

TOWN OF CHATHAM, VIRGINIA

ANNUAL FINANCIAL REPORT

Fiscal Year Ended

June 30, 2015

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chatham, Virginia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chatham, Virginia, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on page 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Chatham, Virginia's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2016, on our consideration of the Town of Chatham, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Chatham, Virginia's internal control over financial reporting and compliance.

Harris Harvey Neal & Co. LLP

Danville, Virginia
February 15, 2016

**TOWN OF CHATHAM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

Our discussion and analysis of Town of Chatham, Virginia's financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with the Town's financial statements, which begin on page 10.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 11 and 12) provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements start on page 13. For governmental activities, these statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. The remaining statements provide financial information about activities for which the Town acts solely as an agent for the benefit of those outside of the government.

Government-Wide Financial Statements

Our analysis of the Town as a whole begins on page 10. One of the most important questions asked about the Town's finances is, "Is the Town, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's net Position and changes in them. You can think of the Town's net position—the difference between assets and liabilities—as one way to measure the Town's financial health, or financial position. Over time, increases or decreases in the Town's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Town's property tax base and the condition of the Town's roads, to assess the overall health of the Town.

In the Statement of Net Position and the Statement of Activities, we divide the Town into two kinds of activities:

- Governmental activities—Most of the Town's basic services are reported here, including the police, fire, public works, parks departments, and general administration. Property taxes, franchise fees, and state and federal grants finance most of these activities.
- Business-type activities—The Town charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Town's water and sewer system is reported here.

Fund Financial Statements

Our analysis of the Town’s major funds begins on page 13. The fund financial statements begin on page 13 and provide detailed information about the most significant funds—not the Town as a whole. Some funds are required to be established by State law and by bond covenants. However, the Town Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The Town’s two kinds of funds—governmental and proprietary—use different accounting approaches.

- Governmental funds—Most of the Town’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town’s general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town’s programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in the reconciliation at the bottom of the fund financial statements.
- Proprietary funds—When the Town charges customers for the services it provides, (whether to outside customers or to other units of the Town) these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the Town’s enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

THE TOWN AS A WHOLE

The Town’s combined net position increased 7.9 percent from the prior year. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Town’s governmental and business-type activities.

Table 1
Net Position

| | Governmental <u>Activities</u> | | Business-type <u>Activities</u> | | Total Primary <u>Government</u> | |
|-------------------|-----------------------------------|---------------------|------------------------------------|---------------------|------------------------------------|---------------------|
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| Current and other | | | | | | |
| assets | \$ 1,199,383 | \$ 895,429 | \$ 1,758,720 | \$ 1,445,669 | \$ 2,958,103 | \$ 2,341,098 |
| Capital assets | <u>1,416,137</u> | <u>1,470,793</u> | <u>3,761,996</u> | <u>3,866,472</u> | <u>5,178,133</u> | <u>5,337,265</u> |
| Total assets | <u>\$ 2,615,520</u> | <u>\$ 2,366,222</u> | <u>\$ 5,520,716</u> | <u>\$ 5,312,141</u> | <u>\$ 8,136,236</u> | <u>\$ 7,678,363</u> |
| Long-term debt | | | | | | |
| outstanding | \$ 654,636 | \$ 716,699 | \$ 1,521,865 | \$ 1,588,048 | \$ 2,176,501 | \$ 2,304,747 |
| Other liabilities | <u>115,887</u> | <u>70,593</u> | <u>281,288</u> | <u>146,701</u> | <u>397,175</u> | <u>217,294</u> |
| Total liabilities | <u>\$ 770,523</u> | <u>\$ 787,292</u> | <u>\$ 1,803,153</u> | <u>\$ 1,734,749</u> | <u>\$ 2,573,676</u> | <u>\$ 2,522,041</u> |

| | | | | | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Invested in capital assets, net of debt | \$ 823,495 | \$ 813,550 | \$ 2,288,385 | \$ 2,323,912 | \$ 3,111,880 | \$ 3,137,462 |
| Restricted | 380,356 | 330,328 | 65,656 | - | 446,012 | 330,328 |
| Unrestricted | <u>641,146</u> | <u>435,052</u> | <u>1,363,522</u> | <u>1,253,480</u> | <u>2,004,668</u> | <u>1,688,532</u> |
| Total net position | <u>\$ 1,844,997</u> | <u>\$ 1,578,930</u> | <u>\$ 3,717,563</u> | <u>\$ 3,577,392</u> | <u>\$ 5,562,560</u> | <u>\$ 5,156,322</u> |

That reflects an increase of 16.8 percent for governmental activities and a 3.9 percent increase for business-type activities.

The increase in governmental net position is due to a transfer from the business-type activities. The increase in net position of business-type activities is a result of an increase in rates during the year.

Table 2
Changes in Net Position

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|-------------------------------------|-------------------------|--------------------|--------------------------|---------------------|--------------------------|---------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 125,653 | \$ 129,169 | \$ 1,619,729 | \$ 1,516,882 | \$ 1,745,382 | \$ 1,646,051 |
| Grants and contributions | 65,874 | 49,136 | 10,000 | - | 75,874 | 49,136 |
| General revenues: | | | | | | |
| Property taxes | 293,662 | 286,867 | - | - | 293,662 | 286,867 |
| Other taxes | 414,401 | 411,794 | - | - | 414,401 | 411,794 |
| Sale of cemetery lots | 32,250 | 9,750 | - | - | 32,250 | 9,750 |
| Investment earnings | <u>1,783</u> | <u>2,380</u> | <u>812</u> | <u>614</u> | <u>2,595</u> | <u>2,994</u> |
| Total revenues | <u>\$ 933,623</u> | <u>\$ 889,096</u> | <u>\$ 1,630,541</u> | <u>\$ 1,517,496</u> | <u>\$ 2,564,164</u> | <u>\$ 2,406,592</u> |
| Program expenses: | | | | | | |
| General government | \$ 156,868 | \$ 146,082 | \$ - | \$ - | \$ 156,868 | \$ 146,082 |
| Judicial administration | 275,299 | 290,725 | - | - | 275,299 | 290,725 |
| Public safety | 80,609 | 73,722 | - | - | 80,609 | 73,722 |
| Public works | 285,936 | 265,295 | - | - | 285,936 | 265,295 |
| Cemetery maintenance | 51,269 | 52,430 | - | - | 51,269 | 52,430 |
| Parks, recreation, and cultural | 49,129 | 50,848 | - | - | 49,129 | 50,848 |
| Interest on long-term debt | 18,475 | 23,926 | - | - | 18,475 | 23,926 |
| Water and sewer | <u>-</u> | <u>-</u> | <u>1,356,026</u> | <u>1,312,290</u> | <u>1,356,026</u> | <u>1,312,290</u> |
| Total expenses | <u>917,585</u> | <u>903,028</u> | <u>1,356,026</u> | <u>1,312,290</u> | <u>2,273,611</u> | <u>2,215,318</u> |
| Transfers | <u>200,000</u> | <u>-</u> | <u>(200,000)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Increase (decrease) in net position | <u>\$ 216,038</u> | <u>\$ (13,932)</u> | <u>\$ 74,515</u> | <u>\$ 205,206</u> | <u>\$ 290,553</u> | <u>\$ 191,274</u> |

The Town's total revenues increased by 6.5 percent. The total cost of all programs and services increased by 2.6 percent. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenues for the Town's governmental activities increased 5.0 percent, while expenses increased 1.6 percent. The revenue increase is due primarily to an increase in cemetery lot sales in the current year. Expenses increased due to an increase in depreciation expense in the current year.

Business-type Activities

Revenues for the Town's business-type activities increased 7.4 percent due to a grant received in the current year for improvements to the dam analysis. Expenses increased 3.3 percent from the prior year due to an increase in depreciation expense related to water plant improvements and grant expenses increase.

THE TOWN'S FUNDS

As the Town completed the year, its governmental funds (as presented in the balance sheet on page 13) reported a fund balance of \$1,010,162, which is 23.8 percent higher than last year. The primary reason for the increase is due to a \$200,000 transfer from the business-type activities.

General Fund Budgetary Highlights

There were no differences between the original budget and the final budget.

Actual disbursements were \$58,206 lower than budgeted amounts. The Town's general government expenses were less than budgeted. Actual revenues were \$44,094 higher than budgeted amounts.

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, 2015, amounts to \$5,178,133 (net of accumulated depreciation). This investment in capital assets includes police and fire equipment, buildings, park facilities, improvements, and water and sewer lines. This amount represents a net decrease (including additions and deductions) of approximately \$159,133, or 2.9 percent, below last year.

| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | <u>Totals</u> | |
|---|--------------------------------|---------------------|---------------------------------|---------------------|---------------------|---------------------|
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| Land | \$ 133,110 | \$ 133,110 | \$ - | \$ - | \$ 133,110 | \$ 133,110 |
| Building and Improvements | 1,178,936 | 1,203,751 | - | - | 1,178,936 | 1,203,751 |
| Machinery, Equipment and Vehicles | 104,091 | 133,932 | 4,465 | 6,876 | 108,556 | 140,808 |
| Water/Sewer Lines | - | - | <u>3,757,531</u> | <u>3,859,597</u> | <u>3,757,531</u> | <u>3,859,597</u> |
| Totals | <u>\$ 1,416,137</u> | <u>\$ 1,470,793</u> | <u>\$ 3,761,996</u> | <u>\$ 3,866,473</u> | <u>\$ 5,178,133</u> | <u>\$ 5,337,266</u> |

This year's major additions included:

| | |
|---|------------------|
| Building at Crider Field, paid for with revenues | \$ 25,000 |
| Leaf collect, paid for with revenues | 23,525 |
| New meters and pumps, paid for with revenues | 15,165 |
| Whitehead Street construction in progress, paid for with revenues | <u>83,490</u> |
| | <u>\$147,180</u> |

Debt

At year-end, the Town had \$2,066,253 in bonds and notes outstanding compared to \$2,199,803 last year – a decrease of 6.1 percent as shown in the following table.

| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | <u>Totals</u> | |
|-----------------------------|--------------------------------|-------------------|---------------------------------|---------------------|---------------------|---------------------|
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| General obligation bonds | \$ - | \$ - | \$ 1,401,825 | \$ 1,461,495 | \$ 1,401,825 | \$ 1,461,495 |
| Lease revenue bond | 425,402 | 472,669 | - | - | 425,402 | 472,669 |
| Lease purchase | - | - | 71,786 | 81,065 | 71,786 | 81,065 |
| Notes payable | <u>167,240</u> | <u>184,574</u> | <u>-</u> | <u>-</u> | <u>167,240</u> | <u>184,574</u> |
| Totals | <u>\$ 592,642</u> | <u>\$ 657,243</u> | <u>\$ 1,473,611</u> | <u>\$ 1,542,560</u> | <u>\$ 2,066,253</u> | <u>\$ 2,199,803</u> |

The Commonwealth limits the amount of general obligation debt that the Town can issue to 10 percent of the assessed value of all taxable property within the Town's corporate limits.

Other obligations include accrued vacation pay and sick leave. More detailed information about the Town's long-term liabilities is presented in Note 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The rates for real estate and personal property tax, as well as garbage collection fees, will remain unchanged. The fee to purchase a cemetery plot will also endure.

Business type activities (e.g., water/sewer revenue) will also remain unchanged.

All of these factors were considered in preparing the Town's budget for the 2016 fiscal year.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town Finance Office at P.O. Box 370, Chatham, Virginia 24531. Phone 434-432-9515.

BASIC FINANCIAL STATEMENTS

TOWN OF CHATHAM, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2015

Exhibit 1

| ASSETS | Governmental Activities | Business-type Activities | Total |
|---|----------------------------|-----------------------------|---------------------|
| Cash | \$ 454,694 | \$ 1,302,605 | \$ 1,757,299 |
| Cash designated for capital improvements | 139,907 | - | 139,907 |
| Receivables (net of allowances for uncollectibles): | | | |
| Taxes, including penalties | 63,869 | - | 63,869 |
| Accounts | 17,851 | 261,792 | 279,643 |
| Due from other funds | 162,448 | - | 162,448 |
| Prepays | 15,375 | 20,573 | 35,948 |
| Restricted assets: | | | |
| Cash | 35,209 | - | 35,209 |
| Certificate of deposit | 189,618 | - | 189,618 |
| Fixed assets (net of accumulated depreciation) | 1,416,137 | 3,761,996 | 5,178,133 |
| Bond issuance costs (net of accumulated amortization) | 12,743 | 32,446 | 45,189 |
| Deferred outflows of resources-pension contributions | 17,899 | 23,491 | 41,390 |
| Net pension asset | 89,770 | 117,813 | 207,583 |
| Total assets | <u>\$ 2,615,520</u> | <u>\$ 5,520,716</u> | <u>\$ 8,136,236</u> |
| LIABILITIES | | | |
| Accrued interest payable | \$ 3,411 | \$ - | \$ 3,411 |
| Accounts payable | 45,821 | 44,870 | 90,691 |
| Accrued payroll | 22,986 | 16,660 | 39,646 |
| Due to other funds | - | 162,448 | 162,448 |
| Long-term obligations: | | | |
| Due within one year | 80,818 | 80,682 | 161,500 |
| Due beyond one year | 573,818 | 1,441,183 | 2,015,001 |
| Deferred inflows of resources-VRS | 43,669 | 57,310 | 100,979 |
| Total liabilities | <u>770,523</u> | <u>1,803,153</u> | <u>2,573,676</u> |
| NET POSITION | | | |
| Invested in capital assets, net of related debt | \$ 823,495 | \$ 2,288,385 | \$ 3,111,880 |
| Restricted for: | | | |
| Perpetual care: | | | |
| Unexpendable | 330,328 | - | 330,328 |
| Pension | 50,028 | 65,656 | 115,684 |
| Unrestricted | 641,146 | 1,363,522 | 2,004,668 |
| Total net position | <u>\$ 1,844,997</u> | <u>\$ 3,717,563</u> | <u>\$ 5,562,560</u> |

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

TOWN OF CHATHAM, VIRGINIA

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

Exhibit 2

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | |
|----------------------------------|---------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|---------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | Total |
| | | | | | Governmental Activities | Business-type Activities | |
| Primary government: | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 156,868 | \$ 19 | \$ - | \$ - | \$ (156,849) | \$ - | \$ (156,849) |
| Judicial administration | 275,299 | - | - | - | (275,299) | - | (275,299) |
| Public safety | 80,609 | 38,211 | 64,549 | - | 22,151 | - | 22,151 |
| Public works | 285,936 | 87,423 | 1,325 | - | (197,188) | - | (197,188) |
| Cemetery maintenance | 51,269 | - | - | - | (51,269) | - | (51,269) |
| Parks, recreation, and cultural | 49,129 | - | - | - | (49,129) | - | (49,129) |
| Interest on long-term debt | 18,475 | - | - | - | (18,475) | - | (18,475) |
| Total governmental activities | <u>917,585</u> | <u>125,653</u> | <u>65,874</u> | <u>-</u> | <u>(726,058)</u> | <u>-</u> | <u>(726,058)</u> |
| Business-type activities: | | | | | | | |
| Water and sewer | <u>1,356,026</u> | <u>1,619,729</u> | <u>-</u> | <u>10,000</u> | <u>-</u> | <u>273,703</u> | <u>273,703</u> |
| Total primary government | <u>\$ 2,273,611</u> | <u>\$ 1,745,382</u> | <u>\$ 65,874</u> | <u>\$ 10,000</u> | <u>\$ (726,058)</u> | <u>\$ 273,703</u> | <u>\$ (452,355)</u> |
| General Revenues: | | | | | | | |
| Property taxes | | | | | \$ 293,662 | \$ - | \$ 293,662 |
| Other taxes and revenues | | | | | 414,401 | - | 414,401 |
| Sale of cemetery lots | | | | | 32,250 | - | 32,250 |
| Unrestricted investment earnings | | | | | <u>1,783</u> | <u>812</u> | <u>2,595</u> |
| Total general revenues | | | | | <u>742,096</u> | <u>812</u> | <u>742,908</u> |
| Transfers | | | | | <u>200,000</u> | <u>(200,000)</u> | <u>-</u> |
| Change in net assets | | | | | 216,038 | 74,515 | 290,553 |
| Net position - beginning | | | | | 1,578,930 | 3,577,392 | 5,156,322 |
| Prior period adjustment | | | | | <u>50,029</u> | <u>65,656</u> | <u>115,685</u> |
| Net position - ending | | | | | <u>\$ 1,844,997</u> | <u>\$ 3,717,563</u> | <u>\$ 5,562,560</u> |

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

TOWN OF CHATHAM, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015

Exhibit 3

| ASSETS | <u>General</u> | Other Governmental <u>Funds</u> | Total Governmental <u>Funds</u> |
|---|-------------------|---------------------------------------|---------------------------------------|
| Cash | \$ 454,694 | \$ - | \$ 454,694 |
| Cash designated for capital improvements | 139,907 | - | 139,907 |
| Receivables (net of allowances for uncollectibles): | | | |
| Taxes, including penalties | 63,869 | - | 63,869 |
| Accounts | 17,851 | - | 17,851 |
| Prepays | 15,375 | | 15,375 |
| Due from other funds | 162,448 | 105,091 | 267,539 |
| Restricted assets: | | | |
| Cash | - | 35,209 | 35,209 |
| Certificate of deposit | - | 189,618 | 189,618 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total assets | <u>\$ 854,144</u> | <u>\$ 329,918</u> | <u>\$ 1,184,062</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts payable | \$ 45,821 | \$ - | \$ 45,821 |
| Accrued payroll | 22,986 | - | 22,986 |
| Due to other funds | 105,092 | - | 105,092 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities | <u>173,899</u> | <u>-</u> | <u>173,899</u> |
| Fund balances: | | | |
| Restricted for: | | | |
| Perpetual care | - | 329,918 | 329,918 |
| Assigned to: | | | |
| Capital improvements | 139,907 | - | 139,907 |
| Unassigned | 540,338 | - | 540,338 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total fund balances | <u>680,245</u> | <u>329,918</u> | <u>1,010,163</u> |
| Total liabilities and fund balances | <u>\$ 854,144</u> | <u>\$ 329,918</u> | |
| Amounts reported for governmental activities in the statement of net assets are different because: | | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | | 1,416,136 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds. | | | (645,303) |
| Some assets and liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds | | | 89,771 |
| Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds | | | (25,770) |
| | | | <u> </u> |
| Net position of governmental activities | | | <u>\$ 1,844,997</u> |

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

TOWN OF CHATHAM, VIRGINIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

Exhibit 4

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|---|-------------------|--------------------------------|--------------------------------|
| Revenues: | | | |
| General property taxes | \$ 293,662 | \$ - | \$ 293,662 |
| Other local taxes | 156,376 | - | 156,376 |
| Consumer utility tax | 120,072 | - | 120,072 |
| Permits, privilege fees, and regulatory licenses | 94,070 | - | 94,070 |
| Fines and forfeitures | 38,213 | - | 38,213 |
| Interest and investment revenue | 1,108 | 674 | 1,782 |
| Charges for service | 87,442 | - | 87,442 |
| Recovered costs | 3,762 | - | 3,762 |
| Sale of cemetery lots | - | 32,250 | 32,250 |
| Intergovernmental | 65,874 | - | 65,874 |
| Miscellaneous | 40,115 | - | 40,115 |
| | <u>900,694</u> | <u>32,924</u> | <u>933,618</u> |
| Expenditures: | | | |
| Current: | | | |
| General government administration | 132,043 | - | 132,043 |
| Judicial administration | 270,736 | - | 270,736 |
| Public safety | 24,876 | - | 24,876 |
| Public works | 309,485 | - | 309,485 |
| Cemetery maintenance | 49,649 | - | 49,649 |
| Parks, recreation, and cultural | 69,100 | - | 69,100 |
| Debt service: | | | |
| Principal and interest retirement | 83,325 | - | 83,325 |
| | <u>939,214</u> | <u>-</u> | <u>939,214</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(38,520)</u> | <u>32,924</u> | <u>(5,596)</u> |
| Other financing sources (uses): | | | |
| Operating transfers in | 212,900 | - | 212,900 |
| Operating transfers out | - | (12,900) | (12,900) |
| | <u>212,900</u> | <u>(12,900)</u> | <u>200,000</u> |
| Net change in fund balances | 174,380 | 20,024 | 194,404 |
| Fund balance at beginning of year | 505,864 | 309,894 | 815,758 |
| Fund balance at end of year | <u>\$ 680,244</u> | <u>\$ 329,918</u> | <u>\$ 1,010,162</u> |

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

TOWN OF CHATHAM, VIRGINIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

Exhibit 5

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

| | |
|--|--------------------------|
| Net change in fund balances - total governmental funds (page 14) | \$ 194,404 |
| 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 depreciation exceeded capital outlays in the current period. | (54,655) |
| Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds. | 64,601 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | (2,230) |
| Governmental funds report pension contributions as expenditures. However in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense. | <u>13,918</u> |
| Change in net position before prior period adjustment of governmental activities | <u><u>\$ 216,038</u></u> |

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

TOWN OF CHATHAM, VIRGINIA

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS

June 30, 2015

Exhibit 6

Business-type
Activities

Water and
Sewer Fund

| ASSETS | |
|---|----------------------------|
| Current assets: | |
| Cash | \$ 1,302,605 |
| Accounts receivables (net of allowances for uncollectibles) | 261,792 |
| Prepaid expenses | <u>20,573</u> |
| Total current assets | <u>1,584,970</u> |
| Noncurrent assets: | |
| Fixed assets (net of accumulated depreciation) | 3,761,996 |
| Bond issuance costs (net of accumulated amortization) | 32,446 |
| Deferred outflows of resources-pension contributions | 23,491 |
| Net pension asset | <u>117,813</u> |
| Total noncurrent assets | <u>3,935,746</u> |
| Total assets | <u><u>\$ 5,520,716</u></u> |
| | |
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable | \$ 44,870 |
| Accrued payroll | 16,660 |
| Compensated absences | 9,651 |
| Long-term debt | <u>71,031</u> |
| Total current liabilities | <u>142,212</u> |
| Noncurrent liabilities: | |
| Compensated absences | 38,602 |
| Long-term debt | 1,402,581 |
| Due to other funds | 162,448 |
| Deferred inflows of resources - VRS | <u>57,310</u> |
| Total noncurrent liabilities | <u>1,660,941</u> |
| Total liabilities | <u>1,803,153</u> |
| | |
| NET POSITION | |
| Invested in capital assets, net of related debt | 2,288,385 |
| Restricted | 65,656 |
| Unrestricted | <u>1,363,522</u> |
| Total net position | <u><u>\$ 3,717,563</u></u> |

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

TOWN OF CHATHAM, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS
 For the Year Ended June 30, 2015

| | Exhibit 7 <u>Business-type Activities</u> <u>Water and Sewer Fund</u> |
|--------------------------------|---|
| Operating revenues: | |
| Charges for services | \$ 1,609,615 |
| Tap fees | 2,500 |
| Grant income | 10,000 |
| Miscellaneous | 7,614 |
| Total operating revenues | <u>1,629,729</u> |
| Operating expenses: | |
| Personal services | 447,619 |
| Fringe benefits | 124,051 |
| Contractual services | 119,131 |
| Waste removal | 36,600 |
| Waste water and water use fee | 35,219 |
| Analysis fees | 19,130 |
| Repairs and maintenance | 41,393 |
| Vehicle expenses | 110,977 |
| Materials and supplies | 20,382 |
| Chemicals | 48,203 |
| Depreciation | 191,550 |
| Utilities | 80,634 |
| Telephone | 5,672 |
| Insurance | 16,983 |
| Data processing | 3,141 |
| Other expenses | 6,145 |
| Total operating expenses | <u>1,306,830</u> |
| Operating income | <u>322,899</u> |
| Nonoperating income (expense): | |
| Interest income | 812 |
| Interest expense | (49,196) |
| Total nonoperating (expense) | <u>(48,384)</u> |
| Transfers out | <u>(200,000)</u> |
| Net income | 74,515 |
| Total net position-beginning | 3,577,392 |
| Prior period adjustment | 65,656 |
| Total net position-ending | <u>\$ 3,717,563</u> |

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

TOWN OF CHATHAM, VIRGINIA

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 For the Year Ended June 30, 2015

Exhibit 8

| | <u>Business-type Activities</u> |
|--|---------------------------------|
| | <u>Water and Sewer Fund</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from customers | \$ 1,660,786 |
| Receipts from grants | 10,000 |
| Payments to suppliers | (469,472) |
| Payments to employees | <u>(581,279)</u> |
| Net cash provided by operating activities | <u>620,035</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Transfer to other funds | (200,000) |
| Purchase of capital assets | (87,073) |
| Principal paid on capital debt | (68,949) |
| Interest paid on capital debt | <u>(47,334)</u> |
| Net cash (used in) capital and related financing activities | <u>(403,356)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest received | <u>812</u> |
| Net increase in cash | 217,491 |
| Cash and cash equivalents | |
| Beginning | <u>1,085,114</u> |
| Ending | <u>\$ 1,302,605</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | |
| Operating income | \$ 322,899 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 191,550 |
| Change in operating assets and liabilities: | |
| Decrease in accounts receivable | 41,057 |
| Decrease in prepaid expenses | 2,824 |
| (Decrease) in accounts payable | (91,134) |
| Increase in accrued payroll | 5,963 |
| (Decrease) in deferred outflows | (18,338) |
| Increase in due to other funds | 162,448 |
| Increase in compensated absences | <u>2,766</u> |
| Net cash provided by operating activities | <u>\$ 620,035</u> |

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

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Town of Chatham, Virginia (the primary government) is a municipal corporation governed by a seven-member council. The Town's major operations include police and fire protection, parks and recreation, public works, and general administrative services. In addition, the Town owns and operates a water and sewer system.

The Town's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Town has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Town has chosen not to do so. The more significant accounting policies established in GAAP and used by the Town are discussed below.

B. Basic Financial Statements - Government-Wide Statements

The Town's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental and Business-Type Activities for the Town accompanied by a total column. Fiduciary activities of the Town are not included in these statements.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Town's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the Town are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

The Town does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net position resulting from the current year's activities.

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

C. Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the Government-Wide financial statements. The Town has presented all major funds that met those qualifications.

All governmental funds are accounted for on a spending or “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. (The Town’s deferred outflows of resources and deferred inflows of resources are noncurrent.) The Statement of Revenues, Expenditures, and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Town, are property tax, sales tax, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

D. Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenditures, and Changes in Net Position, and a Statement of Cash Flows for the proprietary fund.

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenditures, and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Financial Statement Amounts

1. Cash and Cash Equivalents:

The Town has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agents. Additionally, each fund's equity in the Town's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

2. Allowances for Uncollectible Accounts:

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowances amounted to \$2,500 in the Governmental Activities at June 30, 2015.

3. Capital Assets:

Capital assets purchased or acquired with an original cost of \$2,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

| | |
|-------------------------|-------------|
| Buildings | 20-50 years |
| Water and sewer system | 30-50 years |
| Machinery and equipment | 5-10 years |
| Improvements | 10-20 years |
| Other infrastructure | 10-50 years |

GASB No. 34 requires the Town to report and depreciate new infrastructure assets effective with the beginning of the current year. No new infrastructure assets were constructed or purchased for the year. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the Town. Neither their historical cost nor related depreciation has historically been reported in the financial statements.

4. Revenues:

Substantially all governmental fund revenues are accrued. Property taxes are billed and collected within the same period in which the taxes are levied. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASB No. 33. In applying GASB No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

5. Expenditures:

Expenditures are recognized when the related fund liability is incurred.

6. Compensated Absences:

The Town accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The non-current portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

Note 2. Cash

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.

At year-end, the carrying value of the Town's deposits with banks and savings institutions was \$2,122,033, and the bank balance was \$2,150,701.

Note 3. Property Taxes Receivable

Property tax is levied on or about October 15th annually on the assessed (appraised) value listed as of the prior January 1st for all real and personal property located in the Town. Taxable assessed value represents the appraisal value less applicable exemptions authorized by the Town Council. Appraised values are established by the Pittsylvania County Tax Assessor at 100% of estimated fair market value.

Taxes are due on December 5th immediately following the levy date and are delinquent on December 6th. Current tax collections for the year ended June 30, 2015 were 95.1% of the tax levy.

Property taxes are recorded as receivables and deferred revenues at the time the tax levy is billed. Revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the year, and therefore susceptible to accrual in accordance with generally accepted accounting principles, have been recognized as revenue.

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2015, was as follows:

| | Balance <u>7/1/14</u> | <u>Additions</u> | <u>Deletions</u> | Balance <u>6/30/15</u> |
|--|--------------------------|---------------------|------------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 133,110 | \$ - | \$ - | \$ 133,110 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 2,058,448 | 25,000 | - | 2,083,448 |
| Equipment | <u>1,114,275</u> | <u>34,802</u> | <u>-</u> | <u>1,149,077</u> |
| Total capital assets being depreciated | <u>3,172,723</u> | <u>59,802</u> | <u>-</u> | <u>3,232,525</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 854,697 | 49,815 | - | 904,512 |
| Equipment | <u>980,345</u> | <u>64,641</u> | <u>-</u> | <u>1,044,986</u> |
| Total accumulated depreciation | <u>1,835,042</u> | <u>114,456</u> | <u>-</u> | <u>1,949,498</u> |
| Governmental activities capital assets, net | <u>\$ 1,470,791</u> | <u>\$ (54,654)</u> | <u>\$ -</u> | <u>\$ 1,416,137</u> |
| Business-type activities: | | | | |
| Capital assets, being depreciated: | | | | |
| Water plant | \$ 1,494,966 | \$ 83,499 | \$ - | \$ 1,578,465 |
| Sewer plant | 2,548,583 | 3,574 | - | 2,552,157 |
| Lines, tank, etc. | 3,020,869 | - | - | 3,020,869 |
| Machinery and equipment | <u>247,219</u> | <u>-</u> | <u>-</u> | <u>247,219</u> |
| Total capital assets being depreciated | <u>7,311,637</u> | <u>87,073</u> | <u>-</u> | <u>7,398,710</u> |
| Less accumulated depreciation for: | | | | |
| Water plant | 290,130 | 50,060 | - | 340,190 |
| Sewer plant | 1,430,018 | 65,727 | - | 1,495,745 |
| Lines, tank, etc. | 1,484,672 | 73,352 | - | 1,558,024 |
| Machinery and equipment | <u>240,344</u> | <u>2,411</u> | <u>-</u> | <u>242,755</u> |
| Total accumulated depreciation | <u>3,445,164</u> | <u>191,550</u> | <u>-</u> | <u>3,636,714</u> |
| Business-type activities capital assets, net | <u>\$ 3,866,473</u> | <u>\$ (104,477)</u> | <u>\$ -</u> | <u>\$ 3,761,996</u> |

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets (Continued)

Depreciation expense was charged to governmental functions as follows:

Governmental activities:

| | |
|---------------------------------|--------------|
| General government | \$ 25,754 |
| Public safety | 68,077 |
| Public works | 11,454 |
| Cemetery maintenance | 3,299 |
| Parks, recreation, and cultural | <u>5,872</u> |

| | |
|--|-------------------|
| Total depreciation expense-governmental activities | <u>\$ 114,456</u> |
|--|-------------------|

Business-type activities:

| | |
|-----------------|-------------------|
| Water and sewer | <u>\$ 191,550</u> |
|-----------------|-------------------|

Note 5. Long-Term Debt

Governmental activities:

The Town of Chatham entered into a \$275,000 loan with First Citizen's Bank to finance a fire truck. The loan is payable in fifteen annual installments of \$24,993 beginning on September 5, 2007 with an interest rate of 4.15% for ten years and the remaining five years will adjust to a variable rate set at 75% of the bank's prime rate. The Chatham Volunteer Fire Department is required to reimburse the Town \$10,000 annually.

Annual requirements are summarized as follows:

| Year Ending June 30: | Principal | Interest |
|----------------------|-------------------|------------------|
| 2016 | \$ 18,053 | \$ 6,940 |
| 2017 | 18,803 | 6,191 |
| 2018 | 19,583 | 5,411 |
| 2019 | 20,396 | 4,598 |
| 2020 | 21,242 | 4,598 |
| Thereafter | <u>69,163</u> | <u>5,818</u> |
| Total | <u>\$ 167,240</u> | <u>\$ 33,556</u> |

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (Continued)

On June 24, 2014, the Industrial Development Authority of Pittsylvania County issued a \$472,669 lease revenue refunding bond for the purpose of payment, refinancing and refunding of the Industrial Development Authority's \$726,000 lease revenue bond which was used to construct a new fire station for the Chatham Volunteer Fire Department. The bond was issued pursuant to a lease agreement dated June 1, 2014 between the Industrial Development Authority of Pittsylvania County and the Town Council of the Town of Chatham. The Town is not empowered to make any binding commitment beyond the current fiscal year of the Town although the current intention of the Town Council is to make sufficient annual appropriation during the lease term to pay all rental payments and other amounts required to be paid by the Town under the lease. Interest is payable at 2.50%. Installments of principal are due annually on June 1, through June 1, 2024. Installments of interest are due on each December 1 and June 1, through June 1, 2024.

Annual requirements are summarized as follows:

| Year Ending June 30: | Principal | Interest |
|----------------------|-------------------|------------------|
| 2016 | \$ 47,266 | \$ 10,635 |
| 2017 | 47,266 | 9,453 |
| 2018 | 47,266 | 8,272 |
| 2019 | 47,266 | 7,090 |
| 2020 | 47,266 | 5,908 |
| Thereafter | <u>189,072</u> | <u>11,787</u> |
| | <u>\$ 425,402</u> | <u>\$ 53,145</u> |

Business-type activities:

During the prior fiscal year the Town Council entered into a refunding bond issue of \$1,640,552, for the purpose of refunding the Town's General Obligation Water and Sewer Refunding Bond, Series 2008 and to pay the redemption price and issuance costs related thereto. Interest is payable at 3.10%. Installments of principal are due annually on June 15, through June 15, 2033. Installments of interest are due on each June 15 and December 15, through June 15, 2033.

Future maturities for bonds payable are as follows:

| Year Ending June 30: | Principal | Interest |
|----------------------|---------------------|-------------------|
| 2016 | \$ 61,520 | \$ 43,456 |
| 2017 | 63,427 | 41,550 |
| 2018 | 65,393 | 39,584 |
| 2019 | 67,420 | 37,556 |
| 2020 | 69,510 | 33,311 |
| Thereafter | <u>1,074,555</u> | <u>204,335</u> |
| Total | <u>\$ 1,401,825</u> | <u>\$ 399,792</u> |

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (Continued)

Town Council entered into a lease purchase agreement during the 2013 fiscal year in the amount of \$98,950, for the purpose of relocating a booster station to increase water pressure to the Olde Dominion Agricultural Center and the northern area of Town. Interest is payable at 2.50%. Installments of principal and interest are due annually on August 1, through June 1, 2021.

Future maturities for bonds payable are as follows:

| Year Ending June 30: | Principal | Interest |
|----------------------|------------------|-----------------|
| 2016 | \$ 9,511 | \$ 1,795 |
| 2017 | 9,749 | 1,557 |
| 2018 | 9,993 | 1,313 |
| 2019 | 10,243 | 1,063 |
| 2020 | 10,499 | 807 |
| Thereafter | 21,791 | 821 |
| Total | <u>\$ 71,786</u> | <u>\$ 7,356</u> |

Changes in Long-Term Debt:

The following is a summary of long-term debt transactions of the Town for the year ended June 30, 2015:

| | Payable at <u>7/1/14</u> | Plus <u>Additions</u> | Less <u>Retirements</u> | Payable at <u>6/30/15</u> | Due within <u>One year</u> |
|---|-----------------------------|--------------------------|----------------------------|------------------------------|-------------------------------|
| Governmental activities: | | | | | |
| Bonds and notes payable: | | | | | |
| Lease revenue bond: | | | | | |
| 06/24/14 Issue | \$ 472,669 | \$ - | \$ 47,267 | \$ 425,402 | \$ 18,053 |
| Note payable - 09/05/07 | <u>184,574</u> | <u>-</u> | <u>17,334</u> | <u>167,240</u> | <u>47,266</u> |
| Total bonds and notes payable | <u>657,243</u> | <u>-</u> | <u>64,601</u> | <u>592,642</u> | <u>65,319</u> |
| Other liabilities: | | | | | |
| Compensated absences | <u>59,456</u> | <u>20,076</u> | <u>17,538</u> | <u>61,994</u> | <u>15,499</u> |
| Governmental activities long-term liabilities | <u>\$ 716,699</u> | <u>\$ 20,076</u> | <u>\$ 82,139</u> | <u>\$ 654,636</u> | <u>\$ 80,818</u> |

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (Continued)

| | Payable at <u>7/1/14</u> | Plus <u>Additions</u> | Less <u>Retirements</u> | Payable at <u>6/30/15</u> | Due within <u>One year</u> |
|---|-----------------------------|--------------------------|----------------------------|------------------------------|-------------------------------|
| Business-type activities: | | | | | |
| Bonds: | | | | | |
| General obligation bonds: | | | | | |
| 03/29/12 Issue | <u>\$ 1,461,495</u> | <u>\$ -</u> | <u>\$ 59,670</u> | <u>\$ 1,401,825</u> | <u>\$ 61,520</u> |
| Lease purchase agreement | <u>81,065</u> | <u>-</u> | <u>9,279</u> | <u>71,786</u> | <u>9,511</u> |
| Other liabilities: | | | | | |
| Compensated absences | <u>45,488</u> | <u>19,105</u> | <u>16,339</u> | <u>48,254</u> | <u>9,651</u> |
| Business-type activities long-term liabilities | <u>\$ 1,588,048</u> | <u>\$ 19,105</u> | <u>\$ 85,288</u> | <u>\$ 1,521,865</u> | <u>\$ 80,682</u> |

Details of Long-Term Indebtedness

Governmental Activities:

Amount
Outstanding

\$275,000 loan with First Citizen's Bank to finance a fire truck, payable in fifteen annual installments of \$24,993. The 4.15% interest rate adjusts to a variable rate after ten years.

\$ 167,240

\$472,669 authorized and issued - Lease Revenue Bond issued June 24, 2014, maturing annually with interest payable annually.

Bonds bearing interest at 2.50% maturing on June 1, 2024

425,402

Compensated absences:

Vacation and sick leave

61,994

\$ 654,636

Business-type activities:

Amount
Outstanding

\$1,640,552 authorized and issued Water and Sewer Fund General Obligation Refunding Bond issued March 29, 2012, maturing annually with interest payable semi-annually.

Bonds bearing interest at 3.10% maturing on June 15, 2033

\$1,401,825

\$98,950 lease purchase agreement with Pittsylvania County, payable in ten installments of \$11,306 bearing interest at 2.50%.

71,786

Compensated absences:

Vacation and sick leave

48,254

\$1,521,865

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 6. Fund Balance Disclosure

The Town of Chatham, Virginia implemented GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year 2012. The purpose of GASB No. 54 is to improve the consistency and usefulness of the fund balance information to the financial user. The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the organization is bound to honor constraints on the specific purpose for which amounts in the funds can be spent.

Governmental Fund Financial Statements. In accordance with GASBS No. 54, the Town classifies fund balances in the government funds as follows:

- Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. The Town has not reported any amounts that are not spendable in form or legally or contractually required to be maintained intact.
- Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.
- Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to ordinances passed by the Town Council, the Town's highest level of decision making authority. Commitments may be modified or rescinded only through ordinances approved by the Town's Council. The Town has not reported any amounts that are committed in the current year.
- Assigned – includes amounts that the Town intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance.
- Unassigned – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources (committed, assigned, and unassigned) as they are needed. When unrestricted resources (committed, assigned, and unassigned) are available for use in the General Fund, it is the Town's policy to use unassigned resources first, then assigned, and then committed as needed. When unrestricted resources (committed, assigned, and unassigned) are available for use in any other governmental fund, it is the Town's policy to use committed resources first, then assigned, and then unassigned as needed.

The Town does not have a formal minimum fund balance requirement. However, the Town has adopted a Reserve Policy, which addresses various targeted reserve amounts in the General Fund and the action that will be taken if the reserves fall below the targeted amount.

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 6. Fund Balance Disclosure (Continued)

Government-wide and Proprietary Fund Financial Statements. The Town classifies net position in the government-wide and proprietary fund financial statements as follows:

- Net Investment in Capital Assets - includes the Town's capital assets (net of accumulated depreciation) reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted Net Position - includes assets that have third-party (statutory, bond covenant, or granting agency) limitations on their use. The Town typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.
- Unrestricted Net Position - typically includes unrestricted liquid assets. The Town Council has the authority to revisit or alter this designation.

Note 7. Defined Benefit Pension Plan

A. Plan Description

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

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

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

| VRS PLAN 1 | VRS PLAN 2 | HYBRID RETIREMENT PLAN |
|---|---|---|
| <p>About VRS Plan 1 VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> | <p>About VRS Plan 2 VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their member date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> | <p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members")</p> |

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

| VRS PLAN 1 | VRS PLAN 2 | HYBRID RETIREMENT PLAN |
|--|--|---|
| | | <ul style="list-style-type: none"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees. |
| <p>Eligible Members Employees are in VRS Plan 1 if their membership date is before July 1, 2012, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> | <p>Eligible Members Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt in Election VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1, through April 30, 2014.</p> | <p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This include:</p> <ul style="list-style-type: none"> • State employees* • School division employees • Political subdivision employees* • Judges appointed or elected to an original term on or after January 1, 2014. • Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January |

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

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

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

| VRS PLAN 1 | VRS PLAN 2 | HYBRID RETIREMENT PLAN |
|---|--|--|
| <p>The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p> | | <p>contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p> |
| <p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> | <p>Creditable Service Same as VRS Plan 1.</p> | <p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p> |

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

| VRS PLAN 1 | VRS PLAN 2 | HYBRID RETIREMENT PLAN |
|--|---|--|
| <p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p> | <p>Vesting Same as VRS Plan 1.</p> | <p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70 1/2.</p> |

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

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

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

| VRS PLAN 1 | VRS PLAN 2 | HYBRID RETIREMENT PLAN |
|--|---|---|
| <p>Normal Retirement Age Age 65.</p> | <p>Normal Retirement Age Normal Social Security retirement age.</p> | <p>Normal Retirement Age <u>Defined Benefit Component:</u> Same as VRS Plan 2. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p> |
| <p>Earliest Unreduced Retirement Eligibility Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p> | <p>Earliest Unreduced Retirement Eligibility Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p> | <p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p> |
| <p>Earliest Reduced Retirement Eligibility Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> | <p>Earliest Reduced Retirement Eligibility Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> | <p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p> |

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

| VRS PLAN 1 | VRS PLAN 2 | HYBRID RETIREMENT PLAN |
|--|---|---|
| <p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for uses other than job performance or misconduct and is eligible to retire under the Work force Transition Act or the Transitional Benefits Program. | <p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as VRS Plan 1.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as VRS Plan 1.</p> | <p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as VRS Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as VRS Plan 1 and VRS Plan 2.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as VRS Plan 1 and VRS Plan 2.</p> |

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

| VRS PLAN 1 | VRS PLAN 2 | HYBRID RETIREMENT PLAN |
|---|---|---|
| <ul style="list-style-type: none"> The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. | | |
| <p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p> | <p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p> | <p>Disability Coverage Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>State employees (including VRS Plan 1 and VRS Plan2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p> |

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

| VRS PLAN 1 | VRS PLAN 2 | HYBRID RETIREMENT PLAN |
|--|---|--|
| <p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p> | <p>Purchase of Prior Service Same as VRS Plan 1.</p> | <p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as VRS Plan 1.</p> <p>Defined Contribution Component: Not Applicable.</p> |

Employees Covered by Benefit Terms

As of the June 30, 2013 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

| | Number |
|--|------------------|
| Inactive members or their beneficiaries currently receiving benefits | <u>7</u> |
| Inactive members: | |
| Vested inactive members | 2 |
| Non-vested inactive members | 4 |
| Inactive members active elsewhere in VRS | <u>4</u> |
| Total inactive members | <u>10</u> |
| Active members | <u>20</u> |
| Total covered employees | <u><u>37</u></u> |

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

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

If the employer used the certified rate: The political subdivision's contractually required contribution rate for the year ended June 30, 2015 was 17.09 percent of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$520,904 and \$505,794 for the years ended June 30, 2015 and June 30, 2014, respectively.

Net Pension Liability

The political subdivisions net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

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

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

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

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS

Update mortality table

Decrease in rates of service retirement

Decrease in rates of disability retirement

Reduce rates of salary increase by 0.25 percent per year

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

Update mortality table

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25 percent per year

Long-Term Expected Rate of Return

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

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

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return (Continued)

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

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the BRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 7, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return (Continued)

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
|--|-----------------------------------|---------------------------------------|---------------------------------------|
| Balances at June 30, 2013 | \$ 1,339,803 | \$ 1,408,530 | \$ (68,727) |
| Changes for the year: | | | |
| Service cost | 71,778 | - | 71,778 |
| Interest | 92,308 | - | 92,308 |
| Changes of assumptions | | | |
| Difference between expected and actual experience | | | |
| Contributions - employer | - | 46,957 | (46,957) |
| Contributions - employee | - | 31,112 | (31,112) |
| Net investment income | - | 226,034 | (226,034) |
| Benefit payments, including refunds of employee contributions | (42,247) | (42,247) | - |
| Administrative expense | - | (1,173) | 1,173 |
| Other changes | - | 12 | (12) |
| Net changes | 121,839 | 260,695 | (138,856) |
| Balances at June 30, 2014 | \$ 1,461,642 | \$ 1,669,225 | \$ (207,583) |

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

| | <u>(6.00%)</u> | <u>Rate (7.00%)</u> | <u>(8.00%)</u> |
|-------------------------|----------------|---------------------|----------------|
| Political subdivision's | | | |
| Net Pension Liability | \$ (22,445) | \$ (207,583) | \$ (360,801) |

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF CHATHAM, VIRGINIA

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year ended June 30, 2015

Exhibit 9

| | Budgeted Amounts | | Actual Amounts | Variance with |
|--|------------------|----------------|-------------------|---------------------|
| | Original | Final | | Final Budget |
| | | | | Positive (Negative) |
| Revenues: | | | | |
| General property taxes | \$ 319,000 | \$ 319,000 | \$ 293,662 | \$ (25,338) |
| Other local taxes | 134,300 | 134,300 | 156,376 | 22,076 |
| Consumer utility tax | 114,000 | 114,000 | 120,072 | 6,072 |
| Permits, privilege fees, and regulatory licenses | 90,000 | 90,000 | 94,070 | 4,070 |
| Fines and forfeitures | 33,000 | 33,000 | 38,213 | 5,213 |
| Interest and investment revenue | 2,000 | 2,000 | 1,108 | (892) |
| Charges for service | 90,000 | 90,000 | 87,442 | (2,558) |
| Recovered costs | 10,000 | 10,000 | 3,762 | (6,238) |
| Intergovernmental | 48,500 | 48,500 | 65,874 | 17,374 |
| Miscellaneous | 15,800 | 15,800 | 40,115 | 24,315 |
| Total revenues | 856,600 | 856,600 | 900,694 | 44,094 |
| Expenditures: | | | | |
| Current: | | | | |
| General government administration | 169,780 | 169,780 | 132,043 | 37,737 |
| Judicial administration | 302,460 | 302,460 | 270,736 | 31,724 |
| Public safety | 18,000 | 18,000 | 24,876 | (6,876) |
| Public works | 303,550 | 303,550 | 309,485 | (5,935) |
| Cemetery maintenance | 55,090 | 55,090 | 49,649 | 5,441 |
| Parks, recreation, and cultural | 71,540 | 71,540 | 69,100 | 2,440 |
| Debt service: | | | | |
| Principal retirement | 77,000 | 77,000 | 83,325 | (6,325) |
| Total expenditures | 997,420 | 997,420 | 939,214 | 58,206 |
| Excess (deficiency) of revenues over (under) expenditures | (140,820) | (140,820) | (38,520) | 102,300 |
| Other financing sources (uses): | | | | |
| Operating transfers in | - | - | 212,900 | 212,900 |
| Transfer to reserve funds | 64,100 | 64,100 | - | (64,100) |
| Total other financing sources | 64,100 | 64,100 | 212,900 | 148,800 |
| Net change in fund balances | | | 174,380 | |
| Fund balance at beginning of year | | | 505,864 | |
| Fund balance at end of year | | | <u>\$ 680,244</u> | |

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

TOWN OF CHATHAM, VIRGINIA

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS

For the Year Ended June 30, 2015

Exhibit 10

SCHEDULE OF CHANGES IN NET PENSION LIABILITY

| | <u>2014</u> |
|---|----------------------------|
| Total pension liability | |
| Service costs | \$ 71,778 |
| Interest | 92,308 |
| Changes of benefit terms | - |
| Differences between expected and actual experience | - |
| Changes in assumptions | - |
| Benefit payments, including refunds of employee contributions | (42,247) |
| Net change in total pension liability | <u>121,839</u> |
| Total pension liability - beginning | <u>1,339,803</u> |
| Total pension liability - ending (a) | <u><u>\$ 1,461,642</u></u> |
| Plan fiduciary net position | |
| Contributions - employer | \$ 46,957 |
| Contributions - employee | 31,112 |
| Net investment income | 226,034 |
| Benefit payments, including refunds of employee contributions | (42,247) |
| Administrative expenses | (1,173) |
| Other expenses | 12 |
| Net change in plan fiduciary net position | <u>260,695</u> |
| Plan fiduciary net position - beginning | <u>1,408,530</u> |
| Plan fiduciary net position - ending (b) | <u><u>\$ 1,669,225</u></u> |
| Political subdivision's net pension liability - ending (a) - (b) | <u><u>\$ (207,583)</u></u> |
| Plan fiduciary net position as a percentage of the total pension liability | 114.20% |
| Covered-employee payroll | \$ 658,022 |
| Political subdivision's net pension liability as a percentage of covered-employee payroll | -31.55% |

SCHEDULE OF EMPLOYER CONTRIBUTIONS

| <u>Date</u> | <u>Contractually Required Contributions</u> | <u>Contributions in Relation to Contractually Required Contributions</u> | <u>Contribution Deficiency (Excess)</u> | <u>Employer's Covered Employees Payroll</u> | <u>Contribution as a % of Covered Employees Payroll</u> |
|-------------|---|--|---|---|---|
| 2015 | \$ 41,390 | \$ 41,390 | \$ - | \$ 716,111 | 5.78% |

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

TOWN OF CHATHAM, VIRGINIA

NOTES TO SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS
For the Year Ended June 30, 2015

Exhibit 10

Changes of benefit terms – There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013, and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

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

Largest 10 – Non-LEOS:

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

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

All others (Non 10 Largest) – Non-LEOS:

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

All others (Non 10 Largest) – LEOS:

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

OTHER SUPPLEMENTARY INFORMATION

TOWN OF CHATHAM, VIRGINIA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2015

Exhibit 11

| | <u>Permanent Fund</u> |
|-------------------------------------|---------------------------|
| ASSETS | <u>Perpetual Care</u> |
| Cash - restricted | \$ 224,827 |
| Due from other funds | <u>105,091</u> |
| Total assets | <u><u>\$ 329,918</u></u> |
| LIABILITIES AND FUND BALANCES | |
| Liabilities: | |
| Total liabilities | <u>\$ -</u> |
| Fund balances: | |
| Reserved for: | |
| Perpetual care | <u>329,918</u> |
| Total fund balances | |
| Total liabilities and fund balances | <u><u>\$ 329,918</u></u> |

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

TOWN OF CHATHAM, VIRGINIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES-NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2015

Exhibit 12

| | <u>Permanent Fund</u> |
|---|---------------------------|
| | <u>Perpetual Care</u> |
| Revenues: | |
| Interest and investment revenue | \$ 674 |
| Sale of cemetery lots | 32,250 |
| | <hr/> |
| Total revenues | 32,924 |
| | <hr/> |
| Total expenditures | - |
| | <hr/> |
| Excess of revenues over expenditures | 32,924 |
| | <hr/> |
| Other financing sources: | |
| Operating transfers out | (12,900) |
| | <hr/> |
| Total other financing sources | (12,900) |
| | <hr/> |
| Net change in fund balances | 20,024 |
| | <hr/> |
| Fund balance at beginning of year | 309,894 |
| | <hr/> |
| Fund balance at end of year | <u>\$ 329,918</u> |

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

COMPLIANCE SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Chatham, Virginia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Town of Chatham, Virginia's basic financial statements and have issued our report thereon dated February 15, 2016.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in a separate letter, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the separate SAS 115 letter to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the separate letter to be significant deficiencies.

Compliance

As part of obtaining reasonable assurance about whether the Town of Chatham, Virginia's financial statements and schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Harris Harvey Neal & Co. LLP

Danville, Virginia
February 15, 2016