



FINANCIAL REPORT

YEAR ENDED JUNE 30, 2010

**BROWN,
EDWARDS &
COMPANY, L.L.P.**
Certified Public Accountants

TOWN OF ALTAVISTA, VIRGINIA

FINANCIAL REPORT

June 30, 2010

TOWN OF ALTAVISTA, VIRGINIA

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INTRODUCTORY SECTION

TOWN OF ALTAVISTA, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS

June 30, 2010

TOWN COUNCIL

J. Rudy Burgess, Mayor
Ronald Coleman, Vice Mayor
Beverley Dalton
William Ferguson
James H. Higginbotham, II
Mike Mattox
Rayetta Webb

APPOINTED OFFICIALS

J. Waverly Coggsdale, III..... Town Manager
John Eller Town Attorney
W. Morgan Allen, Jr..... Treasurer
Clay Hamilton Chief of Police

INDEPENDENT AUDITORS

Brown, Edwards & Company, L.L.P.

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Honorable Members of Town Council
Town of Altavista, Virginia
Altavista, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, the major fund, and the remaining fund information of the Town of Altavista, Virginia, as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, the discretely presented component unit, the major fund, and the remaining fund information of the Town of Altavista, Virginia, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2010 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Town has not presented a management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. Accounting principles generally accepted in the United States of America require that the budgetary comparison information and the analysis of funding progress for a defined benefit pension plan, on page 38, 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 historic 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's financial statements as a whole. The supplementary information included in Exhibits A-1 through A-3 is not a required part of the basic financial statements. This 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. The tables shown in the Other Information Section are presented for purposes of additional analysis and are not a required part of the basic financial statements and have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
September 23, 2010



BASIC FINANCIAL STATEMENTS

TOWN OF ALTAVISTA, VIRGINIA

STATEMENT OF NET ASSETS

June 30, 2010

	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities	Total	Altavista Economic Development Authority
ASSETS				
Cash and cash equivalents (Note 2)	\$ 8,495,384	\$ 3,406,709	\$ 11,902,093	\$ 161,885
Cash and cash equivalents, restricted (Note 2)	80,194	427,600	507,794	-
Receivables, net (Note 3)	268,399	289,533	557,932	-
Due from other governmental units (Note 5)	132,474	-	132,474	-
Inventory	74,566	-	74,566	-
Prepays	22,762	11,395	34,157	-
Other assets	-	58,186	58,186	-
Internal balances	745,916	(745,916)	-	-
Capital assets: (Note 6)				
Nondepreciable	693,437	850,283	1,543,720	-
Depreciable	3,868,554	12,998,992	16,867,546	-
Total assets	14,381,686	17,296,782	31,678,468	161,885
LIABILITIES				
Accounts payable and accrued liabilities	79,719	86,982	166,701	52,500
Accrued payroll and related liabilities	43,992	24,296	68,288	-
Accrued interest payable	5,196	13,827	19,023	-
Customer security deposits	-	16,173	16,173	-
Environmental remediation (Note 8)	-	750,000	750,000	-
Noncurrent liabilities: (Note 7)				
Due within one year	163,532	598,578	762,110	-
Due in more than one year	366,914	3,219,127	3,586,041	-
Total liabilities	659,353	4,708,983	5,368,336	52,500
NET ASSETS				
Invested in capital assets, net of related debt	4,245,668	10,512,216	14,757,884	-
Unrestricted	9,476,665	2,075,583	11,552,248	109,385
Total net assets	\$ 13,722,333	\$ 12,587,799	\$ 26,310,132	\$ 109,385

TOWN OF ALTAVISTA, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2010

	General	Other Governmental Fund	Total Governmental Funds
	<u>General</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 8,378,682	\$ 116,702	\$ 8,495,384
Cash and cash equivalents, restricted	80,194	-	80,194
Receivables, net	268,399	-	268,399
Due from other governmental units	132,474	-	132,474
Due from other funds (Note 4)	1,031,103	-	1,031,103
Inventory	74,566	-	74,566
Prepays	22,762	-	22,762
	<u>\$ 9,988,180</u>	<u>\$ 116,702</u>	<u>\$ 10,104,882</u>
LIABILITIES AND FUND BALANCES			
Accounts payable and accrued liabilities	\$ 79,580	\$ 139	\$ 79,719
Accrued payroll and related liabilities	43,992	-	43,992
Deferred revenue	44,870	-	44,870
Due to other funds (Note 4)	-	285,187	285,187
	<u>168,442</u>	<u>285,326</u>	<u>453,768</u>
Fund balances (deficits) (Note 14)			
Reserved	97,328	-	97,328
Unreserved, reported in			
General fund, designated	3,860,855	-	3,860,855
General fund, undesignated	5,861,555	-	5,861,555
Special revenue fund	-	(168,624)	(168,624)
	<u>9,819,738</u>	<u>(168,624)</u>	<u>9,651,114</u>
	<u>\$ 9,988,180</u>	<u>\$ 116,702</u>	<u>\$ 10,104,882</u>

TOWN OF ALTAVISTA, VIRGINIA

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

June 30, 2010

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

Ending fund balance - governmental funds		\$ 9,651,114
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the funds.		
Governmental capital assets	\$ 7,861,162	
Less: accumulated depreciation	(3,299,171)	
		4,561,991
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
		44,870
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
General obligation public improvement bond	(248,056)	
Other-long term liability	(148,461)	
Accrued interest payable	(5,196)	
Compensated absences	(133,929)	
		(535,642)
Total net assets - governmental activities		\$ 13,722,333

TOWN OF ALTAVISTA, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year Ended June 30, 2010**

	General	Other Governmental Fund	Total Governmental Funds
REVENUES			
General property taxes (Notes 11 and 13)	\$ 2,162,977	\$ -	\$ 2,162,977
Other local taxes	1,319,767	-	1,319,767
Permits, privilege fees, and regulatory licenses	660	-	660
Fines and forfeitures	9,747	-	9,747
Investment earnings	78,263	356	78,619
Charges for services	38,614	-	38,614
Intergovernmental	1,258,475	-	1,258,475
Other	113,079	-	113,079
Total revenues	<u>4,981,582</u>	<u>356</u>	<u>4,981,938</u>
EXPENDITURES			
Current			
General government administration	873,090	-	873,090
Public safety	809,229	-	809,229
Public works	1,100,745	-	1,100,745
Parks, recreation, and cultural	407,280	13,157	420,437
Capital outlay	1,000,165	47,102	1,047,267
Debt service			
Principal retirement	59,614	-	59,614
Interest and other fiscal charges	23,157	-	23,157
Total expenditures	<u>4,273,280</u>	<u>60,259</u>	<u>4,333,539</u>
Excess (deficiency) of revenues over expenditures	<u>708,302</u>	<u>(59,903)</u>	<u>648,399</u>
OTHER FINANCING SOURCES (USES)			
Transfers in (Note 4)	15,847	30,100	45,947
Transfers out (Note 4)	(93,304)	(15,847)	(109,151)
Total other financing sources (uses)	<u>(77,457)</u>	<u>14,253</u>	<u>(63,204)</u>
Net change in fund balances	630,845	(45,650)	585,195
FUND BALANCES (DEFICITS) AT JULY 1	<u>9,188,893</u>	<u>(122,974)</u>	<u>9,065,919</u>
FUND BALANCES (DEFICITS) AT JUNE 30	<u><u>\$ 9,819,738</u></u>	<u><u>\$ (168,624)</u></u>	<u><u>\$ 9,651,114</u></u>

TOWN OF ALTAVISTA, VIRGINIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

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

Net change in fund balances - total governmental funds \$ 585,195

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

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.

Capital outlays	\$ 749,059	
Depreciation expense	(303,022)	
	<u> </u>	446,037

In the statement of activities, only gains (losses) on the sale of assets are reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the assets sold or disposed. (3,485)

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

Deferred revenues		5,554
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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 current financial resources of governmental funds. Neither transaction, however, has an effect on net assets.

Issuance of debt

General obligation public improvement bond, transferred from the Water & Sewer fund	(9,957)	
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Principal repayments

General obligation public improvement bond	16,456	
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Other long-term liability	43,158	
	<u> </u>	49,657

The net effect of the change in accrued interest expense, which is not reflected in the fund statements. 1,511

Long-term compensated absences are reported in the Statement of Activities, but they do not require the use of current financial resources and, therefore are not recorded as expenditures in governmental funds. (26,155)

Change in net assets of governmental activities \$ 1,058,314

TOWN OF ALTAVISTA, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL FUND

Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
REVENUES				
General property taxes	\$ 1,981,300	\$ 2,076,400	\$ 2,162,977	\$ 86,577
Other local taxes	1,191,300	1,278,400	1,319,767	41,367
Permits, privilege fees, and regulatory licenses	1,000	600	660	60
Fines and forfeitures	12,500	8,600	9,747	1,147
Investment earnings	83,400	77,000	78,263	1,263
Charges for services	30,300	38,460	38,614	154
Intergovernmental	1,792,200	1,178,500	1,258,475	79,975
Other	107,700	110,200	113,079	2,879
Total revenues	5,199,700	4,768,160	4,981,582	213,422
EXPENDITURES				
Current				
General government administration	908,200	891,860	873,090	18,770
Public safety	872,000	803,500	809,229	(5,729)
Public works	1,179,600	1,116,860	1,100,745	16,115
Parks, recreation, and cultural	1,004,300	420,201	407,280	12,921
Capital outlay	1,143,100	937,400	1,000,165	(62,765)
Debt service				
Principal retirement	59,000	59,000	59,614	(614)
Interest and other fiscal charges	22,800	22,800	23,157	(357)
Total expenditures	5,189,000	4,251,621	4,273,280	(21,659)
Excess of revenues over expenditures	10,700	516,539	708,302	191,763
OTHER FINANCING SOURCES (USES)				
Transfers in	437,100	426,100	15,847	(410,253)
Transfers out	(447,800)	(192,900)	(93,304)	99,596
Total other financing sources (uses)	(10,700)	233,200	(77,457)	(310,657)
Net change in fund balance	\$ -	\$ 749,739	\$ 630,845	\$ (118,894)

TOWN OF ALTAVISTA, VIRGINIA

STATEMENT OF NET ASSETS –
PROPRIETARY FUND

June 30, 2010

	Business-Type Activities Enterprise Fund <u>Water and Sewer</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 3,406,709
Cash and cash equivalents, restricted	427,600
Accounts receivable	289,533
Prepays	11,395
Total current assets	<u>4,135,237</u>
Noncurrent assets:	
Other assets	58,186
Capital assets, net	13,849,275
Total noncurrent assets	<u>13,907,461</u>
Total assets	<u>18,042,698</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	86,982
Accrued payroll and related liabilities	24,296
Accrued interest payable	13,827
Customer security deposits	16,173
Environmental remediation	750,000
Due to other funds	745,916
Current portion of long-term debt	558,866
Current portion of compensated absences	39,712
Total current liabilities	<u>2,235,772</u>
Noncurrent liabilities:	
Long-term debt	3,205,793
Compensated absences	13,334
Total noncurrent liabilities	<u>3,219,127</u>
Total liabilities	<u>5,454,899</u>
NET ASSETS	
Invested in capital assets, net of related debt	10,512,216
Unrestricted	2,075,583
Total net assets	<u>\$ 12,587,799</u>

TOWN OF ALTAVISTA, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS – PROPRIETARY FUND
Year Ended June 30, 2010**

	Business-Type Activities Enterprise Fund Water and Sewer
OPERATING REVENUES	
Charges for services (Note 13)	\$ 2,357,531
Other	43,566
Total operating revenues	2,401,097
OPERATING EXPENSES	
Salaries	784,417
Fringe benefits	226,524
Maintenance	78,773
Utilities	389,940
Materials and supplies	322,200
Sample testing	13,889
Purchase of water	2,244
Other	13,434
Depreciation	624,286
Amortization	4,064
Total operating expenses	2,459,771
Operating loss	(58,674)
NONOPERATING REVENUES (EXPENSES)	
Interest income	20,950
Interest expense	(131,903)
Net nonoperating expenses	(110,953)
Loss before transfers	(169,627)
Transfers in	73,161
Change in net assets	(96,466)
NET ASSETS AT JULY 1	12,684,265
NET ASSETS AT JUNE 30	\$ 12,587,799

TOWN OF ALTAVISTA, VIRGINIA

**STATEMENT OF CASH FLOWS -
PROPRIETARY FUND
Year Ended June 30, 2010**

	Business-Type Activities Enterprise Fund Water and Sewer
	<hr/> <hr/>
OPERATING ACTIVITIES	
Receipts from customers	\$ 2,380,383
Payments to suppliers	(783,052)
Payments to employees	(1,015,430)
Receipt of customer security deposits	768
Net cash provided by operating activities	<hr/> 582,669 <hr/>
NON-CAPITAL AND RELATED FINANCING ACTIVITIES	
Transfers from other funds	73,161
Interfund borrowing	201,827
Net cash provided by non-capital and related financing activities	<hr/> 274,988 <hr/>
CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from indebtedness	1,300,000
Acquisition and construction of capital assets	(1,080,319)
Principal paid on debt	(552,157)
Debt issuance costs	(45,261)
Interest paid on debt	(122,348)
Net cash used in capital and related financing activities	<hr/> (500,085) <hr/>
INVESTING ACTIVITIES	
Interest received	20,950
Net cash provided by investing activities	<hr/> 20,950 <hr/>
Net increase in cash and cash equivalents	378,522
CASH AND CASH EQUIVALENTS	
Beginning at July 1	3,455,787
Ending at June 30	<hr/> \$ 3,834,309 <hr/> <hr/>
RECONCILIATION TO EXHIBIT 8	
Cash and cash equivalents	\$ 3,406,709
Cash and cash equivalents, restricted	427,600
	<hr/> \$ 3,834,309 <hr/> <hr/>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (58,674)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	628,350
Change in certain assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(20,714)
Prepaid expenses	(274)
Increase (decrease) in:	
Accounts payable and accrued liabilities	37,956
Compensated absences	(4,743)
Customer security deposits	768
Net cash provided by operating activities	<hr/> \$ 582,669 <hr/> <hr/>

TOWN OF ALTAVISTA, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 1. Summary of Significant Accounting Policies

A. The Financial Reporting Entity

Primary Government. The Town of Altavista (the “Town”) was established in 1912. It is a political subdivision of the Commonwealth of Virginia operating under the Council-Manager form of government. The Town Council consists of a mayor, a vice mayor, and five other council members. The Town is part of Campbell County and has taxing powers subject to statewide restrictions and tax limits.

The Town of Altavista provides a full range of municipal services including police, refuse collection, public improvements, planning and zoning, general administrative services, fire, recreation, and water and sewer services. Fire and first aid services are supplemented by volunteer departments.

Discretely Presented Component Unit. A discretely presented component unit is an entity that is legally separate from the government, but for which the government is financially accountable, or whose relationship with the government is such that exclusion would cause the government’s financial statements to be misleading or incomplete. It is reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the Town.

Altavista Economic Development Authority

The Altavista Economic Development Authority (the “EDA”) was created to promote industry and develop trade by encouraging enterprises to locate and remain in the Town. The EDA is governed by a Board of Directors appointed by Town Council and the Town is financially accountable for the EDA. It is authorized to acquire, own, lease, and dispose of properties to the extent that such activities foster and stimulate economic development.

The Town has no related or jointly governed organizations.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Town. 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. Likewise, the *primary* government is reported separately from its legally separated *component unit* for which the primary government is financially accountable.

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*.

TOWN OF ALTAVISTA, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 1. Summary of Significant Accounting Policies (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund 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.

Government-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 collected 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 45 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports the following major governmental fund:

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

The Town's only nonmajor governmental fund is the library fund.

TOWN OF ALTAVISTA, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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 proprietary fund:

The *water and sewer enterprise fund* accounts for the financing of services to the general public where all or most of the operating expenses involved are intended to be recovered in the form of user charges, or where management has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for management control, accountability, or other purposes. The water and sewer enterprise fund consists of the activities relating to water and sewer services.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's proprietary funds 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.

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 water and sewer enterprise fund 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 nonoperating revenues and expenses.

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

D. Budgets and Budgetary Accounting

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

- 1) Prior to June 30, the Town Manager submits to Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. This budget includes proposed expenditures and the means of financing them.
- 2) Public hearings are conducted to obtain citizen comments.

TOWN OF ALTAVISTA, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets and Budgetary Accounting (Continued)

- 3) Prior to June 30, the budget is legally enacted through passage of an Appropriations Ordinance. Town Council may, from time to time, amend the budget, providing for additional expenditures and the means for financing them.
- 4) The Appropriations Ordinance places legal restrictions on expenditures at the department level. Management can over-expend at the line item level without approval of Town Council. The appropriation for each department or function can be revised only by Town Council.
- 5) Formal budgetary integration is employed as a management control device during the year.
- 6) Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
- 7) Appropriations lapse on June 30 for all Town units.
- 8) All budget data presented in the accompanying financial statements includes the original and revised budgets as of June 30.

E. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is employed as an extension of formal budgetary integration in the general fund. Encumbrances outstanding at year end are reported as reservations of fund balance since they do not constitute expenditures or liabilities.

F. Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term highly liquid investments with an original maturity of three months or less when purchased.

G. Inventory

Inventory consists of expendable supplies held for consumption. Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, are reported as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

TOWN OF ALTAVISTA, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 1. Summary of Significant Accounting Policies (Continued)

I. Allowance for Uncollectible Accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and specific account analysis. The Town considers all accounts receivable related to the business-type activity to be fully collectible and accordingly, no allowance for doubtful accounts is considered necessary. The allowance for the general fund is composed of the following:

Real estate	\$ 1,556
Personal property	<u>10,189</u>
	<u><u>\$ 11,745</u></u>

J. Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets, 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 and a useful life of more than 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 costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	30-40 years
Machinery and equipment	5-10 years
Public domain infrastructure	50 years
Distribution and transmission systems	30-50 years
Water and sewer plants	30-50 years

Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. and includes all activity since July 1, 2001.

K. Capitalization of Interest

The Town follows the policy of capitalizing net interest costs on funds borrowed to finance the construction of proprietary capital assets. Interest is not capitalized on the construction of assets used in governmental activities. For the current year, interest totaling \$11,393 was capitalized in the water and sewer fund.

TOWN OF ALTAVISTA, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 1. Summary of Significant Accounting Policies (Continued)

L. Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, *deferred revenue* in the governmental funds consisted solely of delinquent property taxes not collected within 45 days of year end.

M. Compensated Absences

The Town has policies which allow for the accumulation and vesting of limited amounts of vacation and sick leave until termination or retirement. Amounts of such absences are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds when the leave is due and payable.

N. Net Assets/Fund Equity

Net assets in government-wide and proprietary financial statements are classified as invested in capital assets, net of related debt, restricted, and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through state statute.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

O. Estimates

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and reported revenues, expenditures, and expenses. Actual results could differ from those estimates.

P. Performance Grants Payable

Performance grants payable are recorded when, in management's opinion, failure by the grantee to meet the performance criteria is unlikely. Refunds of performance grants are reflected as revenues when collection is determined to be likely.

TOWN OF ALTAVISTA, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 2. Deposits and Investments

Deposits

All cash of the Town is maintained in accounts covered by the Federal Deposit Insurance Corporation (FDIC) or collateralized in accordance with the Virginia Security for Public Deposits Act §2.2-4400 *et seq.* of the *Code of Virginia*.

Investments

Investment Policy:

Statutes authorize the Town 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; banker’s acceptances; repurchase agreements; the Virginia State Non-Arbitrage Program (SNAP); and the State Treasurer’s Local Government Investment Pool (LGIP).

Pursuant to Sec. 2.1-234.7 of the *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings and the fair value of the position in LGIP is the same as the value of the pool shares (i.e., the LGIP maintains a stable net asset value of \$1 per share). The investment policy specifies that no investment may have a maturity greater than one year from the date of purchase.

The Town has invested bond proceeds subject to rebate of arbitrage earnings in SNAP. SNAP is an open-end management investment company registered with the SEC. SNAP is designed to assist local governments in complying with the arbitrage rebate requirements of the Tax Reform Act of 1986. These programs provide comprehensive investment management, accounting and arbitrage rebate calculation services for proceeds of general obligation and revenue tax-exempt financing of Virginia counties, cities, and towns.

Credit Risk:

As required by state statute or by the Town, the Policy requires that commercial paper have a short-term debt rating of no less than “A-1” (or its equivalent) from at least two of the following; Moody’s Investors Service, Standard & Poor’s, and Fitch Investor’s Service, provided that the issuing corporation has a net worth of \$50 million and its long term debt is rated A or better by Moody’s and Standard & Poor’s. Banker’s acceptances and Certificates of Deposit maturing in less than one year must have a short-term debt rating of at least “A-1” by Standard & Poor’s and “P-1” by Moody’s Investor Service. Open-end investment funds must be registered under the Securities Act of the Commonwealth or the Federal Investment Company Act of 1940, provided that they invest only in securities approved for investment herein. Commonwealth of Virginia and Virginia Local Government Obligations secured by debt service reserve funds not subject to annual appropriation must be rated AA or higher by Moody’s or Standard & Poor’s. Repurchase agreements require that the counterparty be rated “A” or better by Moody’s and Standard & Poor’s.

TOWN OF ALTAVISTA, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Concentration of Credit Risk:

Although the intent of the Policy is for the Town to diversify its investment portfolio to avoid incurring unreasonable risks regarding (i) security type, (ii) individual financial institution or issuing entity, and (iii) maturity, the Policy places no limit on the amount the Town may invest in any one issuer.

At June 30, all of the Town’s investments were held in LGIP and SNAP. All investments were rated AAAM by Standard & Poor’s.

	Fair Value
Investments:	
LGIP	\$ 7,155,912
SNAP	76,473
Deposits	5,339,087
Total deposits and investments	\$ 12,571,472
 Reconciliation to Statement of Net Assets – Exhibit 1:	
Primary government:	
Cash and cash equivalents, excluding \$300 cash on hand	\$ 11,901,793
Cash and cash equivalents, restricted	507,794
Discretely presented component unit:	
Cash and cash equivalents	161,885
Total deposits and investments	\$ 12,571,472

Interest Rate Risk:

The Policy limits certain investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Agency securities purchased must mature within five years of the date of purchase. Prime commercial paper must mature within 270 days of the date of purchase and banker’s acceptances must mature within 180 days of the date of purchase. The Town is only invested in LGIP and SNAP at year end, which are readily available.

Custodial Credit Risk:

The Policy requires that all investment securities purchased by the Town be held in safekeeping by a third party and evidenced by safekeeping receipts. As required by the *Code of Virginia*, all security holdings with maturities over 30 days may not be held in safekeeping with the “counterparty” to the investment transaction. As of June 30, the Town has no investments subject to custodial credit risk.

Restricted Amounts:

Restricted cash and cash equivalents consist of unspent bond proceeds for construction commitments described in Note 6 and other water and sewer improvements not yet under contract.

TOWN OF ALTAVISTA, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 3. Receivables

Receivables for individual major funds are as follows:

	General	Water and Sewer	Total
Receivables			
Taxes	\$ 237,504	\$ -	\$ 237,504
Accounts	42,640	289,533	332,173
	280,144	289,533	569,677
Less: allowance for uncollectibles	(11,745)	-	(11,745)
Net receivables	<u>\$ 268,399</u>	<u>\$ 289,533</u>	<u>\$ 557,932</u>

Note 4. Interfund Receivables and Payables/Interfund Transfers

The composition of interfund balances are as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Water and Sewer Fund	\$ 745,916
General Fund	Nonmajor Governmental Fund	285,187
		<u>\$ 1,031,103</u>

The balance results from negative pooled cash amounts in the water and sewer and the nonmajor governmental fund.

The composition of interfund transfers are as follows:

Transfer Out Fund	Transfer In Fund	Amount
Nonmajor Governmental Fund	General Fund	\$ 15,847
General Fund	Nonmajor Governmental Fund	30,100
General Fund	Water and Sewer Fund	73,151
		<u>\$ 119,098</u>

The transfer out from the nonmajor governmental fund is to repay the general fund for expenditures incurred on behalf of the nonmajor governmental fund. The transfer out from the general fund to the water and sewer fund is to move funds to be used for capital outlay for the Town's water and sewer facilities. The transfer out to the nonmajor governmental fund from the general fund was for capital outlay necessary during fiscal year 2010.

TOWN OF ALTAVISTA, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 5. Due from Other Governmental Units

Amounts due from other governmental units are as follows:

Federal Government	
Community Development Block Grant	\$ 103,759
Commonwealth of Virginia	
Personal property tax relief	12,729
Railroad rolling stock taxes	<u>15,986</u>
	<u>\$ 132,474</u>

Note 6. Capital Assets

Capital asset activity for the year was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 232,486	\$ 25,000	\$ -	\$ 257,486
Construction in progress	<u>174,288</u>	<u>261,663</u>	<u>-</u>	<u>435,951</u>
Total capital assets, not depreciated	<u>406,774</u>	<u>286,663</u>	<u>-</u>	<u>693,437</u>
Capital assets, depreciated				
Buildings and improvements	2,648,954	44,200	-	2,693,154
Machinery and equipment	2,974,814	167,382	48,364	3,093,832
Public domain infrastructure	<u>1,129,925</u>	<u>250,814</u>	<u>-</u>	<u>1,380,739</u>
Total capital assets, depreciated	<u>6,753,693</u>	<u>462,396</u>	<u>48,364</u>	<u>7,167,725</u>
Less accumulated depreciation for:				
Buildings and improvements	834,912	58,358	-	893,270
Machinery and equipment	1,998,007	191,509	44,879	2,144,637
Public domain infrastructure	<u>208,109</u>	<u>53,155</u>	<u>-</u>	<u>261,264</u>
Total accumulated, depreciation	<u>3,041,028</u>	<u>303,022</u>	<u>44,879</u>	<u>3,299,171</u>
Total capital assets, depreciated, net	<u>3,712,665</u>	<u>159,374</u>	<u>3,485</u>	<u>3,868,554</u>
Governmental activities capital assets, net	<u>\$ 4,119,439</u>	<u>\$ 446,037</u>	<u>\$ 3,485</u>	<u>\$ 4,561,991</u>

TOWN OF ALTAVISTA, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 6. Capital Assets (Continued)

Capital asset activity for the year was as follows:

Business-type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Construction in progress	\$ 73,942	\$ 776,341	\$ -	\$ 850,283
Capital assets, depreciated				
Distribution and transmission systems	11,459,224	-	-	11,459,224
Water and sewer plants	12,827,283	-	-	12,827,283
Machinery and equipment	1,387,136	303,978	-	1,691,114
Total capital assets depreciated	<u>25,673,643</u>	<u>303,978</u>	<u>-</u>	<u>25,977,621</u>
Less accumulated depreciation	<u>12,354,343</u>	<u>624,286</u>	<u>-</u>	<u>12,978,629</u>
Total capital assets, depreciated, net	<u>13,319,300</u>	<u>(320,308)</u>	<u>-</u>	<u>12,998,992</u>
Business-type capital assets, net	<u>\$ 13,393,242</u>	<u>\$ 456,033</u>	<u>\$ -</u>	<u>\$ 13,849,275</u>

The Town had the following construction commitments as of June 30:

Project	Spent to Date	Remaining Balance
Water Plant Filter Media Replacements	\$ 130,853	\$ 101,047
Gateway Park	-	322,144
Streetscape and Downtown Utility Replacement	<u>586,299</u>	<u>625,747</u>
	<u>\$ 717,152</u>	<u>\$ 1,048,938</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government administration	\$ 30,266
Public safety	68,150
Public works	167,362
Parks, recreation, and cultural	<u>37,244</u>
Total depreciation expense – governmental activities	<u>\$ 303,022</u>
Business-type activities	
Water and sewer	<u>\$ 624,286</u>

TOWN OF ALTAVISTA, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 7. Long-Term Liabilities

Prior Year Defeasance of Debt

In 2003, the Town defeased certain bonds by placing the proceeds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the Town's financial statements. At June 30, 2010, \$2,178,329 of bonds outstanding are considered defeased.

The following is a summary of changes in long-term liabilities for the year:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
General obligation public improvement bond	\$ 254,555	\$ 9,957	\$ 16,456	\$ 248,056	\$ 17,090
Other long-term liability	191,619	-	43,158	148,461	46,179
Compensated absences	107,774	26,155	-	133,929	100,263
	<u>\$ 553,948</u>	<u>\$ 36,112</u>	<u>\$ 59,614</u>	<u>\$ 530,446</u>	<u>\$ 163,532</u>

Business-type Activities

General obligation refunding bond	\$ 1,680,406	\$ -	\$ 419,175	\$ 1,261,231	\$ 432,192
General obligation public improvement bonds	1,336,410	1,300,000	132,982	2,503,428	126,674
Compensated absences	57,789	-	4,743	53,046	39,712
	<u>\$ 3,074,605</u>	<u>\$ 1,300,000</u>	<u>\$ 556,900</u>	<u>\$ 3,817,705</u>	<u>\$ 598,578</u>

The annual requirements to amortize long-term debt and related interest are as follows:

Fiscal Year	Governmental Activities				Business-type Activities			
	General Obligation Public Improvement Bond		Other Long-Term Liability		General Obligation Refunding Bond		General Obligation Public Improvement Bond	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 17,090	\$ 9,154	\$ 46,179	\$ 10,392	\$ 432,192	\$ 32,408	\$ 126,674	\$ 109,656
2012	17,702	8,497	49,412	7,160	445,560	19,040	131,780	104,288
2013	18,385	7,814	52,870	3,701	383,479	5,358	137,381	98,687
2014	19,094	7,105	-	-	-	-	143,223	92,875
2015	19,830	6,369	-	-	-	-	149,319	86,749
2016-2020	111,231	19,765	-	-	-	-	847,688	332,652
2021-2025	44,724	1,678	-	-	-	-	596,530	160,584
2026-2029	-	-	-	-	-	-	370,833	48,068
	<u>\$ 248,056</u>	<u>\$ 60,382</u>	<u>\$ 148,461</u>	<u>\$ 21,253</u>	<u>\$ 1,261,231</u>	<u>\$ 56,806</u>	<u>\$ 2,503,428</u>	<u>\$ 1,033,559</u>

(Continued)

TOWN OF ALTAVISTA, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 7. Long-Term Liabilities (Continued)

Details of long-term indebtedness are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Governmental Activities	Business-type Activities
Refunding Bond:						
SunTrust	3.05%	3-03	4-13	\$ 4,000,000	\$ -	\$ 1,261,231
Public Improvement Bond:						
Carter Bank and Trust	3.79%	3-07	4-22	\$ 1,800,000	\$ 248,056	\$ 1,243,958
Branch Bank and Trust	5.06%	9-09	5-29	\$ 1,300,000	\$ -	\$ 1,259,470

Other Long-Term Liability

In 2006, the Town entered into a verbal agreement to reimburse BGF Industries for improvements to the Town's stormwater management system located on BGF's property. The Town agreed to pay \$396,000 over a seven year period. The Town has imputed interest at the rate of seven percent and thereby discounted the debt to a total principal amount of \$307,303. Payments are to be made annually in the amount of \$56,571. At year end, \$148,461 was outstanding under this agreement.

Note 8. Environmental Remediation

The Department of Environmental Quality (DEQ) has designated the Town a potential responsible party for cleanup of PCB's on certain Town owned property. There are several courses of action that the Town is considering to remedy the situation, with estimated costs ranging from \$750,000 to \$4,000,000. Management has submitted plans for the \$750,000 option to the DEQ. The estimated liability is based on the DEQ accepting this remedy proposed by the Town. If the DEQ does not accept the remedy, the actual costs may be more or less depending on their decision. The Town anticipates completing the project during fiscal year 2011 or 2012.

Note 9. Defined Benefit Pension Plan and Deferred Compensation Plan

Plan Description

The Town of Altavista contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (the "System"). All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service (age 60 for participating local law enforcement officers), or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years for participating local law enforcement officers), payable monthly for life in an amount equal to 1.85% of their average final salary (AFS) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to 5.00% per year beginning in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. Participating local law enforcement officers may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

TOWN OF ALTAVISTA, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 9. Defined Benefit Pension Plan and Deferred Compensation Plan (Continued)

Plan Description (Continued)

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/PDF/Publications/2009-Annual-Report.pdf> or obtained by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute five percent of their annual salary to the VRS. The employer may assume this five percent 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 2010 was 8.16% of annual covered payroll, which includes the five percent member contribution assumed by the Town.

Annual Pension Cost

For fiscal year 2010, the Town's annual pension cost of \$165,468 was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return, (b) projected salary increases ranging from 3.75% to 5.60% per year, and (c) 2.50% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of the Town's assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five year period. The Town's unfunded actuarial accrued liabilities are being amortized as a level percentage of payroll on an open basis within a period of 20 years or less.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of (APC) Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2008	\$ 236,150	100%	\$ -
June 30, 2009	\$ 163,987	100%	\$ -
June 30, 2010	\$ 165,468	100%	\$ -

TOWN OF ALTAVISTA, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 9. Defined Benefit Pension Plan and Deferred Compensation Plan (Continued)

Funded Status and Funding Progress

As of June 30, 2009, the most recent actuarial valuation date, the plan was 103.59% funded. The actuarial accrued liability for benefits was \$7,590,016, and the actuarial value of assets was \$7,862,679, resulting in an unfunded actuarial accrued liability (UAAL) of \$(272,663). The covered payroll (annual payroll of active employees covered by the plan) was \$1,938,311, and ratio of the UAAL to the covered payroll was 14.07%.

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

Note 10. Service Contracts

Sewage Contract

The Town is party to a 1991 contract with the Town of Hurt. The Town of Hurt made a capital contribution of \$325,000 to be used for expansion of a wastewater treatment plant. In exchange for the capital contribution, the Town contracted to provide sewage services for an indefinite period to an industrial park within the Town of Hurt. The contract provides that these services will be provided at the same rate the Town charges other customers for similar services.

Note 11. Property Taxes

The major sources of property taxes are real estate and personal property. Assessments are the responsibility of Campbell County, while billing and collection are the Town's responsibilities.

Property taxes are levied annually on assessed values as of January 1 and are due by December 5 each year. Personal property taxes do not create a lien on property.

The annual assessment for real estate is based on 100% of the assessed fair market value. A penalty of ten percent of the unpaid tax is due for late payment. Interest is accrued at ten percent for the initial year of delinquency, and thereafter at the maximum annual rate authorized by the *Internal Revenue Code* Section 6621(b). The effective tax rates per \$100 of assessed value for the year ended June 30 were as follows:

Real estate	\$	0.165
Personal property	\$	2.00
Machinery and tools	\$	2.00

TOWN OF ALTAVISTA, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 12. Risk Management

The Town is insured for Workers' Compensation, General Liability, Health, and other risks.

Workers' Compensation Insurance is provided through the Virginia Municipal League. During 2009-2010, total premiums paid were approximately \$47,500. Benefits are those afforded through Commonwealth of Virginia as outlined in the *Code of Virginia* Section 65.2-100; premiums are based upon covered payroll, job rates, and claims experience.

General liability and other insurance is provided through policies with the Virginia Municipal League. General liability and business automobile coverage have a \$1,000,000 limit per occurrence. Boiler and machinery has a \$5,000,000 limit. Property insurance is covered per statement of values and is approximately \$25,000,000. Police professional liability and public officials' liability insurance with a \$1,000,000 limit are covered through a policy with the Commonwealth of Virginia. Total premiums paid for the year ended June 30, 2010 were approximately \$67,600.

Healthcare coverage for employees is provided through a policy with Anthem. The Town contributes a percentage of the required premium amount for single coverage for each employee. The Town also pays a percentage of the coverage for dependents and spouses of employees. Total premiums paid for the year ended June 30, 2010 were approximately \$385,000.

There were no significant reductions in insurance coverages from the prior year and no settlements that exceeded the amount of insurance coverage during the last three fiscal years.

Note 13. Major Customers/Taxpayers

During fiscal year 2010, approximately 67% of general property taxes and 80% of enterprise fund operating revenue were generated by five customers.

Note 14. Fund Balance

Fund equity has been reserved and designated as follows:

General Fund:	
Reserved:	
Inventory	\$ 74,566
Prepays	22,762
	\$ 97,328
Designated:	
Green Hill cemetery	\$ 407,083
Capital improvements	2,900,318
Community improvement projects	140,951
Police	13,990
Train station	4,763
IDA matching grant	250,000
VDOT grant match	143,750
	\$ 3,860,855

TOWN OF ALTAVISTA, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 14. Fund Balance (Continued)

Deficit – Other Governmental Fund Balance

A deficit in fund balance of \$168,624 exists due to minimal revenue sources for the library fund. These deficits are anticipated to be recovered through transfers from the general fund.

Note 15. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following statement which is yet effective.

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* provides new fund balance classifications and clarifies governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This statement will be effective for the year ending June 30, 2011.

Management has not yet evaluated the effects, if any, of adopting this standard, but does not expect it to be material.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF ALTAVISTA, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN
June 30, 2010

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded Actuarial Accrued Liability (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	((b-a)/c) UAAL as of Percentage of Covered Payroll
June 30, 2009	\$ 7,862,679	\$ 7,590,016	\$ (272,663)	103.59%	\$ 1,938,311	(14.07)%
June 30, 2008	\$ 8,160,926	\$ 7,568,236	\$ (592,690)	107.83%	\$ 1,961,725	(30.21)%
June 30, 2007	\$ 7,515,343	\$ 6,845,102	\$ (670,241)	109.79%	\$ 1,921,510	(34.88)%

SUPPLEMENTARY INFORMATION

TOWN OF ALTAVISTA, VIRGINIA

**DISCRETELY PRESENTED COMPONENT UNIT –
ALTAVISTA ECONOMIC DEVELOPMENT AUTHORITY
STATEMENT OF NET ASSETS – PROPRIETARY FUND
June 30, 2010**

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 161,885
	161,885
Total assets	161,885
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	52,500
	52,500
Total liabilities	52,500
NET ASSETS	
Unrestricted	109,385
	109,385
Total net assets	\$ 109,385

TOWN OF ALTAVISTA, VIRGINIA

**DISCRETELY PRESENTED COMPONENT UNIT –
ALTAVISTA ECONOMIC DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS – PROPRIETARY FUND
Year Ended June 30, 2010**

OPERATING EXPENSES

Other expenses	\$ 15,910
	(15,910)

NONOPERATING REVENUES

Contributions from primary government	26,250
Interest income	342
	26,592

Change in net assets	10,682
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NET ASSETS AT JULY 1	98,703
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NET ASSETS AT JUNE 30	\$ 109,385
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TOWN OF ALTAVISTA, VIRGINIA

**DISCRETELY PRESENTED COMPONENT UNIT –
ALTAVISTA ECONOMIC DEVELOPMENT AUTHORITY
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
Year Ended June 30, 2010**

OPERATING ACTIVITIES

Payments for performance incentive grants	\$ (26,250)
Payments for other expenses	(15,910)
	<hr/>
Net cash used in operating activities	(42,160)
	<hr/>

NONCAPITAL FINANCING ACTIVITIES

Contribution from primary government	26,250
	<hr/>
Net cash provided by noncapital financing activities	26,250
	<hr/>

INVESTING ACTIVITIES

Interest received	342
	<hr/>
Net cash provided by investing activities	342
	<hr/>
Net decrease in cash and cash equivalents	(15,568)

CASH AND CASH EQUIVALENTS

Beginning at July 1	177,453
	<hr/>
Ending at June 30	\$ 161,885
	<hr/> <hr/>

**RECONCILIATION OF OPERATING LOSS TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating loss	\$ (15,910)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Decrease in accounts payable and accrued liabilities	(26,250)
	<hr/>
Net cash used in operating activities	\$ (42,160)
	<hr/> <hr/>

OTHER INFORMATION SECTION

TABLE 1

TOWN OF ALTAVISTA, VIRGINIA
GENERAL GOVERNMENT REVENUES BY SOURCE
Last Ten Fiscal Years (1)

Fiscal Years Ended June 30,	General Property Taxes	Other Local Taxes	Permits, Privilege Fees and Regulatory Licenses	Fines and Forfeitures	Investment Earnings	Inter- Governmental	Other	Totals
2010	\$ 2,162,977	\$ 1,319,767	\$ 660	\$ 9,747	\$ 78,263	\$ 1,258,475	\$ 151,693	\$ 4,981,582
2009	2,047,392	1,325,078	870	10,933	161,059	1,026,344	208,274	4,779,950
2008	1,995,533	1,297,749	718	11,035	288,709	820,474	178,839	4,593,057
2007	1,979,013	1,285,877	10,488	24,882	305,232	808,547	195,269	4,609,308
2006	1,942,439	1,137,224	18,008	31,277	193,301	833,324	145,564	4,301,137
2005	1,689,246	1,108,255	17,604	16,812	126,926	774,876	185,707	3,919,426
2004	1,728,289	1,157,142	17,918	29,179	72,382	853,300	123,088	3,981,298
2003	1,750,812	1,164,317	29,361	14,965	100,867	669,905	727,548	4,457,775
2002	1,830,690	1,113,382	24,355	7,566	131,396	750,905	72,008	3,930,302
2001	1,948,181	1,111,837	20,442	8,075	247,351	702,797	51,187	4,089,870

(1) Consists solely of general fund revenues

TABLE 2

GENERAL GOVERNMENT EXPENDITURES BY FUNCTION
Last Ten Fiscal Years (1)

Fiscal Years Ended June 30,	General Government Administration	Public Safety	Public Works	Parks, Recreation and Cultural	Capital Outlay	Debt Service	Totals
2010	\$ 873,090	\$ 809,229	\$ 1,100,745	\$ 407,280	\$ 1,000,165	\$ 82,771	\$ 4,273,280
2009	843,025	812,925	1,310,206	359,546	368,475	81,778	3,775,955
2008	862,765	801,058	1,469,131	266,062	291,182	81,778	3,771,976
2007	912,491	742,332	1,199,129	265,425	953,788	62,873	4,136,038
2006	840,103	826,763	1,474,907	284,406	475,640	-	3,901,819
2005	808,124	913,427	1,192,425	270,556	508,258	10,018	3,702,808
2004	710,765	694,842	1,403,846	183,875	171,924	10,000	3,175,252
2003	694,311	652,472	1,176,922	178,330	1,142,596	360,000	4,204,631
2002	640,296	632,285	1,218,583	175,442	264,275	10,000	2,940,881
2001	632,197	675,654	1,255,553	178,953	283,060	10,000	3,035,417

(1) Consists solely of general fund expenditures

TABLE 3

TOWN OF ALTAVISTA, VIRGINIA
COMPUTATION OF LEGAL DEBT LIMIT
June 30, 2010

Assessed value of real estate, January 1, 2009		\$ 257,899,946
		<u>257,899,946</u>
Legal debt limit, (10% of \$257,899,946)		\$ 25,789,995
Total bonded debt	\$ 4,012,716	4,012,716
		<u>4,012,716</u>
Legal debt margin		\$ 21,777,279
		<u>21,777,279</u>



COMPLIANCE SECTION

**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**

Honorable Members of Town Council
Town of Altavista, Virginia
Altavista, Virginia

We have audited the financial statements of the governmental activities, the business-type activities, the discretely present component unit, the major fund, and the remaining fund information of the Town of Altavista, Virginia, as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements and have issued our report thereon dated September 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. **However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.**

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. **We consider deficiencies 07-1 and 08-1 described in the accompanying Schedule of Findings and Responses to be material weaknesses.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of 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 an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and responses as item 10-1.**

We also noted certain additional matters that we reported to management of the Town in a separate letter dated September 23, 2010.

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Town's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Town Council, others within the entity, state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
September 23, 2010

TOWN OF ALTAVISTA, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2010

As more fully described in the 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*, we performed tests of the Town's compliance with certain provisions of laws, regulations, contracts and grants shown below:

STATE COMPLIANCE MATTERS

Code of Virginia:

- Budget and Appropriation Laws
- Cash and Investment Laws
- Conflicts of Interest Act
- Debt Provisions

State Agency Requirements:

- Urban Highway Maintenance

LOCAL COMPLIANCE MATTERS

Town Charter

TOWN OF ALTAVISTA, VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2010

A. FINANCIAL STATEMENT AUDIT

07-1: Segregation of Duties (Material Weakness)

Condition:

In general, internal control is designed to safeguard assets and help prevent losses from employee dishonesty or error. A fundamental concept of internal control is the separation of duties. The basic premise of this concept is that no one employee should have access to both physical assets and the related accounting records, or to all phases of a transaction. Due to the limited size of the Treasurer's Office, a proper separation of duties has not been established and maintained.

Management's Response: *Management feels that duties are segregated to the extent feasible with the staffing levels in place. The Town has a small staff and this creates inherent limitations in the division of duties and the segregation that is feasible.*

08-1: Recording of Non-Routine Year End Transactions (Material Weakness)

Condition:

We noted one instance where a year end non-routine adjustment was not recorded. The effect of this instance was a material understatement of capital assets. This instance indicates the controls over the accuracy of the year end closing process in regards to capital assets are not adequate.

Management's Response: *The Town will make every effort to record all non-routine year end transactions. Capital assets are recorded at the end of each year and the staff will make every effort to record all capital assets properly.*

B. COMMONWEALTH OF VIRGINIA

10-1: Expenditures in Excess of Appropriations

Condition:

The Town Council passes budgets with restrictions on appropriations at the department level, allowing over-expending on individual line items, but not at the total department or function level. For fiscal year 2010, the Town's public safety and parks, recreation, and cultural functions both had expenditures in excess of appropriations.

Management's Response: *The final budget amendments submitted and approved by Council were significant (reductions) in the salary line item in public safety and the CDBG line item in parks, recreation, and cultural functions (Fund 70). Public safety labor for Uncle Billy's Day and downtown revitalization charges for June were higher than anticipated.*