

FINANCIAL STATEMENTS



TOWN OF RICHLANDS, VIRGINIA

FISCAL YEAR ENDED
JUNE 30, 2016

TOWN OF RICHLANDS, VIRGINIA

FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

TOWN OF RICHLANDS, VIRGINIA
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2016

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FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2016

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INTRODUCTORY SECTION

TOWN OF RICHLANDS, VIRGINIA

TOWN COUNCIL

Jan White, Mayor

Doug Ratliff, Vice Mayor

Larry Johnson

A. Joe McCracken

Frances Meadows

Rod Cury

Mary Ann Strong

Julia Cordle, Town Clerk

OTHER OFFICIALS

Timothy Taylor	Town Manager
Sue Wade	Office Manager
Adrienne Cordle	Accountant

FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 18 to the financial statements, in 2016, the Town adopted new accounting guidance, GASB Statement No. 82 Pension Issues - and amendment of GASB Statements No. 67, No. 68, and No. 73. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension funding on pages 5-17, 64, and 65-67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

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

The supporting schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supporting schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2016, on our consideration of the Town of Richlands, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Richlands, Virginia's internal control over financial reporting and compliance.

Robinson, Turner, Co. Associates

Blacksburg, Virginia
October 7, 2016

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, 2016.

Financial Highlights for fiscal year 2016

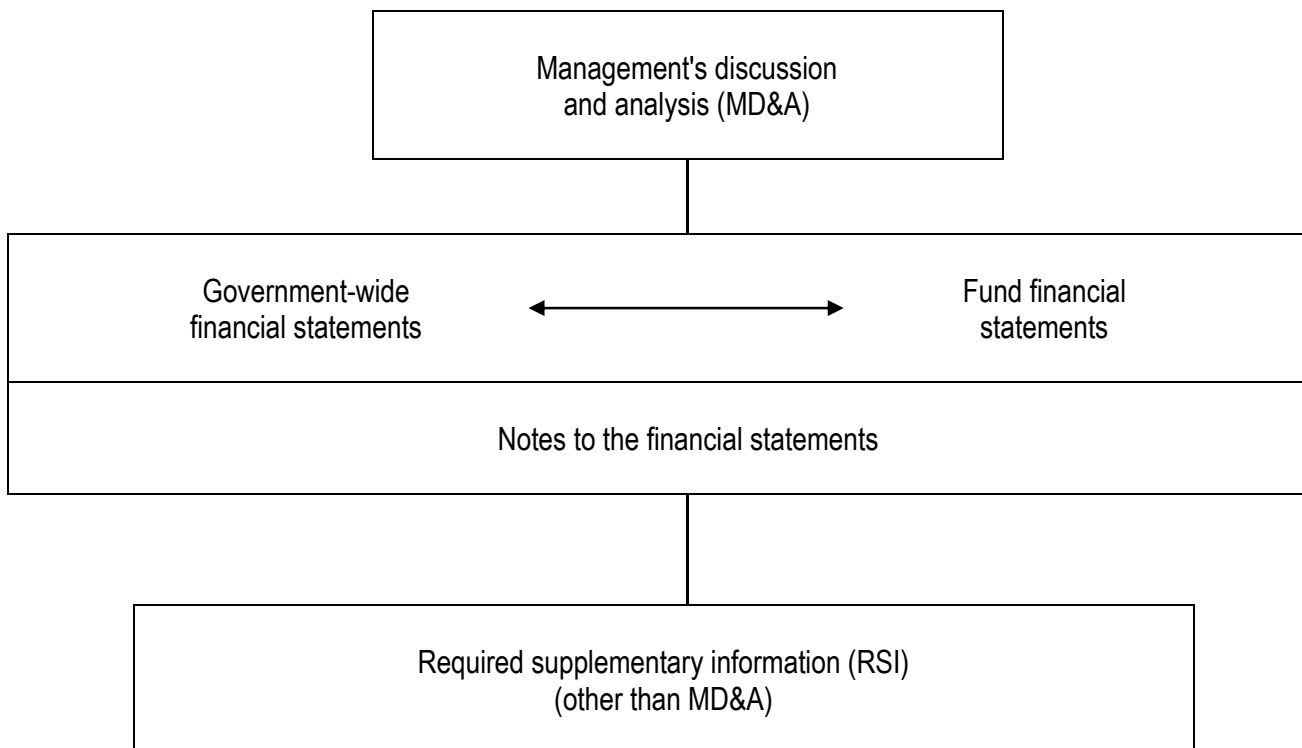
- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$20,061,158 (net position). Of this amount, (\$671,112) (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net position decreased by \$679,790. The decrease is attributable to a decrease in both governmental and business-type assets of cash and cash equivalents and receivables.
- The Town's total liabilities and deferred outflows of resources at the close of the current fiscal year were \$11,977,113, including \$9,920,472 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 \$717,292, a decrease of \$400,270 from the prior year fund balance.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$410,306, or 7% 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, 2016, the Town incurred expenses of \$94,971 for architectural work performed for the restoration of the Town's Historical Railroad Foreman Section House. The Town was awarded \$438,000 in grant funds for the restoration project.
- During the current fiscal year, the Town made capital improvements/renovations to its recreational facility gymnasium totaling approximately \$156,000. The renovations include the installation of approx. 13,300 sq. ft. of Tarkett Omnisport 6.5 mm flooring with two-color layout, installation of a Conklin MR Roof System and installation of 2 lb. Closed Cell Foam Insulation as well as fresh paint throughout the gymnasium. The capital improvements include the purchase and installation of a 100 feet draw walk curtain divider at 22 feet high and (7) 3 row 21 feet Tip n' Roll Bleachers. All renovations and improvements were funded through contributions and donations from various businesses and organizations within the community.
- During the current fiscal year, an ongoing boundary dispute was finalized between the Town and the Town of Cedar Bluff. As a result, the Town of Cedar Bluff was granted a judgement totaling \$131,157.98, which includes taxes collected by the Town for current and prior years as well as a court cost fee and interest charges. The Town paid, to the Town of Cedar Bluff, the total judgement in full on April 15, 2016.
- The Town had one Revenue Bond at the end of the current fiscal year with a total balance of \$695,078.
- The Town had general obligation bonds at June 30, 2016 with an ending balance of \$1,762,704.

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 27-63 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, 2016

	Governmental Activities		Business-type Activities		Totals	
	2015	2016	2015	2016	2015	2016
Current and other assets	\$ 2,325,087	\$ 1,633,938	\$ 6,840,261	\$ 6,715,039	\$ 9,165,348	\$ 8,348,977
Capital assets	10,774,882	11,077,038	12,304,935	12,016,220	23,079,817	23,093,258
Total assets	13,099,969	12,710,976	19,145,196	18,731,259	32,245,165	31,442,235
Deferred outflows of resources	388,462	410,905	172,850	185,151	561,312	596,056
Long-term liabilities	5,319,674	5,176,766	4,894,057	4,743,706	10,213,731	9,920,472
Other liabilities	736,917	815,712	826,130	768,004	1,563,047	1,583,716
Total liabilities	6,056,591	5,992,478	5,720,187	5,511,710	11,776,778	11,504,188
Deferred inflows of resources	207,678	336,255	81,073	136,690	288,751	472,945
Net position:						
Net investment in capital assets	10,671,349	10,951,882	9,715,116	9,486,213	20,386,465	20,438,095
Restricted	398,627	294,175	-	-	398,627	294,175
Unrestricted	(3,845,814)	(4,452,909)	3,801,670	3,781,797	(44,144)	(671,112)
Total net position	\$ 7,224,162	\$ 6,793,148	\$ 13,516,786	\$ 13,268,010	\$ 20,740,948	\$ 20,061,158

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 \$20,061,158 at the close of fiscal year 2016. The largest portion of the Town's net position (102%) 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, 2016

	Governmental Activities		Business-type Activities	
	2015	2016	2015	2016
Revenues:				
Program revenues :				
Charges for services	\$ 1,165,830	\$ 855,195	\$ 8,384,786	\$ 8,210,913
Operating grants & contributions	980,826	1,319,735	-	-
Capital grants & contributions	31,432	1,225	-	-
General revenue:				
Property taxes	478,340	467,740	-	-
Other local taxes	2,035,854	2,014,265	-	-
Unrestricted investment earnings	9,139	9,238	4,741	4,778
Other / Miscellaneous	126,508	164,755	-	-
Grants and contributions not restricted	16,754	22,046	-	-
Gain on disposal of capital assets	-	-	4,160	5,909
Total revenues	4,844,683	4,854,199	8,393,687	8,221,600
Expenses:				
General government administration	269,723	292,353	-	-
Public safety	2,645,744	2,749,662	-	-
Public works	1,595,057	1,719,756	-	-
Parks, recreation, culture	343,926	379,405	-	-
Community development	52,705	27,499	-	-
Nondepartmental	-	113,910	-	-
Interest-long term debt	4,949	2,628	-	-
Electric	-	-	6,094,861	6,005,247
Water & sewer	-	-	2,408,886	2,465,129
Total expenses	4,912,104	5,285,213	8,503,747	8,470,376
Excess (deficiency)	(67,421)	(431,014)	(110,060)	(248,776)
Change in net position	(67,421)	(431,014)	(110,060)	(248,776)
Net position-July 1	7,291,583	7,224,162	13,626,846	13,516,786
Net position-June 30	\$ 7,224,162	\$ 6,793,148	\$ 13,516,786	\$ 13,268,010

Statement of Activities (Continued)

During the current fiscal year the Town's net position decreased by \$679,790. This is comprised of a decrease from governmental activities of \$431,104 and a decrease in business type activities of \$248,776.

Governmental activities – Governmental activities decreased the Town's net position by \$431,104. Additional factors noted below.

Revenues from governmental activities totaled \$4,854,199, with charges for services (17.6%), other local taxes (41.5%) and operating grants & contributions (27.1%), being the major sources of revenues. Most revenues in comparison to the previous year had nominal changes with the exception of charges for services, which decreased \$310,635. This was due significantly to an increase in bad debt write offs for EMS billings totaling \$485,605 and contractual allowances totaling \$518,051 during the fiscal year as compared to write offs totaling \$337,069 and contractual allowances totaling \$720,920 in the prior year. There was a small decrease in other local tax revenues due primarily to the conclusion of a boundry dispute with the Town of Cedar Bluff, which the Town was ordered to pay the Town of Cedar Bluff for some current year BPOL tax collections in the disputed areas (\$13,857).

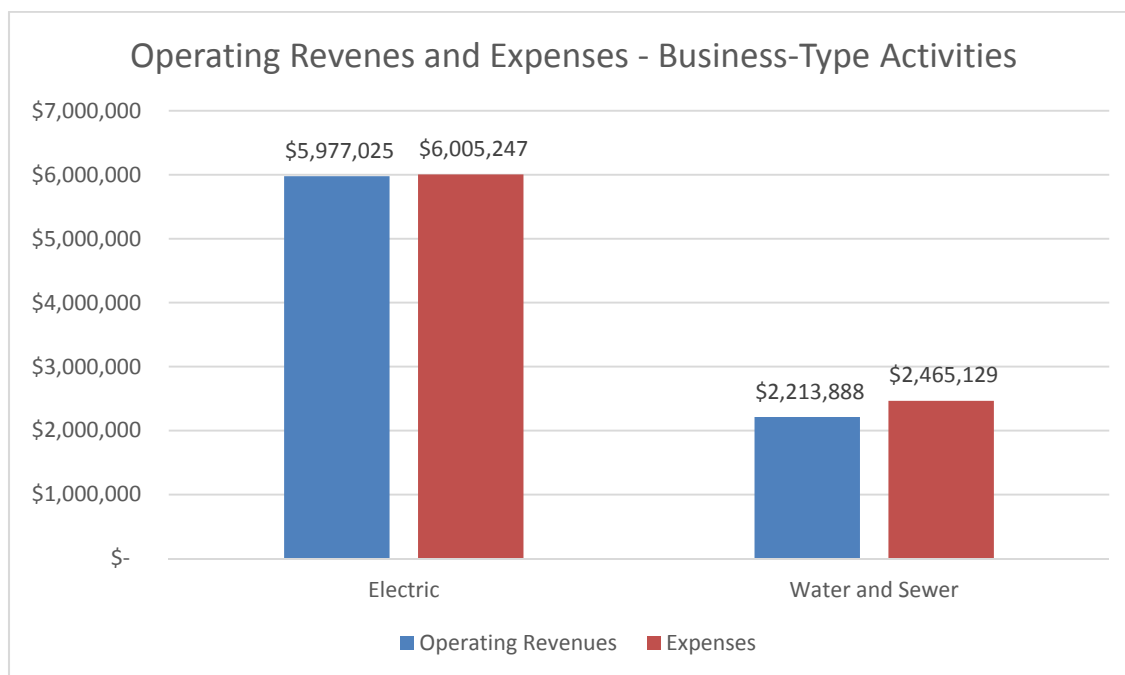
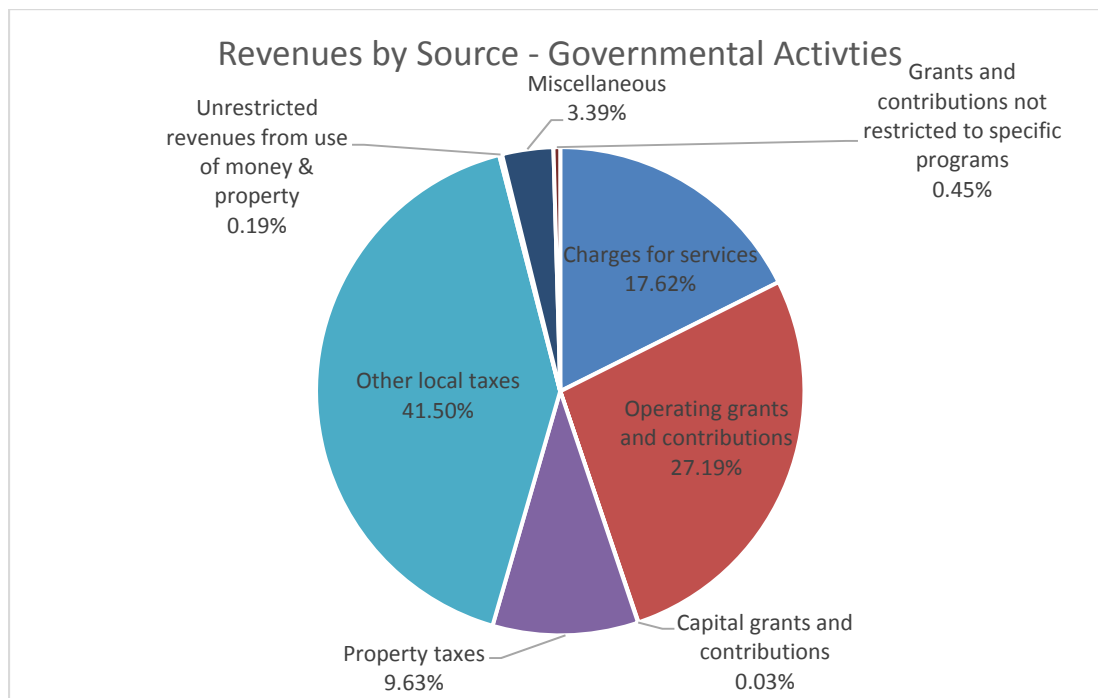
Expenses for governmental activities totaled \$5,285,213 with parks, recreation and culture (7.2%), public safety (52.0%), public works (32.5%), accounting for approximately 91.7% of total governmental expenses. Public works expenses increased \$124,699 and public safety increased by \$103,918 both as a result of an increase in operating expenses. The Town also incurred nondepartmental expenses of \$113,910 as a result of the conclusion of a boundary dispute with The Town of Cedar Bluff in which the Town had to pay the Town of Cedar Bluff for prior year tax collections of disputed areas.

Business-type activities – Net position of the business-type activities was \$13,268,010 at June 30, 2016. This was a decrease of (\$248,776) from the prior year net position. The current year decrease is \$138,716 more than the prior year decrease of (\$110,060) as a result of a combination of a decrease in purchased power costs and an increase in water and sewer operating expenses.

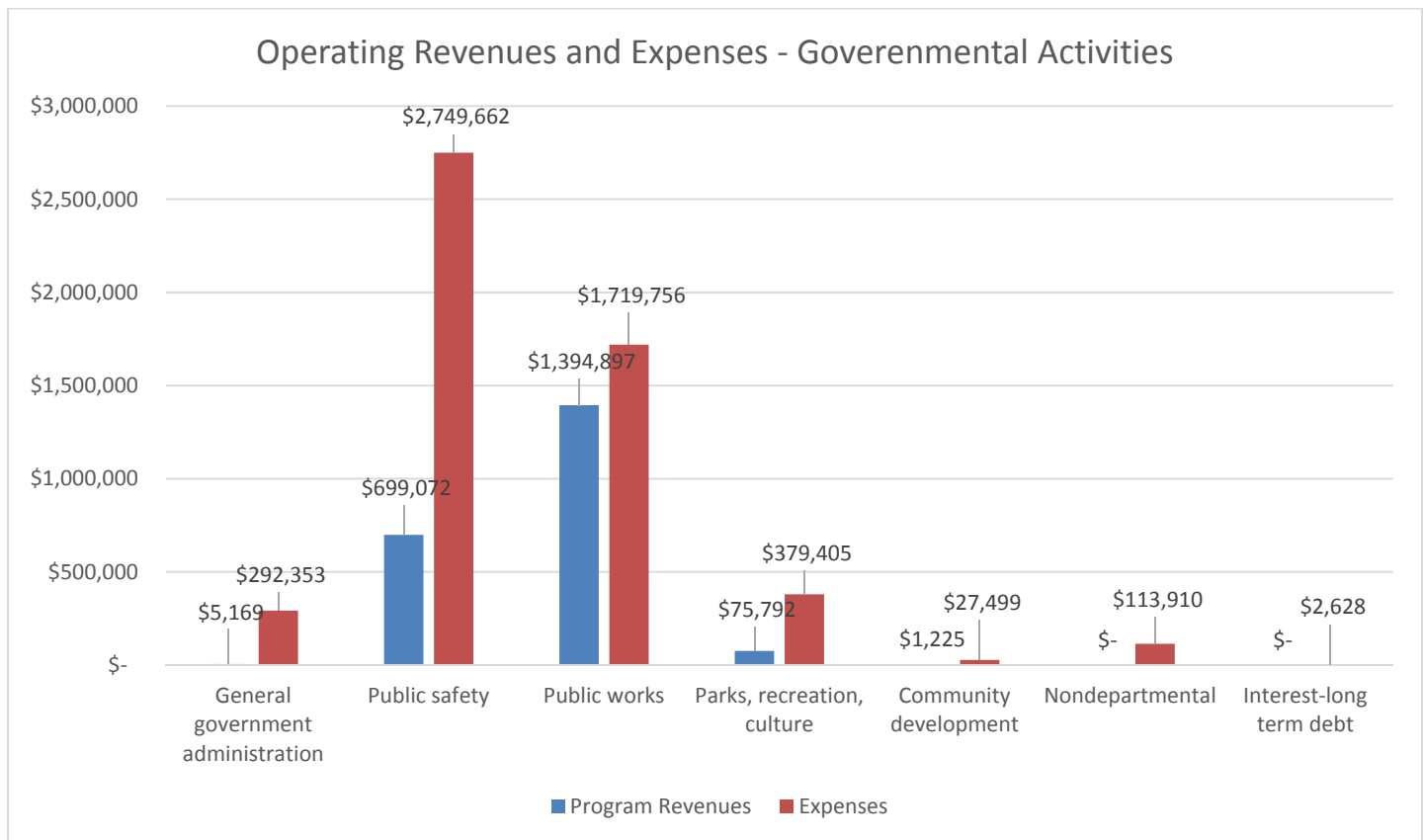
Statement of Activities (Continued)

Program revenues for the business-type activities totaled \$8,221,600, of which \$8,210,913 is charges for services. Expenses totaled \$8,470,376.

- Operating revenues decreased from the prior year by \$173,087.
- Proprietary operating expenses decreased from the prior year by \$33,371.



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 \$717,292, including an unassigned fund balance of \$410,306, 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 7% of total fund expenditures.

The fund balance of the Town's general fund decreased during the current fiscal year by \$400,270 from current year activities. Total revenues increased by \$307,934 specifically due to an increase in intergovernmental revenues; however total expenditures increased by \$839,720 because of the following: an increase in public safety operating expenses, a significant increase in capital projects, and nondepartmental expenses. Nondepartmental expenses include prior year taxes collected for disputed areas, as well as interest charges, the Town was required to pay the Town of Cedar Bluff because of a settlement of a boundary dispute judgement.

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 \$1,734,109 and \$2,047,688 respectively. The total decrease in net position was \$248,776 during the current fiscal year.

Electric fund

The electric fund net position decreased by \$4,393 from current year activities in fiscal year 2016 compared to a prior year increase of \$8,157. The decrease was a result of a decrease in operating revenues. Operating revenues decreased only by \$102,018 (1.7%) due primarily to a decrease in charges for service. Operating expenses decreased by \$89,614 (1.4%) due to a combination of a decrease in purchased power which equated to \$164,906 and an increase in personnel cost for employees and maintenance expenses.

Electric fund non-operating revenues decreased \$146 from the prior year, which was related to a decrease in investment income during the current fiscal year.

Water and sewer fund

The water and sewer fund net position decreased by \$244,383 from current year activities in fiscal year 2016 compared to the prior year decrease of \$118,217. The decrease in net position was a result of a decrease in operating revenues and an increase in operating expenses. Operating revenues decreased by \$71,855 (3.1%) due primarily to a decrease in charges for services. Operating expenses increased \$58,926 (2.4%), as a result of increased personnel cost for employees, equipment and vehicle maintenance and heating oil/fuel costs. Non-operating expenses decreased by \$2,683 due primarily to a decrease in interest expense and non-operating revenue increased by \$1,932 as a result of an increase in investment earnings and gain on sale of assets.

General Fund Budgetary Highlights

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

- Actual revenues were less than budgeted revenues by \$262,488. The decrease is a result of a combination of an increase in various revenues and a decrease in general property taxes and Commonwealth revenues. The most significant budget variances were: \$93,890 positive variance in revenues from miscellaneous sources; and, a negative variance of \$563,844 under Commonwealth revenue.
- Actual Expenditures were less than budgeted expenditures by 553,738. This is due to a decrease of various expenditures. Public works and public safety expenses were less than budgeted. In addition, expenditures related to capital projects were less than budgeted; however, nondepartmental (boundary dispute judgements), community development, and debt service actual expenditures were more than budgeted for the current fiscal year.

General Fund Budgetary Highlights (Continued)

General Fund Condensed Budget vs. Actual Fiscal Year ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	
Revenues	\$ 5,565,182	\$ 5,565,182	\$ 5,302,694
Expenditures	(6,389,483)	(6,389,483)	(5,835,745)
Other Financing Sources	<u>10,000</u>	<u>10,000</u>	<u>132,781</u>
Change in fund balance	<u>\$ (814,301)</u>	<u>\$ (814,301)</u>	<u>\$ (400,270)</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, 2016, amounts to \$23,093,258. 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 \$1,028,091 (gross) in the current fiscal year. This was for building and system (\$191,678), infrastructure (\$399,914), machinery and equipment (\$230,310), and construction in progress (\$206,189).
- Capital asset acquisitions in business-type activities totaled \$314,970 in the current fiscal year. This was for utility plant and buildings in service (\$66,974), machinery and equipment (\$115,861), and construction in progress (\$132,135).

Capital Assets (Continued)

The Town's Capital Assets (Net of Depreciation) Fiscal Year ended June 30, 2016

	Governmental Activities		Business-Type Activities	
	2015	2016	2015	2016
Land	\$ 1,357,395	\$ 1,357,395	\$ 517,913	\$ 517,913
Construction in Progress	153,673	259,598	-	132,135
Buildings and improvements	1,859,068	1,955,943	10,940,841	10,242,542
Improvements other than buildings	6,387,079	6,546,761	-	-
Equipment	1,017,667	957,341	846,181	1,123,630
Total	<u>\$ 10,774,882</u>	<u>\$ 11,077,038</u>	<u>\$ 12,304,935</u>	<u>\$ 12,016,220</u>

Additional information on the Town's capital assets can be found in Note 10 on pages 58-59 of this report.

Long-term debt

At the end of the current fiscal year, the Town had total bonded debt outstanding of \$2,457,782. Of this amount, \$695,078 is comprised of one revenue bond and the remaining balance of \$1,762,704 is general obligation bonds.

The Town's Long-term Bond Debt Fiscal Year ended June 30, 2016

	Beginning Balance	Additions	Reductions	Ending Balance
<i>Fiscal year 2015</i>				
Business-Type Activities:				
General obligation bonds	\$ 2,288,371	\$ -	\$ 438,472	\$ 1,849,899
Revenue bonds	784,764	-	44,844	739,920
Total	\$ 3,073,135	\$ -	\$ 483,316	\$ 2,589,819
<i>Fiscal year 2016</i>				
Business-Type Activities:				
General obligation bonds	\$ 1,849,899	\$ -	\$ 87,195	\$ 1,762,704
Revenue bonds	739,920	-	44,842	695,078
Total	\$ 2,589,819	\$ -	\$ 132,037	\$ 2,457,782

Additional information on the Town's long-term liability can be found in Note 5 on pages 36-38 of this report.

Economic Factors and Next Year's Budget Rates

- The unemployment rate as of June 30, 2016 for the County of Tazewell, in which the Town resides, is 7.6%, which is a decrease from the average for 2015 of 8.0%. This compares to the state's unemployment rate of 3.7% and the national rate of 4.9%.
- 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 new generation assets including: 2.588 MW of the Prairie State Coal plant unit #1 and unit #2 PSEC are in full commercial operation, 1.5 MW in the AMP Phase I Hydro projects (Cannelton, Smithland, and Willow Island) with estimated COD in 2016 and 1.675 MW in the Fremont energy campus project is in full commercial operation. The AMP Phase I run-of-the-river hydroelectric projects are being constructed by AMP at existing dam and locks facilities on the Ohio River. 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 (Continued)

- The evaluation of the American Municipal Power Generating Station (AMPGS) project, a coal fired generation facility in southern Ohio was terminated and final stranded investment costs are still pending, however, cost projections were funded in a rate stabilization fund established by American Municipal Power, Inc (AMP, Inc). The Town has made payments to AMP totaling \$163,226 and had incurred additional costs and interest expense during the fiscal year of \$4,652.
- Wholesale power rates are projected to incrementally increase annually over the next five years.
- The Town will continue to monitor the effects of current economic conditions on energy costs in relation to powering water and wastewater plant facilities and rising costs of raw materials needed to maintain the Town and its infrastructure.

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

Unassigned fund balance in the general fund was \$410,306 as of June 30, 2016. 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, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,215,275	\$ 4,487,572	\$ 5,702,847
Receivables (net of allowance for uncollectibles):			
Taxes receivable	78,250	-	78,250
Accounts receivable	251,383	703,526	954,909
Notes receivable	12,811	-	12,811
Due from other governmental units	76,219	1,245,970	1,322,189
Prepaid items	-	277,971	277,971
Capital assets (net of accumulated depreciation):			
Land	1,357,395	517,913	1,875,308
Buildings and system	1,955,943	-	1,955,943
Machinery and equipment	957,341	1,123,630	2,080,971
Infrastructure/utility plant and buildings in service	6,546,761	10,242,542	16,789,303
Construction in progress	259,598	132,135	391,733
Total assets	<u>\$ 12,710,976</u>	<u>\$ 18,731,259</u>	<u>\$ 31,442,235</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension contributions subsequent to measurement date	\$ 410,905	\$ 185,151	\$ 596,056
LIABILITIES			
Accounts payable	\$ 239,699	\$ 504,910	\$ 744,609
Accrued liabilities	61,496	14,965	76,461
Customers' deposits	-	248,129	248,129
Accrued interest payable	2,232	-	2,232
Unearned revenue	512,285	-	512,285
Long-term liabilities:			
Due within one year	342,705	254,813	597,518
Due in more than one year	4,834,061	4,488,893	9,322,954
Total liabilities	<u>\$ 5,992,478</u>	<u>\$ 5,511,710</u>	<u>\$ 11,504,188</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue - prepaid taxes	\$ 29,057	\$ -	\$ 29,057
Items related to measurement of net pension liability	307,198	136,690	443,888
Total deferred inflows of resources	<u>\$ 336,255</u>	<u>\$ 136,690</u>	<u>\$ 472,945</u>
NET POSITION			
Net investment in capital assets	\$ 10,951,882	\$ 9,486,213	\$ 20,438,095
Restricted	294,175	-	294,175
Unrestricted	(4,452,909)	3,781,797	(671,112)
Total net position	<u>\$ 6,793,148</u>	<u>\$ 13,268,010</u>	<u>\$ 20,061,158</u>

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

Town of Richlands, Virginia
Statement of Activities
For the Year Ended June 30, 2016

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	Primary Government		
					<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
PRIMARY GOVERNMENT:							
Governmental activities:							
General government administration	\$ 292,353	\$ 5,169	\$ -	\$ -	\$ (287,184)	\$ -	\$ (287,184)
Public safety	2,749,662	344,970	354,102	-	(2,050,590)	-	(2,050,590)
Public works	1,719,756	429,264	965,633	-	(324,859)	-	(324,859)
Parks, recreation, and cultural	379,405	75,792	-	-	(303,613)	-	(303,613)
Community development	27,499	-	-	1,225	(26,274)	-	(26,274)
Nondepartmental	113,910	-	-	-	(113,910)	-	(113,910)
Interest on long-term debt	2,628	-	-	-	(2,628)	-	(2,628)
Total governmental activities	\$ 5,285,213	\$ 855,195	\$ 1,319,735	\$ 1,225	\$ (3,109,058)	\$ -	\$ (3,109,058)
Business-type activities:							
Water and sewer	\$ 2,465,129	\$ 2,213,888	\$ -	\$ -	\$ -	\$ (251,241)	\$ (251,241)
Electric	6,005,247	5,997,025	-	-	-	(8,222)	(8,222)
Total business-type activities	\$ 8,470,376	\$ 8,210,913	\$ -	\$ -	\$ -	\$ (259,463)	\$ (259,463)
Total primary government	\$ 13,755,589	\$ 9,066,108	\$ 1,319,735	\$ 1,225	\$ (3,109,058)	\$ (259,463)	\$ (3,368,521)
General revenues:							
General property taxes	\$ 467,740	\$ -	\$ -	\$ -	\$ 467,740	\$ -	\$ 467,740
Other local taxes:							
Local sales and use taxes					386,362	-	386,362
Consumers' utility taxes					143,249	-	143,249
Business license taxes					445,560	-	445,560
Motor vehicle licenses					32,831	-	32,831
Bank stock tax					193,126	-	193,126
Meals taxes					792,730	-	792,730
Other local taxes					20,407	-	20,407
Unrestricted revenues from use of money and property					9,238	4,778	14,016
Miscellaneous					164,755	-	164,755
Grants and contributions not restricted to specific programs					22,046	-	22,046
Gain on disposal of capital assets					-	5,909	5,909
Total general revenues	\$ 2,678,044	\$ 10,687	\$ 10,687	\$ 2,688,731	\$ 2,678,044	\$ 10,687	\$ 2,688,731
Change in net position	\$ (431,014)	\$ (248,776)	\$ (248,776)	\$ (679,790)	\$ (431,014)	\$ (248,776)	\$ (679,790)
Net position - beginning	7,224,162	13,516,786	20,740,948		7,224,162	13,516,786	20,740,948
Net position - ending	\$ 6,793,148	\$ 13,268,010	\$ 20,061,158		\$ 6,793,148	\$ 13,268,010	\$ 20,061,158

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

Town of Richlands, Virginia
Balance Sheet
Governmental Funds
At June 30, 2016

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 1,215,275
Receivables (net of allowance for uncollectibles):	
Taxes receivable	78,250
Accounts receivable	251,383
Notes receivable	12,811
Due from other governmental units	76,219
Total assets	<u>\$ 1,633,938</u>
LIABILITIES	
Accounts payable	\$ 239,699
Accrued payroll and related liabilities	61,496
Unearned revenue	512,285
Total liabilities	<u>\$ 813,480</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	\$ 74,109
Unavailable revenue - prepaid taxes	29,057
Total deferred inflows of resources	<u>\$ 103,166</u>
FUND BALANCES	
Nonspendable	\$ 12,811
Restricted	294,175
Unassigned	410,306
Total fund balances	<u>\$ 717,292</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,633,938</u>

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

Town of Richlands, Virginia
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
At June 30, 2016

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$	717,292
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land	\$ 1,357,395	
Buildings and improvements	1,955,943	
Machinery and equipment	957,341	
Infrastructure/utility plant and buildings in service	6,546,761	
Construction in progress	<u>259,598</u>	11,077,038

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

Unavailable revenue - property taxes	\$ 74,109	
Items related to measurement of net pension liability	<u>(307,198)</u>	(233,089)

Pension contributions subsequent to the measurement date will be a reduction to the net pension liability in the next fiscal year and, therefore, are not reported in the funds.

410,905

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

Capital lease	\$ (125,156)	
Accrued interest payable	(2,232)	
Compensated absences	(339,802)	
Net pension liability	<u>(4,711,808)</u>	(5,178,998)

Net position of governmental activities

\$ 6,793,148

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

Town of Richlands, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2016

	<u>General</u>
REVENUES	
General property taxes	\$ 467,433
Other local taxes	2,014,265
Permits, privilege fees, and regulatory licenses	1,280
Fines and forfeitures	107,308
Revenue from the use of money and property	9,238
Charges for services	1,122,305
Miscellaneous	164,755
Recovered costs	73,104
Intergovernmental	1,343,006
Total revenues	<u>\$ 5,302,694</u>
EXPENDITURES	
Current:	
General government administration	\$ 280,546
Public safety	2,681,036
Public works	1,367,609
Parks, recreation, and cultural	341,942
Community development	27,499
Nondepartmental	113,910
Capital projects	927,827
Debt service:	
Principal retirement	90,614
Interest and other fiscal charges	4,762
Total expenditures	<u>\$ 5,835,745</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (533,051)</u>
OTHER FINANCING SOURCES (USES)	
Issuance of capital leases	\$ 112,237
Sale of capital assets	20,544
Total other financing sources (uses)	<u>\$ 132,781</u>
Net change in fund balances	\$ (400,270)
Fund balances - beginning	1,117,562
Fund balances - ending	<u><u>\$ 717,292</u></u>

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

Town of Richlands, Virginia
Reconciliation of Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2016

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

Net change in fund balances - total governmental funds	\$	(400,270)
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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 capital outlays exceeded depreciation in the current period.

Capital outlays	\$ 927,827	
Depreciation expenses	<u>(625,671)</u>	302,156

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

Property taxes	\$ 307	
Change in rescue squad charges	(375,698)	
Change in deferred inflows related to the measurement of the net pension liability	<u>(124,994)</u>	(500,385)

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.

Debt issued or incurred:		
Issuance of capital lease	\$ (112,237)	
Principal repayments:		
Capital lease	<u>90,614</u>	(21,623)

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	\$ (17,740)	
Change in accrued interest payable	2,134	
Change in pension liability	182,271	
Change in deferred outflows related to pension payments subsequent to the measurement date	<u>22,443</u>	189,108

Change in net position of governmental activities	\$	<u><u>(431,014)</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, 2016

	Enterprise Funds		
	Water and Sewer	Electric	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,207,734	\$ 2,279,838	\$ 4,487,572
Accounts receivable, net of allowances for uncollectibles	163,895	539,631	703,526
Due from other governmental units	1,245,970	-	1,245,970
Prepaid items	-	277,971	277,971
Total current assets	\$ 3,617,599	\$ 3,097,440	\$ 6,715,039
Noncurrent assets:			
Capital assets:			
Utility plant and buildings in service	\$ 21,194,537	\$ 1,016,814	\$ 22,211,351
Machinery and equipment	820,920	1,634,097	2,455,017
Land	517,913	-	517,913
Accumulated depreciation	(11,595,083)	(1,705,113)	(13,300,196)
Construction in progress	88,090	44,045	132,135
Total net capital assets	\$ 11,026,377	\$ 989,843	\$ 12,016,220
Total noncurrent assets	\$ 11,026,377	\$ 989,843	\$ 12,016,220
Total assets	\$ 14,643,976	\$ 4,087,283	\$ 18,731,259
DEFERRED OUTFLOWS OF RESOURCES			
Pension contributions subsequent to measurement date	\$ 119,788	\$ 65,363	\$ 185,151
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 42,352	\$ 462,558	\$ 504,910
Accrued wages	9,725	5,240	14,965
Customers' deposits	47,644	200,485	248,129
Revenue bonds payable - current portion	44,844	-	44,844
General obligation bonds - current portion	87,195	-	87,195
Capital lease - current portion	23,282	11,641	34,923
Compensated absences - current portion	66,101	21,750	87,851
Total current liabilities	\$ 321,143	\$ 701,674	\$ 1,022,817
Noncurrent liabilities:			
Revenue bonds payable - net of current portion	\$ 650,234	\$ -	\$ 650,234
General obligation bond - net of current portion	1,675,509	-	1,675,509
Capital lease - net of current portion	24,868	12,434	37,302
Compensated absences - net of current portion	22,034	7,250	29,284
Net pension liability	1,409,920	686,644	2,096,564
Total noncurrent liabilities	\$ 3,782,565	\$ 706,328	\$ 4,488,893
Total liabilities	\$ 4,103,708	\$ 1,408,002	\$ 5,511,710
DEFERRED INFLOWS OF RESOURCES			
Items related to measurement of net pension liability	\$ 91,923	\$ 44,767	\$ 136,690
NET POSITION			
Net investment in capital assets	\$ 8,520,445	\$ 965,768	\$ 9,486,213
Unrestricted	2,047,688	1,734,109	3,781,797
Total net position	\$ 10,568,133	\$ 2,699,877	\$ 13,268,010

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, 2016

	Enterprise Funds		
	<u>Water and Sewer</u>	<u>Electric</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services:			
Charges for services	\$ 2,131,853	\$ 5,830,289	\$ 7,962,142
Contract work	24,618	68,455	93,073
Lab testing and septic treatment	25,185	-	25,185
Penalties and service charges	29,499	83,548	113,047
Connection fees	1,400	-	1,400
Utility pole permits	-	13,300	13,300
Miscellaneous	1,333	1,433	2,766
Total operating revenues	<u>\$ 2,213,888</u>	<u>\$ 5,997,025</u>	<u>\$ 8,210,913</u>
OPERATING EXPENSES			
Salaries, wages and fringes	\$ 1,085,463	\$ 606,598	\$ 1,692,061
Insurance	27,735	10,993	38,728
Audit and legal	31,300	38,555	69,855
Dues, memberships and training	1,529	17,273	18,802
Office supplies and postage	18,611	11,116	29,727
Telecommunications	6,163	3,770	9,933
Equipment and vehicle maintenance	72,654	41,115	113,769
Supplies	267,201	46,377	313,578
Utilities	317,913	14,617	332,530
Heating oil/fuel	24,722	-	24,722
Traffic safety	-	6,120	6,120
Misc	19,749	10,941	30,690
Plant parts and repairs	29,529	-	29,529
Maintenance, repairs and upgrades	32,553	146,766	179,319
Instrument calibration	893	-	893
Power purchased	-	4,891,526	4,891,526
Payment in lieu of tax	-	55,928	55,928
Street lighting	-	7,532	7,532
Distribution	-	10,306	10,306
Testing	8,375	2,769	11,144
Depreciation	520,739	82,945	603,684
Total operating expenses	<u>\$ 2,465,129</u>	<u>\$ 6,005,247</u>	<u>\$ 8,470,376</u>
Operating income (loss)	<u>\$ (251,241)</u>	<u>\$ (8,222)</u>	<u>\$ (259,463)</u>
NONOPERATING REVENUES (EXPENSES)			
Investment income	\$ 4,128	\$ 650	\$ 4,778
Gain on sale of assets	2,730	3,179	5,909
Total nonoperating revenues (expenses)	<u>\$ 6,858</u>	<u>\$ 3,829</u>	<u>\$ 10,687</u>
Change in net position	<u>\$ (244,383)</u>	<u>\$ (4,393)</u>	<u>\$ (248,776)</u>
Total net position - beginning	10,812,516	2,704,270	13,516,786
Total net position - ending	<u>\$ 10,568,133</u>	<u>\$ 2,699,877</u>	<u>\$ 13,268,010</u>

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

Town of Richlands, Virginia
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2016

	Enterprise Fund		
	Water and Sewer	Electric	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 2,219,264	\$ 5,966,788	\$ 8,186,052
Payments to suppliers	(888,355)	(5,288,893)	(6,177,248)
Payments to and for employees	(1,116,218)	(647,478)	(1,763,696)
Net cash provided by (used for) operating activities	\$ 214,691	\$ 30,417	\$ 245,108
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Additions to utility plant	\$ (160,668)	\$ (154,302)	\$ (314,970)
Proceeds from the sale of surplus	2,730	3,179	5,909
Principal payments on general obligation and revenue bonds	(132,037)	-	(132,037)
Proceeds from capital leases	74,824	37,412	112,236
Principal payments on capital leases	(26,674)	(13,337)	(40,011)
Capital contributions	90,397	-	90,397
Net cash provided by (used for) capital and related financing activities	\$ (151,428)	\$ (127,048)	\$ (278,476)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	\$ 4,128	\$ 650	\$ 4,778
Net cash provided by (used for) investing activities	\$ 4,128	\$ 650	\$ 4,778
Net increase (decrease) in cash and cash equivalents	\$ 67,391	\$ (95,981)	\$ (28,590)
Cash and cash equivalents - beginning	2,140,343	2,375,819	4,516,162
Cash and cash equivalents - ending	\$ 2,207,734	\$ 2,279,838	\$ 4,487,572
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ (251,241)	\$ (8,222)	\$ (259,463)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	\$ 520,739	\$ 82,945	\$ 603,684
(Increase) decrease in accounts receivable	11,101	(5,028)	6,073
(Increase) decrease in deferred inflows of resources	37,402	18,215	55,617
(Increase) decrease in deferred outflows of resources	(3,548)	(8,753)	(12,301)
(Increase) decrease in prepaid items	-	163	163
Increase (decrease) in customer deposits	(5,725)	(25,209)	(30,934)
Increase (decrease) in accounts payable	(6,019)	26,648	20,629
Increase (decrease) in wages payable	(23,409)	(24,412)	(47,821)
Increase (decrease) in compensated absences	(10,067)	632	(9,435)
Increase (decrease) in net pension liability	(54,542)	(26,562)	(81,104)
Total adjustments	\$ 465,932	\$ 38,639	\$ 504,571
Net cash provided by (used for) operating activities	\$ 214,691	\$ 30,417	\$ 245,108

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

TOWN OF RICHLANDS, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AT JUNE 30, 2016

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, 2016

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, 2016

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

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

The Town reports the following major governmental funds:

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

The Town reports the following 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2016

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 \$42,267 for property taxes, \$2,675 for garbage billings, and \$164,716 for EMS billings at June 30, 2016. For the Proprietary Fund, the allowance amounted to approximately \$5,990 for water and sewer billings and \$19,944 for electric billings at June 30, 2016.

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, 2016

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

Note 1-Summary of Significant Accounting Policies: (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 only has one item that qualifies for reporting in this category. It is comprised of certain items related to the measurement of the net pension liability. These include differences between expected and actual experience, change in assumptions, the net difference between projected and actual earnings on pension plan investments and contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date, which will be recognized as a reduction of the net pension liability next fiscal year. For more detailed information on these items, reference the pension note.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has three types of items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable 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 are reported as deferred inflows of resources. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments. For more detailed information on these items, reference the pension note.

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, 2016

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

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

11. 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.

12. 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.

13. 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.

14. 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;

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2016

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

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

14. Fund Equity (Continued)

- 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).

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2016

Note 2-Stewardship, Compliance, and Accountability: (Continued)**A. Budgetary information (Continued)**

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, 2016, there were no funds with deficit fund equity.

Note 3-Deposits and Investments:**Deposits:**

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

Investments:

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, bankers' acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). The Town did not have any investments as of June 30, 2016 or for the year then ended.

Note 4-Due from Other Governmental Units:

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

	General Fund	Water and Sewer Fund
<u>Local Government:</u>		
Tazewell County Public Service Authority	\$ -	\$ 1,245,970
<u>Commonwealth of Virginia:</u>		
Non-categorical aid	1,050	-
State sales tax	63,643	-
<u>Federal Government:</u>		
Categorical aid	11,526	-
Total	\$ 76,219	\$ 1,245,970

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AT JUNE 30, 2016

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, 2016.

	Balance July 1, 2015	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2016
Capital leases	\$ 103,533	\$ 112,237	\$ (90,614)	\$ 125,156
Compensated absences	322,062	259,287	(241,547)	339,802
Net pension liability	4,894,079	711,214	(893,485)	4,711,808
Total	<u>\$ 5,319,674</u>	<u>\$ 1,082,738</u>	<u>\$ (1,225,646)</u>	<u>\$ 5,176,766</u>

Details of long-term obligations:

Type/ Project	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
Other Obligations:						
Capital lease	4.60%	2007	2017	\$ 455,992	\$ 52,930	\$ 52,930
Capital lease	8.70%	2016	2018	22,008	14,028	6,760
Capital lease	6.45%	2015	2018	90,228	58,198	28,163
Compensated Absences	n/a	n/a	n/a	n/a	339,802	254,852
Net pension liability	n/a	n/a	n/a	n/a	4,711,808	-
Total Other Obligations					<u>\$ 5,176,766</u>	<u>\$ 342,705</u>
Total Long-term obligations					<u>\$ 5,176,766</u>	<u>\$ 342,705</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2016

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, 2016.

	Balance July 1, 2015	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2016
General obligation bonds	\$ 1,849,899	\$ -	\$ (87,195)	\$ 1,762,704
Revenue bond	739,920	-	(44,842)	695,078
Capital lease	-	112,236	(40,011)	72,225
Compensated absences	126,570	85,493	(94,928)	117,135
Net pension liability	2,177,668	316,461	(397,565)	2,096,564
Total	<u>\$ 4,894,057</u>	<u>\$ 514,190</u>	<u>\$ (664,541)</u>	<u>\$ 4,743,706</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
2017	\$ 87,195	\$ -	\$ 44,844	\$ -
2018	87,195	-	44,844	-
2019	87,195	-	44,844	-
2020	87,195	-	44,844	-
2021	87,195	-	44,844	-
2022-2026	435,973	-	224,218	-
2027-2031	435,973	-	224,218	-
2032-2036	406,806	-	22,422	-
2037	47,977	-	-	-
Totals	<u>\$ 1,762,704</u>	<u>\$ -</u>	<u>\$ 695,078</u>	<u>\$ -</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2016

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	\$ 695,078	\$ 44,844
General Obligation Bonds:						
Series 2000	0.00%	2000	2031	175,000	87,500	5,834
Series 2005	0.00%	2005	2037	2,002,799	1,368,579	66,760
Series 2006	0.00%	2006	2037	438,037	306,625	14,601
Total Bonds					<u>\$ 2,457,782</u>	<u>\$ 132,039</u>
Other Obligations:						
Capital Lease	8.70%	2016	2018	\$ 22,008	\$ 14,028	\$ 6,760
Capital Lease	6.45%	2015	2018	990,228	58,197	28,163
Compensated Absences	n/a	n/a	n/a	n/a	117,135	87,851
Net Pension Liability	n/a	n/a	n/a	n/a	2,096,564	-
Total other obligations					<u>\$ 2,285,924</u>	<u>\$ 122,774</u>
Total long-term obligations					<u><u>\$ 4,743,706</u></u>	<u><u>\$ 254,813</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, 2016

Note 6-Pension Plan:*Plan Description*

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

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

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") <ul style="list-style-type: none"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2016

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2016

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

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	*Non-Eligible Members (Cont.) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.	Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2016

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2016

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2016

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2016

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

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Calculating the Benefit (Cont.) An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	Calculating the Benefit (Cont.)	Calculating the Benefit (Cont.) <u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. Sheriffs and regional jail superintendents: Same as Plan 1. Political subdivision hazardous duty employees: Same as Plan 1.	Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. Sheriffs and regional jail superintendents: Not applicable. Political subdivision hazardous duty employees: Not applicable. <u>Defined Contribution Component:</u> Not applicable

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2016

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2016

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2016

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2016

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2016

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

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2015-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, 2014 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	17
Inactive members:	
Vested inactive members	5
Non-vested inactive members	7
Inactive members active elsewhere in VRS	<u>5</u>
Total inactive members	34
Active members	<u>74</u>
Total covered employees	<u><u>108</u></u>

Contributions

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

The Town's contractually required contribution rate for the year ended June 30, 2016 was 22.95% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2016

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 \$596,056 and \$556,985 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension Liability

The Town's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

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, 2014, 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, 2015.

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

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

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

Largest 10 - Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2016

Note 6-Pension Plan: (Continued)

Actuarial Assumptions - General Employees (Continued)

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-LEOS:

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

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

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

Actuarial Assumptions - Public Safety Employees

The total pension liability for Public Safety employees in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2014, 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, 2015.

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*

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2016

Note 6-Pension Plan: (Continued)

Actuarial Assumptions - Public Safety Employees (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 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: 60% of deaths are assumed to be service related

Largest 10 - Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2016

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

All Others (Non 10 Largest) - LEOS:

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

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
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
		Inflation	2.50%
		*Expected arithmetic nominal return	8.33%

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2016

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

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Town Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2014	\$ 11,620,328	\$ 4,548,580	\$ 7,071,748
Changes for the year:			
Service cost	\$ 233,924	\$ -	\$ 233,924
Interest	790,952	-	790,952
Differences between expected and actual experience	(408,168)	-	(408,168)
Contributions - employer	-	556,985	(556,985)
Contributions - employee	-	120,115	(120,115)
Net investment income	-	205,782	(205,782)
Benefit payments, including refunds of employees contributions	(642,038)	(642,038)	-
Administrative expenses	-	(2,752)	2,752
Other changes	-	(46)	46
Net changes	\$ (25,330)	\$ 238,046	\$ (263,376)
Balances at June 30, 2015	\$ 11,594,998	\$ 4,786,626	\$ 6,808,372

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2016

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

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
Town Net Pension Liability	8,272,250	6,808,372	5,580,813

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

For the year ended June 30, 2016, the Town recognized pension expense of \$478,547. At June 30, 2016, 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	\$ -	\$ 337,428
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	106,460
Employer contributions subsequent to the measurement date	596,056	-
Total	\$ 596,056	\$ 443,888

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2016

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

\$596,056 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 ended June 30, 2017. 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>		
2017	\$	(113,809)
2018		(113,809)
2019		(113,810)
2020		(47,992)
Thereafter		(54,468)

Note 7-Unearned Revenue:

Unearned revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Unearned revenue totaling \$512,285 is comprised of the following:

Lease Revenue - Lease revenue proceeds received in advance totaled \$27,058 at year end.

Miscellaneous - Funding received in advance and carried over for use in the next fiscal year from Department of Transportation totaling \$485,227.

Note 8-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 \$103,166 is comprised of the following:

Property Taxes - Property tax revenue representing uncollected tax billings not available for funding current expenditures of \$74,109.

Prepaid Property Taxes - Property taxes due subsequent to June 30, 2015 but paid in advance by the taxpayers totaled \$29,057.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2016

Note 9-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	\$ 54,010
Public Safety Funds	49,977
Restricted Donations	62,496
Asset Forfeiture/Policing Funds	127,692
Total	<u>\$ 294,175</u>

Note 10-Capital Assets:

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,357,395	\$ -	\$ -	\$ 1,357,395
Construction in progress	153,673	206,189	(100,264)	259,598
Total capital assets not being depreciated	<u>\$ 1,511,068</u>	<u>\$ 206,189</u>	<u>\$ (100,264)</u>	<u>\$ 1,616,993</u>
Capital assets, being depreciated:				
Buildings and system	\$ 3,192,836	\$ 191,678	\$ -	\$ 3,384,514
Infrastructure	8,998,747	399,914	-	9,398,661
Machinery and equipment	6,495,854	230,310	(216,863)	6,509,301
Total capital assets being depreciated	<u>\$ 18,687,437</u>	<u>\$ 821,902</u>	<u>\$ (216,863)</u>	<u>\$ 19,292,476</u>
Accumulated depreciation:				
Buildings and system	\$ (1,333,768)	\$ (94,803)	\$ -	\$ (1,428,571)
Infrastructure	(2,611,668)	(240,232)	-	(2,851,900)
Machinery and equipment	(5,478,187)	(290,636)	216,863	(5,551,960)
Total accumulated depreciation	<u>\$ (9,423,623)</u>	<u>\$ (625,671)</u>	<u>\$ 216,863</u>	<u>\$ (9,832,431)</u>
Total capital assets being depreciated, net	<u>\$ 9,263,814</u>	<u>\$ 196,231</u>	<u>\$ -</u>	<u>\$ 9,460,045</u>
Governmental activities capital assets, net	<u>\$ 10,774,882</u>	<u>\$ 402,420</u>	<u>\$ (100,264)</u>	<u>\$ 11,077,038</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2016**Note 10-Capital Assets: (Continued)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 517,913	\$ -	\$ -	\$ 517,913
Construction in progress	-	132,135	-	132,135
Total capital assets not being depreciated	<u>\$ 517,913</u>	<u>132,135</u>	<u>\$ -</u>	<u>\$ 650,048</u>
Capital assets, being depreciated:				
Utility plant and buildings in service	\$ 22,210,661	\$ 66,974	\$ (66,284)	\$ 22,211,351
Machinery and equipment	2,355,878	115,861	(16,722)	2,455,017
Total capital assets being depreciated	<u>\$ 24,566,539</u>	<u>\$ 182,835</u>	<u>\$ (83,006)</u>	<u>\$ 24,666,368</u>
Accumulated depreciation:				
Utility plant and buildings in service	\$ (11,482,142)	\$ (486,667)	\$ -	\$ (11,968,809)
Machinery and equipment	(1,297,376)	(117,017)	83,006	(1,331,387)
Total accumulated depreciation	<u>\$ (12,779,518)</u>	<u>\$ (603,684)</u>	<u>\$ 83,006</u>	<u>\$ (13,300,196)</u>
Total capital assets being depreciated, net	<u>\$ 11,787,021</u>	<u>\$ (420,849)</u>	<u>\$ -</u>	<u>\$ 11,366,172</u>
Business-type activities capital assets, net	<u><u>\$ 12,304,934</u></u>	<u><u>\$ (288,714)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 12,016,220</u></u>

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

Governmental activities:

General government administration	\$ 25,053
Public safety	257,837
Public works	298,796
Parks and recreation	<u>43,985</u>

Total depreciation expense - governmental activities	<u>\$ 625,671</u>
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Business-type activities:

Water and sewer	\$ 520,739
Electric	<u>82,945</u>

Total depreciation expense - business-type activities	<u>\$ 603,684</u>
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2016

Note 11-Lease Obligations-Capital Leases:

The Town entered into a lease purchase agreements for the acquisition of a Pierce Stock Pumper, Pierce Stock Tanker, and IT server project. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception dates.

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

	2016
Machinery and Equipment	\$ 455,992
Accumulated Depreciation	(396,276)
Construction in Progress-IT Project	132,135
Total	\$ 59,716

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2016, were as follows:

Fiscal Year Ended	Governmental Activities	Business-type Activities
2017	\$ 95,376	\$ 40,011
2018	40,011	40,011
Total minimum lease payments	135,387	80,022
Less: amount representing interest	(10,231)	(7,797)
Present value of minimum lease payments	\$ 125,156	\$ 72,225

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2016

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 MP-Ohio are political subdivisions which operate electric systems in Ohio, Michigan, Pennsylvania, Virginia, and West Virginia. As a participant, the Town has agreed to purchase specified kilowatts of power at AMP-Ohio's incurred cost through December 31, 2057. In accordance with this agreement the Town remits funds to an escrow account for the payment of power bills.

Note 15-Pledged Revenues:

The Town has pledged future water and sewer customer revenues to repay \$659,078 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, 2016, the Town carried a balance of \$277,971 in an escrow account maintained for the Town's benefit. This amount has been reported in the financial statements as a prepaid items.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AT JUNE 30, 2016

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 \$1,245,970 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	\$ 120,096
Tazewell County PSA	620,459
Tazewell County PSA - loan payments	60,660
Total	<u>\$ 801,215</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2016

Note 18-Adoption of Accounting Principles:

Governmental Accounting Standards Board Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*

The Town early implemented provisions of the above Statement during the fiscal year ended June 30, 2016. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. No restatement was required as a result of this implementation.

Note 19-Upcoming Pronouncements:

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES				
General property taxes	\$ 487,000	\$ 487,000	\$ 467,433	\$ (19,567)
Other local taxes	1,946,000	1,946,000	2,014,265	68,265
Permits, privilege fees, and regulatory licenses	1,500	1,500	1,280	(220)
Fines and forfeitures	55,500	55,500	107,308	51,808
Revenue from the use of money and property	4,000	4,000	9,238	5,238
Charges for services	1,101,700	1,101,700	1,122,305	20,605
Miscellaneous	70,865	70,865	164,755	93,890
Recovered costs	73,500	73,500	73,104	(396)
Intergovernmental	1,825,117	1,825,117	1,343,006	(482,111)
Total revenues	<u>\$ 5,565,182</u>	<u>\$ 5,565,182</u>	<u>\$ 5,302,694</u>	<u>\$ (262,488)</u>
EXPENDITURES				
Current:				
General government administration	\$ 305,087	\$ 305,087	\$ 280,546	\$ 24,541
Public safety	2,868,591	2,868,591	2,681,036	187,555
Public works	1,551,157	1,551,157	1,367,609	183,548
Parks, recreation, and cultural	359,034	359,034	341,942	17,092
Community development	15,000	15,000	27,499	(12,499)
Nondepartmental	-	-	113,910	(113,910)
Capital projects	1,235,250	1,235,250	927,827	307,423
Debt service:				
Principal retirement	50,602	50,602	90,614	(40,012)
Interest and other fiscal charges	4,762	4,762	4,762	-
Total expenditures	<u>\$ 6,389,483</u>	<u>\$ 6,389,483</u>	<u>\$ 5,835,745</u>	<u>\$ 553,738</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (824,301)</u>	<u>\$ (824,301)</u>	<u>\$ (533,051)</u>	<u>\$ 291,250</u>
OTHER FINANCING SOURCES (USES)				
Issuance of capital leases	\$ -	\$ -	\$ 112,237	\$ 112,237
Sale of capital assets	10,000	10,000	20,544	10,544
Total other financing sources (uses)	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 132,781</u>	<u>\$ 122,781</u>
Net change in fund balances	<u>\$ (814,301)</u>	<u>\$ (814,301)</u>	<u>\$ (400,270)</u>	<u>\$ 414,031</u>
Fund balances - beginning	814,301	814,301	1,117,562	303,261
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 717,292</u>	<u>\$ 717,292</u>

Town of Richlands, Virginia
Schedule of Components of and Changes in Net Pension Liability and Related Ratios
For the Year Ended June 30, 2016

	2015	2014
Total pension liability		
Service cost	\$ 233,924	\$ 228,999
Interest	790,952	759,699
Changes of benefit terms	-	-
Differences between expected and actual experience	(408,168)	-
Changes in assumptions	-	-
Benefit payments, including refunds of employee contributions	(642,038)	(442,432)
Net change in total pension liability	\$ (25,330)	\$ 546,266
Total pension liability - beginning	11,620,328	11,074,062
Total pension liability - ending (a)	<u>\$ 11,594,998</u>	<u>\$ 11,620,328</u>
Plan fiduciary net position		
Contributions - employer	\$ 556,985	\$ 499,158
Contributions - employee	120,115	119,403
Net investment income	205,782	599,476
Benefit payments, including refunds of employee contributions	(642,038)	(442,432)
Administrative expense	(2,752)	(3,098)
Other	(46)	33
Net change in plan fiduciary net position	\$ 238,046	\$ 772,540
Plan fiduciary net position - beginning	4,548,580	3,776,041
Plan fiduciary net position - ending (b)	<u>\$ 4,786,626</u>	<u>\$ 4,548,581</u>
Political subdivision's net pension liability - ending (a) - (b)	\$ 6,808,372	\$ 7,071,747
Plan fiduciary net position as a percentage of the total pension liability	41.28%	39.14%
Covered payroll	\$ 2,433,045	\$ 2,391,408
Political subdivision's net pension liability as a percentage of covered payroll	279.83%	295.71%

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
Schedule of Employer Contributions
For the Year Ended June 30, 2016

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)
2016	\$ 596,056	\$ 596,056	\$ -	\$ 2,594,810	22.97%
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 seven 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
Notes to Required Supplementary Information
For the Year Ended June 30, 2016

In 2015, Covered Employee Payroll (as defined by GASB 68) included the total payroll for employees covered under the pension plan whether that payroll is subject to pension coverage or not. This definition was modified in GASB Statement No. 82 and now is the payroll on which contributions to a pension plan are based. The ratios presented use the same measure.

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

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

Largest 10 - Non-LEOS:

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

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) - LEOS:

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

Other Supplementary Information

Supporting Schedules

Town of Richlands, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2016

Schedule 1
Page 1 of 2

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 453,000	\$ 453,000	\$ 430,389	\$ (22,611)
Real and personal public service corporation taxes	18,000	18,000	17,817	(183)
Mobile home taxes	12,000	12,000	12,260	260
Penalties and Interest	4,000	4,000	6,967	2,967
Total general property taxes	\$ 487,000	\$ 487,000	\$ 467,433	\$ (19,567)
Other local taxes:				
Local sales and use taxes	\$ 390,000	\$ 390,000	\$ 386,362	\$ (3,638)
Consumers utility tax	150,000	150,000	143,249	(6,751)
Local consumption tax	22,000	22,000	20,407	(1,593)
Business license taxes	490,000	490,000	445,560	(44,440)
Motor vehicle licenses	34,000	34,000	32,831	(1,169)
Bank stock taxes	160,000	160,000	193,126	33,126
Meals taxes	700,000	700,000	792,730	92,730
Total other local taxes	\$ 1,946,000	\$ 1,946,000	\$ 2,014,265	\$ 68,265
Permits, privilege fees, and regulatory licenses:				
Zoning permits	\$ 1,500	\$ 1,500	\$ 1,280	\$ (220)
Fines and forfeitures:				
Court fines and forfeitures	\$ 55,000	\$ 55,000	\$ 89,646	\$ 34,646
Asset forfeitures	-	-	17,612	17,612
Parking violations	500	500	50	(450)
Total fines and forfeitures	\$ 55,500	\$ 55,500	\$ 107,308	\$ 51,808
Revenue from use of money and property:				
Revenue from use of money	\$ 4,000	\$ 4,000	\$ 5,418	\$ 1,418
Revenue from use of property	-	-	3,820	3,820
Total revenue from use of money and property	\$ 4,000	\$ 4,000	\$ 9,238	\$ 5,238
Charges for services:				
Contract work - Streets	\$ 5,000	\$ 5,000	\$ 23,530	\$ 18,530
Fire Department billings	-	-	500	500
Rescue Squad billings	600,000	600,000	611,580	11,580
Swimming pool fees	15,000	15,000	12,270	(2,730)
Concession collections	15,000	15,000	11,569	(3,431)
Basketball fees	4,000	4,000	3,176	(824)
Indoor tennis fees	2,500	2,500	952	(1,548)
Outdoor tennis fees	700	700	291	(409)
Room rental	6,000	6,000	3,543	(2,457)
Miscellaneous recreation fees	6,000	6,000	4,884	(1,116)
Convenience fees	-	-	5,169	5,169
Garbage collections	447,500	447,500	405,734	(41,766)
Farmer's market revenue	-	-	39,107	39,107
Total charges for services	\$ 1,101,700	\$ 1,101,700	\$ 1,122,305	\$ 20,605

Town of Richlands, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2016

Schedule 1
Page 2 of 2

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (continued)				
Revenue from local sources: (continued)				
Miscellaneous:				
Miscellaneous	\$ 5,000	\$ 5,000	\$ 49,220	\$ 44,220
Gifts and donations	-	-	993	993
Gifts and donations - Fire	57,865	57,865	63,986	6,121
Gifts and donations - Recreation	-	-	39,809	39,809
Gifts and donations - Police	8,000	8,000	8,125	125
Gifts and donations - Rescue	-	-	2,622	2,622
Total miscellaneous	\$ 70,865	\$ 70,865	\$ 164,755	\$ 93,890
Recovered costs:				
County of Tazewell - fire program	\$ 70,500	\$ 70,500	\$ 70,000	\$ (500)
Returned check fees	2,000	2,000	1,830	(170)
Restitution	1,000	1,000	1,274	274
Total recovered costs	\$ 73,500	\$ 73,500	\$ 73,104	\$ (396)
Total revenue from local sources	\$ 3,740,065	\$ 3,740,065	\$ 3,959,688	\$ 219,623
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Mobile home titling tax	\$ 1,000	\$ 1,000	\$ 7,422	\$ 6,422
Motor vehicles carrier's tax	2,000	2,000	3,366	1,366
Railroad rolling stock tax	-	-	11,258	11,258
Total noncategorical aid	\$ 3,000	\$ 3,000	\$ 22,046	\$ 19,046
Categorical aid:				
Litter control grant	\$ 2,700	\$ 2,700	\$ 2,459	\$ (241)
Local law enforcement block grant	-	-	2,763	2,763
Highway revenue sharing	\$ 150,000	\$ 150,000	\$ 150,000	\$ -
Street maintenance	892,530	892,530	813,174	(79,356)
Law enforcement grant	133,700	133,700	133,700	-
Drug enforcement	93,087	93,087	101,550	8,463
EMS grants	126,000	126,000	10,818	(115,182)
Fire grants	-	-	18,456	18,456
Community improvement grant	408,100	408,100	1,225	(406,875)
Asset forfeitures	-	-	82	82
Other state revenue	16,000	16,000	5,000	(11,000)
Total categorical aid	\$ 1,822,117	\$ 1,822,117	\$ 1,239,227	\$ (582,890)
Total revenue from the Commonwealth	\$ 1,825,117	\$ 1,825,117	\$ 1,261,273	\$ (563,844)
Revenue from the federal government:				
Categorical aid:				
Federal police grants	\$ -	\$ -	\$ 13,574	\$ 13,574
Asset forfeitures	-	-	40,566	40,566
High intensity drug trafficking areas grant	-	-	27,593	27,593
Total categorical aid	\$ -	\$ -	\$ 81,733	\$ 81,733
Total revenue from the federal government	\$ -	\$ -	\$ 81,733	\$ 81,733
Total General Fund	\$ 5,565,182	\$ 5,565,182	\$ 5,302,694	\$ (262,488)

Town of Richlands, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2016

<u>Fund, Function and Department Expenditures</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
General government administration:				
General and financial administration:				
Town Council	\$ 15,907	\$ 15,907	\$ 14,608	\$ 1,299
Administration	285,420	285,420	251,512	33,908
Fringe Benefits	3,760	3,760	14,426	(10,666)
Total general government administration	<u>\$ 305,087</u>	<u>\$ 305,087</u>	<u>\$ 280,546</u>	<u>\$ 24,541</u>
Public safety:				
Law enforcement and traffic control:				
Police grants	\$ -	\$ -	\$ 16,968	\$ (16,968)
Drug task force	93,087	93,087	98,289	(5,202)
Police Department	1,825,555	1,825,555	1,654,813	170,742
Total law enforcement and traffic control	<u>\$ 1,918,642</u>	<u>\$ 1,918,642</u>	<u>\$ 1,770,070</u>	<u>\$ 148,572</u>
Fire and rescue services:				
Fire Department	\$ 205,689	\$ 205,689	\$ 215,958	\$ (10,269)
Rescue Squad	744,260	744,260	695,008	49,252
Total fire and rescue services	<u>\$ 949,949</u>	<u>\$ 949,949</u>	<u>\$ 910,966</u>	<u>\$ 38,983</u>
Total public safety	<u>\$ 2,868,591</u>	<u>\$ 2,868,591</u>	<u>\$ 2,681,036</u>	<u>\$ 187,555</u>
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highways, streets, bridges and sidewalks	<u>\$ 1,097,981</u>	<u>\$ 1,097,981</u>	<u>\$ 953,701</u>	<u>\$ 144,280</u>
Sanitation and waste removal:				
Refuse collection and disposal	<u>\$ 453,176</u>	<u>\$ 453,176</u>	<u>\$ 413,908</u>	<u>\$ 39,268</u>
Total public works	<u>\$ 1,551,157</u>	<u>\$ 1,551,157</u>	<u>\$ 1,367,609</u>	<u>\$ 183,548</u>
Parks, recreation, and cultural:				
Cultural enrichment:				
Recreation	<u>\$ 347,478</u>	<u>\$ 347,478</u>	<u>\$ 335,200</u>	<u>\$ 12,278</u>
Library:				
Library	<u>\$ 11,556</u>	<u>\$ 11,556</u>	<u>\$ 6,742</u>	<u>\$ 4,814</u>
Total parks, recreation, and cultural	<u>\$ 359,034</u>	<u>\$ 359,034</u>	<u>\$ 341,942</u>	<u>\$ 17,092</u>
Community development:				
Planning and community development:				
Downtown activities	\$ 15,000	\$ 15,000	\$ 27,223	\$ (12,223)
Big Creek Project	-	-	276	(276)
Total planning and community development	<u>15,000</u>	<u>15,000</u>	<u>27,499</u>	<u>(12,499)</u>
Total community development	<u>\$ 15,000</u>	<u>\$ 15,000</u>	<u>\$ 27,499</u>	<u>\$ (12,499)</u>
Nondepartmental:				
Nondepartmental	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 113,910</u>	<u>\$ (113,910)</u>
Capital projects/outlays:				
Capital projects and capital outlays	<u>\$ 1,235,250</u>	<u>\$ 1,235,250</u>	<u>\$ 927,827</u>	<u>\$ 307,423</u>

Town of Richlands, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2016

<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)				
Debt service:				
Principal retirement	\$ 50,602	\$ 50,602	\$ 90,614	\$ (40,012)
Interest and other fiscal charges	4,762	4,762	4,762	-
Total debt service	<u>\$ 55,364</u>	<u>\$ 55,364</u>	<u>\$ 95,376</u>	<u>\$ (40,012)</u>
 Total General Fund	 <u>\$ 6,389,483</u>	 <u>\$ 6,389,483</u>	 <u>\$ 5,835,745</u>	 <u>\$ 553,738</u>

Statistical Information

Table 1

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

Fiscal Year	General Government Administration	Public Safety	Public Works	Parks, Recreation, and Cultural	Community Development	Interest on Long-Term Debt	Water and Sewer	Electric	Total
2009-10	\$ 517,043	\$ 2,800,286	\$ 1,406,509	\$ 349,495	\$ 141,269	\$ 17,501	\$ 2,014,444	\$ 6,156,711	\$ 13,403,258
2010-11	271,310	2,764,620	1,544,774	390,015	206,662	16,801	2,106,703	5,833,916	13,134,801
2011-12	270,119	2,688,745	1,636,116	382,314	38,246	11,921	2,259,778	5,227,037	12,514,276
2012-13	290,591	2,838,354	1,551,236	391,472	129,783	9,285	2,282,333	5,291,893	12,784,947
2013-14	285,960	2,863,825	1,500,829	354,456	58,493	7,164	2,392,826	6,743,677	14,207,230
2014-15	269,723	2,645,744	1,595,057	343,926	52,705	4,949	2,408,886	6,094,861	13,415,851
2015-16	292,353	2,749,662	1,719,756	379,405	27,499	2,628	2,465,129	6,005,247	13,755,589

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

Table 2

Town of Richlands, Virginia
Government-Wide Revenues
Last Seven 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

(1) Information has only been available for seven 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)
2006-07	\$ 1,242,646	\$ 1,502,021	\$ 914,500	\$ 259,312	\$ 436,033	-	\$ 4,535	\$ 4,359,047
2007-08	878,513	2,962,490	1,653,354	325,440	37,783	-	82,187	5,939,767
2008-09	710,412	2,738,636	1,514,056	392,150	1,205	-	86,079	5,442,538
2009-10	295,497	2,747,120	1,331,514	356,386	141,269	-	58,912	4,930,698
2010-11	286,319	2,615,615	1,333,176	451,633	206,662	-	86,081	4,979,486
2011-12	267,218	2,529,280	1,388,996	340,314	38,246	-	86,085	4,650,139
2012-13	254,595	2,639,835	1,297,287	349,064	129,783	-	55,364	4,725,928
2013-14	263,515	2,623,164	1,219,929	310,872	58,493	-	55,364	4,531,337
2014-15	267,560	2,535,244	1,311,842	300,353	52,705	-	55,365	4,523,069
2015-16	280,546	2,681,036	1,367,609	341,942	27,499	113,910	95,376	4,907,918

(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		Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental	Total
					Use of Money and Property						
2006-07	\$ 443,452	\$ 1,353,541	\$ 14,645	\$ 61,034	\$ 60,878	\$ 923,874	\$ 284,613	\$ -	\$ -	\$ 1,373,804	\$ 4,515,841
2007-08	408,501	1,386,360	14,615	135,107	76,011	1,071,321	518,389	-	-	1,275,563	4,885,867
2008-09	419,861	1,437,774	2,035	181,716	34,833	1,106,721	296,866	-	-	1,118,771	4,598,577
2009-10	425,420	1,704,768	1,585	85,661	19,021	1,264,454	286,617	-	-	1,338,364	5,125,890
2010-11	432,840	1,671,219	2,225	162,930	15,894	1,121,649	185,927	150,408	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	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	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	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	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	73,104	1,343,006	5,302,694

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
2006-07	\$ 403,792	\$ 378,197	93.66%	\$ 34,954	\$ 413,151	102.32%	\$ 20,979	5.20%
2007-08	407,711	384,290	94.26%	19,408	403,698	99.02%	26,167	6.42%
2008-09	414,990	391,112	94.25%	19,082	410,194	98.84%	29,226	7.04%
2009-10	418,224	372,689	89.11%	19,895	392,584	93.87%	34,252	8.19%
2010-11	421,699	394,301	93.50%	21,144	415,445	98.52%	58,811	13.95%
2011-12	424,866	392,515	92.39%	24,079	416,594	98.05%	63,755	15.01%
2012-13	457,827	434,546	94.91%	18,364	452,910	98.93%	72,597	15.86%
2013-14	458,280	431,776	94.22%	22,171	453,947	99.05%	81,578	17.80%
2014-15	453,872	443,378	97.69%	28,133	471,511	103.89%	77,324	17.04%
2015-16	455,304	439,254	96.47%	21,212	460,466	101.13%	65,210	14.32%

(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
2006-07	\$ 242,387,600	\$ 11,234,553	\$ 253,622,153
2007-08	243,153,600	11,665,588	254,819,188
2008-09	249,235,687	10,132,899	259,368,586
2009-10	250,972,225	10,417,493	261,389,718
2010-11	253,304,900	9,916,473	263,221,373
2011-12	254,672,500	10,460,117	265,132,617
2012-13	274,891,300	11,250,521	286,141,821
2013-14	274,606,600	11,818,369	286,424,969
2014-15	275,127,700	10,719,704	285,847,404
2015-16	275,640,700	11,200,407	286,841,107

Table 7

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

<u>Fiscal Year</u>	<u>Real Estate (1)</u>
2006-07	\$ 0.16
2007-08	0.16
2008-09	0.16
2009-10	0.16
2010-11	0.16
2011-12	0.16
2012-13	0.16
2013-14	0.16
2014-15	0.16
2015-16	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
2006-07	5,639	\$ 253,622	\$ 4,958,860	1.96%	\$ 879
2007-08	5,639	254,819	4,647,573	1.82%	824
2008-09	5,639	259,369	4,321,534	1.67%	766
2009-10	5,639	261,390	3,934,684	1.51%	698
2010-11	5,823	263,221	3,567,306	1.36%	613
2011-12	5,823	265,133	3,133,236	1.18%	538
2012-13	5,823	286,142	2,714,671	0.95%	466
2013-14	5,823	286,425	2,288,371	0.80%	393
2014-15	5,823	285,847	1,849,899	0.65%	318
2015-16	5,823	286,841	1,762,704	0.61%	303

(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, 2016

Total assessed value of taxed real property	\$ 286,841,107
Debt limit - 10 percent of total assessed value	28,684,111
Amount of debt applicable to debt limit	<u>(1,762,704)</u>
Legal debt margin	<u>\$ 26,921,407</u>

COMPLIANCE SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

To the Honorable Members of 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, 2016, and the related notes to the financial statements, which collectively comprise the Town of Richlands, Virginia's basic financial statements, and have issued our report thereon dated October 7, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Robinson, Turner, Cox Associates

Blacksburg, Virginia
October 7, 2016