



FINANCIAL REPORT

JUNE 30, 2015



TOWN OF APPOMATTOX, VIRGINIA

FINANCIAL REPORT

June 30, 2015

TOWN OF APPOMATTOX, VIRGINIA

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INTRODUCTORY SECTION

TOWN OF APPOMATTOX, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS

June 30, 2015

TOWN COUNCIL

Paul D. Harvey, Mayor
Claudia G. Puckette
Steven T. Conner
Timothy W. Garrett
N. H. “Jimmy” Mayberry
C. Lewis McDearmon, Jr.
Mary Lou Spiggle

ECONOMIC DEVELOPMENT AUTHORITY BOARD

Andy Carroll, Chairman
Chad Millner, Vice-Chairman
Robert “Bob” P. Goode
Phillip Jamerson
Lisa Pannell
C. Lewis McDearmon, Jr.
N. H. “Jimmy” Mayberry

APPOINTED OFFICIALS

Bill Gillespie Interim Town Manager
Frank Wright, Jr. Town Attorney
Stacey Wilkes Treasurer
Roxanne Casto Town Clerk

INDEPENDENT AUDITORS

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

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Honorable Members of Town Council
Town of Appomattox, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the Town of Appomattox, Virginia (the "Town"), as of and for the year ended June 30, 2015, 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Report on the Financial Statements (Continued)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the Town as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison of the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 16 to the financial statements, the Town adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, as amended by GASB Statement No. 71*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the other required supplementary information, as listed in the table of contents, 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.

Other Information

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

The combining statements and supporting schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the 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 statements and supporting schedules are fairly stated in all material respects in relation to the financial statements as a whole.

Other Matters (Continued)*Other Information (Continued)*

The introductory and other information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2016 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the Town's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Brown, Edwards & Company, L.L.P." in a cursive script.

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
February 22, 2016

BASIC FINANCIAL STATEMENTS

TOWN OF APPOMATTOX, VIRGINIA

STATEMENT OF NET POSITION
June 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Economic Development Authority
ASSETS				
Cash and cash equivalents (Note 2)	\$ 2,525,566	\$ 1,516,204	\$ 4,041,770	\$ 250,000
Receivables, net (Note 3)	114,981	196,412	311,393	-
Due from component unit (Note 6)	66	96,340	96,406	-
Due from other governments (Note 8)	6,609	-	6,609	-
Internal balances (Note 5)	60,000	(60,000)	-	-
Inventories	-	103,501	103,501	-
Rent receivable (Note 4)	-	725,000	725,000	-
Net pension asset (Note 11)	98,856	97,759	196,615	-
Capital assets (Note 9)				
Nondepreciable	51,600	64,710	116,310	-
Depreciable, net	861,670	9,105,998	9,967,668	-
Total assets	3,719,348	11,845,924	15,565,272	250,000
DEFERRED OUTFLOWS OF RESOURCES				
Pension contributions subsequent to measurement date (Note 11)	16,517	16,336	32,853	-
LIABILITIES				
Accounts payable and accrued liabilities	95,447	68,207	163,654	-
Accrued payroll and related liabilities	-	366	366	-
Accrued interest payable	-	10,095	10,095	-
Customer security deposits	-	30,300	30,300	-
Due to primary government	-	-	-	96,406
Long-term liabilities (Note 10)				
Due within one year	6,283	199,296	205,579	-
Due in more than one year	36,199	1,320,651	1,356,850	-
Total liabilities	137,929	1,628,915	1,766,844	96,406
DEFERRED INFLOWS OF RESOURCES				
Net difference between projected and actual earnings on pension plan investments (Note 11)	60,450	59,781	120,231	-
Unearned revenue (Note 4)	-	994,700	994,700	-
Total deferred inflows of resources	60,450	1,054,481	1,114,931	-
NET POSITION				
Net investment in capital assets	885,227	7,665,263	8,550,490	-
Unrestricted	2,652,259	1,513,601	4,165,860	153,594
Total net position	\$ 3,537,486	\$ 9,178,864	\$ 12,716,350	\$ 153,594

The Notes to Financial Statements are an integral part of this statement.

TOWN OF APPOMATTOX, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-Type Activities	Total	Economic Development Authority
Primary Government:								
Governmental activities								
General government administration	\$ 383,457	\$ -	\$ -	\$ -	\$ (383,457)	\$ -	\$ (383,457)	\$ -
Public safety	85,359	-	51,408	-	(33,951)	-	(33,951)	-
Public works	684,119	1,575	-	-	(682,544)	-	(682,544)	-
Community development	387,049	-	27,000	-	(360,049)	-	(360,049)	-
Interest on long-term debt	1,051	-	-	-	(1,051)	-	(1,051)	-
Total governmental activities	1,541,035	1,575	78,408	-	(1,461,052)	-	(1,461,052)	-
Business-type activities								
Water	557,820	422,626	51,995	55,158	-	(28,041)	(28,041)	-
Sewer	894,570	761,934	-	41,182	-	(91,454)	(91,454)	-
Total business-type activities	1,452,390	1,184,560	51,995	96,340	-	(119,495)	(119,495)	-
Total primary government	\$ 2,993,425	\$ 1,186,135	\$ 130,403	\$ 96,340	(1,461,052)	(119,495)	(1,580,547)	-
Component Unit:								
Economic Development Authority	\$ 96,406	\$ -	\$ -	\$ -	-	-	-	(96,406)
General revenues:								
Property taxes					300,218	-	300,218	-
Meals taxes					908,217	-	908,217	-
Sales and use taxes					71,496	-	71,496	-
Bank stock taxes					142,086	-	142,086	-
Business license taxes					182,056	-	182,056	-
Cigarette taxes					187,525	-	187,525	-
Other local taxes					72,749	-	72,749	-
Intergovernmental revenue not restricted to specific programs					26,618	-	26,618	-
Town contribution					-	-	-	250,000
Investment earnings					17,037	7,734	24,771	-
Other					21,986	132,588	154,574	-
Total general revenues					1,929,988	140,322	2,070,310	250,000
Change in net position					468,936	20,827	489,763	153,594
NET POSITION AT JULY 1, as restated (Note 16)					3,068,550	9,158,037	12,226,587	-
NET POSITION AT JUNE 30					\$ 3,537,486	\$ 9,178,864	\$ 12,716,350	\$ 153,594

The Notes to Financial Statements are
an integral part of this statment.

TOWN OF APPOMATTOX, VIRGINIA

**BALANCE SHEET –
GOVERNMENTAL FUND
June 30, 2015**

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 2,525,566
Receivables, net	114,981
Due from other governments	6,609
Due from other funds	60,000
Due from EDA	66
	<u> </u>
Total assets	<u><u>\$ 2,707,222</u></u>
LIABILITIES	
Accounts payable and accrued liabilities	<u>\$ 95,447</u>
	<u> </u>
Total liabilities	<u>95,447</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue	<u>15,435</u>
FUND BALANCE	
Committed (Note 15)	506,234
Unassigned	<u>2,090,106</u>
	<u> </u>
Total fund balance	<u>2,596,340</u>
	<u> </u>
Total liabilities, deferred inflows of resources and fund balance	<u><u>\$ 2,707,222</u></u>

TOWN OF APPOMATTOX, VIRGINIA

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2015**

Ending fund balance – governmental fund \$ 2,596,340

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

Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the fund.

Governmental capital assets	\$ 1,434,236	
Less: accumulated depreciation	(520,966)	
		913,270

Certain receivables are not available to pay for current period expenditures and therefore are deferred in the fund.		15,435
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Financial statement elements related to pension are applicable to future periods and, therefore, are not reported in the fund.

Deferred outflows of resources for 2015 employer contributions	16,517	
Deferred inflows of resources for the net difference between and actual investment earnings on pension plan investments	(60,450)	
Net pension asset	98,856	
		54,923

Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund.

General obligation bond	(28,043)	
Compensated absences	(14,439)	
		(42,482)

Total net position – governmental activities		\$ 3,537,486
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TOWN OF APPOMATTOX, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
Year Ended June 30, 2015**

	<u>General Fund</u>
REVENUES	
General property taxes (Note 12)	\$ 290,028
Other local taxes	1,564,129
Permits, privilege fees, and regulatory licenses	1,575
Revenue from use of money and property	17,037
Other	21,986
Intergovernmental	<u>105,026</u>
Total revenues	<u>1,999,781</u>
EXPENDITURES	
Current	
General government administration	380,617
Public safety	85,359
Public works	704,390
Community development	383,759
Debt service	
Principal retirement	1,839
Interest and other fiscal charges	<u>1,051</u>
Total expenditures	<u>1,556,763</u>
Excess of revenues over expenditures	<u>443,018</u>
Net change in fund balance	443,018
FUND BALANCE AT JULY 1	<u>2,153,322</u>
FUND BALANCE AT JUNE 30	<u><u>\$ 2,596,340</u></u>

TOWN OF APPOMATTOX, VIRGINIA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2015**

Net change in fund balance – governmental fund \$ 443,018

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

Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays	\$ 67,588	
Depreciation expense	<u>(74,340)</u>	
		(6,752)

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

Unavailable revenue		10,190
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Governmental funds report employer pension contributions as expenditures. However, in the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense.

Employer pension contributions	16,519	
Pension expense	<u>5,157</u>	
		21,676

The issuance of long-term debt (e.g. bonds, notes payable) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has an effect on net position.

Principal repayments on notes payable		1,839
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Long-term compensated absences are reported in the statement of activities, but they do not require the use of current financial resources and, therefore are not recorded as expenditures in governmental funds.

		<u>(1,035)</u>
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Change in net position of governmental activities		<u><u>\$ 468,936</u></u>
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TOWN OF APPOMATTOX, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 296,500	\$ 296,500	\$ 290,028	\$ (6,472)
Other local taxes	1,279,700	1,452,200	1,564,129	111,929
Permits, privilege fees, and regulatory licenses	2,000	2,000	1,575	(425)
Revenue from use of money and property	15,000	15,000	17,037	2,037
Other	3,500	21,485	21,986	501
Intergovernmental	59,908	83,033	105,026	21,993
Total revenues	<u>1,656,608</u>	<u>1,870,218</u>	<u>1,999,781</u>	<u>129,563</u>
EXPENDITURES				
Current				
General government administration	406,774	488,659	380,617	108,042
Public safety	86,814	86,814	85,359	1,455
Public works	717,689	1,016,048	704,390	311,658
Community development	363,440	400,600	383,759	16,841
Capital outlay	79,000	79,000	(252)	79,252
Debt service				
Principal retirement	1,840	1,840	1,839	1
Interest and other fiscal charges	1,051	1,051	1,051	-
Total expenditures	<u>1,656,608</u>	<u>2,074,012</u>	<u>1,556,763</u>	<u>517,249</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>(203,794)</u>	<u>443,018</u>	<u>646,812</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (203,794)</u>	<u>\$ 443,018</u>	<u>\$ 646,812</u>

TOWN OF APPOMATTOX, VIRGINIA

STATEMENT OF NET POSITION –
PROPRIETARY FUNDS

June 30, 2015

	Business-Type Activities		
	Enterprise Funds		
	Water	Sewer	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,104,498	\$ 411,706	\$ 1,516,204
Receivable, net	92,457	103,955	196,412
Due from component unit	55,158	41,182	96,340
Inventories	92,742	10,759	103,501
Rent receivable	290,000	-	290,000
Total current assets	1,634,855	567,602	2,202,457
Noncurrent assets			
Net pension asset (Note 11)	27,934	69,825	97,759
Capital assets, net	1,859,852	7,310,856	9,170,708
Rent receivable	435,000	-	435,000
Total noncurrent assets	2,322,786	7,380,681	9,703,467
Total assets	3,957,641	7,948,283	11,905,924
DEFERRED OUTFLOWS OF RESOURCES			
Pension contributions subsequent to measurement date (Note 11)	4,668	11,668	16,336
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	45,106	23,101	68,207
Accrued payroll and related liabilities	366	-	366
Accrued interest payable	3,932	6,163	10,095
Customer security deposits	30,300	-	30,300
Due to other funds	-	60,000	60,000
Current portion of long-term debt	14,132	179,482	193,614
Current portion of compensated absences	1,591	4,091	5,682
Total current liabilities	95,427	272,837	368,264
Noncurrent liabilities			
Long-term debt	176,838	1,134,993	1,311,831
Compensated absences	3,243	5,577	8,820
Total noncurrent liabilities	180,081	1,140,570	1,320,651
Total liabilities	275,508	1,413,407	1,688,915
DEFERRED INFLOWS OF RESOURCES			
Net difference between projected and actual earnings on pension plan investments (Note 11)	17,082	42,699	59,781
Unearned revenue	994,700	-	994,700
Total deferred inflows of resources	1,011,782	42,699	1,054,481
NET POSITION			
Net investment in capital assets	1,668,882	5,996,381	7,665,263
Unrestricted	1,006,137	507,464	1,513,601
Total net position	\$ 2,675,019	\$ 6,503,845	\$ 9,178,864

The Notes to Financial Statements are an integral part of this statement.

TOWN OF APPOMATTOX, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION –
PROPRIETARY FUNDS
Year Ended June 30, 2015**

	Business-Type Activities Enterprise Funds		
	Water	Sewer	Total
OPERATING REVENUES			
Charges for services	\$ 422,626	\$ 761,934	\$ 1,184,560
Other	66,325	87,270	153,595
Total operating revenues	488,951	849,204	1,338,155
OPERATING EXPENSES			
Salaries	94,210	224,593	318,803
Fringe benefits	26,944	53,957	80,901
Maintenance	120,933	34,835	155,768
Utilities	3,681	29,022	32,703
Materials and supplies	11,249	123,845	135,094
Sample testing	1,705	21,591	23,296
Professional services	64,805	75,606	140,411
Other	2,041	3,529	5,570
Purchased water	127,037	-	127,037
Depreciation	97,719	315,842	413,561
Total operating expenses	550,324	882,820	1,433,144
Operating loss	(61,373)	(33,616)	(94,989)
NONOPERATING REVENUES (EXPENSES)			
Interest income	4,125	3,609	7,734
Interest expense	(7,496)	(11,750)	(19,246)
Rent income	30,988	-	30,988
Net nonoperating revenues (expenses)	27,617	(8,141)	19,476
Loss before capital contributions	(33,756)	(41,757)	(75,513)
CAPITAL CONTRIBUTIONS	55,158	41,182	96,340
Change in net position	21,402	(575)	20,827
NET POSITION AT JULY 1, AS RESTATED (Note 16)	2,653,617	6,504,420	9,158,037
NET POSITION AT JUNE 30	<u>\$ 2,675,019</u>	<u>\$ 6,503,845</u>	<u>\$ 9,178,864</u>

TOWN OF APPOMATTOX, VIRGINIA

**STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS
Year Ended June 30, 2015**

	Business-Type Activities Enterprise Funds		
	Water	Sewer	Total
OPERATING ACTIVITIES			
Receipts from customers	\$ 392,605	\$ 747,155	\$ 1,139,760
Payments to suppliers	(321,284)	(299,136)	(620,420)
Payments to employees	(128,651)	(281,469)	(410,120)
Other receipts	58,324	87,270	145,594
Net cash provided by operating activities	994	253,820	254,814
NON-CAPITAL AND RELATED FINANCING ACTIVITIES			
Interfund borrowing	-	(20,000)	(20,000)
Net cash used in non-capital and related financing activities	-	(20,000)	(20,000)
CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(67,993)	(57,306)	(125,299)
Principal paid on debt	(13,612)	(178,668)	(192,280)
Interest paid on debt	(7,778)	(12,193)	(19,971)
Net cash used in capital and related financing activities	(89,383)	(248,167)	(337,550)
INVESTING ACTIVITIES			
Water tower rent assignment received	145,000	-	145,000
Water tower rent	10,688	-	10,688
Interest received	4,125	3,609	7,734
Net cash provided by investing activities	159,813	3,609	163,422
Net increase (decrease) in cash and cash equivalents	71,424	(10,738)	60,686
CASH AND CASH EQUIVALENTS			
Beginning of year	1,033,074	422,444	1,455,518
Ending of year	\$ 1,104,498	\$ 411,706	\$ 1,516,204

(Continued)

TOWN OF APPOMATTOX, VIRGINIA

**STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS
Year Ended June 30, 2015**

	Business-Type Activities Enterprise Funds		
	Water	Sewer	Total
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating loss	\$ (61,373)	\$ (33,616)	\$ (94,989)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	97,719	315,842	413,561
Pension expense net of employer contribution	(6,125)	(15,310)	(21,435)
Change in certain assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	(41,522)	(14,779)	(56,301)
Inventory	(3,420)	(249)	(3,669)
Increase (decrease) in:			
Accounts payable and accrued liabilities	11,840	(171)	11,669
Compensated absences	375	2,103	2,478
Customer security deposits	3,500	-	3,500
Net cash provided by operating activities	<u>\$ 994</u>	<u>\$ 253,820</u>	<u>\$ 254,814</u>

TOWN OF APPOMATTOX, VIRGINIA
STATEMENT OF FIDUCIARY NET POSITION –
FIDUCIARY FUNDS
June 30, 2015

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 22,319
	<u>22,319</u>
LIABILITIES	
Amounts held for others	\$ 22,319
	<u>22,319</u>

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies

A. The Financial Reporting Entity

The Town of Appomattox (the “Town”) was incorporated in 1925. It is a political subdivision of the Commonwealth of Virginia operating under the Council-Manager form of government. The Town Council consists of a mayor and six other council members. The Town is part of Appomattox County and has taxing powers subject to statewide restrictions and tax limits.

The Town provides a full range of municipal services including police, refuse collection, public improvements, planning and zoning, general administrative services, fire, recreation, and water and sewer services. Fire and first aid services are supplemented by volunteer departments. Police services are provided through an agreement with the County of Appomattox.

Discretely presented component unit:

A component unit is an entity that is legally separate from the government, but for which the government is financially accountable, or whose relationship with the government is such that exclusion would cause the government’s financial statements to be misleading or incomplete.

The Economic Development Authority of the Town of Appomattox, Virginia (the “EDA”) was created to promote industry and develop trade by encouraging enterprises to locate and remain in the Town. The EDA is governed by a seven member board of directors appointed by Town Council and the Town is financially accountable for the EDA. The EDA does not prepare separate financial statements.

The Town has no related or jointly governed organizations.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses, of a given function or segment, are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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 financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town 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, meals taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports the following major governmental fund:

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

The Town reports the following major proprietary funds:

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

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

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

The Town reports the following fiduciary governmental funds:

Fiduciary funds account for assets held by the Town in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds. These funds include Agency Funds. Agency Funds utilize the accrual basis of accounting. Fiduciary funds are not included in the government-wide financial statements. The Town's Agency Funds include amounts held for others in a fiduciary capacity, which includes the Abbitt Memorial Park, the Tree Board, and the ROSE Program.

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

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

D. Budgets and Budgetary Accounting

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

- 1) Prior to June 1, the Town Manager submits to Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. This budget includes proposed expenditures and the means of financing them.
- 2) Public hearings are conducted to obtain citizen comments.
- 3) Prior to June 30, the budget is legally enacted through passage of an Appropriations Ordinance. Town Council may, from time to time, amend the budget, providing for additional expenditures and the means for financing them.
- 4) The Appropriations Ordinance places legal restrictions on expenditures at the department level. The appropriation for each department can be revised only by Town Council.
- 5) Formal budgetary integration is employed as a management control device during the year.
- 6) Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
- 7) Appropriations lapse on June 30 for all Town departments.
- 8) All budget data presented in the accompanying financial statements includes the original and revised budgets as of June 30.

(Continued)

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Cash Equivalents

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

F. Inventory

Inventories in the enterprise funds consist primarily of parts held for repairs or construction and are valued using the average cost method.

G. Prepays

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

H. Allowance for Uncollectible Accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and specific account analysis. The allowance is comprised of the following:

Real estate taxes	\$ 36,367
Personal property taxes	44,438
Meals taxes	12,927
Water fund receivables	6,991
Sewer fund receivables	13,831
	<hr/>
	\$ 114,554

I. Capital Assets

Capital assets, which include property, plant, and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and a useful life of more than two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Buildings and improvements	10-40 years
Machinery and equipment	5-10 years
Utility plant in service	20-40 years

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

J. Capitalization of Interest

The Town follows the policy of capitalizing net interest costs on funds borrowed to finance the construction of proprietary capital assets. Interest is not capitalized on the construction of assets used in governmental activities. No interest was capitalized during 2015.

K. Compensated Absences

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

L. Pensions

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

M. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Town has one item that qualifies for reporting in this category. That item is pension contributions subsequent to the measurement date; this will be applied to the net pension asset in the next fiscal year.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and so will *not* be recognized as an inflow of resources (revenue) until that time. The Town has three items that qualify for reporting in this category. One item occurs only under the modified accrual basis of accounting. The item, unavailable revenue, is reported in the governmental fund balance sheet. The governmental funds report unavailable revenue from delinquent property taxes not collected within 45 days of year end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item represents revenues in the water fund that will be earned in future periods and fund future years. The third is the net difference between projected and actual earnings on pension plan investments. This difference will be recognized in pension expense over a closed five year period.

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

N. Net Position

Net position in government-wide and proprietary financial statements are classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute. The Town had no restricted net position at June 30, 2015. Net investment in capital assets represents capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction, or improvement of those assets.

O. Fund Balances

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

The classifications are as follows:

- **Nonspendable** – Amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.
- **Restricted** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed** – Amounts constrained to specific purposes by the Town, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purposes unless the same highest level of action is taken to remove or change the constraint.
- **Assigned** – Amounts the Town intends to use for a specified purpose; intent can be expressed by the governing body or by the Town Manager, who has been designated this authority.
- **Unassigned** – Amounts that are available for any purpose; positive amounts are reported only in the general fund.

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

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

P. Restricted Amounts

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

Q. Minimum Fund Balance Policy

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

R. Estimates

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

Note 2. Deposits and Investments

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending on 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 the Town to invest in obligations of the United States or agencies thereof; obligations of the Commonwealth of Virginia or political subdivisions thereof; obligations of the International Bank for Reconstruction and Development (World Bank); the Asian Development Bank; the African Development Bank; "prime quality" commercial paper and certain corporate notes; banker's acceptances; repurchase agreements; the Virginia State Non-Arbitrage Program (SNAP); and the State Treasurer's Local Government Investment Pool (LGIP).

The Town had no investments at June 30, 2015.

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 2. Deposits and Investments (Continued)

At June 30, the deposit and investment balances are as follows:

	<u>Fair Value</u>
Deposits:	
Demand deposits	\$ 2,444,315
Certificates of deposit	1,847,055
Cash on hand	<u>400</u>
Total deposits and investments	<u><u>\$ 4,291,770</u></u>

Deposits and investments are presented on the Statement of Net Position as follows:

Cash and cash equivalents – primary government	\$ 4,041,770
Cash and cash equivalents – component unit	<u>250,000</u>
Total deposits and investments	<u><u>\$ 4,291,770</u></u>

Note 3. Receivables

Receivables are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Receivables			
Taxes	\$ 187,142	\$ -	\$ 187,142
Accounts	<u>21,571</u>	<u>217,234</u>	<u>238,805</u>
Gross receivables	208,713	217,234	425,947
Less: allowance for uncollectibles	<u>93,732</u>	<u>20,822</u>	<u>114,554</u>
Net receivables	<u><u>\$ 114,981</u></u>	<u><u>\$ 196,412</u></u>	<u><u>\$ 311,393</u></u>

Note 4. Sale of Future Rent Revenues

During the year ended June 30, 2014, the Town entered into an agreement with AP Wireless I, LLC, under which the Town assigned its rights and title to future rent revenues under existing lease agreements with five cell phone service providers for fifty years (ending June 30, 2064). The Town will receive total payments of \$1,015,000, of which \$145,000 was received during the year ended June 30, 2015, with the remaining \$725,000 to be received as follows:

<u>Year Ending June 30,</u>	
2016	\$ 290,000
2017	290,000
2018	<u>145,000</u>
	<u><u>\$ 725,000</u></u>

TOWN OF APPOMATTOX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 4. Sale of Future Rent Revenues (Continued)

The total proceeds have been recorded as a deferred inflow of resources in the Town's business-type activities and water fund, along with receivables for the amounts to be collected in future fiscal years. The proceeds will be recognized as revenues over the fifty year life of the agreement.

The Town assigned approximately \$1,421,000 of future rents based on the existing lease agreements with terms ending from 2020 to 2039. Four of the five leases have increases tied to the consumer price index, which for purposes of this calculation has been assumed to increase 3 percent annually. These rent revenues assigned constitute all of the Town's rental revenues related to water tower sites. The estimated present value of the rent revenues under the existing leases, assuming a 4 percent interest rate and even collections over 25 years, is approximately \$952,000. No assumptions were made regarding future renewals.

Under the terms of the assignment agreement, AP Wireless can negotiate renewals with the existing companies. Renewals cannot be longer than the term of the assignment agreement. Should AP Wireless negotiate a renewal rate that is higher than the current inflationary rates built into the existing leases, the Town would be eligible to receive excess rents under a formula detailed in the assignment agreement. However, absent excess rents as described, the Town is not entitled to additional funds when existing leases are renewed. Additionally, under the terms of the agreement, the Town can obtain new customers/tenants on the properties and would be entitled to all of the revenues from those leases.

Note 5. Interfund Receivables and Payables

The \$60,000 due from the sewer fund to the general fund represents cash loaned for preliminary studies of sewer line leaks. The sewer fund will repay the general fund as it has cash to do so.

Note 6. Due From/To Primary Government and Component Unit

The \$55,158 due to the water fund and \$41,182 to the sewer fund from the EDA represents infrastructure costs related to an incentive agreement with the new hotel in the Town. The EDA will repay the water and sewer funds in fiscal year 2016.

Note 7. Significant Transactions of the Town and Component Unit – EDA

The EDA was created to encourage economic development in the Town. The Town provides personnel assistance for some functions to the EDA at no charge and will be involved with future activity of the EDA.

The \$250,000 contribution to the EDA from the Town represents amounts to fund upcoming projects. The EDA awarded an infrastructure assistance incentive for a new hotel. The \$96,340 in necessary infrastructure costs paid by the water and sewer funds will be reimbursed by the EDA as noted in Note 6 above.

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 8. Due from Other Governments

Amounts due from other governmental units mainly consist of \$6,088 due from County of Appomattox for sales tax.

Note 9. Capital Assets

Capital asset activity for the year was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 51,600	\$ -	\$ -	\$ 51,600
Capital assets, depreciated				
Buildings and improvements	815,998	34,232	-	850,230
Machinery and equipment	499,050	33,356	-	532,406
Total capital assets, depreciated	1,315,048	67,588	-	1,382,636
Less accumulated depreciation for:				
Buildings and improvements	208,887	28,463	-	237,350
Machinery and equipment	237,739	45,877	-	283,616
Total accumulated, depreciation	446,626	74,340	-	520,966
Total capital assets, depreciated, net	868,422	(6,752)	-	861,670
Governmental activities capital assets, net	<u>\$ 920,022</u>	<u>\$ (6,752)</u>	<u>\$ -</u>	<u>\$ 913,270</u>

TOWN OF APPOMATTOX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 9. Capital Assets (Continued)

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 64,710	\$ -	\$ -	\$ 64,710
Capital assets, depreciated				
Utility plant in service	16,002,056	125,299	-	16,127,355
Machinery and equipment	396,129	-	38,839	357,290
Total capital assets, depreciated	<u>16,398,185</u>	<u>125,299</u>	<u>38,839</u>	<u>16,484,645</u>
Less accumulated depreciation for:				
Utility plant in service	6,747,609	384,011	-	7,131,620
Machinery and equipment	256,316	29,550	38,839	247,027
Total accumulated depreciation	<u>7,003,925</u>	<u>413,561</u>	<u>38,839</u>	<u>7,378,647</u>
Total capital assets, depreciated, net	<u>9,394,260</u>	<u>(288,262)</u>	<u>-</u>	<u>9,105,998</u>
Business-type activities capital assets, net	<u>\$ 9,458,970</u>	<u>\$ (288,262)</u>	<u>\$ -</u>	<u>\$ 9,170,708</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
Public works	\$ 59,872
General government	11,178
Community development	<u>3,290</u>
Total depreciation expense – governmental activities	<u>\$ 74,340</u>
Business-type activities	
Water	\$ 97,719
Sewer	<u>315,842</u>
Total depreciation expense – business-type activities	<u>\$ 413,561</u>

(Continued)

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 10. Long-Term Liabilities

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
General obligation bond	\$ 29,882	\$ -	\$ 1,839	\$ 28,043	\$ 1,910
Compensated absences	13,404	1,035	-	14,439	4,373
	<u>\$ 43,286</u>	<u>\$ 1,035</u>	<u>\$ 1,839</u>	<u>\$ 42,482</u>	<u>\$ 6,283</u>
Business-type activities:					
General obligation bond	\$ 1,697,725	\$ -	\$ 192,280	\$ 1,505,445	\$ 193,614
Compensated absences	12,024	2,478	-	14,502	5,682
	<u>\$ 1,709,749</u>	<u>\$ 2,478</u>	<u>\$ 192,280</u>	<u>\$ 1,519,947</u>	<u>\$ 199,296</u>

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

<u>Fiscal Year</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>General Obligation Bond</u>		<u>General Obligation Bond</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 1,910	\$ 1,056	\$ 193,614	\$ 18,560
2017	2,136	977	194,854	17,173
2018	2,218	895	196,295	15,732
2019	2,303	810	197,791	14,235
2020	2,391	722	199,346	12,681
2021-2025	13,405	2,159	471,550	37,930
2026	3,680	115	51,995	2,023
	<u>\$ 28,043</u>	<u>\$ 6,734</u>	<u>\$ 1,505,445</u>	<u>\$ 118,334</u>

Details of long-term indebtedness are as follows:

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
General obligation bonds:						
SunTrust	3.84%	12-10	12-25	\$ 650,000	<u>\$ 28,043</u>	<u>\$ 482,798</u>
Virginia Resources Authority	0.00%	06-03	06-22	\$ 3,203,000	<u>\$ -</u>	<u>\$ 1,022,647</u>

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 11. Virginia Retirement System

Plan Description

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

TOWN OF APPOMATTOX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 11. Virginia Retirement System (Continued)

Plan Description (Continued)

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

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

(Continued)

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 11. Virginia Retirement System (Continued)

Plan Description (Continued)

<p>Eligible Members</p> <p>Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election</p> <p>VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>Eligible Members</p> <p>Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election</p> <p>Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>Eligible Members</p> <p>Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. <p>*Non-Eligible Members</p> <p>Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
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TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 11. Virginia Retirement System (Continued)

Plan Description (Continued)

Retirement Contributions	Retirement Contributions	Retirement Contributions
<p>Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016.</p>	<p>A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 11. Virginia Retirement System (Continued)

Plan Description (Continued)

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

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 11. Virginia Retirement System (Continued)

Plan Description (Continued)

<p>Vesting</p> <p>Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting</p> <p>Same as Plan 1.</p>	<p>Vesting</p> <p><u>Defined Benefit Component:</u></p> <p>Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u></p> <p>Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p>
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TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 11. Virginia Retirement System (Continued)

Plan Description (Continued)

		<p>Vesting (Continued)</p> <p><u>Defined Contributions Component: (Continued)</u></p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit</p> <p>The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p>Calculating the Benefit</p> <p>See definition under Plan 1.</p>	<p>Calculating the Benefit</p> <p><u>Defined Benefit Component:</u></p> <p>See definition under Plan 1.</p> <p><u>Defined Contribution Component:</u></p> <p>The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>

TOWN OF APPOMATTOX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 11. Virginia Retirement System (Continued)

Plan Description (Continued)

<p>Average Final Compensation</p> <p>A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation</p> <p>A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation</p> <p>Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier</p> <p>VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p> <p>Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p>Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p>	<p>Service Retirement Multiplier</p> <p>VRS: Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013.</p> <p>Sheriffs and regional jail superintendents: Same as Plan 1.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Service Retirement Multiplier</p> <p><u>Defined Benefit Component:</u></p> <p>VRS: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p>Sheriffs and regional jail superintendents: Not applicable.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u></p> <p>Not applicable.</p>

(Continued)

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 11. Virginia Retirement System (Continued)

Plan Description (Continued)

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

TOWN OF APPOMATTOX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 11. Virginia Retirement System (Continued)

Plan Description (Continued)

<p>Earliest Reduced Retirement Eligibility</p> <p>VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility</p> <p>VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility</p> <p><u>Defined Benefit Component:</u></p> <p>VRS: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u></p> <p>Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p>The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%.</p> <p><u>Eligibility:</u></p> <p>For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p>The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.</p> <p><u>Eligibility:</u></p> <p>Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p><u>Defined Benefit Component:</u></p> <p>Same as Plan 2.</p> <p><u>Defined Contribution Component:</u></p> <p>Not applicable.</p> <p><u>Eligibility:</u></p> <p>Same as Plan 1 and Plan 2.</p>

(Continued)

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 11. Virginia Retirement System (Continued)

Plan Description (Continued)

Cost-of-Living Adjustment (COLA) in Retirement (Continued)	Cost-of-Living Adjustment (COLA) in Retirement (Continued)	Cost-of-Living Adjustment (COLA) in Retirement (Continued)
<p><u>Eligibility:</u> (Continued)</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p>		
<p><u>Exceptions to COLA Effective Dates:</u></p> <p>The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. 	<p><u>Exceptions to COLA Effective Dates:</u></p> <p>Same as Plan 1.</p>	<p><u>Exceptions to COLA Effective Dates:</u></p> <p>Same as Plan 1 and Plan 2.</p>

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 11. Virginia Retirement System (Continued)

Plan Description (Continued)

<p>Cost-of-Living Adjustment in Retirement (Continued)</p> <p><u>Exceptions to COLA Effective Dates:</u> (Continued)</p> <ul style="list-style-type: none"> • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 		
<p>Disability Coverage</p> <p>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p>Disability Coverage</p> <p>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased, or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p>Disability Coverage</p> <p>Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 11. Virginia Retirement System (Continued)

Plan Description (Continued)

Purchase of Prior Service	Purchase of Prior Service	Purchase of Prior Service
<p>Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Same as Plan 1.</p>	<p><u>Defined Benefit Component:</u></p> <p>Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4.00% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. <p><u>Defined Contribution Component:</u></p> <p>Not applicable.</p>

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 11. Virginia Retirement System (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2013 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>8</u>
Inactive members:	
Vested inactive members	2
Non-vested inactive members	7
Inactive members active elsewhere in VRS	<u>7</u>
Total inactive members	16
Active members	<u>13</u>
Total covered employees	<u><u>37</u></u>

Contributions

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

The political subdivision's contractually required contribution rate for the year ended June 30, 2015 was 5.02% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$32,853 and \$32,161 for the years ended June 30, 2015 and June 30, 2014, respectively.

TOWN OF APPOMATTOX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 11. Virginia Retirement System (Continued)

Net Pension Liability

The political subdivision's net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Inflation	2.50%
Salary increases, including inflation	3.50 – 5.35%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.00%. However, since the difference was minimal, and a more conservative 7.00% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.00% to simplify preparation of pension liabilities.

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 11. Virginia Retirement System (Continued)

Actuarial Assumptions – General Employees (Continued)

Largest 10 – Non-LEOS: (Continued)

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:

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

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

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

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 11. Virginia Retirement System (Continued)

Long-Term Expected Rate of Return

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

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

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

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 11. Virginia Retirement System (Continued)

Discount Rate

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

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) – (b)
Balances at June 30, 2013	\$ 1,673,493	\$ 1,707,458	\$ (33,965)
Changes for the year:			
Service cost	45,979	-	45,979
Interest	114,928	-	114,928
Differences between expected and actual experience	-	-	-
Contributions – employer	-	32,161	(32,161)
Contributions – employee	-	23,339	(23,339)
Net investment income	-	269,487	(269,487)
Benefit payments, including refunds of employee contributions	(63,319)	(63,319)	-
Administrative expenses	-	(1,444)	1,444
Other changes	-	14	(14)
Net changes	97,588	260,238	(162,650)
Balances at June 30, 2014	\$ 1,771,081	\$ 1,967,696	\$ (196,615)

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 11. Virginia Retirement System (Continued)

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

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

	<u>1.00% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1.00% Increase (8.00%)</u>
Political subdivision's net pension liability (asset)	\$ 68,514	\$ (196,615)	\$ (412,179)

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

For the year ended June 30, 2015, the political subdivision recognized a net pension benefit of \$10,258. At June 30, 2015, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 120,231
Employer contributions subsequent to the measurement date	<u>32,853</u>	<u>-</u>
Total	<u>\$ 32,853</u>	<u>\$ 120,231</u>

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 11. Virginia Retirement System (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The \$32,853 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Asset in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
2016	\$ (30,058)
2017	(30,058)
2018	(30,058)
2019	(30,057)

Note 12. Property Taxes

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

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

The annual assessment for real estate is based on 100% of the assessed fair market value. A penalty of ten percent of the unpaid tax is due for late payment. Interest is accrued at ten percent for the initial year of delinquency, and thereafter at the maximum annual rate authorized by the *Internal Revenue Code* Section 6621(b). The effective tax rates per \$100 of assessed value for the year ended June 30, 2015 were as follows:

Real estate	\$ 0.13
Personal property	0.55
Machinery and tools	0.55

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 13. Service Contracts

Water Purchase Agreement

The Town entered into an agreement with the County of Appomattox, Virginia whereby the Town will purchase all water to supply the Town's customers from the County through the Concord-Appomattox 460 Waterline. The County agrees to provide the Town up to 250,000 gallons of water per day, with additional available provided the County has capacity. The contract further provides that all County residents who are customers of the Town's water system now and in the future will receive services at the same rate the Town charges in-Town customers. The provisional rate charged to the Town each fiscal year is based on the estimated usage for the year. The Town is billed monthly for usage. Annually, subsequent to year end, usage will be analyzed, the average daily usage will be determined, and any necessary true-up of billings will be made at that time. This true-up adjustment is not estimable and is therefore accounted for in the year it is charged to the Town. The initial term of this agreement is January 1, 2012 through December 31, 2030, with automatic ten year renewals thereafter, unless either party provides notice of intent to terminate at least two years prior to any expiration.

Waterline Maintenance Agreement

The Town entered into an agreement with the County of Appomattox, Virginia, whereby the Town will provide the County maintenance and administrative services related to the operation and upkeep of the Concord-Appomattox 460 Waterline. The County pays for labor at actual rates based on wages of those Town employees used for the work. The County also pays for equipment usage at rates as set forth by the Virginia Department of Transportation's highway maintenance program, as well as cost for all supplies and materials. In addition to maintenance and upkeep, the Town will read all meters and complete all billings each month, collect payments from County customers and remit those collections to the County. For this service, the County will pay the Town \$500 monthly, which is negotiable annually. The Town will also administer the County's Cross Connection Control program and will be paid \$100 monthly by the County for this work. That \$100 is also negotiable annually. The initial term of this agreement is January 1, 2012 through December 31, 2016, with automatic five year renewals thereafter, unless either party provides notice of intent to terminate at least six months prior to any expiration. The Town received \$51,995 from the County under this agreement for the year ended June 30, 2015.

Note 14. Risk Management

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

Workers' Compensation Insurance is provided through the Virginia Municipal League. During the year ended June 30, 2015, total premiums paid were \$17,342. Benefits are those afforded through Commonwealth of Virginia as outlined in the *Code of Virginia* Section 65.2-100; premiums are based upon covered payroll, job rates and claims experience.

TOWN OF APPOMATTOX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 14. Risk Management (Continued)

General liability and other insurance is provided through policies with the Virginia Municipal League. General liability and business automobile coverage have a \$1,000,000 limit per occurrence. Boiler and machinery has a \$3,000,000 limit. Property insurance is covered per statement of values and is approximately \$8,400,000. Police professional liability and public officials' liability insurance with a \$1,000,000 limit are covered through a policy with the Commonwealth of Virginia. Total premiums paid for the year ended June 30, 2015 were \$30,115.

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

Note 15. Fund Balances

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

	<u>General</u>
Committed to:	
Public safety	\$ 59,944
Public works	373,285
Other capital projects	<u>73,005</u>
	<u>506,234</u>
Unassigned	<u>2,090,106</u>
Total fund balances	<u><u>\$ 2,596,340</u></u>

Note 16. Adoption of New Standard and Prior Period Restatement

In the current year, the Town adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, as amended by GASB Statement No. 71*. This standard replaces the requirements of GASB Statements No. 27 and No. 50 as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The new Statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability.

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 16. Adoption of New Standard and Prior Period Restatement (Continued)

Additionally, beginning net position has been restated for errors in the recording of inventory in the prior year.

	Governmental Activities	Business-Type Activities	
		Water Fund	Sewer Fund
Net position at June 30, 2014, as previously reported	\$ 3,035,303	\$ 2,594,255	\$ 6,483,544
Inventory correction	-	49,967	(2,608)
Recognition of pension related liabilities and deferred outflows in accordance with GASB No. 68	33,247	9,395	23,484
Net position at June 30, 2014, as restated	<u>\$ 3,068,550</u>	<u>\$ 2,653,617</u>	<u>\$ 6,504,420</u>

Note 17. Subsequent Event

In November 2015, the Town purchased a 1.175 acre parcel of land for \$40,000. Additionally, the Town entered into a \$162,000 contract for sidewalk repairs and replacement.

Note 18. New Accounting Standards

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

GASB Statement No. 72, *Fair Value Measurement and Application* addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement will be effective for the year ending June 30, 2016.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pensions* improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2017.

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 18. New Accounting Standards (Continued)

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* identifies – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement will be effective for the year ending June 30, 2016 and should be applied retroactively. Earlier application is permitted.

GASB Statement No. 77, *Tax Abatement Disclosures*, requires governments to disclose information about the nature and magnitude of tax abatements granted to a specific taxpayer, typically for the purpose of economic development. This does not cover programs that reduce the tax liabilities of broad classes of taxpayers, such as senior citizens or veterans, and which are not the product of individual agreements with each taxpayer. The Statement does not consider issues related to recognition. This Statement will be effective for the year ending June 20, 2017.

Management has not yet evaluated the effects, if any, of adopting these standards.

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**REQUIRED
SUPPLEMENTARY INFORMATION**

TOWN OF APPOMATTOX, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION –
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
June 30, 2015**

	Primary Government
Total Pension Liability	
Service cost	\$ 45,979
Interest on total pension liability	114,928
Benefit payments, including refunds of employee contributions	(63,319)
	<hr/>
Net change in total pension liability	97,588
Total pension liability – beginning	<hr/> 1,673,493
Total pension liability – ending	<hr/> 1,771,081
Plan Fiduciary Net Position	
Contributions – employer	32,161
Contributions – employee	23,339
Net investment income	269,487
Benefit payments, including refunds of employee contributions	(63,319)
Administrative expenses	(1,444)
Other	14
	<hr/>
Net change in plan fiduciary net position	260,238
Plan fiduciary net position – beginning	<hr/> 1,707,458
Plan fiduciary net position – ending	<hr/> 1,967,696
Net pension liability (asset) – ending	<hr/> <hr/> \$ (196,615)
Plan fiduciary net position as a percentage of total pension liability	<hr/> <hr/> 111%
Covered employee payroll	<hr/> <hr/> \$ 497,801
Net pension asset as a percentage of covered employee payroll	<hr/> <hr/> -39%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

TOWN OF APPOMATTOX, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION –
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2015**

Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
2015	\$ 32,855	\$ 32,855	\$ -	\$ 626,975	5.24%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

TOWN OF APPOMATTOX, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2015

Note 1. Changes of Benefit Terms

There have been no significant changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012 (fiscal year 2014 for the teacher cost sharing pool). The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013, and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

Note 2. Changes of Assumptions

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

Largest 10 – Non-LEOS:

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

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) – LEOS:

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

OTHER SUPPLEMENTARY INFORMATION

TOWN OF APPOMATTOX, VIRGINIA

**COMBINING STATEMENT OF FIDUCIARY NET POSITION –
FIDUCIARY FUNDS
June 30, 2015**

	<u>Railroad Festival</u>	<u>Abbitt Memorial Park</u>	<u>Tree Board</u>	<u>ROSE Project</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	<u>\$ -</u>	<u>\$ 1,379</u>	<u>\$ 408</u>	<u>\$ 20,532</u>	<u>\$ 22,319</u>
LIABILITIES					
Amounts held for others	<u>\$ -</u>	<u>\$ 1,379</u>	<u>\$ 408</u>	<u>\$ 20,532</u>	<u>\$ 22,319</u>

TOWN OF APPOMATTOX, VIRGINIA

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES –
AGENCY FUNDS
Year Ended June 30, 2015**

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2015</u>
Railroad Festival Fund				
Assets				
Cash and cash equivalents	\$ 213	\$ -	\$ 213	\$ -
Liabilities				
Amounts held for others	\$ 213	\$ -	\$ 213	\$ -
Abbitt Memorial Park Fund				
Assets				
Cash and cash equivalents	\$ 1,379	\$ -	\$ -	\$ 1,379
Liabilities				
Amounts held for others	\$ 1,379	\$ -	\$ -	\$ 1,379
Tree Board				
Assets				
Cash and cash equivalents	\$ 308	\$ 100	\$ -	\$ 408
Liabilities				
Amounts held for others	\$ 308	\$ 100	\$ -	\$ 408
ROSE Project				
Assets				
Cash and cash equivalents	\$ -	\$ 60,050	\$ 39,518	\$ 20,532
Liabilities				
Amounts held for others	\$ -	\$ 60,050	\$ 39,518	\$ 20,532
Total All Agency Funds				
Assets				
Cash and cash equivalents	\$ 1,900	\$ 60,150	\$ 39,731	\$ 22,319
Liabilities				
Amounts held for others	\$ 1,900	\$ 60,150	\$ 39,731	\$ 22,319

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**DISCRETELY PRESENTED COMPONENT
UNIT – APPOMATTOX ECONOMIC
DEVELOPMENT AUTHORITY**

TOWN OF APPOMATTOX, VIRGINIA

**STATEMENT OF NET POSITION – PROPRIETARY FUND
DISCRETELY PRESENTED COMPONENT UNIT –
APPOMATTOX ECONOMIC DEVELOPMENT AUTHORITY
June 30, 2015**

	<u>Enterprise Fund</u>
ASSETS	
Current assets	
Cash and cash equivalents	<u>\$ 250,000</u>
Total assets	<u>250,000</u>
LIABILITIES	
Current liabilities	
Due to primary government	<u>96,406</u>
Total liabilities	<u>96,406</u>
NET POSITION	
Unrestricted	<u>153,594</u>
Total net position	<u><u>\$ 153,594</u></u>

TOWN OF APPOMATTOX, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION – PROPRIETARY FUND
DISCRETELY PRESENTED COMPONENT UNIT –
APPOMATTOX ECONOMIC DEVELOPMENT AUTHORITY
June 30, 2015**

	Enterprise Fund
	<hr/>
OPERATING EXPENSES	
Incentive grants	\$ 96,340
General and administrative	66
	<hr/>
Total operating expenses	96,406
	<hr/>
Operating loss	(96,406)
	<hr/>
NONOPERATING REVENUES	
Contributions from Town of Appomattox	250,000
	<hr/>
Total nonoperating revenues	250,000
	<hr/>
Change in net position	153,594
	<hr/>
NET POSITION JULY 1	-
	<hr/>
NET POSITION JUNE 30	\$ 153,594
	<hr/> <hr/>

TOWN OF APPOMATTOX, VIRGINIA

**STATEMENT OF CASH FLOWS – PROPRIETARY FUND
DISCRETELY PRESENTED COMPONENT UNIT –
APPOMATTOX ECONOMIC DEVELOPMENT AUTHORITY
Year Ended June 30, 2015**

	Enterprise Fund
OPERATING ACTIVITIES	
Payments to suppliers	\$ (2,500)
Net cash used in operating activities	(2,500)
NONCAPITAL FINANCING ACTIVITIES	
Contributions from Town of Appomattox	250,000
Net cash provided by noncapital financing activities	250,000
Net increase in cash and cash equivalents	247,500
CASH AND CASH EQUIVALENTS	
Beginning at July 1	2,500
Ending at June 30	\$ 250,000
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (96,406)
Adjustments to reconcile operating loss to net cash used in operating activities	
Change in assets and liabilities	
Decrease in accounts payable	(2,500)
Increase in due to primary government	96,406
Net cash used in operating activities	\$ (2,500)

SUPPORTING SCHEDULES

TOWN OF APPOMATTOX, VIRGINIA

**SCHEDULE OF REVENUES – BUDGET AND ACTUAL –
GOVERNMENTAL FUND
Year Ended June 30, 2015**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 165,000	\$ 165,000	\$ 167,824	\$ 2,824
Personal property taxes	126,500	126,500	109,925	(16,575)
Penalties and interest	5,000	5,000	12,279	7,279
Total general property taxes	<u>296,500</u>	<u>296,500</u>	<u>290,028</u>	<u>(6,472)</u>
Other local taxes:				
Local sales and use taxes	60,000	60,000	71,495	11,495
Consumption taxes	7,000	7,000	7,320	320
Communications sales and use taxes	5,700	5,700	5,801	101
Business license taxes	165,000	165,000	182,056	17,056
Motor vehicle licenses	22,000	22,000	27,579	5,579
Bank stock taxes	120,000	120,000	142,086	22,086
Lodging taxes	30,000	30,000	32,050	2,050
Restaurant food tax	850,000	850,000	908,217	58,217
Cigarette tax	20,000	192,500	187,525	(4,975)
Total other local taxes	<u>1,279,700</u>	<u>1,452,200</u>	<u>1,564,129</u>	<u>111,929</u>
Permits, privilege fees, and regulatory licenses:				
Permits and other licenses	<u>2,000</u>	<u>2,000</u>	<u>1,575</u>	<u>(425)</u>
Revenue from use of money and property:				
Revenue from use of money	10,000	10,000	8,636	(1,364)
Revenue from use of property	<u>5,000</u>	<u>5,000</u>	<u>8,401</u>	<u>3,401</u>
Total revenue from use of money and property	<u>15,000</u>	<u>15,000</u>	<u>17,037</u>	<u>2,037</u>
Miscellaneous revenue:				
Miscellaneous	<u>3,500</u>	<u>21,485</u>	<u>21,986</u>	<u>501</u>
Total revenue from local sources	<u>1,596,700</u>	<u>1,787,185</u>	<u>1,894,755</u>	<u>107,570</u>

SCHEDULE 1

TOWN OF APPOMATTOX, VIRGINIA

**SCHEDULE OF REVENUES – BUDGET AND ACTUAL –
GOVERNMENTAL FUND
Year Ended June 30, 2015**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue from the Commonwealth:				
Non-categorical aid:				
Auto rental taxes	\$ 3,500	\$ 3,500	\$ 3,512	\$ 12
Personal property tax relief funds	-	-	23,106	23,106
Total non-categorical aid	3,500	3,500	26,618	23,118
Categorical aid:				
Other grants	5,000	28,125	27,000	(1,125)
Fire programs	10,000	10,000	10,000	-
DCJS grants for law enforcement	41,408	41,408	41,408	-
Total categorical aid	56,408	79,533	78,408	(1,125)
Total revenue from the Commonwealth	59,908	83,033	105,026	21,993
Total governmental fund	<u>\$ 1,656,608</u>	<u>\$ 1,870,218</u>	<u>\$ 1,999,781</u>	<u>\$ 129,563</u>

TOWN OF APPOMATTOX, VIRGINIA

**SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL –
GOVERNMENTAL FUND
Year Ended June 30, 2015**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
General government administration:				
Legislative:				
Town council	\$ 70,098	\$ 127,283	\$ 69,475	\$ 57,808
General and financial administration:				
Town manager and financial administration	263,676	288,376	260,918	27,458
Legal services	15,000	15,000	15,374	(374)
Other professional services	58,000	58,000	34,850	23,150
Total general and financial administration	336,676	361,376	311,142	50,234
Total general government administration	406,774	488,659	380,617	108,042
Public safety:				
Law enforcement and traffic control:				
Police department	59,814	59,814	59,814	-
Fire and rescue services:				
Fire department	27,000	27,000	25,545	1,455
Total public safety	86,814	86,814	85,359	1,455
Public works:				
Maintenance of highways, streets, bridges, and sidewalks:				
Street maintenance	485,135	635,830	503,846	131,984
Sanitation and waste removal:				
Refuse collection and disposal	103,000	103,000	87,832	15,168
Maintenance of general buildings, grounds, and equipment:				
Town shop	28,500	28,920	23,316	5,604
Town office	25,000	29,101	21,805	7,296
Other properties	76,054	219,197	67,591	151,606
Total maintenance of general buildings, grounds, and equipment	129,554	277,218	112,712	164,506
Total public works	717,689	1,016,048	704,390	311,658

(Continued)

TOWN OF APPOMATTOX, VIRGINIA

**SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL –
GOVERNMENTAL FUND
Year Ended June 30, 2015**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Community development:				
Planning and community development:				
Tourism	\$ 79,790	\$ 115,750	\$ 103,331	\$ 12,419
Zoning	25,750	25,750	21,370	4,380
Civic organization contributions	7,900	9,100	9,058	42
Contribution to EDA	250,000	250,000	250,000	-
Total community development	<u>363,440</u>	<u>400,600</u>	<u>383,759</u>	<u>16,841</u>
Capital outlay:				
Capital outlay	<u>79,000</u>	<u>79,000</u>	<u>(252)</u>	<u>79,252</u>
Debt service:				
Principal retirement	1,840	1,840	1,839	1
Interest and fiscal charges	<u>1,051</u>	<u>1,051</u>	<u>1,051</u>	<u>-</u>
Total debt service	<u>2,891</u>	<u>2,891</u>	<u>2,890</u>	<u>1</u>
Total governmental fund	<u><u>\$ 1,656,608</u></u>	<u><u>\$ 2,074,012</u></u>	<u><u>\$ 1,556,763</u></u>	<u><u>\$ 517,249</u></u>

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OTHER STATISTICAL INFORMATION

TABLE 1

TOWN OF APPOMATTOX, VIRGINIA

GOVERNMENT-WIDE REVENUES –
Last Ten Fiscal Years
UNAUDITED

Fiscal Years Ended June 30	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Miscellaneous	Grants and Contributions Not Restricted to Specific Programs	Totals
2015	\$ 1,186,135	\$ 130,403	\$ 96,340	\$ 300,218	\$ 1,564,129	\$ 24,771	\$ 154,574	\$ 26,618	\$ 3,483,188
2014	1,122,979	101,768	-	277,135	1,245,677	24,941	198,712	27,167	2,998,379
2013	972,681	49,408	-	299,191	932,892	24,230	298,651	28,158	2,605,211
2012	1,002,443	49,408	47,114	311,373	892,403	29,666	193,272	26,100	2,551,779
2011	1,037,886	52,633	419,211	306,429	855,880	28,830	232,491	26,255	2,959,615
2010	1,123,728	59,195	-	247,797	835,476	137,672	154,151	26,146	2,584,165
2009	1,120,106	147,154	-	317,467	695,525	177,509	20,208	26,673	2,504,642
2008	979,438	157,592	-	291,389	706,133	209,665	76,901	26,211	2,447,329
2007	1,053,488	95,534	-	274,946	645,284	155,293	1,155,209	28,670	3,408,424
2006	783,733	131,821	-	262,536	647,629	94,872	29,515	28,198	1,978,304

TABLE 2

GOVERNMENT-WIDE EXPENSES BY FUNCTION –
Last Ten Fiscal Years
UNAUDITED

Fiscal Years Ended June 30	General Government Administration	Public Safety	Public Works	Community Development	Non- Departmental	Interest on Long-Term Debt	Enterprise Funds	Totals
2015	\$ 383,457	\$ 85,359	\$ 684,119	\$ 387,049	\$ -	\$ 1,051	\$ 1,452,390	\$ 2,993,425
2014	396,479	107,189	621,139	72,904	-	1,120	1,381,016	2,579,847
2013	333,298	55,902	597,701	94,030	-	2,997	1,534,198	2,618,126
2012	317,829	199,149	487,529	97,023	-	3,973	1,481,671	2,587,174
2011	390,828	77,912	484,136	162,748	-	3,324	1,386,590	2,505,538
2010	352,030	85,018	423,375	242,760	-	3,907	1,394,278	2,501,368
2009	348,200	74,104	404,724	195,154	5,024	2,168	1,280,990	2,310,364
2008	510,753	67,250	297,280	217,509	3,191	-	1,130,260	2,226,243
2007	489,255	71,806	318,100	211,393	-	51	1,181,383	2,271,988
2006	469,573	82,463	276,815	27,482	-	455	1,078,368	1,935,156

TABLE 3

TOWN OF APPOMATTOX, VIRGINIA

GENERAL GOVERNMENTAL REVENUES BY SOURCE –
Last Ten Fiscal Years
UNAUDITED

Fiscal Years Ended June 30	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, and Regulatory Licenses	Investment Earnings	Charges for Services	Inter- Governmental	Other	Recovered Costs	Totals
2015	\$ 290,028	\$ 1,564,129	\$ 1,575	\$ 17,037	\$ -	\$ 105,026	\$ 21,986	\$ -	\$ 1,999,781
2014	290,328	1,245,677	2,340	15,987	-	86,575	19,343	-	1,660,250
2013	303,632	932,892	725	13,698	4,303	69,566	11,767	-	1,336,583
2012	325,681	892,403	1,565	16,948	12,622	75,508	7,879	-	1,332,606
2011	301,404	855,880	5,675	15,538	16,194	78,888	24,707	-	1,298,286
2010	303,440	835,476	1,650	108,091	19,406	85,341	35,042	-	1,388,446
2009	311,512	695,525	379	102,385	-	97,254	12,904	131	1,220,090
2008	278,222	706,133	5,893	120,617	-	107,230	62,496	-	1,280,591
2007	271,642	645,284	4,275	120,552	-	85,918	(246)	-	1,127,425
2006	263,700	647,629	1,500	76,317	-	83,446	23,410	9,492	1,105,494

TABLE 4

GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION –
Last Ten Fiscal Years ⁽¹⁾
UNAUDITED

Fiscal Years Ended June 30	General Government Administration	Public Safety	Public Works	Community Development	Debt Service	Capital Outlay	Totals
2015	\$ 380,617	\$ 85,359	\$ 704,390	\$ 383,759	\$ 2,890	\$ (252)	\$ 1,556,763
2014	395,081	107,189	726,401	70,863	2,890	1,845	1,304,269
2013	335,104	55,902	809,842	91,988	83,406	13,784	1,390,026
2012	343,408	199,149	579,310	101,415	26,812	4,965	1,255,059
2011	404,446	77,912	498,145	208,594	23,144	291	1,212,532
2010	344,385	85,018	434,941	239,042	24,853	-	1,128,239
2009	354,436	74,104	368,527	191,402	12,031	5,024	1,005,524
2008	379,238	67,250	304,897	214,554	-	3,191	969,130
2007	386,056	71,806	298,289	223,213	2,572	-	981,936
2006	475,926	82,463	251,971	-	6,172	27,482	844,014

⁽¹⁾ Excludes capital projects/outlay expenditures

TABLE 5

TOWN OF APPOMATTOX, VIRGINIA
PROPERTY TAX LEVIES AND COLLECTIONS –
Last Ten Fiscal Years
UNAUDITED

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Current Tax Collections	Percentage of Levy	Delinquent Tax Collections	Total Tax Collections	Percentage of Levy	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Levy
2015	\$ 283,264	\$ 241,668	85.32 %	\$ 52,911	\$ 294,579	103.99 %	\$ 101,461	35.82 %
2014	294,551	278,835	94.66	16,129	294,964	100.14	124,330	42.21
2013	305,787	287,010	93.86	33,504	320,514	104.82	78,746	25.75
2012	343,989	321,908	93.58	22,936	344,844	100.25	86,530	25.15
2011	332,882	291,946	87.70	27,240	319,186	95.89	90,266	27.12
2010	331,652	314,266	94.76	9,546	323,812	97.64	70,143	21.15
2009	314,854	296,459	94.16	13,226	309,685	98.36	37,879	12.03
2008	297,382	278,232	93.56	19,868	298,100	100.24	27,655	9.30
2007	298,462	280,962	94.14	12,146	293,108	98.21	28,334	9.49
2006	294,005	278,660	94.78	5,418	284,078	96.62	28,579	9.72

Source: Tax Records of the Town.

Note: Collections exclude penalties and interest and include PPTRA from the Commonwealth.

TABLE 6

TOWN OF APPOMATTOX, VIRGINIA

**ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY –
Last Ten Fiscal Years
UNAUDITED**

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Mobile Homes	Public Utilities		Total Assessed Value
					Real Estate	Personal Property	
2015	\$ 140,101,700	\$ 19,007,260	\$ 316,436	\$ 656,436	\$ 4,790,974	\$ 35,957	\$ 164,908,763
2014	146,645,100	19,571,634	171,532	706,780	4,915,597	35,957	172,046,600
2013	146,133,000	20,765,428	142,600	586,560	4,795,866	35,957	172,459,411
2012	142,742,800	19,689,002	8,802,900	580,100	3,737,510	35,957	175,588,269
2011	139,049,400	16,484,732	9,313,336	635,448	3,753,824	35,957	169,272,697
2010	134,065,100	15,588,160	11,925,200	741,953	3,753,824	35,957	166,110,194
2009	132,100,800	15,301,104	13,600,804	708,610	3,860,292	-	165,571,610
2008	103,645,900	13,914,959	10,859,678	791,450	2,897,135	23,167	132,132,289
2007	103,021,600	14,682,596	10,351,130	830,700	3,262,573	18,549	132,167,148
2006	102,070,600	13,988,972	10,467,296	591,450	3,357,120	2,750	130,478,188

Note: Real estate is assessed at 100% of fair market value.

TABLE 7

TOWN OF APPOMATTOX, VIRGINIA

**PROPERTY TAX RATES –
Last Ten Fiscal Years
UNAUDITED**

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Mobile Homes	Public Utilities	
					Real Estate	Personal Property
2015	\$ 0.13	\$ 0.55	\$ 0.55	\$ 0.13	\$ 0.13	\$ 0.55
2014	0.13	0.55	0.55	0.13	0.13	0.55
2013	0.13	0.55	0.55	0.13	0.13	0.55
2012	0.13	0.55	0.55	0.13	0.13	0.55
2011	0.13	0.55	0.55	0.13	0.13	0.55
2010	0.13	0.55	0.55	0.13	0.13	0.55
2009	0.13	0.55	0.55	0.13	0.13	0.55
2008	0.15	0.55	0.55	0.15	0.15	0.55
2007	0.15	0.55	0.55	0.15	0.15	0.55
2006	0.15	0.55	0.55	0.15	0.15	0.55

TABLE 8

TOWN OF APPOMATTOX, VIRGINIA
COMPUTATION OF LEGAL DEBT MARGIN
June 30, 2015
UNAUDITED

Assessed value of real estate, January 1, 2014		<u>\$ 140,101,700</u>
Legal debt limit, (10% of assessed value)		14,010,170
Total bonded debt	<u>510,842</u>	<u>510,842</u>
Legal debt margin		<u><u>\$ 13,499,328</u></u>

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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**

Honorable Members of Town Council
Town of Appomattox, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund, of the Town of Appomattox, Virginia (the "Town"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated February 22, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 and 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 consider the deficiency identified as Item 2010-001 described in the accompanying schedule of findings and responses to be a material weakness.**

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 consider the deficiency identified as Item 2015-001 described in the accompanying schedule of findings and responses to be a significant deficiency.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. **The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as Item 2015-002.**

Town's Response to Findings

The Town's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Town's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Town'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 Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
February 22, 2016

TOWN OF APPOMATTOX, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2015

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

STATE COMPLIANCE MATTERS

Code of Virginia:

- Budget and Appropriation Laws
- Cash and Investment Laws
- Conflicts of Interest Act
- Virginia Retirement System
- Procurement

LOCAL COMPLIANCE MATTERS

Town Charter

TOWN OF APPOMATTOX, VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2015

A. FINDINGS – FINANCIAL STATEMENT AUDIT

2010-001: Segregation of Duties (Material Weakness)

Condition:

A fundamental concept of internal controls is the separation of duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. A lack of segregation of duties exists in several functions related to accounts payable and cash disbursements; general ledger functions, bank account access and reconciliations; payroll processing, inventory ordering, receiving, and monitoring; billings and accounts receivable. Fully eliminating some of these control deficiencies may not be possible without additional personnel.

Recommendation:

Steps should be taken to eliminate the performance of conflicting duties where possible.

Management's Response:

Management will review all areas of controls as the accounting policies and procedures continue to be updated and new software is implemented. Management will work to improve segregation of duties as it can within the current staffing levels.

2015-001: Inventory Monitoring and Management (Significant Deficiency)

Condition:

During our audit of inventory, we noted it had become necessary for a significant restatement to be posted to previously reported inventory balances. This adjustment appears to stem primarily from internal communication lapses.

Recommendation:

A consistent two-way dialogue needs to be in place between public works and finance on any matters that could potentially impact the general ledger, including changes to inventory in public works system.

Management's Response:

Controls have been implemented including bi-annual inventory counts that are reviewed and approved by the Facilities Director, Town Manager, and Town Treasurer.

TOWN OF APPOMATTOX, VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2015

B. FINDINGS – COMMONWEALTH OF VIRGINIA

2015-002: Security for Public Deposits Act

Condition:

The Town's component unit and an agency fund cash is not marked as public funds at the financial institution.

Recommendation:

All cash should be marked as public funds.

Management's Response:

These new accounts were inadvertently misclassified at the bank. These will be corrected by the end of fiscal year 2016.

TOWN OF APPOMATTOX, VIRGINIA
REPORT ON COMMENTS AND SUGGESTIONS
AND REQUIRED COMMUNICATIONS

June 30, 2015

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INDEPENDENT AUDITOR'S REPORT ON COMMENTS AND SUGGESTIONS

Members of the Town Council
Town of Appomattox, Virginia

In planning and performing our audit of the financial statements of the Town of Appomattox, Virginia (the "Town"), as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate for the purpose of expressing our opinion on the financial statements and to comply with *Government Auditing Standards*, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the first 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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

If material weaknesses or significant deficiencies were identified during our procedures they are appropriately designated as such in this report. Additional information on material weaknesses or significant deficiencies and compliance and other matters is included in the ***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*** which should be read in conjunction with this report.

Additionally, during our audit, we became aware of certain other matters that provide opportunities for improving your financial reporting system and/or operating efficiency. Such comments and suggestions regarding these matters, if any, are also included in the attached report, but are not designated as a material weakness or significant deficiency. Since our audit is not designed to include a detailed review of all systems and procedures, these comments should not be considered as being all-inclusive of areas where improvements might be achieved. We also have included information on accounting and other matters that we believe is important enough to merit consideration by management and those charged with governance. It is our hope that these suggestions will be taken in the constructive light in which they are offered.

We have already discussed these comments and suggestions with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

The Town's responses to our recommendations are included in this report. The responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
February 22, 2016

COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS FOR YOUR CONSIDERATION

TIMESHEET APPROVAL

During our VRS examination procedures, we noted an instance where the treasurer's overtime hours were not approved. We recommend that all timesheets be approved prior to processing of payroll.

Management's Response: *This was an isolated occurrence; however, with the implementation of ADP, overtime will be approved through the payroll review process.*

MONITORING OF INVENTORY BALANCES (SIGNIFICANT DEFICIENCY)

During our testing of inventory, we noted there were significant adjustments to beginning net position and inventory balances for amounts erroneously excluded from the June 30, 2014 inventory count. This error was caught by public works prior to the completion of the June 30, 2014 audit, but does not appear to have been communicated to finance until after the audit was completed. We recommend that a consistent two-way dialogue is in place between public works and finance on all matters that could impact the general ledger, including inventory usage and balances.

Management's Response: *Controls have been implemented including bi-annual inventory counts that are reviewed and approved by the Facilities Director, Town Manager, and Town Treasurer.*

CONTROLS OVER INVENTORY (PART OF SEGREGATION OF DUTIES MATERIAL WEAKNESS)

In gaining an understanding of controls over inventory, we noted that the operations supervisor is responsible for ordering, receiving, monitoring, and adjusting balances in the inventory system. Information from that system is relied on for balances recorded on the general ledger. Ideally, an individual that does not have ordering responsibilities would receive inventory and verify amounts received, while a third individual without access to inventory would be responsible for maintaining and adjusting amounts in the inventory system. All inventory activity should periodically be reviewed by the public works director or other appropriate individual.

Management's Response: *Controls have been implemented to further separate overlapping responsibilities.*

SUMMARY OF THE STATUS OF PRIOR YEAR COMMENTS AND SUGGESTIONS

SEGREGATION OF DUTIES AND CONTROL ENVIRONMENT (MATERIAL WEAKNESS)

One of the more important aspects of any system of internal control is the segregation of duties. In an ideal system of internal controls, no individual would perform more than one duty in connection with any transactions or series of transactions. In particular, no one individual should have access to both physical assets and the related accounting records. Such access may allow errors or irregularities to occur and either not be detected or concealed.

Decisions about controls and processes always should be made in the light of the net benefit of the various solutions – and there may be times when management concludes that the cost of a control is not worth its benefit. However, due to the nature and number of areas where we noted improvements could be made, we believe Council and management should take a closer look at the policies and procedures in place and give careful evaluation to the improvements that could be made to current systems. In addition to areas where duties could be further segregated, the Town might also consider putting mitigating controls in place, such as review of user logs, review of transaction logs, and other oversight and monitoring in areas where segregation is not feasible.

Following are some areas where duties are not ideally segregated:

- The accounts payable clerk sets up all new vendors in the accounting system, enters all invoices for payment, generates check registers, and receives all checks back to prepare for mailing once they have been signed. Ideally, an employee separate from accounts payable would set up all new vendors and another individual would be responsible for preparing checks for mailing once they are signed.
- The Town treasurer is an authorized signer for accounts payable checks, can access the accounts payable module, maintains blank check stock in her office, has general ledger access, processes payroll, and is responsible for reconciling bank accounts. Ideally, all of these functions would be performed by separate individuals. The treasurer's current functions give her complete access to the disbursement process and could potentially allow her to complete a transaction without the involvement of any other Town employee or a member of Council.
- The Town treasurer processes payroll and can add new employees to the payroll system and modify information, including pay rates for existing employees.
- The water and sewer billing clerk also collects customer payments and processes write-offs and adjustments to customer accounts. While the clerk does not have primary collection responsibilities, she does function as a back-up. She also takes deposits to the bank daily.
- The treasurer functions as a back-up for cash collections in addition to her other overlapping responsibilities. She is considered a "last resort" back-up and will take collections only if there is no one else available.

Current Status: *We noted during our audit that management is continuing to work on policies, procedures, and review all functions. However, these concerns still existed at year end.*

SUMMARY OF THE STATUS OF PRIOR YEAR COMMENTS AND SUGGESTIONS

CAPITAL ASSETS, COMPLETENESS OF ACCOUNTS, AND ADEQUACY OF SUBSIDIARY LEDGERS (MATERIAL WEAKNESS)

Capital Assets

We recommend that management and Council undertake a complete inventory of assets and review the capital asset listing to determine that all items that are assets of the Town are properly recorded and that there are no items on the listing that have been disposed of. We also recommend the Town evaluate options for maintaining accurate capital asset listings in a format other than an excel spreadsheet. Spreadsheets are susceptible to formula errors, or individuals can forget to roll key information forward, resulting in mistakes and misstatements. The Town's current accounting software may provide a fixed asset module that the Town can use. In addition, there are many cost effective fixed asset software solutions available "off-the-shelf" that can be easily implemented with minimal cost to the Town. Our firm could also maintain the schedules for a small fee.

Current Status: *The Town continued to make improvements in the tracking of capital assets in fiscal year 2015. A capital asset module is not available within the Town's new software package, however the Town plans to research other options during fiscal year 2016.*

PROPER SUPPORTING DOCUMENTATION

We noted that a reimbursement was made for travel expenditures for a Town employee for which Town staff were unable to locate proper supporting documentation. All disbursements of Town funds should be supported by proper documentation that has been approved by the appropriate department head before payment is made.

Current Status: *No similar instances were noted during the fiscal year 2015 audit.*

PROPER CLAUSES INCLUDED IN CONTRACTS

We noted that a construction contract related to a water and sewer project did not include the necessary nondiscrimination clauses as set forth in the Virginia Public Procurement Act. All contracts entered into by the Town should contain all required clauses.

Current Status: *No new construction contracts entered during the fiscal year therefore no similar instances were noted during the fiscal year 2015 audit.*

WATER PURCHASE AGREEMENT

Through inquiry of Town staff, we noted that the Town had not received information on the "true-up" of water purchases through the County of Appomattox. This true-up is to be based on the true-up the County receives from Campbell County Utilities and Service Authority annually upon completion of CCUSA's audit. The County is to bill the Town for their share based on usage. We recommend the Town follow up on this to determine whether the Town owes additional amounts under the water agreement or whether the Town is owed any refunds.

Current Status: *No similar instances were noted during the fiscal year 2015 audit, and inquiries have been made regarding any true-up necessary.*

SUMMARY OF THE STATUS OF PRIOR YEAR COMMENTS AND SUGGESTIONS

ACCOUNTING MANUAL

The Town currently does not have an accounting procedures manual. Written procedures, instructions, and assignment of duties will prevent or reduce misunderstandings, errors; inefficient or wasted effort; duplicated or omitted procedures; and other situations that can result in inaccurate or untimely accounting records. A well-devised accounting manual can also help to assure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management and Council. A good accounting manual should aid in the training of new employees and possibly allow for delegation to other employees of some accounting functions management performs. It will take some time and effort for management to develop a manual; however, we believe this time will be more than offset by time saved later in training and supervising accounting personnel. Also, in the process of the comprehensive review of existing accounting procedures for the purpose of developing the manual, management will be likely to discover procedures that can be eliminated or improved to make the system more efficient and effective.

Current Status: *Comment is still applicable as of June 30, 2015. Management has indicated they anticipate completing a manual during fiscal year 2016.*

CASH DRAWER CONTROLS

The Town has one cash drawer that is used by all individuals that collect cash during the course of a day, leaving the drawer open to multiple individuals and increasing the risk of error or loss. Ideally, each individual responsible for cash collections would have their own drawer. That individual would be responsible for counting their drawer at the end of the day and reconciling discrepancies before providing to the individual responsible for making deposits so that individual could verify amounts counted and prepare the deposit.

Current Status: *Comment is still applicable as of June 30, 2015.*

PURCHASE ORDER SYSTEM

The Town does not currently use a purchase order system. The purpose of a purchase order system is to help control spending and ensure that purchases are approved only if there are funds available for use. The system should provide for approval of purchases, including establishment of reasonable limitations on approval authority of specific individuals. For example, under the system, purchases of fixed assets in excess of a specified dollar limit might require Council action; items purchased relatively infrequently, such as insurance policies and long-term service contracts, would be approved by certain officials; and material or subcontractor arrangements would be approved by the appropriate department head. A purchase order is usually in writing and is a legal document indicating an offer to buy. For most routine items, a purchase order is used to indicate the offer. A purchase order would be issued to a vendor for a specified item at a certain price to be delivered at or by a designated time. Purchase orders should be matched to vendor invoices to assure that only agreed upon prices are paid.

In addition, the use of a purchase order system would allow the Town to record encumbrances on the accounting system, providing management with increased budgetary control.

Current Status: *Comment is still applicable as of June 30, 2015.*

SUMMARY OF THE STATUS OF PRIOR YEAR COMMENTS AND SUGGESTIONS

APPROVAL OF SUPPLEMENTS AND ABATEMENTS

Currently there is no review or approval of the entries that are written and posted by the Town treasurer to record supplements and abatements on real and personal property taxes. We recommend that these adjustments be reviewed and approved for appropriateness. We also recommend that the Town clerk or Town manager review a log of all such adjustments to determine that only those adjustments that have been approved are posted to the general ledger and to taxpayer accounts.

Current Status: *The Town clerk reviews entries posted; however, the Town is working on a report that ensures all abatements were included.*

NO INFORMATION TECHNOLOGY (IT) DEPARTMENT

When a separate department (or individual) does not exist for IT, there is often a need to cross-train and have backups for various functions and to have vendors perform certain functions. Also, required vacations may not be able to be taken as consecutive days or at certain times. While these factors do improve the ability to respond to the Town's needs and can reduce staffing requirements, it also reduces the level of controls that exist when personnel or vendors have access to several stages within the input/processing/output cycles or to access controls. Currently, the Town clerk handles system administrator functions for IT, as well as human resource functions and duties in other areas. Having an individual with rights to system administrator's level access, or access to utilities that might be able to modify data, combined with other non-IT functions pose several potential challenges. Often, it is not possible to further segregate the duties based on resource limitations and demands. Additionally, periodic reviews of access rights on the core system should be performed to minimize the risk that individuals may be granted inappropriate access.

We recommend that current cross-training and personnel back-up strategies be considered in terms of controls and determine if reasonable changes can be made to improve controls, or whether additional reviews of system administrator's and other critical logs may be considered necessary. If logs are to be reviewed, often filters can be set up to reduce the burden of the review. Based on good control structures, an individual who would perform these types of review should not be in a position where they might be reviewing their own work.

Current Status: *Comment is still applicable as of June 30, 2015.*

DISASTER RECOVERY PLAN

The Town does not have a formal disaster recovery plan for IT in place to help ensure proper and timely recovery in case of a disaster. We also recommend that this plan be appropriately tested to assist in ensuring its viability. Scenarios should include, but not be limited to, non-availability of key staff and assumed potential unavailability of other resources. The plan should also include protecting and restoring any necessary files that might reside on workstations that are not backed up as part of the regular processes.

Current Status: *Comment is still applicable as of June 30, 2015.*

ACCOUNTING AND OTHER MATTERS

In this section, we would like to make you aware of certain confirmed and potential changes that are on the horizon that may affect your financial reporting and audit.

GASB STATEMENT NO. 72

GASB Statement No. 72, *Fair Value Measurement and Application* addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 72 will be effective for the year ending June 30, 2016.

GASB STATEMENT NO. 74

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pensions* improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

The scope of this Statement includes OPEB plans – defined benefit and defined contribution – administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

ACCOUNTING AND OTHER MATTERS

GASB STATEMENT NO. 74 (Continued)

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

GASB Statement No. 74 will be effective for the year ending June 30, 2017.

GASB STATEMENT NO. 75

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB*. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

GASB Statement No. 75 will be effective for the year ending June 30, 2018.

ACCOUNTING AND OTHER MATTERS

GASB STATEMENT NO. 76

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* identifies – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

GASB Statement No. 76 is effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

GASB STATEMENT NO. 77

GASB Statement No. 77, *Tax Abatement Disclosures*, requires governments to disclose information about the nature and magnitude of tax abatements granted to a specific taxpayer, typically for the purpose of economic development. This does not cover programs that reduce the tax liabilities of broad classes of taxpayers, such as senior citizens or veterans, and which are not the product of individual agreements with each taxpayer. The Statement does not consider issues related to recognition.

Financial statement users need information about certain limitations on a government’s ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take specific action that contributes to economic development or otherwise benefits the government or its citizens.

This Statement requires disclosure of tax abatement information about (1) a reporting government’s own tax abatement agreements and (2) those that are entered into by other governments that reduce the reporting government’s tax revenues.

Governments entering into tax abatement agreements are required to disclose the following information about the agreements, organized by major tax abatement program, with the option to include disclosure of individual significant agreements in each program:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
- The gross dollar amount of taxes abated during the period.
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

ACCOUNTING AND OTHER MATTERS

GASB STATEMENT NO. 77 (Continued)

Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatements of other governments within the specific tax being abated. For those agreements, a reporting government should disclose:

- The names of the governments that entered into the agreements.
- The specific taxes being abated.
- The gross dollar amount of taxes abated during the period.

GASB Statement No. 77 will be effective for the year ending June 30, 2017.

OFFICE OF MANAGEMENT AND BUDGET (OMB) CHANGES TO SINGLE AUDITS

OMB released final guidance related to federal awards in December 2013. The *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”) consolidates previous guidance into a streamlined format that aims to improve both its clarity and accessibility, lessen administrative burdens for federal award recipients, and reduce the risk of waste, fraud and abuse (Thomson Reuters “OMB Finalizes Federal Award Changes”). The most significant changes are as follows:

Single audit threshold increase. The audit threshold will be raised from \$500,000 to \$750,000 of federal expenditures. In addition, the Type A program threshold will be increased from \$300,000 to \$750,000. Finally, the percentage coverage of federal expenditures required for testing will be decreased from 50% to 40% for regular auditees and from 25% to 20% for low-risk auditees.

Changes to major determination process. The criteria to be considered a high-risk Type A program will include failure to have an unmodified opinion on the program, a material weakness in internal controls, or questioned costs exceeding 5% of the program’s expenditures. In addition, there will also be a reduction in the number of high-risk Type B programs that must be tested from one-half to at least one-fourth of low-risk Type A programs.

Proposed Reduction of compliance requirements subject to testing. Per Thomas Reuters PPC Update, “OMB’s original proposal included reducing the number of types of compliance requirements from 14 to 6, with several of the compliance requirements combined. The discussion of major policy reforms in the Uniform Guidance notes that because the compliance supplement is published as part of a separate process, no final changes were made at the time the Uniform Guidance was finalized. However, the Council of Financial Assistance Reform (COFAR) has recommended that any future changes made to the compliance supplement be based on available evidence on past findings and the potential impact of noncompliance for each type of compliance requirement. The COFAR further recommended that additional public outreach be conducted prior to making any structural changes to the format of the compliance supplement in order to mitigate an inadvertent increase in administrative burden.”

Nonfederal entities are required to comply with the Uniform Guidance once the new regulations are in effect which is expected by December 2014. Audit requirements would apply to fiscal years beginning on or after December 26, 2014 (fiscal year ending June 30, 2016).

ACCOUNTING AND OTHER MATTERS

CURRENT GASB PROJECTS

GASB currently has a variety of projects in process. Some of these projects are as follows:

- ***Asset Retirement Obligations.*** The objective of this project would be to improve financial reporting by developing requirements on recognition for asset retirement obligations (ARO), other than landfills. The achievement of this objective would reduce inconsistency in current reporting and, therefore, enhance comparability between governments. The project also will improve the usefulness of information for decisions and analysis of various users of external financial reports of governments by developing disclosure requirements for AROs. An exposure draft document is expected to be issued for public comment in December 2015, with a final statement expected in October 2016.
- ***Blending Requirements for Certain Business-Type Activities.*** The objective of this project is to improve financial reporting by addressing issues related to inconsistent presentation of component units in financial reporting of governments engaged only in business-type activities (BTA). The stated focus of the objective would need to be balanced against the information needs of financial statement users by considering what information is deemed essential to assess accountability, comparability, and transparency in these circumstances. An exposure draft document was issued for public comment in June 2015, with a final statement expected in January 2016.
- ***Comprehensive Implementation Guide Update.*** The objective of this project is to update implementation guidance for the effects of new pronouncements and for additional issues that have come to the attention of the staff. In addition, this project will result in issuance of an annual update to the *Comprehensive Implementation Guide*. An exposure draft document is expected to be issued for public comment in September 2015, with a final statement expected in January 2016.
- ***Conceptual Framework – Recognition.*** The project's objective is to develop recognition criteria for *whether* information should be reported in state and local governmental financial statements and *when* that information should be reported. This project ultimately will lead to a Concepts Statement on recognition of elements of financial statements. Further developments on an Exposure Draft for recognition concepts was put on hold in August 2013 pending research being conducted pursuant to the reexamination of the financial reporting model.
- ***Economic Condition Reporting: Financial Projections.*** The objective of this project is to consider whether guidance or guidelines should be provided for additional information about economic condition, particularly financial projections, as part of general purpose external financial reporting. This project also will include consideration of the information users identified as necessary to assess the risks associated with a government's intergovernmental financial dependencies. The project is currently being deliberated. This project is currently on hold pending resolution of GASB scope.
- ***Fiduciary Responsibilities.*** The primary objective of this project would be to develop guidance regarding the application of the fiduciary responsibility criterion in deciding whether and how governments should report fiduciary activities in their general purpose external financial reports. Other objectives of this project include assessing whether additional guidance should be developed to (1) clarify the difference between a private-purpose trust fund and an agency fund, (2) clarify whether a business-type activity engaging in fiduciary activities should present fiduciary fund financial statements, and (3) consider requiring a combining statement of changes in assets and liabilities for agency funds. An exposure draft document is expected to be issued for public comment in December 2015, with a final statement in October 2016.

ACCOUNTING AND OTHER MATTERS

CURRENT GASB PROJECTS (Continued)

- *Lease Accounting – Reexamination of NCGA Statement 5 and GASB Statement No. 13.* The objective of this project is to reexamine issues associated with lease accounting, considering improvements to existing guidance. This project will provide a basis for the Board to consider whether current operating leases meet the definitions of assets or liabilities. This project would provide an opportunity for a fresh look at the existing guidance for any improvements not contemplated by the FASB/IASB project given the unique nature of governmental entities and the complexities of their leasing transactions. An exposure draft document was issued for public comment in January 2015, with a final statement expected in November 2016.

REQUIRED COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

Members of the Town Council
Town of Appomattox, Virginia

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining fund information of the Town of Appomattox, Virginia, (the “Town”) for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 4, 2015. Professional standards also require that we communicate the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town are described in Note 1 to the financial statements. As described in Note 16 to the financial statements, the Town adopted a new accounting standard related to pensions: GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* during 2015. No other new accounting policies were adopted and the application of existing policies was not changed during 2015. We noted no transactions entered into by the Town during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management’s estimates of the useful lives of capital assets are based on management’s knowledge and judgment, which is based on history. Management’s estimate of the allocation of certain public works employees’ time between the water and sewer and general funds is based on management’s knowledge and judgment of how those individuals are spending their time on job assignments. Management’s estimate of uncollectible accounts is based on account aging and prior experience with collections. Management’s estimate of the value of inventory is based on current, rather than historical, costs. Management believes current costs to be reasonably close to historical costs. Also, the net pension liability is based on an actuarial study provided by actuaries engaged by the Virginia Retirement System.

Significant Audit Findings (Continued)

Qualitative Aspects of Accounting Practices (Continued)

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements include those related to sale of future rent revenues, capital assets, long-term debt, and pension.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

In our judgment, the following audit adjustments we proposed, which were recorded by the Town, either individually or in the aggregate, indicate matters that had a significant effect on the Town's financial reporting process. All amounts are rounded to the nearest thousand.

Posted adjustments:

- We recorded current year depreciation expense of approximately \$98,000 in the water fund, and a corresponding increase in accumulated depreciation.
- We recorded current year depreciation expense of approximately \$316,000 in the sewer fund, and a corresponding increase in accumulated depreciation.
- We decreased capital assets for approximately \$39,000 in the sewer fund, and a corresponding decrease in accumulated depreciation.
- We increased capital assets for approximately \$16,000 in the sewer fund, and a corresponding decrease in maintenance expense.
- In discussions with Town management, we determined it was likely appropriate to increase the allowance for uncollectable accounts in the general fund for \$12,927 for outstanding meals taxes. Management agreed the collection of amounts owed is not certain. The Town is still pursuing collection options and any amounts collected will be reflected as revenues at the time of collection, if collected.

Management has determined that the following unrecorded adjustments are immaterial to the financial statements taken as a whole.

Significant Audit Findings (Continued)

Corrected and Uncorrected Misstatements (Continued)

Unposted adjustments:

- An understatement of sales tax receivable of approximately \$6,000, an understatement of beginning net position/fund balance of approximately \$7,000, resulting in a net overstatement of current year revenue of approximately \$1,000 in the general fund related to timing of recording June sales tax each year.
- An overstatement of beginning net position, and a corresponding overstatement of current year expense of approximately \$5,000 in the water fund.
- An understatement of accounts payable and a corresponding understatement of expense of approximately \$6,000 in the water fund.
- An overstatement of meals tax revenues in the general fund of approximately \$6,800, with a corresponding understatement of deferred revenues, for amounts not received within the Town's 45 day period of availability.
- Since the levy date for taxes is on January 1st and the Town's billing date is as of December of the same year, generally accepted accounting principles require that an accounts receivable and equal and offsetting deferred inflow should be recorded at the fund and government-wide level. However, due to the timeliness of which the Town receives information from the County for billing and since it has no current year activity statement impact, the Town believes this adjustment is qualitatively immaterial to the financial statements as a whole and as such passed on recording such adjustment.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter date February 22, 2016, a copy of which is attached.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters (Continued)

We applied certain limited procedures to the schedules identified as required supplementary information (RSI) in the table of contents of the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining fund financial statements, and Schedules 1 and 2 (Schedule of Revenues and Expenditures – Budget to Actual – General Fund), which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory and other information sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of Town Council and management of the Town of Appomattox, Virginia, and is not intended to be, and should not be, used by anyone other than these specified parties.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
February 22, 2016

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TOWN MANAGER
C. WILLIAM "BILL" GILLESPIE, JR.

Town of Appomattox



February 22, 2016

MAYOR
PAUL D. HARVEY
COUNCIL MEMBERS:
STEVEN T. CONNER
M. ERIN FINCH
TIMOTHY W. GARRETT
C. LEWIS MCDEARMON, JR.
CLAUDIA G. PUCKETTE
MARY LOU SPIGGLE
CLERK OF COUNCIL
ROXANNE W. CASTO, MMC

Brown, Edwards, & Company, L.L.P.
Certified Public Accountants
2102 Langhorne Rd, Ste 200
Lynchburg, VA 24501

This representation letter is provided in connection with your audit of the financial statements of the Town of Appomattox, Virginia, which comprise the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of February 22, 2016, the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated August 13, 2015, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- 3) We acknowledge our responsibility for 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.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

- 6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
- 7) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements or in the schedule of findings and questioned costs.
- 8) The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole for each opinion unit.
 - a) An overstatement of accounts receivable of \$1,101 and a corresponding overstatement of current year revenues in the water and sewer funds.
 - b) An understatement of accounts receivable of \$5,996 and a corresponding understatement of current year revenues in the general and governmental funds.
 - c) An understatement of accounts payable of \$5,773 and a corresponding understatement of expenses for the current year in the water and business type funds.
- 9) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 10) Guarantees, whether written or oral, under which the entity is contingently liable, if any, have been properly recorded or disclosed.
- 11) We have provided the planning communication letter to all members of those charged with governance as requested.

Information Provided

- 12) We have provided you with:
 - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d) Minutes of the meetings or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 13) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 14) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

- 15) We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
- Management,
 - Employees who have significant roles in internal control,
 - Service organizations used by the entity, or
 - Others where the fraud could have a material effect on the financial statements.
- 16) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, regulators, or others.
- 17) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 18) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 19) We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

Government—specific

- 20) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 21) We have a process to track the status of audit findings and recommendations.
- 22) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 23) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
- 24) The entity has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- 25) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and legal and contractual provisions for reporting specific activities in separate funds.
- 26) We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 27) We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

- 28) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 29) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 30) As part of your audit, you assisted with preparation of the financial statements and related notes. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
- 31) The entity has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 32) The entity has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 33) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- 34) The financial statements properly classify all funds and activities, in accordance with GASB Statement No. 34.
- 35) All funds that meet the quantitative criteria in GASBS Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 36) Components of net position (net investment in capital assets; restricted; and unrestricted), and components of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
- 37) Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
- 38) Provisions for uncollectible receivables have been properly identified and recorded.
- 39) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 40) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 41) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 42) Special and extraordinary items are appropriately classified and reported, if applicable.
- 43) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.

- 44) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
- 45) Capital assets have been evaluated for impairment as a result of significant and unexpected decline in service utility.
- 46) We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.
- 47) We have not completed the process of evaluating the impact that will result from adopting new Governmental Accounting Standards Board (GASBS) Statements that are not yet effective, as discussed in the notes to financial statements. The entity is therefore unable to disclose the impact that adopting these Statements will have on its financial position and the results of its operations when the Statements are adopted.
- 48) We have appropriately disclosed the entity's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
- 49) We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
- 50) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 51) With respect to the supplementary information on which an in-relation-to opinion is issued.
- a) We acknowledge our responsibility for presenting the supplementary information in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
 - b) If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
- 52) Expenditures of federal awards were below the \$500,000 threshold in the audit period, and we were not required to have an audit in accordance with OMB Circular A-133.

Signature: _____

Title: Mayor, Town of Appomattox, Virginia

Signature: _____

Title: Treasurer, Town of Appomattox, Virginia