



FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2017

TOWN OF ALTAVISTA, VIRGINIA
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2017

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| Independent Auditors' Report | 1-3 |
| <u>Basic Financial Statements:</u> | |
| Government-Wide Financial Statements: | |
| Exhibit 1 Statement of Net Position | 4 |
| Exhibit 2 Statement of Activities | 5-6 |
| Fund Financial Statements: | |
| Exhibit 3 Balance Sheet—Governmental Fund | 7 |
| Exhibit 4 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position | 8 |
| Exhibit 5 Statement of Revenues, Expenditures, and Changes in Fund Balance—Governmental Fund | 9 |
| Exhibit 6 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities | 10 |
| Exhibit 7 Statement of Net Position—Proprietary Fund | 11 |
| Exhibit 8 Statement of Revenues, Expenses, and Changes in Net Position— Proprietary Fund | 12 |
| Exhibit 9 Statement of Cash Flows—Proprietary Fund | 13 |
| Exhibit 10 Statement of Fiduciary Net Position—Fiduciary Fund | 14 |
| Notes to Financial Statements | 15-50 |
| <u>Required Supplementary Information:</u> | |
| Exhibit 11 Schedule of Revenues, Expenditures, and Changes in Fund Balance— Budget and Actual—General Fund | 51 |
| Exhibit 12 Schedule of Changes in Net Pension Liability and Related Ratios | 52 |
| Exhibit 13 Schedule of Employer Contributions | 53 |
| Exhibit 14 Notes to Required Supplementary Information | 54 |

TOWN OF ALTAVISTA, VIRGINIA
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2017

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| <u>Other Supplementary Information:</u> | |
| Exhibit 15 Statement of Changes in Assets and Liabilities—Agency Fund | 55 |
| Supporting Statements | |
| Discretely Presented Component Unit—Altavista Economic Development Authority | |
| Exhibit 16 Statement of Net Position | 56 |
| Exhibit 17 Statement of Revenues, Expenses, and Changes in Net Position | 57 |
| Exhibit 18 Statement of Cash Flows | 58 |
| <u>Statistical Information:</u> | |
| Table 1 General Government Revenues by Source | 59 |
| Table 2 General Government Expenditures by Function | 60 |
| Table 3 Computation of Legal Debt Limit | 61 |
| Table 4 Comparative Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds | 62-63 |
| Table 5 Comparative Statement of Revenues, Expenses and Changes Net Position of Proprietary Fund | 64-65 |
| <u>Compliance:</u> | |
| Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 66-67 |
| Schedule of Findings and Responses | 68 |

TOWN OF ALTAVISTA, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
FOR THE YEAR ENDED JUNE 30, 2017

TOWN COUNCIL

Mike Mattox, Mayor
Beverley Dalton, Vice Mayor
Micki Brumfield
James H. Higginbotham, II
Tanya Overbey
Tracy Emerson
Tim George

APPOINTED OFFICIALS

J. Waverly Coggsdale, III Town Manager
John Eller Town Attorney
Tobie Shelton Treasurer
Mike Milnor Chief of Police

INDEPENDENT AUDITORS

Robinson, Farmer, Cox Associates

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining fund information of Town of Altavista, Virginia, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining fund information of Town of Altavista, Virginia, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and schedules related to pension funding on pages 51 and 52-54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2017, on our consideration of Town of Altavista, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Altavista, Virginia's internal control over financial reporting and compliance.

Robinson, Farnell, Cox Associates

Charlottesville, Virginia
October 18, 2017

BASIC FINANCIAL STATEMENTS

- Government-Wide Financial Statements -

Statement of Net Position
At June 30, 2017

| | Primary Government | | | Discretely Presented Component Unit |
|--|-------------------------|--------------------------|----------------------|--|
| | Governmental Activities | Business-Type Activities | Total | Altavista Economic Development Authority |
| | | | | |
| Assets: | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 16,036,985 | \$ 1,766,950 | \$ 17,803,935 | \$ 381 |
| Cash and cash equivalents, restricted | 81,372 | - | 81,372 | - |
| Receivables, (net of allowance for uncollectibles) | 162,966 | 468,813 | 631,779 | - |
| Due from other governments | 110,570 | - | 110,570 | - |
| Due from primary government | - | - | - | 3,385 |
| Prepaid expense | 144 | - | 144 | - |
| Inventory | 62,999 | - | 62,999 | - |
| Total current assets | <u>\$ 16,455,036</u> | <u>\$ 2,235,763</u> | <u>\$ 18,690,799</u> | <u>\$ 3,766</u> |
| Noncurrent assets: | | | | |
| Capital assets: | | | | |
| Land and construction in progress | \$ 316,516 | \$ 343,002 | \$ 659,518 | \$ - |
| Buildings, infrastructure, and equipment (net of accumulated depreciation) | 6,930,817 | 18,056,110 | 24,986,927 | - |
| Total noncurrent assets | <u>\$ 7,247,333</u> | <u>\$ 18,399,112</u> | <u>\$ 25,646,445</u> | <u>\$ -</u> |
| Total assets | <u>\$ 23,702,369</u> | <u>\$ 20,634,875</u> | <u>\$ 44,337,244</u> | <u>\$ 3,766</u> |
| Deferred Outflows of Resources: | | | | |
| Pension deferrals | <u>\$ 446,936</u> | <u>\$ 203,379</u> | <u>\$ 650,315</u> | <u>\$ -</u> |
| Liabilities: | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 51,530 | \$ 184,268 | \$ 235,798 | \$ - |
| Accrued liabilities | 99,411 | 15,723 | 115,134 | - |
| Due to Component Unit EDA | 3,385 | - | 3,385 | - |
| Accrued interest payable | 4,091 | 75,273 | 79,364 | - |
| Customer deposits | - | 35,699 | 35,699 | - |
| Environmental remediation | - | 750,000 | 750,000 | - |
| Current portion of long-term obligations | 84,111 | 304,895 | 389,006 | - |
| Total current liabilities | <u>\$ 242,528</u> | <u>\$ 1,365,858</u> | <u>\$ 1,608,386</u> | <u>\$ -</u> |
| Noncurrent liabilities: | | | | |
| Net pension liability | \$ 948,756 | \$ 435,852 | \$ 1,384,608 | \$ - |
| Noncurrent portion of long-term obligations | 352,409 | 5,849,010 | 6,201,419 | - |
| Total noncurrent liabilities | <u>\$ 1,301,165</u> | <u>\$ 6,284,862</u> | <u>\$ 7,586,027</u> | <u>\$ -</u> |
| Total liabilities | <u>\$ 1,543,693</u> | <u>\$ 7,650,720</u> | <u>\$ 9,194,413</u> | <u>\$ -</u> |
| Deferred Inflows of Resources: | | | | |
| Pension deferrals | <u>\$ -</u> | <u>\$ 57,983</u> | <u>\$ 57,983</u> | <u>\$ -</u> |
| Net Position: | | | | |
| Net investment in capital assets | \$ 6,904,026 | \$ 12,304,629 | \$ 19,208,655 | \$ - |
| Restricted | 961,063 | - | 961,063 | - |
| Unrestricted | 14,740,523 | 824,922 | 15,565,445 | 3,766 |
| Total net position | <u>\$ 22,605,612</u> | <u>\$ 13,129,551</u> | <u>\$ 35,735,163</u> | <u>\$ 3,766</u> |

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

TOWN OF ALTAVISTA, VIRGINIA

Statement of Activities
For the Year Ended June 30, 2017

| Functions/Programs | Expenses | Program Revenues | | |
|--|--------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government | | | | |
| Governmental activities | | | | |
| General government administration | \$ 1,000,789 | \$ - | \$ - | \$ - |
| Public safety | 966,635 | 33,312 | 86,763 | - |
| Public works | 1,497,972 | 4,578 | 787,648 | - |
| Parks, recreation, and cultural | 270,039 | - | - | - |
| Community development | 198,553 | - | 6,000 | - |
| Interest on long-term debt | 9,069 | - | - | - |
| Total governmental activities | \$ 3,943,057 | \$ 37,890 | \$ 880,411 | \$ - |
| Business - type activities | | | | |
| Water and sewer | \$ 3,821,779 | \$ 3,604,853 | \$ 24,881 | \$ - |
| Total business-type activities | \$ 3,821,779 | \$ 3,604,853 | \$ 24,881 | \$ - |
| Total primary government | \$ 7,764,836 | \$ 3,642,743 | \$ 905,292 | \$ - |
| Component Unit: | | | | |
| Altavista Economic Development Authority | \$ 42,761 | \$ - | \$ - | \$ - |
| General Revenues | | | | |
| Property taxes | | | | |
| Meal taxes | | | | |
| Sales and use taxes | | | | |
| Bank stock taxes | | | | |
| Cigarette taxes | | | | |
| Other local taxes | | | | |
| Grants and contributions not restricted to specific programs | | | | |
| Revenue from use of money and property | | | | |
| Contributions from primary government | | | | |
| Miscellaneous | | | | |
| Total general revenues | | | | |
| Change in net position | | | | |
| Net position, beginning of year | | | | |
| Net position, end of year | | | | |

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

| Net (Expense) Revenue and Changes in Net Position | | | |
|---|-----------------------------|-----------------------|---|
| Primary Government | | | Component Unit |
| Governmental Activities | Business-type Activities | Total | Altavista Economic Development Authority |
| \$ (1,000,789) | \$ - | \$ (1,000,789) | \$ - |
| (846,560) | - | (846,560) | - |
| (705,746) | - | (705,746) | - |
| (270,039) | - | (270,039) | - |
| (192,553) | - | (192,553) | - |
| (9,069) | - | (9,069) | - |
| <u>\$ (3,024,756)</u> | <u>\$ -</u> | <u>\$ (3,024,756)</u> | <u>\$ -</u> |
| <u>\$ -</u> | <u>\$ (192,045)</u> | <u>\$ (192,045)</u> | <u>\$ -</u> |
| <u>\$ -</u> | <u>\$ (192,045)</u> | <u>\$ (192,045)</u> | <u>\$ -</u> |
| <u>\$ (3,024,756)</u> | <u>\$ (192,045)</u> | <u>\$ (3,216,801)</u> | <u>\$ -</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (42,761)</u> |
| \$ 2,207,977 | \$ - | \$ 2,207,977 | \$ - |
| 951,907 | - | 951,907 | - |
| 166,834 | - | 166,834 | - |
| 160,192 | - | 160,192 | - |
| 142,991 | - | 142,991 | - |
| 343,164 | - | 343,164 | - |
| 177,347 | - | 177,347 | - |
| 174,066 | 4,607 | 178,673 | 107 |
| - | - | - | 19,500 |
| 141,520 | - | 141,520 | - |
| <u>\$ 4,465,998</u> | <u>\$ 4,607</u> | <u>\$ 4,470,605</u> | <u>\$ 19,607</u> |
| \$ 1,441,242 | \$ (187,438) | \$ 1,253,804 | \$ (23,154) |
| <u>21,164,370</u> | <u>13,316,989</u> | <u>34,481,359</u> | <u>26,920</u> |
| <u>\$ 22,605,612</u> | <u>\$ 13,129,551</u> | <u>\$ 35,735,163</u> | <u>\$ 3,766</u> |

BASIC FINANCIAL STATEMENTS

- Fund Financial Statements -

Balance Sheet
 Governmental Fund
 At June 30, 2017

| | <u>General Fund</u> |
|---|---------------------------------|
| Assets: | |
| Cash and cash equivalents | \$ 16,036,985 |
| Cash and cash equivalents, restricted | 81,372 |
| Receivables (net of allowance for uncollectibles): | |
| Taxes | 36,788 |
| Accounts | 126,178 |
| Due from other governments | 110,570 |
| Prepaid expenditures | 144 |
| Inventory | <u>62,999</u> |
| Total assets | \$ <u><u>16,455,036</u></u> |
| Liabilities: | |
| Accounts payable | \$ 51,530 |
| Accrued liabilities | 99,411 |
| Due to Component Unit EDA | <u>3,385</u> |
| Total liabilities | \$ <u>154,326</u> |
| Deferred Inflows of Resources: | |
| Unavailable revenue-property taxes | \$ <u>58,459</u> |
| Fund Balance: | |
| Nonspendable | \$ 63,143 |
| Restricted | 961,063 |
| Committed | 4,431,528 |
| Unassigned | <u>10,786,517</u> |
| Total fund balance | \$ <u>16,242,251</u> |
| Total liabilities, deferred inflows of resources and fund balance | \$ <u><u>16,455,036</u></u> |

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

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
At June 30, 2017

Total fund balance for governmental funds (Exhibit 3) \$ 16,242,251

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

| | | | |
|---|----|------------------|---------------|
| Land and construction in progress | \$ | 316,516 | |
| Depreciable capital assets, net of accumulated depreciation | | <u>6,930,817</u> | |
| Total capital assets | | | 7,247,333 |

| | | | |
|---|--|--|--------|
| Other long-term assets are not available to pay for current period expenditures and therefore are reported as unavailable revenue in the funds. | | | 58,459 |
|---|--|--|--------|

| | | | |
|---------------------------------------|--|--|---------|
| Pension deferrals - deferred outflows | | | 446,936 |
|---------------------------------------|--|--|---------|

Long-term liabilities applicable to the Town's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Balances of long-term liabilities affecting net position are as follows:

| | | | |
|--|----|-----------------|------------------------|
| Net pension liability | \$ | (948,756) | |
| General obligation public improvement bond | | (343,307) | |
| Accrued interest payable | | (4,091) | |
| Compensated absences | | <u>(93,213)</u> | |
| Total long-term liabilities | | | <u>(1,389,367)</u> |

| | | | |
|--|----|--|-------------------|
| Total net position of governmental activities (Exhibits 1 and 2) | \$ | | <u>22,605,612</u> |
|--|----|--|-------------------|

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

Statement of Revenues, Expenditures, and Changes in Fund Balance
 Governmental Fund
 For the Year Ended June 30, 2017

| | <u>General Fund</u> |
|---|--------------------------|
| Revenues: | |
| General property taxes | \$ 2,188,255 |
| Other local taxes | 1,765,088 |
| Permits, privilege fees and regulatory licenses | 17,120 |
| Fines and forfeitures | 16,192 |
| Revenue from use of money and property | 174,066 |
| Charges for services | 4,578 |
| Miscellaneous | 141,520 |
| Intergovernmental | <u>1,057,758</u> |
| Total revenues | \$ <u>5,364,577</u> |
| Expenditures: | |
| Current: | |
| General government administration | \$ 961,380 |
| Public safety | 924,785 |
| Public works | 1,611,302 |
| Parks, recreation and cultural | 206,382 |
| Community development | 195,393 |
| Debt service: | |
| Principal retirement | 14,193 |
| Interest and other fiscal charges | <u>8,934</u> |
| Total expenditures | \$ <u>3,922,369</u> |
| Excess (deficiency) of revenues over expenditures | \$ <u>1,442,208</u> |
| Net changes in fund balance | \$ 1,442,208 |
| Fund balance at beginning of year | <u>14,800,043</u> |
| Fund balance at end of year | <u>\$ 16,242,251</u> |

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

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2017

Net change in fund balance - total governmental funds (Exhibit 5) \$ 1,442,208

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

| | | |
|----------------------|------------------|--------|
| Capital outlays | \$ 418,092 | |
| Depreciation expense | <u>(403,264)</u> | 14,828 |

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

| | | |
|--|----------------|---------|
| Unavailable revenue - taxes | \$ 19,722 | |
| Change in deferred inflows related to the measurement of the net pension liability | <u>170,629</u> | 190,351 |

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Details of this adjustment are as follows:

| | | |
|------------------------------------|------------------|--------|
| Principal retired on bonds payable | \$ <u>14,193</u> | 14,193 |
|------------------------------------|------------------|--------|

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds. The following is a summary of items supporting this adjustment:

| | | |
|---|------------------|------------------|
| Change in compensated absences | \$ 13,047 | |
| Change in accrued interest payable | (135) | |
| Change in deferred outflows related to pensions | 209,166 | |
| Change in net pension liability | <u>(442,416)</u> | |
| Net adjustment | | <u>(220,338)</u> |

| | | |
|---|--|---------------------|
| Change in net position of governmental activities (Exhibit 2) | | \$ <u>1,441,242</u> |
|---|--|---------------------|

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

Statement of Net Position
 Proprietary Fund
 At June 30, 2017

| | Business-type Activities Enterprise Fund <u>Water and Sewer</u> |
|--|---|
| Assets: | |
| Current assets: | |
| Cash and cash equivalents | \$ 1,766,950 |
| Receivables (net of allowance for uncollectibles): | |
| Accounts | 468,813 |
| Total current assets | <u>\$ 2,235,763</u> |
| Noncurrent assets: | |
| Capital assets: | |
| Construction in progress | \$ 343,002 |
| Buildings, infrastructure, and equipment, net of accumulated depreciation | 18,056,110 |
| Total noncurrent assets | <u>\$ 18,399,112</u> |
| Total assets | <u>\$ 20,634,875</u> |
| Deferred Outflows of Resources: | |
| Pension deferrals | <u>\$ 203,379</u> |
| Liabilities: | |
| Current liabilities: | |
| Accounts payable | \$ 184,268 |
| Accrued liabilities | 15,723 |
| Accrued interest payable | 75,273 |
| Customers' deposits | 35,699 |
| Environmental remediation | 750,000 |
| Bonds payable - current portion | 260,329 |
| Compensated absences - current portion | 44,566 |
| Total current liabilities | <u>\$ 1,365,858</u> |
| Noncurrent liabilities: | |
| Bonds payable - noncurrent portion | \$ 5,834,154 |
| Net pension liability | 435,852 |
| Compensated absences - noncurrent portion | 14,856 |
| Total noncurrent liabilities | <u>\$ 6,284,862</u> |
| Total liabilities | <u>\$ 7,650,720</u> |
| Deferred Inflows of Resources: | |
| Pension deferrals | <u>\$ 57,983</u> |
| Net Position: | |
| Net investment in capital assets | \$ 12,304,629 |
| Unrestricted | 824,922 |
| Total net position | <u>\$ 13,129,551</u> |

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

Statement of Revenues, Expenses, and Changes in Net Position
 Proprietary Fund
 For the Year Ended June 30, 2017

| | Business-type Activities | |
|--|--------------------------|--------------------------|
| | Enterprise Fund | |
| | Water and Sewer | |
| Operating revenues: | | |
| Charges for services | \$ | 3,583,925 |
| Other | | 20,928 |
| Total operating revenues | \$ | <u>3,604,853</u> |
| Operating expenses: | | |
| Salaries | \$ | 869,765 |
| Fringe benefits | | 272,208 |
| Maintenance | | 370,678 |
| Utilities | | 448,587 |
| Materials and supplies | | 395,891 |
| Sample testing | | 18,155 |
| Purchase of water | | 92,220 |
| Other | | 165,686 |
| Depreciation | | <u>1,058,183</u> |
| Total operating expenses | \$ | <u>3,691,373</u> |
| Operating income (loss) | \$ | <u>(86,520)</u> |
| Nonoperating revenues (expenses): | | |
| Interest revenue | \$ | 4,607 |
| Interest expense | | (130,406) |
| Fluoride grant | | <u>24,881</u> |
| Total nonoperating revenues (expenses) | \$ | <u>(100,918)</u> |
| Change in net position | \$ | (187,438) |
| Net position, beginning of year | | <u>13,316,989</u> |
| Net position, end of year | \$ | <u><u>13,129,551</u></u> |

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

Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2017

| | Business-type Activities |
|---|--------------------------|
| | Enterprise Fund |
| | Water and Sewer |
| Cash flows from operating activities: | |
| Receipts from customers and users | \$ 3,559,315 |
| Payments to suppliers | (1,932,674) |
| Payments for employees | (1,164,099) |
| Net cash provided by (used for) operating activities | \$ 462,542 |
| Cash flows from capital and related financing activities: | |
| Interest paid | \$ (127,010) |
| Purchase of capital assets | (1,466,032) |
| Principal retired on debt | (259,977) |
| Net cash provided by (used for) capital and related financing activities | \$ (1,853,019) |
| Cash flows from noncapital financing activities: | |
| Fluoride grant | \$ 24,881 |
| Net cash provided by (used for) noncapital financing activities | \$ 24,881 |
| Cash flows from investing activities: | |
| Interest revenue | \$ 4,607 |
| Net cash provided by (used for) investing activities | \$ 4,607 |
| Increase in cash and cash equivalents | \$ (1,360,989) |
| Cash and cash equivalents at beginning of year | 3,127,939 |
| Cash and cash equivalents at end of year | \$ 1,766,950 |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | |
| Operating income (loss) | \$ (86,520) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | |
| Depreciation | 1,058,183 |
| Changes in operating assets and liabilities: | |
| (Increase)/Decrease in accounts receivable | (49,709) |
| (Increase)/Decrease in prepaid expenses | 10,845 |
| (Increase)/Decrease in deferred outflows of resources | (75,437) |
| Increase/(Decrease) in accounts payable | (452,302) |
| Increase/(Decrease) in accrued liabilities | (25,828) |
| Increase/(Decrease) in net pension liability | 95,306 |
| Increase/(Decrease) in deferred inflows of resources | (28,693) |
| Increase/(Decrease) in compensated absences | 12,526 |
| Increase/(Decrease) in customer deposits | 4,171 |
| Net cash provided by (used for) operating activities | \$ 462,542 |

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

Statement of Fiduciary Net Position
Fiduciary Fund
At June 30, 2017

| | <u>Agency Funds</u> |
|---------------------------|-------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ <u>1,042</u> |
| Total assets | \$ <u><u>1,042</u></u> |
| LIABILITIES | |
| Amounts held for others | \$ <u>1,042</u> |
| Total liabilities | \$ <u><u>1,042</u></u> |

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

TOWN OF ALTAVISTA, VIRGINIA

Notes to Financial Statements
As of June 30, 2017

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 Authority does not issue a separate financial report.

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 position and the statement of activities) 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.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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

Statement of Activities - The government-wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

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*.

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

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

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

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

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 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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

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

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.

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.

Fiduciary Funds (Trust and Agency Funds) account for assets held by the Town in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds. These funds include Agency Funds, which consist of the War Memorial Fund. These funds utilize the modified accrual basis of accounting described in the Governmental Fund Presentation. Fiduciary funds are not included in the government-wide financial statements.

D. Net Position Flow Assumption

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

E. 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.
- 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. Appropriations lapse on June 30 for all Town units.
- 7) All budget data presented in the accompanying financial statements includes the original and revised budgets as of June 30.

Excess of Expenditures over Appropriations

At June 30, there were no expenditures in excess of appropriations.

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.

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 activities 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 | \$ 1,142 |
| Personal property | <u>12,204</u> |
| Total | <u>\$ 13,346</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 acquisition 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 the asset’s life are not capitalized.

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

| <u>Assets</u> | <u>Years</u> |
|---------------------------------------|--------------|
| Buildings and improvements | 30-40 |
| Machinery and equipment | 5-10 |
| Public domain infrastructure | 50 |
| Distribution and transmission systems | 30-50 |
| Water and sewer plants | 30-50 |

Public domain 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, \$35,263 of interest was capitalized in the water and sewer fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

L. Unavailable Revenue

Unavailable revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Unavailable revenue totaling \$38,737 is comprised of the following:

Unavailable Property Tax Revenue - Unavailable revenue representing uncollected tax billings not available for funding of current expenditures totaled \$58,459 at June 30, 2017.

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 Position

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

O. Fund Balance

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

The following classifications describe the relative strength of spending constraints placed on the purposes for which resources can be used:

- **Nonspendable** - Amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash such as inventory and prepaids. It also includes the long-term amount of interfund loans.
- **Restricted** - Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed** - Amounts constrained to specific purposes by the Town, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purposes unless the same highest level of action is taken to remove or change the constraint.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

O. Fund Balance: (Continued)

- Assigned - Amounts the Town intends to use for a specified purpose; intent can be expressed by the governing body or by the Council which has been designated this authority.
- Unassigned - Amounts that are available for any purpose; positive amounts are reported only in the general fund.

Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. Assigned fund balance is established by Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

P. Restricted Resources-Fund Balance

The Town applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Q. Minimum Fund Balance Policy

Governmental funds of the Town do not have specified fund balance targets. Recommended levels of committed and/or assigned fund balance will be determined on a case by case basis, based on the needs of each fund and as recommended by officials and approved by Council.

R. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to commit that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. There are no significant encumbrances as of June 30, 2017.

S. Uses of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. 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.

T. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

U. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has one type of deferred item that qualifies for reporting in this category. Pension contributions made subsequent to the measurement date of the net pension liability will be recognized as a reduction to the net pension liability next fiscal year. For more detailed information on these items reference the pension note.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has two types of items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. In addition, items related to the measurement of the net pension liability are reported as deferred inflows of resources on the statement of net position. For more detailed information on these items reference the pension note.

V. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Town's Retirement Plan and the additions to/deductions from the Town's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 - DEPOSITS AND INVESTMENTS:

Deposits

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

NOTE 2 - DEPOSITS AND INVESTMENTS: (CONTINUED)

Investments

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; 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 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 and 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.

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.

TOWN OF ALTAVISTA, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

NOTE 2 - DEPOSITS AND INVESTMENTS: (CONTINUED)

Investments: (Continued)

Concentration of Credit Risk: (Continued)

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

| | <u>Fair Value</u> |
|--|-----------------------|
| Investments: | |
| LGIP | \$ 621 |
| Deposits | <u>17,884,767</u> |
| Total deposits and investments | <u>\$ 17,885,388</u> |
| Reconciliation to Statement of Net Position - Exhibit 1: | |
| Primary government: | |
| Cash and cash equivalents, excluding \$300 cash on hand | \$ 17,803,635 |
| Cash and cash equivalents, restricted | 81,372 |
| Discretely presented component unit: | |
| Cash and cash equivalents | <u>381</u> |
| Total deposits and investments | <u>\$ 17,885,388</u> |

External Investment Pools

The fair value of the positions in the external investment pools (Local Government Investment Pool and State Non-Arbitrage Pool) is the same as the value of the pool shares. As LGIP is not SEC registered, regulatory oversight of the pools rests with the Virginia State Treasury. LGIP is an amortized cost basis portfolio under the provisions of GASB Statement No. 79. There are no withdrawal limitations or restrictions imposed on participants.

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 at year end, in which funds are readily available.

TOWN OF ALTAVISTA, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

NOTE 2 - DEPOSITS AND INVESTMENTS: (CONTINUED)

Investments: (Continued)

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 CDBG and USDA Loan Pools.

NOTE 3 - RECEIVABLES:

Receivables are as follows:

| | <u>General</u> | <u>Water and Sewer</u> | <u>Total</u> |
|------------------------------------|-------------------|----------------------------|-------------------|
| Receivables | | | |
| Taxes | \$ 50,134 | \$ - | \$ 50,134 |
| Accounts | <u>126,178</u> | <u>468,813</u> | <u>594,991</u> |
| Gross receivables | \$ 176,312 | \$ 468,813 | \$ 645,125 |
| Less: allowance for uncollectibles | <u>(13,346)</u> | <u>-</u> | <u>(13,346)</u> |
| Net receivables | <u>\$ 162,966</u> | <u>\$ 468,813</u> | <u>\$ 631,779</u> |

NOTE 4 - DUE TO/DUE FROM PRIMARY GOVERNMENT/COMPONENT UNIT:

The composition of interfund receivables and payables is as follows:

| <u>Fund</u> | <u>Due from Primary Government</u> | <u>Due to Component Unit</u> |
|--------------|--|--------------------------------------|
| General Fund | \$ - | \$ 3,385 |
| EDA | <u>3,385</u> | <u>-</u> |
| Total | <u>\$ 3,385</u> | <u>\$ 3,385</u> |

TOWN OF ALTAVISTA, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

NOTE 5 - DUE FROM OTHER GOVERNMENTS:

Amounts due from other governments are as follows:

| | <u>Primary Government</u> |
|------------------------------|-------------------------------|
| Commonwealth of Virginia: | |
| Personal property tax relief | \$ 22,765 |
| Railroad rolling stock | 16,662 |
| Local sales taxes | 28,961 |
| Communication taxes | 6,306 |
| VLCF | 20,146 |
| Federal Government: | |
| Mass transit | 277 |
| LAP grant | 15,453 |
| Total | <u>\$ 110,570</u> |

NOTE 6 - CAPITAL ASSETS:

Capital asset activity for the year was as follows:

| | <u>Balance July 1, 2016</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance June 30, 2017</u> |
|---|---------------------------------|-------------------|-------------------|----------------------------------|
| Governmental Activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 257,486 | \$ 39,000 | \$ - | \$ 296,486 |
| Construction in Progress | 200,151 | 120,063 | 300,184 | 20,030 |
| Total capital assets not being depreciated | <u>\$ 457,637</u> | <u>\$ 159,063</u> | <u>\$ 300,184</u> | <u>\$ 316,516</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | \$ 3,192,402 | - | - | \$ 3,192,402 |
| Machinery and equipment | 3,727,598 | 259,029 | 72,211 | 3,914,416 |
| Public domain infrastructure | 4,721,897 | 300,184 | - | 5,022,081 |
| Total capital assets being depreciated | <u>\$ 11,641,897</u> | <u>\$ 559,213</u> | <u>\$ 72,211</u> | <u>\$ 12,128,899</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | \$ 1,399,008 | 82,883 | - | \$ 1,481,891 |
| Machinery and equipment | 2,737,254 | 186,350 | 72,211 | 2,851,393 |
| Public domain infrastructure | 730,767 | 134,031 | - | 864,798 |
| Total accumulated depreciation | <u>\$ 4,867,029</u> | <u>\$ 403,264</u> | <u>\$ 72,211</u> | <u>\$ 5,198,082</u> |
| Total capital assets being depreciated, net | <u>\$ 6,774,868</u> | <u>\$ 155,949</u> | <u>\$ -</u> | <u>\$ 6,930,817</u> |
| Governmental activities capital assets, net | <u>\$ 7,232,505</u> | <u>\$ 315,012</u> | <u>\$ 300,184</u> | <u>\$ 7,247,333</u> |

TOWN OF ALTAVISTA, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

NOTE 6 - CAPITAL ASSETS: (CONTINUED)

| | <u>Balance</u> <u>July 1, 2016</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2017</u> |
|--|---------------------------------------|---------------------|---------------------|--|
| Business-Type Activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Construction in Progress | \$ 6,163,789 | \$ 1,263,308 | \$ 7,084,095 | \$ 343,002 |
| Total capital assets not being depreciated | <u>\$ 6,163,789</u> | <u>\$ 1,263,308</u> | <u>\$ 7,084,095</u> | <u>\$ 343,002</u> |
| Capital assets, being depreciated: | | | | |
| Distributions and transmission systems | \$ 13,577,249 | \$ 7,050,300 | \$ - | \$ 20,627,549 |
| Water and sewer plants | 13,141,803 | - | - | 13,141,803 |
| Machinery and equipment | <u>2,473,056</u> | <u>236,519</u> | <u>-</u> | <u>2,709,575</u> |
| Total capital assets being depreciated | <u>\$ 29,192,108</u> | <u>\$ 7,286,819</u> | <u>\$ -</u> | <u>\$ 36,478,927</u> |
| Less accumulated depreciation | <u>\$ 17,364,634</u> | <u>\$ 1,058,183</u> | <u>\$ -</u> | <u>\$ 18,422,817</u> |
| Total capital assets being depreciated, net | <u>\$ 11,827,474</u> | <u>\$ 6,228,636</u> | <u>\$ -</u> | <u>\$ 18,056,110</u> |
| Business-type activities capital assets, net | <u>\$ 17,991,263</u> | <u>\$ 7,491,944</u> | <u>\$ 7,084,095</u> | <u>\$ 18,399,112</u> |

Depreciation expense was charged to functions/programs as follows:

| | |
|-----------------------------------|---------------------|
| Governmental activities: | |
| General government administration | \$ 46,032 |
| Public safety | 42,561 |
| Public works | 251,014 |
| Parks, recreation and cultural | <u>63,657</u> |
| Total governmental activities | <u>\$ 403,264</u> |
| Business-type activities: | |
| Water and sewer | <u>\$ 1,058,183</u> |
| Total business-type activities | <u>\$ 1,058,183</u> |

TOWN OF ALTAVISTA, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

NOTE 7 - LONG-TERM OBLIGATIONS:

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

| | Balance July 1, 2016 | | | Balance June 30, 2017 | | Amounts Due Within One Year |
|--|----------------------------|---------------------|-------------------|-----------------------------|----|-----------------------------------|
| | | Increases | Decreases | | | |
| Governmental Activities: | | | | | | |
| Net pension liability | \$ 506,340 | \$ 772,815 | \$ 330,399 | \$ 948,756 | \$ | - |
| General obligation public improvement bond | 357,500 | - | 14,193 | 343,307 | | 14,201 |
| Compensated absences | 106,260 | - | 13,047 | 93,213 | | 69,910 |
| Total Governmental Activities | \$ <u>970,100</u> | \$ <u>772,815</u> | \$ <u>357,639</u> | \$ <u>1,385,276</u> | \$ | <u>84,111</u> |
| Business-type Activities: | | | | | | |
| General obligation public improvement bond | \$ 6,354,460 | \$ - | \$ 259,977 | \$ 6,094,483 | \$ | 260,329 |
| Net pension liability | 340,546 | 321,049 | 225,743 | 435,852 | | - |
| Compensated absences | 46,896 | 12,526 | - | 59,422 | | 44,566 |
| Total Business-type Activities | \$ <u>6,741,902</u> | \$ <u>333,575</u> | \$ <u>485,720</u> | \$ <u>6,589,757</u> | \$ | <u>304,895</u> |
| Total Primary Government | \$ <u>7,712,002</u> | \$ <u>1,106,390</u> | \$ <u>843,359</u> | \$ <u>7,975,033</u> | \$ | <u>389,006</u> |

Annual requirements to amortize long-term obligations are as follows:

| Year Ending June 30, | Governmental Activities | | Business-type Activities | |
|----------------------------|-------------------------|------------------|--------------------------|---------------------|
| | General Obligation | | General Obligation | |
| | Public Improvement Bond | | Public Improvement Bond | |
| | Principal | Interest | Principal | Interest |
| 2018 | \$ 14,201 | \$ 8,926 | \$ 260,329 | \$ 161,879 |
| 2019 | 14,570 | 8,557 | 267,440 | 154,799 |
| 2020 | 14,949 | 8,178 | 274,661 | 147,526 |
| 2021 | 15,337 | 7,789 | 282,093 | 140,057 |
| 2022 | 15,737 | 7,390 | 289,844 | 132,383 |
| 2023 | 16,146 | 6,981 | 297,714 | 124,500 |
| 2024 | 16,566 | 6,562 | 305,794 | 116,402 |
| 2025 | 16,996 | 6,131 | 314,074 | 108,085 |
| 2026 | 17,438 | 5,689 | 322,672 | 99,541 |
| 2027 | 17,892 | 5,236 | 331,488 | 90,763 |
| 2028 | 18,356 | 4,770 | 340,394 | 81,747 |
| 2029 | 18,834 | 4,293 | 349,726 | 72,486 |
| 2030 | 19,323 | 3,803 | 359,257 | 62,972 |
| 2031 | 19,826 | 3,301 | 368,994 | 53,199 |
| 2032 | 20,341 | 2,785 | 379,029 | 43,160 |
| 2033 | 20,870 | 2,257 | 389,370 | 32,847 |
| 2034 | 21,412 | 1,714 | 399,908 | 22,254 |
| 2035 | 21,970 | 1,157 | 410,850 | 11,372 |
| 2036 | 22,543 | 586 | 150,846 | 3,922 |
| Total | \$ <u>343,307</u> | \$ <u>96,105</u> | \$ <u>6,094,483</u> | \$ <u>1,659,894</u> |

TOWN OF ALTAVISTA, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

NOTE 7 - LONG-TERM OBLIGATIONS: (CONTINUED)

Details of long-term obligation:

| | <u>Amount Outstanding</u> | <u>Due Within One Year</u> |
|---|-------------------------------|--------------------------------|
| Governmental Activities: | | |
| Public Improvement Bonds: | | |
| \$357,500 General Obligation Public Improvement Bond, Series 2016A, issued on January 29, 2016, principal payable in various annual installments beginning July 15, 2016 through January 15, 2036. Interest payable semiannually at 2.60%. | \$ <u>343,307</u> | \$ <u>14,201</u> |
| Business-type Activities: | | |
| Public Improvement Bonds: | | |
| \$2,392,500 General Obligation Public Improvement Bond, Series 2016A, issued on January 29, 2016, principal payable in various annual installments beginning July 15, 2016 through January 15, 2036. Interest payable semiannually at 2.60%. | \$ 2,297,513 | \$ 95,039 |
| \$3,961,960 General Obligation Public Improvement Refunding Bond, Series 2016B, issued on January 29, 2016, principal payable in various annual installments beginning July 15, 2016 through July 15, 2034. Interest payable semiannually at 2.75%. | <u>3,796,970</u> | <u>165,290</u> |
| Total business-type activities | \$ <u>6,094,483</u> | \$ <u>260,329</u> |
| Grand Total Primary Government | \$ <u><u>6,437,790</u></u> | \$ <u><u>274,530</u></u> |

NOTE 8 - ENVIRONMENTAL REMEDIATION:

The Department of Environmental Quality (DEQ) has designated the Town a potential responsible party for cleanup of PCBs 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.

NOTE 9 - PENSION PLAN:

Plan Description

All full-time, salaried permanent employees of the Town are automatically covered by VRS Retirement Plan upon employment. This agent multiple-employer plan is 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 9 - 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> | <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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>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* • 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 9 - 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 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 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 9 - 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 9 - 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.</p> <p>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.</p> <p><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.</p> <p>Members are always 100% vested in the contributions that they make.</p> |

NOTE 9 - PENSION PLAN: (CONTINUED)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|--|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Vesting (Cont.)</p> | <p>Vesting (Cont.)</p> | <p>Vesting (Cont.) <u>Defined Contributions Component: (Cont.)</u> 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 9 - 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%.</p> <p>Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p>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.</p> <p>Sheriffs and regional jail superintendents: Same as Plan 1.</p> <p>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%.</p> <p>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.</p> <p>Sheriffs and regional jail superintendents: Not applicable.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> |

NOTE 9 - PENSION PLAN: (CONTINUED)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|--|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p> | <p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p> | <p>Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><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.</p> <p>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.</p> <p>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.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><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 9 - PENSION PLAN: (CONTINUED)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|---|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p> | <p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p> | <p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><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%.</p> <p><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.</p> <p>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%.</p> <p><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.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p> |

NOTE 9 - 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.)</p> <p><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.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.</p> | <p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p> |

NOTE 9 - 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>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</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>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p> | <p>Disability Coverage Employees of political subdivisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>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> |

TOWN OF ALTAVISTA, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

NOTE 9 - PENSION PLAN: (CONTINUED)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2011 Comprehensive Annual Financial Report. A copy of the 2016 VRS CAFR may be downloaded 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.

Employees Covered by Benefit Terms

As of the June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

| | <u>Number</u> |
|--|-------------------|
| Inactive members or their beneficiaries currently receiving benefits | 48 |
| Inactive members: | |
| Vested inactive members | 5 |
| Non-vested inactive members | 15 |
| Inactive members active elsewhere in VRS | <u>21</u> |
| Total inactive members | 41 |
| Active members | <u>50</u> |
| Total covered employees | <u><u>139</u></u> |

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% 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, 2017 was 11.42% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$232,267 and \$218,896 for the years ended June 30, 2017 and June 30, 2016, respectively.

NOTE 9 - PENSION PLAN: (CONTINUED)

Net Pension Liability

The Town's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

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, 2015, 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, 2016.

| | |
|---------------------------------------|--|
| 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

Largest 10 - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females 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

All Others (Non 10 Largest) - Non-LEOS:

Pre-Retirement:

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

NOTE 9 - PENSION PLAN: (CONTINUED)

Actuarial Assumptions - General Employees (Continued)

All Others (Non 10 Largest) - Non-LEOS: (Continued)

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, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-LEOS:

- 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

All Others (Non 10 Largest) - Non-LEOS:

- 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

Actuarial Assumptions - Public Safety Employees

The total pension liability for Public Safety employees in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2015, 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, 2016.

| | |
|---------------------------------------|--|
| Inflation | 2.5% |
| Salary increases, including inflation | 3.5% - 4.75% |
| 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.

TOWN OF ALTAVISTA, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

NOTE 9 - PENSION PLAN: (CONTINUED)

Actuarial Assumptions - Public Safety Employees (Continued)

Mortality rates: 60% of deaths are assumed to be service related

Largest 10 - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females 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

All Others (Non 10 Largest) - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females 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, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) - LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

NOTE 9 - PENSION PLAN: (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%.

TOWN OF ALTAVISTA, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

NOTE 9 - PENSION PLAN: (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 Town 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

| | <u>Increase (Decrease)</u> | | |
|--|--|--|--|
| | <u>Total Pension Liability (a)</u> | <u>Plan Fiduciary Net Position (b)</u> | <u>Net Pension Liability (a) - (b)</u> |
| Balances at June 30, 2015 | \$ 10,334,984 | \$ 9,488,098 | \$ 846,886 |
| Changes for the year: | | | |
| Service cost | \$ 260,567 | \$ - | \$ 260,567 |
| Interest | 701,826 | - | 701,826 |
| Differences between expected and actual experience | 51,454 | - | 51,454 |
| Contributions - employer | - | 217,260 | (217,260) |
| Contributions - employee | - | 106,498 | (106,498) |
| Net investment income | - | 158,424 | (158,424) |
| Benefit payments, including refunds of employee contributions | (617,796) | (617,796) | - |
| Administrative expenses | - | (5,988) | 5,988 |
| Other changes | - | (69) | 69 |
| Net changes | <u>\$ 396,051</u> | <u>\$ (141,671)</u> | <u>\$ 537,722</u> |
| Balances at June 30, 2016 | <u>\$ 10,731,035</u> | <u>\$ 9,346,427</u> | <u>\$ 1,384,608</u> |

TOWN OF ALTAVISTA, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

NOTE 9 - PENSION PLAN: (CONTINUED)

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

The following presents the net pension liability of the Town 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:

| | Rate | | |
|-------------------------------|-----------|-----------|---------|
| | (6.00%) | (7.00%) | (8.00%) |
| Town of Altavista | | | |
| Net Pension Liability (Asset) | 2,637,877 | 1,384,608 | 331,756 |

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

For the year ended June 30, 2017, the Town recognized pension expense of \$284,428. At June 30, 2017, the Town 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 | \$ 120,645 | \$ - |
| Change in assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | 239,420 | - |
| Proportional change | 57,983 | 57,983 |
| Employer contributions subsequent to the measurement date | 232,267 | - |
| Total | \$ <u>650,315</u> | \$ <u>57,983</u> |

\$232,267 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 fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

| Year ended June 30 | |
|--------------------|-----------|
| 2018 | \$ 76,140 |
| 2019 | 40,200 |
| 2020 | 144,677 |
| 2021 | 99,048 |
| Thereafter | - |

TOWN OF ALTAVISTA, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

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 | \$ | 0.08 |
| Personal property | \$ | 2.00 |
| Machinery and tools | \$ | 2.00 |

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 2016-2017, total premiums paid were approximately \$50,108. 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, 2017 were approximately \$60,929.

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, 2017 were approximately \$293,638.

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.

TOWN OF ALTAVISTA, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

NOTE 13 - MAJOR CUSTOMERS/TAXPAYERS:

During fiscal year 2017, approximately 71% of general property taxes and 79% of enterprise fund operating revenue were generated by five customers.

NOTE 14 - FUND BALANCE:

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Town is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the general fund are presented below:

| <u>Category</u> | <u>General Fund</u> |
|------------------------|-------------------------|
| Nonspendable: | |
| Prepaid Expenditures | \$ 144 |
| Inventory | 62,999 |
| Total Nonspendable | <u>\$ 63,143</u> |
| Restricted: | |
| Public Works | \$ 840,584 |
| Community Development | 99,035 |
| Public Safety | 21,444 |
| Total Restricted | <u>\$ 961,063</u> |
| Committed: | |
| Community Development | \$ 258,694 |
| Public Works | 630,568 |
| Other Capital Projects | 3,542,266 |
| Total Committed | <u>\$ 4,431,528</u> |
| Unassigned | <u>\$ 10,786,517</u> |
| Total Fund Balance | <u>\$ 16,242,251</u> |

NOTE 15 - LITIGATION:

At June 30, 2017, there were no matters of litigation involving the Town for which would materially affect the Town's financial position should any court decisions on pending matters not be favorable to the Town.

TOWN OF ALTAVISTA, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

NOTE 16 - CONSTRUCTION COMMITMENTS:

The Town had the following significant outstanding construction commitments as of June 30, 2017:

| <u>Project</u> | <u>Contract Amount</u> | <u>Amount Expended</u> | <u>Amount Outstanding</u> |
|--|----------------------------|----------------------------|-------------------------------|
| Wastewater Treatment Electrical Upgrades | \$ 400,313 | \$ 14,064 | \$ 386,249 |

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual - General Fund
 For the Year Ended June 30, 2017

| | Original Budget | Final Budget | Actual | Variance With Final Budget Positive (Negative) |
|--|---------------------|---------------------|----------------------|---|
| Revenues | | | | |
| General property taxes | \$ 2,075,900 | \$ 2,075,900 | \$ 2,188,255 | \$ 112,355 |
| Other local taxes | 1,663,250 | 1,663,250 | 1,765,088 | 101,838 |
| Permits, privilege fees and regulatory licenses | 16,000 | 16,000 | 17,120 | 1,120 |
| Fines and forfeitures | 8,500 | 8,500 | 16,192 | 7,692 |
| Use of money and property | 143,000 | 143,500 | 174,066 | 30,566 |
| Charges for services | 7,100 | 7,100 | 4,578 | (2,522) |
| Miscellaneous | 44,300 | 56,460 | 141,520 | 85,060 |
| Intergovernmental | 1,373,850 | 1,390,020 | 1,057,758 | (332,262) |
| Total revenues | <u>\$ 5,331,900</u> | <u>\$ 5,360,730</u> | <u>\$ 5,364,577</u> | <u>\$ 3,847</u> |
| Expenditures | | | | |
| Current: | | | | |
| General Government Administration | \$ 978,250 | \$ 1,010,410 | \$ 961,380 | \$ 49,030 |
| Public Safety | 1,038,750 | 1,049,170 | 924,785 | 124,385 |
| Public Works | 2,824,050 | 2,938,840 | 1,611,302 | 1,327,538 |
| Parks, Recreation, and Cultural | 573,000 | 535,660 | 206,382 | 329,278 |
| Community Development | 170,350 | 214,850 | 195,393 | 19,457 |
| Debt service: | | | | |
| Principal retirement | 14,200 | 14,200 | 14,193 | 7 |
| Interest and other fiscal charges | 9,000 | 9,000 | 8,934 | 66 |
| Total expenditures | <u>\$ 5,607,600</u> | <u>\$ 5,772,130</u> | <u>\$ 3,922,369</u> | <u>\$ 1,849,761</u> |
| Excess (deficiency) of revenues over expenditures | <u>\$ (275,700)</u> | <u>\$ (411,400)</u> | <u>\$ 1,442,208</u> | <u>\$ 1,853,608</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers in | \$ 373,450 | \$ 517,550 | \$ - | \$ (517,550) |
| Transfers out | <u>(97,750)</u> | <u>(97,750)</u> | <u>-</u> | <u>97,750</u> |
| Net Transfers | <u>\$ 275,700</u> | <u>\$ 419,800</u> | <u>\$ -</u> | <u>\$ (419,800)</u> |
| Net change in fund balance | \$ - | \$ 8,400 | \$ 1,442,208 | \$ 1,433,808 |
| Fund balance, beginning of year | <u>-</u> | <u>(8,400)</u> | <u>14,800,043</u> | <u>14,808,443</u> |
| Fund balance, end of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 16,242,251</u> | <u>\$ 16,242,251</u> |

The budgetary data presented above is on the modified accrual basis of accounting which is in accordance with generally accepted accounting principles.

Schedule of Changes in Net Pension Liability and Related Ratios
For the Years Ended June 30, 2015 through 2017

| | 2014 | 2015 | 2016 |
|---|---------------------|----------------------|----------------------|
| Total pension liability | | | |
| Service cost | \$ 271,312 | \$ 280,885 | \$ 260,567 |
| Interest | 642,840 | 665,664 | 701,826 |
| Changes of benefit terms | - | - | - |
| Differences between expected and actual experience | - | 207,735 | 51,454 |
| Changes in assumptions | - | - | - |
| Benefit payments, including refunds of employee contributions | (518,629) | (657,566) | (617,796) |
| Net change in total pension liability | \$ 395,523 | \$ 496,718 | \$ 396,051 |
| Total pension liability - beginning | 9,442,743 | 9,838,266 | 10,334,984 |
| Total pension liability - ending (a) | \$ 9,838,266 | \$ 10,334,984 | \$ 10,731,035 |
| Plan fiduciary net position | | | |
| Contributions - employer | \$ 234,603 | \$ 223,684 | \$ 217,260 |
| Contributions - employee | 106,152 | 102,139 | 106,498 |
| Net investment income | 1,297,845 | 424,785 | 158,424 |
| Benefit payments, including refunds of employee contributions | (518,629) | (657,566) | (617,796) |
| Administrative expense | (7,080) | (6,054) | (5,988) |
| Other | 69 | (88) | (69) |
| Net change in plan fiduciary net position | \$ 1,112,960 | \$ 86,900 | \$ (141,671) |
| Plan fiduciary net position - beginning | 8,288,238 | 9,401,198 | 9,488,098 |
| Plan fiduciary net position - ending (b) | \$ 9,401,198 | \$ 9,488,098 | \$ 9,346,427 |
| Town's net pension liability - ending (a) - (b) | \$ 437,068 | \$ 846,886 | \$ 1,384,608 |
| Plan fiduciary net position as a percentage of the total pension liability | 95.56% | 91.81% | 87.10% |
| Covered payroll | \$ 2,126,666 | \$ 2,057,442 | \$ 2,000,874 |
| Town's net pension liability as a percentage of covered payroll | 20.55% | 41.16% | 69.20% |

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

Schedule of Employer Contributions
 For the Years Ended June 30, 2008 through June 30, 2017

| Date | Contributions in Relation to | | | Employer's Covered Payroll (4) | Contributions as a % of Covered Payroll (5) |
|------|--|--|---|---|---|
| | Contractually Required Contribution (1) | Contractually Required Contribution (2) | Contribution Deficiency (Excess) (3) | | |
| 2017 | \$ 232,267 | \$ 232,267 | \$ - | \$ 2,062,716 | 11.26% |
| 2016 | 218,896 | 218,896 | - | 2,000,874 | 10.94% |
| 2015 | 223,684 | 223,684 | - | 2,057,442 | 10.87% |
| 2014 | 234,784 | 234,784 | - | 2,126,666 | 11.04% |
| 2013 | 245,548 | 245,548 | - | 2,224,162 | 11.04% |
| 2012 | 120,144 | 120,144 | - | 2,089,462 | 5.75% |
| 2011 | 120,275 | 120,275 | - | 2,091,739 | 5.75% |
| 2010 | 63,028 | 63,028 | - | 1,994,562 | 3.16% |
| 2009 | 62,485 | 62,485 | - | 1,977,380 | 3.16% |
| 2008 | 137,556 | 137,556 | - | 1,921,166 | 7.16% |

Current year contributions are from Town of Altavista's records and prior year contributions are from the VRS actuarial valuation performed each year.

Notes to Required Supplementary Information
For the Year Ended June 30, 2017

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 are not material.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 - Non-LEOS:

- 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

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) - Non-LEOS:

- 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

OTHER SUPPLEMENTARY INFORMATION

Statement of Changes in Assets and Liabilities
 Agency Fund
 For the Year Ended June 30, 2017

| | <u>Balance Beginning of Year</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance End of Year</u> |
|------------------------------------|--|--------------------|--------------------|------------------------------------|
| War Memorial Donation Fund: | | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$ <u>1,040</u> | \$ <u>2</u> | \$ <u>-</u> | \$ <u>1,042</u> |
| Total assets | \$ <u><u>1,040</u></u> | \$ <u><u>2</u></u> | \$ <u><u>-</u></u> | \$ <u><u>1,042</u></u> |
| Liabilities: | | | | |
| Amounts held for others | \$ <u>1,040</u> | \$ <u>2</u> | \$ <u>-</u> | \$ <u>1,042</u> |
| Total liabilities | \$ <u><u>1,040</u></u> | \$ <u><u>2</u></u> | \$ <u><u>-</u></u> | \$ <u><u>1,042</u></u> |

- Supporting Schedules -

Discretely Presented Component Unit - Altavista Economic Development Authority

Discretely Presented Component Unit -
Altavista Economic Development Authority
Statement of Net Position
At June 30, 2017

| | |
|------------------------------------|------------------------|
| Assets: | |
| Current assets: | |
| Cash and cash equivalents | \$ 381 |
| Due from primary government | <u>3,385</u> |
| Total current assets | \$ <u>3,766</u> |
| Total assets | \$ <u><u>3,766</u></u> |
| Net Position: | |
| Unrestricted | \$ <u>3,766</u> |
| Total net position | \$ <u>3,766</u> |
| Total liabilities and net position | \$ <u><u>3,766</u></u> |

Discretely Presented Component Unit -
Altavista Economic Development Authority
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2017

| | |
|--|------------------------|
| Operating expenses: | |
| Other expenses | \$ <u>42,761</u> |
| Total operating expenses | \$ <u>42,761</u> |
| Operating income (loss) | \$ <u>(42,761)</u> |
| Nonoperating revenues (expenses): | |
| Contributions from primary government | \$ 19,500 |
| Interest income | <u>107</u> |
| Total nonoperating revenues (expenses) | \$ <u>19,607</u> |
| Change in net position | \$ (23,154) |
| Net position, beginning of year | <u>26,920</u> |
| Net position, end of year | \$ <u><u>3,766</u></u> |

Discretely Presented Component Unit -
 Altavista Economic Development Authority
 Statement of Cash Flows
 For the Year Ended June 30, 2017

| | |
|---|---------------------------|
| Cash flows from operating activities: | |
| Payments for other expenses | \$ <u>(58,841)</u> |
| Net cash provided by (used for) operating activities | \$ <u>(58,841)</u> |
| Cash flows from noncapital financing activities: | |
| Contribution from primary government | \$ <u>58,735</u> |
| Net cash provided by (used for) noncapital financing activities | \$ <u>58,735</u> |
| Cash flows from investing activities: | |
| Interest income | \$ <u>107</u> |
| Net cash provided by (used for) investing activities | \$ <u>107</u> |
| Increase (decrease) in cash and cash equivalents | \$ 1 |
| Cash and cash equivalents at beginning of year | <u>380</u> |
| Cash and cash equivalents at end of year | \$ <u><u>381</u></u> |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | |
| Operating income (loss) | \$ (42,761) |
| Changes in operating assets and liabilities: | |
| Increase/(Decrease) in accounts payable and accrued liabilities | <u>(16,080)</u> |
| Net cash provided by (used for) operating activities | \$ <u><u>(58,841)</u></u> |

STATISTICAL INFORMATION

General Government Revenues by Source (1)
Last Ten Fiscal Years

| Fiscal Year | General Property Taxes | Other Local Taxes | Permits, Privilege Fees & Regulatory Licenses | Fines & Forfeitures | Revenues from the Use of Money & Property | Miscellaneous | Inter-governmental | Total |
|-------------|------------------------|-------------------|---|---------------------|---|---------------|--------------------|--------------|
| 2016-17 | \$ 2,188,255 | \$ 1,765,088 | \$ 17,120 | \$ 16,192 | \$ 174,066 | \$ 146,098 | \$ 1,057,758 | \$ 5,364,577 |
| 2015-16 | 2,336,643 | 1,441,096 | 16,119 | 13,580 | 160,237 | 131,546 | 1,103,313 | 5,202,534 |
| 2014-15 | 2,252,683 | 1,451,768 | 15,610 | 7,704 | 154,913 | 63,718 | 1,118,273 | 5,064,669 |
| 2013-14 | 2,254,794 | 1,387,308 | 16,100 | 16,413 | 162,759 | 112,921 | 1,735,428 | 5,685,723 |
| 2012-13 | 2,160,291 | 1,392,295 | 21,770 | 33,736 | 137,327 | 73,607 | 1,281,712 | 5,100,738 |
| 2011-12 | 2,150,003 | 1,316,552 | 16,915 | 28,577 | 98,531 | 70,521 | 1,412,204 | 5,093,303 |
| 2010-11 | 2,198,629 | 1,346,196 | 1,160 | 14,942 | 39,371 | 143,427 | 2,016,179 | 5,759,904 |
| 2009-10 | 2,162,977 | 1,319,767 | 660 | 9,747 | 78,263 | 151,693 | 1,258,475 | 4,981,582 |
| 2008-09 | 2,047,392 | 1,325,078 | 870 | 10,933 | 161,059 | 208,274 | 1,026,344 | 4,779,950 |
| 2007-08 | 1,995,533 | 1,297,749 | 718 | 11,035 | 288,709 | 178,839 | 820,474 | 4,593,057 |

(1) Consists solely of general fund revenues.

General Government Expenditures by Function (1)
Last Ten Fiscal Years

| Fiscal Year | General Government Administration | Public Safety | Public Works | Parks, Recreation and Cultural | Community Development (2) | Capital Outlay | Debt Service | Total |
|-------------|-----------------------------------|---------------|--------------|--------------------------------|---------------------------|----------------|--------------|--------------|
| 2016-17 | \$ 961,380 | \$ 924,785 | \$ 1,611,302 | \$ 206,382 | \$ 195,393 | \$ - | \$ 23,127 | \$ 3,922,369 |
| 2015-16 | 897,077 | 924,201 | 1,824,969 | 160,788 | 158,322 | 15,000 | - | 3,980,357 |
| 2014-15 | 940,671 | 872,280 | 1,189,343 | 159,973 | 68,319 | 86,330 | - | 3,316,916 |
| 2013-14 | 906,012 | 807,277 | 1,410,763 | 145,437 | 164,926 | 896,230 | - | 4,330,645 |
| 2012-13 | 913,188 | 908,466 | 1,425,426 | 171,119 | 75,732 | 316,366 | 56,571 | 3,866,868 |
| 2011-12 | 942,180 | 1,536,328 | 1,816,541 | 260,844 | - | 595,155 | 292,356 | 5,443,404 |
| 2010-11 | 798,637 | 965,170 | 1,092,989 | 287,332 | - | 1,654,469 | 82,770 | 4,881,367 |
| 2009-10 | 873,090 | 809,229 | 1,100,745 | 407,280 | - | 1,000,165 | 82,771 | 4,273,280 |
| 2008-09 | 843,025 | 812,925 | 1,310,206 | 359,546 | - | 368,475 | 81,778 | 3,775,955 |
| 2007-08 | 862,765 | 801,058 | 1,469,131 | 266,062 | - | 291,182 | 81,778 | 3,771,976 |

(1) Consists solely of general fund expenditures.

(2) Economic Development was a new department in 2012-2013.

Computation of Legal Debt Limit
June 30, 2017

| | |
|--|-----------------------|
| Assessed value of real estate, January 1, 2016 | \$ <u>275,401,700</u> |
| Legal debt limit, (10% of \$275,401,700) | \$ 27,540,170 |
| Total bonded debt | <u>6,437,790</u> |
| Legal debt margin | \$ <u>21,102,380</u> |

TOWN OF ALTAVISTA, VIRGINIA

Comparative Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years

| | 2008 | 2009 | 2010 |
|--|---------------------|---------------------|---------------------|
| Revenues: | | | |
| General property taxes | \$ 1,995,533 | \$ 2,047,392 | \$ 2,162,977 |
| Other local taxes | 1,297,749 | 1,325,078 | 1,319,767 |
| Permits, privilege fees and regulatory licenses | 718 | 870 | 660 |
| Fines and forfeitures | 11,035 | 10,933 | 9,747 |
| Revenue from use of money and property | 293,145 | 163,318 | 78,619 |
| Charges for services | 31,516 | 35,867 | 38,614 |
| Miscellaneous | 147,325 | 172,407 | 113,079 |
| Intergovernmental | 820,474 | 1,026,344 | 1,258,475 |
| Total revenues | \$ 4,597,495 | \$ 4,782,209 | \$ 4,981,938 |
| Expenditures: | | | |
| General government administration | \$ 862,765 | \$ 843,025 | \$ 873,090 |
| Public safety | 801,058 | 812,925 | 809,229 |
| Public works | 1,469,131 | 1,310,206 | 1,100,745 |
| Parks, recreation, and cultural | 279,008 | 371,936 | 420,437 |
| Community development | - | - | - |
| Capital outlay | 291,182 | 368,475 | 1,047,267 |
| Debt service: | | | |
| Principal retirement | 52,374 | 55,579 | 59,614 |
| Interest and other fiscal charges | 29,404 | 26,199 | 23,157 |
| Total expenditures | \$ 3,784,922 | \$ 3,788,345 | \$ 4,333,539 |
| Excess (deficiency) of revenues over (under) expenditures | \$ 812,573 | \$ 993,864 | \$ 648,399 |
| Other financing sources (uses): | | | |
| Transfers in | \$ 172,683 | \$ 17,080 | \$ 45,947 |
| Transfers (out) | (627,776) | (723,300) | (109,151) |
| Issuance of long-term debt | - | - | - |
| Total other financing sources (uses) | \$ (455,093) | \$ (706,220) | \$ (63,204) |
| Special Items: | | | |
| Sale of shell building | \$ - | \$ - | \$ - |
| Net changes in fund balances | \$ 357,480 | \$ 287,644 | \$ 585,195 |
| Fund balance, beginning | 8,420,795 | 8,778,275 | 9,065,919 |
| Fund balance, ending | \$ 8,778,275 | \$ 9,065,919 | \$ 9,651,114 |

Table 4

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|----|-----------|--------------|---------------|---------------|---------------|---------------|---------------|
| \$ | 2,198,629 | \$ 2,150,003 | \$ 2,160,291 | \$ 2,254,794 | \$ 2,252,683 | \$ 2,336,643 | \$ 2,188,255 |
| | 1,346,196 | 1,316,552 | 1,392,295 | 1,387,308 | 1,451,768 | 1,441,096 | 1,765,088 |
| | 1,160 | 16,915 | 21,770 | 16,100 | 15,610 | 16,119 | 17,120 |
| | 14,942 | 28,577 | 33,736 | 16,413 | 7,704 | 13,580 | 16,192 |
| | 39,371 | 98,576 | 137,327 | 162,759 | 154,913 | 160,237 | 174,066 |
| | 24,193 | 5,867 | 6,652 | 7,309 | 6,970 | 7,080 | 4,578 |
| | 119,234 | 64,654 | 66,955 | 105,612 | 56,748 | 124,466 | 141,520 |
| | 2,016,179 | 1,412,204 | 1,281,712 | 1,735,428 | 1,118,273 | 1,103,313 | 1,057,758 |
| \$ | 5,759,904 | \$ 5,093,348 | \$ 5,100,738 | \$ 5,685,723 | \$ 5,064,669 | \$ 5,202,534 | \$ 5,364,577 |
| \$ | 798,637 | \$ 942,180 | \$ 913,188 | \$ 906,012 | \$ 940,671 | \$ 897,077 | \$ 961,380 |
| | 965,170 | 1,536,328 | 908,466 | 807,277 | 872,280 | 924,201 | 924,785 |
| | 1,092,989 | 1,816,541 | 1,425,426 | 1,410,763 | 1,189,343 | 1,824,969 | 1,611,302 |
| | 308,698 | 278,255 | 171,119 | 145,437 | 159,973 | 160,788 | 206,382 |
| | - | - | 75,732 | 164,926 | 68,319 | 158,322 | 195,393 |
| | 1,806,852 | 595,155 | 316,366 | 896,230 | 86,330 | 15,000 | - |
| | 63,269 | 280,378 | 52,870 | - | - | - | 14,193 |
| | 19,501 | 11,978 | 3,701 | - | - | - | 8,934 |
| \$ | 5,055,116 | \$ 5,460,815 | \$ 3,866,868 | \$ 4,330,645 | \$ 3,316,916 | \$ 3,980,357 | \$ 3,922,369 |
| \$ | 704,788 | \$ (367,467) | \$ 1,233,870 | \$ 1,355,078 | \$ 1,747,753 | \$ 1,222,177 | \$ 1,442,208 |
| \$ | 16,045 | \$ 577,419 | \$ - | \$ - | \$ - | \$ - | \$ - |
| | (443,145) | (620,819) | (551,270) | (83,000) | - | - | - |
| | - | - | - | - | - | 357,500 | - |
| \$ | (427,100) | \$ (43,400) | \$ (551,270) | \$ (83,000) | \$ - | \$ 357,500 | \$ - |
| \$ | - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| \$ | 277,688 | \$ (410,867) | \$ 682,600 | \$ 1,272,078 | \$ 1,747,753 | \$ 1,579,677 | \$ 1,442,208 |
| | 9,651,114 | 9,928,802 | 9,517,935 | 10,200,535 | 11,472,613 | 13,220,366 | 14,800,043 |
| \$ | 9,928,802 | \$ 9,517,935 | \$ 10,200,535 | \$ 11,472,613 | \$ 13,220,366 | \$ 14,800,043 | \$ 16,242,251 |

TOWN OF ALTAVISTA, VIRGINIA

Comparative Statement of Revenues, Expenses, and Changes in Net Position of Proprietary Fund
Last Ten Fiscal Years

| | <u>2008</u> | <u>2009</u> | <u>2010</u> |
|--|-----------------------------|-----------------------------|-----------------------------|
| Operating revenues: | | | |
| Charges for services | \$ 2,484,361 | \$ 2,448,060 | \$ 2,357,531 |
| Other | <u>32,856</u> | <u>22,618</u> | <u>43,566</u> |
| Total operating revenues | \$ <u>2,517,217</u> | \$ <u>2,470,678</u> | \$ <u>2,401,097</u> |
| Operating expenses: | | | |
| Salaries | \$ 561,172 | \$ 744,497 | \$ 784,417 |
| Fringe benefits | 197,047 | 222,494 | 226,524 |
| Maintenance | 43,469 | 66,981 | 78,773 |
| Utilities | 412,723 | 490,447 | 389,940 |
| Materials and supplies | 285,238 | 355,142 | 322,200 |
| Sample testing | 19,764 | 19,509 | 13,889 |
| Purchase of water | 101,972 | 66,504 | 2,244 |
| Other | 26,463 | 13,748 | 13,434 |
| Depreciation | 594,271 | 610,840 | 624,286 |
| Amortization | <u>1,801</u> | <u>1,802</u> | <u>4,064</u> |
| Total operating expenses | \$ <u>2,243,920</u> | \$ <u>2,591,964</u> | \$ <u>2,459,771</u> |
| Operating income (loss) | \$ <u>273,297</u> | \$ <u>(121,286)</u> | \$ <u>(58,674)</u> |
| Nonoperating revenues (expenses): | | | |
| Interest income | \$ 80,106 | \$ 66,672 | \$ 20,950 |
| Interest expense | (69,197) | (96,195) | (131,903) |
| Bond issuance costs | - | - | - |
| Environmental remediation | - | - | - |
| DEQ grant | <u>-</u> | <u>-</u> | <u>-</u> |
| Total nonoperating revenues (expenses) | \$ <u>10,909</u> | \$ <u>(29,523)</u> | \$ <u>(110,953)</u> |
| Income (loss) before transfers | \$ <u>284,206</u> | \$ <u>(150,809)</u> | \$ <u>(169,627)</u> |
| Transfers in | \$ <u>455,093</u> | \$ <u>706,220</u> | \$ <u>73,161</u> |
| Net changes in net position | \$ 739,299 | \$ 555,411 | \$ (96,466) |
| Net position, beginning, as restated* | <u>11,389,555</u> | <u>12,128,854</u> | <u>12,684,265</u> |
| Net position, ending | \$ <u><u>12,128,854</u></u> | \$ <u><u>12,684,265</u></u> | \$ <u><u>12,587,799</u></u> |

* GASB 68 was implemented in FY 2015. No prior year information available related to GASB 68.

Table 5

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|----|------------|------------|------------|------------|------------|------------|------------|
| \$ | 2,436,783 | 2,473,022 | 2,490,550 | 2,718,048 | 2,913,734 | 3,078,713 | 3,583,925 |
| | 20,901 | 35,112 | 34,859 | 36,534 | 21,282 | 176,432 | 20,928 |
| \$ | 2,457,684 | 2,508,134 | 2,525,409 | 2,754,582 | 2,935,016 | 3,255,145 | 3,604,853 |
| \$ | 767,291 | 784,016 | 830,583 | 847,398 | 816,887 | 777,599 | 869,765 |
| | 243,451 | 247,986 | 262,470 | 268,289 | 235,766 | 211,174 | 272,208 |
| | 76,241 | 57,994 | 43,594 | 32,722 | 44,888 | 157,404 | 370,678 |
| | 400,263 | 434,211 | 413,835 | 431,410 | 432,098 | 439,451 | 448,587 |
| | 314,191 | 305,291 | 294,745 | 290,007 | 367,905 | 370,002 | 395,891 |
| | 12,111 | 16,581 | 17,242 | 23,847 | 14,247 | 10,799 | 18,155 |
| | 8,110 | 7,553 | 4,007 | 3,910 | 10,428 | 74,200 | 92,220 |
| | 36,468 | 96,733 | 51,397 | 54,120 | 82,190 | 98,522 | 165,686 |
| | 675,160 | 733,329 | 713,319 | 709,287 | 772,296 | 782,614 | 1,058,183 |
| | 4,064 | 54,122 | - | - | - | - | - |
| \$ | 2,537,350 | 2,737,816 | 2,631,192 | 2,660,990 | 2,776,705 | 2,921,765 | 3,691,373 |
| \$ | (79,666) | (229,682) | (105,783) | 93,592 | 158,311 | 333,380 | (86,520) |
| \$ | 10,911 | 4,480 | 3,388 | 2,376 | 11,390 | 10,396 | 4,607 |
| | (107,875) | (60,385) | - | - | (17,448) | (20,728) | (130,406) |
| | - | - | - | - | (30,469) | (44,300) | - |
| | - | - | - | - | - | - | - |
| | - | 27,292 | - | - | - | 7,395 | 24,881 |
| \$ | (96,964) | (28,613) | 3,388 | 2,376 | (36,527) | (47,237) | (100,918) |
| \$ | (176,630) | (258,295) | (102,395) | 95,968 | 121,784 | 286,143 | (187,438) |
| \$ | 427,100 | 43,400 | 551,270 | 83,000 | - | - | - |
| \$ | 250,470 | (214,895) | 448,875 | 178,968 | 121,784 | 286,143 | (187,438) |
| | 12,587,799 | 12,838,169 | 12,623,374 | 13,072,249 | 12,909,062 | 13,030,846 | 13,316,989 |
| \$ | 12,838,269 | 12,623,274 | 13,072,249 | 13,251,217 | 13,030,846 | 13,316,989 | 13,129,551 |

COMPLIANCE

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining fund information of Town of Altavista, Virginia as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Town of Altavista, Virginia's basic financial statements, and have issued our report thereon dated October 18, 2017.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. Finding 2017-001.

Compliance and Other Matters

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

Town of Altavista, Virginia's Response to Findings

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

Purpose of this Report

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

Robinson, Farnell, Cox Associates

Charlottesville, Virginia
October 18, 2017

Section I - Summary of Auditors' Results

Financial Statements

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

Section II - Financial Statement Findings

2017-001: Segregation of Duties (Material Weakness)

Criteria:

A key concept of internal controls is the segregation of duties. No one employee should have access to both accounting records and related assets.

Condition:

The Town's current internal control system does not provide adequate segregation of duties over accounting functions.

Cause:

Due to the limited size of the Treasurer's Office, a proper separation of duties has not been established and maintained.

Effect:

There is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal controls over financial reporting.

Recommendation:

It is recommended that the Town establish a proper separation of duties.

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.

Section III - Status of Prior Year Financial Statement Findings

2016-001: Segregation of Duties (Material Weakness)

Criteria:

A key concept of internal controls is the segregation of duties. No one employee should have access to both accounting records and related assets.

Condition:

The Town's current internal control system does not provide adequate segregation of duties over accounting functions.

Cause:

Due to the limited size of the Treasurer's Office, a proper separation of duties has not been established and maintained.

Effect:

There is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal controls over financial reporting.

Recommendation:

It is recommended that the Town establish a proper separation of duties.

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.