
Town of Bowling Green, Virginia

Financial Statements
and Independent
Auditor's Report

June 30, 2016

Davis and Associates Certified Public Accountants, PLLC
10440 Little Patuxent Parkway, Suite 900
Columbia, Maryland 21044
410.740.8773

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INDEPENDENT AUDITOR'S REPORT

TO THE HONORABLE GOVERNING BODY
TOWN OF BOWLING GREEN, VIRGINIA

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and business-type activities of the Town of Bowling Green ("The Town"), as of and for the year ended June 30, 2016, which collectively comprise The Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Town of Bowling Green as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The Town of Bowling Green, Virginia has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Davis & Associates, PLLC

Columbia, Maryland

April 14, 2017

PRINCIPAL FINANCIAL STATEMENTS

Town of Bowling Green, Virginia
STATEMENT OF NET POSITION
As of June 30, 2016

Exhibit I

Assets	Primary Government			Component Unit- Economic Development Authority
	Governmental Activities	Business- Type Activities	Total	
Current Assets				
Pooled cash and investments	\$ 1,462,879	\$ -	\$ 1,462,879	\$ 52,871
Accounts receivable	308,162	93,680	401,842	-
Total Current Assets	<u>1,771,041</u>	<u>93,680</u>	<u>1,864,721</u>	<u>52,871</u>
Capital Assets, net				
Land	39,197	76,530	115,727	-
Non-depreciable assets	3,581,247	309,215	3,890,462	-
Depreciable assets	276,227	2,098,545	2,374,772	-
Total Capital Assets	<u>\$ 3,896,671</u>	<u>\$ 2,484,290</u>	<u>\$ 6,380,961</u>	<u>-</u>
Total Assets	<u>\$ 5,667,712</u>	<u>\$ 2,577,970</u>	<u>\$ 8,245,682</u>	<u>\$ 52,871</u>
Deferred Outflow of Resources				
Deferred outflow of resources- pension plan	\$ 27,480	\$ 23,840	\$ 51,320	\$ -
Total Assets and Deferred Outflow of Resources	<u>\$ 5,695,192</u>	<u>\$ 2,601,810</u>	<u>\$ 8,344,002</u>	<u>\$ 52,871</u>
Liabilities				
Current Liabilities				
Reconciled Overdraft Payable	\$ -	\$ 263,444	\$ 263,444	\$ -
Accounts payable and accrued expenditures	41,887	100,276	142,163	-
Current portion of long-term liabilities	146,518	632	147,150	-
Total Current Liabilities	<u>\$ 188,405</u>	<u>\$ 364,352</u>	<u>\$ 552,757</u>	<u>\$ -</u>
Long-Term Liabilities				
Compensated absences	\$ 11,437	\$ 5,690	\$ 17,127	\$ -
Bonds payable	3,335,000	-	3,335,000	-
Net Pension Liability	281,810	244,269	526,079	-
Total Long-Term Liabilities	<u>\$ 3,628,247</u>	<u>\$ 249,959</u>	<u>\$ 3,878,206</u>	<u>\$ -</u>
Total Liabilities	<u>\$ 3,816,652</u>	<u>\$ 614,311</u>	<u>\$ 4,477,963</u>	<u>\$ -</u>
Deferred Inflow of Resources				
Deferred inflow of resources- pension plan	14,570	13,533	28,103	-
Total Deferred Inflow of Resources	<u>\$ 14,570</u>	<u>\$ 13,533</u>	<u>\$ 28,103</u>	<u>\$ -</u>
Net Position				
Net investment in capital assets	\$ 491,671	\$ 2,484,290	\$ 2,975,961	\$ -
Restricted or committed for:				
Capital projects	161,724	-	161,724	-
Other projects	17,411	-	17,411	-
Unrestricted	1,193,164	(510,324)	682,840	52,871
Total Net Position	<u>\$ 1,863,970</u>	<u>\$ 1,926,966</u>	<u>\$ 3,837,936</u>	<u>\$ 52,871</u>
Total Liabilities, Deferred Outflow of Resources, and Net Position	<u>\$ 5,695,192</u>	<u>\$ 2,601,810</u>	<u>\$ 8,344,002</u>	<u>\$ 52,871</u>

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

Town of Bowling Green, Virginia
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

Exhibit II

		Net (Expense) Revenue & Changes in Net Position						
Functions/ Programs	Expenses	Program Revenues			Primary Government			Component Unit
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total	
General governmental administration	\$ 335,708	\$ -	\$ -	\$ -	\$ (335,708)	\$ -	\$ (335,708)	\$ -
Public safety	98,930	619	32,923	-	(65,388)	-	(65,388)	-
Public works	66,342	-	1,071	-	(65,271)	-	(65,271)	-
Health, Welfare and Sanitation	83,328	82,542	-	-	(786)	-	(786)	-
Culture and recreation	33,851	20,282	27,274	-	13,705	-	13,705	-
Community development	24,410	-	2,750	-	(21,660)	-	(21,660)	-
Interest on Long Term Debt	183,077	-	-	-	(183,077)	-	(183,077)	-
Total governmental activities	\$ 825,646	103,443	64,018	\$ -	\$ (658,185)	\$ -	\$ (658,185)	\$ -
Business-type activities:								
Water and sewer	840,676	587,842	17,600	-	-	(235,234)	(235,234)	-
Total Business-type activities	840,676	587,842	17,600	-	-	(235,234)	(235,234)	-
Total primary government	\$ 1,666,322	691,285	81,618	-	\$ (658,185)	(235,234)	(893,419)	\$ -
Component Unit								
Economic Development Authority	3,500	-	-	3,500				
Total Component Units	\$ 3,500	\$ -	\$ -	\$ -	-	-	-	\$ -
General revenues:								
Taxes:								
Property taxes					\$ 239,897	\$ -	\$ 239,897	\$ -
Other					408,000		408,000	
Grants and contributions not restricted to a specific program					61,370		61,370	
Use of money and property					26,864	627	27,491	
Miscellaneous					33,070	23	33,093	
Transfers					(76,111)	76,111	-	
Total general revenues					\$ 693,090	\$ 76,761	\$ 769,851	\$ -
Change in net position					\$ 34,905	\$ (158,473)	\$ (123,568)	
Net position, beginning as restated					1,829,065	2,132,439	3,961,504	52,871
Net position, ending					\$ 1,863,970	\$ 1,973,966	\$ 3,837,936	\$ 52,871

Town of Bowling Green, Virginia
BALANCE SHEET - GOVERNMENTAL FUNDS
As of June 30, 2016

Exhibit III

Assets	
Pooled cash and investments	\$ 1,462,879
Receivables, net	308,162
Total assets	\$ <u>1,771,041</u>
 Liabilities and fund equity	
Liabilities	
Accounts payable and accrued expenses	\$ 41,887
Deferred revenue	271,513
Total liabilities	\$ <u>313,400</u>
 Fund balance:	
Restricted	\$ 179,135
Unassigned	1,278,506
Total fund balance	\$ <u>1,457,641</u>
Total liabilities and fund balance	\$ <u>1,771,041</u>

Adjustments for the Statement of Net Position

Total fund balances, above	\$ 1,457,641
Capital Assets used in governmental activities are not financial resources, and, therefore, are not reported in the funds.	3,896,671
Long-term liabilities, including leases payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(3,774,765)
Deferred Inflows and Outflows of Resources related to the pension plan are not reported in the governmental funds	12,910
Deferred revenue in governmental funds is susceptible to full accrual on the entity-wide statements.	<u>271,513</u>
Net position of governmental activities	\$ <u>1,863,970</u>

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

Town of Bowling Green, Virginia
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET VS. ACTUAL - GENERAL FUND
For the Year Ended June 30, 2016

Exhibit IV

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
General property taxes	\$ 245,700	\$ 245,700	\$ 240,307	\$ (5,393)
Other local taxes	390,500	390,500	408,000	17,500
Permits, privilege fees, and regulatory licenses	4,300	4,300	2,450	(1,850)
Revenues from use of money and property	32,450	32,450	26,864	(5,586)
Charges for services	101,962	101,962	102,824	862
Fines and forfeitures	6,000	6,000	619	(5,381)
Miscellaneous	46,000	75,111	60,643	(14,468)
Intergovernmental	97,108	97,108	95,365	(1,743)
Total revenues	<u>\$ 924,020</u>	<u>\$ 953,131</u>	<u>\$ 937,072</u>	<u>\$ (16,059)</u>
Expenditures:				
Administration	\$ 242,670	\$ 242,670	\$ 234,685	\$ 7,985
Office of Town Treasurer	118,880	118,880	106,659	12,221
Fire prevention and protection	10,000	10,000	12,015	(2,015)
Crime prevention and detection	98,250	98,250	86,372	11,878
Streets and sidewalks	25,500	25,500	26,663	(1,163)
Waste management and recycling	92,800	92,800	83,328	9,472
Facilities	35,500	35,500	27,406	8,094
Recreation and cultural	45,000	45,000	33,851	11,149
Community development	30,050	30,050	24,410	5,640
Capital outlay	10,000	10,000	-	10,000
Debt Service	248,000	248,000	253,975	(5,975)
Total expenditures	<u>\$ 956,650</u>	<u>\$ 956,650</u>	<u>\$ 889,364</u>	<u>\$ 67,286</u>
Excess of revenues over expenditures before other uses	\$ (32,630)	\$ (3,519)	\$ 47,708	\$ 51,227
Other financing sources (uses):				
Insurance Recoveries	\$ -	\$ -	\$ -	\$ -
Operating transfers in (out)	-	(29,111)	(76,111)	-
Excess of revenues & other financing uses over expenditures	\$ (32,630)	\$ (32,630)	\$ (28,403)	\$ -
Fund balance, beginning of year, as restated			1,486,044	
Fund balance, end of year		-	1,457,641	-

Adjustments for statement of activities

Net Change in fund balance \$ (28,403)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives. -

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 the governmental funds. 63,718

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund statements. (410)

Change in net position of governmental activities \$ 34,905

Town of Bowling Green, Virginia
STATEMENT OF NET POSITION - PROPRIETARY FUND - WATER AND SEWER FUND
As of June 30, 2016

Exhibit V

Assets		
Current Assets		
Accounts receivable		93,680
Total Current Assets	\$	<u>93,680</u>
Capital Assets, net		
Land	\$	76,530
Construction in Progress		309,215
Depreciable assets (net of accumulated depreciation)		<u>2,098,545</u>
Total Capital Assets	\$	<u>2,484,290</u>
Total Assets	\$	<u>2,577,970</u>
Deferred Outflow of Resources		
Deferred outflow - pension plan	\$	23,840
Total Assets and Deferred Outflow of Resources	\$	<u>2,601,810</u>
Liabilities		
Current Liabilities		
Reconciled Overdraft Payable	\$	263,444
Accounts payable and accrued expenditures		100,276
Compensated absences - current portion		632
Total Current Liabilities	\$	<u>364,352</u>
Noncurrent liabilities		
Compensated absences - net of current portion		5,690
Net Pension Liability		<u>244,269</u>
Total Noncurrent Liabilities	\$	<u>249,959</u>
Total Liabilities	\$	<u>641,311</u>
Deferred Inflow of Resources		
Deferred inflow - pension plan		13,533
Net Position		
Invested in capital assets, net of related debt	\$	2,484,290
Unrestricted		<u>(510,324)</u>
Total Net Position	\$	<u>1,973,966</u>
Total Liabilities, Deferred Inflows and Net Position	\$	<u>2,601,810</u>

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

Town of Bowling Green, Virginia
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND - WATER AND SEWER FUND
For the Year Ended June 30, 2016

Exhibit VI

Operating revenues:	
Charges for services	\$ 587,842
Miscellaneous operating revenue	23
Total operating revenue	<u>\$ 587,865</u>
Operating expenses:	
Services	\$ 370,725
Water system	126,343
Sewer system	227,457
Depreciation	116,151
Total operating expenses	<u>\$ 840,676</u>
Operating income (loss) before nonoperating revenues (expenses)	<u>\$ (252,811)</u>
Nonoperating revenues (expenses):	
Interest income	\$ 627
Grants and Contributions	17,600
Total non-operating revenues (expenses)	<u>18,227</u>
Income (loss) before contributions and transfers	\$ (234,584)
Transfers In	<u>76,111</u>
Change in net position	<u>\$ (158,473)</u>
Net position, beginning, as restated	<u>2,132,439</u>
Net position, ending	<u><u>\$ 1,973,966</u></u>

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

Town of Bowling Green, Virginia
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - WATER AND SEWER FUND
For the Year Ended June 30, 2016

Exhibit VII

Cash flows from operating activities:	
Cash received from customers	\$ 639,802
Cash payments for goods and services	(503,624)
Cash payments for employees, employee benefits, and other administrative costs	(279,304)
Net cash (used in) operating activities	\$ (143,126)
Cash flows from capital and related financing activities:	
Cash transfers from other funds for capital	76,111
Net cash (used in) capital and related financing activities	\$ 76,111
Cash flows from investing activities:	
Cash received from interest income	\$ 627
Net cash provided by investing activities	\$ (113,388)
Cash and short-term investments:	
Beginning of year	\$ (197,056)
End of year	\$ (263,444)
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating (loss)	\$ (252,811)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	116,151
Changes in assets and liabilities:	
Decrease (Increase) in assets:	
Accounts receivable	14,365
Increase (Decrease) in liabilities:	
Accounts payable	(16,349)
Meter deposits	4,270
Deferred Inflows and Outflows related to pension plan	(8,752)
Net cash provided by (used in) operations	\$ (143,126)

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

NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Town of Bowling Green, Virginia (the Town) was established in 1837 by an act of the Virginia General Assembly, and is the county seat of government for Caroline County, Virginia. The Town operates under the Town Council - Mayor form of government, as elected by the residents of the Town of Bowling Green. The Town owns and operates its own water and sewer systems as well as provides trash and refuse pickup, police protection and other services for its residents.

The Financial Statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard - setting body for establishing governmental accounting and financial reporting principles. As required by accounting principles generally accepted in the United States of America, these financial statements present the Town and any potential component units (entities for which the Town is considered to be financially accountable). Financial accountability is defined as appointment of a voting majority of the component unit's board and either (a) the ability to impose its will on the component unit, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

Based upon the above, the Town reports the Economic Development Authority as a discretely presented Component Unit.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information on all of the non-fiduciary activities of the Town. 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 in program revenues are reported as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The Town reports the following major governmental fund:

The General Fund is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Town reports the following major proprietary fund:

The water and sewer fund accounts for the activities of the water source, water and sewage treatment plants, sewage pumping stations and collection systems, and the water distribution system.

C. Basis of Accounting Presentation – Fund Accounting

The accounts of the Town are organized on the basis of funds. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund balance/net position, revenues and expenditures or expenses, as appropriate. The various funds of the Town are included in the financial statements as follows:

1. Governmental Funds are those funds through which most governmental functions are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may be used while current liabilities are assigned to the fund from which they are paid; the difference between governmental fund assets and liabilities, the fund equity, is referred to as “fund balance.” The measurement focus is upon determination of changes of financial position, rather than upon net income determination. The following comprise the Town’s major governmental fund:

General Fund – The General Fund is the general operating fund of the Town. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund.

2. Proprietary Fund Types are used to account for activities which are similar to those found in the private sector. All assets, liabilities, equities, revenues, expenses and transfers related to the Town’s business activities are accounted for through proprietary funds. The measurement focus is upon income determination, financial position, and cash flows. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Town has elected to apply all applicable Financial Accounting Standards Board pronouncements, including those issued on or before November 30, 1989, except for those pronouncements which conflict with or contradict GASB pronouncements. The following comprise the Town’s major proprietary fund:

Water and Sewer Fund – The Water and Sewer Fund is used to finance and account for the acquisition, operation and maintenance of the Town’s facilities and services which are supported primarily by user charges.

D. Management Focus and Basis of Accounting

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

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 measurable and available. Real and personal property taxes are recorded as deferred revenues and taxes receivable when billed. Real and personal property taxes recorded at June 30, and received within the first 60 days after year-end are included in tax revenues, with the related amount reduced from deferred revenues. Sales and utility

taxes, which are collected by the State or utility companies and subsequently remitted to the Town, are recognized as revenues and amounts receivable when the underlying exchange transaction occurs, which is generally two months 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 specific funding are recognized when earned or at the time of the specific reimbursable expenditure. Revenues from general purpose grants are recognized during the period to which the grants apply.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this rule include: 1) accumulated unpaid vacation leave, sick leave, and other employee amounts, which are recorded as compensated absences and are recognized when paid, and 2) principal and interest payments on general long-term debt, both of which are recognized when paid.

E. Budgetary Data

Budgets are adopted and maintained on the modified accrual basis. Annual appropriated budgets are adopted for the General Fund and the Water and Sewer fund. All annual appropriations lapse at fiscal year-end to the extent they have not been expended – unless appropriately designated by Council.

F. Equity in Pooled Cash and Investments

Cash and resources of the individual funds in the General Fund and Proprietary Fund are combined to form a pool of cash and investments to maximize interest earnings. Income from pooled investments is allocated only when contractually or legally required.

All investment earnings not legally or contractually required to be credited to individual accounts or funds are credited to the General Fund.

For purposes of the statement of cash flows, the Proprietary Fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

G. Receivables

All trade and property tax receivables are shown net of allowance for uncollectible accounts. Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy is due December 5 and reflects adjustments to the current year's actual levy. When the billings are past due, the applicable property is subject to lien, and penalties and interest are assessed.

H. Capital Assets

Capital Assets include property, plant and equipment and are recorded in the government-wide financial statements. Capital assets are capitalized at historical acquisition costs and include assets with an initial, individual cost of more than \$5,000 and two years useful life. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings	50 years
Renovations and repairs	20 years
Vehicles	5-20 years
Street Improvements	20 years

I. Accrued Compensated Absences

Town employees are granted a specified number of days of leave with pay each year. The amount reflects, as of June 30, 2016, all unused vacation. The cost of the accumulated leave is accounted for as a liability in the government-wide financial statements. The liability for these amounts is reported in the governmental funds only when the amounts have become due and payable.

J. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the government-wide statement of net position. Bond premiums and discounts, as well as bond issuance costs, are deferred and amortized over the life of the bonds using the effective interest method or bonds outstanding method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period, but no long-term liabilities. 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. Repayments and issuance costs are reported as debt service expenditures.

K. Fund Balance

Fund balance is divided into classifications based primarily on the extent to which the Town is bound to observe constraints imposed upon the use of resources in the governmental funds:

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the Town for specific purposes, but do not meet the criteria to be classified as restricted.

Unassigned - Amounts in the unassigned fund balance classification are not intended for a specific purpose and do not meet any of the other criteria.

L. Management's Use of Estimates

The Town, in conformity with GAAP, has made certain estimates and assumptions related to the reporting of assets, liabilities, revenues, expenses and the disclosure of contingent liabilities. Actual results could differ from these estimates.

NOTE 2 CASH AND INVESTMENTS

Deposits: All cash of the Town is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposit Act, section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance.

The Town has not adopted an investment policy.

NOTE 3 RECEIVABLES

Receivables at June 30, 2016 for the Town's governmental and business-type activities, including the applicable allowance for uncollectible accounts, are as follows:

	Governmental Activities	Business-Type Activities
Property taxes	\$ 285,129	\$
Charges for services	19,912	154,751
Meals Taxes	9,915	
Transient Occupancy Taxes	317	
Consumer Utility Taxes	2,559	
Sales Taxes (Caroline Co.)	2,301	
Communications Taxes (Comm. of Va.)	6,446	
Gross Receivables	<u>326,579</u>	<u>154,751</u>
Less allowance for uncollectible accounts	<u>(18,417)</u>	<u>(61,071)</u>
Net receivables	<u>\$ 308,162</u>	<u>\$ 93,680</u>

The taxes receivable account represents the current and past four years of uncollected tax levies for personal property taxes and the current and past 20 years for uncollected tax levies on real property. The allowance for estimated uncollectible taxes receivable is 6.46% of the total taxes receivable at June 30, 2016 and is based on historical collection rates.

Receivables on a government-wide basis include taxes receivable of \$271,513 that are not available to pay for current period expenditures and are therefore offset by the deferred revenue for the governmental funds.

NOTE 4 PROPERTY TAXES

The Town levies real estate taxes on all real property on a calendar year basis, at a rate enacted by Town Council on the assessed value of property (except public utility property) as determined by the Commissioner of Revenue of the County of Caroline, Virginia. Public Utility property is assessed by the Commonwealth. Neither the Town nor the Commonwealth of Virginia imposes a limitation on the tax rate. All property is assessed at 100 percent of fair market value and reassessed biannually as of January 1.

Real estate taxes are billed in annual installments due December 5. The taxes receivable balance at June 30, 2016 includes amounts not yet received from the January 1, 2016 levy (due December 5, 2016), less an allowance for uncollectibles. The installment due on December 5, 2016 is included as deferred revenue since these taxes are restricted for use until fiscal year 2016. Liens are placed on the property on the date real estate taxes are delinquent and must be satisfied prior to the sale or transfer of the property.

In addition, any uncollected amounts from previous years' levies are incorporated in the taxes receivable balance. The tax rate was \$.12 per \$100 of assessed value during 2016.

Personal property tax assessments on tangible business property and all motor vehicles are based on 100 percent of fair market value of the property as of January 1 of each year. Personal property taxes for the calendar year are due in annual installments on December 5. Personal property taxes do not create a lien on property; however, Town vehicle decals, which are required by law for all vehicles garaged in the Town, may not be issued to any individual having outstanding personal property taxes. The tax rates during 2016 were \$.68 per \$100 of assessed value.

The taxes receivable balance at June 30, 2016 includes amounts not yet billed or received from the January 1, 2016 levy (due December 5, 2016). The installment due on December 5, 2016 is included as deferred revenue since these taxes are restricted for use until fiscal year 2016. In addition, any uncollected amounts from prior year levies are incorporated in the taxes receivable balance. Under the provisions of the Personal Property Tax Relief Act of 1998 (PPTRA), the Town received approximately \$21,908 in fiscal year 2016 for the State's share of the local personal property tax payment with the remaining collected by the Town.

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 is as follows:

	Beginning Balance	Increases	(Deletions)/ Reclassifications	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 39,197	\$ -	\$ -	\$ 39,197
Construction in progress	3,581,247	-	-	3,581,247
Total capital assets, not being depreciated	\$ 3,620,444	\$ -	\$ -	\$ 3,620,444
Capital assets, being depreciated:				
Buildings	\$ 299,868	\$ -	\$ -	\$ 299,868
Equipment	113,251	-	-	113,251
Street improvements	180,619	-	-	180,619
Vehicles	108,634	-	-	108,634
Total capital assets, being depreciated	\$ 702,372	\$ -	\$ -	\$ 702,372
Less accumulated depreciation for:				
Renovations and repairs	\$ (132,546)	\$ (7,059)	\$ -	\$ (139,605)
Equipment	(56,506)	(6,284)	-	(62,790)
Street improvements	(105,801)	(9,314)	-	(115,115)
Vehicles	(107,954)	(680)	-	(108,634)
Total accumulated depreciation	\$ (402,807)	\$ (23,337)	\$ -	\$ (426,144)
Total capital assets being depreciated, net	\$ 299,565	\$ (23,337)	\$ -	\$ 276,228
Governmental activities capital assets, net	\$ 3,920,009	\$ (23,337)	\$ -	\$ 3,896,672

Construction in progress for governmental activities is composed of the following:

	Project Authorization	Expended to June 30, 2016	Committed
Route 301 Corridor Project	\$ 3,581,247	\$ 3,581,247	\$ 0

NOTE 5 CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following functions for the primary government - governmental activities:

General government	\$	10,385
Public safety		680
Public works		12,272
	\$	<u>23,337</u>

	Beginning Balance	Increases	(Deletions)/ Reclassifications	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 76,530	\$ -	\$ -	\$ 76,530
Construction in Progress	294,215	15,000		309,215
Total capital assets, not being depreciated	\$ 370,745	\$ 15,000	\$ -	\$ 385,745
Capital assets, being depreciated:				
Building	98,610	-	-	98,610
Equipment	138,357	-	-	138,357
Utility Plant in Service	3,988,678	-	-	3,988,676
Vehicles	172,301	-	-	172,301
Total capital assets, being depreciated	\$ 4,397,946	\$ -	\$ -	\$ 4,397,946
Less accumulated depreciation for:				
Building	(41,997)	(2,189)	-	(44,186)
Equipment	(93,933)	(5,586)	-	(99,519)
Utility Plant in Service	(1,875,019)	(108,377)	-	(1,983,396)
Vehicles	(172,301)	-	-	(172,301)
Total accumulated depreciation	\$ (2,183,250)	\$ (116,152)	\$ -	\$ (2,299,402)
Total capital assets being depreciated, net	\$ 2,214,696	\$ (116,152)	\$ -	\$ 2,098,544
Business-type activities capital assets, net	\$ 2,585,441	\$ (101,152)	\$ -	\$ 2,484,289

NOTE 6 LONG-TERM DEBT

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
PRIMARY GOVERNMENT:					
Governmental Activities:					
General Obligation Bonds					
Payable	\$ 3,475,000	\$ -	\$ 70,000	\$ 3,405,000	\$ 70,000
Compensated Absences	14,077	9,026	10,395	12,708	1,271
Total governmental activities	\$ 3,489,077	\$ 9,026	\$ 80,395	\$ 3,417,708	\$ 71,271
Total primary government	\$ 3,489,077	\$ 9,026	\$ 80,395	\$ 3,417,708	\$ 71,271

The annual requirements to amortize all primary government debt outstanding as of June 30, 2016 are as follows:

	General Government	
	Principal	Interest
6/30/2017	70,000	181,805
6/30/2018	75,000	178,935
6/30/2019	75,000	175,860
6/30/2020	80,000	172,785
6/30/2021	85,000	169,405
6/30/2022	90,000	165,070
2023-2027	520,000	751,910
2028-2032	660,000	601,220
2033-2037	865,000	397,880
2038-2041	885,000	127,120
Totals	\$ 3,405,000	\$ 2,921,990

General obligation bonds payable at June 30, 2016, backed by the full faith and credit of the Town, are comprised of the following individual issues:

Series	Interest Rate	Issue Date	Final Maturity Date	Annual Principal Payments	Original Issue	Principal Outstanding
<i>General Government</i>						
GO Bond						
Series 2010A	5.42%	12/7/2010	2/1/2041	\$ 70,000	\$ 3,705,000	\$ 3,405,000

GO Bond Series 2010A was issued during 2011 and the Town had the ability to borrow up to \$3,705,000. The amount drawn was \$3,660,122.

NOTE 7 DEFINED BENEFIT PENSION PLAN

Plan Description

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

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

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see “Eligible Members”)</p> <ul style="list-style-type: none"> • The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.

NOTE 7 – DEFINED BENEFIT PENSION PLAN (continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 (Cont.)</p>	<p>About Plan 2 (Cont.)</p>	<p>About the Hybrid Retirement Plan (Cont.)</p> <ul style="list-style-type: none"> • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan’s effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan’s effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Political subdivision employees* • School division employees • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan’s effective date for opt-in members was July 1, 2014. <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

NOTE 7 – DEFINED BENEFIT PENSION PLAN (continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>*Non-Eligible Members (Cont.) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions and school divisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions and school divisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.</p>	<p>Retirement Contributions A member’s retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee’s creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

NOTE 7 – DEFINED BENEFIT PENSION PLAN (continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member’s total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Creditable Service Same as Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member’s total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>

NOTE 7 – DEFINED BENEFIT PENSION PLAN (continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. <u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make.</p>

NOTE 7 – DEFINED BENEFIT PENSION PLAN (continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting (Cont.)	Vesting (Cont.)	<p>Vesting (Cont.) <u>Defined Contributions Component:</u> (Cont.) Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member’s average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1</p>

NOTE 7 – DEFINED BENEFIT PENSION PLAN (continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Calculating the Benefit (Cont.) An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p>Calculating the Benefit (Cont.)</p>	<p>Calculating the Benefit (Cont.) <u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p>Average Final Compensation A member’s average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member’s average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p>	<p>Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. Sheriffs and regional jail superintendents: Same as Plan 1. Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. Sheriffs and regional jail superintendents: Not applicable. Political subdivision hazardous duty employees: Not applicable. Defined Contribution Component: Not applicable.</p>

NOTE 7 – DEFINED BENEFIT PENSION PLAN (continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Normal Retirement Age VRS: Age 65. Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age. Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2. Political subdivisions hazardous duty employees: Not applicable. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. Political subdivisions hazardous duty employees: Not applicable. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p>

NOTE 7 – DEFINED BENEFIT PENSION PLAN (continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Earliest Reduced Retirement Eligibility (Cont.) Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility (Cont.) Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Reduced Retirement Eligibility (Cont.) Political subdivisions hazardous duty employees: Not applicable. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. <u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p>	<p>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%. <u>Eligibility:</u> Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2. <u>Defined Contribution Component:</u> Not applicable. <u>Eligibility:</u> Same as Plan 1 and Plan 2.</p>

NOTE 7 – DEFINED BENEFIT PENSION PLAN (continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.) <u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for 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. 	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.) <u>Exceptions to COLA Effective Dates:</u> Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.) <u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

NOTE 7 – DEFINED BENEFIT PENSION PLAN (continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p>	<p>Disability Coverage Employees of political subdivisions and School divisions (including Plan 1 and 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. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>
<p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. <p><u>Defined Contribution Component:</u> Not applicable.</p>

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/2016-annual-report.pdf> or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

NOTE 7 RETIREMENT PLANS (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	12
Inactive members:	
Vested inactive members	1
Non-vested Inactive members	5
Inactive members active elsewhere in VRS	12
Total inactive members	18
Active members	6
Total covered employees	36

Contributions

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

The Town's contractually required contribution rate for the year ended June 30, 2016 was 21.7% of covered employee compensation, not including the employee contribution. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2014. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$52,671 and \$32,047 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension Liability

The Town's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

NOTE 7 RETIREMENT PLANS (Continued)

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Town’s Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

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

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

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

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

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

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2009 through June 30, 2013. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

Note 7 RETIREMENT PLANS (Continued)

Long-Term Expected Rate of Return

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

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

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

Note 7 RETIREMENT PLANS (Continued)

Discount Rate

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

Changes in Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2014	\$1,327,125	\$794,001	\$533,124
Changes for the year:			
Service cost	25,004		25,004
Interest	88,963		88,963
Differences between expected and actual experience	(25,232)		(25,232)
Contributions - employer		50,828	(50,828)
Contributions - employee		11,328	(11,328)
Net investment income		34,145	(34,145)
Benefit payments, including refunds of employee contributions	(112,454)	(112,454)	0
Administrative expenses		(512)	512
Other changes	0	(8)	8
Net changes	(23,719)	(16,673)	(7,046)
Balances at June 30, 2015	\$1,303,406	\$777,328	\$526,078

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

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

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net Pension Liability	\$690,718	\$526,078	\$390,091

NOTE 7 RETIREMENT PLANS (Continued)

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

For the year ended June 30, 2016, the Town recognized pension expense of \$23,059. At June 30, 2016, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$0	\$7,209
Net difference between projected and actual earnings on pension plan investments	0	20,894
Employer contributions subsequent to the measurement date	51,320	0
Total	\$51,320	\$28,103

\$51,320 reported as deferred outflows of resources related to pensions resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	(15,485)
2018	(8,276)
2019	(8,274)
2020	3,932
Thereafter	0

NOTE 8 LAND USE TAXATION

The Town has adopted land use taxation of real estate whereby the land owners are assessed valuations based on "use" of property instead of actual "fair market value" of the property. Such reduced valuations are primarily for farm and timber property and tax reductions (deferrals) are subject to payment only if the qualifying use of the property is changed within a five-year period from the year of assessment. The amounts of such deferred taxes on the records of the Town as of June 30, 2015 are as follows:

<u>Year</u>	<u>Deferred Taxes</u>
2009	\$ 446
2010	646
2011	643
2012	701
2013	701
2014	701
2015	403
2016	566
	<u>\$ 5,010</u>

NOTE 9 RISK MANAGEMENT

The Town is insured for Worker's Compensation, General Liability, Health and other risks. There have been no significant reductions in insurance coverage from the prior year and no settlements that exceeded the amount of insurance coverage during the last three fiscal years.

NOTE 10 EVALUATION OF SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 14, 2017, the date the financial statements were available to be issued.