

TOWN OF RICHLANDS, VIRGINIA

FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2012

**TOWN OF RICHLANDS, VIRGINIA
FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2012**

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FISCAL YEAR ENDED JUNE 30, 2012**

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INTRODUCTORY SECTION

TOWN OF RICHLANDS, VIRGINIA

TOWN COUNCIL

Jan White, Mayor

Doug Ratliff, Vice Mayor

Rod Cury

Larry Worrell

Frances Meadows

Larry Johnson

T. Shea Cook

OTHER OFFICIALS

Timothy Taylor	Town Manager
Sue Wade	Office Manager
Adrienne Cordle	Accountant

FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Richlands, Virginia, as of and for the year ended June 30, 2012, which collectively comprise the Town of Richlands, Virginia's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Richlands, Virginia'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 the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 and each major fund of the Town of Richlands, Virginia, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof 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 October 19, 2012, on our consideration of the Town of Richlands, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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, budgetary comparison information, and the schedule of pension funding progress 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 management's discussion and analysis and the schedule of pension funding progress 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 management's discussion and analysis and the schedule of pension funding progress because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Richlands, Virginia's financial statements as a whole. The introductory section and statistical information, are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory and statistical information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Robinson, Turner, Cox Associates

Blacksburg, Virginia
October 19, 2012

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, 2012.

Financial Highlights for fiscal year 2012

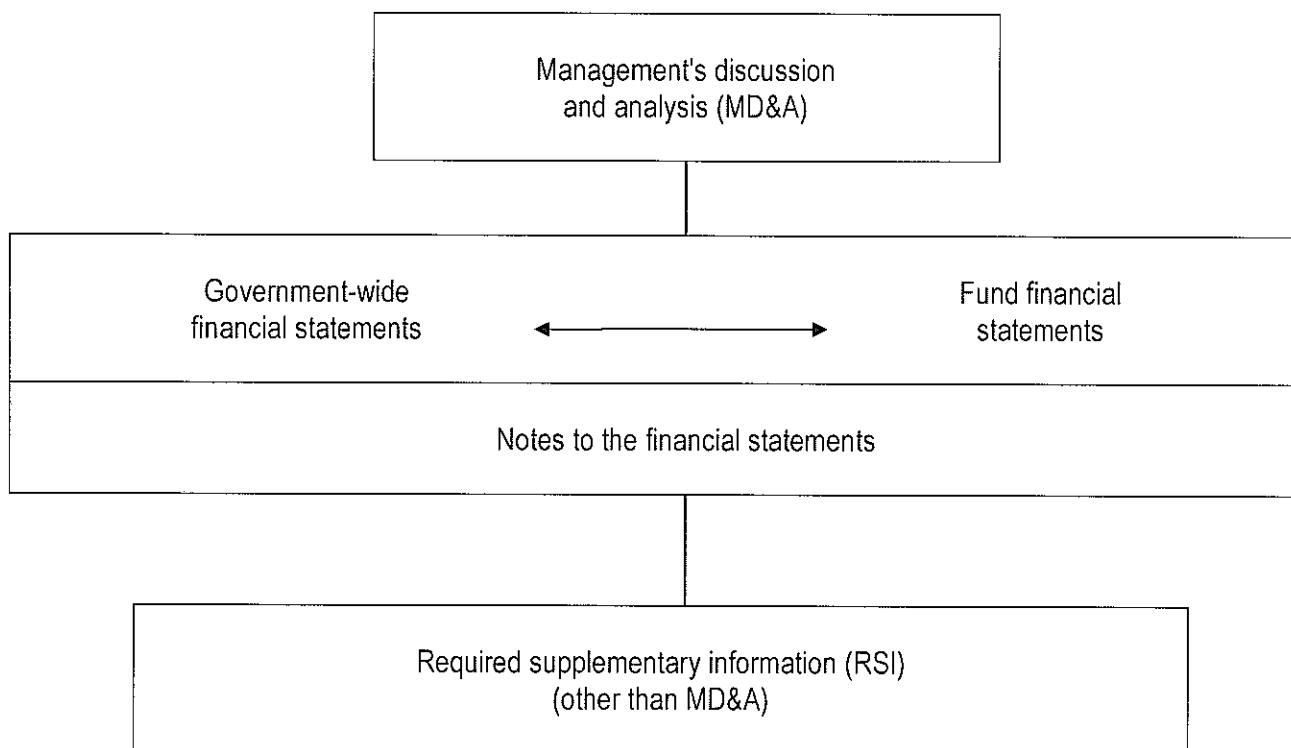
- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$21,953,081 (net assets). Of this amount, \$6,209,371 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net assets increased by \$673,727. The increase is attributable to the net effect of the Town's Business type activities as Governmental type activities showed a slight decrease for the year
- The Town's total liabilities at the close of the current fiscal year were \$5,918,989, including \$4,733,660 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 \$862,472, a decrease of 388,947 from the prior year restated fund balance. Such amount 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 \$862,472, or 15% of total general fund expenditures.
- At the end of the fiscal year June 30, 2012, the Town has incurred expenses of \$3,174,785.25 for construction of the Birmingham Sewer Line Expansion. The project was completed in January 2012.
- The Town had (1) active Revenue Bonds at the end of the current fiscal year with a total balance of \$874,451.
- The Town had general obligation bonds at June 30, 2012 with an ending balance of \$3,133,236.

Overview of the Financial Statements

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

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

Figure A
Required Components of Richland's Financial Statements



Government-Wide Financial Statements

The *government-wide financial statements* (i.e., the statement of net 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 pages 17 and 18 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 19 and 21 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 23 to 25 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 26 to 46 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, 2012

	Governmental Activities		Business-type Activities		Totals	
	2011	2012	2011	2012	2011	2012
Current and other assets	\$ 3,572,500	\$ 1,551,110	\$ 4,465,168	\$ 6,327,189	\$ 8,037,668	\$ 7,878,299
Capital assets	5,659,655	6,004,664	14,316,002	13,989,107	19,975,657	19,993,771
Total assets	9,232,155	7,555,774	18,781,170	20,316,296	28,013,325	27,872,070
Long-term liabilities	697,060	597,613	4,666,223	4,136,047	5,363,283	4,733,660
Other liabilities	580,479	487,241	790,209	698,088	1,370,688	1,185,329
Total liabilities	1,277,539	1,084,854	5,456,432	4,834,135	6,733,971	5,918,989
Net Assets:						
Invested in capital assets,						
Net of related debt	5,346,120	5,762,290	9,778,386	9,981,420	15,124,506	15,743,710
Unrestricted	2,608,496	708,630	3,546,352	5,500,741	6,154,848	6,209,371
Total net assets	\$ 7,954,616	\$ 6,470,920	\$ 13,324,738	\$ 15,482,161	\$ 21,279,354	\$ 21,953,081

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 \$21,953,081 at the close of fiscal year 2012. The largest portion of the Town's net assets (72%) 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 (\$6,209,371) 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, 2012

	Governmental Activities		Business-Type Activities	
	2011	2012	2011	2012
Revenues:				
Program revenues :				
Charges for services	\$ 1,532,532	\$ 936,327	\$ 8,984,656	\$ 8,342,007
Operating grants & Contributions	1,162,629	1,331,617	1,605,965	-
Capital grants & Contributions	167,652	37,487	-	208,030
General revenue:				
Property taxes	408,275	434,748	-	-
Other local taxes	1,671,219	1,751,238	-	-
Unrestricted investment earnings	15,894	11,853	11,618	6,015
Other / Miscellaneous	185,927	117,765	-	-
Grants and contributions not restricted	9,598	4,081	-	-
Gain on disposal of capital assets	10,927	6,494	-	341
Total revenues	5,164,653	4,631,610	10,602,239	8,556,393
Expenses:				
General gov't adm.	271,310	270,119	-	-
Public safety	2,764,620	2,688,745	-	-
Public works	1,544,774	1,636,116	-	-
Parks, recreation , culture	390,015	382,314	-	-
Community development	206,662	38,246	-	-
Interest-long term debt	16,801	11,921	-	-
Electric	-	-	5,833,916	5,227,037
Water & sewer	-	-	2,106,703	2,259,778
Total expenses	5,194,182	5,027,461	7,940,619	7,486,815
Transfers	-	148,726	-	(148,726)
Change in net assets	(29,529)	(247,125)	2,661,620	920,852
Net assets-July 1	7,984,145	6,718,045	10,663,118	14,561,309
Prior period adj. (between funds)	(1,236,571)	-	1,236,571	-
Net assets-June 30	\$ 6,718,045	\$ 6,470,920	\$ 14,561,309	\$ 15,482,161

Government-Wide Financial Analysis (Continued)

Statement of Activities (Continued)

During the current fiscal year the Town's net assets increased by \$673,727. This is comprised of a net asset decrease from governmental activities of \$247,125 and an increase in business type activities of \$920,852.

Governmental activities-Governmental activities decreased the Town's net assets by \$247,125. Additional factors noted below.

Revenues from governmental activities totaled \$4,631,610, with charges for services (20.2%), other local taxes (37.8%) and operating grants & contributions (28.7%), being the major sources of revenue. Most revenues in comparison to the previous year had nominal changes with the exception of the following: charges for services decreased \$596,205 due primarily to bad debt write offs for EMS billings totaling \$503,218 during the fiscal year as compared to write offs totaling \$108,774 in the prior year. In addition, the Town increased the EMS allowance for doubtful accounts to reflect recent collection experience. Both of these items reduced the recognized revenue for EMS billings in the current year. On a positive note, the Town experienced an increase in operating grants & contributions of approximately \$246,988 due primarily to an increase in available grant funding

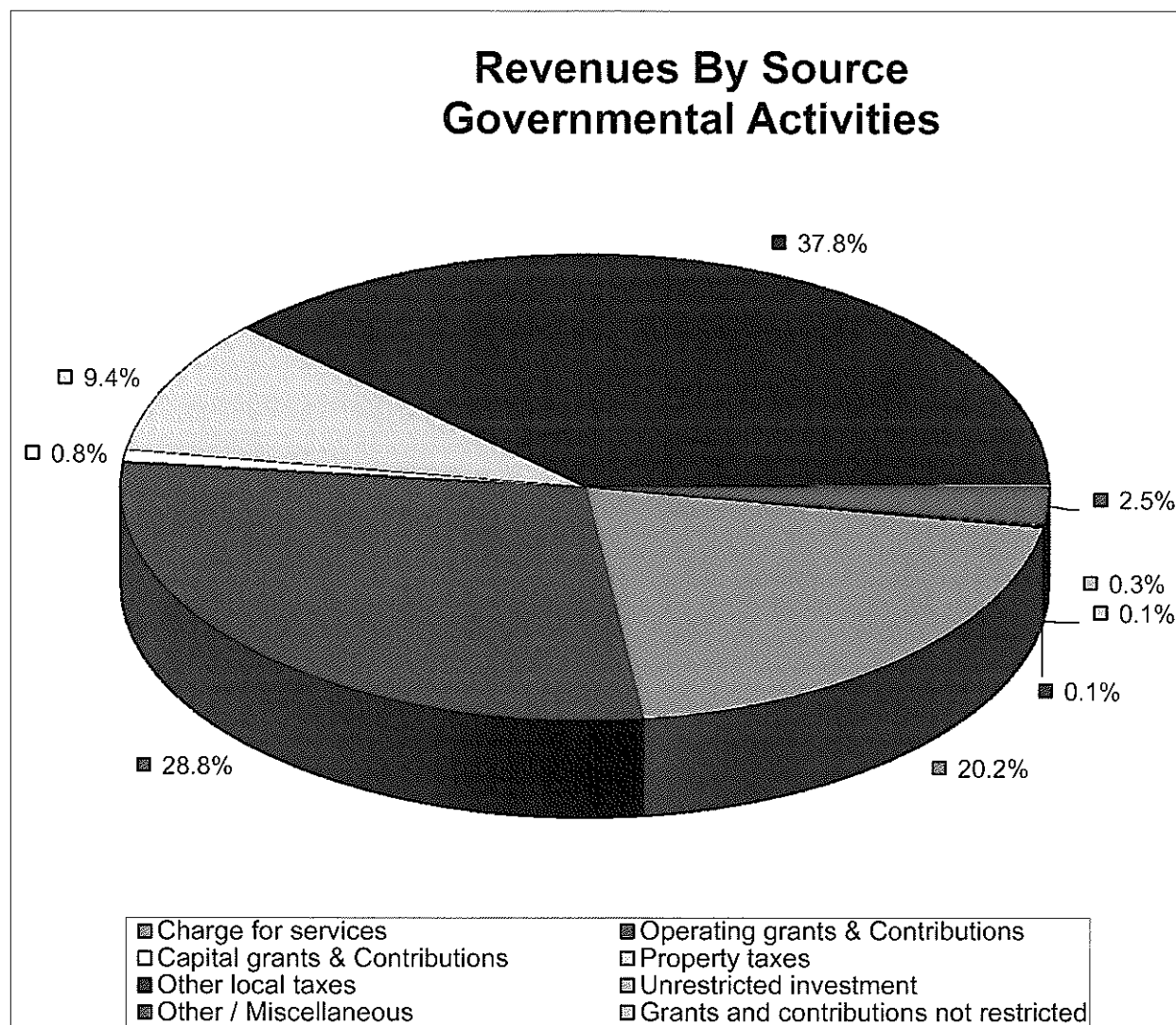
Expenses for governmental activities totaled \$5,027,461 with parks, recreation and culture (7.6%), public safety (53.5%), public works (32.5%), accounting for ninety-four percent of total governmental expenses. Public works expenses increased \$91,342 as a result of more capital investments; while community development expenses decreased \$168,416 due primarily to nearing closure of the Big Creek Housing Project.

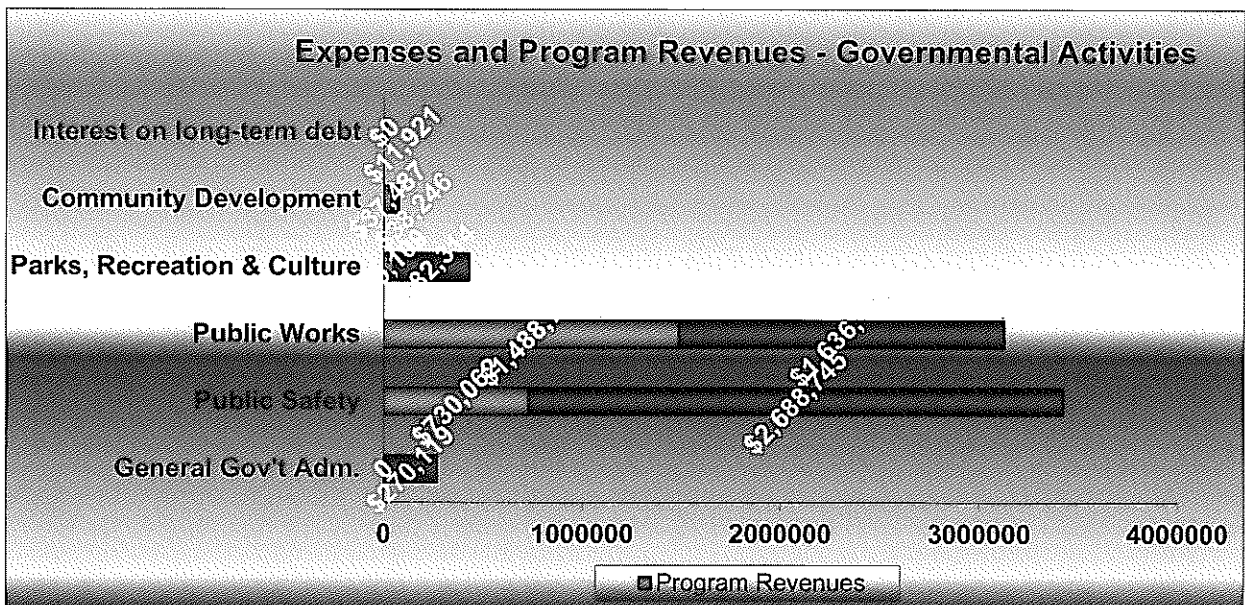
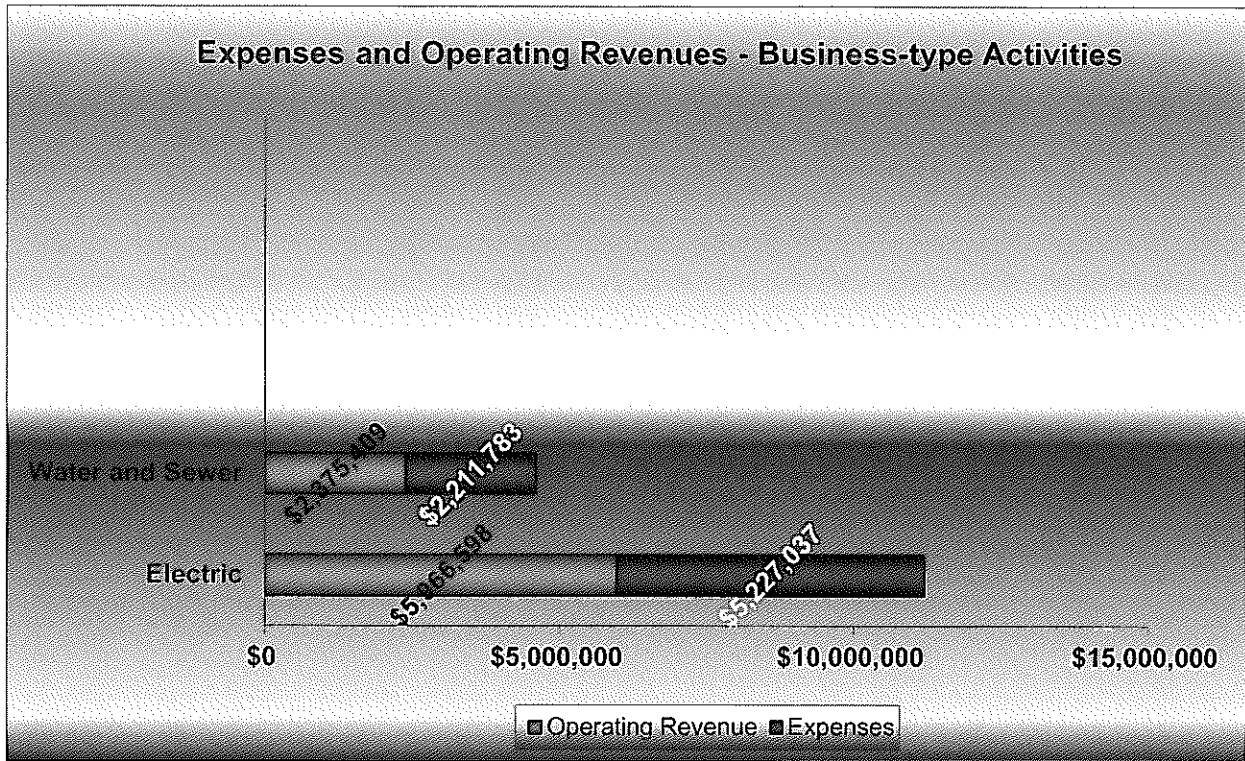
Business-type activities – Net assets of the business-type activities were \$15,482,161 at June 30, 2012. This was an increase of \$920,852 from the restated prior year net assets. The current year increase is \$1,740,768 less than the prior year increase of \$2,661,620 as a result of a combination of a decrease in grant funding due to the completion of the grant funded Birmingham sewer line project and a slight increase in the water and sewer department expenses.

Government-Wide Financial Analysis (continued)

Program revenues for the business-type activities totaled \$8,550,037 of which \$8,342,007 is charges for services. Expenses totaled \$7,486,815.

- Operating revenues decreased from the prior year by \$642,649.
- Proprietary operating expenses experienced a 5.7 percent decrease in comparison to prior year expenses.





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 \$862,472, which all constitutes *unreserved fund balance* and is available for spending at the government's discretion. 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 15 % of total fund expenditures.

The fund balance of the Town's general fund decreased during the current fiscal year by \$388,947 from current year activities. Total revenues decreased by \$11,437 as a result of a combination of decreases and increases of various revenues; and total expenditures increased by \$247,464, specifically due to an increase in capital project 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 \$1,796,473 and \$3,704,268 respectively. The total increase in net assets was \$920,852 during the current fiscal year.

Electric fund

The electric fund net assets increased by \$739,710 from current year activities in fiscal year 2012 compared to a prior year increase of \$787,146.

Electric fund non-operating revenues decreased \$149 (100%) from the prior year, which was related to a gain on disposals of an asset during the current fiscal year.

Water and sewer fund

The water and sewer fund net assets increased by \$181,142 from current year activities in fiscal year 2012 compared to the prior year increase of \$1,874,474. The change in net assets increase is comprised of a couple of factors. Capital contributions decreased by 1,397,935. Operating expenses increased \$179,238 (8.8%), as a result of increased personnel cost for employees, auditing and legal fees, supplies and repairs to wastewater treatment plant equipment. Non-operating expenses decreased by 26,126 due primarily to a decrease in interest expense and non-operating revenue decreased by \$5,411 as a result of a decrease in investment earnings and gain on sale of assets. Capital contributions decreased as well by \$1,397,935 due to a decrease in capital grants.

General Fund Budgetary Highlights

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

- Actual Revenues were less than budgeted revenues by \$377,199. The majority of this decrease is due to a decrease in Intergovernmental revenues.
- Actual Expenditures were less than budgeted expenditures by 925,110. This is a result of the public works expenses being approximately (11%) less than estimated, public safety (12%) less than estimated and capital projects being (22%) less than estimated.

General Fund Condensed Budget vs. Actual Fiscal Year ended June 30, 2012

	Budgeted Amounts		Actual Amounts
	Original	Final	
Revenues	\$ 5,448,733	\$ 5,448,733	\$ 5,071,534
Expenditures	(6,540,811)	(6,540,811)	(5,615,701)
Other Financing Sources	168,215	168,215	155,220
Change in fund balance	\$ (923,863)	\$ (923,863)	\$ (388,947)

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, 2012, amounts to \$19,993,771 (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 \$1,005,822 in the current fiscal year. The majority was resurfacing of town streets as well as construction of the fire department burn building and new street lighting project.
- Capital asset acquisitions in business-type activities totaled \$297,462 in the current fiscal year. The majority consisted of construction costs of the Birmingham Sewer Line Project and machinery and equipment purchases.

**The Town's Capital Assets
(Net of Depreciation)
Fiscal Year ended June 30, 2012**

	Governmental Activities		Business-Type Activities	
	2011	2012	2011	2012
Land	\$ 321,106	\$ 321,106	\$ 517,913	\$ 517,913
Construction in Progress	36,214	255,753	3,019,759	-
Buildings and improvements	1,348,067	1,373,514	9,502,005	12,172,086
Improvements other than buildings	2,439,983	2,856,756	-	-
Equipment	1,514,285	1,197,535	1,276,325	1,299,108
Total	\$ 5,659,655	\$ 6,004,664	\$ 14,316,002	\$ 13,989,107

Additional information on the Town's capital assets can be found in Note 9 on pages 42 to 43 of this report.

Long-term debt

At the end of the current fiscal year, the Town had total bonded debt outstanding of \$4,007,687. Of this amount, \$874,451 is comprised of (1) active Revenue bond and the remaining balance of \$3,133,236 is General Obligation Bonds.

**The Town's Long-term Bond Debt
Fiscal Year ended June 30, 2012**

	Balance	Additions	Reductions	Balance
<i>Fiscal year 2011</i>				
Business-Type Activities:				
General obligation bonds	\$ 3,934,685	\$ -	\$ 396,269	\$ 3,538,416
Revenue bonds	1,277,294	311,409	589,503	999,200
Total	\$ 5,211,979	\$ 311,409	\$ 985,772	\$ 4,537,616
<i>Fiscal year 2012</i>				
Business-Type Activities:				
General obligation bonds	\$ 3,538,416	\$ -	\$ 405,180	\$ 3,133,236
Revenue bonds	999,200	204,424	329,173	874,451
Total	\$ 5,211,979	\$ 311,409	\$ 985,772	\$ 4,007,687

Additional information on the Town's long-term liability can be found in Note 6 on pages 36 to 38 of this report.

Economic Factors and Next Year's Budget Rates

- The unemployment rate as of June 30, 2012 for the County of Tazewell, in which The Town of Richlands resides, is 6.9 percent, which is an increase from the average for 2011 of 6.5 percent. This compares to the state's unemployment rate of 5.7 percent and the national rate of 8.2 percent.
- The Town of Richlands 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 Commercial Operation Date ("COD") for unit #1 of June 2012 and estimated COD for unit #2 of November 2012, 1.5 MW in the AMP Phase I Hydro projects (Cannelton, Smithland, and Willow Island) with estimated COD between June 2013 and January 2015 and 1.675 MW in the Fremont energy campus project with a COD of January 2012. 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 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 and stranded investment costs are still pending, however, cost projections are being funded in a rate stabilization fund established by American Municipal Power, Inc (AMP, Inc).
- 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 was awarded a grant with Virginia Department of Transportation for funding of street lighting along Route 609 in Richlands' corporate limits. As of June 30, 2012, the Town has incurred a total cost of \$114,216.39 with a remaining commitment of \$120,078.61 to complete the project.
- The Town was also awarded a \$430,000 grant with Virginia Department of Fire Programs for funding of a Burn Building for the Richland's Fire Department. The Town has spent a total of \$101,282.43 in grant and local funds on this project as of June 30, 2012.
- The Town of Richlands has a pending grant application with Virginia Department of Transportation for funding of the preservation and restoration of the Downtown Richlands Railroad Section House. Plans to restore the house and property will not only ensure the preservation of this historic railroad structure, but will give the town the opportunity to improve downtown pedestrian connections, improve parking availability, provide additional public community spaces and resources in the downtown, and provide an opportunity to improve visitor services and to interpret the story of the railroad's influence on Richlands.

All of these factors are considered in preparing The Town of Richlands' budget for fiscal year 2013.

Unreserved fund balance in the general fund was 862,472 as of June 30, 2012. It is intended that this available balance will be utilized in order to meet the government's ongoing obligations to citizens and creditors.

Requests for Information

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

Basic Financial Statements

Town of Richlands, Virginia
Statement of Net Assets
At June 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 949,728	\$ 4,023,291	\$ 4,973,019
Receivables (net of allowance for uncollectibles):			
Taxes receivable	66,568	-	66,568
Accounts receivable	382,383	799,814	1,182,197
Notes receivable	49,036	-	49,036
Due from other governmental units	103,395	1,488,610	1,592,005
Other assets:			
Unamortized bond issue costs	-	15,474	15,474
Capital assets (net of accumulated depreciation):			
Land	321,106	517,913	839,019
Buildings and system	1,373,514	-	1,373,514
Machinery and equipment	1,197,535	1,299,108	2,496,643
Plant and lines in service/infrastructure	2,856,756	12,172,086	15,028,842
Construction in progress	255,753	-	255,753
Total assets	\$ 7,555,774	\$ 20,316,296	\$ 27,872,070
LIABILITIES			
Accounts payable	\$ 163,078	\$ 341,003	\$ 504,081
Accrued liabilities	132,630	36,346	168,976
Due to other governments	23,707	-	23,707
Customers' deposits	-	312,667	312,667
Accrued interest payable	10,220	8,072	18,292
Unearned revenue	157,607	-	157,607
Long-term liabilities:			
Due within one year	310,644	559,679	870,323
Due in more than one year	286,969	3,576,368	3,863,337
Total liabilities	\$ 1,084,854	\$ 4,834,135	\$ 5,918,989
NET ASSETS			
Invested in capital assets, net of related debt	\$ 5,762,290	\$ 9,981,420	\$ 15,743,710
Unrestricted (deficit)	708,630	5,500,741	6,209,371
Total net assets	\$ 6,470,920	\$ 15,482,161	\$ 21,953,081

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

Town of Richlands, Virginia
Statement of Activities
For the Year Ended June 30, 2012

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-type Activities
PRIMARY GOVERNMENT:						
Governmental activities:						
General government administration	\$ 270,119	\$ -	\$ -	\$ -	\$ (270,119)	\$ -
Public safety	2,688,745	429,740	300,322	-	(1,958,683)	-
Public works	1,636,116	457,478	1,031,295	-	(147,343)	-
Parks, recreation, and cultural	382,314	49,109	-	-	(333,205)	-
Community development	38,246	-	-	37,487	(759)	-
Interest on long-term debt	11,921	-	-	-	(11,921)	-
Total governmental activities	\$ 5,027,461	\$ 936,327	\$ 1,331,617	\$ 37,487	\$ (2,722,030)	\$ -
Business-type activities:						
Water and sewer	\$ 2,259,778	\$ 2,375,409	\$ -	\$ 208,030	\$ -	\$ 323,661
Electric	5,227,037	5,966,598	-	-	-	739,561
Total business-type activities	\$ 7,486,815	\$ 8,342,007	\$ -	\$ 208,030	\$ -	\$ 1,063,222
Total primary government	\$ 12,514,276	\$ 9,278,334	\$ 1,331,617	\$ 245,517	\$ (2,722,030)	\$ (1,658,908)
General revenues:						
General property taxes					\$ 434,748	\$ -
Other local taxes:						
Local sales and use taxes					285,979	-
Consumers' utility taxes					148,085	-
Business license taxes					480,340	-
Motor vehicle licenses					37,509	-
Bank stock tax					166,801	-
Meals taxes					611,447	-
Other local taxes					21,077	-
Unrestricted revenues from use of money and property					11,853	6,015
Miscellaneous					117,765	-
Grants and contributions not restricted to specific programs					4,081	-
Gain on disposal of capital assets					6,494	341
Transfers					148,726	(148,726)
Total general revenues and transfers					\$ 2,474,905	\$ (142,370)
Change in net assets					\$ (247,125)	\$ 920,852
Net assets - beginning, as restated					6,718,045	14,561,309
Net assets - ending					\$ 6,470,920	\$ 15,482,161
						\$ 21,953,081

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

Town of Richlands, Virginia
Balance Sheet
Governmental Funds
At June 30, 2012

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 949,728
Receivables (net of allowance for uncollectibles):	
Taxes receivable	66,568
Accounts receivable	382,383
Notes receivable	49,036
Due from other governmental units	103,395
Total assets	<u>\$ 1,551,110</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 163,078
Accrued payroll and related liabilities	132,630
Due to other governments	23,707
Deferred revenue	369,223
Total liabilities	<u>\$ 688,638</u>
Fund balances:	
Nonspendable	\$ 49,036
Unassigned	813,436
Total fund balances	<u>\$ 862,472</u>
Total liabilities and fund balances	<u>\$ 1,551,110</u>

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

Town of Richlands, Virginia
 Reconciliation of the Balance Sheet of Governmental Funds
 To the Statement of Net Assets
 At June 30, 2012

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$ 862,472
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	6,004,664
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	211,616
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(607,832)
Net assets of governmental activities	<u>\$ 6,470,920</u>

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

Town of Richlands, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

	<u>General</u>
REVENUES	
General property taxes	\$ 433,863
Other local taxes	1,751,238
Permits, privilege fees, and regulatory licenses	2,090
Fines and forfeitures	50,562
Revenue from the use of money and property	11,853
Charges for services	1,190,198
Miscellaneous	117,765
Recovered costs	140,780
Intergovernmental revenues:	
Commonwealth	1,335,698
Federal	37,487
Total revenues	<u>\$ 5,071,534</u>
EXPENDITURES	
Current:	
General government administration	\$ 267,218
Public safety	2,529,280
Public works	1,388,996
Parks, recreation, and cultural	340,314
Community development	38,246
Capital projects	965,562
Debt service:	
Principal retirement	71,161
Interest and other fiscal charges	14,924
Total expenditures	<u>\$ 5,615,701</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (544,167)</u>
OTHER FINANCING SOURCES (USES)	
Transfers in	\$ 148,726
Sale of capital assets	6,494
Total other financing sources (uses)	<u>\$ 155,220</u>
Net change in fund balances	\$ (388,947)
Fund balances - beginning, as restated	1,251,419
Fund balances - ending	<u><u>\$ 862,472</u></u>

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

Town of Richlands, Virginia
 Reconciliation of Statement of Revenues,
 Expenditures, and Changes in Fund Balances of Governmental Funds
 To the Statement of Activities
 For the Year Ended June 30, 2012

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

Net change in fund balances - total governmental funds	\$ (388,947)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the depreciation exceeded capital outlays in the current period.	345,009
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(305,638)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	71,161
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.	31,290
Change in net assets of governmental activities	<u>\$ (247,125)</u>

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

Town of Richlands, Virginia
Statement of Net Assets
Proprietary Funds
At June 30, 2012

	Enterprise Funds		
	Water and Sewer	Electric	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,221,568	\$ 1,801,723	\$ 4,023,291
Accounts receivable, net of allowances for uncollectibles	207,522	592,292	799,814
Due from other governmental units	1,488,610	-	1,488,610
Total current assets	\$ 3,917,700	\$ 2,394,015	\$ 6,311,715
Noncurrent assets:			
Other assets:			
Unamortized bond issue costs	\$ 15,474	\$ -	\$ 15,474
Capital assets:			
Utility plant and buildings in service	21,158,959	1,053,126	22,212,085
Machinery and equipment	627,798	1,538,992	2,166,790
Land	517,913	-	517,913
Less accumulated depreciation	(9,463,313)	(1,444,368)	(10,907,681)
Total capital assets	\$ 12,841,357	\$ 1,147,750	\$ 13,989,107
Total noncurrent assets	\$ 12,856,831	\$ 1,147,750	\$ 14,004,581
Total assets	\$ 16,774,531	\$ 3,541,765	\$ 20,316,296
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 48,174	\$ 292,829	\$ 341,003
Accrued wages	21,474	14,872	36,346
Customers' deposits	59,786	252,881	312,667
Accrued interest payable	8,072	-	8,072
Compensated absences - current portion	68,550	27,720	96,270
Revenue bonds payable - current portion	44,844	-	44,844
General obligation bonds - current portion	418,565	-	418,565
Total current liabilities	\$ 669,465	\$ 588,302	\$ 1,257,767
Noncurrent liabilities:			
Revenue bonds payable - net of current portion	\$ 829,607	\$ -	\$ 829,607
General obligation bond - net of current portion	2,714,671	-	2,714,671
Compensated absences - net of current portion	22,850	9,240	32,090
Total noncurrent liabilities	\$ 3,567,128	\$ 9,240	\$ 3,576,368
Total liabilities	\$ 4,236,593	\$ 597,542	\$ 4,834,135
NET ASSETS			
Invested in capital assets, net of related debt	\$ 8,833,670	\$ 1,147,750	\$ 9,981,420
Unrestricted	3,704,268	1,796,473	5,500,741
Total net assets	\$ 12,537,938	\$ 2,944,223	\$ 15,482,161

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

Town of Richlands, Virginia
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2012

	Enterprise Funds		
	Water and Sewer	Electric	Total
OPERATING REVENUES			
Charges for services:			
Charges for services	\$ 2,280,694	\$ 5,717,956	\$ 7,998,650
Contract work	12,057	147,854	159,911
Lab testing and septic treatment	43,357	-	43,357
Penalties and service charges	30,844	87,613	118,457
Connection fees	8,457	-	8,457
Utility pole permits	-	13,175	13,175
Total operating revenues	\$ 2,375,409	\$ 5,966,598	\$ 8,342,007
OPERATING EXPENSES			
Salaries, wages and fringes	\$ 866,992	\$ 567,878	\$ 1,434,870
Insurance	27,767	9,070	36,837
Audit and legal	31,000	20,785	51,785
Dues, memberships and training	1,902	18,058	19,960
Office supplies and postage	17,797	11,261	29,058
Telecommunications	7,294	2,860	10,154
Equipment and vehicle maintenance	35,782	20,200	55,982
Supplies	195,937	39,954	235,891
Utilities	309,997	12,798	322,795
Heating oil/fuel	61,511	-	61,511
Misc	16,903	1,975	18,878
Plant parts and repairs	47,087	-	47,087
Maintenance, repairs and upgrades	49,091	123,524	172,615
Instrument calibration	863	-	863
Power purchased	-	4,221,093	4,221,093
Payment in lieu of tax	-	57,133	57,133
Street lighting	-	4,576	4,576
Distribution	-	20,631	20,631
Testing	6,557	1,545	8,102
Capital outlays	4,642	-	4,642
Depreciation	530,661	93,696	624,357
Total operating expenses	\$ 2,211,783	\$ 5,227,037	\$ 7,438,820
Operating income (loss)	\$ 163,626	\$ 739,561	\$ 903,187
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	\$ 6,015	\$ -	\$ 6,015
Gain on sale of assets	192	149	341
Interest expense	(47,995)	-	(47,995)
Total nonoperating revenues (expenses)	\$ (41,788)	\$ 149	\$ (41,639)
Income before contributions and transfers	\$ 121,838	\$ 739,710	\$ 861,548
Capital contributions	\$ 208,030	\$ -	\$ 208,030
Transfers out	(148,726)	-	(148,726)
Change in net assets	\$ 181,142	\$ 739,710	\$ 920,852
Total net assets - beginning, as restated	12,356,796	2,204,513	14,561,309
Total net assets - ending	\$ 12,537,938	\$ 2,944,223	\$ 15,482,161

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

Town of Richlands, Virginia
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2012

	Enterprise Fund	Enterprise Fund	
	Water and Sewer	Electric	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 2,392,356	\$ 6,017,025	\$ 8,409,381
Payments to suppliers	(856,609)	(4,615,090)	(5,471,699)
Payments to and for employees	(864,359)	(570,758)	(1,435,117)
Net cash provided (used) by operating activities	\$ 671,388	\$ 831,177	\$ 1,502,565
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from (to) other funds	\$ (148,726)	\$ -	\$ (148,726)
Net cash provided (used) by noncapital financing activities	\$ (148,726)	\$ -	\$ (148,726)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Additions to utility plant	\$ (268,048)	\$ (29,414)	\$ (297,462)
Proceeds from the sale of assets	192	149	341
Principal payments on revenue bonds	(734,353)	-	(734,353)
Proceeds from indebtedness	204,424	-	204,424
Capital contributions	295,984	-	295,984
Interest payments	(41,636)	-	(41,636)
Net cash provided (used) by capital and related financing activities	\$ (543,437)	\$ (29,265)	\$ (572,702)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received	\$ 6,015	\$ -	\$ 6,015
Net cash provided (used) by investing activities	\$ 6,015	\$ -	\$ 6,015
Net increase (decrease) in cash and cash equivalents	\$ (14,760)	\$ 801,912	\$ 787,152
Cash and cash equivalents - beginning	2,236,328	999,811	3,236,139
Cash and cash equivalents - ending	\$ 2,221,568	\$ 1,801,723	\$ 4,023,291
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 163,626	\$ 739,561	\$ 903,187
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	530,661	93,696	624,357
(Increase) decrease in accounts receivable	(16,773)	78,748	61,975
Increase (decrease) in customer deposits	33,720	(28,321)	5,399
Increase (decrease) in accounts payable	(42,479)	(49,627)	(92,106)
Increase (decrease) in compensated absences	2,633	(2,880)	(247)
Total adjustments	507,762	91,616	599,378
Net cash provided (used) by operating activities	\$ 671,388	\$ 831,177	\$ 1,502,565

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

TOWN OF RICHLANDS, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2012

Note 1-Summary of Significant Accounting Policies:

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

A. Financial Reporting Entity:

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

Blended Component Units - None

Discretely Presented Component Units - None

Related Organizations - None

Jointly Governed Organizations - None

B. Government-wide and fund financial statements:

The government-wide financial statements (i.e., the Statement of Net 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 Net Assets is designed to display the financial position of the primary government (government and business-type activities). Governments will report all capital assets in the government-wide Statement of Net Assets and will report depreciation expense –the cost of “using up” capital assets – in the Statement of Activities. The net assets of a government will be broken down into three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2012

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

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

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

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

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

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

The government reports the following major governmental funds:

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2012

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

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

The Town reports the following proprietary funds:

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

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

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise 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 government 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 other charges between the government's water and wastewater function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2012

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

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

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

D. Assets, liabilities, and net assets or equity:

1. Cash and Cash Equivalents

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

2. Receivables and Payables

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

All trade and property tax receivables are shown net of an allowance for uncollectibles. The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$35,356 at June 30, 2012 and is comprised solely of real estate taxes.

3. Property Taxes

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 of the following fiscal year. The Town bills and collects its own property taxes.

4. Allowance for Uncollectible Accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. For the General Fund, the allowance amounted to approximately \$35,356 at June 30, 2012 and is comprised solely of property taxes. For the Proprietary Fund, the allowance amounted to approximately \$7,750 for water and sewer billings and \$21,779 for electric billings at June 30, 2012.

5. Use of Estimates

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2012

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

D. Assets, liabilities, and net assets or equity: (Continued)

6. Capital Assets

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

5. Capital Assets (Continued)

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

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

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

6. Compensated Absences

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

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

D. Assets, liabilities, and net assets or equity: (Continued)

7. 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, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond 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.

8. Net Assets

Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets.

9. Concentration of Credit Risk

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

10. Prepaid Expenses

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

11. Fund equity

The Town of Richlands, Virginia follows provisions of GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Statement defines fund balance categories and the related nature and extent of constraints placed on a government's fund balance. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2012

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

D. Assets, liabilities, and net assets or equity: (Continued)

11. Fund equity (Continued)

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

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

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2012

Note 2-Reconciliation of Government-Wide and Fund Financial Statements:

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

The governmental fund balance sheet includes a reconciliation between *fund balance-total governmental funds* and *net assets-governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The detail of this (\$607,832) difference for the primary government is as follows:

Capital Leases	\$ (242,374)
Interest payable	(10,220)
Compensated absences	<u>(355,238)</u>
Net adjustment to reduce <i>fund balance-total governmental funds</i> to arrive at <i>net assets-governmental activities</i>	<u>\$ (607,832)</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances-total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The detail of this \$345,009 difference for the primary government is as follows:

	<u>Primary Government</u>
Capital outlays	\$ 1,005,822
Depreciation expense	<u>(660,813)</u>
Net adjustment to increase (decrease) <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 345,009</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

AS OF JUNE 30, 2012

Note 2-Reconciliation of Government-Wide and Fund Financial Statements: (Continued)

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

Another element of that reconciliation states "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$71,161 difference in the primary government are as follows:

Principal repayments:

Loans and capital leases payments	\$ 71,161
Net adjustment to increase (decrease) <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 71,161</u>

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$31,290 difference for the primary government are as follows:

	<u>Primary Government</u>
(Increase) Decrease in Compensated absences	\$ 28,287
(Increase) Decrease in Interest payable	<u>3,003</u>
Net adjustment to increase (decrease) <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 31,290</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2012

Note 3-Stewardship, Compliance, and Accountability:

A. Budgetary information

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

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

B. Deficit fund equity

At June 30, 2012, there were no funds with deficit fund equity.

Note 4-Deposits and Investments:

Deposits:

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

Investments:

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, bankers' acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). The Town did not have any investments as of June 30, 2012 or for the year then ended.

TOWN OF RICHLANDS, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2012

Note 5-Due from Other Governmental Units:

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

	<u>General Fund</u>	<u>Water and Sewer Fund</u>
<u>Tazewell County</u>		
Construction contribution	\$ -	\$ 1,488,610
<u>Commonwealth of Virginia:</u>		
Categorical aid	2,200	-
Non-categorical aid	180	-
State sales tax	66,115	-
<u>Federal Government:</u>		
Categorical aid	34,900	
Total	<u>\$ 103,395</u>	<u>\$ 1,488,610</u>

Note 6-Long-Term Obligations:

Primary Government - Governmental Activity Indebtedness:

The following is a summary of long-term obligations transactions of the Town for the year ended June 30, 2012.

	<u>Balance July 1, 2011</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>
Lease purchase agreements	\$ 284,645	\$ -	\$ (42,271)	\$ 242,374
Loans Payable	28,890	-	(28,890)	-
Compensated absences	383,525	259,357	(287,644)	355,238
Total	<u>\$ 697,060</u>	<u>\$ 259,357</u>	<u>\$ (358,805)</u>	<u>\$ 597,612</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2012

Note 6-Long-Term Obligations: (Continued)Primary Government - Governmental Activity Indebtedness: (Continued)

Details of long-term indebtedness:

Type/ Project	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
Other Obligations:						
Comp. Absences	n/a	n/a	n/a	n/a	\$ 355,238	\$ 266,429
Capital leases	4.60%	2007	2017	\$ 455,992	242,374	44,215
Total Other Obligations					<u>\$ 597,612</u>	<u>\$ 310,644</u>
Total Long-term liabilities					<u>\$ 597,612</u>	<u>\$ 310,644</u>

Primary Government-Enterprise Activity Indebtedness:

The following is a summary of long-term obligations transactions of the Enterprise Fund for the year ended June 30, 2012.

	Balance July 1, 2011	Issuances	Retirements	Balance June 30, 2012
GO bonds	\$ 3,538,416	\$ -	\$ (405,180)	\$ 3,133,236
Revenue bonds	999,200	204,424	(329,173)	874,451
Compensated absences	128,607	96,208	(96,455)	128,360
Total	<u>\$ 4,666,223</u>	<u>\$ 300,632</u>	<u>\$ (830,808)</u>	<u>\$ 4,136,047</u>

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TOWN OF RICHLANDS, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2012**Note 6-Long-Term Obligations: (Continued)**Primary Government-Enterprise Activity Indebtedness: (Continued)

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

Year Ending June 30,	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2013	\$ 418,566	\$ 27,052	\$ 44,844	\$ -
2014	426,300	16,458	44,844	-
2015	438,472	5,550	44,844	-
2016	87,194	-	44,844	-
2017	87,194	-	44,844	-
2018-2022	435,972	-	224,218	-
2023-2027	435,973	-	224,218	-
2028-2032	430,139	-	201,795	-
2033-2037	373,426	-	-	-
Totals	<u>\$ 3,133,236</u>	<u>\$ 49,060</u>	<u>\$ 874,451</u>	<u>\$ -</u>

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Business-type Activities	Amount Due Within One Year
Revenue Bonds:						
Wastewater Series 2010	0.00%	2010	2024	\$ 1,121,250	\$ 874,451	\$ 44,844
General Obligation Bonds:						
Series 2000	0.00%	2000	2031	175,000	110,833	5,833
Series 2003	3.16%	2003	2015	3,308,029	1,021,753	331,371
Series 2005	0.00%	2005	2037	2,002,799	1,635,619	66,760
Series 2006	0.00%	2006	2037	438,037	365,031	14,601
Total Bonds					<u>\$ 4,007,687</u>	<u>\$ 463,409</u>
Other Obligations:						
Comp. Absences	n/a	n/a	n/a	n/a	<u>\$ 128,360</u>	<u>\$ 96,270</u>
Total Long-term liabilities					<u>\$ 4,136,047</u>	<u>\$ 559,679</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2012

Note 7—Defined Benefit Pension Plan:

A. Plan Description

Name of Plan:	Virginia Retirement System (VRS)
Identification of Plan:	Agent-Employer Defined Benefit Pension Plan
Administering Entity:	Virginia Retirement System (System)

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

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of service credit or at age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least five years of service credit or at age 50 with at least ten years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2012

Note 7-Defined Benefit Pension Plan: (Continued)**A. Plan Description (Continued)**

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2011-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 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2012 was 23.6% of annual covered payroll.

C. Annual Pension Cost

For fiscal year 2012, the Town of Richlands, Virginia's annual pension cost of \$554,563 was equal to the Town of Richlands, Virginia's required and actual contributions.

Fiscal Year Ending	Three-Year trend Information*		Net Pension Obligation
	Annual Pension Cost (APC)	Percentage of APC Contributed	
June 30, 2011	\$ 559,146	100.00%	\$ -
June 30, 2012	554,563	100.00%	-

*The Town joined VRS during the fiscal year ended June 30, 2011

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2012

Note 7-Defined Benefit Pension Plan: (Continued)

C. Annual Pension Cost (Continued)

The FY 2012 required contribution was established at the time the Town of Richlands, Virginia joined the Virginia Retirement System and will be in effect for the period July 1, 2010 through June 30, 2012. The recommended employer contribution rate consists of two pieces—the normal cost and the amortization of the unfunded actuarial accrued liability (UAAL). The normal cost can be viewed as the regular, ongoing cost of the plan. The UAAL is the amount by which the actuarial value of assets falls short of, or exceeds, the actuarial accrued liability for this plan. Under the funding arrangement adopted by the Board, the UAAL will be amortized over 20 Years.

The actuarial assumptions at 2010 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% 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. 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.

D. Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was 28.38% funded. The actuarial accrued liability for benefits was \$9,458,868, and the actuarial value of assets was \$2,684,788, resulting in an unfunded actuarial accrued liability (UAAL) of \$6,774,080. The covered payroll (annual payroll of active employees covered by the plan) was \$2,319,507 and the ratio of the UAAL to covered payroll was 292.05%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, 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.

Note 8-Deferred Revenue:

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Deferred revenue totaling \$369,223 is comprised of the following:

Property Taxes - Property tax revenue representing uncollected tax billings not available for funding current expenditures of \$62,265 and prepaid taxes of \$25,886.

EMS Billings - EMS billings that were uncollected billings not available for funding current expenditures of \$149,351.

Lease Revenue - Lease revenue proceeds received in advance totaled \$42,338 at year end.

EMS Grant - An EMS grant that was received in advance of the related expenditures of \$89,383. These grant funds are expected to be spent during the 2012/2013 fiscal year.

TOWN OF RICHLANDS, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2012

Note 9-Capital Assets:

Capital asset activity for the year ended June 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 321,106	\$ -	\$ -	\$ 321,106
Construction in progress	36,214	219,539	-	255,753
Total capital assets not being depreciated	<u>\$ 357,320</u>	<u>\$ 219,539</u>	<u>\$ -</u>	<u>\$ 576,859</u>
Capital assets, being depreciated:				
Buildings	\$ 2,345,779	\$ 100,848	\$ -	\$ 2,446,627
Improvements other than buildings	4,207,664	611,349	-	4,819,013
Machinery and equipment	5,743,789	74,086	-	5,817,875
Total capital assets being depreciated	<u>\$ 12,297,232</u>	<u>\$ 786,283</u>	<u>\$ -</u>	<u>\$ 13,083,515</u>
Less: accumulated depreciation for:				
Buildings	\$ (997,712)	\$ (75,401)	\$ -	\$ (1,073,113)
Improvements other than buildings	(1,767,681)	(194,576)	-	(1,962,257)
Machinery and equipment	(4,229,504)	(390,836)	-	(4,620,340)
Total accumulated depreciation	<u>\$ (6,994,897)</u>	<u>\$ (660,813)</u>	<u>\$ -</u>	<u>\$ (7,655,710)</u>
Total capital assets being depreciated, net	<u>\$ 5,302,335</u>	<u>\$ 125,470</u>	<u>\$ -</u>	<u>\$ 5,427,805</u>
Governmental activities capital assets, net	<u>\$ 5,659,655</u>	<u>\$ 345,009</u>	<u>\$ -</u>	<u>\$ 6,004,664</u>

TOWN OF RICHLANDS, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2012

Note 9-Capital Assets: (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 517,913	\$ -	\$ -	\$ 517,913
Construction in progress	3,019,759	155,026	(3,174,785)	-
Total capital assets not being depreciated	<u>\$ 3,537,672</u>	<u>\$ 155,026</u>	<u>(3,174,785)</u>	<u>\$ 517,913</u>
Capital assets, being depreciated:				
Utility plant and equipment	\$ 19,037,300	\$ 3,174,785	\$ -	\$ 22,212,085
Machinery and equipment	2,024,354	142,436	-	2,166,790
Total capital assets being depreciated	<u>\$ 21,061,654</u>	<u>\$ 3,317,221</u>	<u>\$ -</u>	<u>\$ 24,378,875</u>
Less: accumulated depreciation for:				
Utility plant and equipment	\$ (9,535,295)	\$ (504,704)	\$ -	\$ (10,039,999)
Machinery and equipment	(748,029)	(119,653)	-	(867,682)
Total accumulated depreciation	<u>\$ (10,283,324)</u>	<u>\$ (624,357)</u>	<u>\$ -</u>	<u>\$ (10,907,681)</u>
Total capital assets being depreciated, net	<u>\$ 10,778,330</u>	<u>\$ 2,692,864</u>	<u>\$ -</u>	<u>\$ 13,471,194</u>
Business-type activities capital assets, net	<u><u>\$ 14,316,002</u></u>	<u><u>\$ 2,847,890</u></u>	<u><u>\$ (3,174,785)</u></u>	<u><u>\$ 13,989,107</u></u>

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

Governmental activities:

General government	\$ 33,968
Public safety	333,686
Public works	251,159
Parks and recreation	42,000

Total depreciation expense - governmental activities	<u><u>\$ 660,813</u></u>
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Business-type activities:

Water and sewer	\$ 530,661
Electric	93,696

Total depreciation expense - business-type activities	<u><u>\$ 624,357</u></u>
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2012

Note 10-Risk Management:

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

Note 11 – Contingencies:

Grant funds are subject to audit by the funding agencies to determine compliance with various grant requirements. Should any expenditure be disallowed, they must be refunded to the granting agencies. Any liability for reimbursement, which may arise as the result of these audits is not believed to be material.

The Town of Cedar Bluff has a claim against the Town of Richlands, Virginia in litigation before the Circuit Court of Tazewell County. The claim alleges that certain meals taxes collected by the Town of Richlands should have been remitted to the Town of Cedar Bluff because a portion of the restaurant is physically located in the Town of Cedar Bluff's corporate limits. At the present time, the Town of Richlands, Virginia cannot make a reasonable estimate of the amount due (if any) to the Town of Cedar Bluff. As such, no liability has been recorded in the financial statements for this claim.

Note 12 – Electric Power Agreement:

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

Note 13 – Pledged Revenues:

The Town has pledged future water and sewer customer revenues to repay \$874,451 in water and wastewater bonds. Proceeds from the bonds provided financing for the construction of the water and sewer systems. The bonds are payable solely from water and sewer customer revenues and are payable through 2032.

TOWN OF RICHLANDS, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2012

Note 14 – Service Agreements:

On September 3, 2003, the Town and the Tazewell County Public Service Authority (TCPSA) entered into an agreement to share the costs of construction and operation of a water transmission facility known as the Kent's Ridge Road Project. The project was financed by two thirty year, interest-free loans from the Virginia Resources Authority (VRA). The loans are secured by a pledge of revenues from the Town's water and wastewater systems and by a pledge of the Town's full faith and credit. Also, 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 Town has recorded an amount due from the TCPSA of \$1,488,610 at year end for their share of debt service payments.

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

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 Town of Richlands, Virginia is responsible for the operation of the facility. The Town of Richlands, Virginia is also responsible for budgeting and financing subject to agreed upon procedures by the three participants. Monthly user charges are paid by the participants for their share of the cost of the project.

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

<u>Entity</u>	<u>Amounts</u>
Town of Cedar Bluff	\$ 168,912
Tazewell County PSA	623,760
Tazewell County PSA - loan payments	60,660
Total	<u>\$ 853,332</u>

TOWN OF RICHLANDS, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2012

Note 15 – Prior Period Adjustments:

Net Assets/Fund Balance was restated from the prior year as follows:

	<u>General Fund</u>	<u>Electric Fund</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
Net Assets/Fund Balance as previously reported	\$ 2,487,990	\$ 2,169,196	\$ 11,155,542	\$ 15,812,728
Adjustments:				
To adjust for transfers between funds	\$ (1,236,571)	\$ 35,317	\$ 1,201,254	\$ -
Net Assets/Fund Balance as restated	\$ 1,251,419	\$ 2,204,513	\$ 12,356,796	\$ 15,812,728

Governmental activities were also restated from \$7,954,616 to \$6,718,045 to account for the general fund adjustment above.

Required Supplementary Information

Town of Richlands, Virginia
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
REVENUES				
General property taxes	\$ 444,000	\$ 444,000	\$ 433,863	\$ (10,137)
Other local taxes	1,583,976	1,583,976	1,751,238	167,262
Permits, privilege fees, and regulatory licenses	2,000	2,000	2,090	90
Fines and forfeitures	35,500	35,500	50,562	15,062
Revenue from the use of money and property	15,000	15,000	11,853	(3,147)
Charges for services	1,071,000	1,071,000	1,190,198	119,198
Miscellaneous	97,015	97,015	117,765	20,750
Recovered costs	63,000	63,000	140,780	77,780
Intergovernmental revenues:				
Commonwealth	1,945,242	1,945,242	1,335,698	(609,544)
Federal	192,000	192,000	37,487	(154,513)
Total revenues	\$ 5,448,733	\$ 5,448,733	\$ 5,071,534	\$ (377,199)
EXPENDITURES				
Current:				
General government administration	\$ 320,934	\$ 320,934	\$ 267,218	\$ 53,716
Public safety	2,845,174	2,845,174	2,529,280	315,894
Public works	1,538,255	1,538,255	1,388,996	149,259
Parks, recreation, and cultural	358,537	358,537	340,314	18,223
Community development	214,497	214,497	38,246	176,251
Capital projects	1,177,333	1,177,333	965,562	211,771
Debt service:				
Principal retirement	71,157	71,157	71,161	(4)
Interest and other fiscal charges	14,924	14,924	14,924	-
Total expenditures	\$ 6,540,811	\$ 6,540,811	\$ 5,615,701	\$ 925,110
Excess (deficiency) of revenues over (under) expenditures	\$ (1,092,078)	\$ (1,092,078)	\$ (544,167)	\$ 547,911
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 158,215	\$ 158,215	\$ 148,726	\$ (9,489)
Sale of capital assets	10,000	10,000	6,494	(3,506)
Total other financing sources and uses	\$ 168,215	\$ 168,215	\$ 155,220	\$ (12,995)
Net change in fund balances	\$ (923,863)	\$ (923,863)	\$ (388,947)	\$ 534,916
Fund balances - beginning	923,863	923,863	1,251,419	327,556
Fund balances - ending	\$ -	\$ -	\$ 862,472	\$ 862,472

Town of Richlands, Virginia
Schedule of Pension Funding Progress
For the Year Ended June 30, 2012

Primary Government:

Town Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2) / (3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2011*	2,684,788	9,458,868	6,774,080	28.38%	2,319,507	292.05%

* Information has only been available for one year as the Town joined the Virginia Retirement System as of July 1, 2010.

Other Supplementary Information

SUPPORTING SCHEDULES

Town of Richlands, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2012

Schedule 1
Page 1 of 2

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 411,000	\$ 411,000	\$ 400,079	\$ (10,921)
Real and personal public service corporation taxes	16,000	16,000	16,515	515
Mobile home taxes	13,000	13,000	12,089	(911)
Penalties and Interest	4,000	4,000	5,180	1,180
Total general property taxes	444,000	444,000	433,863	(10,137)
Other local taxes:				
Local sales and use taxes	243,000	243,000	285,979	42,979
Consumers utility tax	161,376	161,376	148,085	(13,291)
Local consumption tax	21,600	21,600	21,077	(523)
Business license taxes	450,000	450,000	480,340	30,340
Motor vehicle licenses	38,000	38,000	37,509	(491)
Bank stock taxes	140,000	140,000	166,801	26,801
Meals taxes	530,000	530,000	611,447	81,447
Total other local taxes	1,583,976	1,583,976	1,751,238	167,262
Permits, privilege fees, and regulatory licenses:				
Zoning permits	2,000	2,000	2,090	90
Total permits, privilege fees, and regulatory licenses	2,000	2,000	2,090	90
Fines and forfeitures:				
Court fines and forfeitures	35,000	35,000	49,420	14,420
Asset forfeitures	-	-	342	342
Parking violations	500	500	800	300
Total fines and forfeitures	35,500	35,500	50,562	15,062
Revenue from use of money and property:				
Revenue from use of money	15,000	15,000	8,033	(6,967)
Revenue from use of property	-	-	3,820	3,820
Total revenue from use of money and property	15,000	15,000	11,853	(3,147)
Charges for services:				
Contract work - Streets	5,000	5,000	76,818	71,818
Fire Department billings	40,000	40,000	29,224	(10,776)
Rescue Squad billings	600,000	600,000	654,387	54,387
Swimming pool fees	20,000	20,000	18,056	(1,944)
Concession collections	9,000	9,000	7,841	(1,159)
Basketball fees	6,000	6,000	5,071	(929)
Indoor tennis fees	4,500	4,500	3,377	(1,123)
Outdoor tennis fees	500	500	472	(28)
Membership fees	2,000	2,000	-	(2,000)
Room rental	6,000	6,000	9,373	3,373
Miscellaneous recreation fees	3,000	3,000	3,949	949
Garbage collections	375,000	375,000	380,660	5,660
Farmer's market revenue	-	-	970	970
Total charges for services	1,071,000	1,071,000	1,190,198	119,198
Miscellaneous revenue:				
Miscellaneous	14,950	14,950	6,514	(8,436)
Gifts and donations	1,200	1,200	20,191	18,991
Gifts and donations - Fire	55,365	55,365	61,851	6,486

Town of Richlands, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2012

Schedule 1
Page 2 of 2

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (continued)				
Revenue from local sources: (continued)				
Miscellaneous revenue: (continued)				
Gifts and donations - Recreation	\$ 1,500	\$ 1,500	\$ 9,408	\$ 7,908
Gifts and donations - Police	14,000	14,000	9,291	(4,709)
Gifts and donations - Rescue	10,000	10,000	10,510	510
Total miscellaneous revenue	97,015	97,015	117,765	20,750
Recovered costs:				
County of Tazewell - fire program	60,000	60,000	60,000	-
Drug enforcement funds	-	-	78,000	78,000
Extradition reimbursements	500	500	-	(500)
Returned check fees	2,000	2,000	2,600	600
Restitution	500	500	180	(320)
Total recovered costs	63,000	63,000	140,780	77,780
Total revenue from local sources	3,311,491	3,311,491	3,698,349	386,858
Revenue from the Commonwealth:				
Noncategorical aid:				
Mobile home titling tax	1,000	1,000	1,620	620
Motor vehicles carrier's tax	2,000	2,000	2,461	461
Total noncategorical aid	3,000	3,000	4,081	1,081
Categorical aid:				
Other categorical aid:				
Litter control grant	2,200	2,200	1,913	(287)
Local law enforcement block grant	9,750	9,750	-	(9,750)
Crime analysis position	25,500	25,500	3,378	(22,122)
Police grants	78,810	78,810	58,552	(20,258)
Highway revenue sharing	250,000	250,000	201,383	(48,617)
Street maintenance	798,400	798,400	827,999	29,599
Law enforcement grant	124,082	124,082	133,700	9,618
Drug enforcement	88,500	88,500	17,500	(71,000)
EMS grants	110,000	110,000	-	(110,000)
Fire grants	430,000	430,000	43,367	(386,633)
Other state revenue	25,000	25,000	43,825	18,825
Total other categorical aid	1,942,242	1,942,242	1,331,617	(610,625)
Total categorical aid	1,942,242	1,942,242	1,331,617	(610,625)
Total revenue from the Commonwealth	1,945,242	1,945,242	1,335,698	(609,544)
Revenue from the federal government:				
Categorical aid:				
Housing grant	192,000	192,000	37,487	(154,513)
Total categorical aid	192,000	192,000	37,487	(154,513)
Total revenue from the federal government	192,000	192,000	37,487	(154,513)
Total General Fund	5,448,733	5,448,733	5,071,534	(377,199)
Total Primary Government	\$ 5,448,733	\$ 5,448,733	\$ 5,071,534	\$ (377,199)

Town of Richlands, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2012

<u>Fund, Function and Department Expenditures</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
General government administration:				
General and financial administration:				
Town Council	\$ 15,446	\$ 15,446	\$ 14,165	\$ 1,281
Administration	288,898	288,898	249,509	39,389
Fringe Benefits	16,590	16,590	3,544	13,046
Total general and financial administration	320,934	320,934	267,218	53,716
Public safety:				
Law enforcement and traffic control:				
Police grants	125,813	125,813	84,621	41,192
Drug task force	80,990	80,990	70,923	10,067
Police Department	1,792,947	1,792,947	1,626,772	166,175
Total law enforcement and traffic control	1,999,750	1,999,750	1,782,316	217,434
Fire and rescue services:				
Fire Department	211,781	211,781	126,639	85,142
Rescue Squad	633,643	633,643	620,325	13,318
Total fire and rescue services	845,424	845,424	746,964	98,460
Total public safety	2,845,174	2,845,174	2,529,280	315,894
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highways, streets, bridges and sidewalks	1,104,074	1,104,074	975,605	128,469
Total maintenance of highways, streets, bridges & sidewalks	1,104,074	1,104,074	975,605	128,469
Sanitation and waste removal:				
Refuse collection and disposal	434,181	434,181	413,391	20,790
Total sanitation and waste removal	434,181	434,181	413,391	20,790
Total public works	1,538,255	1,538,255	1,388,996	149,259
Parks, recreation, and cultural:				
Cultural enrichment:				
Recreation	357,373	357,373	339,301	18,072
Centennial fund	-	-	349	(349)
Total cultural enrichment	357,373	357,373	339,650	17,723
Library:				
Library	1,164	1,164	664	500
Total parks, recreation, and cultural	\$ 358,537	\$ 358,537	\$ 340,314	\$ 18,223

Town of Richlands, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2012

<u>Fund, Function and Department Expenditures</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Community development:				
Planning and community development:				
Downtown activities	\$ 22,497	\$ 22,497	\$ 23,421	\$ (924)
Big Creek Project	192,000	192,000	14,825	177,175
Total planning and community development	214,497	214,497	38,246	176,251
Total community development	214,497	214,497	38,246	176,251
Capital projects:				
Capital projects and capital outlays	1,177,333	1,177,333	965,562	211,771
Total capital projects	1,177,333	1,177,333	965,562	211,771
Debt service:				
Principal retirement	71,157	71,157	71,161	(4)
Interest and other fiscal charges	14,924	14,924	14,924	-
Total debt service	86,081	86,081	86,085	(4)
Total General Fund	6,540,811	6,540,811	5,615,701	925,110
Total Primary Government	\$ 6,540,811	\$ 6,540,811	\$ 5,615,701	\$ 925,110

OTHER STATISTICAL INFORMATION

Table 1

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

Fiscal Year	General Government Administration	Public Safety	Public Works	Parks, Recreation, and Cultural	Community Development	Interest on Long-Term Debt	Water and Sewer	Electric	Total
2009-10	\$ 517,043	\$ 2,800,286	\$ 1,406,509	\$ 349,495	\$ 141,269	\$ 17,501	\$ 2,014,444	\$ 6,156,711	\$ 13,403,258
2010-11	271,310	2,764,620	1,544,774	390,015	206,662	16,801	2,106,703	5,833,916	13,134,801
2011-12	270,119	2,688,745	1,636,116	382,314	38,246	11,921	2,259,778	5,227,037	12,514,276

(1) Information has only been available for 3 years.

Table 2

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

Fiscal Year	PROGRAM REVENUES			GENERAL REVENUES					
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Miscellaneous	Grants and Contributions Not Restricted to Specific Programs	Total
2009-10	\$ 10,020,767	\$ 1,983,278	\$ -	\$ 461,000	\$ 1,704,768	\$ 39,784	\$ 486,673	\$ -	\$ 14,696,270
2010-11	10,517,188	1,162,629	1,773,617	408,275	1,671,219	27,512	196,854	9,598	15,766,892
2011-12	9,278,334	1,331,617	245,517	434,748	1,751,238	17,868	124,600	4,081	13,188,003

(1) Information has only been available for 3 years.

Table 3

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

Fiscal Year	General and Financial Administration	Public Safety	Public Works	Parks, Recreation, and Cultural	Community Development	Debt Service	Total (1)
2002-03	\$ 953,749	\$ 1,454,893	\$ 885,492	\$ 276,204	\$ -	\$ -	\$ 3,570,338
2003-04	841,486	1,583,312	892,535	372,353	192,555	-	3,882,241
2004-05	967,392	965,021	968,106	236,306	103,368	-	3,240,193
2005-06	1,283,780	1,510,092	1,199,328	249,755	26,582	-	4,270,437
2006-07	1,242,646	1,502,021	914,500	259,312	436,033	4,535	4,359,047
2007-08	878,513	2,962,490	1,653,354	325,440	37,783	82,187	5,939,767
2008-09	710,412	2,738,636	1,514,056	392,150	1,205	86,079	5,442,538
2009-10	295,497	2,747,120	1,331,514	356,386	141,269	58,912	4,930,698
2010-11	286,319	2,615,615	1,333,176	451,633	206,662	86,081	4,979,486
2011-12	267,218	2,529,280	1,388,996	340,314	38,246	86,085	4,650,139

(1) Excludes Capital Projects

Table 4

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

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, Regulatory Licenses	Fines and Forfeitures	Revenue from the Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental	Total
2002-03	\$ 288,234	\$ 996,001	\$ 11,975	\$ 40,417	\$ 73,112	\$ 324,407	\$ 44,064	\$ -	\$ 1,349,710	\$ 3,127,920
2003-04	267,326	1,156,958	19,510	36,412	58,831	311,270	74,080	-	1,206,708	3,131,075
2004-05	265,131	1,164,925	16,095	45,671	54,775	371,759	66,265	-	755,276	2,739,897
2005-06	287,393	1,270,365	13,970	81,884	64,277	377,930	100,716	-	962,041	3,158,576
2006-07	443,452	1,353,541	14,645	61,034	60,878	923,874	284,613	-	1,373,804	4,515,841
2007-08	408,501	1,366,360	14,615	135,107	76,011	1,071,321	518,389	-	1,275,563	4,885,867
2008-09	419,861	1,437,774	2,035	181,716	34,833	1,106,721	296,866	-	1,118,771	4,598,577
2009-10	425,420	1,704,768	1,585	85,661	19,021	1,264,454	286,617	-	1,338,364	5,125,890
2010-11	432,840	1,671,219	2,225	162,930	15,894	1,121,649	185,927	150,408	1,339,879	5,082,971
2011-12	433,863	1,751,238	2,090	50,562	11,853	1,190,198	117,765	140,780	1,373,185	5,071,534

Table 5

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

Fiscal Year	Total Tax Levy (1)	Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (2)	Percent of Delinquent Taxes to Tax Levy
2002-03	\$ 249,790	\$ 213,442	85.45%	\$ 46,045	\$ 259,487	103.88%	\$ 29,154	11.67%
2003-04	248,494	230,016	92.56%	21,711	251,727	101.30%	25,055	10.08%
2004-05	248,376	227,508	91.60%	16,613	244,121	98.29%	30,268	12.19%
2005-06	250,862	227,322	90.62%	28,435	255,757	101.95%	21,523	8.58%
2006-07	403,792	378,197	93.66%	34,954	413,151	102.32%	20,979	5.20%
2007-08	407,711	384,290	94.26%	19,408	403,698	99.02%	26,167	6.42%
2008-09	414,990	391,112	94.25%	19,082	410,194	98.84%	29,226	7.04%
2009-10	418,224	372,689	89.11%	19,895	392,584	93.87%	34,252	8.19%
2010-11	421,699	394,301	93.50%	21,144	415,445	98.52%	58,811	13.95%
2011-12	424,866	392,515	92.39%	24,079	416,594	98.05%	63,755	15.01%

(1) Exclusive of penalties and interest.

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

Table 6

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

Fiscal Year		Real Estate		Public Service Corporation		Total
2002-03	\$	143,949,700	\$	12,135,379	\$	156,085,079
2003-04		143,277,300		11,981,714		155,259,014
2004-05		144,079,700		11,027,057		155,106,757
2005-06		145,408,200		10,885,065		156,293,265
2006-07		242,387,600		11,234,553		253,622,153
2007-08		243,153,600		11,665,588		254,819,188
2008-09		249,235,687		10,132,899		259,368,586
2009-10		250,972,225		10,417,493		261,389,718
2010-11		253,304,900		9,916,473		263,221,373
2011-12		254,672,500		10,460,117		265,132,617

Table 7

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

Fiscal Year	Real Estate (1)
2002-03	0.16
2003-04	0.16
2004-05	0.16
2005-06	0.16
2006-07	0.16
2007-08	0.16
2008-09	0.16
2009-10	0.16
2010-11	0.16
2011-12	0.16

(1) Per \$100 of assessed value.

Table 8

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

Fiscal Year	Population (1)	Assessed Value (in thousands)	Gross and Net Bonded Debt (2)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2002-03	4,144	\$ 156,085	\$ 6,786,724	4.35%	\$ 1,638
2003-04	4,144	155,259	3,440,891	2.22%	830
2004-05	4,144	155,107	3,179,160	2.05%	767
2005-06	5,639	156,293	3,876,297	2.48%	687
2006-07	5,639	253,622	4,958,860	1.96%	879
2007-08	5,639	254,819	4,647,573	1.82%	824
2008-09	5,639	259,369	4,321,534	1.67%	766
2009-10	5,639	261,390	3,934,684	1.51%	698
2010-11	5,823	263,221	3,567,306	1.36%	613
2011-12	5,823	265,133	3,133,236	1.18%	538

(1) U.S. Census Bureau.

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

Table 9

Town of Richlands, Virginia
Computation of Legal Debt Margin
As of June 30, 2012

Total assessed value of taxed real property	\$ 265,132,617
Debt limit - 10 percent of total assessed value	26,513,262
Amount of debt applicable to debt limit	<u>(3,133,236)</u>
Legal debt margin	<u>\$ 23,380,026</u>

COMPLIANCE SECTION

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the Town of Richlands, Virginia as of and for the year ended June 30, 2012, which collectively comprise the Town of Richlands, Virginia's basic financial statements and have issued our report thereon dated October 19, 2012. 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

Management of the Town of Richlands, Virginia is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Richlands, Virginia'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 of Richlands, Virginia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Richlands, Virginia'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 did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Richlands, Virginia'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 of Richlands, Virginia in a separate letter dated October 19, 2012.

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

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
October 19, 2012