TOWN OF ABINGDON, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Table of Contents

Page

Financial Section

Independent Auditor's Report on Financial Statements and Supplementary Schedules 1-2

Basic Financial Statements

Government-wide Financial Statements

Exhibit 1 Statement of Net Position 3

Exhibit 2 Statement of Activities 4

Fund Financial Statements

Governmental Funds:

Exhibit A-1 Balance Sheet – Governmental Funds 5

Exhibit A-2 Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds 6

Exhibit A-3 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Net Position 7

Exhibit A-4 Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund 8

Proprietary Funds:

Exhibit B-1 Statement of Net Position 9

Exhibit B-2 Statement of Revenues, Expenses, and Changes in Fund Net Position 10

Exhibit B-3 Statement of Cash Flows 11

Notes to Financial Statements 12-44

Required Supplementary Information:

Exhibit C-1 Schedule of Revenues – Budget and Actual – Governmental Funds 45-46

Exhibit D-1 Schedule of Expenditures – Budget and Actual – Governmental Funds 47-49

Exhibit E-1 Schedule of Funding Progress 50

Table of Contents, continued

Page

Other Supplementary Information:

Non-major Governmental Funds 51

Exhibit F-1 Combining Balance Sheet – Non-major Governmental Funds 52

Exhibit F-2 Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-major Funds 53

Statistical Section:

Table 1 General Government Revenues by Source – Last Ten Fiscal Years 54

Table 2 General Government Expenditures by Function – Last Ten Fiscal Years 55

Table 3 Property Tax Levies and Collections – Last Ten Fiscal Years 56

Table 4 Assessed Value of Taxable Property and Property Tax Rates – Last Ten Fiscal Years 57

Table 5 Ratio of Net General Obligation Debt to Assessed and Net Bonded Debt Per Capita – Last Ten Fiscal Years 58

Compliance Section:

Independent Auditor's 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* 59-60

Schedule of Findings and Responses 61-62

BOSTIC, TUCKER
& COMPANY, P.C.
Certified Public Accountants

RONALD C. BOSTIC, CPA
GREGORY D. TUCKER, CPA

P.O. Box 505, Lebanon, VA 24266
(276) 889-3103 Fax: (276) 889-0229
www.bthcpa.com

INDEPENDENT AUDITOR'S REPORT

The Honorable Members of the
Town Council
Town of Abingdon, Virginia:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Abingdon, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town'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 Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the Town of Abingdon, Virginia, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 35-38 and the schedule of funding progress on page 40 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.

Management has omitted the management 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 the Town of Abingdon, Virginia's basic financial statements. The introductory section, combining and individual non-major fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The statistical section 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2015, on our consideration of the Town of Abingdon, 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 Abingdon, Virginia's internal control over financial reporting and compliance.

Bostic, Tucker and Company PC

Lebanon, Virginia
March 6, 2015

BASIC FINANCIAL

STATEMENTS

TOWN OF ABINGDON, VIRGINIA
STATEMENT OF NET POSITION
JUNE 30, 2014

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total Reporting Entity
Assets			
Cash and cash equivalents	$ 7,315,483	$ 3,437,135	$ 10,752,618
Receivables, net	60,877	620,648	681,525
Taxes receivable, net	1,609,974	-	1,609,974
Due from other governments	103,785	-	103,785
Internal balances	986,127	(986,127)	-
Inventories	1,500	-	1,500
Capital assets, net	19,413,758	13,234,279	32,648,037
Total assets and other debits	$ 29,491,503	$ 16,305,935	$ 45,797,438
Liabilities			
Accounts payable	$ 207,036	$ 17,414	$ 224,450
Accrued liabilities	257,104	191,708	448,812
Accrued interest payable	15,699	2,484	18,183
Deposits and advances	-	162,550	162,550
Noncurrent liabilities:			
Due within one year	413,999	885,332	1,299,331
Due in more than one year	4,647,111	10,080,367	14,727,478
Total liabilities	5,540,950	11,339,855	16,880,805
Deferred Inflows of Resources			
Deferred revenue	1,070,108	-	1,070,108
Net Position			
Net Investment in capital assets	14,352,648	2,268,580	16,621,228
Unrestricted (deficit)	8,527,798	2,697,500	11,225,298
Total net position	$ 22,880,446	$ 4,966,080	$ 27,846,527

The Accompanying Notes to Financial Statements An Integral Part Of This Statement

TOWN OF ABINGDON, VIRGINIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Exhibit 2

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenue and Changes in Net Position: Governmental Activities	Net (Expenses) Revenue and Changes in Net Position: Business-Type Activities	Net (Expenses) Revenue and Changes in Net Position: Total
Primary Government:							
Governmental Activities:							
General government	$ 1,581,298	$ -	$ -	$ -	$ (1,581,298)	$ -	$ (1,581,298)
Public safety	2,759,998	-	311,639	19,527	(2,428,832)	-	(2,428,832)
Public works	3,529,042	388,670	1,633,191	12,547	(1,494,634)	-	(1,494,634)
Health and welfare	6,857	-	-	-	(6,857)	-	(6,857)
Non-departmental	152,443	-	-	-	(152,443)	-	(152,443)
Parks, recreation and cultural	1,159,585	417,119	15,978	-	(726,488)	-	(726,488)
Community development	5,515,308	18,014	-	-	(5,497,294)	-	(5,497,294)
Interest on long-term debt	113,678	-	-	-	(113,678)	-	(113,678)
Total government activities	14,818,209	823,803	1,960,808	32,074	(12,001,524)	-	(12,001,524)
Business-type activities:							
Sewer	2,731,185	3,244,042	-	-	-	512,857	512,857
Total business type-activities	2,731,185	3,244,042	-	-	-	512,857	512,857
Total primary government	$ 17,549,394	$ 4,067,845	$ 1,960,808	$ 32,074	(12,001,524)	512,857	(11,488,667)
General Revenues:							
Taxes					8,443,512	-	8,443,512
Grants and contributions not restricted to specific programs					46,392	-	46,392
Investment and investment earnings					41,808	4,719	46,527
License and permits					21,725	-	21,725
Fines					51,611	-	51,611
Miscellaneous					330,258	-	330,258
Transfers					-	-	-
Total general revenues, special item and transfers					8,935,307	4,719	8,940,026
Change in net position					(3,066,217)	517,576	(2,548,641)
Net position beginning, as restated					25,946,662	4,448,504	30,395,166
Net position ending					$ 22,880,446	$ 4,966,080	$ 27,846,526

The Accompanying Notes to Financial Statements An Integral Part Of This Statement

TOWN OF ABINGDON, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

Exhibit A-1

Assets	General	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	$ 6,200,475	$ 1,115,008	$ 7,315,483
Accrued interest receivable	4,198	634	4,832
Receivables (Net of allowance for uncollectibles):			
Taxes	1,609,974	-	1,609,974
Accounts	56,044	-	56,044
Due from other government units	39,850	63,935	103,785
Due from other Town funds	939,228	250,000	1,189,228
Gasoline inventory	1,500	-	1,500
Total assets	**$ 8,851,270**	**$ 1,429,577**	**$ 10,280,846**
Liabilities			
Accounts payable	$ 192,303	$ 14,730	$ 207,033
Accrued liabilities	257,104	-	257,104
Due to other Town funds	-	203,100	203,100
Total liabilities	$ 449,408	$ 217,830	$ 667,238
Deferred Inflows of Resources			
Deferred revenue	$ 1,252,655	$ -	$ 1,252,655
Fund Balance			
Fund balance:			
Nonspendable			
Inventory	1,500	-	1,500
Restricted for:			
Sewer Improvement	-	613,561	613,561
Capital Reserve	-	640,278	640,278
Rehabilitation	-	13,799	13,799
Cemetary	-	11,400	11,400
Unassigned	7,147,706	(67,292)	7,080,414
Total fund equity	7,149,206	1,211,746	8,360,952
Total liabilites and fund balance	**$ 8,851,270**	**$ 1,429,577**	**$ 10,280,846**

Total fund balances per Balance Sheet for Governmental Funds	$ 8,360,952
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Other long-term assets are not available to pay current period expenditures and therefore deferred in the governmental funds and are not included in the fund balance.	182,545
Capital assets used in government activities are not financial resources and therefore not reported in the funds. The Statement of Net Assets, however, includes net assets, net of accumulated depreciation.	19,413,758
Some liabilities are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities are recorded in the Statement of Net Assets.	(5,076,809)
Net Position of governmental activities	**$ 22,880,446**

The Accompanying Notes to Financial Statements An Integral Part Of This Statement

TOWN OF ABINGDON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

Exhibit A-2

	General	Other Governmental Funds	Totals (Memo Only)
Revenues:			
General property taxes	$ 2,591,889	$ -	$ 2,591,889
Other local taxes	5,890,975	-	5,890,975
Permits, privilege fees and regulatory licenses	21,725	-	21,725
Fines and forfeitures	51,611	-	51,611
Revenues from use of money and property	39,926	1,882	41,808
Charges for services	805,789	18,014	823,803
Miscellaneous	150,083	-	150,083
Recovered costs	180,175	-	180,175
Intergovernmental	2,039,274	-	2,039,274
Total revenues	11,771,447	19,896	11,791,343
Expenditures:			
Current:			
General government administration	1,470,759	-	1,470,759
Public safety	2,610,797	-	2,610,797
Public works	3,467,668	-	3,467,668
Health and welfare	6,857	-	6,857
Parks, recreation, and cultural	2,427,584	-	2,427,584
Contingencies	152,443	-	152,443
Community development	3,708,201	49,626	3,757,827
Debt service	453,073	-	453,073
Capital projects	1,756,694	-	1,756,694
Total expenditures	16,054,075	49,626	16,103,701
Excess (deficiency) of revenues over expenditures	(4,282,628)	(29,730)	(4,312,358)
Other financing sources (uses):			
Issuance of long-term debt	2,600,000	-	2,600,000
Operating transfers in (out)	-	-	-
Total other financing sources (uses)	2,600,000	-	2,600,000
Excess (deficiency) of revenues and other sources over expenditures and other uses	(1,682,628)	(29,730)	(1,712,358)
Fund balances, July 1, 2013	8,831,834	1,241,477	10,073,311
Fund balances, June 30, 2014	**$ 7,149,206**	**$ 1,211,747**	**$ 8,360,953**

The Accompanying Notes to Financial Statements An Integral Part Of This Statement

TOWN OF ABINGDON
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

Exhibit A-3

Net change in fund balances - total government funds		**$ (1,712,358)**
Amounts reported for governmental activities in the Statement of Activities are different because:		
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds		
Add current year deferred property tax revenue	$ 182,545	
Subtract last year's deferred property tax revenue	(221,896)	
		(39,351)
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.		
Add capital acquistions (net of disposals)	1,681,563	
Subtract depreciation	(626,313)	
		1,055,250
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		
Add debt repayment	346,789	
Subtract debt proceeds	(2,600,000)	
		(2,253,211)
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 (such as compensated absences and accrued interest on long-term debt).		
		(116,545)
Change in Net Position of Governmental Activities		**$ (3,066,217)**

The Accompanying Notes to Financial Statements An Integral Part Of This Statement

TOWN OF ABINGDON
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

Exhibit A-4

	Original and Final Budget	Actual	Positive (Negative) Variance
Revenues:			
General property taxes	$ 2,768,600	$ 2,591,889	$ (176,711)
Other local taxes	6,421,000	5,890,975	(530,025)
Permits, privilege fees and regulatory licenses	34,700	21,725	(12,975)
Fines and forfeitures	52,250	51,611	(639)
Revenues from use of money and property	32,343	39,926	7,583
Charges for services	826,000	805,789	(20,211)
Miscellaneous	1,627,098	150,083	(1,477,015)
Recovered costs	257,130	180,175	(76,955)
Intergovernmental	3,273,329	2,039,274	(1,234,055)
Total revenues	15,292,450	11,771,447	(3,521,003)
Expenditures:			
General government administration	1,761,037	1,470,759	290,278
Public safety	2,561,513	2,610,797	(49,284)
Public works	4,200,388	3,467,668	732,720
Health and welfare	5,350	6,857	(1,507)
Parks, recreation, and cultural	2,667,941	2,427,584	240,357
Non-departmental	-	-	-
Community development	3,272,970	3,708,201	(435,231)
Contingencies	179,669	152,443	27,226
Debt service	148,239	453,073	(304,834)
Capital Projects	2,711,000	1,756,694	954,306
Total expenditures	17,508,107	16,054,075	1,454,032
Excess (deficiency) of revenues over expenditures	(2,215,657)	(4,282,628)	(2,066,971)
Other financing sources (uses):			
Proceeds from sale of assets/property	-	-	-
Issuance of long-term debt	1,600,000	2,600,000	1,000,000
Operating transfers in	550,000	-	(550,000)
Operating transfers out	-	-	-
Total other financing sources (uses)	2,150,000	2,600,000	450,000
Excess (deficiency) of revenues and other sources over expenditures and other uses	(65,657)	(1,682,628)	(1,616,971)
Fund balances, July 1, 2013	65,657	8,831,834	8,766,177
Fund balances, June 30, 2014	$ -	$ 7,149,206	$ 7,149,206

The Accompanying Notes to Financial Statements An Integral Part Of This Statement

TOWN OF ABINGDON
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

Exhibit B-1

	Business-type Activities	
		Sewer
Assets		
Cash and cash equivalents	$	3,437,135
Receivables (net of allowances for uncollectibles)		619,281
Accrued interest receivable		1,367
Capital assets, net		13,234,279
Total assets and other debits	$	17,292,062
Liabilities		
Accounts payable	$	17,414
Accrued liabilities		33,877
Accrued interest payable		2,484
Due to other funds		986,128
Claims, judgements, and compensated absences		157,829
Deposits and advances		162,550
Noncurrent liabilities:		
Due within one year		885,332
Due in more than one year		10,080,367
Total liabilities		12,325,981
Net Position		
Net Investment in capital assets		2,268,580
Unrestricted (deficit)		2,697,500
Total net position	$	4,966,080

The Accompanying Notes to Financial Statements An Integral Part Of This Statement

TOWN OF ABINGDON
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

Exhibit B-2

	Business-type Activity	
	Proprietary Fund	
	Enterprise	
Operating Revenues:		
Sewer service charges	$	2,873,538
Solid waste collection charges		34,782
Sewer connection charges		327,696
Total operating revenues		3,236,016
Operating expenses:		
Salaries and benefits		1,287,916
Contractual services		115,638
Repairs and maintenance		91,496
Materials and supplies		125,815
Utilities		248,492
Insurance		22,575
Depreciation		732,672
Other operating expenses		55,149
Total operating expenses		2,679,753
Operating income (loss)		556,263
Nonoperating revenues (expenses):		
Interest revenue		4,719
Interest expense		(51,432)
Miscellaneous income		8,026
Net income before operating transfers		517,576
Net operating trasfers in (out)		-
Net income (loss)		517,576
Net position - beginning		4,448,504
Net position - ending	$	4,966,080

The Accompanying Notes to Financial Statements An Integral Part Of This Statement

TOWN OF ABINGDON
STATEMENT CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

Exhibit B-3

	Business-type Activity: Proprietary Funds Enterprise
Cash flows from operating activities:	
Cash received from customers	$ 3,312,857
Cash payments to suppliers for goods and services	(786,725)
Cash payments to employees for services and benefits	(1,334,524)
Net cash provided by operating activities	1,191,609
Cash flows for noncapital financing activities:	
Decrease in customer deposits	(114,858)
Miscellaneous non-operating income	8,026
Net cash provided by noncapital financing activities	(106,832)
Cash flows from capital and related financing activities:	
Acquisition & construction of capital assets	(264,757)
Net borrowings (repayments) of long-term debt	(529,833)
Interest paid on bonds	(50,734)
Net cash provided by (used for) capital and related financing activities	(845,325)
Cash flows from investing activities:	
Transfers from other funds	137,746
Interest on investments	4,719
Net cash provided by investing activities	142,465
Net increase in cash and cash equivalents	381,917
Cash and cash equivalents, June 30, 2013	3,055,218
Cash and cash equivalents, June 30, 2014	$ 3,437,135
Reconciliation of operating income to net cash provided by (used for) operating activities:	
Operating income (loss)	$ 556,263
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	732,672
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	76,841
Increase (decrease) in accounts payable	(120,585)
Increase (decrease) in accrued liabilities	(6,975)
Increase (decrease) in unpaid compensated absences	(46,608)
Net cash provided by operating activities	$ 1,191,609
Other information: Interest paid during fiscal year	$ 50,734

The Accompanying Notes to Financial Statements An Integral Part Of This Statement

NOTES TO FINANCIAL

STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A The Financial Reporting Entity

The Town of Abingdon, Virginia (government) is a municipal corporation governed by an elected five – member Town Council. The accompanying financial statements present the government and its component units, entities for which the government is considered financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. The Town has determined that it has no component units.

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 non-fiduciary activities of the primary government and its component units, if any. For the most part, the effect of inter-fund 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 certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which 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, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting,* as are the proprietary fund and fiduciary 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 collectible within the current period. For this purpose, the government considers revenues to be available if they are collected within 45 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 45 days after year-end are reflected as deferred revenues. Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the Town.

Licenses, permits, fines, and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditures. Revenues from general purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when cash is received by the government.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

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

The government reports the following **major** governmental funds:

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

The government reports the following **major** proprietary funds:

The *Sewer fund* accounts for activities related to a sewer treatment system for the Town.

Additionally, the government reports the following fund types and individual non-major funds:

Special Revenue Funds are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Town has established special revenue funds to account costs of implementing internet service to the community, housing funds, and other social service type activity. Those funds are: Electronic Village, Kings Mountain, and Sewer Improvement.

Capital Projects Funds accounts for the construction of capital assets which are financed from various sources other than special assessment debt.

Permanent Funds account for resources that are legally restricted to the extent that only earnings, not principal may be used for purposes that support specific programs.

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

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

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

Proprietary funds distinguished *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Sewer System enterprise fund and that of the government's internal service funds are charges to customers for sales and services. The Sewer system also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, liabilities, and net position or equity

Deposits and investments

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

Receivables and payables

Activity between the funds are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

D. Assets, liabilities, and net position or equity – continued

Inventory

Inventory consists of repair parts and supplies used to maintain the water system stated at cost. Inventory in the proprietary fund is accounted for under the consumption method. Cost is recorded as an expense at the time the individual inventory items are used.

Property taxes

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien as of January 1. Real estate taxes are payable in two installments, one in May and one in November. Personal property taxes are due and collectible annually in November. The Town bills and collects its own taxes.

Allowance for Uncollectible Accounts

The Town calculates it allowance for uncollectible accounts using historical collection data, and, in certain cases, specific account analysis. The allowance amounted to approximately $192,324 at June 30, 2014 and is comprised of $103,662 for property taxes and $74,555.96 for customer sewer receivables.

Use of Estimates

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

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of $5,000 for machinery and equipment, $25,000 for land, and $100,000 for buildings, and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as the projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current or previous year.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

D. Assets, liabilities, and net position or equity - continued

Capital assets - continued

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

Assets	Years
Buildings	40
Building and Improvements	40
Structures, lines, and accessories	40
Machinary and equipment	5-10

Compensated absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available resources are reported in the general long-term debt account group. No expenditure is reported for these amounts. In accordance with the provisions of Government Accounting Standards' No. 16, Accounting for Compensated Absences no liability is recorded for non-vesting accumulating rights to receive benefits. The Town accrues salary - related costs associated with the payment of compensated absences.

Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premiums or discounts. Bond issuance costs are reported as deferred charges and amortized over the life on the related bond.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

D. Assets, liabilities, and net position or equity - continued

Fund equity

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

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 represent 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.

Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, Statement No. 63 of the Governmental Accounting Standards Board

The Town has implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. The Statement provides guidance for reporting deferred inflows and deferred outflows of resources. The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on an entity's net position. With the implementation of this Statement certain terminology has changed and financial statement descriptions have changed from "net assets" to "net position." The net equity reported in the financial statements has not changed as a result of implementing this Statement and no restatement of prior balances is required.

Items Previously Reported as Assets and Liabilities, Statement No. 65 of Governmental Accounting Standards Board

The Town early implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013.This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The net equity reported in the financial statements was not charged as a result of implementing this Statement and no restatement of prior balances is required.

Net Position Flow Assumption

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

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

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

Prior to March 30, the Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them.

Public hearings are conducted to obtain citizens' comments.

Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.

The Appropriations Resolution places legal restrictions on expenditures at the department level or category level. The appropriation for each department or category can be revised only by the Town Council. The Town Manager is authorized to transfer budgeted amounts within general government departments.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.

All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Appropriations lapse on June 30, for all Town units except for the Capital Projects Funds, which carry unexpended balances into the following year on a continuing appropriation basis.

All budget data presented in the accompanying financial statements are from the revised budget as of June 30.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is not part of the Town's accounting system.

B. Deficit fund equity

At June 30, 2014, the following funds had deficit fund equity:

Kings Mountain/Taylor's Hill	$ 15
Electronic Village	67,277

NOTE 3. DEPOSITS AND INVESTMENTS

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

Investments: Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

NOTE 4. DUE FROM OTHER GOVERNMENTAL UNITS

Consists of the following at June 30, 2014:

	Primary Government
Commonweatlth of Virginia	
Local Sales Tax	$ 39,850
Total Commonwealth of Virginia	$ 39,850
Federal Government	
CDBG Funds	$ 63,951
Total Federal Government	$ 63,951
Total Due From Other Governments	$ 103,801

NOTE 5. INTER-FUND OBLIGATIONS

Fund	Receivable	Payable
General	$ 939,228	$ -
Sewer Fund	-	986,128
Kings Mountain	-	64,036
Electronic Village	-	69,203
Capital Projects	-	68,046
Sewer Improvement Fund	250,000	-
Rehabilitation Fund		718
Cemetary Fund	-	1,097
	$ 1,189,228	$ 1,189,228

NOTE 6. LONG-TERM DEBT

A. Changes in long-term obligations

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

Governmental Activities	Amounts Payable at June 30, 2013	Increases	Decreases	Amounts Payable at June 30, 2014	Amounts Due Within One Year
Bonds payable	$ 1,299,000	$ 3,947,167	$ 1,524,890	$ 3,721,277	$ 285,102
Leases Payable	576,803	-	169,066	407,737	119,797
Total Bonds and leases	1,875,803	3,947,167	1,693,956	4,129,014	404,899
Other liabilities:					
Other Post Employment Benefit Obligations	251,328	75,103	9,100	317,331	9,100
Claims, judgements, and compensated absences payable	571,618	43,146	-	614,765	-
Total other liabilities	822,946	118,249	9,100	932,096	9,100
Total long-term liabilities	$ 2,698,749	$ 4,065,416	$ 1,703,056	$ 5,061,110	$ 413,999

Business-type activities	Amounts Payable at July 1, 2013	Increases	Decreases	Amounts Payable at June 30, 2014	Amounts Due Within One Year
Claims, judgements, and compensated absences payable	$ 204,437	$ -	$ 46,608	$ 157,829	$ -
Leases Payable	237,387	-	56,287	181,100	58,279
Bonds payable	11,258,145	1,428,566	1,902,113	10,784,598	827,053
Total long-term liabiliities	$ 11,699,969	$ 1,428,566	$ 2,005,008	$ 11,123,527	$ 885,332

THE BOTTOM OF THIS PAGE IS BLANK INTENTIONALLY

NOTE 6. LONG-TERM DEBT - (continued)

B. Refunding bonds

The Town issued general obligation refunding bonds (Series 2013) dated November 22, 2013 in the amount of $2,469,600 to refund general obligation bonds and general obligation refunding bonds that were originally issued in the amounts of $1,371,000 and $1,500,000 respectively. The new bond bears an interest rate of 2.25% and is due in installments of approximately $246,960 per year through June 1, 2024. The refunding will reduce debt service costs by $125,238. The new refunding also includes issue costs of $47,053 that will amortize over the life of the bonds.

C. General obligation bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities of the primary government. General obligation bonds are direct obligations and pledge the full faith and credit of the Town.

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending	General Obligation Bonds		
June 30	Principal	Interest	Total
2015	$ 285,102	$ 89,868	$ 374,970
2016	291,163	83,080	374,243
2017	298,298	76,148	374,446
2018	305,421	69,046	374,467
2019	312,477	61,774	374,251
2020-2024	1,438,829	200,488	1,639,317
2025-2029	789,987	49,984	839,971
	$ 3,721,277	$ 630,388	$ 4,351,665

General Obligation Bonds	Original Issue Amount	Interest Rates	Annual Principal Requirements	Total Outstanding
General Obligation Refunding Bonds 2013	$1,347,167	2.25	$80,898 to $151,976	$ 1,266,269
General Obligation Bonds 2013	$ 2,600,000	2.5	$144,993 to $204,871	2,455,008
Total general obligation bonds				$ 3,721,277

NOTE 6. LONG-TERM DEBT - (continued)

D. Revenue Bonds

The Town issued bonds to finance sewer construction projects for community development purposes.

Primary Government Business-type activities	Original Issue Amount	Interest Rates	Annual Principal Requirements	Total Outstanding
2000 Revenue Bond, due 2019	$ 651,942	3.50%	$ 38,683	$ 230,367
2004 Revenue Bond, due 2027	9,798,168	0.00%	597,530	7,767,884
2011 Revenue Bond, due 2033	1,908,392	0.00%	95,420	1,754,749
2013 Refunding Series	1,122,433	2.25%	113,716	1,031,600
				$ 10,784,600

D. Revenue Bonds

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending June 30	Revenue Bonds Principal	Interest	Total
2015	$ 865,033	$ 30,938	$ 895,971
2016	868,798	26,572	895,370
2017	873,511	22,102	895,613
2018	878,075	17,508	895,583
2019	882,591	12,792	895,383
2020-2024	3,823,453	16,720	3,840,173
2025-2029	2,269,690	-	2,269,690
2030-2034	323,449	-	323,449
	$ 10,784,600	$ 126,632	$ 10,911,232

E. Claims, Judgments, and Compensated Absences

The Town has accrued the liability arising from outstanding claims and judgments and compensated absences.

In accordance with NCGA Statement 4 "Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences," the Town has accrued the liability arising from outstanding claims and judgments and compensated absences. Town employees earn vacation leave at rates that range from 12 to 21 days per year depending on length of service and sick leave accumulates at the rate of one day per month. Up to 25% of accumulated sick leave time will be paid upon termination for employees with greater than five years of service. Accumulated vacation up to forty-two days is paid upon termination. The Town has outstanding accrued vacation and sick leave pay totaling $745,948 in the Statement of Net Assets of the government - wide statements.

NOTE 7. COMMITMENTS AND CONTINGENT LIABILITIES

Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

NOTE 8. RISK MANAGEMENT

The risk management programs of the Town are as follows:

Workmen's Compensation

Workmen's compensation is provided through the Virginia Municipal Group Self Insurance Association. Management estimates the liability for unpaid claims at year-end to be immaterial.

General Liability and Other

The Town has purchased commercial property insurance through the Huron Insurance Company. General liability coverage was secured through Harleysville Insurance Company.

NOTE 9. SURETY BONDS

USF&G Insurance Company - Surety Blanket Bond	$1,000,000

NOTE 10. Lease Commitments

The Town leases various types of equipment and facilities under capital lease agreements. A summary of future minimum rental payments under capital leases as of June 30, 2014 is as follows:

Fiscal Year Ending June 30	Governmental Activities	Business Activities
2015	$ 181,294	$ 64,690
2016	147,678	64,690
2017	92,906	64,690
Total minimum lease payments	421,878	194,070
Less amounts representing interest	14,141	12,970
Present value of net minimum lease payments	$ 407,737	$ 181,100

NOTE 11. DEFINED BENEFITS PENSION PLAN

A. Plan Description

Name of Plan:	Virginia Retirement System (VRS)
Identification of Plan:	Agent and Cost-Sharing Multiple-Employer Pension Plan
Administering Entity:	Virginia Retirement System (System)

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

Within the VRS Plan, the System administers three different benefit plans for local government employees – Plan 1, Plan 2, and, Hybrid. Each plan has different eligibility and benefit structures as set out in the table below:

THE BOTTOM OF THIS PAGE IS BLANK INTENTIONALLY

NOTE 11. DEFINED BENEFITS PENSION PLAN – (continued)

A. Plan Description - continued

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
About VRS Plan 1 VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**About VRS Plan 2** VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	**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 VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members") • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

NOTE 11. DEFINED BENEFITS PENSION PLAN – (continued)

A. Plan Description - continued

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Eligible Members Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. **Hybrid Opt-In Election** VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.	**Eligible Members** Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. **Hybrid Opt-In Election** VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • State employees* • School division employees • Political subdivision employees* • Judges appointed or elected to an original term on or after January 1, 2014 • Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 *Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Members of the State Police Officers' Retirement System (SPORS) • Members of the Virginia Law Officers' Retirement System (VaLORS) • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.

NOTE 11. DEFINED BENEFITS PENSION PLAN – (continued)

A. Plan Description - continued

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Retirement Contributions Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** Same as VRS Plan 1.	**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.
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.	**Creditable Service** Same as VRS Plan 1.	**Creditable Service** **Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may e

NOTE 11. DEFINED BENEFITS PENSION PLAN – (continued)

A. **Plan Description** - continued

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

NOTE 11. DEFINED BENEFITS PENSION PLAN – (continued)

A. **Plan Description** - continued

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
		Defined Contributions Component (Continued): Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit** See definition under VRS Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** See definition under VRS Plan 1 **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

NOTE 11. DEFINED BENEFITS PENSION PLAN – (continued)

A. Plan Description - continued

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Service Retirement Multiplier The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.	**Service Retirement Multiplier** Same as Plan1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.	**Service Retirement Multiplier** The retirement multiplier is 1.0%. For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.
Normal Retirement Age Age 65.	**Normal Retirement Age** Normal Social Security retirement age.	**Normal Retirement Age** **Defined Benefit Component:** Same as VRS Plan 2. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.	**Earliest Unreduced Retirement Eligibility** Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

NOTE 11. DEFINED BENEFITS PENSION PLAN – (continued)

A. Plan Description - continued

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	90. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	**Earliest Reduced Retirement Eligibility** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
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%.	**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%.	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as VRS Plan 2. **Defined Contribution Component:** Not applicable.

NOTE 11. DEFINED BENEFITS PENSION PLAN – (continued)

A. Plan Description - continued

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement (Cont.) **Eligibility:** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.	**Cost-of-Living Adjustment (COLA) in Retirement (Cont.)** **Eligibility:** Same as VRS Plan 1	**Cost-of-Living Adjustment (COLA) in Retirement (Cont.)** **Eligibility:** Same as VRS Plan 1 and VRS Plan 2.
Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member Is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the	**Exceptions to COLA Effective Dates:** Same as VRS Plan 1	**Exceptions to COLA Effective Dates:** Same as VRS Plan 1 and VRS Plan 2.

NOTE 11. DEFINED BENEFITS PENSION PLAN – (continued)

A. **Plan Description** - continued

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Workforce Transition Act or the Transitional Benefits Program. **Cost-of-Living Adjustment (COLA) in Retirement (Cont.)** Exceptions to COLA Effective Dates (Cont.): • 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.		
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members. State employees (including VRS Plan 1 and VRS Plan2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible

NOTE 11. DEFINED BENEFITS PENSION PLAN – (continued)

A. Plan Description - continued

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
		for non-work related disability benefits.
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.	**Purchase of Prior Service** Same as VRS Plan 1.	**Purchase of Prior Service** **Defined Benefit Component:** Same as VRS Plan 1. **Defined Contribution Component:** Not applicable.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at http://www.varetire.org/Pdf/Publications/2013-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2014 was 9.31% of annual covered payroll.

NOTE 11. DEFINED BENEFITS PENSION PLAN – (continued)

C. Annual Pension Cost

For fiscal year 2014, Town's annual pension cost of $745,208 was equal to the Town's required and actual contributions.

Three-Year Information for the Town

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	$ 559,371	100.00%	0.00%
June 30, 2013	766,806	100.00%	0.00%
June 30, 2014	745,208	100.00%	0.00%

The FY 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. Town's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

D. Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the plan was 73.50% funded. The actuarial accrued liability for benefits was $17,205,836, and the actuarial value of assets was $12,646,872, resulting in an unfunded actuarial accrued liability (UAAL) of $4,558,964. The covered payroll (annual payroll of active employees covered by the plan) was $5,321,773, and ratio of the UAAL to the covered payroll was 85.67%.

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

NOTE 12. DEFERRED REVENUE

Deferred revenue represents amounts for which assets 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. Deferred revenue totaling $1,252,654 is comprised of the following:

A. Deferred Property Tax Revenue

Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled $1,221,099 at June 30, 2014.

B. Prepaid Property Taxes

Property taxes due subsequent to June 30, 2014 but paid in advance by the taxpayers totaled $31,555 at June 30, 2014.

NOTE 13. NEW ACCOUNTING STANDARDS

The Governmental Accounting Standards Board (GASB) has issued the following statements which are not yet effective.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* amends GASB Statement No. 27. The provisions of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The provisions of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013 and should be applied on a prospective basis.

GASB Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees* establishes accounting and financial reporting for non-exchange transactions. The provisions of Statement No. 70 are effective for financial statements for reporting beginning after June 15, 2013.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* is an amendment of GASB Statement No. 68 and the provisions of this Statement should be applied simultaneously with the provisions of Statement No. 68.

Management has not yet evaluated the effects, if any, of adopting the other standards above, but does not expect them to be material.

NOTE 14. CAPITAL ASSETS

Primary Government:

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

Primary Government	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Governmental activities:				
Capital assets, not being depreciated:				
Land and land improvements	$ 6,567,714	$ 101,068	$ -	$ 6,668,782
Total assets not being depreciated	6,567,714	101,068	-	6,668,782
Other capital assets:				
Buildings and improvements	11,099,170	201,583	-	11,300,753
Infrastructure/improvements	3,578,604	1,132,961	-	4,711,565
Vehicles	2,508,609	163,866	20,308	2,652,167
Furniture and equipment	906,646	82,085	-	988,731
Total other capital assets at cost	18,093,029	1,580,495	20,308	19,653,216
Less accumulated depreciation:				
Buildings and improvements	3,494,782	286,492	-	3,781,274
Infrastructure/improvements	782,126	112,509	-	894,635
Vehicles	1,813,726	169,372	20,308	1,962,790
Furniture and equipment	703,412	57,939	-	761,351
Total accumulated depreciation	6,794,046	626,312	20,308	7,400,050
Other capital assets, net	11,298,983	954,183	-	12,253,166
Governmental activities capital assets, net	$ 17,866,697	$ 1,055,251	$ -	$ 18,921,948

Depreciation expense was charged to the following functions:

General government	$ 82,301
Public safety	206,485
Public works	140,727
Parks and recreation	149,804
Community development	46,996
	$ 626,312

NOTE 14. CAPITAL ASSETS (continued)

Business-type activities

Primary Government	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 25,010	$ -	$ -	$ 25,010
Construction in progress	1,750,873	-	1,750,873	-
Total assets not being depreciated	1,775,883	-	1,750,873	25,010
Other capital assets:				
Buildings and improvements	155,833	-	-	155,833
Plant	23,220,736	-	-	23,220,736
Distribution and collection lines	4,539,588	1,956,267	-	6,495,855
Vehicles	1,170,162	48,303	-	1,218,465
Furniture and equipment	1,481,616	11,070	-	1,492,686
Total other capital assets at cost	30,567,935	2,015,640	-	32,583,575
Less accumulated depreciation:				
Buildings and improvements	82,608	3,403	-	86,011
Plant	13,027,346	456,043	-	13,483,389
Distribution and collection lines	3,539,267	154,122	-	3,693,389
Vehicles	824,525	62,077	-	886,602
Furniture and equipment	1,167,890	57,026	-	1,224,916
Total accumulated depreciation	18,641,636	732,671	-	19,374,307
Other capital assets, net	11,926,299	1,282,969	-	13,209,268
Business-type activtiies, net	$ 13,702,182	$ 1,282,969	$ 1,750,873	$ 13,234,278

In accordance with new financial reporting standards issued by GASB 42, *"Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries"* requires certain note disclosures. During the fiscal year, the Town experienced no impairments of capital assets.

THE BOTTOM OF THIS PAGE IS BLANK INTENTIONALLY

NOTE 15. OTHER POST-EMPLOYMENT BENEFITS

The Governmental Accounting Standards Board (GASB) has issued its Statement No. 45, *Accounting and Financial Reporting by Employers for Postretirement Benefit Plans Other Than Pensions*. The Statement establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense and related liabilities in the financial statements. The cost of post-employment healthcare benefits should be associated with the period in which the cost occurs, rather than in the future years when it will be paid. The Town adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2013. Recognition of the liability accumulated from prior years will be phased in over 30 years commencing with the 2010 liability.

The Town meets the requirements to use the alternative measurement method and elects to use the alternative measurement method.

Annual Other Post-Employment Benefit Cost and Net OPEB Obligation

For the fiscal year ended June 30, 2014, the Town's annual OPEB cost of $75,600 for governmental activities was equal to the Annual Required Contribution (ARC).

	Governmental Activities
Annual required contribution	$ 75,600
Interest on net OPEB obligation	8,796
Adjustment to annual required contribution	(9,293)
Annual OPEB cost	75,103
Contributions made	9,100
Increase in net OPEB obligation	66,003
Net OPEB obligation-beginning of year	251,328
Net OPEB obligation-end of year	$ 317,331

The Town's annual OPEB cost for governmental activities, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows. The Town's first year for implementing GASB No. 45 was June 30, 2010.

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	62,800	0%	125,600
June 30, 2012	62,800	0%	188,400
June 30, 2013	71,028	11.40%	251,328
June 30, 2014	75,103	12.12%	317,331

NOTE 15. OTHER POST-EMPLOYMENT BENEFITS (continued)

Funding Status and Funding Progress

The funding status of the plan as of June 30, 2013 (the last actuarial valuation) was as follows:

	Governmental Activities
Actuarial Accrued Liability (AAL)	$ 490,400
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	490,400
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll (Active Plan Members)	5,370,500
UAAL as a Percentage of Covered Payroll	9.13%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE 16. GASB 54 FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DEFINITIONS

Purpose

The Town Council of the Town of Abingdon is dedicated to maintaining an appropriate level of fund balance sufficient to mitigate current and future financial risks and to ensure stable tax rates; and, therefore, formally establishes this policy for the Town's Fund Balance. This policy also authorizes and directs the Finance Director to prepare financial reports which accurately categorize fund balance as required by GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

THE BOTTOM OF THIS PAGE IS BLANK INTENTIONALLY

NOTE 16. GASB 54 FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DEFINITIONS (continued)

Components of Fund Balance

Fund balance is the difference between the assets and liabilities reported in a governmental fund. The following five fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which the resources can be used:

- Nonspendable fund balance – amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority; for all funds except the general fund, assigned fund balance is the residual fund balance classification;
- Unassigned fund balance – amounts that are available for any purpose; positive amounts are only reported in the general fund.

Committed Fund Balance Policy

The Town Council is the Town's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Town Council. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

Assigned Fund Balance Policy

The Town Council has authorized the Town's Finance Director as the official authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

Minimum Unassigned Fund Balance Policy

The Town does not maintain an unassigned fund balance policy.

Resource Flow Policy

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

NOTE 17. Reconciliation of Government-Wide and Fund Financial Statements:

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position:

The governmental fund balance sheet includes a reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The detail of this $(2,707,054) difference for the primary government is as follows:

	Primary Government
General obligation bonds and loans payable	$ (4,129,014)
Accrued interest	(15,699)
OPEB liability	(317,331)
Compensated absences	(614,765)
Net adjustment to reduce fund balance-total governmental funds to arrive at net position-governmental activities	$ (5,076,809)

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances-total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "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." The detail of this $492,103 difference for the primary government is as follows:

	Primary Government
Capital Outlay	$ 1,681,563
Depreciation Expense	(626,313)
Net adjustment to increase (decrease) *net changes in fund balances - total governmental funds* to arrive at changes in net position-governmental activities	$ 1,055,250

NOTE 17. Reconciliation of Government-Wide and Fund Financial Statements (continued)

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities: (continued)

Another element of that reconciliation states, "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 detail of this $(13,035) difference for the primary government is as follows:

	Primary Government
(Increase) Decrease in Compensated absences	$ (43,147)
(Increase) Decrease in OPEB liability	(66,003)
(Increase) Decrease in Accrued interest	(7,394)
Net adjustment to increase (decrease) *net changes in fund balances - total governmental funds* to arrive at changes in net position-governmental activities	$ (116,544)

NOTE 18. Prior Period Adjustments to Fund Balance and Net Position

Business Type Activities:

Net Position - Amount previously reported June 30, 2013	$ 4,492,610
To adjust for errors in accumulated depreciation	44,106
Net Position - as adjusted, June 30, 2013	$ 4,448,504

REQUIRED SUPPLEMENTARY

INFORMATION

TOWN OF ABINGDON
STATEMENT OF REVENUES - BUDGET AND ACTUAL
GOVERNMENTAL FUNDS - PRIMARY GOVERNMENT
FOR THE YEAR ENDED JUNE 30, 2014

Exhibit C-1

Fund, Major and Minor Revenue Source	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
General Fund			
Revenue from local sources:			
General property taxes:			
Real property taxes	$ 2,210,500	$ 2,017,691	$ (192,809)
Real and personal public service corporation property taxes	72,000	65,047	(6,953)
Personal property taxes	433,600	442,887	9,287
Machinery and tools taxes	13,000	11,381	(1,619)
Penalties and interest	39,500	54,883	15,383
Total general property taxes	2,768,600	2,591,889	(176,711)
Other local taxes:			
Local sales and use taxes	550,000	453,224	(96,776)
Consumer utility taxes	90,000	94,332	4,332
Communications taxes	130,000	131,951	1,951
Business license taxes	948,500	879,748	(68,752)
Franchise license taxes	80,000	90,566	10,566
Motor vehicle licenses	120,000	110,270	(9,730)
Bank stock taxes	550,000	470,061	(79,939)
Cigarette taxes	110,000	91,786	(18,214)
Meals and lodging taxes	3,842,500	3,569,036	(273,464)
Total other local taxes	6,421,000	5,890,975	(530,025)
Permits, privilege fees and regulatory licenses	34,700	21,725	(12,975)
Fines and forfeitures	52,250	51,611	(639)
Revenue from use of money and prop.:			
Revenue from use of money	29,843	32,429	2,586
Revenue from use of property	2,500	7,497	4,997
Total revenue from use of money and property	32,343	39,926	7,583
Charges for services:			
Waste removal	350,000	388,670	38,670
Charge for parks and recreation	476,000	417,119	(58,881)
Total charges for services	826,000	805,789	(20,211)

TOWN OF ABINGDON
STATEMENT OF REVENUES - BUDGET AND ACTUAL
GOVERNMENTAL FUNDS - PRIMARY GOVERNMENT
FOR THE YEAR ENDED JUNE 30, 2014

Exhibit C-1

Fund, Major and Minor Revenue Source	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
General Fund (continued)			
Revenue from local sources: (continued)			
Miscellaneous:			
Donations	$ 1,600,000	$ 9,844	$ (1,590,156)
Unclassified	27,098	140,240	113,142
Total miscellaneous revenue	1,627,098	150,083	113,142
Recovered Costs:			
Other	257,130	180,175	(76,955)
Total recovered costs	257,130	180,175	(76,955)
Total revenue from local sources	12,019,121	9,732,174	(696,791)
Revenue from other Governments:			
Revenue from Washington County:			
Shared expenses	97,000	97,000	-
Total revenue from other governments	97,000	97,000	-
Revenue from the Commonwealth:			
Non-categorical aid:			
Rental tax	45,000	35,266	(9,734)
Mobile home titling tax	1,000	404	(596)
Rolling stock	10,000	10,722	722
Total non-categorical aid	56,000	46,392	(9,608)
Revenue from the Commonwealth:			
Categorical aid:			
Street and highway maintenance	1,440,262	1,482,663	42,401
VDOT Funds	746,171	12,547	(733,624)
VDOT Funds - Depot	-	19,527	19,527
DJCP Grants for law enforcement	180,000	189,012	9,012
Asset Forfeiture Funds	-	1,266	1,266
Commission for the arts	5,000	6,000	1,000
Fire Prevention	21,896	24,361	(2,465)
Conservation	-	9,978	9,978
Total categorical aid	2,543,329	1,745,353	(802,906)
Total revenue from the Commonwealth	2,599,329	1,791,745	(812,514)
Revenue from the Federal Goverment:			
Categorical aid:			
Highway Planning	325,000	-	(325,000)
FEMA Funds	252,000	150,529	(101,471)
National Park Service	-	-	-
Total revenue from the Federal Government	577,000	150,529	(426,471)
Total General Fund	$ 15,292,450	$ 11,771,447	$ (1,935,776)

TOWN OF ABINGDON
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
GOVERNMENTAL FUNDS - PRIMARY GOVERNMENT
FOR THE YEAR ENDED JUNE 30, 2014

Exhibit D-1

Funds, Function, Activity and Elements	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
General Fund:			
General Governmental Administration:			
Legislative:			
Personal services	$ 34,372	$ 34,056	$ -
Fringe benefits	3,312	3,133	179
Contractual services	10,000	11,976	(1,976)
Other services	45,800	33,523	12,277
Total legislative	93,484	82,688	10,480
General and Financial Administration:			
Personal services	1,055,665	845,291	210,374
Fringe benefits	269,988	251,132	18,856
Contractual services	85,700	81,273	4,427
Other charges	162,800	152,781	10,019
Capital outlay	93,400	57,594	35,806
Total general and financial administration	1,667,553	1,388,071	279,482
Total general government administration	1,761,037	1,470,759	289,962
Public Safety:			
Police and Traffic Control:			
Personal services	1,204,979	1,223,955	(18,976)
Fringe benefits	487,364	494,484	(7,120)
Contractual services	33,000	24,149	8,851
Other charges	124,750	123,420	1,330
Capital outlay	186,000	202,289	(16,289)
Total police and traffic control	2,036,093	2,068,297	(32,204)
Fire and Rescue Service:			
Personal services	167,957	138,292	29,665
Fringe benefits	19,046	20,907	(1,861)
Contractual services	66,700	40,712	25,988
Other charges	85,500	97,259	(11,759)
Capital outlay	39,896	97,655	(57,759)
Total fire and rescue service	379,099	394,825	(15,726)
Bureau of Inspections:			
Personal services	96,331	99,953	(3,622)
Fringe benefits	42,050	42,832	(782)
Contractual services	1,000	612	388
Other charges	6,940	4,278	2,662
Capital outlay	-	-	-
Total Bureau of Inspection	146,321	147,675	(1,354)
Total Public Safety	2,561,513	2,610,797	(49,284)

TOWN OF ABINGDON
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
GOVERNMENTAL FUNDS - PRIMARY GOVERNMENT
FOR THE YEAR ENDED JUNE 30, 2014

Exhibit D-1

Funds, Function, Activity and Elements	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
General Fund: (continued)			
Public Works:			
Administration:			
Personal services	$ 305,521	$ 322,789	$ (17,268)
Fringe benefits	95,255	88,724	6,531
Contractual services	3,500	1,792	1,708
Other charges	37,950	14,987	22,963
Capital outlay	7,800	(355)	8,155
Total Administration	450,026	427,937	22,089
Street and Lighting:			
Personal services	613,219	551,872	61,347
Fringe benefits	294,238	264,010	30,228
Contractual services	72,500	49,142	23,358
Other charges	296,350	299,210	(2,860)
Materials and supplies	370,000	362,009	7,991
Capital outlay	416,000	264,188	151,812
Total Streets and Lighting	2,062,307	1,790,431	271,876
Maintenance of Buildings & Grounds:			
Personal services	294,638	259,078	35,560
Fringe benefits	94,030	113,924	(19,894)
Contractual services	9,300	3,599	5,701
Other charges	810,720	368,480	442,240
Capital outlay	83,800	95,106	(11,306)
Total Maintenance of Bldgs. and Grounds	1,292,488	840,187	452,301
Waste Disposal:			
Personal services	101,769	97,146	4,623
Fringe benefits	45,398	47,073	(1,675)
Contractual services	212,800	189,038	23,762
Other charges	30,600	70,857	(40,257)
Capital outlay	5,000	5,000	-
Total Waste Disposal	395,567	409,113	(13,546)
Total Public Works	4,200,388	3,467,668	732,720
Health and Welfare:			
Contractual services	5,350	6,857	(1,507)
Tax exemption for the elderly	-	-	-
Total Health and Welfare	5,350	6,857	(1,507)
Parks and Recreation:			
Personal services	1,142,081	1,226,840	(84,759)
Fringe benefits	482,384	466,326	16,058
Contractual services	66,000	61,642	4,358
Other charges	843,276	460,045	383,231
Capital outlay	132,300	210,811	(78,511)
Total Parks and Recreation	2,666,041	2,425,665	240,376

TOWN OF ABINGDON
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
GOVERNMENTAL FUNDS - PRIMARY GOVERNMENT
FOR THE YEAR ENDED JUNE 30, 2014

Exhibit D-1

Funds, Function, Activity and Elements	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
General Fund: (continued)			
Cultural:			
Cemeteries:			
Other charges	$ 1,900	$ 1,536	$ 364
Capital outlay	-	383	(383)
Total Cemeteries	1,900	1,919	(19)
Total Parks and Rec. & Cultural	2,667,941	2,427,584	240,357
Community Development:			
Personal services	597,186	579,134	18,052
Fringe benefits	180,928	168,360	12,568
Contractual services	117,500	284,161	(166,661)
Other charges	377,569	451,522	(73,953)
Donations/Appropriations	707,954	1,749,349	(1,041,395)
Capital outlay	1,291,833	475,675	816,158
Total Community Development	3,272,970	3,708,201	(435,231)
Reserve for Contingencies:			
Other charges	179,669	152,443	27,226
Total Reserve for Contingencies	179,669	152,443	27,226
Debt Service:			
Principal retirement	148,239	439,073	(290,834)
Interest and fiscal charges	-	14,000	(14,000)
Total Debt Service	148,239	453,073	(304,834)
Capital Projects:			
Land improvements	-	-	-
Buildings	2,711,000	1,756,694	954,306
Total Capital Projects	2,711,000	1,756,694	954,306
Total General Fund	$ 17,508,107	$ 16,054,075	$ 1,453,716

TOWN OF ABINGDON
SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2014

Exhibit E-1

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Annual Covered Payroll	UAAL as % of Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 2005	$ 7,924,009	$ 9,608,373	$ 1,684,364	82.47%	$ 3,193,216	52.75%
June 30, 2006	8,514,802	9,807,151	1,292,349	86.82%	3,329,694	38.81%
June 30, 2007	9,729,072	10,509,995	780,923	92.57%	3,778,241	20.67%
June 30, 2008	10,773,409	11,821,134	1,047,725	91.14%	4,124,247	25.40%
June 30, 2009	11,115,629	12,701,222	1,585,593	87.52%	4,444,508	35.68%
June 30, 2010	11,340,009	14,274,875	2,934,866	79.44%	4,630,371	63.38%
June 30, 2011	11,796,399	15,720,234	3,923,835	75.04%	4,725,709	83.03%
June 30, 2012	11,956,693	16,640,740	4,684,047	71.85%	5,101,601	91.82%
June 30, 2013	12,646,872	17,205,836	4,558,964	71.85%	5,321,773	85.67%

OTHER SUPPLEMENTARY INFORMATION

Non-major Governmental Funds

Special Revenue Funds

The Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes. The individual special revenue funds are:

Electronic Village - to account for the implementation of cable service to local governments and citizens throughout the town.

Kings Mountain/Taylor's Hill - to account for a Community Block Grant project (rehabilitation).

Sewer Improvement Fund - to account for funds for future sewer line expansion in the area.

Capital Reserve Fund - to account for funds established for the capital improvements relating to fire and rescue services.

Rehabilitation Fund - to account for monies used for low income housing rehabilitation.

Cemetery Fund - to account for the receipt and expenditure of funds for maintenance of a local public cemetery.

TOWN OF ABINGDON
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

Exhibit F-2

	Special Revenue Funds			Capital Projects		Permanent Fund	Total
	Electronic Village	Kings Mountain/ Taylor's Hill	Sewer Improvement Fund	Capital Reserve Fund	Rehabilitation Fund	Cemetery Fund	Non-major Governmental Funds
Assets							
Cash	$ 1,926	$ 86	$ 363,060	$ 708,324	$ 14,496	$ 27,116	$ 1,115,008
Receivables:							
Accrued interest	-	-	501	-	21	112	634
Due from other funds	-	-	250,000	-	-	-	250,000
Due from other governmental units	-	63,935	-	-	-	-	63,935
Total Assets	$ 1,926	$ 64,021	$ 613,561	$ 708,324	$ 14,517	$ 27,228	$ 1,429,577
Liabilities and Fund Balances							
Liabilities:							
Bank overdraft	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Accounts payable	-	-	-	-	-	14,730	14,730
Due to other funds	69,203	64,036	-	68,046	718	1,097	203,100
Total Liabilities	69,203	64,036	-	68,046	718	15,827	217,830
Fund balances (deficits):							
Unreserved:							
Undesignated	(67,277)	(15)	613,561	640,278	13,799	11,401	1,211,747
Total Fund Balances	(67,277)	(15)	613,561	640,278	13,799	11,401	1,211,747
Total Liabilities and Fund Balances	$ 1,926	$ 64,021	$ 613,561	$ 708,324	$ 14,517	$ 27,228	$ 1,429,577

TOWN OF ABINGDON
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

Exhibit F-2

	Special Revenue Funds			Capital Projects		Permanent Fund	Total
	Electronic Village	Kings Mountain	Sewer Improvement Fund	Capital Reserve Fund	Rehabilitation Fund	Cemetery Fund	Non-major Governmental Funds
Revenues:							
Other local taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Revenues from the use of money and property	-	-	906	760	4	212	1,882
Charges for services	18,014	-	-	-	-	-	18,014
Miscellaneous	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Total revenues	18,014	-	906	760	4	212	19,896
Expenditures:							
Current:							
Community development	48,179	-	-	-	1,447	-	49,626
Capital projects	-	-	-	-	-	-	-
Total expenditures	48,179	-	-	-	1,447	-	49,626
Excess (deficiency) of revenues over expenditures	(30,165)	-	906	760	(1,443)	212	(29,730)
Other financing sources (uses):							
Operating transfers in	-	-	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	(30,165)	-	906	760	(1,443)	212	(29,730)
Fund balances - beginning	(37,112)	(15)	612,655	639,518	15,242	11,189	1,241,477
Fund balances - ending	$ (67,277)	$ (15)	$ 613,561	$ 640,278	$ 13,799	$ 11,401	$ 1,211,747

STATISTICAL SECTION (UNAUDITED)

TOWN OF ABINGDON
GENERAL GOVERNMENT REVENUES BY FUNCTION
LAST TEN FISCAL YEARS

TABLE 1

Fiscal Year Ending	General Property Taxes	Other Local Taxes	Permit Privilege Fees and Regulatory Licenses	Fines and Forfeitures	Revenue from the Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Intergovernmental	Total
2005	$ 2,162,634	$ 4,127,300	$ 36,778	$ 73,551	$ 208,796	$ 369,159	$ 54,282	$ 203,455	$ 2,804,868	$ 10,040,823
2006	2,263,598	4,284,444	39,795	39,795	323,895	330,543	689	253,408	2,540,704	10,076,871
2007	2,317,059	4,817,990	31,454	47,213	490,063	740,455	473	99,304	2,389,912	10,933,923
2008	2,291,873	5,121,179	29,926	55,492	383,138	738,723	35,859	3,163	2,597,837	11,257,190
2009	2,353,245	5,666,262	24,254	34,264	195,938	854,927	25,188	254,875	2,712,711	12,121,664
2010	3,412,150	5,869,947	20,084	26,571	113,297	824,850	8,151	200,220	2,288,748	12,764,018
2011	2,529,150	6,100,700	20,758	31,152	103,815	693,012	72,231	185,370	2,142,495	11,878,683
2012	2,517,084	6,190,262	13,684	49,097	56,542	829,032	220,084	245,431	2,347,164	12,468,380
2013	2,582,994	5,626,683	37,762	71,766	47,688	789,613	60,169	309,939	2,016,788	11,543,402
2014	2,591,889	5,890,975	21,725	51,611	41,808	823,803	150,083	180,175	2,039,274	11,791,343

TOWN OF ABINGDON
GENERAL GOVERNMENT EXPENDITURES BY FUNCTION
LAST TEN FISCAL YEARS

TABLE 2

Fiscal Year Ending	General Government Administration	Public Safety	Public Works	Health and Welfare	Parks Recreation and Culture	Community Development	Non-Departmental	Debt Service	Capital Projects	Total
2005	$ 1,030,085	$ 2,361,611	$ 2,452,312	$ 8,514	$ 1,588,602	$ 1,359,843	$ 47,420	$ 573,137	$ 1,049,439	$ 10,470,963
2006	1,044,328	1,851,870	2,462,063	1,460	1,756,468	1,737,235	26,259	531,213	271,706	9,682,602
2007	1,157,711	2,526,369	3,615,701	9,353	1,866,350	1,559,941	36,457	337,701	1,016,920	12,126,503
2008	1,396,408	2,002,734	3,192,441	8,019	2,031,323	1,511,014	77,757	364,354	1,558,482	12,142,532
2009	1,505,155	2,101,677	3,160,722	9,591	2,123,965	49,147	1,858,791	357,628	3,346,647	14,513,323
2010	1,577,449	2,367,422	3,243,545	2,893	2,329,850	162,024	1,613,257	509,262	931,778	12,737,480
2011	1,480,612	2,283,745	3,564,703	2,856	2,363,492	138,672	1,950,407	2,830,875	87,599	14,702,961
2012	1,687,563	2,483,125	3,257,329	3,426	2,305,565	172,395	2,370,336	566,761	298,925	13,145,425
2013	1,652,003	2,497,255	3,677,910	5,833	2,298,874	2,572,550	238,884	519,849	604,659	14,067,817
2014	1,470,759	2,610,797	3,467,668	6,857	2,412,472	2,727,492	152,443	453,073	1,756,694	15,058,255

TOWN OF ABINGDON
ASSESSED VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS

TABLE 3

Fiscal Year Ending	Tax Rate	Real Estate	Personal Property	Public Service Corporation	Total
2005	0.28	$ 516,966,900	$ 858,940	$ 21,358,395	$ 539,184,235
	0.55	-	73,624,020	95,775	73,719,795
2006	0.28	618,206,469	903,675	24,613,411	643,723,555
	0.55	-	78,412,965	54,123	78,467,088
2007	0.28	642,449,600	831,201	11,611,232	654,892,033
	0.55	-	82,239,016	54,123	82,293,139
2008	0.28	641,517,000	709,799	21,580,382	663,807,181
	0.55	-	81,228,773	266,012	81,494,785
2009	0.28	644,346,200	731,022	19,769,209	664,846,431
	0.55	-	81,439,160	233,200	81,672,360
2010	0.28	644,346,200	759,626	21,519,981	666,625,807
	0.55	-	78,322,505	406,945	78,729,450
2011	0.28	711,246,000	1,062,490	22,448,202	734,756,692
	0.55	-	92,449,693	406,945	92,856,638
2012	0.28	715,761,300	1,021,085	22,196,195	738,978,580
	0.55	-	82,036,905	424,726	82,461,631
2013	0.28	727,851,320	818,381	22,196,429	750,866,130
	0.55	-	83,025,635	424,726	83,450,361
2014	0.28	734,838,050	810,190	23,201,748	758,849,988
	0.55		83,957,974	15,008	83,972,982

TOWN OF ABINGDON
ASSESSED VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS

TABLE 4

Fiscal Year Ending	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Collections	Percent of Total Tax Collections to Tax Levy	Percent of Delinquent Taxes to Tax Levy
2005	$ 2,137,796	$ 2,049,280	95.9%	$ 68,616	$ 2,117,896	99.1%	3.21%
2006	2,234,163	2,200,288	98.5%	64,431	2,264,719	101.4%	2.88%
2007	2,257,184	2,196,832	97.3%	56,952	2,253,784	99.8%	2.52%
2008	2,285,547	2,206,019	96.5%	147,226	2,353,245	103.0%	6.44%
2009	2,273,559	2,197,117	96.6%	76,442	2,273,559	100.0%	3.36%
2010	3,475,376	3,252,495	93.6%	68,402	3,320,897	95.6%	1.97%
2011	2,577,988	2,338,280	90.7%	190,870	2,529,150	98.1%	7.40%
2012	2,508,632	2,348,521	93.6%	96,210	2,444,731	97.5%	3.84%
2013	2,616,745	2,416,378	92.3%	107,190	2,523,568	96.4%	4.10%
2014	2,790,613	2,583,283	92.6%	115,400	2,698,683	96.7%	4.14%

TOWN OF ABINGDON
RATIO OF NET GENERAL OBLIGATION DEBT TO ASSESSED VALUE AND NET DEBT PER CAPITAL
LAST TEN FISCAL YEARS

TABLE 5

Fiscal Year Ending	Population (1)	Assessed Value (In Thousands)	Gross Bonded Debt (2)	Less: Debt Service Monies Available	Less: Debt Payable Enterprise Revenues	Net Bonded Debt	Ratio of Net General Obligation Debt to Assessed Value	Net Bonded Debt Per Capita
2005	7,780	$ 612,904,030	$ 8,280,758	$ -	$ 5,870,758	$ 2,410,000	0.3932%	310
2006	7,780	722,190,643	13,323,996	-	11,333,396	1,990,600	0.2756%	256
2007	7,780	737,185,172	14,738,102	-	12,998,102	1,740,000	0.2360%	224
2008	7,780	745,301,966	14,355,734	-	12,875,734	1,480,000	0.1986%	190
2009	7,780	746,518,791	17,359,963	-	10,965,699	6,394,264	0.8565%	822
2010	7,780	748,298,167	16,439,516	-	10,080,367	6,359,149	0.8498%	817
2011	7,780	813,486,142	13,256,767	-	11,273,767	1,983,000	0.2438%	255
2012	8,191	821,440,211	12,155,480	-	10,506,480	1,649,000	0.2007%	201
2013	8,191	833,327,761	11,059,853	-	9,760,853	1,299,000	0.1559%	159
2014	8,191	842,822,970	14,529,307	-	10,808,031	3,721,276	0.4415%	454

(1) Data is from the U.S. Bureau of the Census.
(2) Includes all long-term general obligation bonded debt.

COMPLIANCE

SECTION

BOSTIC, TUCKER
& COMPANY, P.C.
Certified Public Accountants

RONALD C. BOSTIC, CPA
GREGORY D. TUCKER, CPA

P.O. Box 505, Lebanon, VA 24266
(276) 889-3103 Fax: (276) 889-0229
www.bthcpa.com

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*

The Honorable Members of the
Town Council
Town of Abingdon, Virginia:

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the Town of Abingdon, Virginia as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated March 6, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Abingdon, 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 the Town of Abingdon, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Abingdon, 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 responses we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We considered the deficiencies described in the schedule of findings and responses to be a material weaknesses identified as 2014-1.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We considered the deficiency described in the schedule of findings and responses to be a significant deficiency identified as 2014-2.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 instances of non-compliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings an responses as item 2014-1.

Town of Abingdon, Virginia's Response to Findings

Town of Abingdon, Virginia's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Town'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.

Bostic, Tucker and Company PC

Lebanon, Virginia
March 6, 2015

TOWN OF ABINGDON, VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014

2014-1 Internal Controls over Cash Disbursements and Credit Cards – Material Weakness

Criteria:

An effective internal control system over cash disbursements and credit card issuance provides reasonable assurance for the safeguarding of assets, the reliability of financial information and compliance with laws and regulations.

Condition:

We discovered during the course of our engagement several questionable transactions that were charged to the Town's credit card during the fiscal year by a former employee.

Cause:

The Town has issued cards to several departmental supervisors and other members of management. Those employees submit documentation to support the charges incurred on regular basis to management for approval. A former employee incurred unauthorized charges that were not detected by the appropriate members of management until after year end. The Town did not have at year end a formal policy or set of procedures concerning the proper use of credit cards.

Effect:

The absence of proper review to insure all credit card transactions are proper and authorized provides for the opportunity for fraudulent activities and increases the risk of misappropriation of public assets. Approximately $7,500 of questionable charges occurred during the fiscal year.

Recommendation:

We recommend that all credit bills be reviewed and approved for payment by the Town Manager. We also recommend that any overnight travel be approved in advance by either the Town Manager or Town Council as well. We suggest the Town adopt credit card policies that each employee must agree to and follow while working for the Town.

Management Corrective Action Plan

Management agrees that inappropriate purchases may have occurred during the year and appropriate referrals to the State Police were made as soon as discovered by Town officials. The employee in question had previously resigned before the matter was referred to the Virginia State Police and the credit card was cancelled upon the employee's resignation. The matter is still under investigation at this point. Management has indicated that upon discovery of these questionable charges, the Town immediately adopted a policy that requires all purchases by credit cards be reviewed by the Finance Director and/or the Town Manager. All travel expenditures are approved in advance by the Town Manager per a new policy directive put in place by management. The Town is now in the process of instituting travel cards that provide greater protection against unauthorized use.

2014-2 Internal Controls over Utility Deposits – Significant Deficiency

Criteria:

An effective internal control system over utility deposits provides reasonable assurance for the safeguarding of assets, the reliability of financial information.

Condition:

We discovered that utility (sewer customer) deposits were only partially integrated into the Town's software system. Customer deposits are either maintained in the computer system or on hard copy receipt books maintained by the Town.

Cause:

The Town changed vendors for its accounting software during the last year. This disruption and set up time contributed to the inability to record all customer deposits in its utility billing software.

Effect:

The Town was not able to reconcile its books to the customer deposits detail at year end. The absence of proper reconciliation provides for the opportunity for fraudulent activities and increased the risk of misappropriation of assets.

Recommendation:

We recommend all customer deposit information be entered into the utility billing software currently in place at the Town hall. We also suggest that those balances be reconciled to the general ledger at year end.

Management Corrective Action Plan:

Management acknowledges that utility deposits are not properly reflected in the Town's billing software. The Town Treasurer has indicated month end procedures will now include the reconciliation of deposits and accounts receivable to the general ledger to insure accuracy of postings.