

**TOWN OF RICHLANDS, VIRGINIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**YEAR ENDED JUNE 30, 2010**

# **TOWN OF RICHLANDS, VIRGINIA**

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## **INTRODUCTORY SECTION**

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**TOWN OF RICHLANDS, VIRGINIA**  
**TOWN OFFICIALS**  
**June 30, 2010**

**MEMBERS OF TOWN COUNCIL**

Mayor  
Vice Mayor

Jan White  
Doug Ratliff  
Rod Cury  
Larry Worrell  
Frances Meadows  
Larry Johnson  
T. Shea Cook

**TOWN OFFICIALS**

Town Manager

Timothy Taylor

## **FINANCIAL SECTION**

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**DENT K. BURK ASSOCIATES, P.C.**  
*Certified Public Accountants*

BRISTOL, VIRGINIA  
GRUNDY, VIRGINIA

KINGSPORT, TENNESSEE  
JOHNSON CITY, TENNESSEE

**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Richlands, Virginia (the Town) as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. 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 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Richlands, Virginia, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2010, on our consideration of the Town'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and analysis of funding progress for public employee retirement system on pages 3 through 14 and on page 44 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's financial statements as a whole. The statistical section is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The statistical section has 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 it.

Dent K. Burk Associates, P.C.

Bristol, Virginia  
November 30, 2010



## 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, 2010.

### Financial Highlights for fiscal year 2010

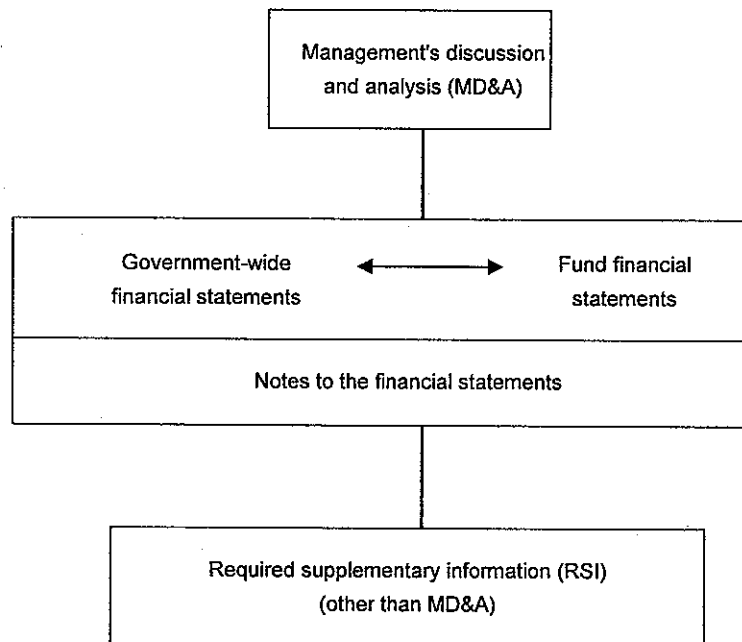
- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$19,340,864 (net assets). Of this amount, \$5,484,194 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net assets increased by \$1,293,012. The increase is attributable to the net effect of the Town's Business type activities.
- The Town's total liabilities at the close of the current fiscal year were \$7,530,094, including \$6,161,098 in long-term debt.
- Long-term debt primarily represents the amount due on the Town's general obligation and revenue bonds for public improvements and the water and wastewater treatment systems, respectively.
- As of the close of the current fiscal year, the Town's governmental fund reported an ending fund balance of \$2,918,243, an increase of \$195,192 from the prior year restated fund balance and is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,723,619, or 35% of total general fund expenditures.
- The Richlands swimming pool capital project had incurred architectural expenses of \$101,221 as of June 30, 2009, however a decision was made by council during the current fiscal year to rehabilitate the Town's existing swimming pool instead of building a new pool. At the end of current fiscal year, the pool rehabilitation project has incurred costs of \$143,479 with a remaining cost to complete of \$100,819. The project was completed and the pool re-opened for service in August 2010.
- At the end of the fiscal year June 30, 2010, the Town has incurred expenses of \$1,160,895 for construction of the Birmingham Sewer Line Expansion Project and has a remaining commitment of \$2,595,007. The project is scheduled to be complete by May 30, 2011.
- As of June 30, 2010, the Town had completed the substation upgrade project and had spent a total of \$904,339 on the project.
- The Town experienced significant unexpected costs for transmission and energy delivery, which attributed largely to the 11 percent increase in proprietary operating expenses in comparison to last year.
- The Town had (3) active Revenue Bonds at the end of the current fiscal year with a total balance of \$1,277,295.
- The Town had general obligation bonds at June 30, 2010 with an ending balance of \$3,934,684.
- Effective June 1, 2010, the Richlands Town Council voted to participate in the Virginia Retirement System; requiring all eligible participating employees to contribute 5% of gross monthly income received from the Town of Richlands.

## Overview of the Financial Statements

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

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

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



## Government-Wide Financial Statements

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

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

The government-wide financial statements can be found on page 15 and 16 of this report.

## Overview of the Financial Statements (Continued)

### Fund Financial Statements

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

#### Governmental Funds

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

The Town reports one major government fund:

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

The basic governmental fund financial statements can be found on pages 17 through 19 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 20 to 23 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 24 through 43 of this report.

### Other Information

In addition to the basic financial statements and financial statement notes, this report also presents certain *required supplementary information* concerning the Town's funding progress for the Public Employee Retirement System. The required supplementary information can be found on page 44 of this report.

## Government-Wide Financial Analysis

### Statement of Net Assets

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

**Table 1**  
**Summary of Net Assets**  
**As of June 30, 2010**

	Governmental Activities		Business-Type Activities		Total	
	2009	2010	2009	2010	2009	2010
Current and other assets	\$ 3,089,344	\$ 3,340,212	\$ 3,890,711	\$ 4,249,159	\$ 6,980,055	\$ 7,589,371
Capital assets	6,365,747	6,050,807	12,679,118	13,230,780	19,044,865	19,281,587
Total assets	9,455,091	9,391,019	16,569,829	17,479,939	26,024,920	26,870,958
Long-term liabilities	832,728	821,969	5,892,002	5,339,129	6,724,730	6,161,098
Other liabilities	229,941	301,609	983,954	1,067,387	1,213,895	1,368,996
Total liabilities	1,062,669	1,123,578	6,875,956	6,406,516	7,938,625	7,530,094
Net Assets:						
Invested in capital assets,						
net of related debt	5,946,002	5,669,696	6,894,025	8,018,801	12,840,027	13,688,497
Restricted	178,386	168,173	-	-	178,386	168,173
Unrestricted	2,268,034	2,429,572	2,799,848	3,054,622	5,067,882	5,484,194
Total net assets	\$ 8,392,422	\$ 8,267,441	\$ 9,693,873	\$ 11,073,423	\$ 18,086,295	\$ 19,340,864

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$19,340,864 at the close of fiscal year 2010. The largest portion of the Town's net assets (71%) reflects its investment in capital assets (e.g., land, buildings, plant in service, machinery and equipment), less any outstanding related debt used to acquire those assets. The Town uses these capital assets to provide services to citizens and consequently, these assets are not available for future spending. Since the capital assets themselves cannot be used to pay the related debt, the resources needed to service this debt must be provided from other sources.

The unrestricted net assets (\$5,484,194) may be used to meet the government's ongoing obligations to the citizens and creditors.

# Government-Wide Financial Analysis (Continued)

## Statement of Activities

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

**Table 2**  
**Changes in Net Assets**  
**For the Fiscal Year Ended June 30, 2010**

	Governmental Activities		Business-Type Activities		Total	
	2009	2010	2009	2010	2009	2010
<b>Revenues:</b>						
Program revenues :						
Charges for services	\$ 1,160,520	\$ 1,260,633	\$ 7,873,249	\$ 8,760,134	\$ 9,033,769	\$ 10,020,767
Operating grants & contributions	1,108,956	1,310,631	16,754	672,647	1,125,710	1,983,278
Capital grants & contributions	-	-	-	-	-	-
General revenue:						
Property taxes	429,255	461,000	-	-	429,255	461,000
Other local taxes	1,437,774	1,704,768	-	-	1,437,774	1,704,768
Permits & licenses	2,035	1,585	-	-	2,035	1,585
Fines & forfeitures	181,716	85,661	-	-	181,716	85,661
Unrestricted investment earnings	34,833	19,021	29,638	20,763	64,471	39,784
Other	308,789	302,266	86,774	97,161	395,563	399,427
<b>Total revenues</b>	<b>4,663,878</b>	<b>5,145,565</b>	<b>8,006,415</b>	<b>9,550,705</b>	<b>12,670,293</b>	<b>14,696,270</b>
<b>Expenses:</b>						
General gov't adm.	750,854	517,043	-	-	750,854	517,043
Public safety	2,777,019	2,800,286	-	-	2,777,019	2,800,286
Public works	1,600,520	1,406,509	-	-	1,600,520	1,406,509
Parks, recreation, culture	417,263	349,495	-	-	417,263	349,495
Community development	1,205	141,269	-	-	1,205	141,269
Interest long-term debt	20,967	17,501	-	-	20,967	17,501
Electric	-	-	5,436,474	6,156,711	5,436,474	6,156,711
Water & sewer	-	-	1,938,164	2,014,444	1,938,164	2,014,444
<b>Total expenses</b>	<b>5,567,828</b>	<b>5,232,103</b>	<b>7,374,638</b>	<b>8,171,155</b>	<b>12,942,466</b>	<b>13,403,258</b>
<b>Excess (deficiency) before transfers</b>	<b>(903,950)</b>	<b>(86,538)</b>	<b>631,777</b>	<b>1,379,550</b>	<b>(272,173)</b>	<b>1,293,012</b>
<b>Transfers</b>	<b>250,995</b>	<b>-</b>	<b>(250,995)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Change in net assets	(652,955)	(86,538)	380,782	1,379,550	(272,173)	1,293,012
Net assets-July 1	9,408,853	8,392,422	8,949,615	9,693,873	18,358,468	18,086,295
Prior period adj.	(363,476)	(38,443)	363,476	-	-	(38,443)
<b>Net assets-June 30</b>	<b>\$ 8,392,422</b>	<b>\$ 8,267,441</b>	<b>\$ 9,693,873</b>	<b>\$ 11,073,423</b>	<b>\$ 18,086,295</b>	<b>\$ 19,340,864</b>

## **Government-Wide Financial Analysis (Continued)**

### **Statement of Activities (continued)**

During the current fiscal year the Town's net assets increased by \$1,293,012. This is comprised of a net asset decrease from governmental activities of \$86,538 and an increase in business-type activities of \$1,379,550.

**Governmental activities**-Governmental activities decreased the Town's net assets by \$86,538. Additional factors noted below.

Revenues from governmental activities totaled \$5,145,565, with charges for services (24.5%), other local taxes (33%) and operating grants & contributions (26%), being the major sources of revenues. Most revenues in comparison to the previous year had nominal changes with the exception of the following: operating grants & contributions increased \$201,675 due primarily to an increase of grant funding and other local taxes increased \$266,994 primarily due to the implementation of consumer utility tax.

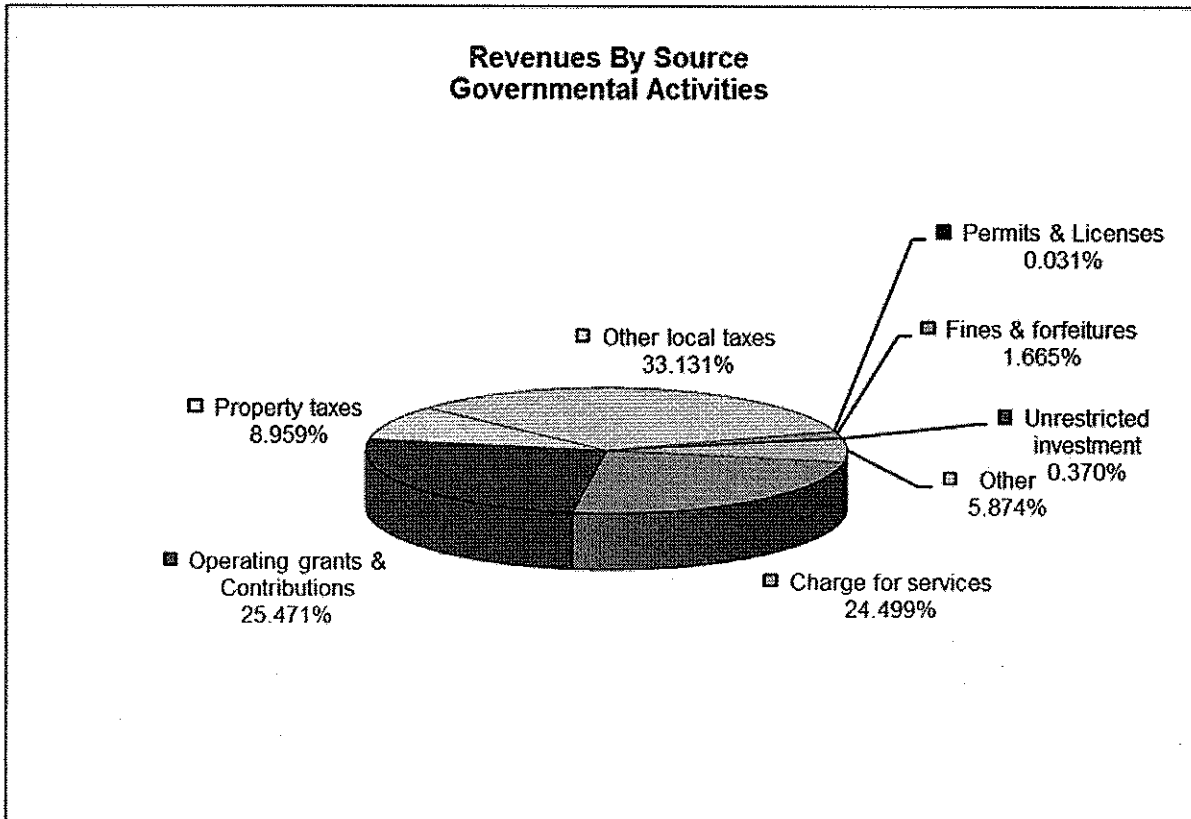
Expenses for governmental activities totaled \$5,232,103 with general government and administration (10%), public safety (54%), public works (27%), accounting for ninety-one percent of total governmental expenses. Expenses for general government and administration decreased \$233,811 primarily due to the allocation of expenditures to the utility departments; public works expenses decreased \$194,011 as a result of less resurfacing of town streets; while community development expenses increased \$140,064 due to cost incurred by the Big Creek Housing Project.

**Business-type activities**-Net assets of the business-type activities were \$11,073,423 at June 30, 2010. This was an increase of \$1,379,550 from the restated prior year net assets. The current year increase is \$998,768 more than the prior year increase of \$380,782 and is a result of new grant funding for the Birmingham sewer line project as well as an increase in the charges for service, specifically electric charges. The Town implemented a power cost adjustment factor on electric utility services. Current year power supply cost increased by \$301,446 from the prior year cost; while current year charges for electric service increased by \$504,960.

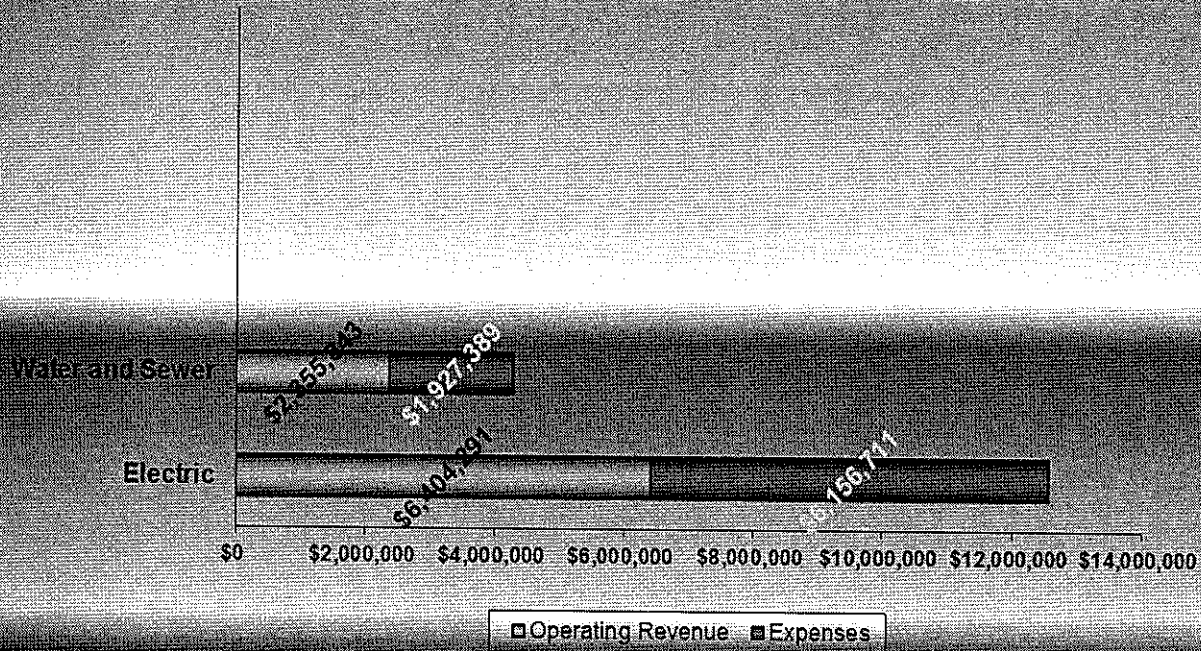
### Government-Wide Financial Analysis (Continued)

Program revenues for the business-type activities totaled \$9,432,781 of which \$8,760,134 is charges for services. Expenses totaled \$8,171,155.

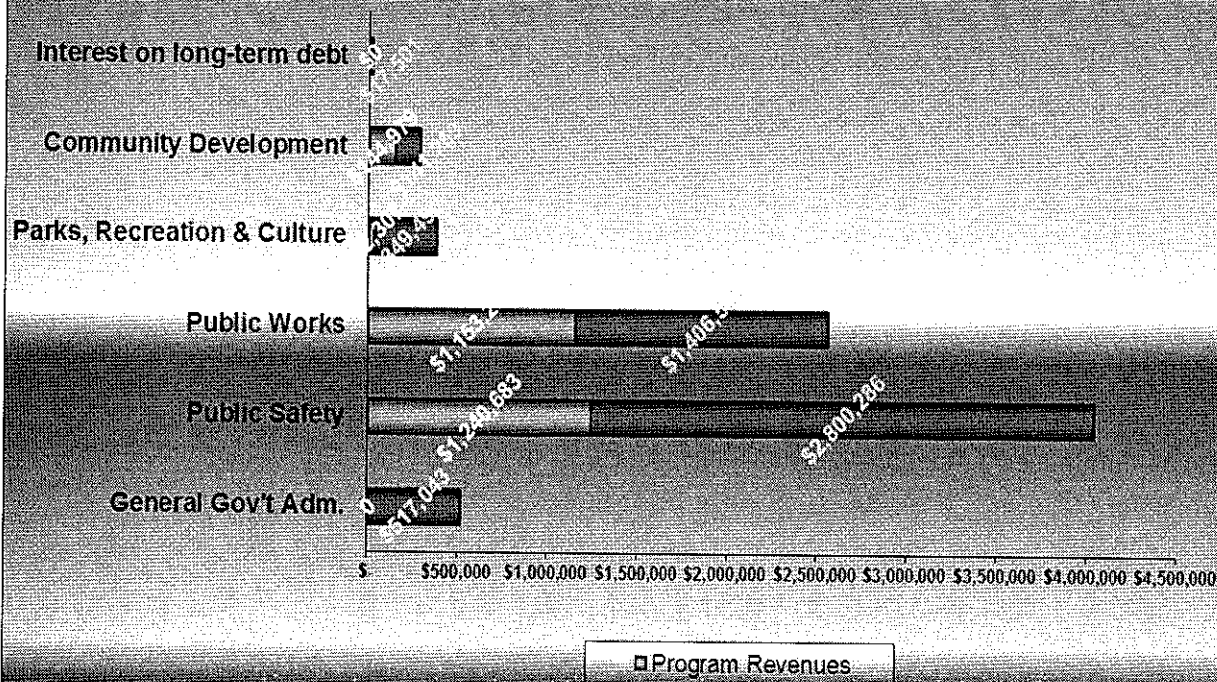
- Operating revenues increased from the prior year by \$886,885.
- Proprietary operating expenses experienced an 11 percent increase in comparison to prior year expenses.



### Expenses and Operating Revenues - Business-Type Activities



### Expenses and Program Revenues - Governmental Activities





## Financial Analysis of the Government's Funds

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

### Governmental Funds

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

The general fund is the government's primary operating fund. As of the end of the current fiscal year, the Town's general fund reported an ending fund balance of \$2,918,243. Approximately 59% of this amount (\$1,723,619) constitutes *unreserved fund balance*, which is available for spending at the government's discretion, however \$126,394 of the unreserved is designated for future years expense. The remaining fund balance (\$1,194,624) is reserved, indicating that it is not available for new spending because it reflects expenses paid by the fund on behalf of the water and sewer fund. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents approximately 35% of total fund expenditures.

The fund balance of the Town's general fund increased during the current fiscal year by \$195,192 from current year activities. Total revenues increased by \$527,313 as a result of an increase in other local taxes and charges for service; and total expenditures decreased by \$511,840, specifically due to a decrease in general governmental administration expenses.

### 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 assets of the electric and water and sewer funds amounted to \$297,193 and \$2,757,429, respectively. The total increase in net assets was \$1,379,550 during the current fiscal year.

#### Electric fund

The electric fund net assets increased by \$326,333 from current year activities in fiscal year 2010 compared to a prior year decrease of \$24,718.

Electric fund non-operating revenues increased \$10,910 (16%) from the prior year, which was related to an increase in penalties and gain on disposal of an asset.

#### Water and sewer fund

The water and sewer fund net assets increased by \$1,053,217 from current year activities in fiscal year 2010 compared to the prior year increase of \$405,500. The change in net assets increase is comprised of a couple of factors. In the prior year there were net transfers (out) of (\$52,532) versus no transfers in the current year. Operating expenses increased \$101,919 (6%), specifically related to re-allocating a portion of the general governmental expenses. Non-operating expenses decreased by \$25,639 due primarily to a decrease in interest expense and non-operating revenue increased by \$646,495 as a result of an increase in operating grants.

## General Fund Budgetary Highlights

The difference between the budgeted amounts versus the actual amounts are noted below:

- Actual Revenues were more than budgeted revenues by \$164,372. The majority of this decrease is due to an increase in intergovernmental revenue.
- Actual Expenditures were less than budgeted expenditures by \$1,567,471. This is a result of a combination of the following things: public works expenses were approximately (30%) less than estimated, general government administration expenses were (61%) less than estimated and community development was significantly less due to lack of grant funding for the budgeted project.

### General Fund Condensed Budget vs. Actual Fiscal Year ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>
Revenues	\$ 5,290,262	\$ 5,290,262	\$ 5,125,890
Expenditures	6,498,169	6,498,169	4,930,698
Other financing sources	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund balance	<u>\$(1,207,907)</u>	<u>\$(1,207,907)</u>	<u>\$ 195,192</u>

## Capital Asset and Debt Administration

### Capital Assets

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2010, amounts to \$19,281,587 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, improvements other than buildings, equipment, and public domain infrastructure additions in the current fiscal year.

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

- Capital asset acquisitions in governmental activities totaled \$402,652 in the current fiscal year. The majority was vehicles and equipment for the public safety departments.
- Capital asset acquisitions in business-type activities totaled \$1,115,512 in the current fiscal year. The majority consisted of engineering and construction costs of the Birmingham Sewer Line Project.

**The Town's Capital Assets  
(Net of Depreciation)  
Fiscal Year ended June 30, 2010**

	Governmental Activities		Business-Type Activities		Total	
	2009	2010	2009	2010	2009	2010
Land	\$ 321,106	\$321,106	\$480,636	480,636	\$ 801,742	\$ 801,742
Construction in Progress	141,058	177,703	996,092	1,160,895	1,137,150	1,338,598
Buildings and improvements	1,103,288	1,048,581	6,751,552	6,461,797	7,854,840	7,510,378
Improvements other than buildings	89,600	77,059	3,891,867	4,620,643	3,981,467	4,697,702
Equipment	2,199,737	2,072,600	558,971	506,809	2,758,708	2,579,409
Public domain infrastructure	2,510,958	2,353,758	-	-	2,510,958	2,353,758
<b>Total</b>	<b>\$ 6,365,747</b>	<b>\$ 6,050,807</b>	<b>\$ 12,679,118</b>	<b>\$ 13,230,780</b>	<b>\$ 19,044,865</b>	<b>\$ 19,281,587</b>

Additional information on the Town's capital assets can be found in Note 6 on pages 32 through 33 of this report and Note 13 on pages 40 through 42.

**Long-term debt**

At the end of the current fiscal year, the Town had total bonded debt outstanding of \$5,211,979. Of this amount, \$1,277,295 is comprised of (3) active Revenue bonds and the remaining balance of \$3,934,684 is General Obligation Bonds.

**The Town's Long-term Bond Debt  
Fiscal Year ended June 30, 2010**

	Beginning Balance		Additions		Reductions		Ending Balance	
	2009	2010	2009	2010	2009	2010	2009	2010
<b>Business-Type Activities:</b>								
General obligation bonds	\$4,647,573	\$4,321,534	\$ 50,899	\$ -	\$376,938	\$386,850	\$ 4,321,534	\$ 3,934,684
Revenue bonds	2,020,408	1,463,559	-	386,649	556,849	572,913	1,463,559	1,277,295
<b>Total</b>	<b>\$6,667,981</b>	<b>\$5,785,093</b>	<b>\$ 50,899</b>	<b>\$ 386,649</b>	<b>\$933,787</b>	<b>\$959,763</b>	<b>\$ 5,785,093</b>	<b>\$ 5,211,979</b>

Additional information on the Town's long-term liability can be found in Note 7 on pages 34 and 35 of this report.

## **Economic Factors and Next Year's Budget Rates**

- The unemployment rate as of June 30, 2010 for the County of Tazewell, in which the Town of Richlands resides, is 7.1 percent, which is a decrease from the average for 2009 of 9.6 percent. This compares to the state's unemployment rate of 7.0 percent and the national rate of 9.6 percent.
- The Town of Richlands had a peak demand in calendar year 2009 of 22 MW, energy consumption of 70GWh and is located in the AEP Zone of PJM Interconnection, LLC (PJM). Richlands is also a member of American Municipal Power ("AMP") and has purchased block power from the PJM market through AMP to meet a portion of its energy needs. Additionally, through AMP, Richlands is participating in several new generation assets including: 2.6 MW of the Prairie State Coal plant with estimated Commercial Operation Date ("COD") of Spring 2012 and 1.5 MW in the AMP Phase I Hydro projects (Cannelton, Smithland, and Willow Island) with estimated COD between Summer 2013 and Spring 2014. The AMP Phase I run-of-the-river hydroelectric projects are being constructed by AMP at existing dam and locks facilities on the Ohio River. Richlands also purchases 0.5 MW of capacity and associated energy from Southeastern Power Administration ("SEPA") through a Purchase Power Agreement ("PPA") that is cancelable after 3/1/2008 by either party. Exposure to the volatile energy market commodity will be greatly reduced by providing over 50% of the Town's load requirements from these projects.
- The evaluation of the American Municipal Power Generating Station (AMPGS) project, a coal fired generation facility in southern Ohio was terminated, however, the Town is continuing to supply the basic load needs of the Town by evaluating a natural gas combined unit cycle plant.
- The Town will continue to monitor the effects of current economic conditions on energy costs in relation to powering water and wastewater plant facilities and rising costs of raw materials needed to maintain the Town and its infrastructure.
- The Town has rehabilitated the existing recreational facilities swimming pool which has been completed and placed in service during August 2010.
- The Town was awarded \$2,486,642 on a principal forgiveness loan as part of the American Recovery and Reinvestment Act of 2009 (ARRA) Program for a sewer line project in the Birmingham area of the Town of Richlands. The balance of the project is funded through the revolving loan program administered by the Department of Environmental Quality (DEQ). At completion of this public sewer services will be provided for approximately 150 residents in the Birmingham area of Town that was included in the 2006 boundary adjustment.
- The Town, through a volunteer boundary adjustment with the County of Tazewell, acquired approximately 50 acres of property on the east end of town. The area is commercial in nature and includes the Richlands School Complex. The effective date of the incorporation was January 1, 2010. Public safety services and police protection as well as utilities are currently provided to this area.
- Power supply costs are generally expected to increase due to existing blocks of power contracts expiring and new contracts becoming effective. Also, the capacity market beginning in July 2010 will have a significant increase that will result in an increase to our customers.

All of these factors are considered in preparing the Town of Richlands' budget for fiscal year 2010.

Unreserved fund balance in the general fund was \$1,723,619 as of June 30, 2010. 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**

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## TOWN OF RICHLANDS, VIRGINIA

## EXHIBIT 1

## STATEMENT OF NET ASSETS

June 30, 2010

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-Type</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,583,000	\$ 2,711,524	\$ 4,294,524
Real estate taxes receivable, net	61,366	-	61,366
Receivables, other	386,973	828,832	1,215,805
Notes receivable	46,800	-	46,800
Due from other governmental units	67,449	1,862,623	1,930,072
Internal balances	1,194,624	(1,194,624)	-
Bond issue costs, net	-	40,804	40,804
Capital assets, net	<u>6,050,807</u>	<u>13,230,780</u>	<u>19,281,587</u>
Total assets	<u>9,391,019</u>	<u>17,479,939</u>	<u>26,870,958</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	154,080	716,462	870,542
Accrued interest payable	14,927	21,593	36,520
Accrued payroll and related liabilities	94,159	23,191	117,350
Customer deposits	-	306,141	306,141
Due to other governmental units	38,443	-	38,443
Long-term liabilities:			
Due within one year	361,481	1,026,945	1,388,426
Due in more than one year	<u>460,488</u>	<u>4,312,184</u>	<u>4,772,672</u>
Total liabilities	<u>1,123,578</u>	<u>6,406,516</u>	<u>7,530,094</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	5,669,696	8,018,801	13,688,497
Restricted for:			
Specified purposes	168,173	-	168,173
Unrestricted	<u>2,429,572</u>	<u>3,054,622</u>	<u>5,484,194</u>
Total net assets	<u>\$ 8,267,441</u>	<u>\$ 11,073,423</u>	<u>\$ 19,340,864</u>

See Notes to Financial Statements.

## TOWN OF RICHLANDS

EXHIBIT 2

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2010

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
<b>Primary government:</b>						
Governmental activities:						
General government administration	\$ 517,043	\$ -	\$ -	\$ (517,043)	\$ -	\$ (517,043)
Public safety	2,800,286	400,133	-	(1,559,603)	-	(1,559,603)
Public works	1,406,509	760,519	-	(253,214)	-	(253,214)
Parks, recreation, and cultural	349,495	5,000	-	(317,188)	-	(317,188)
Community development	141,269	144,979	-	3,710	-	3,710
Interest on long-term debt	17,501	-	-	(17,501)	-	(17,501)
Total governmental activities	5,232,103	1,310,631	-	(2,660,839)	-	(2,660,839)
<b>Business-type activities:</b>						
Electric	6,156,711	-	-	-	247,580	247,580
Water and sewer	2,014,444	672,647	-	-	1,014,046	1,014,046
Total business-type activities	8,171,155	672,647	-	-	1,261,626	1,261,626
Total primary government	13,403,258	1,983,278	-	(2,660,839)	1,261,626	(1,399,213)
General revenues:						
Property taxes				461,000	-	461,000
Other local taxes				1,704,768	-	1,704,768
Permits and licenses				1,585	-	1,585
Fines and forfeitures				85,661	-	85,661
Unrestricted investment earnings				19,021	20,763	39,784
Other				302,266	97,161	399,427
Transfers				-	-	-
Total general revenues and transfers				2,574,301	117,924	2,692,225
Change in net assets				(86,538)	1,379,550	1,293,012
Net assets, beginning				8,392,422	9,693,873	18,086,295
Prior Period Adjustments				(38,443)	-	(38,443)
Net assets, beginning, restated				8,353,979	9,693,873	18,047,852
Net assets, ending				8,267,441	11,073,423	19,340,864

See Notes to Financial Statements.

## TOWN OF RICHLANDS, VIRGINIA

EXHIBIT 3

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
 June 30, 2010

	<u>Major</u>	<u>Non-Major</u>	<u>Total</u>
	<u>General</u>	<u>Other</u> <u>Governmental</u>	<u>Governmental</u> <u>Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,583,000	\$ -	\$ 1,583,000
Real estate taxes receivable, net	61,366	-	61,366
Receivables, other	386,973	-	386,973
Notes receivable	46,800	-	46,800
Due from other governmental units	67,449	-	67,449
Advances to other funds	<u>1,194,624</u>	<u>-</u>	<u>1,194,624</u>
Total assets	<u>\$ 3,340,212</u>	<u>\$ -</u>	<u>\$ 3,340,212</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 154,080	\$ -	\$ 154,080
Accrued payroll	94,159	-	94,159
Due to other governmental units	38,443	-	38,443
Deferred revenue	<u>135,287</u>	<u>-</u>	<u>135,287</u>
Total liabilities	<u>421,969</u>	<u>-</u>	<u>421,969</u>
Fund Balances:			
Reserved for:			
Advances to other funds	1,194,624	-	1,194,624
Unreserved, reported in:			
Designated for future years expenditures	126,394	-	126,394
General fund, undesignated	<u>1,597,225</u>	<u>-</u>	<u>1,597,225</u>
Total fund balances	<u>2,918,243</u>	<u>-</u>	<u>2,918,243</u>
Total liabilities and fund balances	<u>\$ 3,340,212</u>	<u>\$ -</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	6,050,807
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	135,287
Interest on long-term debt is not accrued in the funds as in the government-wide statements.	(14,927)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(821,969)</u>

**Net assets of governmental activities** \$ 8,267,441

See Notes to Financial Statements.



**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**June 30, 2010**

	<u>Major</u>	<u>Non-Major</u>	<u>Total</u>
	<u>General</u>	<u>Other</u> <u>Governmental</u>	<u>Governmental</u> <u>Funds</u>
<b>REVENUES</b>			
General property taxes	\$ 425,420	\$ -	\$ 425,420
Other local taxes	1,704,768	-	1,704,768
Permits, privilege fees, and regulatory licenses	1,585	-	1,585
Fines and forfeitures	85,661	-	85,661
Investment earnings	19,021	-	19,021
Charges for services	1,264,454	-	1,264,454
Other	286,617	-	286,617
Intergovernmental	1,338,364	-	1,338,364
Total revenues	<u>5,125,890</u>	<u>-</u>	<u>5,125,890</u>
<b>EXPENDITURES</b>			
Current:			
General government administration	295,497	-	295,497
Public safety	2,747,120	-	2,747,120
Public works	1,331,514	-	1,331,514
Parks, recreation, and cultural	356,386	-	356,386
Community development	141,269	-	141,269
Debt service:			
Principal retirement	38,635	-	38,635
Interest	20,277	-	20,277
Total expenditures	<u>4,930,698</u>	<u>-</u>	<u>4,930,698</u>
Excess (deficiency) of revenues over expenditures	<u>195,192</u>	<u>-</u>	<u>195,192</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance			195,192
<b>FUND BALANCE, JULY 1, 2009</b>	2,761,494	-	
Prior Period Adjustments	(38,443)	-	
<b>FUND BALANCE, JULY 1, 2009, RESTATED</b>	<u>2,723,051</u>	<u>-</u>	
<b>FUND BALANCE, JUNE 30, 2010</b>	<u>\$ 2,918,243</u>	<u>\$ -</u>	

**Adjustments for the Statement of Activities:**

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which the depreciation exceeded new capital assets in the current period. (314,940)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets. 10,759

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in funds. 19,675

Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds. 2,776

**Change in net assets of governmental activities** \$ (86,538)

See Notes to Financial Statements.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**Year Ended June 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
General property taxes	\$ 447,607	\$ 447,607	\$ 425,420	\$ (22,187)
Other local taxes	1,602,219	1,602,219	1,704,768	102,549
Permits, privilege fees, and regulatory licenses	2,000	2,000	1,585	(415)
Fines and forfeitures	57,000	57,000	85,661	28,661
Investment earnings	40,000	40,000	19,021	(20,979)
Charges for services	1,090,000	1,090,000	1,264,454	174,454
Other	104,100	104,100	286,617	182,517
Intergovernmental	<u>1,947,336</u>	<u>1,947,336</u>	<u>1,338,364</u>	<u>(608,972)</u>
Total revenues	<u>5,290,262</u>	<u>5,290,262</u>	<u>5,125,890</u>	<u>(164,372)</u>
<b>EXPENDITURES</b>				
Current:				
General government administration	755,444	755,444	295,497	459,947
Public safety	2,919,507	2,919,507	2,747,120	172,387
Public works	1,889,895	1,889,895	1,331,514	558,381
Parks, recreation, and cultural	350,386	350,386	356,386	(6,000)
Community development	500,000	500,000	141,269	358,731
Debt service:				
Principal	62,655	62,655	38,635	24,020
Interest	<u>20,282</u>	<u>20,282</u>	<u>20,277</u>	<u>5</u>
Total expenditures	<u>6,498,169</u>	<u>6,498,169</u>	<u>4,930,698</u>	<u>1,567,471</u>
Excess (deficiency) of revenues over expenditures	<u>(1,207,907)</u>	<u>(1,207,907)</u>	<u>195,192</u>	<u>1,403,099</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	<u>(1,207,907)</u>	<u>(1,207,907)</u>	<u>195,192</u>	<u>1,403,099</u>
<b>FUND BALANCE, JULY 1, 2009</b>	<u>2,761,494</u>	<u>2,761,494</u>	<u>2,761,494</u>	<u>-</u>
Prior Period Adjustments	<u>(38,443)</u>	<u>(38,443)</u>	<u>(38,443)</u>	<u>-</u>
<b>FUND BALANCE, JULY 1, 2009 RESTATED</b>	<u>2,723,051</u>	<u>2,723,051</u>	<u>2,723,051</u>	<u>-</u>
<b>FUND BALANCE, JUNE 30, 2010</b>	<u>\$ 1,515,144</u>	<u>\$ 1,515,144</u>	<u>\$ 2,918,243</u>	<u>\$ 1,403,099</u>

See Notes to Financial Statements.

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2010**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Electric</b>	<b>Water and Sewer</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 76,286	\$ 2,635,238	\$ 2,711,524
Receivables, net	641,337	187,495	828,832
Advances to other funds	252,957	-	252,957
Due from other government units	-	1,862,623	1,862,623
Total current assets	<u>970,580</u>	<u>4,685,356</u>	<u>5,655,936</u>
Noncurrent assets:			
Capital assets, net	1,303,464	11,927,316	13,230,780
Bond issuance costs, net	-	40,804	40,804
Total noncurrent assets	<u>1,303,464</u>	<u>11,968,120</u>	<u>13,271,584</u>
Total assets	<u>2,274,044</u>	<u>16,653,476</u>	<u>18,927,520</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	387,611	328,851	716,462
Accrued interest payable	-	21,593	21,593
Accrued payroll and related liabilities	8,783	14,408	23,191
Customer deposits	238,110	68,031	306,141
Bonds payable	-	942,178	942,178
Advances from other funds	-	1,447,581	1,447,581
Compensated absences	25,922	58,845	84,767
Total current liabilities	<u>660,426</u>	<u>2,881,487</u>	<u>3,541,913</u>
Noncurrent liabilities:			
Bonds payable	-	4,269,801	4,269,801
Compensated absences	12,961	29,422	42,383
Total noncurrent liabilities	<u>12,961</u>	<u>4,299,223</u>	<u>4,312,184</u>
Total liabilities	<u>673,387</u>	<u>7,180,710</u>	<u>7,854,097</u>
<b>NET ASSETS (DEFICIT)</b>			
Invested in capital assets, net of related debt	1,303,464	6,715,337	8,018,801
Restricted	-	-	-
Unrestricted	297,193	2,757,429	3,054,622
Total net assets	<u>\$ 1,600,657</u>	<u>\$ 9,472,766</u>	<u>\$ 11,073,423</u>

See Notes to Financial Statements.

**STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN FUND NET ASSETS (DEFICIT)  
PROPRIETARY FUNDS  
Year Ended June 30, 2010**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Electric</b>	<b>Water and Sewer</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Charges for utility services	\$ 5,995,048	\$ 1,516,837	\$ 7,511,885
Power cost adjustment	317,231	-	317,231
Charges for contract work	11,428	46,789	58,217
Connection fees	10,809	20,773	31,582
Utility consumption tax	56,600	-	56,600
Monthly user charges	-	771,444	771,444
Other	13,175	-	13,175
Total operating revenues	<u>6,404,291</u>	<u>2,355,843</u>	<u>8,760,134</u>
<b>OPERATING EXPENSES</b>			
Power purchase	5,015,972	-	5,015,972
Wages	404,243	519,446	923,689
Taxes	30,426	39,193	69,619
Employee benefits	163,915	187,836	351,751
Provision for doubtful accounts	50,852	19,409	70,261
Insurance	16,409	43,040	59,449
Vehicle expense	29,477	19,934	49,411
Professional fees	142,521	10,652	153,173
Supplies and maintenance	117,022	249,508	366,530
Depreciation and amortization	77,318	500,091	577,409
Utilities	19,032	309,751	328,783
Rental expense	227	10	237
Other	89,297	28,519	117,816
Total operating expenses	<u>6,156,711</u>	<u>1,927,389</u>	<u>8,084,100</u>
Operating income (loss)	<u>247,580</u>	<u>428,454</u>	<u>676,034</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Operating grants	-	672,647	672,647
Interest income	-	20,763	20,763
Interest expense	-	(87,055)	(87,055)
Penalties	72,753	18,408	91,161
Gain on disposal of assets	6,000	-	6,000
Net nonoperating revenue (expenses)	<u>78,753</u>	<u>624,763</u>	<u>703,516</u>
Income before transfers	326,333	1,053,217	1,379,550
<b>NET OPERATING TRANSFERS IN (OUT)</b>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	326,333	1,053,217	1,379,550
<b>NET ASSETS (DEFICIT), JULY 1, 2009</b>	1,274,324	8,419,549	9,693,873
Prior Period Adjustments	-	-	-
<b>NET ASSETS, JULY 1, 2009, RESTATED</b>	<u>1,274,324</u>	<u>8,419,549</u>	<u>9,693,873</u>
<b>NET ASSETS (DEFICIT), JUNE 30, 2010</b>	<u>\$ 1,600,657</u>	<u>\$ 9,472,766</u>	<u>\$ 11,073,423</u>

See Notes to Financial Statements.

## TOWN OF RICHLANDS, VIRGINIA

EXHIBIT 8

Page 1 of 2

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 Year Ended June 30, 2010

	<u>Business-Type Activities - Enterprise Fund</u>		
	<u>Electric</u>	<u>Water and Sewer</u>	<u>Total</u>
<b>OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 6,171,977	\$ 2,362,771	\$ 8,534,748
Payments to suppliers	(5,591,548)	(827,849)	(6,419,397)
Payments to employees	(397,087)	(513,009)	(910,096)
Other receipts (payments)	<u>-</u>	<u>(185,624)</u>	<u>(185,624)</u>
Net cash provided by (used in) operating activities	<u>183,342</u>	<u>836,289</u>	<u>1,019,631</u>
<b>NONCAPITAL FINANCING ACTIVITIES</b>			
Advances (to) from other funds	<u>(252,957)</u>	<u>208,761</u>	<u>(44,196)</u>
Net cash provided by (used in) noncapital financing activities	<u>(69,615)</u>	<u>1,045,050</u>	<u>975,435</u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchases of capital assets	(197,982)	(917,530)	(1,115,512)
Proceeds from capital debt	-	386,649	386,649
Principal paid on capital debt	-	(959,763)	(959,763)
Interest paid on capital debt	<u>-</u>	<u>(94,908)</u>	<u>(94,908)</u>
Net cash used in capital and related financing activities	<u>(197,982)</u>	<u>(1,585,552)</u>	<u>(1,783,534)</u>
<b>INVESTING ACTIVITIES</b>			
Interest received	-	20,763	20,763
Other receipts	<u>78,753</u>	<u>691,055</u>	<u>769,808</u>
Net cash provided by investing activities	<u>78,753</u>	<u>711,818</u>	<u>790,571</u>
Net increase (decrease) in cash and cash equivalents	(188,844)	171,316	(17,528)
<b>CASH AND CASH EQUIVALENTS</b>			
Beginning at July 1, 2009	<u>265,130</u>	<u>2,463,922</u>	<u>2,729,052</u>
Ending at June 30, 2010	<u>\$ 76,286</u>	<u>\$ 2,635,238</u>	<u>\$ 2,711,524</u>

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 Year Ended June 30, 2010

	<u>Business-Type Activities - Enterprise Fund</u>		
	<u>Electric</u>	<u>Water and Sewer</u>	<u>Total</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Operating income	\$ 247,580	\$ 428,454	\$ 676,034
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	77,318	500,091	577,409
Change in assets and liabilities			
(Increase) decrease in:			
Receivables, net	(160,238)	523	(159,715)
(Decrease) increase in:			
Accounts payable and accrued liabilities	11,526	76,408	87,934
Accrued payroll and related liabilities	<u>7,156</u>	<u>16,437</u>	<u>23,593</u>
Net cash provided by operating activities	<u>\$ 183,342</u>	<u>\$ 1,021,913</u>	<u>\$ 1,205,255</u>

See Notes to Financial Statements.

**TOWN OF RICHLANDS, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Town of Richlands (the Town) are prepared in accordance with generally accepted accounting principles (GAAP). The Town's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The following is a summary of the more significant policies:

**A. The Financial Reporting Entity**

As required by generally accepted accounting principles, these financial statements present the Town (primary government) and its blended component unit. The component unit discussed in Note B is included in the Town's reporting entity because of the significance of its operational or financial relationships with the Town.

**B. Individual Component Unit Disclosures**

**Blended Component Unit**

Recreation Commission - The Town collects all revenues and pays all expenditures. The Recreation Commission is included in the Town's annual budget. The council appoints all members to the Commission.

**C. Government-Wide and Fund Financial Statements**

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Town's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Town's activities, including infrastructure (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

**TOWN OF RICHLANDS, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Government-Wide and Fund Financial Statements (continued)**

These and other changes are reflected in the accompanying financial statements. The Town elected to implement the general provisions of the Statement in the fiscal year 2004 and to retroactively report infrastructure in the fiscal year ended June 30, 2009.

The government-wide financial statements (i.e., the statement of net assets 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 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*.

Separate financial statements are provided for governmental funds, and the proprietary funds. Major individual government funds and enterprise funds are reported as separate columns in the fund financial statements.

**D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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



TOWN OF RICHLANDS, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)**

Government 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 the next fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due and amounts related to compensated absences are recorded only if they are expected to be paid within the next fiscal year.

Property taxes, franchise taxes, sales taxes collected by the state, licenses, intergovernment revenues 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports one major governmental fund:

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

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.

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's proprietary funds 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.

TOWN OF RICHLANDS, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

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 electric and water and sewer 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 nonoperating revenues and expenses.

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

E. Budgets and Budgetary Accounting

The Town's budget is presented in accordance with accounting principles generally accepted in the United States of America. The following procedures are used by the Town in establishing the budgetary data reflected in the financial statements:

1. Prior to March 30, the Town Manager submitted to the Council a proposed operating and capital budget for the fiscal year commencing the following July 1.
2. The budget is advertised and public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an appropriation resolution.
4. The appropriation resolution places legal restriction on expenditures at the department level or category level. The appropriation for each department or category can be revised only by council. 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 and Enterprise Funds.

**TOWN OF RICHLANDS, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Budgets and Budgetary Accounting (continued)**

6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30 for all town departments.
8. All budget data presented in the accompanying financial statements is the revised budget as of June 30.

**F. Cash and Cash Equivalents and Investments**

The Town considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Investments are stated at fair value.

**G. Property Taxes Receivable**

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

**H. Allowance for Uncollectible Accounts**

The Town calculates its allowance for uncollectible accounts using historical collection data and specific account analysis.

**I. Capital Assets**

Capital assets, which include property, plant and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. *Capital assets* are defined by the Town as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of one year. Capital assets purchased by the proprietary funds are stated at appraised value July 1, 1982. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvement are capitalized as projects are constructed.

**TOWN OF RICHLANDS, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**I. Capital Assets (continued)**

Property, plant, and equipment is depreciated using the straight-line method over the following estimated useful lives:

Utility systems	25 - 50 years
Buildings	8 - 50 years
Equipment, machinery and vehicles	3 - 20 years
Public domain infrastructure	20 - 25 years

GASB No. 34 required the Town to report and depreciate new infrastructure assets effective with the beginning of fiscal year 2004. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are the largest asset class of the Town. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for fiscal years ending in 2008. The Town elected to implement the general provisions of GASB No. 34 in fiscal year 2004 and implemented the retroactive infrastructure provisions in the fiscal year ended June 30, 2008.

**J. Capitalization of Interest**

The Town follows the policy of capitalizing net interest costs on funds borrowed to finance the construction of proprietary fixed assets. Interest is not capitalized on the construction of assets used in governmental activities.

**K. Bond Issuance Costs**

Bond issuance costs are being amortized on the straight-line method over the life of the bonds.

**L. Deferred Revenues**

Deferred revenue in the general fund consisted primarily of (1) property taxes not collected within 45 days of year-end, (2) funds received in advance for services to be provided subsequent to year-end, and (3) amounts collected on lease agreements prior to the lease periods.

**M. Compensated Absences**

The Town has policies which allow for the accumulation and vesting of limited amounts of vacation and sick leave until termination or retirement. Amounts of such absences are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if the leave is expected to be paid within the next fiscal year.

**TOWN OF RICHLANDS, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**N. Long-Term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, *long-term debt* and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. 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. Issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

**O. Fund Equity**

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

**P. Estimates**

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and reported revenues, expenditures, and expenses. Actual results could differ from those estimates.

**Note 2. CASH AND INVESTMENTS**

Deposits: All cash of the Town is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance.

# TOWN OF RICHLANDS, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

June 30, 2010

### Note 2. CASH AND INVESTMENTS (Continued)

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

The Code of Virginia requires that certificates of deposit be recorded as deposits rather than investments. All certificates of deposit, regardless of maturity, are reported in the accompanying financial statements as cash equivalents.

### Note 3. RECEIVABLES

Receivables for the Town's individual major funds, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Electric</u>	<u>Water and Sewer</u>	<u>Total</u>
Receivables:				
Accounts	\$ 534,006	\$ 665,978	\$ 194,622	\$ 1,394,606
Taxes	88,183	-	-	88,183
Due from other government units	67,449	-	1,862,623	1,930,072
Notes receivable	<u>46,800</u>	<u>-</u>	<u>-</u>	<u>46,800</u>
Gross receivables	736,438	665,978	2,057,245	3,459,661
Less: allowance for uncollectible	<u>173,850</u>	<u>24,641</u>	<u>7,127</u>	<u>205,618</u>
Net receivables	<u>\$ 562,588</u>	<u>\$ 641,337</u>	<u>\$ 2,050,118</u>	<u>\$ 3,254,043</u>

Notes receivable represent amounts advanced to individuals for housing rehabilitation pursuant to an agreement between the Town and the Virginia Department of Housing and Community Development.

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	<u>Deferred Revenue</u>		
	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes receivable	\$ 85,945	\$ -	\$ 85,945
Rents received in advance	-	49,342	49,342
Other	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 85,945</u>	<u>\$ 49,342</u>	<u>\$ 135,287</u>

**TOWN OF RICHLANDS, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**Note 4. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The Electric Fund does not maintain a cash account and transfers its excess cash to the General Fund and the Water and Sewer Fund.

**Note 5. DUE TO/FROM OTHER GOVERNMENTAL UNITS**

Amounts due to/from other governmental units are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Commonwealth of Virginia:		
State and local sales tax	\$ 42,624	\$ -
Grant revenue	24,825	252,693
Tazewell County Public Service Authority	<u>-</u>	<u>1,609,930</u>
	<u>\$ 67,449</u>	<u>\$ 1,862,623</u>

**Note 6. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2010 was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated:				
Land	\$ 321,106	\$ -	\$ -	\$ 321,106
Construction in progress	141,058	36,645	-	177,703
Total capital assets, not depreciated	<u>462,164</u>	<u>36,645</u>	<u>-</u>	<u>498,809</u>
Capital assets, depreciated:				
Buildings and improvements	1,819,285	-	-	1,819,285
Improvements other than buildings	252,475	-	-	252,475
Equipment	6,170,656	363,007	9,890	6,523,773
Public domain infrastructure	3,953,490	-	-	3,953,490
Total capital assets, depreciated	<u>12,195,906</u>	<u>363,007</u>	<u>9,890</u>	<u>12,549,023</u>
Less accumulated depreciation for:				
Buildings and improvements	715,997	54,707	-	770,704
Improvements other than buildings	162,875	12,541	-	175,416
Equipment	3,970,919	485,034	4,780	4,451,173
Public domain infrastructure	1,442,532	157,200	-	1,599,732
Total accumulated depreciation	<u>6,292,323</u>	<u>709,482</u>	<u>4,780</u>	<u>6,997,025</u>
Total capital assets depreciated, net	<u>5,903,583</u>	<u>(346,475)</u>	<u>5,110</u>	<u>5,551,998</u>
Governmental activities capital assets, net	<u>\$ 6,365,747</u>	<u>\$ (309,830)</u>	<u>\$ 5,110</u>	<u>\$ 6,050,807</u>

**TOWN OF RICHLANDS, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**Note 6. CAPITAL ASSETS (Continued)**

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated:				
Land	\$ 480,636	\$ -	\$ -	\$ 480,636
Construction in progress	996,092	164,803	-	1,160,895
Total capital assets, not depreciated	<u>1,476,728</u>	<u>164,803</u>	<u>-</u>	<u>1,641,531</u>
Capital assets, depreciated:				
Buildings and improvements	11,922,397	-	-	11,922,397
Improvements other than buildings	7,948,896	904,339	-	8,853,235
Equipment	2,498,123	46,370	12,381	2,532,112
Public domain infrastructure	-	-	-	-
Total capital assets, depreciated	<u>22,369,416</u>	<u>950,709</u>	<u>12,381</u>	<u>23,307,744</u>
Less accumulated depreciation for:				
Buildings and improvements	5,170,845	289,755	-	5,460,600
Improvements other than buildings	4,057,029	175,563	-	4,232,592
Equipment	1,939,152	98,532	12,381	2,025,303
Public domain infrastructure	-	-	-	-
Total accumulated depreciation	<u>11,167,026</u>	<u>563,850</u>	<u>12,381</u>	<u>11,718,495</u>
Total capital assets, depreciated, net	<u>11,202,390</u>	<u>386,859</u>	<u>-</u>	<u>11,589,249</u>
Business-type activities capital assets, net	<u>\$12,679,118</u>	<u>\$ 551,662</u>	<u>\$ -</u>	<u>\$13,230,780</u>

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

Governmental Activities	
General government administration	\$ 218,102
Public safety	391,338
Public works	70,931
Parks, recreation and culture	<u>29,111</u>
Total depreciation expense - governmental activities	<u>\$ 709,482</u>
Business-Type Activities	
Wastewater	\$ 299,685
Water	186,847
Electric	<u>77,318</u>
Total depreciation expense - business-type activities	<u>\$ 563,850</u>

**Construction Commitments**

As of June 30, 2010, the Town has active construction projects and commitments with contractors as listed below:

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Front Street Bridge	\$ 34,224	\$ 5,302,000
Swimming pool	143,479	100,819
Birmingham project	<u>1,160,895</u>	<u>2,595,007</u>
	<u>\$ 1,338,598</u>	<u>\$ 7,997,826</u>



**TOWN OF RICHLANDS, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**Note 7. LONG-TERM LIABILITIES**

The following is a summary of changes in long-term liabilities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
Bank loan	\$ 56,054	\$ -	\$ -	\$ 56,054	\$ 27,164
Capital lease obligation	363,692	-	38,635	325,057	40,412
Compensated absences	<u>412,982</u>	<u>27,876</u>	<u>-</u>	<u>440,858</u>	<u>293,905</u>
Governmental activities, long-term liabilities	<u>\$ 832,728</u>	<u>\$ 27,876</u>	<u>\$ 38,635</u>	<u>\$ 821,969</u>	<u>\$ 361,481</u>
<b>Business-Type Activities:</b>					
General obligation bonds	\$ 4,321,534	\$ -	\$ 386,850	\$ 3,934,684	\$ 362,888
Revenue bonds	<u>1,463,559</u>	<u>386,649</u>	<u>572,913</u>	<u>1,277,295</u>	<u>579,290</u>
Total bonds payable	5,785,093	386,649	959,763	5,211,979	942,178
Compensated absences	<u>106,909</u>	<u>20,241</u>	<u>-</u>	<u>127,150</u>	<u>84,767</u>
Business-type activities, long-term liabilities	<u>\$ 5,892,002</u>	<u>\$ 406,890</u>	<u>\$ 959,763</u>	<u>\$ 5,339,129</u>	<u>\$ 1,026,945</u>

The compensated absences of the governmental activities will be paid from the General Fund.

The annual requirements to amortize long-term debt and related interest are as follows:

Year Ended June 30,	Governmental Activities					
	General Obligation Bonds		Bank Loan		Capital Lease Obligation	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ -	\$ -	\$ 27,164	\$ 3,552	\$ 40,412	\$ 14,953
2012	-	-	28,890	1,830	42,271	13,094
2013-2017	-	-	-	-	242,374	134,450
2018-2022	-	-	-	-	-	-
2023-2027	-	-	-	-	-	-
2028-2032	-	-	-	-	-	-
2033-2037	-	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56,054</u>	<u>\$ 5,382</u>	<u>\$ 325,057</u>	<u>\$ 162,497</u>

**TOWN OF RICHLANDS, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**Note 7. LONG-TERM LIABILITIES (Continued)**

Year Ended June 30,	Business-Type Activities			
	General Obligation			
	Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2011	\$ 579,290	\$ 21,487	\$ 362,888	\$ 47,219
2012	339,388	4,353	405,180	37,312
2013-2017	280,312	-	1,457,726	49,060
2018-2022	78,305	-	435,973	-
2023-2027	-	-	435,973	-
2028-2032	-	-	430,139	-
2033-2037	-	-	406,805	-
	<u>\$1,277,295</u>	<u>\$ 25,840</u>	<u>\$3,934,684</u>	<u>\$ 133,591</u>

Details of long-term indebtedness are as follows:

	Interest Rates	Issue Date	Final Maturity Date	Original Issue	Governmental Activities	Business- Type Activities
<u>General Obligation Bonds:</u>						
Series 2000	0.00%	10-00	04-31	\$ 175,000	\$ -	\$ 122,500
Public improvement, 2003 Series	3.16%	05-03	10-14	\$ 3,308,029	-	1,648,812
Series 2005	0.00%	07-05	01-37	\$ 2,002,799	-	1,769,139
Series 2006	0.00%	10-06	04-37	\$ 438,037	-	394,233
					<u>\$ -</u>	<u>\$ 3,934,684</u>
<u>Revenue Bonds:</u>						
Wastewater Treatment Systems Revenue Bonds, 1989 Series	3.25%	11-89	09-11	\$ 7,800,588	\$ -	\$ 790,825
Wastewater Treatment Systems Revenue Bonds, 1990 Series	0.00%	12-90	09-11	\$ 903,095	-	69,181
Wastewater Treatment Systems Revenue Bonds, 1992 Series	0.00%	04-92	01-12	\$ 408,000	-	30,640
Wastewater Treatment Systems Revenue Bonds, 2010 Series	0.00%	05-10	08-31	\$ 1,121,250	-	386,649
					<u>\$ -</u>	<u>\$ 1,277,295</u>
<u>Bank Loan:</u>						
Tru-Point Bank	6.25%	11-05	11-10	\$ 128,198	<u>\$ 56,054</u>	<u>\$ -</u>
<u>Capital Lease Obligation:</u>						
Wachovia Financial Securities	4.60%	08-07	08-16	\$ 455,992	<u>\$ 325,057</u>	<u>\$ -</u>

**TOWN OF RICHLANDS, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**Note 8. LEASE COMMITMENTS**

The Town leases a street department shop facility for \$303 per month on a month-to-month basis.

Additionally, various railroad right-of-ways and utility poles are leased inside the Town limits on an annual and month-to-month basis.

**Note 9. DEFINED BENEFIT PENSION PLAN**

**A. Plan Description**

The Town of Richlands, Virginia Pension Plan (the Plan) is a single employer public employee retirement system (PERS) established by the Town of Richlands, Virginia, to provide pension benefits for full-time employees of the Town who are over age 21 and have completed one year of service. The Plan is funded through a group annuity contract with the John Hancock Life Insurance Company (Contract 518).

The Town's January 1, 2010 actuarial valuation was performed by the actuarial firm of Buck Consultants, LLC. A copy of the valuation is available by submitting a written request to the attention of the Town Manager.

Based on the most recent actuarial valuation as of January 1, 2010, the Town's annual total payroll and covered payroll amounted to \$2,514,590. Covered payroll refers to all compensation paid by the Town to active employees covered by the Plan on which contributions to the pension plan are based.

Under the provisions of the Town's pension plan, pension benefits fully vest after ten years of full-time employment or attainment of age 55 or upon the occurrence of an employment related death or disability. Employees who retire at or after age 65 with five years of credited service are entitled to an annual retirement benefit.

The yearly amount of pension benefit applicable to a participant whose retirement date is his normal retirement date is equal to his future service benefit provided, however, such yearly amount shall not exceed \$20,000.

Also, the Plan provides for death and disability benefits to participating employees and to their dependents. The amount and/or duration of these benefits depend upon the circumstances of the death or disability.

All contributions to the Plan are made by the Town.

**TOWN OF RICHLANDS, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**Note 9. DEFINED BENEFIT PENSION PLAN (Continued)**

**B. Funding Policy and Annual Pension Costs**

The Funding Policy is to contribute the Recommended Contribution as determined each year in the actuarial valuation. There is no pre-specified dollar or percentage contribution. The Recommended Contribution is equal to the Normal Cost under the Aggregate Actuarial Cost Method. Plan Member contributions are not required.

There were no changes to the Funding Policy or to the actuarial cost method during the year.

The Town's annual pension cost and related information for the Plan for the current year is as follows:

Normal cost .....	\$ 259,254
Interest adjustment .....	<u>16,852</u>
Recommended employer contribution .....	<u>\$ 276,106</u>
Contributions made .....	None to date

It is anticipated that \$276,106 in contributions will be contributed within one year after the end of the period.

The annual recommended contribution for the current year was determined as part of the January 1, 2010, actuarial valuation using the Aggregate Cost Method. The actuarial assumptions included (a) 6.5% investment return and (b) projected compensation increases of 4.5%. Both (a) and (b) did not include an explicit inflation assumption. The assumptions did not include postretirement benefit increases. The actuarial value of assets is the fund balance in the Deposit Administration Contract, the market value of the IBT stock and cash accounts, plus any receivable contribution for the prior year. The Aggregate Method does not calculate an Unfunded Actuarial Accrued Liability, so there are no amortizations. The entire present value of future normal costs is spread over the future working lifetime of current active employees as a level percentage of payroll.

**C. Actuarial Methods and Assumptions**

The following is information as of the most recent actuarial valuation:

Actuarial valuation date:	January 1, 2010
Actuarial cost method:	Aggregate
Actuarial assumptions:	
Investment rate of return	6.5%
Projected salary increases	4.5%

**TOWN OF RICHLANDS, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**Note 9. DEFINED BENEFIT PENSION PLAN (Continued)**

**C. Actuarial Methods and Assumptions (continued)**

The aggregate cost methods is used to determine the required contribution of the Plan. Because the method does not identify or separately amortize unfunded actuarial liabilities, information about funded status is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status of the Plan.

**D. Three-Year Trend Information**

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06-30-10	\$ 276,106	-	\$ 276,106
06-30-09	\$ 253,065	-	\$ 253,065
06-30-08	\$ 143,970	-	\$ 143,970

**E. Funded Status and Funding Progress**

The following is funded status information for the Plan as of January 1, 2010, the most recent valuation date:

<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (Excess of Assets over AAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL (Excess of Assets over AAL) as a Percentage of Covered Payroll ((b-a)/c)</u>
\$ 3,498,274	\$ 4,959,280	\$ 1,461,006	70.5%	\$ 2,514,590	58.1%

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Effective June 1, 2010, the Town elected to participate in the Virginia Retirement System (VRS). During the fiscal year ending June 30, 2011, the Town intends to transfer the assets of the Plan into the VRS or purchase annuities for Plan participants.

**Note 10. SEGMENT INFORMATION**

The Town maintains two enterprise funds which provide water and sewer services and electrical services. Segment information for the year ended June 30, 2010, was as follows:

	<u>Electric</u>	<u>Water and Sewer</u>	<u>Total Enterprise Funds</u>
Operating revenues .....	\$ 6,404,291	\$ 2,355,843	\$ 8,760,134
Depreciation and amortization .....	77,318	500,091	577,409
Operating income .....	247,580	428,454	676,034

**TOWN OF RICHLANDS, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**Note 10. SEGMENT INFORMATION (Continued)**

	<u>Electric</u>	<u>Water and Sewer</u>	<u>Total Enterprise Funds</u>
Operating transfers:			
In (out)	\$ -	\$ -	\$ -
Non-operating revenue	78,753	711,818	790,571
Non-operating expense	-	87,055	87,055
Property, plant and equipment:			
Additions	197,982	917,530	1,115,512
Total assets	2,274,044	16,653,476	18,927,520
Long-term liabilities payable from other sources			
Change in net assets	326,333	1,053,217	1,379,550
Net assets, beginning	1,274,324	8,419,549	9,693,873
Net assets, ending	1,600,657	9,472,766	11,073,423
Net cash provided by (used in):			
Operating activities	183,342	1,021,913	1,205,255
Noncapital financing activities	(252,957)	23,137	(229,820)
Capital and related financing activities	(197,982)	(1,585,552)	(1,783,534)
Investing activities	78,753	711,818	790,571
Beginning cash and cash equivalents	265,130	2,463,922	2,729,052
Ending cash and cash equivalents	76,286	2,635,238	2,711,524

**Note 11. RISK MANAGEMENT**

Workmen's Compensation Insurance is provided through the Virginia Municipal Self Insurance Association. During 2009-10, total premiums paid were \$133,663. Benefits are those afforded through the Commonwealth of Virginia as outlined in the Code of Virginia Section 65.2. Premiums are based upon covered payroll, job rates and claims experience.

The Town provides general liability law enforcement and public officials liability, machinery, property and other insurance through policies with the Virginia Municipal Liability Pool. General, business liability, public officials, and law enforcement have a \$2,000,000 aggregate limit. Machinery and property coverage are covered per stated values.

The Town provides group health benefits coverage for participating employees through its membership in The Local Choice Health Benefits Program (The Local Choice). The Local Choice is a partially self-insured health benefit plan consisting of local governments and school jurisdictions in Virginia. Funding for the plan has been based upon calculations using historical experience of claims paid and estimates of claims outstanding. The Town's liability under this plan is limited due to the purchase of specific excess loss insurance.

The Town has incurred costs of \$821,807 for the year ended June 30, 2010, for its health insurance coverage.

**TOWN OF RICHLANDS, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**Note 12. SURETY BONDS**

	<u>Amount</u>
Virginia Municipal League - Surety Tim Taylor, Commissioner of Revenue	\$ 50,000
Virginia Municipal League - Surety All town employees - blanket bond	\$ 50,000

**Note 13. JOINT VENTURES**

The Town of Richlands, Virginia, The Town of Cedar Bluff, Virginia, and the Tazewell County Public Service Authority (TCPSA) entered into an agreement dated March 15, 1989, whereby each of the parties would participate in the allocation of capacity and costs with respect to the design, construction, operation and maintenance of a regional wastewater treatment facility. The initial participant shares are as follows:

Town of Richlands	74%
Town of Cedar Bluff	6%
Tazewell County Public Service Authority	20%

The Town of Richlands is responsible for the operation of the facility. The Town of Richlands 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.

As of June 30, 2010, the financial information for the joint venture is as follows:

	<u>Town of Richlands</u>	<u>Town of Cedar Bluff</u>	<u>Tazewell County PSA</u>	<u>Total</u>
Total assets, net of accumulated depreciation .....	\$ 4,814,219	\$ 390,342	\$ 1,301,140	\$ 6,505,701
Total liabilities .....	729,829	59,175	197,251	986,255
Total equity .....	4,084,391	331,168	1,103,889	5,519,448
Total revenues .....	781,002	63,324	211,082	1,055,408
Total expenses .....	704,335	57,108	190,361	951,804

The TCPSA and the Town of Cedar Bluff contributed \$242,424 and \$74,688, respectively, as their portion of shared costs for the year ended June 30, 2010, under the wastewater treatment agreement.

**TOWN OF RICHLANDS, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**Note 13. JOINT VENTURES (Continued)**

The Town has also entered into separate agreements with the TCPSA and the Town of Cedar Bluff to provide water treatment for those three participants whereby each would share in the use and costs of construction and operation of the water treatment facility. The agreement, which was amended November 2002, allocates usage as follows:

Town of Richlands	64%
Tazewell County PSA	26%
Town of Cedar Bluff	10%

The TCPSA and the Town of Cedar Bluff contributed \$358,488 and \$92,244, respectively, as their portion of shared costs for the year ended June 30, 2010, under the water treatment agreement.

On September 3, 2003, the Town and the Tazewell County Public Service Authority entered into an agreement to share the costs of construction and operation of a water transmission facility known as the Kent's Ridge Road Project. The project will be financed by two thirty-year, interest-free loans consisting of \$2,002,799 from the Virginia Resources Authority (VRA) which closed on July 15, 2005 and an additional \$438,037 loan from the VRA to cover cost increases which closed on October 18, 2006. The loans are secured by a pledge of revenues from the Town's water and wastewater systems and by a pledge of the Town's full faith and credit. Also, the County of Tazewell, Virginia has undertaken, to the extent permitted by law, a non-binding but moral obligation to pay such amounts as may be needed with respect to the notes for the payment of principal and interest pursuant to the terms of the agreement.

The ownership of the TCPSA's pro-rata portion of the transmission lines will be transferred at the time of the payoff of the entire debt connected with the projects. The TCPSA will recognize its economic interest in the project, as costs are incurred, as a capital lease. During construction, costs of the project will be allocated at an estimated 15% to the Town and 85% to the TCPSA and at completion of the project the costs will be allocated based on actual ownership of transmission lines by each of the parties to the agreement.

Each participant shall pay monthly a user charge to cover debt retirement, operation and maintenance costs, surcharge for additional treatment as needed, and a reserve account adjustment.

As of June 30, 2010, financial information for the joint venture is as follows:

Cost of project through June 30, 2010	\$ 2,168,173
Percent of project allocated to Town of Richlands	15%
Percent of project allocated to TCPSA	85%

Allocation of costs through June 30, 2010:

Town of Richlands	\$ 325,226
TCPSA	\$ 1,842,947



**TOWN OF RICHLANDS, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**Note 13. JOINT VENTURES (Continued)**

Amounts due from TCPSA to Town as of June 30, 2010:

Allocation of TCPSA's construction costs	\$ 1,842,947
Less: reimbursement of cost	218,651
reserve on debt	<u>14,366</u>

Balance due from TCPSA at June 30, 2010	<u>\$ 1,609,930</u>
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**Note 14. MAJOR CUSTOMER**

The Town of Richlands received 7 percent of the total revenue in the electrical fund from one customer.

**Note 15. UTILITY REVENUES PLEDGED**

The Town has pledged future water and sewer customer revenues to repay \$9,111,683 in wastewater treatment bonds issued in 1989, 1990, 1992, and 2010. Proceeds from the bonds provided financing for the construction of the wastewater treatment system. The bonds are payable solely from water and sewer customer revenues and are payable through 2031. Annual principal and interest payments on the bonds are expected to require approximately 25 percent of water and sewer revenues. The total principal and interest remaining to be paid on the bonds is \$1,303,135. Principal and interest paid for the current year and total customer revenues were \$610,991 and \$2,355,843, respectively.

**Note 16. ELECTRIC POWER AGREEMENT**

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

**Note 17. PRIOR PERIOD ADJUSTMENTS**

Adjustments were recorded in the financial records for both the government-wide and the fund level financial statements to record \$38,443 owed to Tazewell County for sales tax collections from prior years.

**TOWN OF RICHLANDS, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**Note 18. COMMITMENTS AND CONTINGENCIES**

**Grant Programs:**

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. Town management believes disallowances, if any, would not be material to the financial position to the Town.

**Litigation:**

Various claims and lawsuits are pending against the Town. Management cannot predict the outcome of these claims or estimate the amount of any loss that may result. Accordingly, no provision for any contingent liabilities that may result has been made in the financial statements. Management intends to contest these lawsuits vigorously and believes that any loss resulting from these matters, if any, would not have a material effect on the financial position of the Town.

**Note 19. NET ASSETS**

Restricted net assets for specified purposes represents certain deposits restricted for specified expenditures and resources that have restrictions to particular uses imposed by federal and state awarding agencies, legislation, or third parties such as creditors, grantors, and contributors.

**Note 20. BOUNDARY ADJUSTMENT**

On September 1, 2009, the Town entered into a Boundary Line Adjustment Agreement (Agreement) with the County of Tazewell. The Agreement calls for the Town to incorporate a 49.1023 acre tract of land lying to the east of the Town's existing corporate line. The boundary adjustment became effective at midnight December 31, 2009.

**Note 21. SUBSEQUENT EVENTS**

The Town has evaluated subsequent events through November 30, 2010, the date which the financial statements were available to be issued.

## **REQUIRED SUPPLEMENTARY INFORMATION**

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TOWN OF RICHLANDS

Exhibit 9

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS FOR  
PUBLIC EMPLOYEE RETIREMENT SYSTEM

<u>Actuarial Valuation Date</u>	<u>(a) Actuarial Value of Assets</u>	<u>(b) Actuarial Accrued Liability (AAL)</u>	<u>(b-a) Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>(a/b) Funded Ratio</u>	<u>(c) Annual Covered Payroll</u>	<u>((b-a)/c) UAAL as a Percentage of Covered Payroll</u>
January 1, 2006	\$ 3,054,778	\$ 3,883,939	\$ 829,161	78.7%	\$ 2,001,327	41.4%
January 1, 2007	\$ 3,314,238	\$ 4,027,035	\$ 712,797	82.3%	\$ 1,782,645	40.0%
January 1, 2008	\$ 3,784,602	\$ 4,296,074	\$ 511,472	88.1%	\$ 1,814,540	28.2%
January 1, 2009	\$ 3,203,685	\$ 4,629,305	\$ 1,425,620	69.2%	\$ 2,216,607	64.3%
January 1, 2010	\$ 3,498,274	\$ 4,959,280	\$ 1,461,006	70.5%	\$ 2,514,590	58.1%

# TOWN OF RICHLANDS

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2010

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
Department of Housing and Urban Development: Passed through the Virginia Department of Housing and Community Development - Division of Community Development: Community Development Block Grant Housing Rehabilitation Project - Big Creek Community - Phase II	14.228	CIG #08-39	\$ 144,979
Department of Justice: Passed through the Virginia Department of Criminal Justice Services: Edward Byrne Memorial Justice Assistance Grants Crime Analysis Emergency Operations Improvement ARRA - Edward Byrne Memorial Justice Assistance Grant Radio Communications Improvement Criminal History Records Improvement Criminal Justice Information Technology Improvement Total Department of Justice	16.738 16.738 16.804 16.738	09-C4778AD08 09-K1082LO08 2009-SB-B9-1926 10-B5828CR09	12,050 3,051 12,137 36,610 63,848
Department of Transportation: Passed through the Virginia Department of Motor Vehicles: State and Community Highway Safety State and Community Highway Safety Total Department of Transportation	20.600 20.600	OP-2009-59284-3587 SC-2010-50394-4014	10,963 8,571 19,534
Environmental Protection Agency: Passed through the Virginia Department of Environmental Quality: ARRA - Clean Water State Revolving Fund Birmingham Sanitary Sewer Extension Total Expenditures of Federal Awards	66.458	2W-51000209-0	672,646 \$ 901,007

See Accompanying Notes to Schedule of Expenditures of Federal Awards.

**TOWN OF RICHLANDS**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2010**

**Note 1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Town of Richlands and is prepared on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the Town's basic financial statements.

See Independent Auditor's Report.

## **STATISTICAL SECTION**

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# TOWN OF RICHLANDS

Table 1

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

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege Fees and Regulatory Licenses	Fines and Forfeitures	Investment Earnings	Charges for Services	Other	Inter-Governmental	Total
2010	\$ 425,420	\$ 1,704,768	\$ 1,585	\$ 85,661	\$ 19,021	\$ 1,264,454	\$ 286,617	\$ 1,338,364	\$ 5,125,890
2009	419,861	1,437,774	2,035	181,716	34,833	1,106,721	296,866	1,118,771	4,598,577
2008	408,501	1,386,360	14,615	135,107	76,011	1,071,321	518,389	1,275,563	4,885,867
2007	443,452	1,353,541	14,645	61,034	60,878	923,874	284,613	1,373,804	4,515,841
2006	287,393	1,270,365	13,970	81,884	64,277	377,930	100,716	962,041	3,158,576
2005	265,131	1,164,925	16,095	45,671	54,775	371,759	66,265	755,276	2,739,897
2004	267,326	1,156,958	19,510	36,412	58,831	311,270	74,060	1,206,708	3,131,075
2003	288,234	996,001	11,975	40,417	73,112	324,407	44,064	1,349,710	3,127,920
2002	286,469	981,166	6,860	38,664	135,933	314,564	28,310	1,607,904	3,399,870
2001	255,609	945,985	12,225	46,977	257,088	303,424	106,671	959,581	2,887,560

Note:

(1) Includes all governmental funds



**TOWN OF RICHLANDS**  
**GENERAL GOVERNMENT EXPENDITURES BY FUNCTION (1)**  
**LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>General Administration</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Parks, Recreation &amp; Culture</u>	<u>Community Development</u>	<u>Debt Retirement</u>	<u>Capital Project</u>	<u>Total</u>
2010	\$ 295,497	\$ 2,747,120	\$ 1,331,514	\$ 356,386	\$ 141,269	\$ 58,912	\$ -	\$ 4,930,698
2009	710,412	2,738,636	1,514,056	392,150	1,205	86,079	-	5,442,538
2008	878,513	2,962,490	1,653,354	325,440	37,783	82,187	-	5,939,767
2007	1,242,646	1,502,021	914,500	259,312	436,033	4,535	-	4,359,047
2006	1,283,780	1,510,092	1,199,328	249,755	26,582	-	-	4,269,537
2005	967,392	965,021	968,106	236,306	103,368	-	-	3,240,193
2004	841,486	1,583,312	892,535	372,353	192,555	-	-	3,882,241
2003	953,749	1,454,893	885,492	276,204	-	-	-	3,570,338
2002	1,645,544	1,559,002	849,211	238,952	-	-	-	4,292,709
2001	1,656,343	1,629,688	715,583	200,656	-	-	-	4,202,270

Note:  
 (1) Includes all governmental funds

**TOWN OF RICHLANDS****Table 3****ASSESSED VALUE OF TAXABLE PROPERTY  
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Real Estate (1)</u>	<u>Public Service Corporation</u>	<u>Total</u>
2010	\$ 250,972,225	\$ 10,417,493	\$ 261,389,718
2009	249,235,687	10,132,899	259,368,586
2008	243,153,600	11,665,588	254,819,188
2007	242,387,600	11,234,553	253,622,153
2006	145,408,200	10,885,065	156,293,265
2005	144,079,700	11,027,057	155,106,757
2004	143,277,300	11,981,714	155,259,014
2003	143,949,700	12,135,379	156,085,079
2002	143,314,300	11,465,154	154,779,454
2001	141,498,600	11,212,410	152,711,010

Note:

(1) Assessed at 100% Fair Market Value

TOWN OF RICHLANDS

Table 4

PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percent of Levy</u>	<u>Delinquent Tax Collections</u>	<u>Total Tax Collections</u>	<u>Percent of Total Tax Collections to Tax Levy</u>	<u>Outstanding (1) Delinquent Taxes</u>	<u>Percent of Delinquent Taxes to Tax Levy</u>
2010	\$ 418,224	\$ 372,689	89.11%	\$ 19,895	\$ 392,584	93.87%	\$ 34,252	8.19%
2009	414,990	391,112	94.25	19,082	410,194	98.84	29,226	7.04
2008	407,711	384,290	94.26	19,408	403,698	99.02	26,167	6.42
2007	403,792	378,197	93.66	34,954	413,151	102.32	20,979	5.20
2006	250,862	227,322	90.62	28,435	255,757	101.95	21,523	8.58
2005	248,376	227,508	91.60	16,613	244,121	98.29	30,268	12.19
2004	248,494	230,016	92.56	21,711	251,727	101.30	25,055	10.08
2003	249,790	213,442	85.45	46,045	259,487	103.88	29,154	11.67
2002	247,602	230,129	92.94	26,451	256,580	103.63	39,327	15.88
2001	244,338	220,217	90.13	20,193	240,410	98.39	69,758	28.55

Note: The above amounts exclude penalties and interest.

(1) Three years real estate property tax is included.

**TOWN OF RICHLANDS, VIRGINIA**

**Table 5**

**PROPERTY TAX RATES  
LAST TEN FISCAL YEARS**

**Fiscal Years Ended June 30,**

**Real Estate**

2010	\$ .16
2009	.16
2008	.16
2007	.16
2006	.16
2005	.16
2004	.16
2003	.16
2002	.16
2001	.16

Per \$100 Assessed Value

## TOWN OF RICHLANDS

Table 6

COMPUTATION OF LEGAL DEBT MARGIN  
Year Ended June 30, 2010

Total assessed value of taxed real property		<u>\$ 261,389,718</u>
Debt limit - 10 percent of total assessed value		\$ 26,138,972
Amount of debt applicable to debt limit:		
Revenue bonds	\$ 1,277,295	
General obligation bonds	<u>3,934,684</u>	
Gross debt	5,211,979	
Less revenue bonds	<u>1,277,295</u>	
Total amount of debt applicable to debt limit		<u>3,934,684</u>
Legal debt margin		<u>\$ 22,204,288</u>

TOWN OF RICHLANDS

Table 7

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

<u>Fiscal Year</u>	<u>Population</u>	<u>Assessed Value (In Thousands)</u>	<u>Gross Bonded Debt (1)</u>	<u>Debt Service Monies Available</u>	<u>Debt Payable From Enterprise Revenues</u>	<u>Net Bonded Debt</u>	<u>Ratio of Net General Obligation Debt to Assessed Value</u>	<u>Net Bonded Debt Per Capita</u>
2010		\$ 261,390	\$ 3,934,684	\$ -	\$ 1,277,295	\$ -	\$ -	\$ -
2009	5,639	259,369	4,321,534	-	1,463,559	-	-	-
2008	5,639	254,819	4,647,573	-	2,020,408	-	-	-
2007	5,639	253,622	4,958,860	-	2,561,702	-	-	-
2006	5,639	156,293	3,876,297	-	3,087,935	-	-	-
2005	4,144	155,107	3,179,160	-	3,599,585	-	-	-
2004	4,144	155,259	3,440,891	-	4,097,114	-	-	-
2003	4,144	156,085	6,786,724	-	6,786,724	-	-	-
2002	4,144	154,779	3,677,841	-	3,677,841	-	-	-
2001	4,144	152,711	3,846,062	-	3,846,062	-	-	-

Note:

(1) Includes all long-term obligation debt

## **COMPLIANCE SECTION**

**DENT K. BURK ASSOCIATES, P.C.**  
*Certified Public Accountants*

BRISTOL, VIRGINIA  
GRUNDY, VIRGINIA

KINGSPORT, TENNESSEE  
JOHNSON CITY, TENNESSEE

**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 Mayor and Members of the Town Council  
Town of Richlands, Virginia

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Richlands, Virginia (the Town) as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements and have issued our report thereon dated November 30, 2010. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures 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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. We also identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting. 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.



### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of 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*.

We noted certain matters that we reported to management of the Town, in a separate letter dated November 30, 2010.

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Town Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dent K. Bull Associates, P.C.

Bristol, Virginia  
November 30, 2010

**DENT K. BURK ASSOCIATES, P.C.**  
*Certified Public Accountants*

BRISTOL, VIRGINIA  
GRUNDY, VIRGINIA

KINGSPORT, TENNESSEE  
JOHNSON CITY, TENNESSEE

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

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

**Compliance**

We have audited the compliance of the Town of Richlands, Virginia (the Town) with the types of compliance requirements described in the *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended June 30, 2010. The Town's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town's compliance with those requirements.

In our opinion, the Town complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect each of its major federal programs for the year ended June 30, 2010.

**Internal Control over Compliance**

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town, as of and for the year ended June 30, 2010, and have issued our report thereon dated November 30, 2010, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, Town Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dent K. Bull Associates, P.C.

Bristol, Virginia  
November 30, 2010

**TOWN OF RICHLANDS, VIRGINIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2010**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unqualified opinion on the basic financial statements.
2. Three significant deficiencies in internal control were disclosed in the audit of financial statements, of which two was considered a material weakness.
3. No instances of noncompliance material to the basic financial statements of the Town, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies in internal control over major programs were disclosed by the audit.
5. The auditor's report on compliance for the major federal award programs of the Town expresses an unqualified opinion.
6. The audit disclosed no audit findings relating to major programs.
7. The programs tested as major programs include:  
    Environmental Protection Agency:  
        ARRA - Virginia Clean Water Revolving Loan Fund (CFDA #66.458)
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The Town did not qualify as a low-risk auditee.

**TOWN OF RICHLANDS, VIRGINIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2010**

**SECTION II - FINANCIAL STATEMENT AUDIT FINDINGS**

**2010-01 Significant Deficiency – Conflicts of Interest**

Section 2.2 of the Code of Virginia: The State and Local Government Conflicts of Interest Act

*Condition:* Two conflicts of interest annual disclosure forms were not filed and six conflicts of interest annual disclosure forms were filed subsequent to the due date.

*Criteria:* Section 2.2-3115 of the Code of Virginia requires the members of every governing body of each town with a population in excess of 3,500 to file, as a condition to assuming office or employment, a disclosure statement of their personal interests and other information and thereafter shall file such statement annually on or before January 15.

*Effect:* The Town is in violation of the Code of Virginia.

*Recommendation:* We recommend all officials be notified of the filing date of the annual disclosure form and a review of filings occur prior to the due date to ensure all forms have been completed and filed timely. Officials should also be informed of their legal responsibility to file these forms in a timely fashion.

*Management response:* Disclosure forms are provided to each official thirty days prior to the filing deadline. A second reminder is sent to officials who have not filed prior to the deadline. Third and fourth reminders were sent to the officials who did not file timely or have not filed. As an additional follow-up, a personal contact was made to these officials. The Town will include a reference to Section 2.2 of the Code of Virginia as a reminder of the legal responsibility to file these forms in a timely fashion.

**2010-02 Material Weakness – Control Activities**

*Condition:* The Town outsources the billing for the Rescue Squad and Fire service calls to Priority Medical Claims, Inc. (PMC) due to the complexities involved with billing medical services. Calculation and application of “contractual allowances” have been performed by PMC with no oversight from the Town.

*Criteria:* Controls do not currently exist that allow management or employees, in the normal course of performing their assigned functions, to prevent, detect, or correct errors made by PMC when calculating and applying the contractual allowances adjustment.

*Effect:* The Town does not have sufficient evidence that the contractual allowances applied by PMC are being calculated and applied appropriately.

*Recommendation:* We recommend that the Town request support from PMC that documents the criteria used when calculating contractual allowances. This information should be reviewed by the Town periodically to ensure PMC has correctly calculated and applied the contractual allowances adjustment.

*Management response:* The Town will contact PMC and request support for the criteria used when calculating contractual allowances.

**TOWN OF RICHLANDS, VIRGINIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2010**

**SECTION II - FINANCIAL STATEMENT AUDIT FINDINGS (Continued)**

**2010-03 Material Weakness— Control Activities**

*Condition:* The Town outsources the billing for the Rescue Squad and Fire service calls to Priority Medical Claims, Inc. (PMC) due to the complexities involved with billing medical services. The Town failed to ensure that all of the services performed by the Rescue Squad and the Fire Department had been billed by PMC.

*Criteria:* Controls did not exist that allow management or employees, in the normal course of performing their assigned functions, to detect services that were not billed by PMC.

*Effect:* PMC had failed to bill all of the services performed by the Rescue Squad.

*Recommendation:* We recommend that the Town continue to reconcile the services performed and reported on the trip logs to the services billed by PMC in order to ensure the services are billed and recorded in a timely manner.

*Management response:* In 2009, the Town assigned an employee with the Police Department the responsibility of reconciling services recorded on the trip logs to the services billed by PMC. Current billings have been reconciled and recorded in the appropriate period and reconciliation of prior billings is substantially complete.

**SECTION III - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL PROGRAMS AUDIT**

None

**PRIOR YEAR FINDINGS IMPLEMENTED**

**TOWN OF RICHLANDS**

**SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2010**

**FINDING 2009-01**

**Condition:** This finding was a significant deficiency stating the Customer Deposits subsidiary ledger did not agree to the balance recorded on the general ledger.

**Recommendation:** The auditor recommended that the Town prepare a reconciliation of the Customer Deposits subsidiary ledger to the general ledger on a timely basis.

**Current Status:** The recommendation was adopted in FYE June 2010. No similar findings were noted in the 2010 audit.