line of Duty Act Program (LODA) was established pursuant to §9.1-400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The LODA Program provides death and health insurance benefits to eligible state employees and local government employees, including volunteers, who die or become disabled as a result of the performance of their duties as a public safety officer. In addition, health insurance benefits are provided to eligible survivors and family members. For purposes of measuring the net LODA OPEB liability, deferred outflows of resources and deferred inflows of resources related to the LODA OPEB, and related LODA OPEB expense, information about the fiduciary net position of the VRS LODA Program OPEB Plan and the additions to/deductions from the VRS LODA Program OPEB Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

13. Net Position

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

14. Net Position Flow Assumption

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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

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

15. Concentration of Credit Risk

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

16. Fund Equity

The Town follows provisions of GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

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

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

The Town establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the Town Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).



NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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**Note 2-Stewardship, Compliance, and Accountability:**

A. Budgetary information

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

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

B. Deficit fund equity

At June 30, 2018, there were no funds with deficit fund equity.

**Note 3-Deposits and Investments:**

Deposits:

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 AT JUNE 30, 2018

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**Note 3-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, bankers' acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

The investments, as reported in the financial statements as of June 30, 2018, consist of non-negotiable certificates of deposit with original maturity dates of 12 months and have a balance of \$536,711 at year end.

**Note 4-Due from Other Governmental Units:**

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

	General Fund	Water and Sewer Fund
<b><u>Local Government:</u></b>		
Tazewell County Public Service Authority	\$ -	\$ 1,124,650
<b><u>Commonwealth of Virginia:</u></b>		
Categorical aid - street maintenance	29,217	-
Non-categorical aid	450	-
State sales tax	72,346	-
<b><u>Federal Government:</u></b>		
Categorical aid	120,476	-
<b>Total</b>	<b>\$ 222,489</b>	<b>\$ 1,124,650</b>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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

The following is a summary of long-term obligation transactions of the Town for the year ended June 30, 2018.

	Balance July 1, 2017, as restated	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2018
Capital leases	\$ 37,354	\$ -	\$ (37,354)	\$ -
Compensated absences	339,335	183,283	(254,501)	268,117
Net pension liability	5,107,894	772,289	(1,139,856)	4,740,327
Net OPEB liability	784,000	55,000	(148,000)	691,000
Total	<u>\$ 6,268,583</u>	<u>\$ 1,010,572</u>	<u>\$ (1,579,711)</u>	<u>\$ 5,699,444</u>

## Details of long-term obligations:

Type/ Project	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 268,117	\$ 201,088
Net pension liability	n/a	n/a	n/a	n/a	4,740,327	-
Net OPEB liability	n/a	n/a	n/a	n/a	691,000	-
Total Other Obligations					<u>\$ 5,699,444</u>	<u>\$ 201,088</u>
Total Long-term obligations					<u>\$ 5,699,444</u>	<u>\$ 201,088</u>

Other obligations are typically liquidated by the general fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 AT JUNE 30, 2018

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

The following is a summary of long-term obligation transactions of the Enterprise Fund for the year ended June 30, 2018.

	Balance July 1, 2017	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2018
General obligation bonds	\$ 1,675,511	\$ -	\$ (87,196)	\$ 1,588,315
Revenue bond	650,233	-	(44,844)	605,389
Capital lease	37,353	-	(37,353)	-
Compensated absences	121,466	105,644	(91,100)	136,010
Net pension liability	2,301,585	365,105	(534,528)	2,132,162
Total	<u>\$ 4,786,148</u>	<u>\$ 470,749</u>	<u>\$ (795,021)</u>	<u>\$ 4,461,876</u>

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

Year Ending June 30,	General Obligation Bonds		Revenue Bond	
	Principal	Interest	Principal	Interest
2019	\$ 87,195	\$ -	\$ 44,844	\$ -
2020	87,195	-	44,844	-
2021	87,195	-	44,844	-
2022	87,195	-	44,844	-
2023	87,195	-	44,844	-
2024-2028	435,973	-	224,218	-
2029-2033	424,306	-	156,951	-
2034-2037	292,061	-	-	-
Totals	<u>\$ 1,588,315</u>	<u>\$ -</u>	<u>\$ 605,389</u>	<u>\$ -</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Business-type Activities	Amount Due Within One Year
Revenue Bond:						
Wastewater Series 2010	0.00%	2010	2024	\$ 1,121,250	\$ 605,389	\$ 44,844
General Obligation Bonds:						
Series 2000	0.00%	2000	2031	175,000	75,833	5,834
Series 2005	0.00%	2005	2037	2,002,799	1,235,059	66,760
Series 2006	0.00%	2006	2037	438,037	277,423	14,601
Total Bonds					<u>\$ 2,193,704</u>	<u>\$ 132,039</u>
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 136,010	\$ 102,008
Net Pension Liability	n/a	n/a	n/a	n/a	2,132,162	-
Total other obligations					<u>\$ 2,268,172</u>	<u>\$ 102,008</u>
Total long-term obligations					<u><u>\$ 4,461,876</u></u>	<u><u>\$ 234,047</u></u>

Revenue bonds are secured by revenue of the water/sewer fund.

Other obligations of the electric and water/sewer fund are typically liquidated by those funds.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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**Note 6-Pension Plan:***Plan Description*

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

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

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>About Plan 1</b> 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.</p>	<p><b>About Plan 2</b> 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.</p>	<p><b>About the Hybrid Retirement Plan</b> The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</p> <ul style="list-style-type: none"> <li>• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</li> <li>• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.</li> </ul>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<b>Hybrid Opt-In Election (Cont.)</b> Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	<b>Hybrid Opt-In Election (Cont.)</b> Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	<b>*Non-Eligible Members (Cont.)</b> Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
<b>Retirement Contributions</b> Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. 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.	<b>Retirement Contributions</b> Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.	<b>Retirement Contributions</b> A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.



NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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

<b>RETIREMENT PLAN PROVISIONS (CONTINUED)</b>		
<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<b>Calculating the Benefit (Cont.)</b> 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.	<b>Calculating the Benefit (Cont.)</b>	<b>Calculating the Benefit (Cont.)</b> <u><b>Defined Contribution Component:</b></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.
<b>Average Final Compensation</b> A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	<b>Average Final Compensation</b> A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	<b>Average Final Compensation</b> Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
<b>Service Retirement Multiplier</b> <b>VRS:</b> The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.  <b>Sheriffs and regional jail superintendents:</b> The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.  <b>Political subdivision hazardous duty employees:</b> The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	<b>Service Retirement Multiplier</b> <b>VRS:</b> 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.  <b>Sheriffs and regional jail superintendents:</b> Same as Plan 1.  <b>Political subdivision hazardous duty employees:</b> Same as Plan 1.	<b>Service Retirement Multiplier</b> <u><b>Defined Benefit Component:</b></u> <b>VRS:</b> The retirement multiplier for the defined benefit component is 1.00%.  For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.  <b>Sheriffs and regional jail superintendents:</b> Not applicable.  <b>Political subdivision hazardous duty employees:</b> Not applicable.  <u><b>Defined Contribution Component:</b></u> Not applicable

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Earliest Reduced Retirement Eligibility (Cont.)</b></p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p><b>Earliest Reduced Retirement Eligibility (Cont.)</b></p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p><b>Earliest Reduced Retirement Eligibility (Cont.)</b></p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u><b>Defined Contribution Component:</b></u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u><b>Eligibility:</b></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><b>Cost-of-Living Adjustment (COLA) in Retirement</b> The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u><b>Eligibility:</b></u> Same as Plan 1.</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> <u><b>Defined Benefit Component:</b></u> Same as Plan 2.</p> <p><u><b>Defined Contribution Component:</b></u> Not applicable.</p> <p><u><b>Eligibility:</b></u> Same as Plan 1 and Plan 2.</p>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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

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



NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report-pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

*Employees Covered by Benefit Terms*

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	27
Inactive members:	
Vested inactive members	2
Non-vested inactive members	9
Inactive members active elsewhere in VRS	<u>5</u>
Total inactive members	16
Active members	<u>75</u>
Total covered employees	<u><u>118</u></u>

*Contributions*

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

The Town's contractually required employer contribution rate for the year ended June 30, 2018 was 21.18% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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

*Contributions (Continued)*

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$571,998 and \$548,986 for the years ended June 30, 2018 and June 30, 2017, respectively.

*Net Pension Liability*

The Town's net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

*Actuarial Assumptions - General Employees*

The total pension liability for General Employees in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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

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

**Mortality rates:**

Largest 10 - Non-Hazardous Duty: 20% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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

*Actuarial Assumptions - General Employees (Continued)*

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

All Others (Non 10 Largest) - Non-Hazardous Duty: 15% of deaths are assumed to be service related  
Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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

All Others (Non 10 Largest) - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

***Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits***

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5%
Salary increases, including inflation	3.5% - 4.75%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

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

Mortality rates:

Largest 10 - Hazardous Duty: 70% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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

*Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits (Continued)*

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

All Others (Non 10 Largest) - Hazardous Duty: 45% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

**Note 6-Pension Plan: (Continued)****Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits (Continued)**

All Others (Non 10 Largest) - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

**Long-Term Expected Rate of Return**

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

\* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018Note 6-Pension Plan: (Continued)*Discount Rate*

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the Town Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

*Changes in Net Pension Liability*

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2016	\$ 12,504,927	\$ 5,095,449	\$ 7,409,478
Changes for the year:			
Service cost	\$ 254,948	\$ -	\$ 254,948
Interest	856,598	-	856,598
Changes of assumptions	(156,273)	-	(156,273)
Differences between expected and actual experience	(186,039)	-	(186,039)
Contributions - employer	-	548,986	(548,986)
Contributions - employee	-	128,023	(128,023)
Net investment income	-	633,234	(633,234)
Benefit payments, including refunds of employees contributions	(535,639)	(535,639)	-
Administrative expenses	-	(3,447)	3,447
Other changes	-	(573)	573
Net changes	\$ 233,595	\$ 770,584	\$ (536,989)
Balances at June 30, 2017	\$ 12,738,522	\$ 5,866,033	\$ 6,872,489

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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

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

	Rate		
	1% Decrease	Current Discount	1% Increase
	(6.00%)	(7.00%)	(8.00%)
Town Net Pension Liability	\$ 8,458,267	\$ 6,872,489	\$ 5,544,861

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

For the year ended June 30, 2018, the Town recognized pension expense of \$508,270. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 242,545	\$ 348,223
Changes in proportion and differences between employer contributions and proportionate share of contributions	18,511	18,511
Changes of assumptions	-	127,911
Net difference between projected and actual earnings on pension plan investments	-	87,754
Employer contributions subsequent to the measurement date	571,998	-
Total	\$ 833,054	\$ 582,399



NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018**Note 6-Pension Plan: (Continued)*****Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)***

\$571,998 reported as deferred outflows of resources related to pensions resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	
2019	\$ (117,785)
2020	(51,967)
2021	(58,445)
2022	(61,464)
Thereafter	(31,682)

**Note 7-Line of Duty Act (LODA) Program:*****Plan Description***

All paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VALORS) are automatically covered by the Line of Duty Act Program (LODA). As required by statute, the Virginia Retirement System (the System) is responsible for managing the assets of the program. Participating employers made contributions to the program beginning in FY 2012. The employer contributions are determined by the System's actuary using anticipated program costs and the number of covered individuals associated with all participating employers.

The specific information for the LODA Program OPEB, including eligibility, coverage and benefits is set out in the table below:

LINE OF DUTY ACT PROGRAM PLAN PROVISIONS
<b>Eligible Employees</b>  The eligible employees of the Line of Duty Act Program are paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VALORS).

**Note 7-Line of Duty Act (LODA) Program: (Continued)**

***Plan Description (Continued)***

**Benefit Amounts**

The Line of Duty Act Program provides death and health insurance benefits for eligible individuals:

- **Death** - The Line of Duty Act program death benefit is a one-time payment made to the beneficiary or beneficiaries of a covered individual. Amounts vary as follows:
  - \$100,000 when a death occurs as the direct or proximate result of performing duty as of January 1, 2006, or after.
  - \$25,000 when the cause of death is attributed to one of the applicable presumptions and occurred earlier than five years after the retirement date.
  - An additional \$20,000 benefit is payable when certain members of the National Guard and U.S. military reserves are killed in action in any armed conflict on or after October 7, 2001.
- **Health Insurance** - The Line of Duty Act program provides health insurance benefits.
  - Prior to July 1, 2017, these benefits were managed through the various employer plans and maintained the benefits that existed prior to the employee's death or disability. These premiums were reimbursed to the employer by the LODA program.
  - Beginning July 1, 2017, the health insurance benefits are managed through the Virginia Department of Human Resource Management (DHRM). The health benefits are modeled after the State Employee Health Benefits Program plans and provide consistent, premium-free continued health plan coverage for LODA-eligible disabled individuals, survivors, and family members. Individuals receiving the health insurance benefits must continue to meet eligibility requirements as defined by the Line of Duty Act.

***Contributions***

The contribution requirements for the Line of Duty Act Program are governed by §9.1-400.1 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the Line of Duty Act Program for the year ended June 30, 2018 was \$567.37 per covered full-time-equivalent employee. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and represents the pay-as-you-go funding rate and not the full actuarial cost of the benefits under the program. The actuarially determined pay-as-you-go rate was expected to finance the costs and related expenses of benefits payable during the year. Contributions to the Line of Duty Act Program from the entity were \$30,071 and \$28,369 for the years ended June 30, 2018 and June 30, 2017, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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**Note 7-Line of Duty Act (LODA) Program: (Continued)*****LODA OPEB Liabilities, LODA OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the LODA OPEB***

At June 30, 2018, the entity reported a liability of \$691,000 for its proportionate share of the Net LODA OPEB Liability. The Net LODA OPEB Liability was measured as of June 30, 2017 and the total LODA OPEB liability used to calculate the Net LODA OPEB Liability was determined by an actuarial valuation as of that date. The entity's proportion of the Net LODA OPEB Liability was based on the entity's actuarially determined pay-as-you-go employer contributions to the LODA OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined pay-as-you-go employer contributions for all participating employers. At June 30, 2017, the entity's proportion was 0.2630% as compared to 0.2818% at June 30, 2016.

For the year ended June 30, 2018, the entity recognized LODA OPEB expense of \$55,000. Since there was a change in proportionate share between measurement dates, a portion of the LODA OPEB expense was related to deferred amounts from changes in proportion.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on LODA OPEB plan investments	\$ -	\$ 1,000
Change in assumptions	-	72,000
Change in proportion	-	46,000
Employer contributions subsequent to the measurement date	<u>30,071</u>	<u>-</u>
Total	\$ <u>30,071</u>	\$ <u>119,000</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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**Note 7-Line of Duty Act (LODA) Program: (Continued)*****LODA OPEB Liabilities, LODA OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the LODA OPEB (Continued)***

\$30,071 reported as deferred outflows of resources related to the LODA OPEB resulting from the entity's contributions subsequent to the measurement date will be recognized as a reduction of the Net LODA OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the LODA OPEB will be recognized in LODA OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>		
2019	\$	(15,000)
2020		(15,000)
2021		(15,000)
2022		(15,000)
2023		(15,000)
Thereafter		(44,000)

***Actuarial Assumptions***

The total LODA OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5%
Salary increases, including inflation:	
General state employees	3.50%-5.35%
SPORS employees	3.50%-4.75%
VaLORS employees	3.50%-4.75%
Locality employees	3.50%-4.75%
Medical cost trend rates assumption:	
Under age 65	7.75%-5.00%
Ages 65 and older	5.75%-5.00%
Investment rate of return	3.56%, net of OPEB plan investment expenses, including inflation*

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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**Note 7-Line of Duty Act (LODA) Program: (Continued)****Actuarial Assumptions: (Continued)**

\*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 3.56%. However, since the difference was minimal, a more conservative 3.56% investment return assumption has been used. Since LODA is funded on a current-disbursement basis, the assumed annual rate of return of 3.56% was used since it approximates the risk-free rate of return.

**Mortality rates - General State Employees****Pre-Retirement:**

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

**Post-Retirement:**

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

**Post-Disablement:**

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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**Note 7-Line of Duty Act (LODA) Program: (Continued)***Actuarial Assumptions: (Continued)***Mortality rates - SPORS Employees**

## Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

## Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

## Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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**Note 7-Line of Duty Act (LODA) Program: (Continued)**

*Actuarial Assumptions: (Continued)*

**Mortality rates - VaLORS Employees**

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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**Note 7-Line of Duty Act (LODA) Program: (Continued)**

***Actuarial Assumptions: (Continued)***

**Mortality Rates - Largest Ten Locality Employers with Public Safety Employees**

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%



NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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**Note 7-Line of Duty Act (LODA) Program: (Continued)**

*Actuarial Assumptions: (Continued)*

**Mortality Rates - Non-Largest Ten Locality Employers with Public Safety Employees**

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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**Note 7-Line of Duty Act (LODA) Program: (Continued)***Changes to the LODA Program Associated with HB 1345 (2016) and HB 2243 (2017)*

The following changes were made to the LODA Program as a result of legislation in 2016 and 2017, but were specifically not considered in the June 30, 2016 actuarial valuation results which were rolled forward to the measurement date of June 30, 2017. There was no current actuarial experience on which to base the adjustments and the combined impact of the changes was not considered to be material to the final results. These changes will be factored into future actuarial valuations for the LODA Program.

- The discontinuance of spouse health care coverage, if a covered spouse divorces a disabled employee or a covered surviving spouse remarries.
- The potential for VRS's periodic review of the disability status of a disabled employee.
- For those beneficiaries who become eligible for health care benefits as the result of a disability occurring after June 30, 2017, the suspension of health care benefits in years when VRS certifies current income exceeds salary at the time of the disability, indexed for inflation.
- The extension of health care benefits for dependent children to age 26.
- The expansion of the definition of presumption of death or disability to include infectious diseases.

***Net LODA OPEB Liability***

The net OPEB liability (NOL) for the Line of Duty Act Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Line of Duty Act Program is as follows (amounts expressed in thousands):

	<u>LODA Program</u>
Total LODA OPEB Liability	\$ 266,252
Plan Fiduciary Net Position	3,461
Employers' Net OPEB Liability (Asset)	<u>\$ 262,791</u>
Plan Fiduciary Net Position as a Percentage of the Total LODA OPEB Liability	1.30%

The total LODA OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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**Note 7-Line of Duty Act (LODA) Program: (Continued)***Long-Term Expected Rate of Return*

The long-term expected rate of return on LODA OPEB Program's investments was set at 3.56% for this valuation. Since LODA is funded on a current-disbursement basis, it is not able to use the VRS Pooled Investments 7.00% assumption. Instead, the assumed annual rate of return of 3.56% was used since it approximates the risk-free rate of return. This Single Equivalent Interest Rate (SEIR) is the applicable municipal bond index rate based on the Bond Buyer General Obligation 20-year Municipal Bond Index published monthly by the Board of Governors of the Federal Reserve System as of the measurement date of June 30, 2017.

*Discount Rate*

The discount rate used to measure the total LODA OPEB liability was 3.56%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by participating employers to the LODA OPEB Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly.

*Sensitivity of the Covered Employer's Proportionate Share of the Net LODA OPEB Liability to Changes in the Discount Rate*

The following presents the covered employer's proportionate share of the net LODA OPEB liability using the discount rate of 3.56%, as well as what the covered employer's proportionate share of the net LODA OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.56%) or one percentage point higher (4.56%) than the current rate:

	Discount Rate		
	1% Decrease (2.56%)	Current (3.56%)	1% Increase (4.56%)
Town's proportionate share of the total LODA Net OPEB Liability	\$ 784,000	\$ 691,000	\$ 614,000

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

**Note 7-Line of Duty Act (LODA) Program: (Continued)*****Sensitivity of the Covered Employer's Proportionate Share of the Net LODA OPEB Liability to Changes in the Health Care Trend Rate***

Because the Line of Duty Act Program contains a provision for the payment of health insurance premiums, the liabilities are also impacted by the health care trend rates. The following presents the covered employer's proportionate share of the net LODA OPEB liability using the health care trend rate of 7.75% decreasing to 5.00%, as well as what the covered employer's proportionate share of the net LODA OPEB liability would be if it were calculated using a health care trend rate that is one percentage point lower (6.75% decreasing to 4.00%) or one percentage point higher (8.75% decreasing to 6.00%) than the current rate:

	Health Care Trend Rates		
	1% Decrease (6.75% decreasing to 4.00%)	Current (7.75% decreasing to 5.00%)	1% Increase (8.75% decreasing to 6.00%)
Town's proportionate share of the total LODA Net OPEB Liability	\$ 587,000	\$ 691,000	\$ 821,000

***LODA OPEB Fiduciary Net Position***

Detailed information about the Line of Duty Act Program Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

**Note 8-Unearned Revenue:**

Unearned revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Unearned revenue totaling \$660,006 is comprised of the following:

Lease Revenue - Lease revenue proceeds received in advance totaled \$19,418 at year end.

Miscellaneous - Funding received in advance and carried over for use in the next fiscal year from Department of Transportation totaling \$640,588.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 AT JUNE 30, 2018

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**Note 9-Unavailable Revenue:**

Unavailable 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. Unavailable revenue totaling \$81,565 is comprised of the following:

Property Taxes - Property tax revenue representing uncollected tax billings not available for funding current expenditures of \$54,450.

Prepaid Property Taxes - Property taxes due subsequent to June 30, 2018 but paid in advance by the taxpayers totaled \$27,115.

**Note 10-Restricted Fund Balance/Net Position:**

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

<u>Purpose</u>	<u>Amount</u>
Big Creek payments	\$ 61,988
Public Safety Funds	48,350
Restricted Donations	45,858
Asset Forfeiture/Policing Funds	<u>72,213</u>
Total	<u>\$ 228,409</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 AT JUNE 30, 2018

**Note 11-Capital Assets:**

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,357,395	\$ -	\$ -	\$ 1,357,395
Construction in progress	170,229	416,963	(587,192)	-
Total capital assets not being depreciated	<u>\$ 1,527,624</u>	<u>\$ 416,963</u>	<u>\$ (587,192)</u>	<u>\$ 1,357,395</u>
Capital assets, being depreciated:				
Buildings and system	\$ 3,393,420	\$ 570,732	\$ -	\$ 3,964,152
Infrastructure	9,451,566	-	-	9,451,566
Machinery and equipment	6,790,997	64,887	(25,770)	6,830,114
Total capital assets being depreciated	<u>\$ 19,635,983</u>	<u>\$ 635,619</u>	<u>\$ (25,770)</u>	<u>\$ 20,245,832</u>
Accumulated depreciation:				
Buildings and system	\$ (1,524,394)	\$ (98,530)	\$ -	\$ (1,622,924)
Infrastructure	(3,098,175)	(246,943)	-	(3,345,118)
Machinery and equipment	(5,861,795)	(266,570)	25,770	(6,102,595)
Total accumulated depreciation	<u>\$ (10,484,364)</u>	<u>\$ (612,043)</u>	<u>\$ 25,770</u>	<u>\$ (11,070,637)</u>
Total capital assets being depreciated, net	<u>\$ 9,151,619</u>	<u>\$ 23,576</u>	<u>\$ -</u>	<u>\$ 9,175,195</u>
Governmental activities capital assets, net	<u>\$ 10,679,243</u>	<u>\$ 440,539</u>	<u>\$ (587,192)</u>	<u>\$ 10,532,590</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 AT JUNE 30, 2018

**Note 11-Capital Assets: (Continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 517,913	\$ -	\$ -	\$ 517,913
Construction in progress	74,014	5,676	(52,731)	26,959
Total capital assets not being depreciated	<u>\$ 591,927</u>	<u>5,676</u>	<u>\$ (52,731)</u>	<u>\$ 544,872</u>
Capital assets, being depreciated:				
Utility plant and buildings in service	\$ 22,295,875	\$ -	\$ -	\$ 22,295,875
Machinery and equipment	2,609,775	52,731	-	2,662,506
Total capital assets being depreciated	<u>\$ 24,905,650</u>	<u>\$ 52,731</u>	<u>\$ -</u>	<u>\$ 24,958,381</u>
Accumulated depreciation:				
Utility plant and buildings in service	\$ (12,458,391)	\$ (484,912)	\$ -	\$ (12,943,303)
Machinery and equipment	(1,455,555)	(134,192)	-	(1,589,747)
Total accumulated depreciation	<u>\$ (13,913,946)</u>	<u>\$ (619,104)</u>	<u>\$ -</u>	<u>\$ (14,533,050)</u>
Total capital assets being depreciated, net	<u>\$ 10,991,704</u>	<u>\$ (566,373)</u>	<u>\$ -</u>	<u>\$ 10,425,331</u>
Business-type activities capital assets, net	<u>\$ 11,583,631</u>	<u>\$ (560,697)</u>	<u>\$ (52,731)</u>	<u>\$ 10,970,203</u>

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

**Governmental activities:**

General government administration	\$ 40,238
Public safety	208,401
Public works	316,149
Parks and recreation	47,255
Total depreciation expense - governmental activities	<u>\$ 612,043</u>

**Business-type activities:**

Water and sewer	\$ 529,325
Electric	89,779
Total depreciation expense - business-type activities	<u>\$ 619,104</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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**Note 12-Risk Management:**

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

**Note 13-Contingencies:**

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

**Note 14-Electric Power Agreement:**

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

**Note 15-Pledged Revenues:**

The Town has pledged future water and sewer customer revenues to repay \$605,389 in water and wastewater bonds. Proceeds from the bonds provided financing for the construction of the water and sewer systems. The bonds are payable solely from water and sewer customer revenues and are payable through 2032.

**Note 16-Electric Rate Stabilization Plan:**

The Town entered into a rate stabilization plan with American Municipal Power, Inc. to reduce the effects of volatility in energy markets. As of June 30, 2018, the Town carried a balance of \$282,093 in an escrow account maintained for the Town's benefit. This amount has been reported in the financial statements as a prepaid item.



NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 AT JUNE 30, 2018

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**Note 17-Service Agreements:**

On September 3, 2003, the Town and Tazewell County Public Service Authority (TCPSA) entered into an agreement to share the costs of construction and operation of a water transmission facility known as Kent's Ridge Road Project. The project was financed by two thirty year, interest-free loans from the Virginia Resources Authority (VRA). The loans are secured by a pledge of revenues from the Town's water and wastewater systems and by a pledge of the Town's full faith and credit. Also, County of Tazewell, Virginia has undertaken, to the extent permitted by law, a non-binding but moral obligation to pay such amounts as may be needed, with respect to the notes, for the payment of principal and interest pursuant to the terms of the agreement. The Town has recorded an amount due from the TCPSA of \$1,124,650 at year end for their share of debt service payments.

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

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

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

<u>Entity</u>	<u>Amounts</u>
Town of Cedar Bluff	\$ 152,160
Tazewell County PSA	678,936
Tazewell County PSA - loan payments	60,660
Total	<u>\$ 891,756</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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**Note 18-Adoption of Accounting Principles:**

The Town implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* during the fiscal year ended June 30, 2018. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to postemployment benefits other than pensions (other postemployment benefits or OPEB). Note disclosure and required supplementary information requirements about OPEB are also addressed. The requirements of this Statement will improve accounting and financial reporting by state and local governments for OPEB. In addition, the Town implemented Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017* during the fiscal year ended June 30, 2018. This Statement addresses practice issues identified during implementation and application of certain GASB statements for a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). The implementation of these Statements resulted in the restatement of net position as shown in Note 19.

**Note 19-Restatement of Fund Balance/Net Position:**

	<u>General Fund</u>
Fund Balance, July 1, 2017, as previously stated	\$ 455,857
Correction of amount recorded as accounts payable	52,429
Fund Balance, July 1, 2017, as restated	<u>\$ 508,286</u>
	<u>Governmental Activities</u>
Net Position, July 1, 2017, as previously stated	\$ 6,211,288
Correction of amount recorded as accounts payable	52,429
GASB 75 implementation	(755,631)
Net Position, July 1, 2017, as restated	<u>\$ 5,508,086</u>

**Note 20-Upcoming Pronouncements:**

Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

**Note 20-Upcoming Pronouncements: (Continued)**

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 87, *Leases*, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, clarifies which liabilities governments should include when disclosing information related to debt. It defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, it requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2018

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**Note 20-Upcoming Pronouncements: (Continued)**

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

## Required Supplementary Information

Town of Richlands, Virginia  
General Fund  
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
<b>REVENUES</b>				
General property taxes	\$ 487,000	\$ 487,000	\$ 558,985	\$ 71,985
Other local taxes	1,946,000	1,946,000	2,044,120	98,120
Permits, privilege fees, and regulatory licenses	1,500	1,500	1,265	(235)
Fines and forfeitures	83,100	83,100	66,354	(16,746)
Revenue from the use of money and property	4,000	4,000	8,219	4,219
Charges for services	1,075,700	1,075,700	1,015,274	(60,426)
Miscellaneous	93,500	93,500	59,575	(33,925)
Recovered costs	73,500	73,500	82,917	9,417
Intergovernmental	1,761,530	1,761,530	1,818,102	56,572
Total revenues	<u>\$ 5,525,830</u>	<u>\$ 5,525,830</u>	<u>\$ 5,654,811</u>	<u>\$ 128,981</u>
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 294,082	\$ 294,082	\$ 285,390	\$ 8,692
Public safety	2,909,400	2,909,400	2,704,981	204,419
Public works	1,610,696	1,610,696	1,883,504	(272,808)
Parks, recreation, and cultural	371,171	371,171	356,127	15,044
Community development	15,000	15,000	30,235	(15,235)
Capital projects	899,500	899,500	416,964	482,536
Debt service:				
Principal retirement	37,354	37,354	37,354	-
Interest and other fiscal charges	1,327	1,327	1,327	-
Total expenditures	<u>\$ 6,138,530</u>	<u>\$ 6,138,530</u>	<u>\$ 5,715,882</u>	<u>\$ 422,648</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (612,700)</u>	<u>\$ (612,700)</u>	<u>\$ (61,071)</u>	<u>\$ 551,629</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 6,308</u>	<u>\$ (3,692)</u>
Net change in fund balances	<u>\$ (602,700)</u>	<u>\$ (602,700)</u>	<u>\$ (54,763)</u>	<u>\$ 547,937</u>
Fund balances - beginning, as restated	<u>602,700</u>	<u>602,700</u>	<u>508,286</u>	<u>(94,414)</u>
Fund balances - ending	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 453,523</u></u>	<u><u>\$ 453,523</u></u>

Town of Richlands, Virginia  
Pension Plan  
Schedule of Changes in Net Pension Liability and Related Ratios  
For the Years Ended June 30, 2015 through June 30, 2018

	2017	2016	2015	2014
<b>Total pension liability</b>				
Service cost	\$ 254,948	\$ 248,209	\$ 233,924	\$ 228,999
Interest	856,598	794,150	790,952	759,699
Differences between expected and actual experience	(186,039)	367,567	(408,168)	-
Changes in assumptions	(156,273)	-	-	-
Benefit payments, including refunds of employee contributions	(535,639)	(499,997)	(642,038)	(442,432)
<b>Net change in total pension liability</b>	<b>\$ 233,595</b>	<b>\$ 909,929</b>	<b>\$ (25,330)</b>	<b>\$ 546,266</b>
<b>Total pension liability - beginning</b>	<b>12,504,927</b>	<b>11,594,998</b>	<b>11,620,328</b>	<b>11,074,062</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 12,738,522</b>	<b>\$ 12,504,927</b>	<b>\$ 11,594,998</b>	<b>\$ 11,620,328</b>
<b>Plan fiduciary net position</b>				
Contributions - employer	\$ 548,986	\$ 592,036	\$ 556,985	\$ 499,158
Contributions - employee	128,023	126,916	120,115	119,403
Net investment income	633,234	92,686	205,782	599,476
Benefit payments, including refunds of employee contributions	(535,639)	(499,997)	(642,038)	(442,432)
Administrative expense	(3,447)	(2,781)	(2,752)	(3,098)
Other	(573)	(37)	(46)	32
<b>Net change in plan fiduciary net position</b>	<b>\$ 770,584</b>	<b>\$ 308,823</b>	<b>\$ 238,046</b>	<b>\$ 772,539</b>
<b>Plan fiduciary net position - beginning</b>	<b>5,095,449</b>	<b>4,786,626</b>	<b>4,548,580</b>	<b>3,776,041</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 5,866,033</b>	<b>\$ 5,095,449</b>	<b>\$ 4,786,626</b>	<b>\$ 4,548,580</b>
<b>Town's net pension liability - ending (a) - (b)</b>	<b>\$ 6,872,489</b>	<b>\$ 7,409,478</b>	<b>\$ 6,808,372</b>	<b>\$ 7,071,748</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>46.05%</b>	<b>40.75%</b>	<b>41.28%</b>	<b>39.14%</b>
<b>Covered payroll</b>	<b>\$ 2,611,141</b>	<b>\$ 2,594,810</b>	<b>\$ 2,433,045</b>	<b>\$ 2,391,408</b>
<b>Town's net pension liability as a percentage of covered payroll</b>	<b>263.20%</b>	<b>285.55%</b>	<b>279.83%</b>	<b>295.71%</b>

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

Town of Richlands, Virginia  
Pension Plan  
Schedule of Employer Contributions  
For the Years Ended June 30, 2010 through June 30, 2018

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
2018	\$ 571,998	\$ 571,998	\$ -	\$ 2,726,708	20.98%
2017	548,986	548,986	-	2,611,141	21.02%
2016	592,036	592,036	-	2,594,810	22.82%
2015	556,985	556,985	-	2,433,045	22.89%
2014	499,326	499,326	-	2,391,408	20.88%
2013	496,596	496,596	-	2,378,333	20.88%
2012	554,563	554,563	-	2,349,843	23.60%
2011	558,180	558,180	-	2,365,170	23.60%
2010	49,485	49,485	-	209,683	23.60%

Information is only available for nine years as the Town joined the Virginia Retirement System during fiscal year 2010.

Current year contributions are from Town records and prior year contributions are from the VRS actuarial valuation performed each year.



Town of Richlands, Virginia  
Pension Plan  
Notes to Required Supplementary Information  
For the Year Ended June 30, 2018

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**Changes of benefit terms** - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 is not material.

**Changes of assumptions** - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

**Largest 10 - Non-Hazardous Duty:**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

**Largest 10 - Hazardous Duty:**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

**All Others (Non 10 Largest) - Non-Hazardous Duty:**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

**All Others (Non 10 Largest) - Hazardous Duty:**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Town of Richlands, Virginia  
 Other Postemployment Benefits - Line of Duty Act Program (LODA)  
 Schedule of Employer's Share of Net LODA OPEB Liability  
 For the Year Ended June 30, 2018

Date (1)	Employer's Proportion of the Net LODA OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net LODA OPEB Liability (Asset) (3)	Covered- Employee Payroll * (4)	Employer's Proportionate Share of the Net LODA OPEB Liability (Asset) as a Percentage of its Covered-Employee Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total LODA OPEB Liability (6)
2017	0.2630% \$	691,000 \$	1,312,173	52.66%	1.30%

\* The contributions for the Line of Duty Act Program are based on the number of participants in the Program using a per capita-based contribution versus a payroll-based contribution. Therefore, covered-employee payroll is the relevant measurement, which is the total payroll of the employees in the OPEB plan. However, when volunteers and part-time employees make up a significant percentage of the employer's members in the plan, the employer may determine that covered-employee payroll is misleading and, therefore, not applicable for disclosure.

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

Town of Richlands, Virginia  
 Other Postemployment Benefits - Line of Duty Act Program (LODA)  
 Schedule of Employer Contributions  
 For the Years Ended June 30, 2017 through June 30, 2018

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Covered- Employee Payroll * (4)	Contributions as a % of Covered - Employee Payroll (5)
2018	\$ 30,071	\$ 30,071	\$ -	\$ 1,369,285	2.20%
2017	28,369	28,369	-	1,312,173	2.16%

\* The contributions for the Line of Duty Act Program are based on the number of participants in the Program using a per capita-based contribution versus a payroll-based contribution. Therefore, covered-employee payroll is the relevant measurement, which is the total payroll of employees in the OPEB plan. However, when volunteers and part-time employees make up a significant percentage of the employer's members in the plan, the employer may determine that covered-employee payroll is misleading and, therefore, not applicable for disclosure.

FY 2011 was the first year for the Line of Duty Act Program (LODA). Schedule is intended to show information for 10 years. Information is only available for years after FY 2017. However, additional years will be included as they become available.

Town of Richlands, Virginia  
Other Postemployment Benefits - Line of Duty Act Program (LODA)  
Notes to Required Supplementary Information  
For the Year Ended June 30, 2018

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**Changes of benefit terms** - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

**Changes of assumptions** - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

**General State Employees**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

**SPORS Employees**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

**VaLORS Employees**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

**Employees in the Largest Ten Locality Employers with Public Safety Employees**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

**Employees in the Non-Largest Ten Locality Employers with Public Safety Employees**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

## Other Supplementary Information

## Supporting Schedules

Town of Richlands, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Fund  
For the Year Ended June 30, 2018

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>General Fund:</b>				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 453,000	\$ 453,000	\$ 480,851	\$ 27,851
Real and personal public service corporation taxes	18,000	18,000	31,250	13,250
Mobile home taxes	12,000	12,000	14,548	2,548
Penalties and Interest	4,000	4,000	32,336	28,336
Total general property taxes	<u>\$ 487,000</u>	<u>\$ 487,000</u>	<u>\$ 558,985</u>	<u>\$ 71,985</u>
Other local taxes:				
Local sales and use taxes	\$ 390,000	\$ 390,000	\$ 393,531	\$ 3,531
Consumers utility tax	150,000	150,000	142,610	(7,390)
Local consumption tax	22,000	22,000	21,112	(888)
Business license taxes	470,000	470,000	453,828	(16,172)
Motor vehicle licenses	34,000	34,000	29,900	(4,100)
Bank stock taxes	180,000	180,000	211,764	31,764
Tobacco taxes	-	-	44,907	44,907
Meals taxes	700,000	700,000	746,468	46,468
Total other local taxes	<u>\$ 1,946,000</u>	<u>\$ 1,946,000</u>	<u>\$ 2,044,120</u>	<u>\$ 98,120</u>
Permits, privilege fees, and regulatory licenses:				
Zoning permits	\$ 1,500	\$ 1,500	\$ 1,265	\$ (235)
Fines and forfeitures:				
Court fines and forfeitures	\$ 83,000	\$ 83,000	\$ 56,605	\$ (26,395)
Asset forfeitures	-	-	4,768	4,768
Parking violations	100	100	175	75
E-citation fees	-	-	4,806	4,806
Total fines and forfeitures	<u>\$ 83,100</u>	<u>\$ 83,100</u>	<u>\$ 66,354</u>	<u>\$ (16,746)</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 4,000	\$ 4,000	\$ 4,399	\$ 399
Revenue from use of property	-	-	3,820	3,820
Total revenue from use of money and property	<u>\$ 4,000</u>	<u>\$ 4,000</u>	<u>\$ 8,219</u>	<u>\$ 4,219</u>
Charges for services:				
Contract work - Streets	\$ 5,000	\$ 5,000	\$ 7,215	\$ 2,215
Rescue Squad billings	600,000	600,000	539,306	(60,694)
Swimming pool fees	15,000	15,000	15,929	929
Concession collections	12,000	12,000	11,771	(229)
Basketball fees	3,000	3,000	3,886	886
Indoor tennis fees	1,000	1,000	117	(883)
Outdoor tennis fees	700	700	74	(626)
Room rental	5,000	5,000	2,072	(2,928)
Miscellaneous recreation fees	5,000	5,000	2,257	(2,743)
Convenience fees	4,000	4,000	9,864	5,864
Garbage collections	425,000	425,000	404,508	(20,492)
Farmer's market revenue	-	-	18,275	18,275
Total charges for services	<u>\$ 1,075,700</u>	<u>\$ 1,075,700</u>	<u>\$ 1,015,274</u>	<u>\$ (60,426)</u>

Town of Richlands, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Fund  
For the Year Ended June 30, 2018

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>General Fund: (continued)</b>				
Revenue from local sources: (continued)				
Miscellaneous:				
Miscellaneous	\$ 8,000	\$ 8,000	\$ 15,648	\$ 7,648
Gifts and donations	-	-	12,738	12,738
Gifts and donations - Fire	2,500	2,500	10,424	7,924
Gifts and donations - Recreation	75,000	75,000	8,085	(66,915)
Gifts and donations - Police	8,000	8,000	12,280	4,280
Gifts and donations - Rescue	-	-	400	400
Total miscellaneous	\$ 93,500	\$ 93,500	\$ 59,575	\$ (33,925)
Recovered costs:				
County of Tazewell - fire program	\$ 70,500	\$ 70,500	\$ 70,500	-
Returned check fees	2,000	2,000	1,884	(116)
Restitution	1,000	1,000	10,533	9,533
Total recovered costs	\$ 73,500	\$ 73,500	\$ 82,917	\$ 9,417
Total revenue from local sources	\$ 3,764,300	\$ 3,764,300	\$ 3,836,709	\$ 72,409
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Mobile home titling tax	\$ 2,500	\$ 2,500	\$ 2,084	\$ (416)
Motor vehicles carrier's tax	2,000	2,000	2,870	870
Total noncategorical aid	\$ 4,500	\$ 4,500	\$ 4,954	\$ 454
Categorical aid:				
Litter control grant	\$ 2,700	\$ 2,700	\$ 3,310	\$ 610
Highway revenue sharing	-	-	200,000	200,000
Street maintenance	943,114	943,114	991,767	48,653
Law enforcement grant	138,003	138,003	138,004	1
Drug enforcement	76,087	76,087	69,087	(7,000)
EMS grants	145,072	145,072	-	(145,072)
Fire grants	-	-	19,467	19,467
Transportation enhancement grant	-	-	71,750	71,750
Other state revenue	16,000	16,000	14,515	(1,485)
Total categorical aid	\$ 1,320,976	\$ 1,320,976	\$ 1,507,900	\$ 186,924
Total revenue from the Commonwealth	\$ 1,325,476	\$ 1,325,476	\$ 1,512,854	\$ 187,378
Revenue from the federal government:				
Categorical aid:				
Transportation enhancement grant	\$ 418,054	\$ 418,054	\$ 282,828	\$ (135,226)
Local law enforcement block grant	-	-	2,898	2,898
Police grants	-	-	9,698	9,698
High intensity drug trafficking areas grant	18,000	18,000	9,824	(8,176)
Total categorical aid	\$ 436,054	\$ 436,054	\$ 305,248	\$ (130,806)
Total revenue from the federal government	\$ 436,054	\$ 436,054	\$ 305,248	\$ (130,806)
Total General Fund	\$ 5,525,830	\$ 5,525,830	\$ 5,654,811	\$ 128,981



Town of Richlands, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Fund  
For the Year Ended June 30, 2018

<u>Fund, Function and Department Expenditures</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>General Fund:</b>				
General government administration:				
General and financial administration:				
Town Council	\$ 23,907	\$ 23,907	\$ 19,475	\$ 4,432
Administration	265,885	265,885	257,412	8,473
Fringe benefits	4,290	4,290	8,503	(4,213)
Total general government administration	<u>\$ 294,082</u>	<u>\$ 294,082</u>	<u>\$ 285,390</u>	<u>\$ 8,692</u>
Public safety:				
Law enforcement and traffic control:				
Police grants	\$ -	\$ -	\$ 14,120	\$ (14,120)
Drug task force	94,087	94,087	63,831	30,256
Police department	1,839,352	1,839,352	1,735,762	103,590
Asset forfeiture	-	-	56,116	(56,116)
Total law enforcement and traffic control	<u>\$ 1,933,439</u>	<u>\$ 1,933,439</u>	<u>\$ 1,869,829</u>	<u>\$ 63,610</u>
Fire and rescue services:				
Fire Department	\$ 223,273	\$ 223,273	\$ 141,754	\$ 81,519
Rescue Squad	752,688	752,688	693,398	59,290
Total fire and rescue services	<u>\$ 975,961</u>	<u>\$ 975,961</u>	<u>\$ 835,152</u>	<u>\$ 140,809</u>
Total public safety	<u>\$ 2,909,400</u>	<u>\$ 2,909,400</u>	<u>\$ 2,704,981</u>	<u>\$ 204,419</u>
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highways, streets, bridges and sidewalks	<u>\$ 1,129,775</u>	<u>\$ 1,129,775</u>	<u>\$ 1,476,430</u>	<u>\$ (346,655)</u>
Sanitation and waste removal:				
Refuse collection and disposal	<u>\$ 480,921</u>	<u>\$ 480,921</u>	<u>\$ 407,074</u>	<u>\$ 73,847</u>
Total public works	<u>\$ 1,610,696</u>	<u>\$ 1,610,696</u>	<u>\$ 1,883,504</u>	<u>\$ (272,808)</u>
Parks, recreation, and cultural:				
Cultural enrichment:				
Recreation	<u>\$ 361,607</u>	<u>\$ 361,607</u>	<u>\$ 343,939</u>	<u>\$ 17,668</u>
Library:				
Library	<u>\$ 9,564</u>	<u>\$ 9,564</u>	<u>\$ 12,188</u>	<u>\$ (2,624)</u>
Total parks, recreation, and cultural	<u>\$ 371,171</u>	<u>\$ 371,171</u>	<u>\$ 356,127</u>	<u>\$ 15,044</u>

Town of Richlands, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Fund  
For the Year Ended June 30, 2018

<u>Fund, Function and Department Expenditures</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (continued)				
Community development:				
Planning and community development:				
Downtown activities	\$ 15,000	\$ 15,000	\$ 30,235	\$ (15,235)
Capital projects/outlays:				
Capital projects and capital outlays	\$ 899,500	\$ 899,500	\$ 416,964	\$ 482,536
Debt service:				
Principal retirement	\$ 37,354	\$ 37,354	\$ 37,354	\$ -
Interest and other fiscal charges	1,327	1,327	1,327	-
Total debt service	\$ 38,681	\$ 38,681	\$ 38,681	\$ -
Total General Fund	\$ 6,138,530	\$ 6,138,530	\$ 5,715,882	\$ 422,648

## Statistical Information

Table 1

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

Fiscal Year	General Government		Public		Public Works		Parks, Recreation, and Cultural		Community Development		Interest on Long- Term Debt		Water and Sewer		Electric		Total
	Administration	Safety															
2009-10	\$ 517,043	\$ 2,800,286	\$ 1,406,509	\$ 349,495	\$ 141,269	\$ 17,501	\$ 2,014,444	\$ 6,156,711	\$ 13,403,258								
2010-11	271,310	2,764,620	1,544,774	390,015	206,662	16,801	2,106,703	5,833,916	13,134,801								
2011-12	270,119	2,688,745	1,636,116	382,314	38,246	11,921	2,259,778	5,227,037	12,514,276								
2012-13	290,591	2,838,354	1,551,236	391,472	129,783	9,285	2,282,333	5,291,893	12,784,947								
2013-14	285,960	2,863,825	1,500,829	354,456	58,493	7,164	2,392,826	6,743,677	14,207,230								
2014-15	269,723	2,645,744	1,595,057	343,926	52,705	4,949	2,408,886	6,094,861	13,415,851								
2015-16	292,353	2,749,662	1,719,756	379,405	27,499	2,628	2,465,129	6,005,247	13,641,679								
2016-17	333,731	2,828,938	1,773,908	377,855	25,850	3,873	2,489,894	6,091,102	13,925,151								
2017-18	235,766	2,795,730	2,200,116	403,439	30,235	226	2,719,717	6,780,758	15,165,987								

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

Table 2

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

Fiscal Year	PROGRAM REVENUES				GENERAL REVENUES					
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Miscellaneous	Grants and Contributions Not Restricted to Specific Programs	Total
2009-10	\$ 10,020,767	\$ 1,983,278	\$ -		\$ 461,000	\$ 1,704,768	\$ 39,784	\$ 486,673	\$ -	\$ 14,696,270
2010-11	10,517,188	1,162,629	1,773,617		408,275	1,671,219	27,512	196,854	9,598	15,766,892
2011-12	9,278,334	1,331,617	245,517		434,748	1,751,238	17,868	124,600	4,081	13,188,003
2012-13	9,672,614	1,778,186	93,941		464,070	1,848,254	16,874	364,230	13,685	14,251,854
2013-14	10,035,089	1,280,498	4,607,782		469,162	1,941,856	14,050	167,513	4,057	18,520,007
2014-15	9,550,616	980,826	31,432		478,340	2,035,854	13,880	130,668	16,754	13,238,370
2015-16	9,066,108	1,319,735	1,225		467,740	2,014,265	14,016	170,664	22,046	13,075,799
2016-17	9,416,956	1,105,238	33,838		485,587	1,961,647	13,769	103,080	15,893	13,136,008
2017-18	10,185,432	1,458,570	364,500		538,056	2,044,120	16,787	61,537	4,954	14,673,956

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

Table 3

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

Fiscal Year	General and Financial Administration	Public Safety	Public Works	Parks, Recreation, and Cultural	Community Development	Non-departmental	Debt Service	Total (1)
2008-09	\$ 710,412	\$ 2,738,636	\$ 1,514,056	\$ 392,150	\$ 1,205	-	\$ 86,079	\$ 5,442,538
2009-10	295,497	2,747,120	1,331,514	356,386	141,269	-	58,912	4,930,698
2010-11	286,319	2,615,615	1,333,176	451,633	206,662	-	86,081	4,979,486
2011-12	267,218	2,529,280	1,388,996	340,314	38,246	-	86,085	4,650,139
2012-13	254,595	2,639,835	1,297,287	349,064	129,783	-	55,364	4,725,928
2013-14	263,515	2,623,164	1,219,929	310,872	58,493	-	55,364	4,531,337
2014-15	267,560	2,535,244	1,311,842	300,353	52,705	-	55,365	4,523,069
2015-16	280,546	2,681,036	1,367,609	341,942	27,499	113,910	95,376	4,907,918
2016-17	316,937	2,631,827	1,226,139	323,389	25,850	-	92,806	4,616,948
2017-18	285,390	2,704,981	1,883,504	356,127	30,235	-	38,681	5,298,918

(1) Excludes Capital Projects.

Table 4

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

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, Regulatory Licenses	Fines and Forfeitures	Revenue from the Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter- governmental	Total
2008-09	\$ 419,861	\$ 1,437,774	\$ 2,035	\$ 181,716	\$ 34,833	\$ 1,106,721	\$ 296,866	\$ -	\$ 1,118,771	\$ 4,598,577
2009-10	425,420	1,704,768	1,585	85,661	19,021	1,264,454	286,617	-	1,338,364	5,125,890
2010-11	432,840	1,671,219	2,225	162,930	15,894	1,121,649	185,927	150,408	1,339,879	5,082,971
2011-12	433,863	1,751,238	2,090	50,562	11,853	1,190,198	117,765	140,780	1,373,185	5,071,534
2012-13	458,103	1,848,254	1,715	62,675	8,747	1,142,404	351,811	62,726	1,856,074	5,792,509
2013-14	460,876	1,941,856	1,270	237,281	8,938	1,116,902	158,987	63,189	1,319,989	5,309,288
2014-15	481,056	2,035,854	1,755	99,052	9,139	1,072,943	126,508	139,441	1,029,012	4,994,760
2015-16	467,433	2,014,265	1,280	107,308	9,238	1,122,305	164,755	73,104	1,343,006	5,302,694
2016-17	484,317	1,961,647	1,290	93,918	7,985	965,461	101,516	77,446	1,144,891	4,838,471
2017-18	558,985	2,044,120	1,265	66,354	8,219	1,015,274	59,575	82,917	1,818,102	5,654,811

Table 5

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

Fiscal Year	Total Tax Levy (1)	Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1)	Total Tax Collections	Percent of	
						Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (2)
							Percent of Delinquent Taxes to Tax Levy
2008-09	\$ 414,990	\$ 391,112	94.25%	\$ 19,082	\$ 410,194	98.84%	7.04%
2009-10	418,224	372,689	89.11%	19,895	392,584	93.87%	8.19%
2010-11	421,699	394,301	93.50%	21,144	415,445	98.52%	13.95%
2011-12	424,866	392,515	92.39%	24,079	416,594	98.05%	15.01%
2012-13	457,827	434,546	94.91%	18,364	452,910	98.93%	15.86%
2013-14	458,280	431,776	94.22%	22,171	453,947	99.05%	17.80%
2014-15	453,872	431,469	95.06%	28,133	459,602	101.26%	17.04%
2015-16	455,304	426,994	93.78%	21,212	448,206	98.44%	14.32%
2016-17	458,300	428,053	93.40%	27,776	455,829	99.46%	14.80%
2017-18	469,457	452,063	96.29%	60,038	512,101	109.08%	11.79%

(1) Exclusive of penalties and interest.

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



Table 6

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

Fiscal Year	Real Estate	Public Service Corporation	Total
2008-09	\$ 249,235,687	\$ 10,132,899	\$ 259,368,586
2009-10	250,972,225	10,417,493	261,389,718
2010-11	253,304,900	9,916,473	263,221,373
2011-12	254,672,500	10,460,117	265,132,617
2012-13	274,891,300	11,250,521	286,141,821
2013-14	274,606,600	11,818,369	286,424,969
2014-15	275,127,700	10,719,704	285,847,404
2015-16	275,640,700	11,200,407	286,841,107
2016-17	276,450,600	12,692,299	289,142,899
2017-18	276,560,400	19,530,975	296,091,375

Table 7

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

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<u>Fiscal Year</u>	<u>Real Estate (1)</u>
2008-09	\$ 0.16
2009-10	0.16
2010-11	0.16
2011-12	0.16
2012-13	0.16
2013-14	0.16
2014-15	0.16
2015-16	0.16
2016-17	0.16
2017-18	0.16

(1) Per \$100 of assessed value.

Table 8

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

Fiscal Year	Population (1)	Assessed Value (in thousands)	Gross and Net Bonded Debt (2)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2008-09	5,639	\$ 259,369	\$ 4,321,534	1.67%	\$ 766
2009-10	5,639	261,390	3,934,684	1.51%	698
2010-11	5,823	263,221	3,567,306	1.36%	613
2011-12	5,823	265,133	3,133,236	1.18%	538
2012-13	5,823	286,142	2,714,671	0.95%	466
2013-14	5,823	286,425	2,288,371	0.80%	393
2014-15	5,823	285,847	1,849,899	0.65%	318
2015-16	5,823	286,841	1,762,704	0.61%	303
2016-17	5,823	289,143	1,675,511	0.58%	288
2017-18	5,823	296,091	1,588,315	0.54%	273

(1) U.S. Census Bureau.

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

Table 9

Town of Richlands, Virginia  
Computation of Legal Debt Margin  
At June 30, 2018

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Total assessed value of taxed real property	\$ 296,091,375
Debt limit - 10 percent of total assessed value	29,609,138
Amount of debt applicable to debt limit	<u>(1,588,315)</u>
Legal debt margin	<u>\$ 28,020,823</u>

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## COMPLIANCE SECTION

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**Compliance**

# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Richlands, Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town of Richlands, Virginia's basic financial statements, and have issued our report thereon dated November 20, 2018.

### Internal Control over Financial Reporting

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

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

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

## Compliance and Other Matters

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

## Purpose of this Report

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

*Robinson, Farmer, Cox Associates*

Blacksburg, Virginia

November 20, 2018