

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

FINANCIAL REPORT

June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Alleghany Highlands Regional Library, Inc.
Covington, Virginia

I have audited the accompanying general purpose financial statements of Alleghany Highlands Regional Library, Inc. as of June 30, 2015 and 2014 and for the years then ended, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted the audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that I plan and perform the audits 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alleghany Highlands Regional Library, Inc., as of June 30, 2015 and 2014, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT
(continued)

Emphasis of Matters

As discussed in Note 1 and presented in Note 8 to the financial statements, the Library adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pension, an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*, effective July 1, 2014. As a result, related net position has been restated. My opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 and the pension trend information on pages 26 through 28 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during the audit of the basic financial statements.

I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Lisa H. Amant, CPA

Covington, Virginia
December 3, 2015

Alleghany Highlands Regional Library, Inc.

REGIONAL LIBRARY SERVICE

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MANAGEMENT DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2015

Our discussion and analysis of Alleghany Highlands Regional Library, Inc. financial performance provides an overview of the Library's financial activities for the fiscal year ended June 30, 2015. Please read this information in conjunction with the Library's financial statements.

FINANCIAL HIGHLIGHTS

Alleghany Highlands Regional Library's financial statements are reported on the full accrual basis as required by GASB Statement 34. On this basis, the Library reported total revenues of \$327,420 and expenditures of \$367,204, resulting in a decrease in net assets of \$39,784 for the year ended June 30, 2015.

Local funding remained level for both the City of Covington and Alleghany County from the prior year. State funding decreased by less than one percent.

The Library's net assets totaled \$1,417,249, of which \$277,932 is available to spend at the discretion of the Library's Board of Trustees. The Library had no debt at June 30, 2015.

In the fiscal year ended June 30, 2015, the Library adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB 68*. GASB 68 establishes standards of accounting and reporting for defined benefit pension plans administered through a trust or similar arrangement. These standards require extensive changes to the reporting of net pension liabilities and pension expense. Due to this adoption, net assets were decreased by a prior period adjustment in the amount of \$100,537 and the comparative financial statements for the fiscal year ended June 30, 2014 were restated to reflect this change. See Note 8 to the financial statements for more information concerning this change.

It is important to note that, in accordance with statements issued by the Governmental Accounting Standards Board, the financial information presented for the Library includes two additional legally separate but financially related entities. These entities are The Charles Pinckney Jones Memorial Library Foundation and the Friends of the Library. Details of the financial positions and results of operations of these entities are presented in financial statement Notes 9 and 10.

BASIC FINANCIAL STATEMENTS

The basic financial statements report information about the Library using accounting methods similar to those used by private-sector companies. One of the most important questions asked about the Library's finances is "Is the Library better or worse off as a result of the year's activities?" The Library presents three basic financial statements to help answer this question. These are (1) a Statement of Net Assets; (2) a Statement of Revenues, Expenses and Changes in Net Assets; and (3) a Statement of Cash Flows.

These statements report the Library's net assets and changes in them. The Statement of Net Assets reports the balances left at year-end that are available for spending and any restrictions that apply to those balances. Increases and decreases to these balances are reflected in the Statement of Revenues, Expenses and Changes in Net Assets. The Statement of Cash Flows identifies the changes in the cash balances of the Library and reconciles the change in net assets to the cash flows provided and used by the Library.

Allegheny Highlands Regional Library, Inc.
MANAGEMENT DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2015

FINANCIAL ANALYSIS

FINANCIAL POSITION-A summary of the Library's Statement of Net Assets for the years ended June 30, 2015 and 2014 is presented below:

Condensed Statement of Net Assets

	<u>2015</u>	<u>2014</u> (Restated)
Current Assets	\$ 576,526	\$ 581,543
Property and Equipment	936,051	978,559
Deferred Pension Contributions	<u>12,539</u>	<u>-</u>
Total Assets	<u>\$1,525,116</u>	<u>\$1,560,102</u>
Current Liabilities	\$ 1,753	\$ 2,532
Net Pension Liability	85,380	100,537
Deferred Pension Investment Experience	<u>20,734</u>	<u>-</u>
Total Liabilities	<u>\$ 107,867</u>	<u>\$ 103,069</u>
Net Assets:		
Board Designated	\$ 224,462	\$ 224,462
Invested in Capital Assets	936,051	978,559
Unappropriated	<u>53,470</u>	<u>44,597</u>
Total Unrestricted Net Assets	<u>\$1,213,983</u>	<u>\$1,247,618</u>
Restricted for Building Expansion	<u>\$ 203,266</u>	<u>\$ 209,415</u>
Total Net Assets	<u>\$1,417,249</u>	<u>\$1,457,033</u>
Total Liabilities and Net Assets	<u>\$1,525,116</u>	<u>\$1,560,102</u>
Quick Ratio (Current Assets/Current Liabilities)	329:1	230:1

CHANGE IN NET ASSETS-A summary of the Library's statements of revenues, expenses and changes in net assets for the years ended June 30, 2015 and 2014 is presented below.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	<u>2015</u>	<u>2014</u> (Restated)
Operating Income	\$ 11,948	\$ 12,012
Operating Expenses	<u>367,204</u>	<u>371,184</u>
Operating Income (Loss)	\$(355,256)	\$(359,172)
Non-Operating Income	<u>315,472</u>	<u>324,676</u>
Change in Net Assets	<u>\$(39,784)</u>	<u>\$(34,496)</u>

The operating income of the Library consists of fines, fees, and other charges for services to Library patrons. Operating income has decreased less than one percent from 2015 to 2014.

Operating expenses are the direct expenses incurred in the operation of the Library, including salaries and benefits, library books and materials, utilities, and depreciation. (See the Statements of Revenues, Expenses and Changes in Net Assets for detail and amounts of these operating expenses.) From 2014 to 2015, operating expenses decreased by approximately 1.07%, mainly due to decreases in salaries and wages and utilities, partially offset by a 23.48% increase in maintenance and repairs expense.

Allegheny Highlands Regional Library, Inc.
MANAGEMENT DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2015

Non-operating income includes appropriations and grants from state and local governments (which decreased by less than one percent over the prior year), contributions and grants from foundations, individuals and businesses, and interest income. Non-operating income decreased approximately 2.83% from 2014 to 2015, mainly due to a decrease in the amount of grant revenue from the Allegheny Foundation in the amount of \$10,096, offset by increases in contributions and Friends of the Library revenue. The following table details the percentage of the non-operating income by source.

	<u>2015</u>	<u>2014</u>
Commonwealth of Virginia	21.79	21.19
Local governments	73.67	71.58
Contributions, grants, and other income	3.64	6.22
Interest income	<u>.90</u>	<u>1.01</u>
 Total non-operating income	 100.00	 100.00

Net assets decreased \$39,784 in 2015 as compared to a decrease of \$34,496 in 2014. A major component of the decrease for both years was depreciation expense, which totaled \$46,566 and \$45,674 for 2015 and 2014, respectively.

CASH FLOWS-A summary of the Library's statements of cash flows for the years ended June 30, 2015 and 2014 is presented below.

Condensed Statements of Cash Flows

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities	\$(316,431)	\$(313,710)
Cash flows from non-capital activities	315,479	324,689
Cash flows from capital activities	<u>(4,058)</u>	<u>(13,223)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$(5,010)	\$(2,244)
Cash, Beginning of Year	<u>149,762</u>	<u>152,006</u>
Cash, End of Year	<u>\$ 144,752</u>	<u>\$ 149,762</u>

Cash flows from operating activities represent the change in net assets adjusted for any non-cash transactions and any changes in asset and liability accounts. One major element of non-cash transactions is depreciation. Cash flows from non-capital activities consist of the elements of non-operating income. Cash flows from capital activities include fixed asset purchases by the Library. Cash flows from investing activities are made up of interest income and any transactions involving investments, including certificates of deposit. (See the Statements of Cash Flows for detail and amounts of cash flow transactions.)

During 2015, there was a decrease of \$5,010 in cash and cash equivalents. The difference between this amount and the net decrease in net assets of \$39,784 is due in large part to depreciation expense of \$46,566.

BUDGETARY HIGHLIGHTS

The Library prepares a budget each year broken down into local and state revenues and expenditures. The original state revenue budget must be approved by the state. Also, any revisions exceeding ten percent of the original budget categories must be submitted for approval. The local budgets are prepared based on the amounts allocated to the Library by the local governing bodies.

Alleghany Highlands Regional Library, Inc.
MANAGEMENT DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2015

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

As of June 30, 2015, the Library has net fixed assets of \$936,051. The original cost of these assets is \$1,941,134 and the accumulated depreciation on these assets is \$1,005,083. (See Note 2 to the financial statements for further detail.) Of the total fixed assets, land and buildings account for 74%, equipment accounts for 14%, and furniture and fixtures account for 12%.

DEBT ADMINISTRATION

The Library has no debt as of June 30, 2015 and 2014.

ECONOMIC FACTORS

State and local revenues account for approximately 95% of the revenue of the Library. The Library continues to work with these governmental agencies to obtain increased funding to cover increased costs associated with the building expansion. For FY 2016, the Library will receive funding increases from Alleghany County of 2.16% and the City of Covington of 4.07%. State revenue is expected to decrease by 2.52%, resulting in an overall increase of \$5,402 in government funding. The Library continues to work with local governments to increase funding and has obtained funding for a computer lab project from the Alleghany Foundation in the amount of \$56,447. The Library has managed to keep the majority of operating expenses fairly level with prior years, with the exception of increases to maintenance and repairs expense and consulting fees. The Library continues to search for ways to reduce operating expenses without affecting services to Library patrons.

CONTACTING THE LIBRARY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, patrons, and funding sources with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. Questions concerning this report or requests for additional information should be made directly to Lisa N. Hicks, Library Director, 406 W. Riverside Street, Covington, Virginia 24426 (Telephone (540) 962-3321).

ALLEGHANY HIGHLANDS REGIONIAL LIBRARY, INC.

STATEMENTS OF NET ASSETS

June 30, 2015 and 2014

ASSETS	<u>2015</u>	<u>2014</u> (Restated)
CURRENT ASSETS		
Cash including interest bearing accounts of \$117,318 in 2015, and \$126,274 in 2014	\$ 144,752	\$ 149,762
Certificate of deposit	431,774	431,774
Accrued interest receivable	<u>-</u>	<u>7</u>
	<u>\$ 576,526</u>	<u>\$ 581,543</u>
 COLLECTIONS (Note 6)		
PROPERTY AND EQUIPMENT (Note 2)	<u>\$ 936,051</u>	<u>\$ 978,559</u>
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension contributions (Note 3)	<u>\$ 12,539</u>	<u>\$ -</u>
	<u>\$ 12,539</u>	<u>\$ -</u>
 Total assets	 <u>\$1,525,116</u>	 <u>\$1,560,102</u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 217	\$ 1,286
Accrued payroll	<u>1,536</u>	<u>1,246</u>
	<u>\$ 1,753</u>	<u>\$ 2,532</u>
NONCURRENT LIABILITIES		
Net pension liability (Note 3) (Note 8)	<u>\$ 85,380</u>	<u>\$ 100,537</u>
	<u>\$ 85,380</u>	<u>\$ 100,537</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred pension investment experience (Note 3)	<u>\$ 20,734</u>	<u>\$ -</u>
	<u>\$ 20,734</u>	<u>\$ -</u>
 Total liabilities	 <u>\$ 107,867</u>	 <u>\$ 103,069</u>
 NET ASSETS		
Unrestricted:		
Designated for investment	\$ 163,177	\$ 163,177
Designated for building (Note 9)	61,285	61,285
Invested in building	936,051	978,559
Unappropriated	<u>53,470</u>	<u>44,597</u>
Total unrestricted	\$1,213,983	\$1,247,618
Restricted for building expansion (Note 9)	<u>203,266</u>	<u>209,415</u>
	<u>\$1,417,249</u>	<u>\$1,457,033</u>
 Total liabilities and net assets	 <u>\$1,525,116</u>	 <u>\$1,560,102</u>

See Notes to Financial Statements.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u> (Restated)
Operating revenue:		
Fees and fines	\$ 11,948	\$ 12,012
Expenses:		
Library books and materials (Note 6)	\$ 58,464	\$ 55,225
Salaries and wages	155,807	158,866
Payroll taxes	12,187	12,498
Retirement plan (Note 3)	5,577	10,405
Employee benefits	2,550	2,810
Insurance	5,903	5,859
Utilities	17,521	20,970
Internet access	1,603	1,500
Computer service and support	2,492	2,677
Computer equipment and supplies	1,444	1,224
Depreciation	46,566	45,674
Maintenance and repairs	27,143	21,982
Programs	4,280	2,600
Contractual services	7,518	9,854
Supplies and postage	7,256	9,154
Professional fees	7,418	6,000
Miscellaneous	1,016	1,646
Employee travel and training	811	742
Membership dues	846	862
Advertising and fundraising expenses	<u>802</u>	<u>636</u>
Total expenses	\$ 367,204	\$ 371,184
Operating income (loss)	\$(355,256)	\$(359,172)
Non-operating revenue:		
State aid (Note 4)	\$ 68,735	\$ 68,809
Local aid – City of Covington	110,598	110,598
Local aid – Alleghany County	121,802	121,802
Alleghany Foundation grant	171	10,267
E-Rate reimbursement	665	2,901
Contributions and bequests	2,948	1,649
Friends of the Library revenue (Note 10)	7,717	5,386
Investment return (Note 5)	<u>2,836</u>	<u>3,264</u>
Total non-operating revenue	\$ 315,472	\$ 324,676
Change in net assets	\$(39,784)	\$(34,496)
Net assets, beginning of year, as restated (Note 8)	<u>1,457,033</u>	<u>1,491,529</u>
Net assets, ending of year	<u>\$1,417,249</u>	<u>\$1,457,033</u>

See Notes to Financial Statements.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2015 and 2014

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2015</u>	<u>2014</u>
Receipts from patrons	\$ 11,948	\$ 12,012
Payments to suppliers	(145,586)	(141,052)
Payments to and for employees	<u>(182,793)</u>	<u>(184,670)</u>
Net cash provided (used) by operating activities	<u>\$(316,431)</u>	<u>\$(313,710)</u>
CASH FLOWS FROM NONCAPITAL ACTIVITIES		
Government appropriations	\$ 301,135	\$ 301,209
Other	<u>14,344</u>	<u>23,480</u>
Net cash provided (used) by noncapital activities	<u>\$ 315,479</u>	<u>\$ 324,689</u>
CASH FLOWS FROM CAPITAL ACTIVITIES		
Purchase of property and equipment	<u>\$(4,058)</u>	<u>\$(13,223)</u>
Net cash provided (used) by capital activities	<u>\$(4,058)</u>	<u>\$(13,223)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$(5,010)	\$(2,244)
CASH AND CASH EQUIVALENTS:		
Beginning	<u>149,762</u>	<u>152,006</u>
Ending	<u>\$ 144,752</u>	<u>\$ 149,762</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	<u>\$(355,256)</u>	<u>\$(359,172)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	\$ 46,566	\$ 45,674
Deferred pension contributions	(6,962)	-
Increase (decrease) in:		
Accounts payable	(1,069)	(121)
Accrued payroll	<u>290</u>	<u>(91)</u>
Total adjustments	<u>\$ 38,825</u>	<u>\$ 45,462</u>
Net cash provided (used) by operating activities	<u>\$(316,431)</u>	<u>\$(313,710)</u>

See Notes to Financial Statements.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2015

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities:

The Alleghany Highlands Regional Library, Inc., formerly the Charles Pinckney Jones Memorial Library, Inc., is a nonprofit corporation organized under the laws of the Commonwealth of Virginia. The Organization is a public library providing services to the City of Covington and Alleghany County. The Organization is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code.

A summary of the Library's significant accounting policies follows:

Reporting entity:

The Charles P. Jones Memorial Library Foundation, Inc., a 501(c)(3) corporation, was established to provide support for programs and services of The Charles Pinckney Jones Memorial Library and to support the further expansion and growth of the Library by seeking financial contributions from corporate, foundation and private sources. While the Foundation is a legally separate organization, the organizations share essentially the same governing board and the Foundation will provide financial support solely to the Library. The Library initially transferred restricted and board designated expansion funds to the Foundation to maintain accountability for contributions from private sources. Revenue and expenses of this organization are included in the financial statements for the years ended June 30, 2015 and 2014. (See Note 8.)

Friends of the Library is a nonprofit volunteer organization that exists exclusively to support the Library through promotional activities and special fundraising events. The Organization's revenue is comprised of membership dues and profits from various fundraising events. Revenue and expenses of this Organization are included in the financial statements for the years ended June 30, 2015 and 2014. (See Note 9.)

Cash and cash equivalents:

For purposes of reporting cash flows, the Library considers all highly liquid debt investments purchased with a maturity of three months or less to be cash equivalents.

Property and equipment:

Purchased property and equipment are capitalized and valued at historical cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair market value at the date of donation. Assets are depreciated using the straight-line method based on estimated lives as follows:

	<u>Years</u>
Buildings and improvements	10- 40
Land improvements	15
Furniture and fixtures	5-10
Equipment	5

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Revenue recognition:

Grant revenue is recognized when the related costs are incurred. Deferred revenue consists of grant funds that the Library has received but for which it has not incurred related expenses. Revenue from local governments is recorded in the period designated by the local governmental budget. Contributions from the general public are recognized when any applicable eligibility requirements are met, or when received, whichever is earlier. Contributions of donated noncash assets are recorded at their fair values in the period received.

Contributed Services

A substantial number of unpaid volunteers have made significant contributions of their time to the Library's programs. The value of this contributed time is not recognized in the financial statements since it is not susceptible to objective measurement or valuation.

Pensions:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Library's Retirement Plan and the additions to/deductions from the Library's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Budgets and budgetary accounting:

The Library annually prepares a budget based on the funding notifications received from the Library of Virginia, the City of Covington and the County of Alleghany. The initial budget, as well as later amendments, for expenditures of state funds must be approved by The Library of Virginia.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from the estimates that were used.

Risk management:

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters at a cost considered to be economically justifiable. Settled claims have not exceeded this coverage in any of the preceding three years.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2015

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities:

Alleghany Highlands Regional Library, Inc., formerly the Charles Pinckney Jones Memorial Library, Inc., is a nonprofit corporation organized under the laws of the Commonwealth of Virginia. The Organization is a public library providing services to the City of Covington and Alleghany County. The Organization is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code.

A summary of the Library's significant accounting policies follows:

Reporting entity:

The Charles P. Jones Memorial Library Foundation, Inc., a 501(c)(3) corporation, was established to provide support for programs and services of Alleghany Highlands Regional Library, Inc. and to support the further expansion and growth of the Library by seeking financial contributions from corporate, foundation and private sources. While the Foundation is a legally separate organization, the organizations share essentially the same governing board and the Foundation will provide financial support solely to the Library. The Library initially transferred restricted and board designated expansion funds to the Foundation to maintain accountability for contributions from private sources. Revenue and expenses of this organization are included in the financial statements for the years ended June 30, 2015 and 2014. (See Note 9.)

Friends of the Library is a nonprofit volunteer organization that exists exclusively to support the Library through promotional activities and special fundraising events. The Organization's revenue is comprised of membership dues and profits from various fundraising events. Revenue and expenses of this Organization are included in the financial statements for the years ended June 30, 2015 and 2014. (See Note 10.)

Cash and cash equivalents:

For purposes of reporting cash flows, the Library considers all highly liquid debt investments purchased with a maturity of three months or less to be cash equivalents.

Property and equipment:

Purchased property and equipment are capitalized and valued at historical cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair market value at the date of donation. Assets are depreciated using the straight-line method based on estimated lives as follows:

	<u>Years</u>
Buildings and improvements	10- 40
Land improvements	15
Furniture and fixtures	5-10
Equipment	5

NOTES TO FINANCIAL STATEMENTS

Note 3. Retirement Plan (continued)

Retirement Plan Provisions***Plan 1***

Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. 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. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP. Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment. 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.

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. Members are always 100% vested in the contributions that they make.

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. 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. A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee. The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70% and the normal retirement age is 65. The earliest unreduced retirement eligibility is age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. The earliest reduced retirement eligibility is age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 3. Retirement Plan (continued)

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%. 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. 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. The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

For 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. Virginia Sickness and Disability Program (VSDP) members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

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.

Plan 2

Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010 and they were not vested as of January 1, 2013. Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP. Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. 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.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 3. Retirement Plan (continued)

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. Members are always 100% vested in the contributions that they make.

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. 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. A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee. The service retirement multiplier is the 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. The normal retirement age is the normal social security retirement age. The earliest unreduced retirement eligibility is the normal social security retirement age with at least five years (60 months) of creditable service or when age and service equal 90. The earliest reduced retirement eligibility is age 60 with at least five years (60 months) of creditable service.

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%. 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. 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. The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

For 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. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

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.

NOTES TO FINANCIAL STATEMENTS

Note 3. Retirement Plan (continued)

Hybrid Retirement Plan

The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see “Eligible Members”)

- 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.

Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

- Political subdivision employees other than hazardous duty employees who are covered by enhanced benefits.
- Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 – April 30, 2014; the plan’s effective date for opt-in members was July 1, 2014.

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.

A member’s retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee’s creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan and the employer is required to match those voluntary contributions according to specified percentages.

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. Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 3. Retirement Plan (continued)

For the defined benefit component, 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. 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. A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee. The retirement multiplier for the defined benefit component is 1.00%. The normal retirement age is the normal social security retirement age. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. The earliest unreduced retirement eligibility is the normal social security retirement age with at least five years (60 months) of creditable service or when the age and service equal 90. The earliest reduced retirement eligibility is age 60 with at least five years (60 months) of creditable service. 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%. 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. 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.

The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

Employees of political subdivisions (including Plan 1 and Plan 2 op-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits. 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. The following exceptions apply:

- Hybrid Retirement Plan members are ineligible for ported service.
- The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.
- Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 3. Retirement Plan (continued)

For the 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. Members are eligible to receive distributions upon leaving employment, subject to restrictions. Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan. Defined contributions 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. Members are always 100% vested in the contributions that they make.

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.

- 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.
- Distribution is not required by law until age 70 ½.

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:

Inactive members or their beneficiaries currently receiving benefits	3
Inactive members:	
Vested inactive members	0
Non-vested Inactive members	0
Inactive members active elsewhere in VRS	<u>1</u>
Total inactive members	1
Active members	<u>2</u>
Total covered employees	<u><u>6</u></u>

Contributions

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

The Library's contractually required contribution rate for the year ended June 30, 2015 was 14.67% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 3. Retirement Plan (continued)

This rate, when combined with employee contributions was expected to finance the costs of benefits earned by the employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Library were \$12,539 and \$10,405 for the years ended June 30, 2015 and June 30, 2014, respectively.

Net Pension Liability

The Library's 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

The total pension liability in the Library'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%
Investment rate of return	7.0 Percent, net of pension plan investment expense, including inflation*

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

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 3. Retirement Plan (continued)

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 2, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:

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

All Others (Non10 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

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:

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

	Inflation	2.50%
*Expected arithmetic nominal return		8.33%

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

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 3. Retirement Plan (continued)

Discount Rate

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

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2013	\$ 407,346	\$ 296,404	\$ 110,942
Changes for the year:			
Service cost	7,759		7,759
Interest	27,779		27,779
Differences between expected and actual experience	-		-
Contributions – employer		10,405	(10,405)
Contributions – employee		4,501	(4,501)
Net investment income		46,444	(46,444)
Benefit payments, including refunds of employee contributions	(20,995)	(20,995)	
Administrative expenses		(253)	253
Other changes	-	3	(3)
Net changes	14,543	40,105	(25,562)
Balances at June 30, 2014	\$ 421,889	\$ 336,509	\$ 85,380

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:

	Rate		
	(6.00%)	(7.00%)	(8.00%)
Net pension liability	\$ 134,538	\$ 85,380	\$ 44,464

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 3. Retirement Plan (continued)

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

For the year ended June 30, 2015, the Library recognized pension expense of \$5,577. At June 30, 2015, the Library reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	20,734
Employer contributions subsequent to the measurement date	<u>12,539</u>	<u>-</u>
Total	<u>\$ 12,539</u>	<u>\$ 20,734</u>

The amount of \$12,539 reported as deferred outflows of resources related to pensions resulting from the Library's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30

2016	\$ (5,184)
2017	(5,184)
2018	(5,184)
2019	(5,182)
Thereafter	<u>-</u>
	<u>\$ (20,734)</u>

Note 4. Major Sources of Support

The Library primarily receives support from the Commonwealth of Virginia, the City of Covington and the County of Alleghany and any significant reduction in the level of this support may have an adverse effect on the Library's operations.

State support must be expended in accordance with The Library of Virginia approved state aid budget, as detailed below:

	<u>Budget</u>	<u>Expenditures</u>
Books and Materials	\$ 48,123	\$ 49,445
Salaries	10,000	9,999
Internet Access	1,750	1,603
Equipment	862	170
Contractual Services	<u>8,000</u>	<u>7,518</u>
	<u>\$ 68,735</u>	<u>\$ 68,735</u>

Local support is appropriated by the City of Covington and Alleghany County through their annual budgets. Funding levels are expected to remain fairly level from Alleghany County, the City of Covington, and the Commonwealth of Virginia for the fiscal year ending June 30, 2015. With the level of funding remaining low relative to operating expenses, the Library is continually reviewing its options for lowering operating expenses and/or obtaining other sources of financial support, mainly through foundation grants and local contributions.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 5. Investment Return

Investment return consists of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest earned on cash and certificates of deposit	<u>\$ 2,836</u>	<u>\$ 3,264</u>

Note 6. Collections

In conformity with the practice followed by many libraries, books and materials purchased and donated are not included in the statement of net assets. The values of the existing inexhaustible collections are not readily determinable; therefore, the Library has not capitalized them. The Library believes that the net difference between capitalizing and depreciating collections and expensing the amounts paid for collections each year is not material to the financial position of the Library. During the years ended June 30, 2015 and 2014, purchase of books and materials totaled \$58,464 and \$55,225, respectively, and the proceeds from deaccessions totaled \$0 in both years. Any proceeds from deaccessions are included in fees and fines revenue in the statement of support, revenues, expenses, and changes in net assets.

Note 7. Concentration of Credit Risk

At June 30, 2015, the carrying amount of the Library's cash accounts and certificates of deposit with financial institutions was \$574,907 and the bank balance was \$597,710. The total amount on deposit exceeded the insurance limits of the Federal Deposit Insurance Corporation by \$293,255.

Note 8. Adoption of New Accounting Standards

In the fiscal year ended June 30, 2015, the Library adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB 68*. GASB 68 establishes standards of accounting and reporting for defined benefit pension plans administered through a trust or similar arrangement.

GASB 68 requires the Library to report net pension liabilities and pension expense for the Virginia Retirement System (VRS) agent multi-employer plan on the financial statements. The VRS plan's net measurement date for net pension liabilities is June 30, 2014. Therefore, contributions made during fiscal year 2015 are reported as deferred outflows of resources in accordance with GASB Statement No. 71. GASB 68 also requires additional disclosures and new required supplementary information. (See Note 3 for additional information about the Library's retirement plan.)

In connection with the implementation of GASB 68, the Library has recorded a prior period adjustment to net assets as follows:

NET ASSETS:

Beginning balance, July 1, 2013, as originally reported	\$ 1,592,066
Adjustment to record net pension liability	<u>(100,537)</u>
Beginning balance, July 1, 2013, as restated	<u>\$ 1,491,529</u>

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 9. The Charles Pinckney Jones Memorial Library Foundation

As explained in Note 1, The Charles Pinckney Jones Memorial Library Foundation was established in order to maintain separate accountability for revenues received from nongovernmental funding sources. In 2001 the Library initiated a major building expansion and a corresponding fundraising drive. After the expansion was substantially completed, a balance of funds received from the public for the project and a balance of general contributions designated by the Library board for building expenditures remained in net assets. These funds were transferred to the Library Foundation and are used exclusively for building improvements and maintenance for the benefit of the Library. The details of net assets and revenues of the Library Foundation as of June 30, 2015 and 2014 that are included in the basic financial statements are presented below.

	<u>2015</u>	<u>2014</u>
CURRENT ASSETS		
Cash-interest bearing accounts	\$ 111,481	\$ 115,658
Certificate of deposit	431,774	431,774
Accrued interest receivable	-	7
Total assets	<u>\$ 543,255</u>	<u>\$ 547,439</u>
NET ASSETS		
Unrestricted:		
Designated for investment	\$ 163,177	\$ 163,177
Designated for building	61,285	61,285
Unappropriated	<u>115,527</u>	<u>113,562</u>
Total unrestricted	\$ 339,989	\$ 338,024
Restricted for building expansion	<u>203,266</u>	<u>209,415</u>
Total net assets	<u>\$ 543,255</u>	<u>\$ 547,439</u>
Non-operating revenue and expenses:		
Investment return	\$ 2,817	\$ 3,230
Legal and professional expenses	(4,918)	(3,500)
Electronic resources	(-)	(900)
License fee	<u>(25)</u>	<u>(25)</u>
Net revenue (expense)	\$(2,126)	\$(1,195)
Net assets, beginning of year	547,439	549,634
Less transfers to Library for asset expenditures	<u>(2,058)</u>	<u>(1,000)</u>
Net assets, end of year	<u>\$ 543,255</u>	<u>\$ 547,439</u>

Note 10. Friends of the Library

Friends of the Library revenue consists of the following for the years ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Membership dues	\$ 5,750	\$ 3,655
Contributions	111	400
Fundraising revenues, net	<u>1,856</u>	<u>1,331</u>
Total revenue	<u>\$ 7,717</u>	<u>\$ 5,386</u>
Less expenses		
Supplies and postage	\$ 603	\$ 88
Miscellaneous	46	34
Library programs	<u>1,751</u>	<u>854</u>
Total expenses	<u>\$ 2,400</u>	<u>\$ 976</u>
Net revenue	<u>\$ 5,317</u>	<u>\$ 4,410</u>

During the fiscal years ended June 30, 2015 and 2014, Friends of the Library donated \$3,786 and \$3,230, respectively, to the Library. These amounts have been eliminated in these blended financial statements.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.
SCHEDULE OF CHANGES IN NET PENSION
LIABILITY AND RELATED RATIOS
Year Ended June 30, 2015

	<u>2014</u>
Total pension liability	
Service cost	\$ 7,759
Interest	27,779
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit Payments, including refunds of employee contributions	<u>(20,995)</u>
Net change in total pension liability	\$ 14,543
Total pension liability – beginning	407,346
Total pension liability – ending (a)	<u>421,889</u>
Plan fiduciary net position	
Contributions – employer	\$ 10,405
Contributions – employee	4,501
Net investment income	46,444
Benefit Payments, including refunds of employee contributions	(20,995)
Administrative expense	(253)
Other	<u>3</u>
Net change in plan fiduciary net position	\$ 40,105
Plan fiduciary net position – beginning	296,404
Plan fiduciary net position – ending (b)	<u>336,509</u>
Net pension liability – ending (a) – (b)	<u>\$ 85,380</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>79.76%</u>
Covered-employee payroll	<u>\$ 89,752</u>
Net pension liability as a percentage of covered-employee payroll	<u>95.13%</u>

See Notes to Required Supplementary Information.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

SCHEDULE OF EMPLOYER CONTRIBUTIONS
Year Ended June 30, 2015

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2015	\$ 12,539	\$ 12,539	\$ -	\$ 85,476	14.67%

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.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2015

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