

TOWN OF HAYSI, VIRGINIA

AUDIT REPORT

Year Ended June 30, 2014

TOWN OF HAYSI, VIRGINIA
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Year Ended June 30, 2014

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TOWN OF HAYSI, VIRGINIA
TOWN OFFICIALS

MAYOR: Larry D. Yates

TOWN COUNCIL: Rocky Wood, Vice-Mayor
Barry Whitt
Wm. "Billy" Brice Counts
Susan Tiller
Michael Harris
Tim Wallace

OTHER OFFICIALS: Clerk – Amanda Perrigan
Chief of Police – George Wallace

Draft

THROWER, BLANTON & ASSOCIATES, P.C.

Certified Public Accountants

& Consultants

**BRIAN K. BLANTON, C.P.A.
*CHARLES F. LAWSON, C.P.A.

MONROE B. THROWER, C.P.A.
(1918-2000)
M. BARDIN THROWER, JR., C.P.A.
(1946-2012)

Founded 1948

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INDEPENDENT AUDITOR'S REPORT

The Honorable Members of the Town Council
Town of Haysi, Virginia
Haysi, VA 24256

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Haysi, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Haysi, Virginia as of June 30, 2014, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 34 thru 35 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 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2015 on our consideration of the Town of Haysi's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on 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* in considering the Town's internal control over financial reporting and compliance.

THROWER, BLANTON & ASSOCIATES, P.C.
Certified Public Accountants

Norton, Virginia
May 6, 2015

THROWER, BLANTON & ASSOCIATES, P.C.

Certified Public Accountants

& Consultants

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

The Honorable Members of the Town Council
Town of Haysi, Virginia
Haysi, VA 24256

We have audited, in accordance with the auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Haysi, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Haysi, Virginia's basic financial statements, and have issued our report thereon dated May 6, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements for the year ended June 30, 2014, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Town's financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. However, as discussed in the *Schedule of Findings and Responses* issued in a separate letter to management, we identified certain deficiencies in internal control over financial reporting, that we consider to be significant deficiencies in internal control over financial reporting. (Reference finding 2014-1 and 2014-2) A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Honorable Members of the Town Council
Town of Haysi, Virginia
Haysi, VA 24256
(Report on Internal Control and Compliance)
Page 2

We noted certain matters that we reported to management of the Town of Haysi, in a separate letter dated May 6, 2015.

Town of Haysi's Response to Findings

The Town's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

THROWER, BLANTON & ASSOCIATES, P.C.
Certified Public Accountants

Norton, VA 24273
May 6, 2015

TOWN OF HAYSI, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2014

As more fully described in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* we performed tests of the Town's compliance with certain provisions of the laws, regulations, contracts and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia:

- Budget and Appropriation Laws
- Cash and Investments Laws
- Local Retirement Systems
- Debt Provisions
- Procurement Laws
- Uniform Disposition of Unclaimed Property Act

LOCAL COMPLIANCE MATTERS

Town Charter

TOWN OF HAYSI, VIRGINIA
STATEMENT OF NET POSITION
 June 30, 2014

EXHIBIT 1

	<u>Primary</u> <u>Government</u>	
		<u>Governmental</u> <u>Activities</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$	137,973
Receivables:		
Taxes		13,670
Accounts		90,647
Other		7,143
Due from other governmental units		1,000
Restricted Assets:		
Cash		32,646
Capital assets, depreciable, net		198,505
Capital assets, non-depreciable		<u>333,621</u>
 TOTAL ASSETS	 \$	 <u><u>815,205</u></u>
 <u>LIABILITIES</u>		
Accounts payable	\$	24,766
Accrued liabilities and wages		8,686
Matured revenue interest		-
Long-term liabilities		-
Due within one year		-
Due in more than one year		-
Compensated absences		
Due within one year		2,008
Due in more than one year		<u>4,686</u>
 Total Liabilities		 <u>40,146</u>
 <u>NET POSITION</u>		
Net Investment in Capital Assets		532,126
Restricted		-
Unrestricted		<u>242,933</u>
 Total Net Position	 \$	 <u><u>775,059</u></u>

TOWN OF HAYSI, VIRGINIA
STATEMENT OF ACTIVITIES
 June 30, 2014

EXHIBIT 2

FUNCTIONS/PROGRAMS:	Program Revenues				Net (Expense)
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
Governmental Activities:					Primary Governmental Activities
General government	\$ 103,291	\$ -	\$ -	\$ -	\$ (103,291)
Public safety	188,022	-	57,115	-	(130,907)
Public works	23,592	-	2,000	-	(21,592)
Community development	173,949	-	-	212,405	38,456
Economic development	9,095	-	-	-	(9,095)
Interest on long-term debt	-	-	-	-	-
Non-departmental	-	-	-	-	-
Total Governmental Activities	497,949	-	59,115	212,405	(226,429)
TOTAL PRIMARY GOVERNMENT	\$ 497,949	\$ -	\$ 59,115	\$ 212,405	\$ (226,429)

General Revenues:

Property taxes	32,580
Local sales & use tax	7,360
Utility tax	28,164
Business license tax	53,204
Bank stock tax	13,052
Cigarette tax	26,390
Restaurant food tax	63,103
Coal road improvement tax	66,507
Unrestricted intergovernmental revenue	9,387
Unrestricted investment earnings	2,492
Gain (loss) sale of asset	50,486
Other	18,037
Total general revenues and transfers	370,762
Change in net position	144,333
NET POSITION - JULY 1	630,726
NET POSITION - JUNE 30	\$ 775,059

TOWN OF HAYSI, VIRGINIA
BALANCE SHEET - GOVERNMENTAL FUNDS
Year Ended June 30, 2014

EXHIBIT 3

	General Fund
ASSETS	
Cash and cash equivalents	\$ 137,973
Receivables:	
Taxes	13,670
Accounts	-
Other	7,143
Due from other governmental units	1,000
Restricted Assets:	
Cash	<u>32,646</u>
Total Assets	<u>\$ 192,432</u>
LIABILITIES	
Accounts payable	\$ 24,766
Accrued payroll and related liabilities	<u>8,686</u>
Total Liabilities	<u>33,452</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred property taxes	<u>9,057</u>
Total Deferred Inflows of Resources	<u>9,057</u>
FUND BALANCES:	
Nonspendable	-
Restricted	30,532
Committed	2,115
Assigned	-
Unassigned	<u>117,276</u>
Total Fund Balances	<u>149,923</u>
Total Liabilities, Deferred inflows of resources, and Fund Balances	<u>\$ 192,432</u>
Total Fund Balances	<u>\$ 149,923</u>
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.	532,126
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	99,704
Other liabilities are not required to be paid out of current financial resources and, therefore, are not reported in the governmental funds.	(6,694)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>-</u>
Net Position of Governmental Activities	<u>\$ 775,059</u>

TOWN OF HAYSI, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUNDS
Year Ended June 30, 2014

EXHIBIT 4

	<u>General Fund</u>
REVENUES:	
General property taxes	\$ 32,607
Other local taxes	257,780
Permits, privilege fees and regulatory licenses	-
Fines and forfeitures	14,931
Revenue from use of money and property	2,492
Miscellaneous	16,153
Charges for services	-
Intergovernmental	<u>280,907</u>
Total Revenues	<u>604,870</u>
EXPENDITURES:	
Current:	
General government administration	151,656
Public safety	158,901
Public works	23,592
Community development	231,257
Economic development	9,095
Debt Service:	
Principle retirement	-
Interest	-
Total Expenditures	<u>574,501</u>
Excess (Deficiency) of Revenues Over Expenditures	30,369
OTHER FINANCING SOURCES (USES):	
Sale of property	58,030
Insurance recoveries	-
Loan Proceeds	-
Transfers in (out)	-
Total Other Financing Sources (Uses)	<u>58,030</u>
Net Change in Fund Balance	88,399
FUND BALANCE AT JULY 1	<u>61,524</u>
FUND BALANCE AT JUNE 30	<u><u>\$ 149,923</u></u>

TOWN OF HAYSI, VIRGINIA
RECONCILIATION OF THE REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

EXHIBIT 5

	<u>General Fund</u>
Net Change in Fund Balance Governmental Fund:	\$ 88,399
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	23,968
Governmental funds report the sale of fixed assets as equal to the proceeds received from the sale. The amount required to adjust for the basis remaining on the date of sale.	(7,544)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	40,927
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.	-
Some expenses reported in the statement of activities, such as compensated absences and accrued interest, do not require the use of current financial resources and, therefore, are not required as expenditures in governmental funds.	<u>(1,417)</u>
Change in Net Position of Governmental Activities	<u>\$ 144,333</u>

June 30, 2014

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Town of Haysi, Virginia is incorporated under and has all powers conferred upon towns under the Constitution of Virginia and all other laws of the Commonwealth. The Town is governed by a mayor, and town council composed of six members, elected at large. The financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. **Reporting Entity**

In evaluating how to define the Town for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Town is able to exercise oversight responsibilities. The Town's financial statements include all the Town operations.

B. **Financial Reporting Model**

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (GASB 34)*. This statement, known as the "Reporting Model" statement, affects the way the Town prepares and presents financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private-sector financial reports. The Town has implemented the requirements of GASB 34, beginning with the year ended June 30, 2006.

GASB 34 established requirements and the new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes the following components:

Management's Discussion and Analysis - GAAP recommends that financial statements be supplemented by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is comparable to analysis the private sector provides in their annual reports.

Government-wide financial statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities (i.e., reports all of the revenue and cost of providing services each year, not just those received or paid in the current year or soon thereafter). Government-wide financial statements do not provide information by fund or account group, but distinguish between the Town's governmental activities, business-type activities and activities of its discretely presented component units on the Statement of Net Position and Statement of Activities. Significantly, the Town's Statement of Net Position includes both noncurrent assets and noncurrent liabilities of the Town. Depreciation expense on the Town's capital assets, including infrastructure, is reflected in the government-wide Statement of Activities.

June 30, 2014

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

B. **Financial Reporting Model (Continued)**

Statement of Net Position – The Statement of Net Position is designed to display the financial position of the primary government (governmental and business-type activities) and its discretely presented component units. The Town reports all capital assets, including infrastructure, in the government-wide Statement of Net Position and reports depreciation expense – the cost of “using up” capital assets – in the Statement of Activities. The net position of the Town is reported in three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities – The government-wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the Town’s functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by specific 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. All taxes, and other items not properly included among program revenues, are reported instead as general revenues.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, etc.) which are not otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues and operating and capital grants and contributions. The program revenues must be directly associated with the function (public safety, public works, etc.) or a business-type activity.

Fund Statements – In addition to the government-wide financial statements, the Town reports fund financial statements which use the modified accrual basis of accounting and the current financial resources measurement focus. Accordingly, the accounting and financial reporting for the Town’s Governmental fund types (i.e., General, and Permanent) are similar to that previously presented in the Town’s financial statements. See note 1(c) for further discussion.

C. **Measurement Focus, Basis of Accounting and Basis of Presentation**

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

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In the first type, monies must be expended on the specific purpose or project before any amounts will be paid to the Town; therefore, revenues are recognized based upon the expenditures recorded. In the second type, monies are virtually unrestricted as to time of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the accrual criteria are met.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

C. **Measurement Focus, Basis of Accounting, and Basis of Presentation (Continued)**

Governmental fund financial statements are reported using the current financial resource 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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Reporting Entity considers revenues to be available if they are collected within 45 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

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.

Real and personal property taxes are recorded as revenues and receivables when levied, net of allowances for uncollectible amounts. Property tax receivables not collected within 45 days after year-end are reflected as deferred revenue. Sales and utility taxes, which are collected by the Commonwealth or utility companies by year-end and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the Commonwealth of Virginia or utility company, which is generally in the month preceding receipt by the Town.

Licenses and permits, fines, charges for services and miscellaneous revenues, except interest on temporary investments, are recorded as revenues when received because they are generally not measurable until actually received. Investment earnings are recorded when earned since they are measurable and available.

The governmental funds financial statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. A summary reconciliation of the difference between total fund balances as reflected on the governmental funds balance sheet and total net position (deficit) for governmental activities as shown on the government-wide Statement of Net Position is presented in a schedule accompanying the governmental funds balance sheet. The assets and liability elements which comprise the reconciliation differences stem from the governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. A summary reconciliation of the differences between net change in total fund balances as reflected on the governmental funds statement of revenues, expenditures and changes in fund balances, and the change in net position for governmental activities as shown on the government-wide Statement of Activities, is presented in a schedule accompanying the governmental funds statement of revenues, expenditures and changes in fund balances.

June 30, 2014

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

C. **Measurement Focus, Basis of Accounting, and Basis of Presentation (Continued)**

The revenue and expense elements which comprise the reconciliation differences stem from the governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

The focus of the Reporting Model is on the Town as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

In the fund financial statements, financial transactions and accounts of the Town are organized on the basis of funds, the operations of which are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate.

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

The Town reports the following major governmental funds:

The *General Fund* is the Town's primary operating fund. It is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for service, and interest income.

D. **Budgets and Budgetary Accounting**

As set forth in the Town Charter, the Town Council adopts an annual budget for the General Fund. The annual budget for the General Fund is prepared in accordance with the basis of accounting utilized by that fund. All annual appropriations lapse at fiscal year-end.

E. **Encumbrances and Commitments**

The Town utilizes encumbrance accounting in its governmental funds. Encumbrances are recognized as a valid and proper charge against a budget appropriation in the year in which a purchase order, contract, or other commitment is issued. Generally, all unencumbered appropriations lapse at year end, except those for capital projects. Appropriations for capital projects are continued until completion of applicable projects, even when projects extend more than one fiscal year. Open encumbrances at fiscal yearend are included in restricted, committed, or assigned fund balance, as appropriate.

F. **Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of \$2,000 or more and an estimated useful life of at least two years. All capital assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated capital assets are valued at their estimated fair market value on the date donated.

TOWN OF HAYSI, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

F. **Capital Assets (Continued)**

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 improvements are capitalized as projects are constructed.

Capital assets of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings/building improvements	40
Other improvements	20-40
Furniture and equipment	7-10
Vehicles	5-7

G. **Cash Equivalents**

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

H. **Fund Equity**

Beginning with the fiscal year ended June 30, 2011, the Town implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

• **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Town has classified Prepaid Items as being Nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.

• **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

• **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Town Council. These amounts cannot be used for any other purpose unless the Town Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

• **Assigned:** This classification includes amounts that are constrained by the Town's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Town Council or through the Town Council delegating this responsibility to the Town manager through the budgetary process.

TOWN OF HAYSI, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Fund Equity(Continued)

• Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification amounts are available for any purpose. Positive Unassigned amounts are reported in the General Fund only. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

Beginning fund balances for the Town’s governmental funds have been restated to reflect the above classifications.

The Town would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

2. CASH AND CASH EQUIVALENTS

Deposits

All cash of the Town and its component units 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.

Investments

Investment Policy:

In accordance with the Code of Virginia and other applicable law, including regulations, the Town permits investments in U. S. Treasury Securities, U. S. Agency Securities, prime quality commercial paper, non-negotiable certificates of deposit and time deposits of Virginia banks, negotiable certificates of deposit of domestic banks, banker’s acceptances with domestic banks, Commonwealth of Virginia and Virginia Local Government Obligations, repurchase agreements collateralized by the U. S. Treasury/Agency securities, the Virginia State Non-Arbitrage Program or other authorized Arbitrage Investment Management programs, and the State Treasurer’s Local Government Investment Pool(the Virginia LGIP, a 2a-7 like pool).

Credit Risk:

As required by state statute, the Town requires that commercial paper have a short-term debt rating of no less than “A-1” (or equivalent) from a nationally recognized statistical rating organization.

Concentration of Credit Risk:

Deposits and investments held by any single issuer that exceeded 5% are as follows:

B B & T Bank	46%
New Peoples Bank	36%
People’s Inc.	18%

Custodial Credit Risk:

As required by the *Code of Virginia*, all security holdings with maturities over 30 days may not be held in safekeeping with the “counterparty” to the investment transaction. As of June 30, all of the Town’s investments are held in the Treasurer’s office in the Town’s name.

TOWN OF HAYSI, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

2. CASH AND CASH EQUIVALENTS (Continued)

The above items are reflected in the financial statements as follows:

	<u>Primary Government</u>
Deposits and investments:	
Cash on hand	\$ -
Deposits	170,619
Investments	-
	<u>\$ 170,619</u>
Statement of net position:	
Cash and cash equivalents	\$ 137,973
Restricted cash and cash equivalents	32,646
	<u>\$ 170,619</u>

Restricted cash and cash equivalents consist primarily of demand deposit accounts.

3. ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

The Town calculates its allowance for uncollectible accounts using historical collection data; and, in certain cases, specific account analysis. The allowance amounted to approximately \$2,412 at June 30, 2014, and is composed of the following:

General Operating Fund:	
Allowance for uncollectible property taxes	<u>\$ 2,412</u>
TOTAL	<u>\$ 2,412</u>

4. 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. Tax levy information is received from Dickenson County, and tax bills are mailed in November. Taxes are due and payable on or before December 5 of the current year. All unpaid taxes become delinquent December 6 of the current year. The County of Dickenson, Virginia bills and collects the Town's property taxes and revenues are recognized when collected.

TOWN OF HAYSI, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

5. CHANGES IN CAPITAL ASSETS

The following is a summary of changes in capital assets:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	58,440	-	(7,544)	50,896
Construction in Progress	<u>\$ 227,539</u>	<u>\$ 55,186</u>	<u>\$ -</u>	<u>\$ 282,725</u>
Total Capital Assets, not Depreciated	<u>285,979</u>	<u>55,186</u>	<u>(7,544)</u>	<u>333,621</u>
Capital assets, depreciated				
Buildings and improvements	150,014	-	-	150,014
Machinery and equipment	<u>586,877</u>	<u>8,809</u>	<u>(5,000)</u>	<u>590,686</u>
Total Capital Assets, Depreciated	<u>736,891</u>	<u>8,809</u>	<u>(5,000)</u>	<u>740,700</u>
Less accumulated depreciation for				
Buildings and improvements	59,085	6,251	-	65,336
Machinery and equipment	<u>448,084</u>	<u>33,775</u>	<u>(5,000)</u>	<u>476,859</u>
Total accumulated depreciation	<u>507,169</u>	<u>40,026</u>	<u>(5,000)</u>	<u>542,195</u>
Total Capital Assets, depreciated, net	<u>229,722</u>	<u>(31,217)</u>	<u>-</u>	<u>198,505</u>
Governmental activities capital assets, net	<u>\$ 515,701</u>	<u>\$ 23,969</u>	<u>\$ (7,544)</u>	<u>\$ 532,126</u>

6. CAPITAL ASSETS

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

Governmental Activities:	
General government	\$ 5,751
Public safety	34,275
Public works	-
Total Depreciation Expense – Governmental Activities	<u>\$ 40,026</u>

TOWN OF HAYSI, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

7. LONG-TERM DEBT

Changes in Long-Term Debt:

The Town of Haysi had no long-term debt transactions for the year ended June 30, 2014.

8. CLAIMS, JUDGMENTS AND COMPENSATED ABSENCES

In accordance with GASB Statement 16 "Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences", the Town of Haysi has accrued the liability arising from outstanding claims and judgments and compensated absences. At June 30, 2014, the Town of Haysi had outstanding accrued sick and vacation leave of \$6,694 in the General Operating Fund.

Permanent, full-time Town of Haysi employees earn general leave according to the following:

Full time employees earn two weeks vacation and 12 sick days each year after they have completed a full year of service. Employees may accumulate sick leave but only a limited amount can be carried over, not to exceed 960 hours (6 months). Any accumulated hours over 960 will need to be used by December 31 of the current year or employee will lose the number of hours

Upon termination of employment, employees are entitled to 30% of all credited sick leave and annual leave based on employee's current rate of pay at the time of separation. In the event of death of an employee, the employee's estate shall be entitled to 30% payment for any unused balance of sick leave allowances at the time of death. Temporary or part-time employees do not qualify for general leave.

The following is a summary of compensated absences transactions for the year ended June 30, 2014:

	<u>Balance July 1, 2013</u>	<u>Additions/ Proceeds</u>	<u>Payments/ Reductions</u>	<u>Balance June 30, 2014</u>
<u>General Operating Fund</u>				
Accrued Compensated Absences	\$ 5,277	\$ 3,027	\$ (1,610)	\$ 6,694

9. DEFINED BENEFIT PENSION PLAN

A. Plan Description

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

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

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

TOWN OF HAYSI, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

9. DEFINED BENEFIT PENSION PLAN (CONTINUED)

A. Plan Description (Continued)

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

TOWN OF HAYSI, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

9. DEFINED BENEFIT PENSION PLAN (CONTINUED)

A. Plan Description (Continued)

<p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.</p>	<p>Hybrid Opt-In Election VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.</p>	<p>Eligible Members (continued) 2014</p> <ul style="list-style-type: none"> • Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Members of the State Police Officers' Retirement System (SPORS) • Members of the Virginia Law Officers' Retirement System (VaLORS) • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a</p>	<p>Retirement Contributions Same as VRS Plan 1.</p>	<p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally,</p>

TOWN OF HAYSI, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

9. DEFINED BENEFIT PENSION PLAN (CONTINUED)

A. Plan Description (Continued)

<p>Retirement Contributions (continued) retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>		<p>Retirement Contributions (continued) members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>
<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Creditable Service Same as VRS Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may e</p> <p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and</p>	<p>Vesting Same as VRS Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60</p>

June 30, 2014

9. DEFINED BENEFIT PENSION PLAN (CONTINUED)

A. Plan Description (Continued)

<p>Vesting (continued) service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>		<p><u>Vesting Defined Benefit Component (continued)</u> months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none">• After two years, a member is 50% vested and may withdraw 50% of employer contributions.• After three years, a member is 75% vested and may withdraw 75% of employer contributions.• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
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TOWN OF HAYSI, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

9. DEFINED BENEFIT PENSION PLAN (CONTINUED)

A. Plan Description (Continued)

<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p>Calculating the Benefit See definition under VRS Plan 1.</p>	<p>Calculating the Benefit Defined Benefit Component: See definition under VRS Plan 1</p> <p>Defined Contribution Component: The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.</p>	<p>Service Retirement Multiplier Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p>	<p>Service Retirement Multiplier The retirement multiplier is 1.0%.</p> <p>For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p>
<p>Normal Retirement Age Age 65.</p>	<p>Normal Retirement Age Normal Social Security retirement age.</p>	<p>Normal Retirement Age Defined Benefit Component: Same as VRS Plan 2.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

TOWN OF HAYSI, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

9. DEFINED BENEFIT PENSION PLAN (CONTINUED)

A. Plan Description (Continued)

<p>Earliest Unreduced Retirement Eligibility Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility Defined Benefit Component: Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility Defined Benefit Component: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p>Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p>Eligibility: Same as VRS Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement Defined Benefit Component: Same as VRS Plan 2.</p> <p>Defined Contribution Component: Not applicable.</p> <p>Eligibility: Same as VRS Plan 1 and VRS Plan 2.</p>

TOWN OF HAYSI, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

9. DEFINED BENEFIT PENSION PLAN (CONTINUED)

A. Plan Description (Continued)

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

9. DEFINED BENEFIT PENSION PLAN (CONTINUED)

A. Plan Description (Continued)

<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.</p> <p>State employees (including VRS Plan 1 and VRS Plan2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>
<p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Purchase of Prior Service Same as VRS Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as VRS Plan 1.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p>

TOWN OF HAYSI, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

9. DEFINED BENEFIT PENSION PLAN (continued)

A. Plan Description (continued)

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

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their compensation toward their retirement. All or part of the 5% member contribution may be assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Town of Haysi, Virginia is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended June 30, 2014 was 12.74% of annual covered payroll.

C. Annual Pension Cost

For the fiscal year 2014, the Town of Haysi's annual pension cost of \$12,938 was equal to the Town's required and actual contributions.

PRIMARY GOVERNMENT:

Three Year Trend Information for the Town of Haysi, Virginia:

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
June 30, 2014	\$ 12,938	100%	\$ -
June 30, 2013	13,141	100	-
June 30, 2012	20,030	100	-

The FY 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.0% (b) projected salary increases of 3.75% to 5.60% per year for local general government employees and 3.5% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%.

The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at June 30, 2013 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

TOWN OF HAYSI, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

9. **DEFINED BENEFIT PENSION PLAN (continued)**

D. Funded Status and Funding Progress

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

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for Town of Haysi, Virginia

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
June 30, 2013	\$ 125,024	\$ 394,290	\$ 269,266	31.71%	\$ 105,194	255.97%
June 30, 2012	123,420	371,946	248,526	33.18%	102,128	243.35%
June 30, 2011	130,803	220,952	90,149	59.20%	99,241	90.84%

10. **DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES**

In addition to assets, the statement of financial position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town currently has no item that meets this criterion.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then.

The Town has deferred inflows totaling \$9,057 in the general fund comprised of the following:

Deferred Property Tax Revenue

Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled \$9,057 at June 30, 2014.

11. **BUDGETARY CONTROL**

The General Operating Fund revenues exceeded the budget amount by \$328,186; expenditures exceeded budgeted appropriations by \$239,787 for the year ended June 30, 2014. The excess expenditures were covered by available fund balance in the general fund.

TOWN OF HAYSI, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

12. FUND BALANCES—GOVERNMENTAL FUNDS

As of June 30, 2014, fund balances are composed of the following:

	<u>General Fund</u>
Nonspendable:	
Prepaid items	\$ —
Restricted:	
Business Development	30,532
Committed:	
Downtown Revitalization	2,115
Assigned:	—
Unassigned	<u>117,276</u>
Total fund balances	<u>\$ 149,923</u>

13. COMMITMENTS AND CONTINGENCIES

Litigation

In regard to litigation involving the Town of Haysi, Virginia, we are not aware of any material contingent liabilities that could affect the financial statements.

14. RISK MANAGEMENT

The Town maintains general liability, auto, and workers' compensation insurance coverage through the Virginia Municipal Liability Pool. Other insurance coverage (including fire, equipment, police liability, public officials liability and workers' compensation and accidental death on volunteer fireman) is also maintained through Virginia Municipal Liability Pool insurance. The Town maintains flood insurance through the National Flood Insurance Program (FEMA).

15. LEASES

On June 1, 2002, the Town of Haysi entered into a twenty year lease-purchase agreement with St. Charles Health Council, Inc., a Virginia non-stock corporation doing business as Stone Mountain Health Services which allows for the operation of a medical clinic in Haysi. The cost of the newly constructed facility at the time of the lease was \$1,129,430. The lease agreement provides for a nominal guaranteed annual rental of \$1 for a total of \$20 which was payable at the time of execution of the lease. Stone Mountain Health Services is responsible for the payment of all utilities, insurance, and the maintenance and repair of the premises. The lease will terminate on May 31, 2022, at which time, all land, facilities and additions to the property will be conveyed to Stone Mountain Health Services at a purchase price of \$1, unless the tenant has ceased to operate a medical clinic on the premises, in which case the property and facilities will revert to the Town of Haysi.

TOWN OF HAYSI, VIRGINIA
GOVERNMENTAL FUND REVENUES
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Budget as Amended</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
PRIMARY GOVERNMENT				
GENERAL FUND:				
Revenue from Local Sources:				
General Property Taxes:				
Real and Personal property taxes	\$ 28,000	\$ 28,000	\$ 32,607	\$ 4,607
Total General Property Taxes	<u>28,000</u>	<u>28,000</u>	<u>32,607</u>	<u>4,607</u>
Other Local Taxes:				
Local sales and use taxes	21,895	21,895	7,360	(14,535)
Cigarette taxes	28,000	28,000	26,390	(1,610)
Utility taxes	29,110	29,110	28,164	(946)
Business licenses taxes	48,000	48,000	53,204	5,204
Bank stock taxes	11,300	11,300	13,052	1,752
Restaurant food taxes	67,000	67,000	63,103	(3,897)
Coal road improvement taxes	30,000	30,000	66,507	36,507
Total Other Local Taxes	<u>235,305</u>	<u>235,305</u>	<u>257,780</u>	<u>22,475</u>
Permits, Privilege Fees, And Regulatory Licenses	-	-	-	-
Fines and Forfeitures	8,600	8,600	14,931	6,331
Revenue From Use Of Money and Property:				
Revenue from use of money	-	-	2,492	2,492
Revenue from use of property	-	-	-	-
Total Revenue From Use of Money and Property	<u>-</u>	<u>-</u>	<u>2,492</u>	<u>2,492</u>
Miscellaneous Revenue	12,000	12,000	16,153	4,153
Charges For Services:				
Fire Services Donations	-	-	-	-
Police Services Donations	-	-	-	-
Total Charges for Services	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenue From Local Sources	<u>\$ 283,905</u>	<u>\$ 283,905</u>	<u>\$ 323,963</u>	<u>\$ 40,058</u>
Revenue From The County:				
SRO Grant	\$ 37,000	\$ 37,000	\$ 37,654	\$ 654
Total Revenue From The County	<u>37,000</u>	<u>37,000</u>	<u>37,654</u>	<u>654</u>
Revenue From The Commonwealth:				
Non-Categorical Aid:				
Litter grant	\$ 1,000	\$ 1,000	\$ 1,000	\$ -
Rolling stock taxes	8,500	8,500	9,387	887
VML Matching Safety Grant	-	-	1,000	1,000
Planning Grant	-	-	-	-
Assistance to localities with police departments	-	-	-	-
Total Non-Categorical Aid	<u>9,500</u>	<u>9,500</u>	<u>11,387</u>	<u>1,887</u>
Other Categorical Aid:				
Fire programs fund	-	-	10,000	10,000
Law enforcement grant	4,309	4,309	9,461	5,152
Total Other Categorical Aid	<u>4,309</u>	<u>4,309</u>	<u>19,461</u>	<u>15,152</u>
Total Revenue From The Commonwealth	<u>13,809</u>	<u>13,809</u>	<u>30,848</u>	<u>17,039</u>
Revenue From the Federal Government:				
DHCD	-	-	212,405	212,405
Total Revenue From the Federal Government	<u>-</u>	<u>-</u>	<u>212,405</u>	<u>212,405</u>
GRAND TOTALS - REVENUES - PRIMARY GOVERNMENT FUNDS	<u>\$ 334,714</u>	<u>\$ 334,714</u>	<u>\$ 604,870</u>	<u>\$ 270,156</u>

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

TOWN OF HAYSI, VIRGINIA
GOVERNMENTAL FUND EXPENDITURES
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Budget as Amended</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>PRIMARY GOVERNMENT</u>				
GENERAL FUND:				
General and Financial Administration	136,808	136,808	151,656	(14,848)
Public Safety-police department	144,790	144,790	147,900	(3,110)
Public Safety-fire department	9,500	9,500	11,001	(1,501)
Public works-street department	23,380	23,380	23,592	(212)
Community Development	-	-	231,257	(231,257)
Economic Development	20,236	20,236	9,095	11,141
Debt Service:				
Principal Retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL GENERAL FUND	<u>\$ 334,714</u>	<u>\$ 334,714</u>	<u>\$ 574,501</u>	<u>\$ (239,787)</u>
OTHER FINANCING RESOURCES (USES):				
Sale of property	-	-	58,030	58,030
Loan proceeds	-	-	-	-
Insurance recoveries	-	-	-	-
Transfers in (out)	-	-	-	-
Total Other Financing Sources (Uses)	<u> </u>	<u> </u>	<u>58,030</u>	<u>58,030</u>
GRAND TOTAL - EXPENDITURES - PRIMARY GOVERNMENT FUNDS	<u>\$ 334,714</u>	<u>\$ 334,714</u>	<u>\$ 632,531</u>	<u>\$ (181,757)</u>
Excess of revenue and other financing sources over expenditures and other financing uses - budget basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 88,399</u>	
Net appropriations from fund balance				
Prior year surplus	-	-		
Prior year encumbrances	<u> </u>	<u> </u>		
Budget- excess of revenue, other financing sources and appropriations from fund balance over expenditures and other financing uses	<u> </u>	<u> </u>		