

TOWN OF RICHLANDS, VIRGINIA



FINANCIAL STATEMENTS FISCAL YEAR ENDED JUNE 30, 2014

TOWN OF RICHLANDS, VIRGINIA

FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2014

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

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INTRODUCTORY SECTION

TOWN OF RICHLANDS, VIRGINIA

TOWN COUNCIL

Jan White, Mayor

Rod, Cury Vice Mayor

Larry Johnson

A. Joe McCracken

Frances Meadows

Doug Ratliff

Mary Ann Strong

Susan Whitt, Town Clerk

OTHER OFFICIALS

Timothy Taylor Town Manager
Sue Wade Office Manager
Adrienne Cordle Accountant

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FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Town of Richlands, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Town of Richlands, Virginia'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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, and each major fund of Town of Richlands, 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 management's discussion and analysis, budgetary comparison information, and schedule of pension funding progress on pages 5-16, 56, and 57 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Town of Richlands, Virginia's basic financial statements. The introductory section, supporting schedules, and 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 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 September 30, 2014, on our consideration of Town of Richlands, 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 Richlands, Virginia's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
September 30, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis (MD&A) offers the readers of the Town of Richlands, Virginia (the Town) financial statements a narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2014.

Financial Highlights for fiscal year 2014

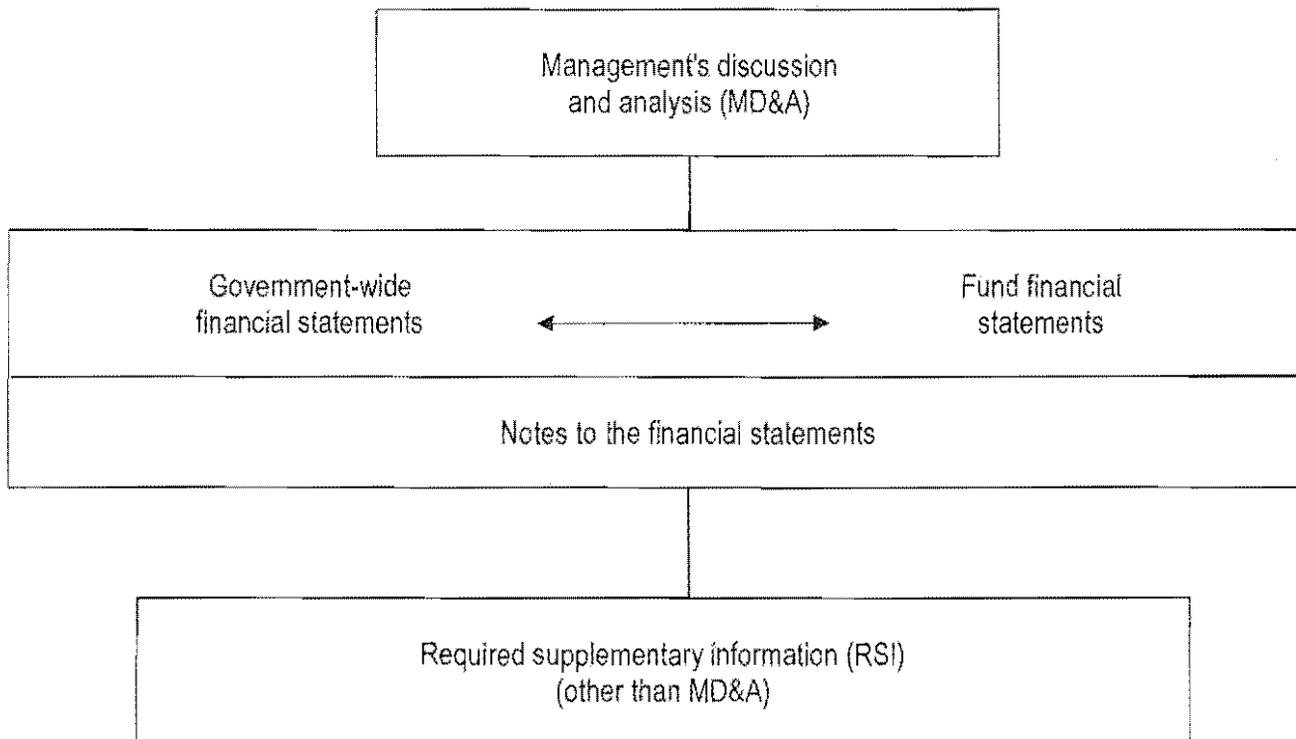
- The assets of the Town exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$27,717,291 (net position). Of this amount, \$7,084,994 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net position increased by \$4,312,777. The increase is attributable to an increase in the Town's Governmental activities for the year.
- The Town's total liabilities and deferred inflows at the close of the current fiscal year were \$5,072,639, including \$3,693,022 in long-term obligations.
- Long-term obligations primarily represent the amount due on the Town's general obligation and revenue bonds for public improvements and the water and wastewater treatment systems, respectively.
- As of the close of the current fiscal year, the Town's governmental fund reported an ending fund balance of \$1,117,173, an increase of \$257,636 from the prior year fund balance. Such amount is available for spending at the Town's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$900,037, or 18% of total general fund expenditures.
- At the end of the fiscal year June 30, 2014, the Town has incurred expenses of \$41,437 for architectural work performed for the restoration of the Town's Historical Railroad Foreman Section House. The Town was awarded \$438,000 in grant funds for the restoration project.
- At the close of the current fiscal year, the Virginia Department of Transportation (VDOT) completed the replacement of the Rt. 460 Front Street Bridge located in Richland's Corporate limits. The total completed project cost is \$4,615,288 of which The Town is responsible for only 2% and VDOT 98%.
- The Town had active Revenue Bonds at the end of the current fiscal year with a total balance of \$784,764.
- The Town had general obligation bonds at June 30, 2014 with an ending balance of \$2,288,371.

Overview of the Financial Statements

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

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

Figure A
Required Components of Richland's Financial Statements



Government-Wide Financial Statements

The *government-wide financial statements* (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. *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 activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

The government-wide financial statements can be found on pages 17 and 18 of this report.

Overview of the Financial Statements (Continued)

Fund Financial Statements

The format of the fund financial statements will be more familiar to traditional users of the Town's financial statements. The fund financial statements provide more detailed information about the Town's most significant funds – not the Town as a whole. Funds are accounting mechanisms that the Town uses to keep track of specific sources of funding and spending for particular purposes. Separate financial statements are provided for governmental and proprietary funds. Major individual government funds and enterprise funds are reported as separate columns in the fund financial statements.

Governmental Funds

Governmental funds account for expendable financial resources other than those accounted for in the proprietary funds. The governmental fund measurement focus is upon determination of financial position and cash flows in and out and the balances that remain at year-end that are available for spending (rather than net income determination as would apply to a commercial enterprise). As a result, the governmental fund statements provide a detailed *short-term* view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs.

The Town reports one major government fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, with the exception of those accounted for in another fund.

The basic governmental fund financial statements can be found on pages 19 through 22 of this report.

Proprietary Funds

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

The Town reports the following major proprietary funds:

The *electric fund* accounts for the activities of the electric operations.

The *water and sewer fund* accounts for the activities of the water operations.

The basic proprietary fund statements can be found on pages 23 to 25 of this report.

Budgetary Comparison

The Town adopts an annual appropriated budget for all government funds. A budgetary comparison statement has been provided to demonstrate compliance with this budget and will disclose how accurately the governing body was able to forecast the revenues and expenditures of the Town.

Overview of the Financial Statements (Continued)

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26 through 55 of this report.

Government-Wide Financial Analysis

Statement of Net Position

The following table reflects the Town's condensed Net Position:

Table 1
Summary of Net Position
As of June 30, 2014

	Governmental Activities		Business-type Activities		Totals	
	2013	2014	2013	2014	2013	2014
Current and other assets	\$ 1,514,787	\$ 2,034,835	\$ 7,458,713	\$ 7,084,378	\$ 8,973,500	\$ 9,119,213
Capital assets	6,493,271	10,926,940	13,353,016	12,743,777	19,846,287	23,670,717
Total assets	8,008,058	12,961,775	20,811,729	19,828,155	28,819,787	32,789,930
Long-term liabilities	555,499	501,035	3,651,250	3,191,987	4,206,749	3,693,022
Other liabilities	412,973	439,855	768,411	915,686	1,181,384	1,355,541
Total liabilities	968,472	940,890	4,419,661	4,107,673	5,388,133	5,048,563
Deferred inflows	27,140	24,076	-	-	27,140	24,076
Net position:						
Net investment in capital assets	6,295,112	10,775,030	9,808,738	9,670,642	16,103,850	20,445,672
Restricted	-	186,625	-	-	-	186,625
Unrestricted	717,334	1,035,154	6,583,330	6,049,840	7,300,664	7,084,994
Total net position	\$ 7,012,446	\$ 11,996,809	\$ 16,392,068	\$ 15,720,482	\$ 23,404,514	\$ 27,717,291

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities and deferred inflows by \$27,717,291 at the close of fiscal year 2014. The largest portion of the Town's net position (74%) reflects its investment in capital assets (e.g., land, buildings, plant in service, machinery and equipment), less any outstanding related debt used to acquire those assets. The Town uses these capital assets to provide services to citizens and consequently, these assets are not available for future spending. Since the capital assets themselves cannot be used to pay the related debt, the resources needed to service this debt must be provided from other sources.

The unrestricted net position (\$7,084,994) may be used to meet the Town's ongoing obligations to the citizens and creditors.

Government-Wide Financial Analysis (Continued)

Statement of Activities

The following table shows the revenues and expenses of the Town's governmental and business-type activities:

Table 2
Changes in Net Position
For the Fiscal Year Ended June 30, 2014

	Governmental Activities		Business-type Activities	
	2013	2014	2013	2014
Revenues:				
Program revenues :				
Charges for services	\$ 1,212,704	\$ 1,583,810	\$ 8,459,910	\$ 8,451,279
Operating grants & Contributions	1,778,186	1,280,498	-	-
Capital grants & Contributions	64,203	4,607,782	29,738	-
General revenue:				
Property taxes	464,070	469,162	-	-
Other local taxes	1,848,254	1,941,856	-	-
Unrestricted investment earnings	8,747	8,938	8,127	5,112
Other / Miscellaneous	351,811	158,987	-	-
Grants and contributions not restricted	13,885	4,057	-	-
Gain on disposal of capital assets	10,587	-	1,832	8,526
Total revenues	5,752,247	10,055,090	8,499,607	8,464,917
Expenses:				
General govt adm.	290,591	285,960	-	-
Public safety	2,838,354	2,863,825	-	-
Public works	1,551,236	1,500,829	-	-
Parks, recreation , culture	391,472	354,456	-	-
Community development	129,783	58,493	-	-
interest-long term debt	9,285	7,164	-	-
Electric	-	-	5,291,893	6,743,677
Water & sewer	-	-	2,282,333	2,392,826
Total expenses	5,210,721	5,070,727	7,574,226	9,136,503
Excess (deficiency) before transfers	541,526	4,984,363	925,381	(671,586)
Change in net position	541,526	4,984,363	925,381	(671,586)
Net position-July 1	6,470,920	7,012,446	15,466,687	16,392,068
Net position-June 30	\$ 7,012,446	\$ 11,996,809	\$ 16,392,068	\$ 15,720,482

Government-Wide Financial Analysis (Continued)

Statement of Activities (Continued)

During the current fiscal year the Town's net position increased by \$4,312,777. This is comprised of an increase from governmental activities of \$4,984,492 and a decrease in business-type activities of \$671,586.

Governmental activities-Governmental activities increased the Town's net position by \$4,984,363. Additional factors noted below.

Revenues from governmental activities totaled \$10,055,090, with charges for services (15.8%), other local taxes (19.3%) and capital grants & contributions (45.8%), being the major sources of revenues. Most revenues in comparison to the previous year had nominal changes with the exception of the following: charges for services increased \$371,106 due significantly to a decrease in bad debt write offs for EMS billings totaling \$94,191 during the fiscal year as compared to write offs totaling \$264,038 in the prior year, capital grants & contributions increased \$4,543,579 due to an increase of grant funding for the public works department, and operating grants & contributions decreased \$497,688 due primarily to a decrease in grant funding of the public safety departments.

Expenses for governmental activities totaled \$5,070,727 with parks, recreation and culture (7%), public safety (56.5%), public works (29.6%), accounting for approximately ninety-three percent of total governmental expenses. Public safety expenses increased \$25,471 as a result of an increase in operating expenses; however, overall expenses decreased \$139,994.

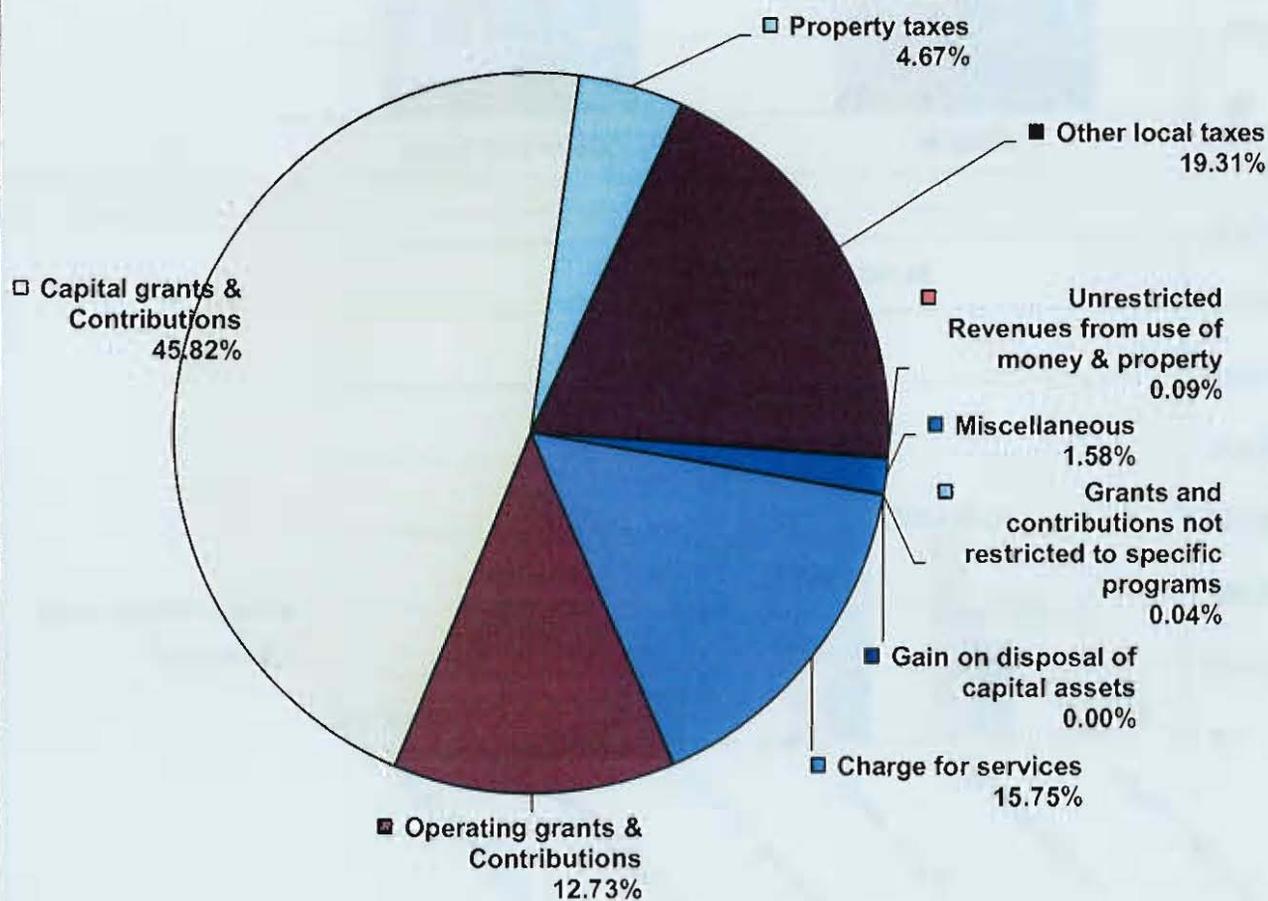
Business-type activities – Net position of the business-type activities were \$15,720,482 at June 30, 2014. This was a decrease of (\$671,586) from the prior year net assets. The current year decrease is \$1,596,967 more than the prior year increase of \$925,381 as a result of an increase in purchased power costs.

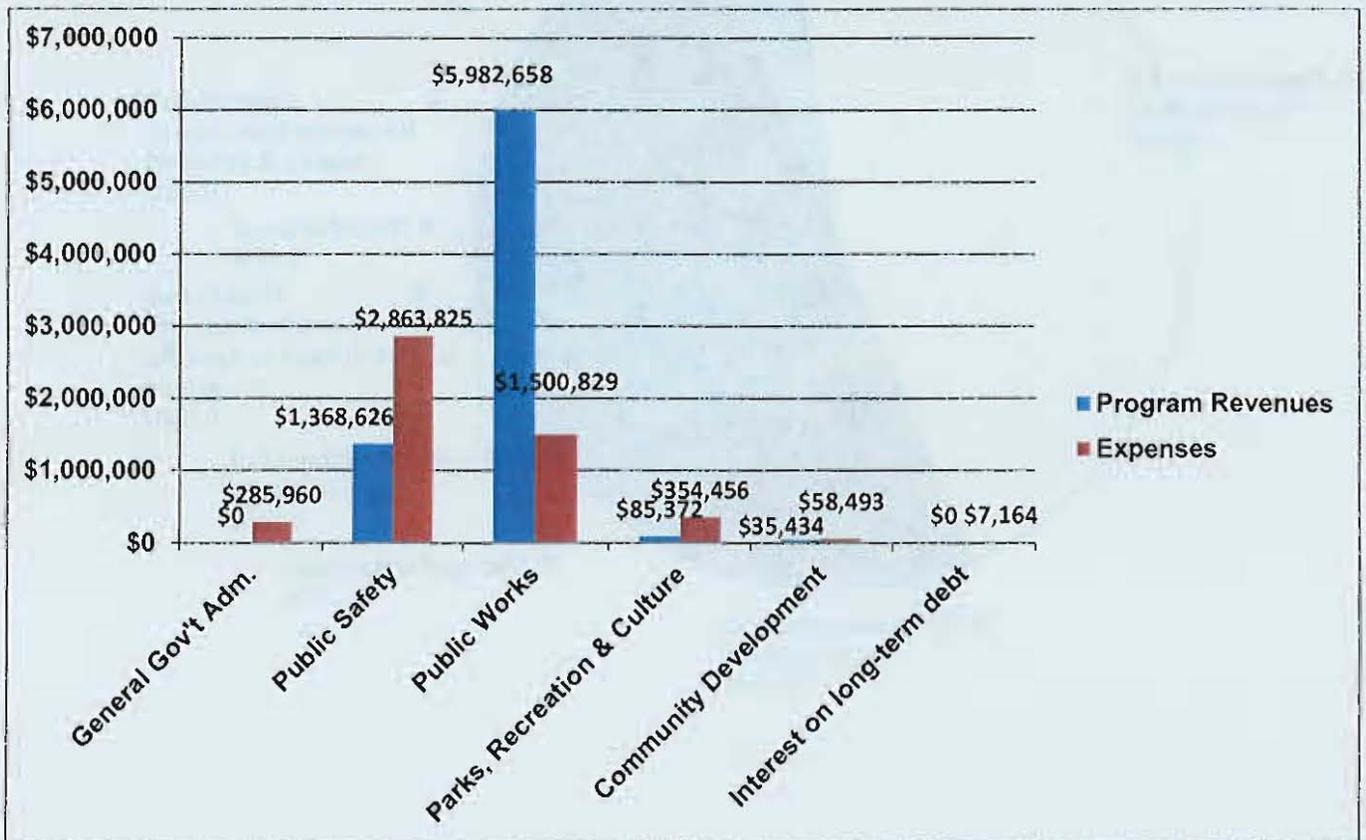
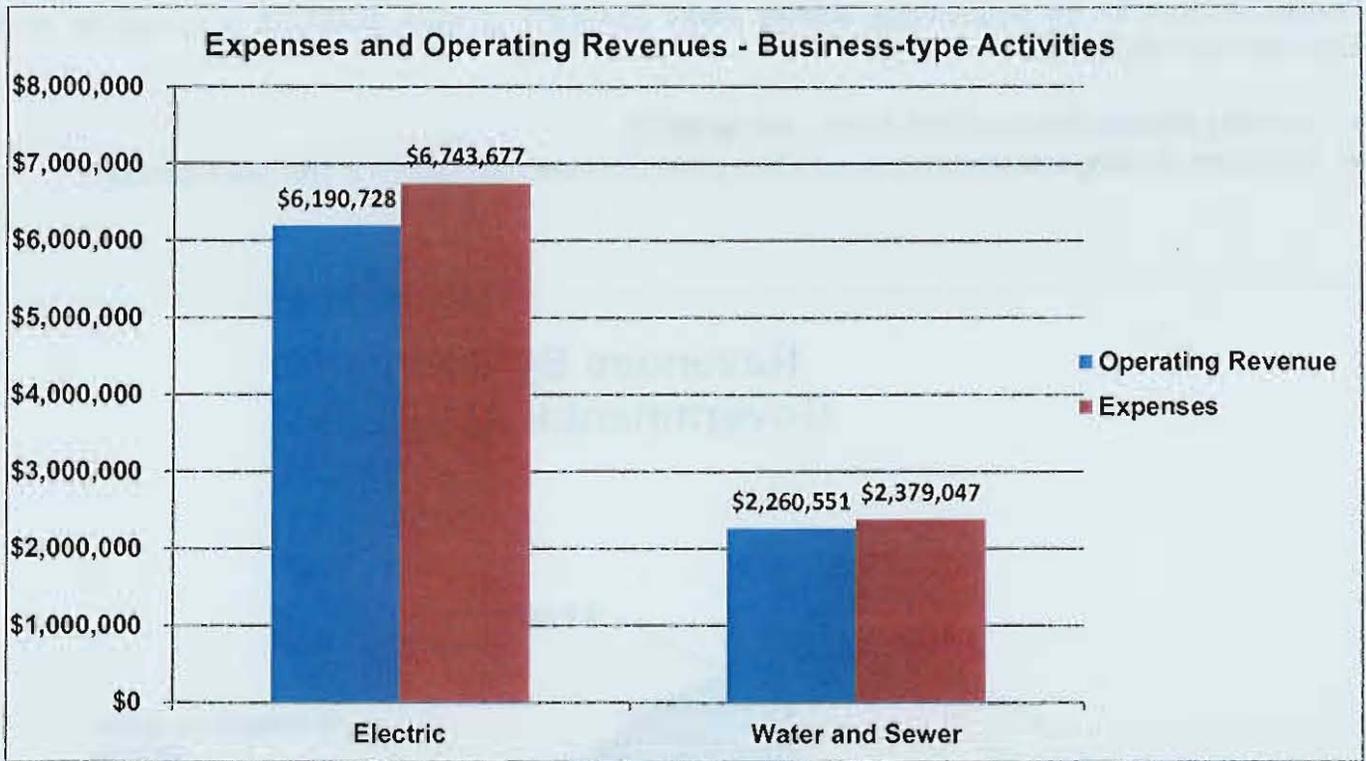
Government-Wide Financial Analysis (continued)

Program revenues for the business-type activities totaled \$8,464,917 of which \$8,451,279 is charges for services. Expenses totaled \$9,136,503.

- Operating revenues decreased from the prior year by \$8,631.
- Proprietary operating expenses experienced a 20.9 percent increase in comparison to prior year expenses.

Revenues By Source Governmental Activities





Financial Analysis of the Government's Funds

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Town's *governmental fund* is to provide information on near-term inflows, outflows, and balances of spendable resources. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year.

The general fund is the Town's primary operating fund. As of the end of the current fiscal year, the Town's general fund reported an ending fund balance of \$1,117,173, which includes an unreserved fund balance of \$900,037 available for spending at the government's discretion. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents approximately 18% of total fund expenditures.

The fund balance of the Town's general fund increased during the current fiscal year by \$257,636 from current year activities. Total revenues decreased by \$483,221 specifically due to a decrease in donations and intergovernmental revenues; and total expenditures decreased by \$738,487, as a result primarily of a decrease in capital projects.

Proprietary funds

The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the electric and water and sewer funds amounted to \$2,411,210 and \$3,638,630 respectively. The total decrease in net position was \$671,586 during the current fiscal year.

Electric fund

The electric fund net position decreased by \$548,737 from current year activities in fiscal year 2014 compared to a prior year increase of \$986,312. The decrease was a result of a small decrease in operating revenues and an increase in operating expense. Operating revenues decreased only by \$54,507 (0.9%) due primarily to a decrease in contract work. Operating expenses increased by \$1,451,784 (27.5%) due significantly to an increase in purchased power which equated to \$1,381,760.

Electric fund non-operating revenues increased \$980 from the prior year, which was related to an increase in the gain on sale of assets during the current fiscal year.

Water and sewer fund

The water and sewer fund net position decreased by \$122,849 from current year activities in fiscal year 2014 compared to the prior year decrease of \$60,931. The change in net position decrease is comprised of a couple of factors. Operating Revenues increased by \$45,876 (2.1%) due to an increase in charges for services as well as an increase in lab testing and septic treatment; however, operating expenses increased \$121,061 (5.4%), as a result of increased personnel cost for employees, equipment and vehicle maintenance, supplies and heating oil/fuel. Non-operating expenses decreased by 13,267 due primarily to a decrease in interest expense and non-operating revenue increased by \$2,699 as a result of a decrease in investment earnings and gain on sale of assets.

General Fund Budgetary Highlights

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

- Actual Revenues were less than budgeted revenues by \$88,861. The decrease is a result of a combination of an increase in various revenues and a decrease in general property taxes and federal revenues, however, the most significant changes were an positive budget variance in fines and forfeitures of \$199,781 and a negative budget variance in federal revenues of \$425,664.
- Actual Expenditures were less than budgeted expenditures by \$942,709. This is due to a decrease of various expenditures. Primarily public works and public safety expenses being less than estimated but significantly due to a decrease in capital projects.

General Fund Condensed Budget vs. Actual Fiscal Year ended June 30, 2014

	Budgeted Amounts		Actual Amounts
	Original	Final	
Revenues	\$ 5,398,149	\$ 5,398,149	\$ 5,309,288
Expenditures	(6,010,253)	(6,010,253)	(5,067,544)
Other Financing Sources	10,000	10,000	15,892
Change in fund balance	\$ (602,104)	\$ (602,104)	\$ 257,636

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, 2014, amounts to \$23,670,717 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, improvements other than buildings, equipment, and public domain infrastructure additions in the current fiscal year.

Major capital asset events during the current year included the following:

- Capital asset acquisitions in governmental activities totaled \$5,151,495 in the current fiscal year. The majority was infrastructure consisting of bridge construction (including land and easement purchases) (\$4,615,289) and resurfacing of roads (\$290,156); as well as new vehicles and equipment (\$152,633), building & building improvements (\$33,270) and construction in progress (\$60,147).
- There were no capital asset acquisitions in business-type activities in the current fiscal year.

**The Town's Capital Assets
(Net of Depreciation)
Fiscal Year ended June 30, 2014**

	Governmental Activities		Business-Type Activities	
	2013	2014	2013	2014
Land	\$ 428,106	\$ 1,357,395	\$ 517,913	\$ 517,913
Construction in Progress	42,940	60,147	-	-
Buildings and improvements	2,015,787	1,956,440	11,916,066	-
Improvements other than buildings	2,858,997	6,613,291	-	11,427,248
Equipment	1,147,441	939,667	919,037	798,616
Total	\$ 6,493,271	\$ 10,926,940	\$ 13,353,016	\$ 12,743,777

Additional information on the Town's capital assets can be found in Note 9 on pages 50 through 51 of this report.

Long-term debt

At the end of the current fiscal year, the Town had total bonded debt outstanding of \$3,073,135. Of this amount, \$784,764 is comprised of (1) active Revenue bond and the remaining balance of \$2,288,371 is General Obligation Bonds.

**The Town's Long-term Bond Debt
Fiscal Year ended June 30, 2014**

	Beginning Balance	Additions	Reductions	Ending Balance
<i>Fiscal year 2013</i>				
Business-Type Activities:				
General obligation bonds	\$ 3,133,236	\$ -	\$ 418,565	\$ 2,714,671
Revenue bonds	874,451	-	44,844	829,607
Total	\$ 4,007,687	\$ -	\$ 463,409	\$ 3,544,278
<i>Fiscal year 2014</i>				
Business-Type Activities:				
General obligation bonds	\$ 2,714,671	\$ -	\$ 426,300	\$ 2,288,371
Revenue bonds	829,607	-	44,843	784,764
Total	\$ 3,544,278	\$ -	\$ 471,143	\$ 3,073,135

Additional information on the Town's long-term liability can be found in Note 5 on pages 35 to 37 of this report.

Economic Factors and Next Year's Budget Rates

- The unemployment rate as of June 30, 2014 for the County of Tazewell, in which the Town of Richlands resides, is 6.9%, which is a decrease from the average for 2013 of 7.0%. This compares to the state's unemployment rate of 5.5% and the national rate of 6.1%.
- The Town of Richlands is located in the AEP Zone of PJM Interconnection, LLC ("PJM"). The Town is also a member of American Municipal Power ("AMP") and has purchased block power from the PJM market through AMP to meet a portion of its energy needs. Additionally, through AMP, the Town is participating in several new generation assets including: 2.6 MW of the Prairie State Coal plant unit #1 and unit #2 PSEC are in full commercial operation, 1.5 MW in the AMP Phase I Hydro projects (Cannelton, Smithland, and Willow Island) with estimated COD between 2015 and 2016 and 1.675 MW in the Fremont energy campus project is in full commercial operation. The AMP Phase I run-of-the-river hydroelectric projects are being constructed by AMP at existing dam and locks facilities on the Ohio River. Richlands also purchases 0.5 MW of capacity and associated energy from Southeastern Power Administration ("SEPA") through a Purchase Power Agreement ("PPA") that is cancelable by either party. Exposure to the volatile energy market commodity will be greatly reduced by providing over 50% of the Town's load requirements from these projects.
- The evaluation of the American Municipal Power Generating Station (AMPGS) project, a coal fired generation facility in southern Ohio was terminated and final stranded investment costs are still pending, however, cost projections were funded in a rate stabilization fund established by American Municipal Power, Inc (AMP, Inc) and \$163,226 were paid on the stranded investment during the current fiscal year.
- The Town will continue to monitor the effects of current economic conditions on energy costs in relation to powering water and wastewater plant facilities and rising costs of raw materials needed to maintain the Town and its infrastructure.

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

Unreserved fund balance in the general fund was \$900,166 as of June 30, 2014. It is intended that this available balance will be utilized in order to meet the government's ongoing obligations to citizens and creditors.

Requests for Information

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

Basic Financial Statements

Town of Richlands, Virginia
Statement of Net Position
At June 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,182,331	\$ 4,581,190	\$ 5,763,521
Receivables (net of allowance for uncollectibles):			
Taxes receivable	81,552	-	81,552
Accounts receivable	632,258	694,798	1,327,056
Notes receivable	30,511	-	30,511
Due from other governmental units	108,183	1,367,290	1,475,473
Prepaid expenses	-	441,100	441,100
Capital assets (net of accumulated depreciation):			
Land	1,357,395	517,913	1,875,308
Buildings and system	1,956,440	-	1,956,440
Machinery and equipment	939,667	798,616	1,738,283
Infrastructure/utility plant and buildings in service	6,613,291	11,427,248	18,040,539
Construction in progress	60,147	-	60,147
Total assets	<u>\$ 12,961,775</u>	<u>\$ 19,828,155</u>	<u>\$ 32,789,930</u>
LIABILITIES			
Accounts payable	\$ 187,574	\$ 560,122	\$ 747,696
Accrued liabilities	140,835	40,764	181,599
Due to other governments	9,611	-	9,611
Customers' deposits	-	312,025	312,025
Accrued interest payable	6,405	2,775	9,180
Unearned revenue	95,430	-	95,430
Long-term liabilities:			
Due within one year	310,221	572,454	882,675
Due in more than one year	190,814	2,619,533	2,810,347
Total liabilities	<u>\$ 940,890</u>	<u>\$ 4,107,673</u>	<u>\$ 5,048,563</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue - prepaid taxes	\$ 24,076	\$ -	\$ 24,076
Total deferred inflows of resources	<u>\$ 24,076</u>	<u>\$ -</u>	<u>\$ 24,076</u>
NET POSITION			
Net investment in capital assets	\$ 10,775,030	\$ 9,670,642	\$ 20,445,672
Restricted	186,625	-	186,625
Unrestricted (deficit)	1,035,154	6,049,840	7,084,994
Total net position	<u>\$ 11,996,809</u>	<u>\$ 15,720,482</u>	<u>\$ 27,717,291</u>

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
General government administration	\$ 285,960	\$ -	\$ -	\$ -	\$ (285,960)	\$ -	\$ (285,960)
Public safety	2,863,825	1,043,567	325,059	-	(1,495,199)	-	(1,495,199)
Public works	1,500,829	454,871	955,439	4,572,348	4,481,829	-	4,481,829
Parks, recreation, and cultural	354,456	85,372	-	-	(269,084)	-	(269,084)
Community development	58,493	-	-	35,434	(23,059)	-	(23,059)
Interest on long-term debt	7,164	-	-	-	(7,164)	-	(7,164)
Total governmental activities	\$ 5,070,727	\$ 1,583,810	\$ 1,280,498	\$ 4,607,782	\$ 2,401,363	\$ -	\$ 2,401,363
Business-type activities:							
Water and sewer	\$ 2,392,826	\$ 2,260,551	\$ -	\$ -	\$ -	\$ (132,275)	\$ (132,275)
Electric	6,743,677	6,190,728	-	-	-	(552,949)	(552,949)
Total business-type activities	\$ 9,136,503	\$ 8,451,279	\$ -	\$ -	\$ -	\$ (685,224)	\$ (685,224)
Total primary government	\$ 14,207,230	\$ 10,035,089	\$ 1,280,498	\$ 4,607,782	\$ 2,401,363	\$ (685,224)	\$ 1,716,139
General revenues:							
General property taxes					\$ 469,162	\$ -	\$ 469,162
Other local taxes:							
Local sales and use taxes					383,952	-	383,952
Consumers' utility taxes					147,075	-	147,075
Business license taxes					484,838	-	484,838
Motor vehicle licenses					36,036	-	36,036
Bank stock tax					157,086	-	157,086
Meals taxes					694,174	-	694,174
Other local taxes					38,695	-	38,695
Unrestricted revenues from use of money and property					8,938	5,112	14,050
Miscellaneous					158,987	-	158,987
Grants and contributions not restricted to specific programs					4,057	-	4,057
Gain on disposal of capital assets					-	8,526	8,526
Total general revenues					\$ 2,583,000	\$ 13,638	\$ 2,596,638
Change in net position					\$ 4,984,363	\$ (671,586)	\$ 4,312,777
Net position - beginning					7,012,446	16,392,068	23,404,514
Net position - ending					\$ 11,996,809	\$ 15,720,482	\$ 27,717,291

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

Town of Richlands, Virginia
Balance Sheet
Governmental Funds
At June 30, 2014

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 1,182,331
Receivables (net of allowance for uncollectibles):	
Taxes receivable	81,552
Accounts receivable	632,258
Notes receivable	30,511
Due from other governmental units	108,183
Total assets	<u>\$ 2,034,835</u>
LIABILITIES	
Accounts payable	\$ 187,574
Accrued payroll and related liabilities	140,835
Due to other governments	9,611
Unearned revenue	95,430
Total liabilities	<u>\$ 433,450</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	\$ 76,518
Unavailable revenue - EMS billings	383,618
Unavailable revenue - prepaid taxes	24,076
Total deferred inflows of resources	<u>\$ 484,212</u>
FUND BALANCES	
Nonspendable	\$ 30,511
Restricted	186,625
Unassigned	900,037
Total fund balances	<u>\$ 1,117,173</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,034,835</u>

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

Town of Richlands, Virginia
 Reconciliation of the Balance Sheet of Governmental Funds
 to the Statement of Net Position
 At June 30, 2014

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds		\$	1,117,173
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			
Land		\$	1,357,395
Buildings and improvements			1,956,440
Machinery and equipment			939,667
Infrastructure/utility plant and buildings in service			6,613,291
Construction in progress			60,147
			10,926,940
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			
Unavailable revenue - property taxes		\$	76,518
Unavailable revenue - EMS billings			383,618
			460,136
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.			
Capital lease		\$	(151,910)
Accrued interest payable			(6,405)
Compensated absences			(349,125)
			(507,440)
Net position of governmental activities			\$ 11,996,809

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

Town of Richlands, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2014

	<u>General</u>
REVENUES	
General property taxes	\$ 460,876
Other local taxes	1,941,856
Permits, privilege fees, and regulatory licenses	1,270
Fines and forfeitures	237,281
Revenue from the use of money and property	8,938
Charges for services	1,116,902
Miscellaneous	158,987
Recovered costs	63,189
Intergovernmental revenues:	
Commonwealth	1,268,590
Federal	51,399
Total revenues	<u>\$ 5,309,288</u>
EXPENDITURES	
Current:	
General government administration	\$ 263,515
Public safety	2,623,164
Public works	1,219,929
Parks, recreation, and cultural	310,872
Community development	58,493
Capital projects	536,207
Debt service:	
Principal retirement	46,249
Interest and other fiscal charges	9,115
Total expenditures	<u>\$ 5,067,544</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 241,744</u>
OTHER FINANCING SOURCES (USES)	
Sale of capital assets	\$ 15,892
Total other financing sources (uses)	<u>\$ 15,892</u>
Net change in fund balances	\$ 257,636
Fund balances - beginning	859,537
Fund balances - ending	<u><u>\$ 1,117,173</u></u>

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

Town of Richlands, Virginia
 Reconciliation of Statement of Revenues,
 Expenditures, and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Year Ended June 30, 2014

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

Net change in fund balances - total governmental funds	\$	257,636
<p>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.</p>		
Capital outlays	\$ 536,207	
Loss on disposal of assets	(18,290)	
Depreciation expenses	<u>(656,596)</u>	(138,679)
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.</p>		
Value of constructed bridge by Commonwealth donated to the Town		4,572,348
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Property taxes	\$ 8,286	
Rescue squad charges	<u>228,357</u>	236,643
<p>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.</p>		
Principal repayments:		
Capital lease		46,249
<p>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.</p>		
Decrease (increase) in compensated absences	\$ 8,215	
Decrease (increase) in accrued interest payable	<u>1,951</u>	10,166
Change in net position of governmental activities	\$	<u><u>4,984,363</u></u>

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

Town of Richlands, Virginia
Statement of Net Position
Proprietary Funds
At June 30, 2014

	Enterprise Funds		
	Water and Sewer	Electric	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,307,612	\$ 2,273,578	\$ 4,581,190
Accounts receivable, net of allowances for uncollectibles	178,227	516,571	694,798
Due from other governmental units	1,367,290	-	1,367,290
Prepaid items	-	441,100	441,100
Total current assets	<u>\$ 3,853,129</u>	<u>\$ 3,231,249</u>	<u>\$ 7,084,378</u>
Noncurrent assets:			
Capital assets:			
Utility plant and buildings in service	\$ 21,158,959	\$ 1,053,126	\$ 22,212,085
Machinery and equipment	644,431	1,538,992	2,183,423
Land	517,913	-	517,913
Accumulated depreciation	(10,548,114)	(1,621,530)	(12,169,644)
Total net capital assets	<u>\$ 11,773,189</u>	<u>\$ 970,588</u>	<u>\$ 12,743,777</u>
Total noncurrent assets	<u>\$ 11,773,189</u>	<u>\$ 970,588</u>	<u>\$ 12,743,777</u>
Total assets	<u>\$ 15,626,318</u>	<u>\$ 4,201,837</u>	<u>\$ 19,828,155</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 42,179	\$ 517,943	\$ 560,122
Accrued wages	28,424	12,340	40,764
Customers' deposits	60,781	251,244	312,025
Accrued interest payable	2,775	-	2,775
Revenue bonds payable - current portion	44,844	-	44,844
General obligation bonds - current portion	438,471	-	438,471
Compensated absences - current portion	60,255	28,884	89,139
Total current liabilities	<u>\$ 677,729</u>	<u>\$ 810,411</u>	<u>\$ 1,488,140</u>
Noncurrent liabilities:			
Revenue bonds payable - net of current portion	\$ 739,920	\$ -	\$ 739,920
General obligation bond - net of current portion	1,849,900	-	1,849,900
Compensated absences - net of current portion	20,085	9,628	29,713
Total noncurrent liabilities	<u>\$ 2,609,905</u>	<u>\$ 9,628</u>	<u>\$ 2,619,533</u>
Total liabilities	<u>\$ 3,287,634</u>	<u>\$ 820,039</u>	<u>\$ 4,107,673</u>
NET POSITION			
Net investment in capital assets	\$ 8,700,054	\$ 970,588	\$ 9,670,642
Unrestricted	3,638,630	2,411,210	6,049,840
Total net position	<u>\$ 12,338,684</u>	<u>\$ 3,381,798</u>	<u>\$ 15,720,482</u>

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

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

	<u>Enterprise Funds</u>		
	<u>Water and Sewer</u>	<u>Electric</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services:			
Charges for services	\$ 2,152,687	\$ 6,028,914	\$ 8,181,601
Contract work	14,162	51,954	66,116
Lab testing and septic treatment	56,684	-	56,684
Penalties and service charges	31,536	90,345	121,881
Connection fees	5,482	-	5,482
Utility pole permits	-	19,515	19,515
Total operating revenues	<u>\$ 2,260,551</u>	<u>\$ 6,190,728</u>	<u>\$ 8,451,279</u>
OPERATING EXPENSES			
Salaries, wages and fringes	\$ 979,076	\$ 560,091	\$ 1,539,167
Insurance	28,538	10,766	39,304
Audit and legal	33,400	27,664	61,064
Dues, memberships and training	2,835	16,764	19,599
Office supplies and postage	21,563	13,651	35,214
Telecommunications	5,345	2,892	8,237
Equipment and vehicle maintenance	59,710	22,547	82,257
Supplies	253,620	44,114	297,734
Utilities	321,669	13,505	335,174
Heating oil/fuel	70,745	-	70,745
Misc	19,436	2,917	22,353
Plant parts and repairs	18,654	-	18,654
Maintenance, repairs and upgrades	31,217	111,429	142,646
Instrument calibration	825	-	825
Power purchased	-	5,699,460	5,699,460
Payment in lieu of tax	-	59,388	59,388
Street lighting	-	12,854	12,854
Distribution	-	57,183	57,183
Testing	8,152	2,312	10,464
Capital outlays	1,163	-	1,163
Depreciation	523,099	86,140	609,239
Total operating expenses	<u>\$ 2,379,047</u>	<u>\$ 6,743,677</u>	<u>\$ 9,122,724</u>
Operating income (loss)	<u>\$ (118,496)</u>	<u>\$ (552,949)</u>	<u>\$ (671,445)</u>
NONOPERATING REVENUES (EXPENSES)			
Investment income	\$ 4,016	\$ 1,096	\$ 5,112
Gain on sale of assets	5,410	3,116	8,526
Interest expense	(13,779)	-	(13,779)
Total nonoperating revenues (expenses)	<u>\$ (4,353)</u>	<u>\$ 4,212</u>	<u>\$ (141)</u>
Change in net position	<u>\$ (122,849)</u>	<u>\$ (548,737)</u>	<u>\$ (671,586)</u>
Total net position - beginning	12,461,533	3,930,535	16,392,068
Total net position - ending	<u>\$ 12,338,684</u>	<u>\$ 3,381,798</u>	<u>\$ 15,720,482</u>

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

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

	Enterprise Fund		
	Water and Sewer	Electric	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 2,270,695	\$ 6,287,879	\$ 8,558,574
Payments to suppliers	(898,161)	(5,789,977)	(6,688,138)
Payments to and for employees	(975,896)	(562,704)	(1,538,600)
Net cash provided by (used for) operating activities	<u>\$ 396,638</u>	<u>\$ (64,802)</u>	<u>\$ 331,836</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from the sale of surplus	\$ 5,410	\$ 3,116	\$ 8,526
Principal payments on general obligation and revenue bonds	(471,143)	-	(471,143)
Capital contributions	60,660	-	60,660
Interest payments	(16,458)	-	(16,458)
Net cash provided by (used for) capital and related financing activities	<u>\$ (421,531)</u>	<u>\$ 3,116</u>	<u>\$ (418,415)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received	\$ 4,016	\$ 1,096	\$ 5,112
Net cash provided by (used for) investing activities	<u>\$ 4,016</u>	<u>\$ 1,096</u>	<u>\$ 5,112</u>
Net increase (decrease) in cash and cash equivalents	<u>\$ (20,877)</u>	<u>\$ (60,590)</u>	<u>\$ (81,467)</u>
Cash and cash equivalents - beginning	2,328,489	2,334,168	4,662,657
Cash and cash equivalents - ending	<u>\$ 2,307,612</u>	<u>\$ 2,273,578</u>	<u>\$ 4,581,190</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ (118,496)	\$ (552,949)	\$ (671,445)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation expense	\$ 523,099	\$ 86,140	\$ 609,239
(Increase) decrease in accounts receivable	9,244	95,828	105,072
(Increase) decrease in prepaid items	-	127,136	127,136
Increase (decrease) in customer deposits	900	1,323	2,223
Increase (decrease) in accounts payable	(25,137)	180,333	155,196
Increase (decrease) in wages payable	3,848	(11,313)	(7,465)
Increase (decrease) in compensated absences	3,180	8,700	11,880
Total adjustments	<u>\$ 515,134</u>	<u>\$ 488,147</u>	<u>\$ 1,003,281</u>
Net cash provided by (used for) operating activities	<u>\$ 396,638</u>	<u>\$ (64,802)</u>	<u>\$ 331,836</u>

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

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TOWN OF RICHLANDS, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AT JUNE 30, 2014

Note 1-Summary of Significant Accounting Policies:

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

A. Financial reporting entity:

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

Blended Component Units - None

Discretely Presented Component Units - None

Related Organizations - None

Jointly Governed Organizations - None

B. Government-wide and fund financial statements:

The government-wide financial statements (i.e., the Statement of Net 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 will report all capital assets in the government-wide Statement of Net Position and will 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*.

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

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

Budgetary Comparison Schedules demonstrate compliance with the adopted budget, which is an important component of a government's accountability to the public. Many citizens participate in one way or another in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. Many governments revise their original budgets over the course of the year for a variety of reasons. Under the GASB 34 reporting model, governments provide budgetary comparison information in their annual reports including the original budget and comparison of final budget and actual results.

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

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

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

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.

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

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

The Town reports the following major governmental funds:

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

The Town reports the following proprietary funds:

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

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

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

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

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

Proprietary funds distinguish *operating* revenues and expenses from *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 funds are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance:

1. Cash and Cash Equivalents

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

2. Receivables and Payables

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

All trade and property tax receivables are shown net of an allowance for uncollectibles. The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis.

3. Allowance for Uncollectible Accounts

For the General Fund, the allowance amounted to approximately \$42,638 for property taxes and \$3,382 for garbage billings at June 30, 2014. For the Proprietary Fund, the allowance amounted to approximately \$7,855 for water and sewer billings and \$22,769 for electric billings at June 30, 2014.

4. Property Taxes

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of December 31st. Taxes are payable in December of the following fiscal year. The Town bills and collects its own property taxes.

5. Use of Estimates

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

6. Compensated Absences

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

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

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance:
 (Continued)

7. Capital Assets

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

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

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

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

8. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements 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.

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.

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

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance:
(Continued)

9. 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.

10. Concentration of Credit Risk

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

11. Prepaid Expenses

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

12. Fund Equity

Town of Richlands, Virginia follows provisions of 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.

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

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance:
(Continued)

12. Fund Equity (Continued)

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

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

13. 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 (expenditure/expense) 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 two types of items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable and EMS billings receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30, prepaid tax amounts, and uncollected EMS revenue and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, prepaid amounts are reported as deferred inflows of resources.

14. 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.

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

B. Deficit fund equity

At June 30, 2014, there were no funds with deficit fund equity.

Note 3-Deposits and Investments:

Deposits:

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AT JUNE 30, 2014

Note 3-Deposits and Investments: (Continued)

Investments:

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

Note 4-Due from Other Governmental Units:

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

	<u>General Fund</u>	<u>Water and Sewer Fund</u>
<u>Tazewell County</u>		
Construction contribution	\$ -	\$ 1,367,290
<u>Commonwealth of Virginia:</u>		
Categorical aid	2,765	-
Non-categorical aid	675	-
State sales tax	64,779	-
<u>Federal Government:</u>		
Categorical aid	39,964	-
Total	<u>\$ 108,183</u>	<u>\$ 1,367,290</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2014Note 5-Long-Term Obligations:Governmental Activity Obligations:

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

	<u>Balance</u> <u>July 1, 2013</u>	<u>Increases/</u> <u>Issuances</u>	<u>Decreases/</u> <u>Retirements</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital lease	\$ 198,159	\$ -	\$ (46,249)	\$ 151,910
Compensated absences	357,340	259,790	(268,005)	349,125
Total	<u>\$ 555,499</u>	<u>\$ 259,790</u>	<u>\$ (314,254)</u>	<u>\$ 501,035</u>

Details of long-term obligations:

<u>Type/</u> <u>Project</u>	<u>Interest</u> <u>Rates</u>	<u>Issue</u> <u>Date</u>	<u>Final</u> <u>Maturity</u> <u>Date</u>	<u>Amount of</u> <u>Original</u> <u>Issue</u>	<u>Balance</u> <u>Governmental</u> <u>Activities</u>	<u>Amount</u> <u>Due Within</u> <u>One Year</u>
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 349,125	\$ 261,844
Capital lease	4.60%	2007	2017	\$ 455,992	151,910	48,377
Total Other Obligations					<u>\$ 501,035</u>	<u>\$ 310,221</u>
Total Long-term obligations					<u>\$ 501,035</u>	<u>\$ 310,221</u>

Other obligations are typically liquidated by the general fund.

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TOWN OF RICHLANDS, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2014

Note 5-Long-Term Obligations: (Continued)

Enterprise Activity Obligations:

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

	<u>Balance</u> <u>July 1, 2013</u>	<u>Increases/</u> <u>Issuances</u>	<u>Decreases/</u> <u>Retirements</u>	<u>Balance</u> <u>June 30, 2014</u>
General obligation bonds	\$ 2,714,671	\$ -	\$ (426,300)	\$ 2,288,371
Revenue bonds	829,607	-	(44,843)	784,764
Compensated absences	106,972	92,109	(80,229)	118,852
 Total	 \$ 3,651,250	 \$ 92,109	 \$ (551,372)	 \$ 3,191,987

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

<u>Year Ending</u> <u>June 30,</u>	<u>General Obligation Bonds</u>		<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 438,471	\$ 5,550	\$ 44,844	\$ -
2016	87,195	-	44,844	-
2017	87,195	-	44,844	-
2018	87,195	-	44,844	-
2019	87,195	-	44,844	-
2020-2024	435,973	-	224,218	-
2025-2029	435,973	-	224,218	-
2030-2034	418,473	-	112,108	-
2035-2037	210,701	-	-	-
 Totals	 \$ 2,288,371	 \$ 5,550	 \$ 784,764	 \$ -

TOWN OF RICHLANDS, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AT JUNE 30, 2014

Note 5-Long-Term Obligations: (Continued)

Enterprise Activity Obligations: (Continued)

Details of long-term obligations:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Business-Type Activities	Amount Due Within One Year
Revenue Bonds:						
Wastewater Series 2010	0.00%	2010	2024	\$ 1,121,250	\$ 784,764	\$ 44,844
General Obligation Bonds:						
Series 2000	0.00%	2000	2031	175,000	99,167	5,833
Series 2003	3.16%	2003	2015	3,308,029	351,277	351,277
Series 2005	0.00%	2005	2037	2,002,799	1,502,099	66,760
Series 2006	0.00%	2006	2037	438,037	335,828	14,601
Total Bonds					<u>\$ 3,073,135</u>	<u>\$ 483,315</u>
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	<u>\$ 118,852</u>	<u>\$ 89,139</u>
Total long-term obligations					<u>\$ 3,191,987</u>	<u>\$ 572,454</u>

Revenue bonds are secured by revenue of the water/sewer fund.

Other obligations of the electric and water/sewer fund are typically liquidated by those funds.

Note 6-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

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.
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.

Note 6-Pension Plan: (Continued)

A. Plan Description: (Continued)

VRS - PLAN 1 (Continued)

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.

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.

Note 6-Pension Plan: (Continued)

A. Plan Description: (Continued)

VRS - PLAN 1 (Continued)

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.

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.

Note 6-Pension Plan: (Continued)

A. Plan Description: (Continued)

VRS – PLAN 1 (Continued)

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.

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.

Note 6-Pension Plan: (Continued)

A. Plan Description: (Continued)

VRS – PLAN 2 (Continued)

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.
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.

Note 6-Pension Plan: (Continued)

A. Plan Description: (Continued)

VRS – PLAN 2 (Continued)

- 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.

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.

Note 6-Pension Plan: (Continued)

A. Plan Description: (Continued)

HYBRID RETIREMENT PLAN (Continued)

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

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.

Note 6-Pension Plan: (Continued)

A. Plan Description: (Continued)

HYBRID RETIREMENT PLAN (Continued)

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.

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.

Note 6-Pension Plan: (Continued)

A. Plan Description: (Continued)

HYBRID RETIREMENT PLAN (Continued)

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.

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 Unreduced 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. Earliest Reduced Retirement Eligibility

Defined Benefit Component - Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

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

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

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

Defined Contribution Component - Not Applicable.

Note 6-Pension Plan: (Continued)

A. Plan Description: (Continued)

HYBRID RETIREMENT PLAN (Continued)

14. **Eligibility** - Same as VRS Plan 1 and VRS Plan 2--Refer to Section 14.
15. **Exceptions to COLA Effective Dates** - Same as VRS Plan 1 and VRS Plan 2--Refer to Section 15.
16. **Disability Coverage** - Eligible political subdivision and school division members (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.

17. Purchase of Prior Service

Defined Benefit Component - Same as VRS Plan 1 and 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 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 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 20.88% of annual covered payroll.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AT JUNE 30, 2014

Note 6-Pension Plan: (Continued)

C. Annual Pension Cost:

For fiscal year 2014, Town of Richlands, Virginia's annual pension cost of \$499,326 was equal to Town of Richlands, Virginia's required and actual contributions.

Fiscal Year Ending	Three-Year Trend Information		Net Pension Obligation
	Annual Pension Cost (APC) (1)	Percentage of APC Contributed	
June 30, 2012	\$ 554,563	100.00%	\$ -
June 30, 2013	496,596	100.00%	-
June 30, 2014	499,326	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 Plan1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Towns unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls 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 Town's plan was 32.42% funded. The actuarial accrued liability for benefits was \$11,074,062, and the actuarial value of assets was \$3,590,189, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,483,873. The covered payroll (annual payroll of active employees covered by the plan) was \$2,328,974 and ratio of the UAAL to the covered payroll was 321.34%.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2014

Note 7-Unearned Revenue:

Unearned revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Unearned revenue totaling \$95,431 is comprised of the following:

Lease Revenue - Lease revenue proceeds received in advance totaled \$34,698 at year end.

Miscellaneous - Department of Transportation funding received in advance and carried over for use in the next fiscal year totaled \$60,733 at year end.

Note 8-Restricted Fund Balance/Net Position:

Fund balance and net position were restricted for the following purposes at year end:

<u>Purpose</u>	<u>Amount</u>
Recreation Center Improvements	\$ 37,209
Restricted Donations	13,226
Asset Forfeiture/Policing Funds	<u>136,190</u>
Total	<u>\$ 186,625</u>

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TOWN OF RICHLANDS, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2014

Note 9-Capital Assets:

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 428,106	\$ 929,289	\$ -	\$ 1,357,395
Construction in progress	42,940	60,147	(42,940)	60,147
Total capital assets not being depreciated	<u>\$ 471,046</u>	<u>\$ 989,436</u>	<u>\$ (42,940)</u>	<u>\$ 1,417,542</u>
Capital assets, being depreciated:				
Buildings and system	\$ 3,165,866	\$ 33,270	\$ -	\$ 3,199,136
Infrastructure	5,022,591	3,976,156	-	8,998,747
Machinery and equipment	6,078,387	152,633	(85,243)	6,145,777
Total capital assets being depreciated	<u>\$ 14,266,844</u>	<u>\$ 4,162,059</u>	<u>\$ (85,243)</u>	<u>\$ 18,343,660</u>
Accumulated depreciation:				
Buildings and system	\$ (1,150,079)	\$ (92,617)	\$ -	\$ (1,242,696)
Infrastructure	(2,163,594)	(221,862)	-	(2,385,456)
Machinery and equipment	(4,930,946)	(342,117)	66,953	(5,206,110)
Total accumulated depreciation	<u>\$ (8,244,619)</u>	<u>\$ (656,596)</u>	<u>\$ 66,953</u>	<u>\$ (8,834,262)</u>
Total capital assets being depreciated, net	<u>\$ 6,022,225</u>	<u>\$ 3,505,463</u>	<u>\$ (18,290)</u>	<u>\$ 9,509,398</u>
Governmental activities capital assets, net	<u>\$ 6,493,271</u>	<u>\$ 4,494,899</u>	<u>\$ (61,230)</u>	<u>\$ 10,926,940</u>

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TOWN OF RICHLANDS, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AT JUNE 30, 2014

Note 9-Capital Assets: (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 517,913	\$ -	\$ -	\$ 517,913
Total capital assets not being depreciated	<u>\$ 517,913</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 517,913</u>
Capital assets, being depreciated:				
Utility plant and buildings in service	\$ 22,212,085	\$ -	\$ -	\$ 22,212,085
Machinery and equipment	2,183,423	-	-	2,183,423
Total capital assets being depreciated	<u>\$ 24,395,508</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,395,508</u>
Accumulated depreciation:				
Utility plant and buildings in service	\$ (10,296,019)	\$ (488,818)	\$ -	\$ (10,784,837)
Machinery and equipment	(1,264,386)	(120,421)	-	(1,384,807)
Total accumulated depreciation	<u>\$ (11,560,405)</u>	<u>\$ (609,239)</u>	<u>\$ -</u>	<u>\$ (12,169,644)</u>
Total capital assets being depreciated, net	<u>\$ 12,835,103</u>	<u>\$ (609,239)</u>	<u>\$ -</u>	<u>\$ 12,225,864</u>
Business-type activities capital assets, net	<u><u>\$ 13,353,016</u></u>	<u><u>\$ (609,239)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 12,743,777</u></u>

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

Governmental activities:

General government administration	\$ 31,451
Public safety	300,661
Public works	280,900
Parks and recreation	43,584

Total depreciation expense - governmental activities \$ 656,596

Business-type activities:

Water and sewer	\$ 523,099
Electric	86,140

Total depreciation expense - business-type activities \$ 609,239

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AT JUNE 30, 2014

Note 10-Lease Obligations-Capital Lease:

Town of Richlands, Virginia entered into a lease purchase agreement for the acquisition of a Pierce Stock Pumper and Pierce Stock Tanker. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date.

The cost and accumulated depreciation associated with the assets acquired through the capital lease is as follows:

	<u>2014</u>
Machinery and Equipment	\$ 455,992
Accumulated Depreciation	<u>(304,827)</u>
Total	<u>\$ 151,165</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014, were as follows:

<u>Fiscal Year Ended</u>	<u>Governmental Activities</u>
2015	\$ 55,365
2016	55,365
2017	<u>55,365</u>
Total minimum lease payments	166,095
Less: amount representing interest	<u>(14,185)</u>
Present value of minimum lease payments	<u>\$ 151,910</u>

Note 11-Risk Management:

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

Note 12-Contingencies:

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

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

Note 13-Electric Power Agreement:

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

Note 14-Pledged Revenues:

The Town has pledged future water and sewer customer revenues to repay \$784,764 in water and wastewater bonds. Proceeds from the bonds provided financing for the construction of the water and sewer systems. The bonds are payable solely from water and sewer customer revenues and are payable through 2032.

Note 15-Electric Rate Stabilization Plan:

The Town entered into a rate stabilization plan with American Municipal Power, Inc. to reduce the effects of volatility in energy markets. As of June 30, 2014, the Town carried a balance of \$441,100 in an escrow account maintained for the Town's benefit. This amount has been reported in the financial statements as a prepaid expense.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AT JUNE 30, 2014

Note 16-Service Agreements:

On September 3, 2003, the Town and Tazewell County Public Service Authority (TCPSA) entered into an agreement to share the costs of construction and operation of a water transmission facility known as Kent's Ridge Road Project. The project was financed by two thirty year, interest-free loans from the Virginia Resources Authority (VRA). The loans are secured by a pledge of revenues from the Town's water and wastewater systems and by a pledge of the Town's full faith and credit. Also, County of Tazewell, Virginia has undertaken, to the extent permitted by law, a non-binding but moral obligation to pay such amounts as may be needed, with respect to the notes, for the payment of principal and interest pursuant to the terms of the agreement. The Town has recorded an amount due from the TCPSA of \$1,367,290 at year end for their share of debt service payments.

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

Town of Richlands, Virginia; Town of Cedar Bluff, Virginia; and Tazewell County Public Service Authority (TCPSA) entered into an agreement dated March 15, 1989, whereby each of the parties would participate in the allocation of capacity and costs with respect to the design, construction, operation and maintenance of a regional wastewater treatment facility. Town of Richlands, Virginia is responsible for the operation of the facility. Town of Richlands, Virginia is also responsible for budgeting and financing subject to agreed upon procedures by the three participants. Monthly user charges are paid by the participants for their share of the cost of the project.

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

<u>Entity</u>	<u>Amounts</u>
Town of Cedar Bluff	\$ 154,740
Tazewell County PSA	597,324
Tazewell County PSA - loan payments	60,660
Total	<u>\$ 812,724</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AT JUNE 30, 2014

Note 17-Deferred Inflows (Outflows) of Resources:

At June 30, 2014, the Town's deferred inflows (outflows) of resources consisted of the following:

	Government-Wide Statements		Balance Sheet
	Governmental Activities	Business-Type Activities	Governmental Funds
Primary Government:			
Deferred property tax revenue representing uncollected property tax billings that are not available for the funding of current expenditures.	\$ -	\$ -	\$ 76,518
Prepaid taxes relating to taxes due in a future period.	24,076	-	24,076
Deferred EMS revenue representing uncollected EMS billings that are not available for funding of current expenditures.	-	-	383,618
Total deferred inflows (outflows) of resources	\$ 24,076	\$ -	\$ 484,212

Note 18-Upcoming Pronouncements:

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions; an 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 or 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 or estimate of the impact of this study has been performed.

Required Supplementary Information

Town of Richlands, Virginia
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 484,900	\$ 484,900	\$ 460,876	\$ (24,024)
Other local taxes	1,891,686	1,891,686	1,941,856	50,170
Permits, privilege fees, and regulatory licenses	2,000	2,000	1,270	(730)
Fines and forfeitures	37,500	37,500	237,281	199,781
Revenue from the use of money and property	4,000	4,000	8,938	4,938
Charges for services	1,077,430	1,077,430	1,116,902	39,472
Miscellaneous	103,865	103,865	158,987	55,122
Recovered costs	62,000	62,000	63,189	1,189
Intergovernmental revenues:				
Commonwealth	1,257,705	1,257,705	1,268,590	10,885
Federal	477,063	477,063	51,399	(425,664)
Total revenues	<u>\$ 5,398,149</u>	<u>\$ 5,398,149</u>	<u>\$ 5,309,288</u>	<u>\$ (88,861)</u>
EXPENDITURES				
Current:				
General government administration	\$ 286,647	\$ 286,647	\$ 263,515	\$ 23,132
Public safety	2,754,459	2,754,459	2,623,164	131,295
Public works	1,400,808	1,400,808	1,219,929	180,879
Parks, recreation, and cultural	358,161	358,161	310,872	47,289
Community development	13,000	13,000	58,493	(45,493)
Capital projects	1,141,813	1,141,813	536,207	605,606
Debt service:				
Principal retirement	46,250	46,250	46,249	1
Interest and other fiscal charges	9,115	9,115	9,115	-
Total expenditures	<u>\$ 6,010,253</u>	<u>\$ 6,010,253</u>	<u>\$ 5,067,544</u>	<u>\$ 942,709</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (612,104)</u>	<u>\$ (612,104)</u>	<u>\$ 241,744</u>	<u>\$ 853,848</u>
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	\$ 10,000	\$ 10,000	\$ 15,892	\$ 5,892
Total other financing sources (uses)	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 15,892</u>	<u>\$ 5,892</u>
Net change in fund balances	\$ (602,104)	\$ (602,104)	\$ 257,636	\$ 859,740
Fund balances - beginning	602,104	602,104	859,537	257,433
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,117,173</u>	<u>\$ 1,117,173</u>

Town of Richlands, Virginia
 Schedule of Pension Funding Progress
 For the Year Ended June 30, 2014

Town Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (3) - (2)	Funded Ratio (2) / (3)	Covered Payroll	UAAL as a % of Covered Payroll (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2013	\$ 3,590,189	\$ 11,074,062	\$ 7,483,873	32.42%	\$ 2,328,974	321.34%
6/30/2012	3,136,693	10,138,313	7,001,620	30.94%	2,328,506	300.69%
6/30/2011	2,684,788	9,458,868	6,774,080	28.38%	2,319,507	292.05%

Other Supplementary Information

Supporting Schedules

Town of Richlands, Virginia
 Schedule of Revenues - Budget and Actual
 Governmental Funds
 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:				
Real property taxes	\$ 450,000	\$ 450,000	\$ 422,494	\$ (27,506)
Real and personal public service corporation taxes	17,900	17,900	18,845	945
Mobile home taxes	13,000	13,000	12,608	(392)
Penalties and Interest	4,000	4,000	6,929	2,929
Total general property taxes	<u>\$ 484,900</u>	<u>\$ 484,900</u>	<u>\$ 460,876</u>	<u>\$ (24,024)</u>
Other local taxes:				
Local sales and use taxes	\$ 350,000	\$ 350,000	\$ 383,952	\$ 33,952
Consumers utility tax	150,000	150,000	147,075	(2,925)
Local consumption tax	22,000	22,000	22,799	799
Business license taxes	440,000	440,000	484,838	44,838
Motor vehicle licenses	37,000	37,000	36,036	(964)
Bank stock taxes	170,000	170,000	157,086	(12,914)
Tobacco taxes	-	-	15,896	15,896
Meals taxes	722,686	722,686	694,174	(28,512)
Total other local taxes	<u>\$ 1,891,686</u>	<u>\$ 1,891,686</u>	<u>\$ 1,941,856</u>	<u>\$ 50,170</u>
Permits, privilege fees, and regulatory licenses:				
Zoning permits	\$ 2,000	\$ 2,000	\$ 1,270	\$ (730)
Fines and forfeitures:				
Court fines and forfeitures	\$ 36,000	\$ 36,000	\$ 80,604	\$ 44,604
Asset forfeitures	-	-	156,007	156,007
Parking violations	1,500	1,500	670	(830)
Total fines and forfeitures	<u>\$ 37,500</u>	<u>\$ 37,500</u>	<u>\$ 237,281</u>	<u>\$ 199,781</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 4,000	\$ 4,000	\$ 5,118	\$ 1,118
Revenue from use of property	-	-	3,820	3,820
Total revenue from use of money and property	<u>\$ 4,000</u>	<u>\$ 4,000</u>	<u>\$ 8,938</u>	<u>\$ 4,938</u>
Charges for services:				
Contract work - Streets	\$ 5,000	\$ 5,000	\$ 42,501	\$ 37,501
Fire Department billings	-	-	1,200	1,200
Rescue Squad billings	600,000	600,000	575,459	(24,541)
Swimming pool fees	16,000	16,000	16,130	130
Concession collections	11,000	11,000	17,502	6,502
Basketball fees	4,000	4,000	3,442	(558)

Town of Richlands, Virginia
 Schedule of Revenues - Budget and Actual
 Governmental Funds
 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)				
Revenue from local sources: (continued)				
Charges for services: (continued)				
Indoor tennis fees	\$ 4,500	\$ 4,500	\$ 2,970	\$ (1,530)
Outdoor tennis fees	500	500	875	375
Membership fees	-	-	16	16
Room rental	8,000	8,000	4,940	(3,060)
Miscellaneous recreation fees	6,000	6,000	9,257	3,257
Garbage collections	\$ 422,430	\$ 422,430	\$ 412,370	\$ (10,060)
Farmer's market revenue	-	-	30,240	30,240
Total charges for services	<u>\$ 1,077,430</u>	<u>\$ 1,077,430</u>	<u>\$ 1,116,902</u>	<u>\$ 39,472</u>
Miscellaneous revenue:				
Miscellaneous	\$ 3,000	\$ 3,000	\$ 8,789	\$ 5,789
Gifts and donations	2,000	2,000	2,025	25
Gifts and donations - Fire	55,365	55,365	64,765	9,400
Gifts and donations - Recreation	25,000	25,000	40,209	15,209
Gifts and donations - Police	8,000	8,000	18,334	10,334
Gifts and donations - Rescue	10,500	10,500	24,865	14,365
Total miscellaneous revenue	<u>\$ 103,865</u>	<u>\$ 103,865</u>	<u>\$ 158,987</u>	<u>\$ 55,122</u>
Recovered costs:				
County of Tazewell - fire program	\$ 60,000	\$ 60,000	\$ 60,000	\$ -
Returned check fees	2,000	2,000	2,925	925
Restitution	-	-	264	264
Total recovered costs	<u>\$ 62,000</u>	<u>\$ 62,000</u>	<u>\$ 63,189</u>	<u>\$ 1,189</u>
Total revenue from local sources	<u>\$ 3,663,381</u>	<u>\$ 3,663,381</u>	<u>\$ 3,989,299</u>	<u>\$ 325,918</u>
Intergovernmental revenues:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Mobile home titling tax	\$ 1,000	\$ 1,000	\$ 2,916	\$ 1,916
Motor vehicles carrier's tax	2,000	2,000	1,141	(859)
Total noncategorical aid	<u>\$ 3,000</u>	<u>\$ 3,000</u>	<u>\$ 4,057</u>	<u>\$ 1,057</u>
Categorical aid:				
Other categorical aid:				
Litter control grant	\$ 2,700	\$ 2,700	\$ 2,435	\$ (265)
Local law enforcement block grant	-	-	2,760	2,760
Police grants	-	-	5,387	5,387

Town of Richlands, Virginia
 Schedule of Revenues - Budget and Actual
 Governmental Funds
 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 revenues: (continued)				
Revenue from the Commonwealth: (continued)				
Categorical aid: (continued)				
Highway revenue sharing	\$ 150,000	\$ 150,000	\$ 145,078	\$ (4,922)
Street maintenance	843,805	843,805	807,926	(35,879)
Law enforcement grant	133,700	133,700	133,700	-
Drug enforcement	95,500	95,500	93,087	(2,413)
EMS grants	-	-	40,168	40,168
Fire grants	14,000	14,000	17,488	3,488
Other state revenue	15,000	15,000	16,504	1,504
Total other categorical aid	<u>\$ 1,254,705</u>	<u>\$ 1,254,705</u>	<u>\$ 1,264,533</u>	<u>\$ 9,828</u>
Total categorical aid	<u>\$ 1,254,705</u>	<u>\$ 1,254,705</u>	<u>\$ 1,264,533</u>	<u>\$ 9,828</u>
Total revenue from the Commonwealth	<u>\$ 1,257,705</u>	<u>\$ 1,257,705</u>	<u>\$ 1,268,590</u>	<u>\$ 10,885</u>
Revenue from the federal government:				
Categorical aid:				
Community improvement grant	\$ 477,063	\$ 477,063	\$ 35,434	\$ (441,629)
Federal police grants	-	-	15,965	15,965
Total categorical aid	<u>\$ 477,063</u>	<u>\$ 477,063</u>	<u>\$ 51,399</u>	<u>\$ (425,664)</u>
Total revenue from the federal government	<u>\$ 477,063</u>	<u>\$ 477,063</u>	<u>\$ 51,399</u>	<u>\$ (425,664)</u>
Total General Fund	<u>\$ 5,398,149</u>	<u>\$ 5,398,149</u>	<u>\$ 5,309,288</u>	<u>\$ (88,861)</u>

Town of Richlands, Virginia
 Schedule of Expenditures - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2014

<u>Fund, Function and Department Expenditures</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
General government administration:				
General and financial administration:				
Town Council	\$ 16,271	\$ 16,271	\$ 14,705	\$ 1,566
Administration	263,461	263,461	232,053	31,408
Fringe Benefits	6,915	6,915	16,757	(9,842)
Total general and financial administration	<u>\$ 286,647</u>	<u>\$ 286,647</u>	<u>\$ 263,515</u>	<u>\$ 23,132</u>
Public safety:				
Law enforcement and traffic control:				
Police grants	\$ -	\$ -	\$ 29,401	\$ (29,401)
Drug task force	81,390	81,390	82,939	(1,549)
Police Department	1,774,332	1,774,332	1,671,648	102,684
Total law enforcement and traffic control	<u>\$ 1,855,722</u>	<u>\$ 1,855,722</u>	<u>\$ 1,783,988</u>	<u>\$ 71,734</u>
Fire and rescue services:				
Fire Department	\$ 240,619	\$ 240,619	\$ 150,516	\$ 90,103
Rescue Squad	658,118	658,118	688,660	(30,542)
Total fire and rescue services	<u>\$ 898,737</u>	<u>\$ 898,737</u>	<u>\$ 839,176</u>	<u>\$ 59,561</u>
Total public safety	<u>\$ 2,754,459</u>	<u>\$ 2,754,459</u>	<u>\$ 2,623,164</u>	<u>\$ 131,295</u>
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highways, streets, bridges and sidewalks	\$ 971,045	\$ 971,045	\$ 864,933	\$ 106,112
Sanitation and waste removal:				
Refuse collection and disposal	\$ 429,763	\$ 429,763	\$ 354,996	\$ 74,767
Total public works	<u>\$ 1,400,808</u>	<u>\$ 1,400,808</u>	<u>\$ 1,219,929</u>	<u>\$ 180,879</u>
Parks, recreation, and cultural:				
Cultural enrichment:				
Recreation	\$ 354,997	\$ 354,997	\$ 310,490	\$ 44,507
Library:				
Library	\$ 3,164	\$ 3,164	\$ 382	\$ 2,782
Total parks, recreation, and cultural	<u>\$ 358,161</u>	<u>\$ 358,161</u>	<u>\$ 310,872</u>	<u>\$ 47,289</u>
Community development:				
Planning and community development:				
Downtown activities	\$ 13,000	\$ 13,000	\$ 58,493	\$ (45,493)
Capital projects/outlays:				
Capital projects and capital outlays	\$ 1,141,813	\$ 1,141,813	\$ 536,207	\$ 605,606
Debt service:				
Principal retirement	\$ 46,250	\$ 46,250	\$ 46,249	\$ 1
Interest and other fiscal charges	9,115	9,115	9,115	-
Total debt service	<u>\$ 55,365</u>	<u>\$ 55,365</u>	<u>\$ 55,364</u>	<u>\$ 1</u>
Total General Fund	<u>\$ 6,010,253</u>	<u>\$ 6,010,253</u>	<u>\$ 5,067,544</u>	<u>\$ 942,709</u>

Statistical Information

Table 1

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

Fiscal Year	General Government Administration	Public Safety	Public Works	Parks, Recreation, and Cultural	Community Development	Interest on Long-Term Debt	Water and Sewer	Electric	Total
2009-10	\$ 517,043	\$ 2,800,286	\$ 1,406,509	\$ 349,495	\$ 141,269	\$ 17,501	\$ 2,014,444	\$ 6,156,711	\$ 13,403,258
2010-11	271,310	2,764,620	1,544,774	390,015	206,662	16,801	2,106,703	5,833,916	13,134,801
2011-12	270,119	2,688,745	1,636,116	382,314	38,246	11,921	2,259,778	5,227,037	12,514,276
2012-13	290,591	2,838,354	1,551,236	391,472	129,783	9,285	2,282,333	5,291,893	12,784,947
2013-14	285,960	2,863,825	1,500,829	354,456	58,493	7,164	2,392,826	6,743,677	14,207,230

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

Table 2

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

Fiscal Year	PROGRAM REVENUES			GENERAL REVENUES						Total
	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		
2009-10	\$ 10,020,767	\$ 1,983,278	\$ -	\$ 461,000	\$ 1,704,768	\$ 39,784	\$ 486,673	\$ -	\$ 14,696,270	
2010-11	10,517,188	1,162,629	1,773,617	408,275	1,671,219	27,512	196,854	9,598	15,766,892	
2011-12	9,278,334	1,331,617	245,517	434,748	1,751,238	17,868	124,600	4,081	13,188,003	
2012-13	9,672,614	1,778,186	93,941	464,070	1,848,254	16,874	364,230	13,685	14,251,854	
2013-14	10,035,089	1,280,498	4,607,782	469,162	1,941,856	14,050	167,513	4,057	18,520,007	

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

Table 3

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

Fiscal Year	General and Financial Administration	Public Safety	Public Works	Parks, Recreation, and Cultural	Community Development	Debt Service	Total (1)
2004-05	\$ 967,392	\$ 965,021	\$ 968,106	\$ 236,306	\$ 103,368	\$ -	\$ 3,240,193
2005-06	1,283,780	1,510,092	1,199,328	249,755	26,582	-	4,270,437
2006-07	1,242,646	1,502,021	914,500	259,312	436,033	4,535	4,359,047
2007-08	878,513	2,962,490	1,653,354	325,440	37,783	82,187	5,939,767
2008-09	710,412	2,738,636	1,514,056	392,150	1,205	86,079	5,442,538
2009-10	295,497	2,747,120	1,331,514	356,386	141,269	58,912	4,930,698
2010-11	286,319	2,615,615	1,333,176	451,633	206,662	86,081	4,979,486
2011-12	267,218	2,529,280	1,388,996	340,314	38,246	86,085	4,650,139
2012-13	254,595	2,639,835	1,297,287	349,064	129,783	55,364	4,725,928
2013-14	263,515	2,623,164	1,219,929	310,872	58,493	55,364	4,531,337

(1) Excludes Capital Projects.

Table 4

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

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, Regulatory Licenses	Fines and Forfeitures	Revenue from the Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental	Total
2004-05	\$ 265,131	\$ 1,164,925	\$ 16,095	\$ 45,671	\$ 54,775	\$ 371,759	\$ 66,265	\$ -	\$ 755,276	\$ 2,739,897
2005-06	287,393	1,270,365	13,970	81,884	64,277	377,930	100,716	-	962,041	3,158,576
2006-07	443,452	1,353,541	14,645	61,034	60,878	923,874	284,613	-	1,373,804	4,515,841
2007-08	408,501	1,386,360	14,615	135,107	76,011	1,071,321	518,389	-	1,275,563	4,885,867
2008-09	419,861	1,437,774	2,035	181,716	34,833	1,106,721	296,866	-	1,118,771	4,598,577
2009-10	425,420	1,704,768	1,585	85,661	19,021	1,264,454	286,617	-	1,338,364	5,125,890
2010-11	432,840	1,671,219	2,225	162,930	15,894	1,121,649	185,927	150,408	1,339,879	5,082,971
2011-12	433,863	1,751,238	2,090	50,562	11,853	1,190,198	117,765	140,780	1,373,185	5,071,534
2012-13	458,103	1,848,254	1,715	62,675	8,747	1,142,404	351,811	62,726	1,856,074	5,792,509
2013-14	460,876	1,941,856	1,270	237,281	8,938	1,116,902	158,987	63,189	1,319,989	5,309,288

Table 5

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

Fiscal Year	Total Tax Levy (1)	Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (2)	Percent of Delinquent Taxes to Tax Levy
2004-05	\$ 248,376	\$ 227,508	91.60%	\$ 16,613	\$ 244,121	98.29%	\$ 30,268	12.19%
2005-06	250,862	227,322	90.62%	28,435	255,757	101.95%	21,523	8.58%
2006-07	403,792	378,197	93.66%	34,954	413,151	102.32%	20,979	5.20%
2007-08	407,711	384,290	94.26%	19,408	403,698	99.02%	26,167	6.42%
2008-09	414,990	391,112	94.25%	19,082	410,194	98.84%	29,226	7.04%
2009-10	418,224	372,689	89.11%	19,895	392,584	93.87%	34,252	8.19%
2010-11	421,699	394,301	93.50%	21,144	415,445	98.52%	58,811	13.95%
2011-12	424,866	392,515	92.39%	24,079	416,594	98.05%	63,755	15.01%
2012-13	457,827	434,546	94.91%	18,364	452,910	98.93%	72,597	15.86%
2013-14	458,280	431,776	94.22%	22,171	453,947	99.05%	81,578	17.80%

(1) Exclusive of penalties and interest.

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

Table 6

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

Fiscal Year	Real Estate	Public Service Corporation	Total
2004-05	\$ 144,079,700	\$ 11,027,057	\$ 155,106,757
2005-06	145,408,200	10,885,065	156,293,265
2006-07	242,387,600	11,234,553	253,622,153
2007-08	243,153,600	11,665,588	254,819,188
2008-09	249,235,687	10,132,899	259,368,586
2009-10	250,972,225	10,417,493	261,389,718
2010-11	253,304,900	9,916,473	263,221,373
2011-12	254,672,500	10,460,117	265,132,617
2012-13	274,891,300	11,250,521	286,141,821
2013-14	274,606,600	11,818,369	286,424,969

Table 7

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

<u>Fiscal Year</u>	<u>Real Estate (1)</u>
2004-05	0.16
2005-06	0.16
2006-07	0.16
2007-08	0.16
2008-09	0.16
2009-10	0.16
2010-11	0.16
2011-12	0.16
2012-13	0.16
2013-14	0.16

(1) Per \$100 of assessed value.

Table 8

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

Fiscal Year	Population (1)	Assessed Value (in thousands)	Gross and Net Bonded Debt (2)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2004-05	4,144	\$ 155,107	\$ 3,179,160	2.05%	\$ 767
2005-06	5,639	156,293	3,876,297	2.48%	687
2006-07	5,639	253,622	4,958,860	1.96%	879
2007-08	5,639	254,819	4,647,573	1.82%	824
2008-09	5,639	259,369	4,321,534	1.67%	766
2009-10	5,639	261,390	3,934,684	1.51%	698
2010-11	5,823	263,221	3,567,306	1.36%	613
2011-12	5,823	265,133	3,133,236	1.18%	538
2012-13	5,823	286,142	2,714,671	0.95%	466
2013-14	5,823	286,425	2,288,371	0.80%	393

(1) U.S. Census Bureau.

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

Table 9

Town of Richlands, Virginia
Computation of Legal Debt Margin
At June 30, 2014

Total assessed value of taxed real property	\$ 286,424,969
Debt limit - 10 percent of total assessed value	28,642,497
Amount of debt applicable to debt limit	<u>(2,288,371)</u>
Legal debt margin	<u>\$ 26,354,126</u>

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COMPLIANCE SECTION

Compliance

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, and each major fund of Town of Richlands, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Town of Richlands, Virginia's basic financial statements, and have issued our report thereon dated September 30, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Richlands, 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 Richlands, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Richlands, Virginia's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Richlands, 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 disclosed no instances of noncompliance or other matters 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.

Robinson, Faimer, Co. Associates

Blacksburg, Virginia
September 30, 2014