

TOWN OF RICH CREEK, VIRGINIA

FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2014

TOWN OF RICH CREEK, VIRGINIA
FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2014

TABLE OF CONTENTS

INTRODUCTORY SECTION

	<u>Page</u>
List of Elected and Appointed Officials	1

FINANCIAL SECTION

Independent Auditors' Report	2-4
------------------------------------	-----

	<u>Exhibit</u>	<u>Page</u>
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Position	1	5
Statement of Activities	2	6
Fund Financial Statements:		
Balance Sheet - Governmental Fund	3	7
Reconciliation of the Balance Sheet of Governmental Fund to the Statement of Net Position	4	8
Statement of Revenues, Expenditures, and Change in Fund Balance - Governmental Fund.....	5	9
Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund Balances of Governmental Fund to the Statement of Activities	6	10
Statement of Net Position - Proprietary Funds	7	11
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds	8	12
Statement of Cash Flows - Proprietary Funds	9	13
Statement of Net Position - Fiduciary Funds	10	14
Statement of Changes in Fiduciary Net Position	11	15
Notes to Financial Statements		16-42

Required Supplementary Information:

Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual - General Fund	12	43
Schedule of Pension Funding Progress	13	44

Supporting Schedules:

	<u>Schedule</u>	<u>Page</u>
Schedule of Revenues - Budget and Actual - Governmental Fund	1	45-46
Schedule of Expenditures - Budget and Actual - Governmental Fund	2	47

TOWN OF RICH CREEK, VIRGINIA
FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2014

TABLE OF CONTENTS (CONTINUED)

FINANCIAL SECTION (Continued)

Other Statistical Information:

	<u>Table</u>	<u>Page</u>
Government-wide Information:		
Government-wide Expenses by Function.....	1	48
Government-wide Revenues	2	49
Fund Information:		
General Governmental Expenditures by Function	3	50
General Governmental Revenues by Source	4	51
Property Tax Levies and Collections.....	5	52
Assessed Value of Taxable Property	6	53
Property Tax Rates	7	54
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita	8	55
Computation of Legal Debt Margin.....	9	56

COMPLIANCE SECTION

	<u>Page</u>
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	57-58
Schedule of Findings and Responses	59

INTRODUCTORY SECTION

TOWN OF RICH CREEK, VIRGINIA

TOWN COUNCIL

William C. Kantsios, Mayor
Joyce Crawford, Vice-Mayor
Mark Clemons
Stuart Helm
Darlene French
Teresa W. Guynn

OTHER OFFICIALS

Roger Jones Town Manager
Pam Kantsios Town Treasurer/Clerk

FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditor's Report

To the Members of Council
Town of Rich Creek, Virginia
Rich Creek, 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 Town of Rich Creek, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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. 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 auditors' 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 Town of Rich Creek, Virginia, as of June 30, 2014, 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 budgetary comparison information and schedule of pension funding progress as listed in the table of contents 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. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Town of Rich Creek, Virginia's basic financial statements. The introductory section, supporting schedules, and other statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supporting schedules 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 supporting schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and other statistical information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014, on our consideration of Town of Rich Creek, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Rich Creek, Virginia's internal control over financial reporting and compliance.

Robinson, Turner, Co. Associates

Blacksburg, Virginia
November 14, 2014

Basic Financial Statements

Town of Rich Creek, Virginia
Statement of Net Position
June 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ -	\$ 1,106,894	\$ 1,106,894
Receivables (net of allowance for uncollectibles):			
Taxes receivable	9,266	-	9,266
Accounts receivable	13,596	46,784	60,380
Internal balances	364,919	(364,919)	-
Intergovernmental receivable	93,621	-	93,621
Capital assets (net of accumulated depreciation):			
Land	4,600	39,679	44,279
Buildings	68,278	-	68,278
Improvements other than buildings	133,942	-	133,942
Machinery and equipment	9,175	50,413	59,588
Vehicles	82,832	43,063	125,895
Water system	-	152,429	152,429
Sewer system	-	5,100,258	5,100,258
Total assets	<u>\$ 780,229</u>	<u>\$ 6,174,601</u>	<u>\$ 6,954,830</u>
LIABILITIES			
Reconciled cash overdraft	\$ 74,446	\$ -	\$ 74,446
Accounts payable	7,263	11,196	18,459
Customers' deposits	-	25,624	25,624
Accrued interest payable	-	5,532	5,532
Construction payable	77,999	-	77,999
Long-term liabilities:			
Due within one year	3,419	52,826	56,245
Due in more than one year	1,139	2,351,689	2,352,828
Total liabilities	<u>\$ 164,266</u>	<u>\$ 2,446,867</u>	<u>\$ 2,611,133</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue - property taxes	\$ 312	\$ -	\$ 312
NET POSITION			
Net investment in capital assets	\$ 298,827	\$ 2,984,729	\$ 3,283,556
Unrestricted	316,824	743,005	1,059,829
Total net position	<u>\$ 615,651</u>	<u>\$ 3,727,734</u>	<u>\$ 4,343,385</u>

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

Town of Rich Creek, Virginia
Statement of Activities
For the Year Ended June 30, 2014

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating		Governmental Activities	Primary Government	
			Grants and Contributions	Capital Grants and Contributions		Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
General government administration	\$ 182,621	\$ -	\$ -	\$ -	\$ (182,621)	\$ -	\$ (182,621)
Public safety	151,836	14,674	28,482	-	(108,680)	-	(108,680)
Public works	125,987	-	-	15,797	(110,190)	-	(110,190)
Parks, recreation, and cultural	7,420	10,377	-	-	2,957	-	2,957
Community development	175,951	-	-	178,246	2,295	-	2,295
Interest on long-term debt	21	-	-	-	(21)	-	(21)
Total governmental activities	\$ 643,836	\$ 25,051	\$ 28,482	\$ 194,043	\$ (396,260)	\$ -	\$ (396,260)
Business-type activities:							
Water and Sewer	\$ 717,019	\$ 441,963	\$ 19,985	\$ 136,644	\$ -	\$ (118,427)	\$ (118,427)
Total primary government	\$ 1,360,855	\$ 467,014	\$ 48,467	\$ 330,687	\$ (396,260)	\$ (118,427)	\$ (514,687)
General revenues:							
General property taxes					\$ 120,881	\$ -	\$ 120,881
Other local taxes:							
Local sales and use taxes					32,068	-	32,068
Consumers' utility taxes					15,924	-	15,924
Business license taxes					56,569	-	56,569
Restaurant food taxes					42,184	-	42,184
Bank stock tax					27,832	-	27,832
Other local taxes					13,563	-	13,563
Unrestricted revenues from use of money and property					6,389	873	7,262
Miscellaneous					34,634	-	34,634
Grants and contributions not restricted to specific programs					20,355	-	20,355
Total general revenues					\$ 370,399	\$ 873	\$ 371,272
Change in net position					\$ (25,861)	\$ (117,554)	\$ (143,415)
Net position - beginning					641,512	3,845,288	4,486,800
Net position - ending					\$ 615,651	\$ 3,727,734	\$ 4,343,385

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

Town of Rich Creek, Virginia
Balance Sheet
Governmental Fund
June 30, 2014

General

ASSETS

Receivables (net of allowance for uncollectibles):

Taxes receivable	\$ 9,266
Accounts receivable	13,596
Due from other funds	364,919
Intergovernmental receivable	93,621
Total assets	<u>\$ 481,402</u>

LIABILITIES

Reconciled cash overdraft	\$ 74,446
Accounts payable	7,263
Construction payable	77,999
Total liabilities	<u>\$ 159,708</u>

DEFERRED INFLOWS OF RESOURCES

Unavailable revenue - property taxes	<u>\$ 10,606</u>
--------------------------------------	------------------

FUND BALANCE

Unassigned	\$ 311,088
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 481,402</u>

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

Town of Rich Creek, Virginia
Reconciliation of the Balance Sheet of Governmental Fund
to the Statement of Net Position
June 30, 2014

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

Total fund balance per Exhibit 3 - Balance Sheet - Governmental Fund	\$ 311,088
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	298,827
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable in the funds.	
Unavailable revenue - property taxes	10,294
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	
Compensated absences	(4,558)
Net position of governmental activities	<u>\$ 615,651</u>

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

Town of Rich Creek, Virginia
Statement of Revenues, Expenditures, and Change in Fund Balance
Governmental Fund
For the Year Ended June 30, 2014

	<u>General</u>
REVENUES	
General property taxes	\$ 123,365
Other local taxes	188,140
Fines and forfeitures	14,674
Revenue from the use of money and property	6,389
Charges for services	10,377
Miscellaneous	34,634
Intergovernmental revenues:	
Commonwealth	47,499
Federal	195,381
Total revenues	<u>\$ 620,459</u>
EXPENDITURES	
Current:	
General government administration	\$ 178,115
Public safety	105,732
Public works	114,987
Parks, recreation, and cultural	4,714
Community development	175,951
Debt service:	
Principal retirement	1,995
Interest and other fiscal charges	21
Total expenditures	<u>\$ 581,515</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 38,944</u>
Net change in fund balance	\$ 38,944
Fund balance - beginning	272,144
Fund balance - ending	<u><u>\$ 311,088</u></u>

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

Town of Rich Creek, Virginia
Reconciliation of the Statement of Revenues,
Expenditures, and Change in Fund Balances of Governmental Fund
to the Statement of Activities
For the Year Ended June 30, 2014

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

Net change in fund balances - total governmental funds	\$ 38,944
--	-----------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the depreciation exceeded capital outlays in the current period.

Depreciation expense	(66,901)
----------------------	----------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in unavailable revenue - property taxes	(2,484)
--	---------

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal repayments:	
Capital leases	1,995

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.

Decrease (Increase) in compensated absences	2,585
---	-------

Change in net position of governmental activities	\$ (25,861)
---	-------------

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

Town of Rich Creek, Virginia
Statement of Net Position
Proprietary Funds
June 30, 2014

	Proprietary Funds		
	Water and Sewer	Glen Creek STP	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,159,758	\$ -	\$ 1,159,758
Accounts receivables, net of allowance for uncollectibles	40,415	6,369	46,784
Total current assets	\$ 1,200,173	\$ 6,369	\$ 1,206,542
Noncurrent assets:			
Capital assets:			
Land	\$ 39,679	\$ -	\$ 39,679
Sewer system	6,200,741	-	6,200,741
Water system	1,114,182	-	1,114,182
Vehicles	81,307	-	81,307
Equipment	68,758	-	68,758
Less accumulated depreciation	(2,118,825)	-	(2,118,825)
Total capital assets	\$ 5,385,842	\$ -	\$ 5,385,842
Total noncurrent assets	\$ 5,385,842	\$ -	\$ 5,385,842
Total assets	\$ 6,586,015	\$ 6,369	\$ 6,592,384
LIABILITIES			
Current liabilities:			
Reconciled cash overdraft	\$ -	\$ 52,864	\$ 52,864
Accounts payable	9,233	1,963	11,196
Customers' deposits	25,624	-	25,624
Accrued interest payable	5,532	-	5,532
Due to General fund	364,919	-	364,919
Compensated absences - current portion	2,552	-	2,552
Bonds payable - current portion	50,274	-	50,274
Total current liabilities	\$ 458,134	\$ 54,827	\$ 512,961
Noncurrent liabilities:			
Bonds payable - net of current portion	\$ 2,350,839	\$ -	\$ 2,350,839
Compensated absences - net of current portion	850	-	850
Total noncurrent liabilities	\$ 2,351,689	\$ -	\$ 2,351,689
Total liabilities	\$ 2,809,823	\$ 54,827	\$ 2,864,650
NET POSITION			
Net investment in capital assets	\$ 2,984,729	\$ -	\$ 2,984,729
Unrestricted	791,463	(48,458)	743,005
Total net position	\$ 3,776,192	\$ (48,458)	\$ 3,727,734

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

Town of Rich Creek, Virginia
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2014

	Proprietary Funds		
	Water and <u>Sewer</u>	Glen Creek <u>STP</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services:			
Water revenues	\$ 183,501	\$ -	\$ 183,501
Sewer revenues	245,827	-	245,827
Water and sewer connection fees	11,183	-	11,183
Glen Lyn revenues	-	19,985	19,985
Miscellaneous revenue	1,452	-	1,452
Total operating revenues	<u>\$ 441,963</u>	<u>\$ 19,985</u>	<u>\$ 461,948</u>
OPERATING EXPENSES			
Salaries and fringes	\$ 82,051	\$ 53,500	\$ 135,551
Utilities	11,459	28,866	40,325
Purchase of water	101,656	-	101,656
Supplies, maintenance and repairs	29,084	40,121	69,205
Office expense	813	690	1,503
Insurance	1,291	5,570	6,861
Professional services	-	2,917	2,917
Capital outlay	35,836	-	35,836
Miscellaneous	9,009	305	9,314
Depreciation	242,442	-	242,442
Total operating expenses	<u>\$ 513,641</u>	<u>\$ 131,969</u>	<u>\$ 645,610</u>
Operating income (loss)	<u>\$ (71,678)</u>	<u>\$ (111,984)</u>	<u>\$ (183,662)</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	\$ 873	\$ -	\$ 873
Interest expense	(71,409)	-	(71,409)
Total nonoperating revenues (expenses)	<u>\$ (70,536)</u>	<u>\$ -</u>	<u>\$ (70,536)</u>
Income before contributions and transfers	<u>\$ (142,214)</u>	<u>\$ (111,984)</u>	<u>\$ (254,198)</u>
Capital contributions	\$ 136,644	\$ -	\$ 136,644
Transfers in	-	63,526	63,526
Transfers out	(63,526)	-	(63,526)
Change in net position	<u>\$ (69,096)</u>	<u>\$ (48,458)</u>	<u>\$ (117,554)</u>
Total net position - beginning	\$ 3,845,288	\$ -	\$ 3,845,288
Total net position - ending	<u>\$ 3,776,192</u>	<u>\$ (48,458)</u>	<u>\$ 3,727,734</u>

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

Town of Rich Creek, Virginia
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2014

	Proprietary Funds		
	Water and Sewer	Glen Creek STP	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 564,352	\$ 26,283	\$ 590,635
Payments to suppliers	(203,185)	(76,506)	(279,691)
Payments to and for employees	(83,625)	(53,500)	(137,125)
Net cash provided by (used for) operating activities	\$ 277,542	\$ (103,723)	\$ 173,819
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	\$ (63,526)	\$ -	\$ (63,526)
Transfers from other funds	-	63,526	63,526
Net cash provided by (used for) noncapital financing activities	\$ (63,526)	\$ 63,526	\$ -
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital asset additions	\$ (421,755)	\$ -	\$ (421,755)
Principal payments on bonds	(40,530)	-	(40,530)
Capital contributions	405,452	-	405,452
Interest payments	(109,312)	-	(109,312)
Net cash provided by (used for) capital and related financing activities	\$ (166,145)	\$ -	\$ (166,145)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received	\$ 873	\$ -	\$ 873
Net increase (decrease) in cash and cash equivalents	\$ 48,744	\$ (40,197)	\$ 8,547
Cash and cash equivalents - beginning	1,111,014	(12,667)	1,098,347
Cash and cash equivalents - ending	\$ 1,159,758	\$ (52,864)	\$ 1,106,894
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ (71,678)	\$ (111,984)	\$ (183,662)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation expense	\$ 242,442	\$ -	\$ 242,442
(Increase) decrease in accounts receivable	(12,195)	6,298	(5,897)
Increase (decrease) in customer deposits	1,526	-	1,526
Increase (decrease) in operating accounts payable	(14,037)	1,963	(12,074)
Increase (decrease) in compensated absences	(1,574)	-	(1,574)
Increase (decrease) in due to other funds	133,058	-	133,058
Total adjustments	\$ 349,220	\$ 8,261	\$ 357,481
Net cash provided by (used for) operating activities	\$ 277,542	\$ (103,723)	\$ 173,819
Noncash investing, capital, and financing activities:			
Contributions of capital assets from Town of Glen Lyn			\$ 31,875

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

Town of Rich Creek, Virginia
Statement of Net Position
Fiduciary Funds
June 30, 2014

	<u>Cemetery Trust Fund</u>	<u>Agency Fund Library Fund</u>
ASSETS		
Cash and cash equivalents	\$ 15,801	\$ 2,809
Certificates of Deposit	131,712	-
Total assets	<u>\$ 147,513</u>	<u>\$ 2,809</u>
LIABILITIES		
Amounts held for Library	<u>\$ -</u>	<u>\$ 2,809</u>
NET POSITION		
Held in trust for Cemetery expenses	<u>\$ 147,513</u>	<u>\$ -</u>

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

Town of Rich Creek, Virginia
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2014

	<u>Cemetery Trust Fund</u>
ADDITIONS	
Contributions:	
Private donations	\$ 4,524
DEDUCTIONS	
Administrative expenses	\$ 880
Change in net position	\$ 3,644
Net position - beginning	143,869
Net position - ending	<u>\$ 147,513</u>

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

TOWN OF RICH CREEK, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1 - Summary of Significant Accounting Policies:

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

A. Financial Reporting Entity:

Town of Rich Creek, Virginia is a municipal corporation governed by an elected six-member Town Council. The accompanying financial statements present the Town. Related organizations, if any, are described below.

Blended Component Units - None

Discretely Presented Component Units - None

Related Organizations - None

Jointly Governed Organizations - Town of Rich Creek along with the County of Giles, the Towns of Pearisburg, Narrows, Glen Lyn, and Pembroke, participate in supporting Giles County Public Service Authority. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions.

B. Government-wide and Fund Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Net Position is designed to display the financial position of the primary government (government and business-type activities). Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Position and report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net position of a government will be broken down into three categories: 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

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

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) which are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity.

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

The Town's fiduciary funds are presented in the fund financial statements by type. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as unavailable revenues.

Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the Town.

The remainder of this page is left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

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

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

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

The government reports the following major governmental funds:

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

The government reports the following major proprietary funds:

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

The Town entered into an agreement with Town of Glen Lyn, Virginia to obtain a low interest United States Department of Agriculture (USDA) - Rural Development loan to construct a jointly owned and operated wastewater treatment facility. The costs to construct the facility were split by the engineers and each Town paid their appropriate share. The portion of the facility and loan belonging to Town of Rich Creek, Virginia is included in the above mentioned water and sewer fund.

However, the Town pays 100% of the operating costs for the facility. These costs are paid for in the Glen Creek STP fund. These expenses are reimbursed from the Town's water and sewer fund and from Town of Glen Lyn, Virginia based on usage.

Additionally, the Town reports the following fund types:

Fiduciary funds account for assets held by the Town in a trustee capacity or as agent or custodian for individuals, private organizations, other governmental units or other funds. Agency funds include the Library fund and the Town also accounts for Cemetery revenues and expenses in the Cemetery Trust fund.

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

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

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

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

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance:

1. Deposits and Investments

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

Investments for the Town are reported at fair value. The State Treasurer's Local Government Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Property Taxes

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Real estate taxes are payable on March 15th. Personal property taxes are due and collectible annually on March 15th. The Town bills and collects its own property taxes.

3. Allowance for Uncollectible Accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$7,560 for property taxes and \$37,539 for water and sewer receivables at June 30, 2014.

4. Use of Estimates

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

The remainder of this page is left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 1 - Summary of Significant Accounting Policies: (continued)**D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance: (continued)****5. Capital Assets**

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

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. \$0 and \$47,576 was capitalized during the current and previous year, respectively.

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

<u>Assets</u>	<u>Years</u>
Buildings	50
Building improvements	20-40
Structures, lines, and accessories	20-40
Machinery and equipment	5-15
Land improvements	15

6. Compensated Absences

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

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

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance:
(continued)

7. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town does not have any deferred outflows of resources as of June 30, 2014.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has one type of item that qualifies for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30 and amounts prepaid and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, amounts prepaid are reported as deferred inflows of resources.

9. Restricted Assets

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

The remainder of this page is left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

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

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance:
(continued)

10. Fund Equity

The Town reports fund balance in accordance with GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

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

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

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

11. Net Position

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

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

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance:
(continued)

12. Net Position Flow Assumption

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

13. Deferred/Unavailable Revenue

Deferred/unavailable revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria has not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Unavailable revenue totaling \$10,294 is comprised of the following:

Unavailable Property Tax Revenue - Unavailable revenue representing uncollected tax billings not available for funding of current expenditures totaled \$10,294 at June 30, 2014.

Prepaid Property Taxes - Property taxes due subsequent to June 30, 2014 but paid in advance by the taxpayers totaled \$312 at June 30, 2014.

Note 2 - Stewardship, Compliance, and Accountability:

A. Budgetary information:

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

1. Prior to June 1, the Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them. The General Fund has a legally adopted budget.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the fund level. Only the Town Council can revise the appropriation for the General Fund. The Town Manager is authorized to transfer budgeted amounts within general government departments.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 2 - Stewardship, Compliance, and Accountability: (continued)

5. Formal budgetary integration is employed as a management control device during the year for the General Fund.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30 for all Town units. No supplemental appropriations were necessary during this fiscal year.
8. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to commit that portion of the applicable appropriations, is not part of the Town's accounting system.

B. Excess of expenditures over appropriations:

For the year ended June 30, 2014, the general fund did not have expenditures in excess of appropriations.

C. Deficit fund equity:

At June 30, 2014, the Glen Creek STP fund was the only fund with deficit fund equity.

Note 3 - Deposits and Investments:

A. Deposits:

Deposits with banks are covered by the Federal Deposit Insurance Corporations (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.

B. Investments:

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). At June 30, 2014, the Town did not have any investments.

The remainder of this page is left blank intentionally.

TOWN OF RICH CREEK, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 4 - Intergovernmental Receivables:

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

	<u>General Fund</u>
<u>Commonwealth of Virginia:</u>	
Local sales tax	\$ 2,987
Communication sales tax	661
<u>Federal Government:</u>	
CDBG Grant	77,999
TEA-21 Grant	11,974
	<u> </u>
Total	\$ 93,621

Note 5 - Interfund Obligations:

<u>Fund</u>	<u>Due to General Fund</u>	<u>Due from Proprietary Fund</u>
General Fund	\$ -	\$ 364,919
	<u> </u>	<u> </u>
Proprietary Fund	\$ 364,919	\$ -
	<u> </u>	<u> </u>

The Town uses the General Fund to pay all salaries and benefits. The amount noted above represents amounts paid out of the General Fund to personnel of the Water and Sewer Fund for fiscal years ended June 30, 2013 and 2014.

Note 6 - Long-term Obligations:

A. Primary Government - Governmental Activity Indebtedness:

The following is a summary of long-term obligation transactions of the Town for the year ended June 30, 2014:

	Balance July 1, 2013	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2014
Capital leases	\$ 1,995	\$ -	\$ (1,995)	\$ -
Compensated absences	7,143	2,772	(5,357)	4,558
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$ 9,138	\$ 2,772	\$ (7,352)	\$ 4,558

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**Note 6 - Long-term Obligations: (continued)***A. Governmental Activity Indebtedness: (continued)*

Details of long-term indebtedness:

	Total Amount	Amount Due Within One Year
Compensated absences	\$ 4,558	\$ 3,419

B. Enterprise Activity Indebtedness:

The following is a summary of long-term obligation transactions of the Enterprise Fund for the year ended June 30, 2014:

	Balance July 1, 2013	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2014
Revenue bonds	\$ 2,441,643	\$ -	\$ (40,530)	\$ 2,401,113
Compensated absences	4,976	2,158	(3,732)	3,402
Total	\$ 2,446,619	\$ 2,158	\$ (44,262)	\$ 2,404,515

The remainder of this page is left blank intentionally.

TOWN OF RICH CREEK, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 6 - Long-term Obligations: (continued)

B. Enterprise Activity Indebtedness: (continued)

Details of long-term indebtedness:

	Total Amount	Amount Due Within One Year
<u>Revenue Bonds Payable:</u>		
\$766,700 Rural Development Bond issued October 4, 1994. Monthly principal and interest payments of \$3,520 began on December 12, 1996 and continue until October 2034, interest accrues at 4.5%.	\$ 520,496	\$ 19,211
 \$1,905,000 Rural Development Bond issued September 1, 2011. Interest only payments are due on September 1, 2012 and 2013 totaling \$38,905 and \$47,625, respectively. Combined principal and interest payments of \$6,477 began on October 1, 2013 and are due monthly through August, 2051. Interest on the bond accrues at 2.5%.	 1,880,617	 31,063
Total Revenue Bonds Payable	\$ 2,401,113	\$ 50,274
<u>Other Obligations:</u>		
Compensated absences	\$ 3,402	\$ 2,552
Total Long-term Obligations	\$ 2,404,515	\$ 52,826

The remainder of this page is left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 6 - Long-term Obligations: (continued)*B. Enterprise Activity Indebtedness: (continued)*

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

Year Ending June 30,	Revenue Bonds	
	Principal	Interest
2015	\$ 50,274	\$ 69,690
2016	51,942	68,022
2017	53,670	66,294
2018	55,461	64,503
2019	57,318	62,646
2020-2024	316,906	282,914
2025-2029	374,713	225,107
2030-2034	356,011	159,408
2035-2039	269,213	119,407
2040-2044	305,019	83,601
2045-2049	345,586	43,033
2050-2052	165,000	4,715
Totals	<u>\$ 2,401,113</u>	<u>\$ 1,249,340</u>

Note 7 - Pension Plan:**A. Plan Description:**

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

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

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

VRS – PLAN 1

- Plan Overview** - 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 7 - Pension Plan: (continued)

A. Plan Description: (continued)

VRS – PLAN 1 (CONTINUED)

2. **Eligible Members** - Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.
3. **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.

The Hybrid Retirement Plan's effective date for eligible VRS 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 VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.

4. **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. 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.
5. **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.
6. **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.

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

Note 7 - Pension Plan: (continued)

A. Plan Description: (continued)

VRS – PLAN 1 (CONTINUED)

7. **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.

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.

8. **Average Final Compensation** - A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

9. **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.

10. **Normal Retirement Age** - Age 65.

11. **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.

12. **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.

13. **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%.

14. **Eligibility** - For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full 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.

Note 7 - Pension Plan: (continued)

A. Plan Description: (continued)

VRS – PLAN 1 (CONTINUED)

15. Exceptions to COLA Effective Dates - 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.

16. 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.

Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

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

17. 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.

The remainder of this page is left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 7 - Pension Plan: (continued)

A. Plan Description: (continued)

VRS – PLAN 2

1. **Plan Overview** - VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.
2. **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.
3. **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.

The Hybrid Retirement Plan's effective date for eligible VRS 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 VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.

4. **Retirement Contributions** - Same as VRS Plan 1—Refer to Section 4.
5. **Creditable Service** - Same as VRS Plan 1— Refer to Section 5.
6. **Vesting** - Same as VRS Plan 1—Refer to Section 6.
7. **Calculating the Benefit** - Same as VRS Plan 1—Refer to Section 7.
8. **Average Final Compensation** - A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.
9. **Service Retirement Multiplier** - Same as Plan1 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.
10. **Normal Retirement Age** - Normal Social Security retirement age.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 7 - Pension Plan: (continued)

A. Plan Description: (continued)

VRS – PLAN 2 (CONTINUED)

- 11. 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.

- 12. 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.

- 13. 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%.

- 14. Eligibility** - Same as VRS Plan 1–Refer to Section 14.

- 15. Exceptions to COLA Effective Dates** - Same as VRS Plan 1–Refer to Section 15.

- 16. 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.

Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

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

- 17. Purchase of Prior Service** - Same as VRS Plan 1–Refer to Section 17.

The remainder of this page is left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 7 - Pension Plan: (continued)

A. Plan Description: (continued)

HYBRID RETIREMENT PLAN

1. **Plan Overview** - 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”)
 - 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.
2. **Eligible Members** - Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:
 - 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 1-April 30, 2014; the plan’s effective date for opt-in members was July 1, 2014

The remainder of this page is left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 7 - Pension Plan: (continued)

A. Plan Description: (continued)

HYBRID RETIREMENT PLAN (CONTINUED)

3. *Non-Eligible Members - Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

- 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

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.

4. 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 contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

5. Creditable Service

Defined Benefit Component - 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 Contribution Component - Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 7 - Pension Plan: (continued)

A. Plan Description: (continued)

HYBRID RETIREMENT PLAN (CONTINUED)

6. Vesting

Defined Benefit Component - 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.

Defined Contribution Component - 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.

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 70½.

7. Calculating the Benefit

Defined Benefit Component - Same as VRS Plan 1—Refer to Section 7.

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.

- 8. Average Final Compensation** - Same as VRS Plan 2—Refer to Section 8. It is used in the retirement formula for the defined benefit component of the plan.

Note 7 - Pension Plan: (continued)

A. Plan Description: (continued)

HYBRID RETIREMENT PLAN (CONTINUED)

9. Service Retirement Multiplier - The retirement multiplier is 1.0%.

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.

10. Normal Retirement Age

Defined Benefit Component - Same as VRS Plan 2—Refer to Section 10.

Defined Contribution Component - Members are eligible to receive distributions upon leaving employment, subject to restrictions.

11. Earliest Reduced Retirement Eligibility

Defined Benefit Component - Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

Defined Contribution Component - Members are eligible to receive distributions upon leaving employment, subject to restrictions.

12. Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component - Same as VRS Plan 2—Refer to Section 13.

Defined Contribution Component - Not Applicable.

13. Eligibility - Same as VRS Plan 1— Refer to Section 14.

14. Exceptions to COLA Effective Dates - Refer to VRS Plan 1—Section 15.

The remainder of this page is left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 7 - Pension Plan: (continued)

A. Plan Description: (continued)

HYBRID RETIREMENT PLAN (CONTINUED)

- 15. Disability Coverage** - Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.

State employees (including VRS Plan 1 and VRS Plan 2 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.

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.

16. Purchase of Prior Service

Defined Benefit Component - Same as VRS Plan 2—Refer to Section 17.

Defined Contribution Component - Not Applicable.

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

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in employee-paid member contribution. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2014 was 12.28% of annual covered payroll.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 7 - Pension Plan: (continued)**C. Annual Pension Cost**

For the fiscal year ended June 30, 2014, the Town's annual pension cost of \$25,713 (excluding the employee's portion of \$10,279) for VRS was equal to the Town's required and actual contributions.

Three-Year Trend Information

	Fiscal Year Ending	Annual Pension Cost (APC) ¹	Percentage of APC Contributed	Net Pension Obligation
Town	6/30/2014	\$ 25,713	100.00%	\$ -
	6/30/2013	20,964	100.00%	-
	6/30/2012	15,798	100.00%	-

¹ Employer portion only

The FY 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include included an inflation component of 2.50%. The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town's unfunded actuarial accrued liability, if any, is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

D. Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the plan was 105.16% funded. The actuarial accrued liability for benefits was \$194,131, and the actuarial value of assets was \$204,145, resulting in an overfunded actuarial accrued liability (UAAL) of \$10,014. The covered payroll (annual payroll of active employees covered by the plan) was \$158,534, and the ratio of the UAAL to the covered payroll was (6.32%).

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

Required Supplementary Information

TOWN OF RICH CREEK, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 8 - Capital Assets:

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 4,600	\$ -	\$ -	\$ 4,600
Capital assets, being depreciated:				
Buildings	\$ 259,979	\$ -	\$ -	\$ 259,979
Machinery and equipment	314,922	-	-	314,922
Vehicles	446,947	-	-	446,947
Improvements other than buildings	183,124	-	-	183,124
Total capital assets being depreciated	\$ 1,204,972	\$ -	\$ -	\$ 1,204,972
Accumulated depreciation:				
Buildings	\$ (189,596)	\$ (2,105)	\$ -	\$ (191,701)
Machinery and equipment	(301,886)	(3,861)	-	(305,747)
Vehicles	(314,023)	(50,092)	-	(364,115)
Improvements other than buildings	(38,339)	(10,843)	-	(49,182)
Total accumulated depreciation	\$ (843,844)	\$ (66,901)	\$ -	\$ (910,745)
Total capital assets being depreciated, net	\$ 361,128	\$ (66,901)	\$ -	\$ 294,227
Governmental activities capital assets, net	\$ 365,728	\$ (66,901)	\$ -	\$ 298,827

Depreciation expense was charged to functions/programs of the governmental activities as follows:

Governmental activities:	
General government administration	\$ 7,333
Public safety	45,862
Public works	11,000
Parks, recreation, and cultural	2,706
Total depreciation expense-governmental activities	\$ 66,901

TOWN OF RICH CREEK, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 8 - Capital Assets: (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 39,679	\$ -	\$ -	\$ 39,679
Construction in progress	3,774,134	26,294	(3,800,428)	-
Total capital assets not being depreciated	<u>\$ 3,813,813</u>	<u>\$ 26,294</u>	<u>\$ (3,800,428)</u>	<u>\$ 39,679</u>
Capital assets, being depreciated:				
Water system	\$ 1,114,182	\$ -	\$ -	\$ 1,114,182
Sewer system	2,400,313	3,800,428	-	6,200,741
Vehicles	32,557	48,750	-	81,307
Equipment	22,264	46,494	-	68,758
Total capital assets being depreciated	<u>\$ 3,569,316</u>	<u>\$ 3,895,672</u>	<u>\$ -</u>	<u>\$ 7,464,988</u>
Accumulated depreciation:				
Water system	\$ (932,774)	\$ (28,979)	\$ -	\$ (961,753)
Sewer system	(903,292)	(197,191)	-	(1,100,483)
Vehicles	(29,807)	(8,437)	-	(38,244)
Equipment	(10,510)	(7,835)	-	(18,345)
Total accumulated depreciation	<u>\$ (1,876,383)</u>	<u>\$ (242,442)</u>	<u>\$ -</u>	<u>\$ (2,118,825)</u>
Total capital assets being depreciated, net	<u>\$ 1,692,933</u>	<u>\$ 3,653,230</u>	<u>\$ -</u>	<u>\$ 5,346,163</u>
Business-type Activities capital assets, net	<u>\$ 5,506,746</u>	<u>\$ 3,679,524</u>	<u>\$ (3,800,428)</u>	<u>\$ 5,385,842</u>

Depreciation expense was charged to functions/programs of the business-type activities as follows:

Business-type activities:

Water and Sewer

\$ 242,442

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 9 - Risk Management:

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

Note 10 - Commitments and Contingencies:

Riverview Commons, Inc.

On July 17, 2013, the Town agreed to help Riverview Commons, Inc. build an assisted living facility in Town by obtaining and processing a federal community development block grant (CDBG). The Town helped Riverview Commons, Inc. obtain a contract for construction in the amount of \$1,552,000. The Town will only participate in processing the first \$700,000 of the contract because the Town was awarded the CDBG grant. After the exhaustion of the \$700,000 CDBG grant, Riverview Commons, Inc. will be responsible for paying the remaining costs.

As part of the agreement, the Town certified Riverview Commons, Inc. will continue to operate an assisted living facility in the building for at least 20 years. If the assisted living facility does not continue operations for 20 years the \$700,000 grant is to be returned to the federal government pro-rata. This certification was accomplished through a deed of trust which also provided the Town first lien on the building in case of default.

Note 11 - Litigation:

As of June 30, 2014, there were no matters of litigation involving the Town which would materially affect the Town's financial position should a court decision on pending matters not be favorable.

Note 12 - Upcoming Pronouncements:

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions; and amendment of GASB Statement No. 27. This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trusts and equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. The Town believes the implementation of Statement No. 68 will significantly impact the Town's net position; however, no formal study of estimate of the impact of this standard has been performed.

Town of Rich Creek, Virginia
General Fund

Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
REVENUES				
General property taxes	\$ 118,010	\$ 118,010	\$ 123,365	\$ 5,355
Other local taxes	186,600	186,600	188,140	1,540
Fines and forfeitures	-	-	14,674	14,674
Revenue from the use of money and property	9,000	9,000	6,389	(2,611)
Charges for services	9,000	9,000	10,377	1,377
Miscellaneous	9,100	9,100	34,634	25,534
Intergovernmental revenues:				
Commonwealth	44,634	44,634	47,499	2,865
Federal	990,112	990,112	195,381	(794,731)
Total revenues	\$ 1,366,456	\$ 1,366,456	\$ 620,459	\$ (745,997)
EXPENDITURES				
Current:				
General government administration	\$ 413,879	\$ 413,879	\$ 178,115	\$ 235,764
Public safety	42,097	42,097	105,732	(63,635)
Public works	354,021	354,021	114,987	239,034
Parks, recreation, and cultural	4,688	4,688	4,714	(26)
Community development	690,695	690,695	175,951	514,744
Debt service:				
Principal retirement	-	-	1,995	(1,995)
Interest and other fiscal charges	-	-	21	(21)
Total expenditures	\$ 1,505,380	\$ 1,505,380	\$ 581,515	\$ 923,865
Excess (deficiency) of revenues over (under) expenditures	\$ (138,924)	\$ (138,924)	\$ 38,944	\$ 177,868
OTHER FINANCING SOURCES (USES)				
Transfer in	\$ 138,924	\$ 138,924	\$ -	\$ (138,924)
Net change in fund balance	\$ -	\$ -	\$ 38,944	\$ 38,944
Fund balance - beginning	-	-	272,144	272,144
Fund balance - ending	\$ -	\$ -	\$ 311,088	\$ 311,088

Town of Rich Creek, Virginia
 Virginia Retirement System (VRS) Pension Plan
 Schedule of Pension Funding Progress

Town Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2) / (3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2013	\$ 204,145	\$ 194,131	\$ (10,014)	105.16%	\$ 158,534	(6.32%)
6/30/2012	166,005	176,276	10,271	94.17%	191,544	5.36%
6/30/2011	139,998	147,154	7,156	95.14%	169,559	4.22%

OTHER SUPPLEMENTARY INFORMATION SECTION

Supporting Schedules

Town of Rich Creek, Virginia
Schedule of Revenues - Budget and Actual
Governmental Fund
For the Year Ended June 30, 2014

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
Revenue from local sources:				
General property taxes:				
All property taxes	\$ 118,010	\$ 118,010	\$ 123,365	\$ 5,355
Other local taxes:				
Local sales and use tax	\$ 29,000	\$ 29,000	\$ 32,068	\$ 3,068
Consumers' utility tax	16,000	16,000	15,924	(76)
Consumption taxes	3,600	3,600	3,688	88
Business license tax	60,000	60,000	56,569	(3,431)
Motor vehicle licenses	7,500	7,500	7,151	(349)
Bank stock tax	28,000	28,000	27,832	(168)
Hotel and motel room tax	2,500	2,500	2,724	224
Restaurant food taxes	40,000	40,000	42,184	2,184
Total other local taxes	\$ 186,600	\$ 186,600	\$ 188,140	\$ 1,540
Fines and forfeitures:				
Court fines and forfeitures	\$ -	\$ -	\$ 14,674	\$ 14,674
Revenue from use of money and property:				
Revenue from use of money	\$ 1,000	\$ 1,000	\$ 844	\$ (156)
Revenue from use of property	8,000	8,000	5,545	(2,455)
Total revenue from use of money and property	\$ 9,000	\$ 9,000	\$ 6,389	\$ (2,611)
Charges for services:				
Charges for parks and recreation	\$ 9,000	\$ 9,000	\$ 10,377	\$ 1,377
Miscellaneous revenue:				
Library donations	\$ 3,600	\$ 3,600	\$ 3,600	\$ -
Miscellaneous	5,500	5,500	31,034	25,534
Total miscellaneous revenue	\$ 9,100	\$ 9,100	\$ 34,634	\$ 25,534
Total revenue from local sources	\$ 331,710	\$ 331,710	\$ 377,579	\$ 45,869
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Communications tax	\$ 8,000	\$ 8,000	\$ 7,865	\$ (135)
Personal property tax relief act funds	12,490	12,490	12,490	-
Total noncategorical aid	\$ 20,490	\$ 20,490	\$ 20,355	\$ (135)
Categorical aid:				
Other categorical aid:				
Local law enforcement grants	\$ 16,144	\$ 16,144	\$ 16,144	\$ -
Fire program funds	8,000	8,000	11,000	3,000
Total other categorical aid	\$ 24,144	\$ 24,144	\$ 27,144	\$ 3,000
Total revenue from the Commonwealth	\$ 44,634	\$ 44,634	\$ 47,499	\$ 2,865

Town of Rich Creek, Virginia
Schedule of Revenues - Budget and Actual
Governmental Fund
For the Year Ended June 30, 2014

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the federal government:				
Categorical aid:				
Federal policing grants	\$ 1,338	\$ 1,338	\$ 1,338	\$ -
Community development grants	700,000	700,000	178,246	(521,754)
TEA-21 grant	288,774	288,774	15,797	(272,977)
Total categorical aid	<u>\$ 990,112</u>	<u>\$ 990,112</u>	<u>\$ 195,381</u>	<u>\$ (794,731)</u>
Total revenue from the federal government	<u>\$ 990,112</u>	<u>\$ 990,112</u>	<u>\$ 195,381</u>	<u>\$ (794,731)</u>
Total General Fund	<u>\$ 1,366,456</u>	<u>\$ 1,366,456</u>	<u>\$ 620,459</u>	<u>\$ (745,997)</u>

Town of Rich Creek, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Fund
For the Year Ended June 30, 2014

<u>Fund, Function, Sub-Function and Department</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
General government administration:				
Legislative:				
Town Council	\$ 352,895	\$ 352,895	\$ 5,833	\$ 347,062
General and financial administration:				
Administrative	\$ 49,984	\$ 49,984	\$ 164,382	\$ (114,398)
Audit Services	11,000	11,000	7,900	3,100
Total general and financial administration	\$ 60,984	\$ 60,984	\$ 172,282	\$ (111,298)
Total general government administration	\$ 413,879	\$ 413,879	\$ 178,115	\$ 235,764
Public safety:				
Law enforcement and traffic control:				
Police Department	\$ 17,323	\$ 17,323	\$ 84,580	\$ (67,257)
Fire and rescue services:				
Volunteer Fire Department	\$ 24,774	\$ 24,774	\$ 21,152	\$ 3,622
Total public safety	\$ 42,097	\$ 42,097	\$ 105,732	\$ (63,635)
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Street Maintenance	\$ 320,521	\$ 320,521	\$ 93,926	\$ 226,595
Maintenance of general buildings and grounds:				
Municipal Building	\$ 33,500	\$ 33,500	\$ 21,061	\$ 12,439
Total public works	\$ 354,021	\$ 354,021	\$ 114,987	\$ 239,034
Parks, recreation, and cultural:				
Parks and recreation:				
Parks and Recreation	\$ 4,688	\$ 4,688	\$ 4,714	\$ (26)
Community development:				
Planning and community development:				
Riverview Commons, Inc.	\$ 690,695	\$ 690,695	\$ 175,951	\$ 514,744
Debt service:				
Principal Retirement	\$ -	\$ -	\$ 1,995	\$ (1,995)
Interest and Other Fiscal Charges	-	-	21	(21)
Total debt service	\$ -	\$ -	\$ 2,016	\$ (2,016)
Total General Fund	\$ 1,505,380	\$ 1,505,380	\$ 581,515	\$ 923,865

Other Statistical Information

Table 1

Town of Rich Creek, Virginia
Government-wide Expenses by Function
Last Ten Fiscal Years (1)

Fiscal Year	General			Parks, Recreation, and Cultural			Community Development		Interest on Long- Term Debt		Water and Sewer		Total
	Government Administration	Public Safety	Public Works	Public Works	Recreation, and Cultural	Community Development	Community Development	Community Development	Interest on Long- Term Debt	Interest on Long- Term Debt	Water and Sewer	Water and Sewer	
2007-08	\$ 257,752	\$ 41,497	\$ 43,277	\$ 43,277	\$ 8,327	\$ -	\$ -	\$ -	237	\$ 237	\$ 473,433	\$ 473,433	824,523
2008-09	194,722	64,536	147,179	147,179	9,865	-	-	-	493	493	511,124	511,124	927,919
2009-10	171,167	67,430	66,638	66,638	30,755	-	-	-	271	271	479,778	479,778	816,039
2010-11	212,031	188,222	64,466	64,466	22,732	-	-	-	44	44	466,896	466,896	954,391
2011-12	184,710	121,621	505,189	505,189	12,509	-	-	-	604	604	529,760	529,760	1,354,393
2012-13	158,914	142,943	205,869	205,869	18,056	-	-	-	257	257	500,473	500,473	1,026,512
2013-14	182,621	151,836	125,987	125,987	7,420	175,951	175,951	175,951	21	21	717,019	717,019	1,360,855

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

Table 2

Town of Rich Creek, Virginia
Government-wide Revenues
Last Ten Fiscal Years (1)

Fiscal Year	PROGRAM REVENUES				GENERAL REVENUES					
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Miscellaneous	Grants and Contributions	
									Not Restricted to Specific Programs	Total
2007-08	\$ 458,038	\$ -	\$ -		\$ 104,449	\$ 81,743	\$ 40,208	\$ 77,333	\$ -	\$ 761,771
2008-09	416,281	28,751	52,552		103,132	130,859	10,154	20,218	12,490	774,437
2009-10	404,886	28,591	7,645		113,682	177,905	8,347	14,956	20,689	776,701
2010-11	443,495	24,732	38,392		115,768	191,381	7,909	16,941	20,650	859,268
2011-12	467,625	28,220	2,169,286		112,771	182,835	12,255	15,060	19,783	3,007,835
2012-13	470,175	31,999	1,709,992		127,399	184,796	11,012	7,645	20,553	2,563,571
2013-14	467,014	48,467	330,687		120,881	188,140	7,262	34,634	20,355	1,217,440

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

Table 3

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

Fiscal Year	General and Financial			Parks, Recreation, and Cultural				Debt Service	Total
	Administration	Public Safety	Public Works	Public and Cultural	Community Development				
2004-05	\$ 166,522	\$ 40,227	\$ 61,140	\$ 10,584	\$ -	-	\$ -	\$ 278,473	
2005-06	175,188	39,670	62,008	14,905	-	-	-	291,771	
2006-07	206,048	30,481	91,772	15,484	-	-	-	343,785	
2007-08	178,299	38,522	124,455	4,440	-	-	2,135	347,851	
2008-09	185,399	64,536	143,893	22,440	-	-	5,123	421,391	
2009-10	163,316	67,430	63,303	39,715	-	-	5,123	338,887	
2010-11	203,922	78,694	64,269	34,069	-	-	2,959	383,913	
2011-12	209,417	114,230	648,161	17,260	-	-	9,243	998,311	
2012-13	148,647	97,123	193,569	15,350	-	-	5,823	460,512	
2013-14	178,115	105,732	114,987	4,714	175,951	-	2,016	581,515	

Table 4

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

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, Regulatory Licenses (1)	Fines and Forfeitures	Revenue from the		Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental	Total
					Use of Money and Property	Use of Money and Property					
2004-05	\$ 100,197	\$ 58,438	\$ 59,066	\$ 15,390	\$ 4,199	\$ 4,199	-	\$ 29,342	\$ -	\$ 33,988	\$ 300,620
2005-06	111,147	67,873	65,729	7,514	6,805	6,805	-	29,877	-	32,265	321,210
2006-07	98,903	74,219	73,673	5,452	6,697	6,697	-	54,238	-	32,397	345,579
2007-08	105,260	81,743	63,937	10,225	13,037	13,037	-	67,989	-	32,482	374,673
2008-09	104,544	130,859	-	5,801	10,154	10,154	4,856	20,218	16,462	93,793	386,687
2009-10	107,692	177,905	-	5,682	8,347	8,347	4,950	14,956	13,876	56,925	390,333
2010-11	113,437	191,381	-	3,671	7,909	7,909	7,355	16,941	14,195	83,774	438,663
2011-12	117,579	182,835	-	11,805	10,595	10,595	8,159	15,060	7,371	565,251	918,655
2012-13	124,322	184,796	-	6,819	9,601	9,601	18,242	7,645	-	132,069	483,494
2013-14	123,365	188,140	-	14,674	6,389	6,389	10,377	34,634	-	242,880	620,459

(1) Prior to fiscal year 2008-09, motor vehicle and business licenses were reported as Permits, Privilege Fees and Licenses.

Table 5

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

Fiscal Year	Total Tax Levy (1)	Current Tax Collections (1,2)	Percent of Levy Collected	Delinquent Tax Collections (1)	Total Tax Collections	Percent of		Outstanding Delinquent Taxes	Percent of	
						Total Tax Collections	to Tax Levy		Total Tax Collections	to Tax Levy
2004-05	\$ 94,226	\$ 89,986	95.50%	\$ 30,191	\$ 120,177	127.54%	127.54%	\$ 5,023	5.33%	5.33%
2005-06	113,449	120,980	106.64%	2,121	123,101	108.51%	108.51%	5,115	4.51%	4.51%
2006-07	118,161	108,530	91.85%	2,863	111,393	94.27%	94.27%	6,612	5.60%	5.60%
2007-08	119,087	112,912	94.81%	4,838	117,750	98.88%	98.88%	5,799	4.87%	4.87%
2008-09	121,378	113,612	93.60%	3,422	117,034	96.42%	96.42%	6,445	5.31%	5.31%
2009-10	117,821	115,760	98.25%	4,422	120,182	102.00%	102.00%	12,572	10.67%	10.67%
2010-11	124,313	119,962	96.50%	5,965	125,927	101.30%	101.30%	15,178	12.21%	12.21%
2011-12	126,359	124,088	98.20%	5,981	130,069	102.94%	102.94%	16,440	13.01%	13.01%
2012-13	133,622	130,355	97.56%	6,457	136,812	102.39%	102.39%	15,893	11.89%	11.89%
2013-14	134,269	129,269	96.28%	6,586	135,855	101.18%	101.18%	12,701	9.46%	9.46%

(1) Exclusive of penalties and interest. Includes amounts remitted under the State's personal property tax relief program.

(2) Includes personal property tax relief paid by the Commonwealth of Virginia.

Table 6

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

Fiscal Year	Real Estate (1),(3)	Personal Property and Mobile Homes (1)	Machinery and Tools (1)	Public Utility (2) Real Estate	Total
2004-05	\$ 24,927,400	\$ 5,067,853	\$ 2,008,752	\$ 833,562	\$ 32,837,567
2005-06	31,917,400	5,528,508	2,040,674	1,065,835	40,552,417
2006-07	32,133,100	6,154,199	2,185,524	1,034,750	41,507,573
2007-08	32,375,900	6,066,153	2,445,701	1,052,481	41,940,235
2008-09	32,485,100	6,396,311	2,406,814	1,110,751	42,398,976
2009-10	36,526,400	5,565,500	2,298,652	1,414,010	45,804,562
2010-11	36,525,300	5,674,653	4,182,693	1,371,396	47,754,042
2011-12	35,860,500	6,089,690	4,002,095	1,357,510	47,309,795
2012-13	36,503,200	6,370,177	5,803,775	1,304,009	49,981,161
2013-14	36,696,200	6,365,416	5,836,475	1,214,420	50,112,511

(1) Assessments are at 100% of fair market value.

(2) Assessed values are established by the State Corporation Commission.

(3) Starting in fiscal year 2011-12, tax relief for veterans is included in the real estate assessed value.

Table 7

Town of Rich Creek, Virginia
Property Tax Rates (1)
Last Ten Fiscal Years

Fiscal Year	Real Estate	Mobile Homes	Personal Property	Machinery and Tools
2004-05	\$ 0.22	\$ 0.22	\$ 0.63	\$ 0.31
2005-06	0.22	0.22	0.63	0.31
2006-07	0.22	0.22	0.63	0.31
2007-08	0.22	0.22	0.63	0.31
2008-09	0.22	0.22	0.63	0.31
2009-10	0.20	0.20	0.63	0.31
2010-11	0.20	0.20	0.63	0.31
2011-12	0.20	0.20	0.63	0.31
2012-13	0.20	0.20	0.63	0.31
2013-14	0.20	0.20	0.63	0.31

(1) Per \$100 of assessed value.

Table 8

Town of Rich Creek, Virginia
Ratio of Net General Bonded Debt to
Assessed Value and Net Bonded Debt Per Capita
Last Ten Fiscal Years (1)

Fiscal Year	Population (2)	Assessed Value (in thousands) (3)	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2008-09	665	\$ 42,399	\$ -	0.00%	\$ -
2009-10	665	45,805	-	0.00%	-
2010-11	774	47,754	-	0.00%	-
2011-12	768	47,310	-	0.00%	-
2012-13	760	49,981	-	0.00%	-
2013-14	763	50,113	-	0.00%	-

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

(2) Weldon Cooper Center for Public Service at the University of Virginia.

(3) Real property assessed at 100% of fair market value.

Table 9

Town of Rich Creek, Virginia
Computation of Legal Debt Margin
June 30, 2014

Assessed valuations:	
Assessed value of real estate	<u>\$ 36,696,200</u>
Legal debt margin	
Debt limitation - 10 percent of total assessed value	\$ 3,669,620
Total debt applicable to limitation	<u>-</u>
Legal debt margin	<u>\$ 3,669,620</u>

COMPLIANCE SECTION

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Members of Council
Town of Rich Creek, Virginia
Rich Creek, 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; the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Rich Creek, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Town of Rich Creek, Virginia's basic financial statements and have issued our report thereon dated November 14, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Rich Creek, 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 Rich Creek, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Rich Creek, 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 the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 accompanying schedule of findings and responses to be material weaknesses [2014-1, 2014-2].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Rich Creek, Virginia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Rich Creek, Virginia's Response to Findings

Town of Rich Creek, Virginia's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Town of Rich Creek, Virginia's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit 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.

Robinson, Finner, & Associates

Blacksburg, Virginia
November 14, 2014

Town of Rich Creek, Virginia

Schedule of Findings and Responses
For the Year Ended June 30, 2014

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Section II - Financial Statement Findings

2014-1

Criteria:	Per Statement on Auditing Standards 115, identification of a material adjustment to the financial statements that was not detected by the entity's internal controls indicates that a material weakness may exist.
Condition:	The Town's financial statements required material adjustments by the auditors to ensure such statements complied with Generally Accepted Accounting Principles.
Cause of Condition:	The Town has historically relied on the auditors for assistance in preparing the financial statements and related adjustments.
Effect of Condition:	There is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls over financial reporting.
Recommendation:	Management has and continues to work towards making all necessary entries and adjustments.
Management's Response:	The Town Treasurer will work with the auditors to learn how to make the necessary entries to be able to provide an adjusted trial balance at the time of the audit.

2014-2

Criteria:	A key concept of internal controls is the segregation of duties. No one employee should have access to both accounting records and related assets.
Condition:	The Town does not have a proper segregation of duties over the payroll, accounts payable and billing and collection functions.
Cause of Condition:	The Town lacks the funding to fully support a completely segregated finance department.
Effect of Condition:	There is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal controls over financial reporting.
Recommendation:	Management should further try to segregate duties amongst current staff to help alleviate risk created by improper segregation of duties.
Management's Response:	Management acknowledges that internal controls over the billing and collection function as well as the accounts payable and payroll functions lack proper segregation of duties; however, to alleviate same would require additional staff.

Section III - Status of Prior Audit Findings and Responses

2013-1 and 2013-2 are recurring in the current year as findings 2014-1 and 2014-2, respectively.