

TOWN OF CHATHAM, VIRGINIA

ANNUAL FINANCIAL REPORT

Fiscal Year Ended

June 30, 2013

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chatham, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chatham, Virginia, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on page 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2013, on our consideration of the Town of Chatham, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Chatham, Virginia's internal control over financial reporting and compliance.

Harris Harvey Neal & Co. LLP

Danville, Virginia
November 30, 2013

**TOWN OF CHATHAM, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

Our discussion and analysis of Town of Chatham, Virginia's financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2013. Please read it in conjunction with the Town's financial statements, which begin on page 11.

USING THIS ANNUAL REPORT

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

Government-Wide Financial Statements

Our analysis of the Town as a whole begins on page 11. One of the most important questions asked about the Town's finances is, "Is the Town, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

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

Fund Financial Statements

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

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

THE TOWN AS A WHOLE

The Town's combined net assets increased 8.8 percent from the prior year. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Town's governmental and business-type activities.

Table 1
Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 825,117	\$ 950,027	\$ 1,252,966	\$ 1,105,070	\$ 2,078,083	\$ 2,055,097
Capital assets	<u>1,531,441</u>	<u>1,561,719</u>	<u>3,851,242</u>	<u>3,550,772</u>	<u>5,382,683</u>	<u>5,112,491</u>
Total assets	<u>\$ 2,356,558</u>	<u>\$ 2,511,746</u>	<u>\$ 5,104,208</u>	<u>\$ 4,655,842</u>	<u>\$ 7,460,766</u>	<u>\$ 7,167,588</u>
Long-term debt outstanding	\$ 714,279	\$ 771,513	\$ 1,654,665	\$ 1,623,617	\$ 2,368,944	\$ 2,395,130
Other liabilities	<u>49,417</u>	<u>71,765</u>	<u>77,357</u>	<u>138,460</u>	<u>126,774</u>	<u>210,225</u>
Total liabilities	<u>\$ 763,696</u>	<u>\$ 843,278</u>	<u>\$ 1,732,022</u>	<u>\$ 1,762,077</u>	<u>\$ 2,495,718</u>	<u>\$ 2,605,355</u>

Invested in capital						
assets, net of debt	\$ 870,403	\$ 850,896	\$ 2,241,753	\$ 1,975,266	\$ 3,112,156	\$ 2,826,162
Restricted	330,328	291,119	-	-	330,328	291,119
Unrestricted	<u>392,131</u>	<u>526,453</u>	<u>1,130,433</u>	<u>918,499</u>	<u>1,522,564</u>	<u>1,444,952</u>
Total net assets	<u>\$ 1,592,862</u>	<u>\$ 1,668,468</u>	<u>\$ 3,372,186</u>	<u>\$ 2,893,765</u>	<u>\$ 4,965,048</u>	<u>\$ 4,562,233</u>

That reflects a decrease of 4.5 percent for governmental activities and a 16.5 percent increase for business-type activities.

The decrease in governmental net assets is due to increases in ongoing expenses exceeding ongoing revenues. The increase in net assets of business-type activities is due to the water system upgrade and grants received for this upgrade.

Table 2
Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues						
Program revenues:						
Charges for services	\$ 136,598	\$ 114,068	\$ 1,322,881	\$ 1,232,212	\$ 1,459,479	\$ 1,346,280
Grants and contributions	59,007	49,893	366,562	272,366	425,569	322,259
General revenues:						
Property taxes	296,070	287,726	-	-	296,070	287,726
Other taxes	280,118	393,957	-	-	280,118	393,957
Sale of cemetery lots	16,500	22,500	-	-	16,500	22,500
Investment earnings	<u>3,772</u>	<u>4,600</u>	<u>1,339</u>	<u>2,487</u>	<u>5,111</u>	<u>7,087</u>
Total revenues	<u>\$ 792,065</u>	<u>\$ 872,744</u>	<u>\$ 1,690,782</u>	<u>\$ 1,507,065</u>	<u>\$ 2,482,847</u>	<u>\$ 2,379,809</u>
Program expenses:						
General government	\$ 124,410	\$ 138,464	\$ -	\$ -	\$ 124,410	\$ 138,464
Judicial administration	290,491	285,744	-	-	290,491	285,744
Public safety	72,576	71,995	-	-	72,576	71,995
Public works	256,040	242,977	-	-	256,040	242,977
Cemetery maintenance	59,312	49,539	-	-	59,312	49,539
Parks, recreation, and cultural	38,976	71,215	-	-	38,976	71,215
Interest on long-term debt	25,866	27,662	-	-	25,866	27,662
Water and sewer	<u>-</u>	<u>-</u>	<u>1,212,363</u>	<u>1,243,481</u>	<u>1,212,363</u>	<u>1,243,481</u>
Total expenses	<u>867,671</u>	<u>887,596</u>	<u>1,212,363</u>	<u>1,243,481</u>	<u>2,080,034</u>	<u>2,131,077</u>
Increase (decrease) in net assets	<u>\$ (75,606)</u>	<u>\$ (14,852)</u>	<u>\$ 478,419</u>	<u>\$ 263,584</u>	<u>\$ 402,813</u>	<u>\$ 248,732</u>

The Town's total revenues increased by 4.3 percent. The total cost of all programs and services decreased by 2.4 percent. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenues for the Town's governmental activities decreased 9.2 percent, while expenses decreased 2.2 percent. The revenue decrease is due primarily to the decrease in communications tax received from the Commonwealth of Virginia. The Commonwealth of Virginia overpaid the Town in 2010 and the Town paid the amount back in the current year. Expenses increased due to less spent on revitalization and beautification in the current year.

Business-type Activities

Revenues for the Town's business-type activities increased 12.2 percent due to grant income received for improvements to the water plant and increased water revenue from Pittsylvania County Service Authority due to expanded lines. Expenses decreased 2.5 percent over the prior year due to a decrease in repairs and maintenance to water and sewer lines.

THE TOWN'S FUNDS

As the Town completed the year, its governmental funds (as presented in the balance sheet on page 13) reported a fund balance of \$781,142, which is 12.0 percent lower than last year. The primary reason for the decrease is due to the excess of expenses exceeding revenue for the year.

General Fund Budgetary Highlights

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

Actual disbursements were \$34,951 lower than budgeted amounts. The Town's general government expenses were less than budgeted. Actual revenues were \$58,678 lower than budgeted amounts. The Town had to reimburse the Commonwealth of Virginia for consumer utility taxes overpaid in fiscal year 2010.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2013, amounts to \$5,382,683 (net of accumulated depreciation). This investment in capital assets includes police and fire equipment, buildings, park facilities, improvements, and water and sewer lines. This amount represents a net increase (including additions and deductions) of approximately \$270,190, or 5.3 percent, above last year.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land	\$ 133,110	\$ 133,110	\$ -	\$ -	\$ 133,110	\$ 133,110
Building and Improvements	1,229,082	1,192,432	-	-	1,229,082	1,192,432
Machinery, Equipment and Vehicles	169,251	236,177	9,622	16,586	178,873	252,763
Water/Sewer Lines	<u>-</u>	<u>-</u>	<u>3,841,620</u>	<u>3,534,186</u>	<u>3,841,620</u>	<u>3,534,186</u>
Totals	<u>\$ 1,531,443</u>	<u>\$ 1,561,719</u>	<u>\$ 3,851,242</u>	<u>\$ 3,550,772</u>	<u>\$ 5,382,685</u>	<u>\$ 5,112,491</u>

This year's major additions included:

Paving at Harris Field, paid for with revenues	\$ 24,533
Town shop building, paid for with revenues	58,129
Pump station, paid for with lease-purchase agreement	98,950
Water treatment plant improvements, paid for with grant revenues	<u>327,926</u>
	<u>\$509,538</u>

Debt

At year-end, the Town had \$2,270,527 in bonds and notes outstanding compared to \$2,286,329 last year – a decrease of 0.7 percent as shown in the following table.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
General obligation bonds	\$ -	\$ -	\$ 1,519,371	\$ 1,575,506	\$ 1,519,371	\$ 1,575,506
Lease revenue bond	459,819	493,624	-	-	459,819	493,624
Lease purchase	-	-	90,118	-	90,118	-
Notes payable	<u>201,219</u>	<u>217,199</u>	<u>-</u>	<u>-</u>	<u>201,219</u>	<u>217,199</u>
Totals	<u>\$ 661,038</u>	<u>\$ 710,823</u>	<u>\$ 1,609,489</u>	<u>\$ 1,575,506</u>	<u>\$ 2,270,527</u>	<u>\$ 2,286,329</u>

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

The business type activities have budgeted for an increase of 22.47 percent for out-of-town water rates.

All of these factors were considered in preparing the Town's budget for the 2014 fiscal year.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

TOWN OF CHATHAM, VIRGINIA

STATEMENT OF NET ASSETS

June 30, 2013

Exhibit 1

ASSETS	Governmental Activities	Business-type Activities	Total
Cash	\$ 384,327	\$ 895,244	\$ 1,279,571
Cash designated for capital improvements	127,506	-	127,506
Receivables (net of allowances for uncollectibles):			
Taxes, including penalties	70,846	-	70,846
Accounts	19,471	321,550	341,021
Restricted assets:			
Cash	34,795	-	34,795
Certificate of deposit	188,172	-	188,172
Fixed assets (net of accumulated depreciation)	1,531,441	3,851,242	5,382,683
Bond issuance costs (net of accumulated amortization)	-	36,172	36,172
	<u>\$ 2,356,558</u>	<u>\$ 5,104,208</u>	<u>\$ 7,460,766</u>
 Total assets			
 LIABILITIES			
Accrued interest payable	\$ 5,445	\$ -	\$ 5,445
Accounts payable	24,715	66,660	91,375
Accrued payroll	19,257	10,697	29,954
Long-term obligations:			
Due within one year	487,110	75,964	563,074
Due beyond one year	227,169	1,578,701	1,805,870
	<u>763,696</u>	<u>1,732,022</u>	<u>2,495,718</u>
 Total liabilities			
 NET ASSETS			
Invested in capital assets, net of related debt	\$ 870,403	\$ 2,241,753	\$ 3,112,156
Restricted for:			
Perpetual care:			
Unexpendable	330,328	-	330,328
Unrestricted	392,131	1,130,433	1,522,564
	<u>\$ 1,592,862</u>	<u>\$ 3,372,186</u>	<u>\$ 4,965,048</u>
 Total net assets			

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

TOWN OF CHATHAM, VIRGINIA

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2013

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities:							
General government	\$ 124,410	\$ 22	\$ -	\$ -	\$ (124,388)	\$ -	\$ (124,388)
Judicial administration	290,491	-	-	-	(290,491)	-	(290,491)
Public safety	72,576	46,715	57,504	-	31,643	-	31,643
Public works	256,040	89,861	1,503	-	(164,676)	-	(164,676)
Cemetery maintenance	59,312	-	-	-	(59,312)	-	(59,312)
Parks, recreation, and cultural	38,976	-	-	-	(38,976)	-	(38,976)
Interest on long-term debt	25,866	-	-	-	(25,866)	-	(25,866)
Total governmental activities	867,671	136,598	59,007	-	(672,066)	-	(672,066)
Business-type activities:							
Water and sewer	1,212,363	1,322,881	-	366,562	-	477,080	477,080
Total primary government	\$ 2,080,034	\$ 1,459,479	\$ 59,007	\$ 366,562	\$ (672,066)	\$ 477,080	\$ (194,986)
General Revenues:							
Property taxes					\$ 296,070	\$ -	\$ 296,070
Other taxes and revenues					280,118	-	280,118
Sale of cemetery lots					16,500	-	16,500
Unrestricted investment earnings					3,772	1,339	5,111
Total general revenues					596,460	1,339	597,799
Change in net assets					(75,606)	478,419	402,813
Net assets - beginning					1,668,468	2,893,767	4,562,235
Net assets - ending					\$ 1,592,862	\$ 3,372,186	\$ 4,965,048

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

TOWN OF CHATHAM, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2013

Exhibit 3

ASSETS	<u>General</u>	Other Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Cash	\$ 384,327	\$ -	\$ 384,327
Cash designated for capital improvements	127,506	-	127,506
Receivables (net of allowances for uncollectibles):			
Taxes, including penalties	70,846	-	70,846
Accounts	19,471	-	19,471
Due from other funds	-	79,891	79,891
Restricted assets:			
Cash	-	34,795	34,795
Certificate of deposit	-	188,172	188,172
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 602,150</u>	<u>\$ 302,858</u>	<u>\$ 905,008</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 24,715	\$ -	\$ 24,715
Accrued payroll	19,257	-	19,257
Due to other funds	79,891	-	79,891
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>123,863</u>	<u>-</u>	<u>123,863</u>
Fund balances:			
Restricted for:			
Perpetual care	-	302,858	302,858
Assigned to:			
Capital improvements	127,506	-	127,506
Unassigned	350,778	-	350,778
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>478,284</u>	<u>302,858</u>	<u>781,142</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 602,147</u>	<u>\$ 302,858</u>	<u> </u>
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			1,531,441
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.			(719,721)
			<u> </u>
Net assets of governmental activities			<u>\$ 1,592,862</u>

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

TOWN OF CHATHAM, VIRGINIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

Exhibit 4

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
General property taxes	\$ 296,070	\$ -	\$ 296,070
Other local taxes	136,888	-	136,888
Consumer utility tax	20,333	-	20,333
Permits, privilege fees, and regulatory licenses	88,186	-	88,186
Fines and forfeitures	46,717	-	46,717
Interest and investment revenue	1,933	1,839	3,772
Charges for service	89,883	-	89,883
Recovered costs	22,176	-	22,176
Sale of cemetery lots	-	16,500	16,500
Intergovernmental	59,007	-	59,007
Miscellaneous	12,531	-	12,531
Total revenues	<u>773,724</u>	<u>18,339</u>	<u>792,063</u>
Expenditures:			
Current:			
General government administration	117,776	-	117,776
Judicial administration	271,064	-	271,064
Public safety	14,506	-	14,506
Public works	304,402	-	304,402
Cemetery maintenance	51,639	-	51,639
Parks, recreation, and cultural	59,584	-	59,584
Debt service:			
Principal retirement	76,078	-	76,078
Total expenditures	<u>895,049</u>	<u>-</u>	<u>895,049</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(121,325)</u>	<u>18,339</u>	<u>(102,986)</u>
Other financing sources (uses):			
Operating transfers in	6,600	-	6,600
Operating transfers out	<u>-</u>	<u>(6,600)</u>	<u>(6,600)</u>
Total other financing sources (uses)	<u>6,600</u>	<u>(6,600)</u>	<u>-</u>
Net change in fund balances	(114,725)	11,739	(102,986)
Fund balance at beginning of year	<u>593,009</u>	<u>291,119</u>	<u>884,128</u>
Fund balance at end of year	<u>\$ 478,284</u>	<u>\$ 302,858</u>	<u>\$ 781,142</u>

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

TOWN OF CHATHAM, VIRGINIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

Exhibit 5

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

Net change in fund balances - total governmental funds (page 14)	\$ (102,986)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(30,280)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds.	50,210
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.	<u>7,450</u>
Change in net assets of governmental activities	<u><u>\$ (75,606)</u></u>

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

TOWN OF CHATHAM, VIRGINIA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2013

Exhibit 6

Business-type
Activities

Water and
Sewer Fund

ASSETS	
Current assets:	
Cash	\$ 895,244
Accounts receivables (net of allowances for uncollectibles)	<u>321,550</u>
Total current assets	<u>1,216,794</u>
Noncurrent assets:	
Fixed assets (net of accumulated depreciation)	3,851,242
Bond issuance costs (net of accumulated amortization)	<u>36,172</u>
Total noncurrent assets	<u>3,887,414</u>
Total assets	<u><u>\$ 5,104,208</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 66,660
Accrued payroll	10,697
Compensated absences	9,035
Long-term debt	<u>66,929</u>
Total current liabilities	<u>153,321</u>
Noncurrent liabilities:	
Compensated absences	36,141
Long-term debt	<u>1,542,560</u>
Total noncurrent liabilities	<u>1,578,701</u>
Total liabilities	<u>1,732,022</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,241,753
Unrestricted	<u>1,130,431</u>
Total net assets	<u><u>\$ 3,372,184</u></u>

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

TOWN OF CHATHAM, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS

PROPRIETARY FUNDS

For the Year Ended June 30, 2013

Exhibit 7

Business-type
Activities

Water and
Sewer Fund

Operating revenues:	
Charges for services	\$ 1,306,136
Tap fees	5,350
Grant income	366,562
Miscellaneous	11,395
	<hr/>
Total operating revenues	1,689,443
	<hr/>
Operating expenses:	
Personal services	387,424
Fringe benefits	144,112
Contractual services	33,784
Waste removal	8,883
Waste water and water use fee	32,236
Analysis fees	26,519
Repairs and maintenance	37,035
Vehicle expenses	84,376
Materials and supplies	20,687
Chemicals	61,698
Depreciation	182,632
Utilities	105,750
Telephone	8,034
Insurance	17,349
Data processing	2,402
Other expenses	6,256
	<hr/>
Total operating expenses	1,159,177
	<hr/>
Operating income	530,266
	<hr/>
Nonoperating income (expense):	
Interest income	1,333
Interest expense	(53,177)
	<hr/>
Total nonoperating (expense)	(51,844)
	<hr/>
Net income	478,422
	<hr/>
Total net assets-beginning	2,893,764
	<hr/>
Total net assets-ending	\$ 3,372,186
	<hr/>

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

TOWN OF CHATHAM, VIRGINIA

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 For the Year Ended June 30, 2013

Exhibit 8

Business-type Activities

Water and
 Sewer Fund

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 1,223,839
Receipts from grants	366,562
Payments to suppliers	(506,112)
Payments to employees	<u>(534,471)</u>

Net cash provided by operating activities	<u>549,818</u>
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from debt	98,950
Purchase of capital assets	(483,101)
Principal paid on capital debt	(64,967)
Interest paid on capital debt	<u>(51,319)</u>

Net cash (used in) capital and related financing activities	<u>(500,437)</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>1,333</u>
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Net increase in cash	50,714
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Cash and cash equivalents

Beginning	<u>844,527</u>
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Ending	<u><u>\$ 895,241</u></u>
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RECONCILIATION OF OPERATING INCOME TO NET CASH
 PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ 530,266
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	182,632
Change in operating assets and liabilities:	
(Increase) in accounts receivable	(99,042)
(Decrease) in accounts payable	(61,103)
(Decrease) in compensated absences	<u>(2,935)</u>

Net cash provided by operating activities	<u><u>\$ 549,818</u></u>
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The accompanying notes are an integral part of the financial statements.

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

B. Basic Financial Statements - Government-Wide Statements

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

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

The Town does not allocate indirect costs.

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

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

C. Governmental Fund Financial Statements

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

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

D. Proprietary Fund Financial Statements

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

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

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

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Financial Statement Amounts

1. Cash and Cash Equivalents:

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

2. Allowances for Uncollectible Accounts:

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowances amounted to \$6,000 in the Governmental Activities at June 30, 2013.

3. Capital Assets:

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

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

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

4. Revenues:

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

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

5. Expenditures:

Expenditures are recognized when the related fund liability is incurred.

6. Compensated Absences:

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

Note 2. Cash

Deposits

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

At year-end, the carrying value of the Town's deposits with banks and savings institutions was \$1,645,020, and the bank balance was \$1,655,308.

Note 3. Property Taxes Receivable

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

Taxes are due on December 5th immediately following the levy date and are delinquent on December 6th. Current tax collections for the year ended June 30, 2013 were 95.5% of the tax levy.

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

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	Balance <u>7/1/12</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>6/30/13</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 133,110	\$ -	\$ -	\$ 133,110
Capital assets, being depreciated:				
Buildings and improvements	1,952,843	82,662	-	2,035,505
Equipment	<u>1,074,332</u>	<u>7,396</u>	<u>-</u>	<u>1,081,728</u>
Total capital assets being depreciated	<u>3,027,175</u>	<u>90,058</u>	<u>-</u>	<u>3,117,233</u>
Less accumulated depreciation for:				
Buildings and improvements	760,411	46,012	-	806,423
Equipment	<u>838,155</u>	<u>74,324</u>	<u>-</u>	<u>912,479</u>
Total accumulated depreciation	<u>1,598,566</u>	<u>120,336</u>	<u>-</u>	<u>1,718,902</u>
Governmental activities capital assets, net	<u>\$ 1,561,719</u>	<u>\$ (30,278)</u>	<u>\$ -</u>	<u>\$ 1,531,441</u>
Business-type activities:				
Capital assets, being depreciated:				
Water plant	\$ 907,706	\$ 463,420	\$ -	\$ 1,371,126
Sewer plant	2,509,248	11,505	-	2,520,753
Lines, tank, etc.	2,949,323	8,176	-	2,957,499
Machinery and equipment	<u>247,219</u>	<u>-</u>	<u>-</u>	<u>247,219</u>
Total capital assets being depreciated	<u>6,613,496</u>	<u>483,101</u>	<u>-</u>	<u>7,096,597</u>
Less accumulated depreciation for:				
Water plant	219,712	26,069	-	245,781
Sewer plant	1,299,350	64,778	-	1,364,128
Lines, tank, etc.	1,313,028	84,820	-	1,397,848
Machinery and equipment	<u>230,634</u>	<u>6,964</u>	<u>-</u>	<u>237,598</u>
Total accumulated depreciation	<u>3,062,724</u>	<u>182,631</u>	<u>-</u>	<u>3,245,355</u>
Business-type activities capital assets, net	<u>\$ 3,550,772</u>	<u>\$ 300,470</u>	<u>\$ -</u>	<u>\$ 3,851,242</u>

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets (Continued)

Depreciation expense was charged to governmental functions as follows:

Governmental activities:

General government	\$ 23,262
Public safety	76,795
Public works	12,450
Cemetery maintenance	4,232
Parks, recreation, and cultural	3,599

Total depreciation expense-governmental activities	<u>\$ 120,338</u>
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Business-type activities:

Water and sewer	<u>\$ 182,632</u>
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Note 5. Long-Term Debt

Governmental activities:

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

Annual requirements are summarized as follows:

Year Ending June 30:	Principal	Interest
2014	\$ 16,643	\$ 8,351
2015	17,334	7,660
2016	18,053	6,940
2017	18,803	6,191
2018	19,583	5,411
Thereafter	<u>110,801</u>	<u>14,168</u>
Total	<u><u>\$ 201,217</u></u>	<u><u>\$ 48,721</u></u>

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (Continued)

On May 28, 2004, the Industrial Development Authority of Pittsylvania County issued a \$726,000 lease revenue bond for the purpose of constructing a new fire station for the Chatham Volunteer Fire Department. The bond was issued pursuant to a lease agreement dated May 1, 2004 between the Industrial Development Authority of Pittsylvania County and the Town Council of the Town of Chatham. The Town is not empowered to make any binding commitment beyond the current fiscal year of the Town although the current intention of the Town Council is to make sufficient annual appropriation during the lease term to pay all rental payments and other amounts required to be paid by the Town under the lease. Interest is payable at 3.50%. Installments of principal and interest are payable on each May 28, through 2013 with a balloon payment due on May 28, 2014.

Annual requirements are summarized as follows:

Year Ending June 30:	Principal	Interest
2014	<u>\$ 459,819</u>	<u>\$ 16,094</u>

Business-type activities:

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

Future maturities for bonds payable are as follows:

Year Ending June 30:	Principal	Interest
2014	\$ 57,876	\$ 47,100
2015	59,670	45,306
2016	61,520	43,456
2017	63,427	41,550
2018	65,393	39,584
Thereafter	<u>1,211,485</u>	<u>311,118</u>
Total	<u>\$ 1,519,371</u>	<u>\$ 528,114</u>

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (Continued)

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

Future maturities for bonds payable are as follows:

Year Ending June 30:	Principal	Interest
2014	\$ 9,053	\$ 2,252
2015	9,279	2,027
2016	9,511	1,795
2017	9,749	1,557
2018	9,993	1,313
Thereafter	<u>42,533</u>	<u>2,691</u>
Total	<u>\$ 90,118</u>	<u>\$ 11,635</u>

Changes in Long-Term Debt

The following is a summary of long-term debt transactions of the Town for the year ended June 30, 2013:

	Payable at <u>7/1/12</u>	Plus <u>Additions</u>	Less <u>Retirements</u>	Payable at <u>6/30/13</u>	Due within <u>One year</u>
Governmental activities:					
Bonds and notes payable:					
Lease revenue bond:					
05/28/04 Issue	\$ 493,624	\$ -	\$ 33,805	\$ 459,819	\$ 16,643
Note payable - 09/05/07	<u>217,199</u>	<u>-</u>	<u>15,980</u>	<u>201,219</u>	<u>459,819</u>
Total bonds and notes payable	<u>710,823</u>	<u>-</u>	<u>49,785</u>	<u>661,038</u>	<u>476,462</u>
Other liabilities:					
Compensated absences	<u>60,690</u>	<u>14,988</u>	<u>22,437</u>	<u>53,241</u>	<u>10,648</u>
Governmental activities long-term liabilities	<u>\$ 771,513</u>	<u>\$ 14,988</u>	<u>\$ 72,222</u>	<u>\$ 714,279</u>	<u>\$ 487,110</u>

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (Continued)

	Payable at <u>7/1/12</u>	Plus <u>Additions</u>	Less <u>Retirements</u>	Payable at <u>6/30/13</u>	Due within <u>One year</u>
Business-type activities:					
Bonds:					
General obligation bonds:					
03/29/12 Issue	<u>\$ 1,575,506</u>	<u>\$ -</u>	<u>\$ 56,135</u>	<u>\$ 1,519,371</u>	<u>\$ 57,876</u>
Lease purchase agreement	<u>-</u>	<u>98,950</u>	<u>8,832</u>	<u>90,118</u>	<u>9,053</u>
Other liabilities:					
Compensated absences	<u>48,111</u>	<u>23,942</u>	<u>26,877</u>	<u>45,176</u>	<u>9,035</u>
Business-type activities					
long-term liabilities	<u>\$ 1,623,617</u>	<u>\$ 122,892</u>	<u>\$ 91,844</u>	<u>\$ 1,654,665</u>	<u>\$ 75,964</u>

Details of Long-Term Indebtedness

Governmental Activities:

Amount
Outstanding

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

\$ 201,219

\$726,000 authorized and issued - Lease Revenue Bond issued May 28, 2004, maturing annually with interest payable annually.

Bonds bearing interest at 3.50% maturing on May 28, 2014

459,819

Compensated absences:

Vacation and sick leave

53,241

\$ 714,279

Business-type activities:

Amount
Outstanding

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

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

\$1,519,371

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

90,118

Compensated absences:

Vacation and sick leave

45,176

\$1,654,665

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 6. Fund Balance Disclosure

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

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

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

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

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

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 6. Fund Balance Disclosure (continued)

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

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

Note 7. Defined Benefit Pension Plan

A. Plan Description

The Town of Chatham contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (System). All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

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

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

TOWN OF CHATHAM, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (continued)

- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85%, as elected by the employer. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 3.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2012-annual-report.pdf> or obtained by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

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 annual salary toward their retirement. The employer may assume this 5.00% member contribution. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Town of Chatham, Virginia is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The Town of Chatham's contribution rate for the fiscal year ended June 30, 2013 was 7.47% of annual covered payroll.

C. Annual Pension Cost

For fiscal year 2013, the Town of Chatham, Virginia's annual pension cost of \$48,039 was equal to the Town's required and actual contributions. The 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 and 3.50% to 4.75% per year 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 also include an inflation component of 2.50%. The actuarial value of the Town of Chatham, Virginia'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. Town of Chatham, Virginia's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012 for the Unfunded Actuarial Accrued Liability (UAAL) was 29 years.

Three-Year Trend Information for the Town of Chatham

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2010	\$ 40,512	100%	\$ -
June 30, 2011	55,293	100%	-
June 30, 2012	55,718	100%	-

TOWN OF CHATHAM, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 7. Defined Benefit Pension Plan (Continued)

D. Funded Status and Funding Progress

The most recent actuarial valuation date was as of June 30, 2011 which shows 100.00% of the annual pension costs contributed. The actuarial accrued liability for benefits was \$1,294,635 and the actuarial value of assets was \$1,254,487, resulting in the plan being underfunded in the amount of \$40,148. The covered payroll (annual payroll of active employees covered by the plan) was \$542,416, and ratio of the UAAL to the covered payroll was 7.40%.

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

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for the Town of Chatham

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2010	\$1,175,230	\$1,110,499	\$(64,731)	105.83%	\$554,000	(11.68)%
June 30, 2011	1,225,342	1,211,786	(13,556)	101.11%	591,000	(2.29)%
June 30, 2012	1,254,487	1,294,635	40,148	96.90%	542,416	7.40%

Note 8. Related Party Transactions

The Town

Note 9. Subsequent Events

Management has evaluated subsequent events through November 30, 2013, the date which the financial statements were available for issue.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF CHATHAM, VIRGINIA

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year ended June 30, 2013

Exhibit 9

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
General property taxes	\$ 296,100	\$ 296,100	\$ 296,070	\$ (30)
Other local taxes	137,500	137,500	136,888	(612)
Consumer utility tax	114,000	114,000	20,333	(93,667)
Permits, privilege fees, and regulatory licenses	81,000	81,000	88,186	7,186
Fines and forfeitures	17,000	17,000	46,717	29,717
Interest and investment revenue	500	500	1,933	1,433
Charges for service	90,000	90,000	89,883	(117)
Recovered costs	24,000	24,000	22,176	(1,824)
Intergovernmental	48,500	48,500	59,007	10,507
Miscellaneous	23,800	23,800	12,531	(11,269)
Total revenues	832,400	832,400	773,724	(58,676)
Expenditures:				
Current:				
General government administration	142,700	142,700	117,776	24,924
Judicial administration	290,200	290,200	271,064	19,136
Public safety	14,100	14,100	14,506	(406)
Public works	290,200	290,200	304,402	(14,202)
Cemetery maintenance	53,000	53,000	51,639	1,361
Parks, recreation, and cultural	62,800	62,800	59,584	3,216
Debt service:				
Principal retirement	77,000	77,000	76,078	922
Total expenditures	930,000	930,000	895,049	34,951
Excess (deficiency) of revenues over (under) expenditures	(97,600)	(97,600)	(121,325)	(23,725)
Other financing sources (uses):				
Operating transfers in	-	-	6,600	6,600
Transfer to reserve funds	97,600	97,600	-	(97,600)
Total other financing sources (uses)	97,600	97,600	6,600	(91,000)
Net change in fund balances			(114,725)	
Fund balance at beginning of year			593,009	
Fund balance at end of year			\$ 478,284	

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

OTHER SUPPLEMENTARY INFORMATION

Exhibit 10

ASSETS

\$ 222,967
79,891

\$ 302,858

Liabilities:

\$ -

Reserved for:

302,858

Total fund balances

\$ 302,858

36

TOWN OF CHATHAM, VIRGINIA

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

For the Year Ended June 30, 2013

Exhibit 11

	<u>Permanent Fund</u>
	<u>Perpetual Care</u>
Revenues:	
Interest and investment revenue	\$ 1,839
Sale of cemetery lots	<u>16,500</u>
Total revenues	<u>18,339</u>
Total expenditures	<u>-</u>
Excess of revenues over expenditures	<u>18,339</u>
Other financing sources:	
Operating transfers out	<u>(6,600)</u>
Total other financing sources	<u>(6,600)</u>
Net change in fund balances	11,739
Fund balance at beginning of year	<u>291,119</u>
Fund balance at end of year	<u><u>\$ 302,858</u></u>

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

COMPLIANCE SECTION



L. Samuel Saunders, CPA
Jerry A. Foster, CPA
Brad S. Reynolds, CPA
Vaden L. Wright, CPA
Katherine D. McDaniel, CPA
John R. Neal, CPA
Mark W. Foster, CPA
Stephen M. Gay, CPA

James P. Barts, Jr., CPA
Kimberly A. Priest, CPA
Jeffrey D. Gignac, CPA
George A. Brooks, CPA

Fletcher D. Harris, CPA
1928-2003
Loyd R. Harvey, CPA
1915-2000
Robert L. Neal, III, CPA
1935-1988
A.K. Anderson, CPA
1924-2000
Alvin L. Moss, CPA
Retired

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia., the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Chatham, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Town of Chatham, Virginia's basic financial statements and have issued our report thereon dated November 30, 2013.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in a separate SAS 115 letter, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the separate SAS 115 letter to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the separate SAS 115 letter to be significant deficiencies.

Compliance

As part of obtaining reasonable assurance about whether the Town of Chatham, Virginia's financial statements and schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Harris Harvey Neal & Co. LLP

Danville, Virginia
November 30, 2013