



FINANCIAL REPORT

JUNE 30, 2014



TOWN OF APPOMATTOX, VIRGINIA

FINANCIAL REPORT

June 30, 2014

TOWN OF APPOMATTOX, VIRGINIA

TABLE OF CONTENTS

INTRODUCTORY SECTION

	Page
Directory of Principal Officials.....	i

FINANCIAL SECTION

Independent Auditor's Report.....	1
-----------------------------------	---

Basic Financial Statements

Government-Wide Financial Statements

Exhibit 1	Statement of Net Position	5
Exhibit 2	Statement of Activities.....	6

Fund Financial Statements

Exhibit 3	Balance Sheet – Governmental Fund	7
Exhibit 4	Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position.....	8
Exhibit 5	Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund	9
Exhibit 6	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	10
Exhibit 7	Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund.....	11
Exhibit 8	Statement of Net Position – Proprietary Funds.....	12
Exhibit 9	Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	13
Exhibit 10	Statement of Cash Flows – Proprietary Funds	14
Exhibit 11	Statement of Fiduciary Net Position – Fiduciary Funds.....	16

Notes to Financial Statements	17
-------------------------------------	----

Required Supplementary Information

Exhibit 12	Schedule of Funding Progress for Defined Benefit Pension Plan	41
------------	---	----

Other Supplementary Information

Exhibit 13	Combining Statement of Fiduciary Net Position – Fiduciary Funds.....	43
Exhibit 14	Combining Statement of Changes in Fiduciary Assets and Liabilities – Agency Funds	44

TOWN OF APPOMATTOX, VIRGINIA

TABLE OF CONTENTS (Continued)

	Page
Discretely Presented Component Unit – Appomattox Economic Development Authority	
Exhibit 15 Statement of Net Position – Proprietary Fund	46
Exhibit 16 Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund	47
Exhibit 17 Statement of Cash Flows – Proprietary Fund.....	48
Supporting Schedules	
Schedule 1 Schedule of Revenues – Budget and Actual – Governmental Fund.....	50
Schedule 2 Schedule of Expenditures – Budget and Actual – Governmental Fund.....	52
Other Information Section	
Table 1 Government-Wide Revenues – Last Ten Fiscal Years.....	55
Table 2 Government-Wide Expenses by Function – Last Ten Fiscal Years.....	55
Table 3 General Governmental Revenues by Source – Last Ten Fiscal Years.....	56
Table 4 General Governmental Expenditures by Function – Last Ten Fiscal Years.....	56
Table 5 Property Tax Levies and Collections – Last Ten Fiscal Years.....	57
Table 6 Assessed Value and Actual Value of Taxable Property – Last Ten Fiscal Years	58
Table 7 Property Tax Rates – Last Ten Fiscal Years.....	59
Table 8 Computation of Legal Debt Margin	60

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 <i>Government Auditing Standards</i>	62
Summary of Compliance Matters	64
Schedule of Findings and Responses.....	65

INTRODUCTORY SECTION

TOWN OF APPOMATTOX, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS

June 30, 2014

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 present component unit, and each major fund of the Town of Appomattox, Virginia (the "Town"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of funding progress for defined benefit pension plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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 June 17, 2015 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
June 17, 2015

THIS PAGE INTENTIONALLY BLANK

BASIC FINANCIAL STATEMENTS

TOWN OF APPOMATTOX, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Economic Development Authority
ASSETS				
Cash and cash equivalents (Note 2)	\$ 2,037,542	\$ 1,455,518	\$ 3,493,060	\$ 2,500
Receivables, net (Note 3)	103,400	140,111	243,511	-
Due from other governments (Note 7)	1,000	-	1,000	-
Internal balances (Note 5)	80,000	(80,000)	-	-
Inventories	-	52,473	52,473	-
Rent receivable (Note 4)	-	870,000	870,000	-
Capital assets: (Note 8)				
Nondepreciable	51,600	64,710	116,310	-
Depreciable, net	868,422	9,394,260	10,262,682	-
Total assets	3,141,964	11,897,072	15,039,036	2,500
LIABILITIES				
Accounts payable and accrued liabilities	61,381	53,411	114,792	2,500
Accrued payroll and related liabilities	1,994	3,493	5,487	-
Accrued interest payable	-	10,820	10,820	-
Customer security deposits	-	26,800	26,800	-
Long-term liabilities: (Note 9)				
Due within one year	5,862	196,768	202,630	-
Due in more than one year	37,424	1,512,981	1,550,405	-
Total liabilities	106,661	1,804,273	1,910,934	2,500
DEFERRED INFLOWS OF RESOURCES				
Unearned revenue (Note 4)	-	1,015,000	1,015,000	-
NET POSITION				
Net investment in capital assets	890,140	7,761,245	8,651,385	-
Unrestricted	2,145,163	1,316,554	3,461,717	-
Total net position	\$ 3,035,303	\$ 9,077,799	\$ 12,113,102	\$ -

EXHIBIT 2

TOWN OF APPOMATTOX, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2014

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 Economic Development Authority	
					Governmental Activities	Business-Type Activities		
						Total		
Primary Government:								
Governmental activities								
General government administration	\$ 396,479	\$ -	\$ -	\$ -	\$ (396,479)	\$ -	\$ (396,479)	\$ -
Public safety	107,189	-	51,408	-	(55,781)	-	(55,781)	-
Public works	621,139	2,340	-	-	(618,799)	-	(618,799)	-
Community development	72,904	-	-	-	(72,904)	-	(72,904)	-
Interest on long-term debt	1,120	-	-	-	(1,120)	-	(1,120)	-
Total governmental activities	1,198,831	2,340	51,408	-	(1,145,083)	-	(1,145,083)	-
Business-type activities								
Water	489,358	364,416	50,360	-	-	(74,582)	(74,582)	-
Sewer	891,658	756,223	-	-	-	(135,435)	(135,435)	-
Total business-type activities	1,381,016	1,120,639	50,360	-	-	(210,017)	(210,017)	-
Total primary government	\$ 2,579,847	\$ 1,122,979	\$ 101,768	\$ -	(1,145,083)	(210,017)	(1,355,100)	-
Component Unit:								
Economic Development Authority	\$ 3,500	\$ -	\$ -	\$ -	-	-	-	(3,500)
General revenues:								
Property taxes					277,135	-	277,135	-
Meals taxes					810,410	-	810,410	-
Sales and use taxes					70,907	-	70,907	-
Bank stock taxes					123,496	-	123,496	-
Business license taxes					171,445	-	171,445	-
Other local taxes					69,419	-	69,419	-
Intergovernmental revenue not restricted to specific programs					27,167	-	27,167	-
Town contribution					-	-	-	3,500
Investment earnings					15,987	8,954	24,941	-
Other					19,343	179,369	198,712	-
Total general revenues					1,585,309	188,323	1,773,632	3,500
Change in net position					440,226	(21,694)	418,532	-
NET POSITION AT JULY 1					2,595,077	9,099,493	11,694,570	-
NET POSITION AT JUNE 30					\$ 3,035,303	\$ 9,077,799	\$ 12,113,102	\$ -

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

TOWN OF APPOMATTOX, VIRGINIA

**BALANCE SHEET –
GOVERNMENTAL FUND
June 30, 2014**

	General Fund
<hr/>	
ASSETS	
Cash and cash equivalents	\$ 2,037,542
Receivables, net	103,400
Due from other governments	1,000
Due from other funds	80,000
	<hr/>
Total assets	\$ 2,221,942
	<hr/>
LIABILITIES AND FUND BALANCE	
Accounts payable and accrued liabilities	\$ 61,381
Accrued payroll and related liabilities	1,994
	<hr/>
Total liabilities	63,375
	<hr/>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue	5,245
	<hr/>
Fund balance (Note 14)	
Committed	476,139
Unassigned	1,677,183
	<hr/>
Total fund balance	2,153,322
	<hr/>
Total liabilities, deferred inflows of resources and fund balance	\$ 2,221,942
	<hr/>

TOWN OF APPOMATTOX, VIRGINIA

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2014**

Ending fund balance – governmental fund		\$ 2,153,322
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	\$ 1,366,648	
Less: accumulated depreciation	<u>(446,626)</u>	
		920,022
Certain receivables are not available to pay for current period expenditures and therefore are deferred in the fund.		
		5,245
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund.		
General obligation bond	(29,882)	
Compensated absences	<u>(13,404)</u>	
		<u>(43,286)</u>
Total net position – governmental activities		<u><u>\$ 3,035,303</u></u>

TOWN OF APPOMATTOX, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
Year Ended June 30, 2014**

	<u>General Fund</u>
REVENUES	
General property taxes (Note 11)	\$ 290,328
Other local taxes	1,245,677
Permits, privilege fees, and regulatory licenses	2,340
Revenue from use of money and property	15,987
Other	19,343
Intergovernmental	86,575
	<hr/>
Total revenues	1,660,250
	<hr/>
EXPENDITURES	
Current	
General government administration	395,081
Public safety	107,189
Public works	726,401
Community development	70,863
Capital outlay	1,845
Debt service	
Principal retirement	1,770
Interest and other fiscal charges	1,120
	<hr/>
Total expenditures	1,304,269
	<hr/>
Excess of revenues over expenditures	355,981
	<hr/>
Net change in fund balance	355,981
	<hr/>
FUND BALANCE AT JULY 1	1,797,341
	<hr/>
FUND BALANCE AT JUNE 30	\$ 2,153,322
	<hr/> <hr/>

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, 2014

Net change in fund balance – governmental fund	\$	355,981
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	\$ 169,313	
Depreciation expense	<u>(62,563)</u>	106,750
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund.		
Unavailable revenue		(21,193)
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	<u>1,770</u>	1,770
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>(3,082)</u>
Change in net position of governmental activities	<u>\$</u>	<u>440,226</u>

TOWN OF APPOMATTOX, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 286,500	\$ 286,500	\$ 290,328	\$ 3,828
Other local taxes	1,151,700	1,151,700	1,245,677	93,977
Permits, privilege fees, and regulatory licenses	2,000	2,000	2,340	340
Revenue from use of money and property	17,000	17,000	15,987	(1,013)
Other	3,500	3,500	19,343	15,843
Intergovernmental	58,000	68,000	86,575	18,575
Total revenues	1,518,700	1,528,700	1,660,250	131,550
EXPENDITURES				
Current				
General government administration	354,551	431,151	395,081	36,070
Public safety	66,932	102,932	107,189	(4,257)
Public works	629,772	928,017	726,401	201,616
Community development	91,560	84,560	70,863	13,697
Capital outlay	373,746	365,746	1,845	363,901
Debt service				
Principal retirement	1,019	1,819	1,770	49
Interest and other fiscal charges	1,120	1,120	1,120	-
Total expenditures	1,518,700	1,915,345	1,304,269	611,076
Excess (deficiency) of revenues over expenditures	-	(386,645)	355,981	742,626
Net change in fund balance	\$ -	\$ (386,645)	\$ 355,981	\$ 742,626

TOWN OF APPOMATTOX, VIRGINIA

STATEMENT OF NET POSITION –
PROPRIETARY FUNDS

June 30, 2014

	Business-Type Activities Enterprise Funds		
	Water	Sewer	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,033,074	\$ 422,444	\$ 1,455,518
Receivable, net	50,935	89,176	140,111
Inventories	39,355	13,118	52,473
Rent receivable	145,000	-	145,000
Total current assets	1,268,364	524,738	1,793,102
Noncurrent assets:			
Capital assets, net	1,889,578	7,569,392	9,458,970
Rent receivable	725,000	-	725,000
Total noncurrent assets	2,614,578	7,569,392	10,183,970
Total assets	3,882,942	8,094,130	11,977,072
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	31,519	21,892	53,411
Accrued payroll and related liabilities	2,113	1,380	3,493
Accrued interest payable	4,214	6,606	10,820
Customer security deposits	26,800	-	26,800
Due to other funds	-	80,000	80,000
Current portion of long-term debt	13,609	178,663	192,272
Current portion of compensated absences	1,494	3,002	4,496
Total current liabilities	79,749	291,543	371,292
Noncurrent liabilities:			
Long-term debt	190,973	1,314,480	1,505,453
Compensated absences	2,965	4,563	7,528
Total noncurrent liabilities	193,938	1,319,043	1,512,981
Total liabilities	273,687	1,610,586	1,884,273
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue	1,015,000	-	1,015,000
NET POSITION			
Net investment in capital assets	1,684,996	6,076,249	7,761,245
Unrestricted	909,259	407,295	1,316,554
Total net position	\$ 2,594,255	\$ 6,483,544	\$ 9,077,799

TOWN OF APPOMATTOX, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET POSITION – PROPRIETARY FUNDS
Year Ended June 30, 2014**

	Business-Type Activities Enterprise Funds		
	Water	Sewer	Total
OPERATING REVENUES			
Charges for services	\$ 364,416	\$ 756,223	\$ 1,120,639
Other	71,017	79,931	150,948
Total operating revenues	435,433	836,154	1,271,587
OPERATING EXPENSES			
Salaries	81,260	208,138	289,398
Fringe benefits	29,898	65,241	95,139
Maintenance	70,730	28,081	98,811
Utilities	8,139	14,723	22,862
Materials and supplies	50,057	149,410	199,467
Sample testing	1,465	24,668	26,133
Professional services	66,133	78,462	144,595
Other	1,310	784	2,094
Purchased water	113,526	-	113,526
Depreciation	98,181	322,707	420,888
Total operating expenses	520,699	892,214	1,412,913
Operating loss	(85,266)	(56,060)	(141,326)
NONOPERATING REVENUES (EXPENSES)			
Interest income	4,652	4,302	8,954
Interest expense	(8,014)	(12,562)	(20,576)
Recording of inventory	39,355	13,118	52,473
Rent income	78,781	-	78,781
Net nonoperating revenues (expenses)	114,774	4,858	119,632
Change in net position	29,508	(51,202)	(21,694)
NET POSITION AT JULY 1	2,564,747	6,534,746	9,099,493
NET POSITION AT JUNE 30	\$ 2,594,255	\$ 6,483,544	\$ 9,077,799

TOWN OF APPOMATTOX, VIRGINIA

**STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS
Year Ended June 30, 2014**

	Business-Type Activities Enterprise Funds		
	Water	Sewer	Total
OPERATING ACTIVITIES			
Receipts from customers	\$ 426,186	\$ 752,237	\$ 1,178,423
Payments to suppliers	(345,877)	(297,966)	(643,843)
Payments to employees	(111,753)	(277,008)	(388,761)
Other receipts	62,003	79,931	141,934
Net cash provided by operating activities	30,559	257,194	287,753
CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(65,559)	(171,639)	(237,198)
Principal paid on debt	(13,103)	(177,870)	(190,973)
Interest paid on debt	(8,287)	(12,990)	(21,277)
Net cash used in capital and related financing activities	(86,949)	(362,499)	(449,448)
INVESTING ACTIVITIES			
Water tower rent assignment payment	145,000	-	145,000
Water tower rent	78,781	-	78,781
Interest received	4,652	4,302	8,954
Net cash provided by investing activities	228,433	4,302	232,735
Net increase (decrease) in cash and cash equivalents	172,043	(101,003)	71,040
CASH AND CASH EQUIVALENTS			
Beginning of year	861,031	523,447	1,384,478
Ending of year	\$ 1,033,074	\$ 422,444	\$ 1,455,518

(Continued)

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

TOWN OF APPOMATTOX, VIRGINIA

**STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS
Year Ended June 30, 2014**

	Business-Type Activities Enterprise Funds		
	Water	Sewer	Total
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating loss	\$ (85,266)	\$ (56,060)	\$ (141,326)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	98,181	322,707	420,888
Change in certain assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	47,256	(3,986)	43,270
Increase (decrease) in:			
Accounts payable and accrued liabilities	(36,652)	(4,187)	(40,839)
Compensated absences	1,540	(1,280)	260
Customer security deposits	5,500	-	5,500
Net cash provided by operating activities	<u>\$ 30,559</u>	<u>\$ 257,194</u>	<u>\$ 287,753</u>

TOWN OF APPOMATTOX, VIRGINIA

STATEMENT OF FIDUCIARY NET POSITION –
FIDUCIARY FUNDS
June 30, 2014

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$ 1,900</u>
LIABILITIES	
Amounts held for others	<u>\$ 1,900</u>

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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, 2014

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, 2014

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 Town of Appomattox Railroad Festival, Abbitt Memorial Park, and the Tree Board.

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.

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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. The year ended June 30, 2014 is the first year the Town has recorded inventories on the statement of net position and as a result, all amounts were treated as a reduction in current year expenses in the water and sewer funds.

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	\$ 54,981
Personal property taxes	50,917
Water fund receivables	6,184
Sewer fund receivables	13,142
	<hr/>
	\$ 125,224

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, 2014

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 2014.

K. Deferred Inflows of Resources

In addition to liabilities, the statements that present financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has two types of items reported as deferred inflows of resources. One item occurs only under a modified accrual basis of accounting. The item, unavailable revenue, is reported only in the governmental funds 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. In the statement of net position, the second item represents revenues in the water fund that will be earned in future periods and fund future years.

L. 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.

M. 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, 2014. 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.

N. 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.

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

N. Fund Balances (Continued)

- **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).

O. 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.

P. 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.

Q. 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.

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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, 2014.

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

	<u>Fair Value</u>
Deposits:	
Demand deposits	\$ 1,689,795
Certificate of deposit	1,805,365
Cash on hand	<u>400</u>
Total deposits and investments	<u><u>\$ 3,495,560</u></u>

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

Cash and cash equivalents – Primary Government	\$ 3,493,060
Cash and cash equivalents – Component Unit	<u>2,500</u>
Total deposits and investments	<u><u>\$ 3,495,560</u></u>

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 3. Receivables

Receivables are as follows:

	Governmental Activities	Business-Type Activities	Total
Receivables			
Taxes	\$ 208,891	\$ -	\$ 208,891
Accounts	407	159,437	159,844
Gross receivables	209,298	159,437	368,735
Less: allowance for uncollectibles	105,898	19,326	125,224
Net receivables	<u>\$ 103,400</u>	<u>\$ 140,111</u>	<u>\$ 243,511</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 at agreement signing on June 17, 2014, with the remaining \$870,000 to be received as follows:

<u>Year Ending June 30,</u>	
2015	\$ 145,000
2016	290,000
2017	290,000
2018	145,000
	<u>\$ 870,000</u>

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 those leases.

TOWN OF APPOMATTOX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Note 5. Interfund Receivables and Payables

The \$80,000 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. 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 \$3,500 contribution to the EDA from the Town represents amounts to fund preliminary hotel studies.

Note 7. Due from Other Governments

Amounts due from other governmental units consist of \$1,000 due from Commonwealth of Virginia for fire programs grants.

Note 8. 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	-	-	815,998
Machinery and equipment	329,737	169,313	-	499,050
Total capital assets, depreciated	1,145,735	169,313	-	1,315,048
Less accumulated depreciation for:				
Buildings and improvements	178,345	30,542	-	208,887
Machinery and equipment	205,718	32,021	-	237,739
Total accumulated, depreciation	384,063	62,563	-	446,626
Total capital assets, depreciated, net	761,672	106,750	-	868,422
Governmental activities capital assets, net	\$ 813,272	\$ 106,750	\$ -	\$ 920,022

TOWN OF APPOMATTOX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Note 8. Capital Assets (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 64,710	\$ -	\$ -	\$ 64,710
Capital assets, depreciated				
Utility plant in service	15,797,531	204,525	-	16,002,056
Machinery and equipment	375,429	20,700	-	396,129
Total capital assets, depreciated	16,172,960	225,225	-	16,398,185
Less accumulated depreciation for:				
Utility plant in service	6,364,245	383,364	-	6,747,609
Machinery and equipment	218,792	37,524	-	256,316
Total accumulated depreciation	6,583,037	420,888	-	7,003,925
Total capital assets, depreciated, net	9,589,923	(195,663)	-	9,394,260
Business-type activities capital assets, net	<u>\$ 9,654,633</u>	<u>\$ (195,663)</u>	<u>\$ -</u>	<u>\$ 9,458,970</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
Public works	\$ 50,148
General government	10,374
Community development	<u>2,041</u>
Total depreciation expense – governmental activities	<u>\$ 62,563</u>
Business-type activities	
Water	\$ 98,181
Sewer	<u>322,707</u>
Total depreciation expense – business-type activities	<u>\$ 420,888</u>

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 9. Long-Term Liabilities

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due within One Year
Governmental Activities:					
General obligation bond	\$ 31,652	\$ -	\$ 1,770	\$ 29,882	\$ 1,839
Compensated absences	10,322	3,082	-	13,404	4,023
	<u>\$ 41,974</u>	<u>\$ 3,082</u>	<u>\$ 1,770</u>	<u>\$ 43,286</u>	<u>\$ 5,862</u>
Business-Type Activities:					
General obligation bond	\$ 1,888,698	\$ -	\$ 190,973	\$ 1,697,725	\$ 192,272
Compensated absences	11,764	260	-	12,024	4,496
	<u>\$ 1,900,462</u>	<u>\$ 260</u>	<u>\$ 190,973</u>	<u>\$ 1,709,749</u>	<u>\$ 196,768</u>

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

Fiscal Year	Governmental Activities		Business-Type Activities	
	General Obligation Bond		General Obligation Bond	
	Principal	Interest	Principal	Interest
2015	\$ 1,981	\$ 1,132	\$ 192,130	\$ 19,897
2016	2,057	1,056	193,466	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
2020-2024	12,910	2,654	620,169	46,641
2025-2026	6,277	341	103,020	5,994
	<u>\$ 29,882</u>	<u>\$ 7,865</u>	<u>\$ 1,697,725</u>	<u>\$ 138,232</u>

Details of long-term indebtedness are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Governmental Activities	Business-Type Activities
General obligation bonds:						
SunTrust	3.84%	12-10	12-25	\$ 650,000	<u>\$ 29,882</u>	<u>\$ 517,748</u>
Virginia Resources Authority	0.00%	06-03	06-22	\$ 3,203,000	<u>\$ -</u>	<u>\$ 1,179,977</u>

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 10. Defined Benefit Pension Plan

Plan Description:

The Town contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (the “System”). All full-time, salaried permanent (professional) employees of participating employers are automatically covered by VRS upon employment. Members earn one month of service credit for each month they are employed and their employer is paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

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

VRS PLAN 1

About VRS Plan 1 – VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

Hybrid Opt-In Election – VRS non-hazardous duty covered plan members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan’s effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan were not eligible to elect the Hybrid Retirement Plan and remain as plan members or ORP.

Retirement Contributions – Members contribute up to 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5.00% member contribution; 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.

Creditable Service – Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member’s total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description: (Continued)

VRS PLAN 1 (Continued)

Vesting – Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.

Calculating the Benefit – The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

Average Final Compensation – A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

Service Retirement Multiplier – The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.

Normal Retirement Age – Age 65.

Earliest Unreduced Retirement Eligibility – Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years of creditable service or at age 50 with at least 30 years of creditable service. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

Earliest Reduced Retirement Eligibility – Members may retire with a reduced benefit as early as age 55 with at least five years of creditable service or age 50 with at least 10 years of creditable service.

Cost-of-Living Adjustment (COLA) in Retirement – 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%.

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description: (Continued)

VRS PLAN 1 (Continued)

For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

Disability Coverage – 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. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Purchase of Prior Service – Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

VRS PLAN 2

VRS Plan 2 is the same as VRS Plan 1 except for the following:

Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description: (Continued)

VRS PLAN 2 (Continued)

Average Final Compensation – A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.

Service Retirement Multiplier – For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.

Normal Retirement Age – Normal Social Security retirement age.

Earliest Unreduced Retirement Eligibility – Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years of creditable service or when their age and service equal 90.

Earliest Reduced Retirement Eligibility – Members may retire with a reduced benefit as early as age 60 with at least five years of creditable service.

Cost-of-Living Adjustment (COLA) in Retirement – 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%.

Disability Coverage – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

HYBRID RETIREMENT PLAN

The Hybrid Retirement Plan is the same as VRS Plan 1 except for the following:

About the Hybrid Retirement Plan – The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window.

- 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.

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description: (Continued)

HYBRID RETIREMENT PLAN (Continued)

Eligible Members – Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

- State employees.*
- School division employees.
- Political subdivision employees.*
- Judges appointed or elected to an original term on or after January 1, 2014.
- Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1 – April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

*Non-Eligible Members

Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

- Members of the State Police Officers' Retirement System (SPORS).
- Members of the Virginia Law Officers' Retirement System (VaLORS).
- Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.

Retirement Contributions – A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Creditable Service

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

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description: (Continued)

HYBRID RETIREMENT PLAN (Continued)

Creditable Service (Continued)

Defined Contribution Component: Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Vesting

Defined Benefit Component: Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contribution Component: Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

- After two years, a member is 50% vested and may withdraw 50% of employer contributions.
- After three years, a member is 75% vested and may withdraw 75% of employer contributions.
- After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

Distribution is not required by law until age 70½.

Calculating the Benefit

Defined Contribution Component: The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

Average Final Compensation – Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

Service Retirement Multiplier – The retirement multiplier is 1.00%. For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description: (Continued)

HYBRID RETIREMENT PLAN (Continued)

Normal Retirement Age

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Unreduced Retirement Eligibility

Defined Benefit Component: Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years of creditable service or when their age and service equal 90.

Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Reduced Retirement Eligibility

Defined Benefit Component: Members may retire with a reduced benefit as early as age 60 with at least five years of creditable service.

Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Not applicable.

Disability Coverage – Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

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

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 10. Defined Benefit Pension Plan (Continued)

Funding Policy:

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5.00% 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 up to five years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended June 30, 2014 was 6.89% of annual covered payroll.

Annual Pension Cost:

For fiscal year ended June 30, 2014, the Town's annual pension cost of \$32,316 was equal to the Town's required and actual contributions.

Three-Year Trend Information			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of (APC) Contributed	Net Pension Obligation
June 30, 2014	\$ 32,316	100%	\$ -
June 30, 2013	31,367	100	-
June 30, 2012	27,681	100	-

The fiscal year 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumption at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00% (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% and 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%.

The actuarial value of the Town's assets is equal to the modified market value of assets. The method uses techniques that smooth the effects of short-term volatility in the market value of assets over five-year period. The Town's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2013 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

TOWN OF APPOMATTOX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Note 10. Defined Benefit Pension Plan (Continued)

Funded Status and Funding Progress:

For the Town employees, as of June 30, 2013, the most recent actuarial valuation date, the plan was 97.01% funded. The actuarial accrued liability for benefits was \$1,673,493, and the actuarial value of assets was \$1,623,419, resulting in an unfunded actuarial accrued liability (UAAL) of \$50,074. The covered payroll (annual payroll of active employees covered by the plan) was \$456,385, and ratio of the UAAL to the covered payroll was 10.97%.

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

Note 11. 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, 2014 were as follows:

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

Note 12. 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.

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Service Contracts (Continued)

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 \$50,360 from the County under this agreement for the year ended June 30, 2014.

Note 13. 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, 2014, total premiums paid were \$15,543. Benefits are those afforded through Commonwealth of Virginia as outlined in the *Code of Virginia* Section 65.2-100; premiums are based upon covered payroll, job rates and claims experience.

General liability and other insurance is provided through policies with the Virginia Municipal League. General liability and business automobile coverage have a \$1,000,000 limit per occurrence. Boiler and machinery has a \$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, 2014 were \$27,749.

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

TOWN OF APPOMATTOX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Note 14. 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 government funds. The constraints placed on fund balance for the general fund is presented below:

	<u>General</u>
Committed to:	
Public safety	\$ 49,852
Public works	373,285
Other capital projects	<u>53,002</u>
	<u>476,139</u>
Unassigned	<u>1,677,183</u>
Total fund balances	<u><u>\$ 2,153,322</u></u>

Note 15. New Accounting Standards

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

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* 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 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. This Statement will be effective for the year ending June 30, 2015.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* was issued to provide governmental guidance on governmental combinations and disposals of governmental operations that does not conflict with GASB Statement No. 34. The objective of this Statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. A disposal of a government's operations results in the removal of specific activities of a government. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial Statement users to evaluate the nature and financial effects of those transactions. This Statement will be effective for the year ending June 30, 2015.

TOWN OF APPOMATTOX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 15. New Accounting Standards (Continued)

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* was issued to address an issue regarding application of the transition provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement amends GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This Statement will be effective for the year ending June 30, 2015.

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

THIS PAGE INTENTIONALLY BLANK

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF APPOMATTOX, VIRGINIA

SCHEDULE OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN
June 30, 2014

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (Asset) (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as of Percentage of Covered Payroll
June 30, 2013	\$ 1,623,419	\$ 1,673,493	\$ 50,074	97.01 %	\$ 456,385	10.97 %
June 30, 2012	1,552,167	1,701,799	149,632	91.21	472,660	31.66
June 30, 2011	1,547,186	1,594,906	47,720	97.01	471,526	10.12

OTHER SUPPLEMENTARY INFORMATION

TOWN OF APPOMATTOX, VIRGINIA

**COMBINING STATEMENT OF FIDUCIARY NET POSITION –
FIDUCIARY FUNDS
June 30, 2014**

	Railroad Festival	Abbitt Memorial Park	Tree Board	Total
ASSETS				
Cash and cash equivalents	\$ 213	\$ 1,379	\$ 308	\$ 1,900
LIABILITIES				
Amounts held for others	\$ 213	\$ 1,379	\$ 308	\$ 1,900

TOWN OF APPOMATTOX, VIRGINIA

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES –
AGENCY FUNDS
Year Ended June 30, 2014**

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Railroad Festival Fund				
Assets:				
Cash and cash equivalents	\$ 17,215	\$ 27,817	\$ 44,819	\$ 213
Liabilities:				
Amounts held for others	\$ 17,215	\$ 27,817	\$ 44,819	\$ 213
Abbott Memorial Park Fund				
Assets:				
Cash and cash equivalents	\$ 1,129	\$ 250	\$ -	\$ 1,379
Liabilities:				
Amounts held for others	\$ 1,129	\$ 250	\$ -	\$ 1,379
Tree Board				
Assets:				
Cash and cash equivalents	\$ 400	\$ -	\$ 92	\$ 308
Liabilities:				
Amounts held for others	\$ 400	\$ -	\$ 92	\$ 308
Total All Agency Funds				
Assets:				
Cash and cash equivalents	\$ 18,744	\$ 28,067	\$ 44,911	\$ 1,900
Liabilities:				
Amounts held for others	\$ 18,744	\$ 28,067	\$ 44,911	\$ 1,900

THIS PAGE INTENTIONALLY BLANK

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

TOWN OF APPOMATTOX, VIRGINIA

STATEMENT OF NET POSITION – PROPRIETARY FUND
DISCRETELY PRESENTED COMPONENT UNIT –
APPOMATTOX ECONOMIC DEVELOPMENT AUTHORITY
June 30, 2014

	<u>Enterprise Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,500
	<u>2,500</u>
Total assets	<u>2,500</u>
LIABILITIES	
Current liabilities:	
Accounts payable	<u>2,500</u>
Total liabilities	<u>2,500</u>
NET POSITION	
Unrestricted	<u>-</u>
Total net position	<u><u>\$ -</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
Year Ended June 30, 2014

	Enterprise Fund
OPERATING EXPENSES	
Contractual services	\$ 3,500
Total operating expenses	3,500
Operating loss	(3,500)
NONOPERATING REVENUES	
Contributions from Town of Appomattox	3,500
Total nonoperating revenues	3,500
Change in net position	-
NET POSITION JULY 1	-
NET POSITION JUNE 30	\$ -

TOWN OF APPOMATTOX, VIRGINIA

**STATEMENT OF CASH FLOWS – PROPRIETARY FUND
DISCRETELY PRESENTED COMPONENT UNIT –
APPOMATTOX ECONOMIC DEVELOPMENT AUTHORITY
Year Ended June 30, 2014**

	Enterprise Fund
OPERATING ACTIVITIES	
Payments to suppliers	\$ (1,000)
Net cash used in operating activities	(1,000)
NONCAPITAL FINANCING ACTIVITIES	
Contributions from Town of Appomattox	3,500
Net cash provided by noncapital financing activities	3,500
Net increase in cash and cash equivalents	2,500
CASH AND CASH EQUIVALENTS	
Beginning at July 1	-
Ending at June 30	\$ 2,500
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (3,500)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Change in assets and liabilities:	
Increase in accounts payable	2,500
Net cash used in operating activities	\$ (1,000)

THIS PAGE INTENTIONALLY BLANK

SUPPORTING SCHEDULES

SCHEDULE 1

TOWN OF APPOMATTOX, VIRGINIA

**SCHEDULE OF REVENUES – BUDGET AND ACTUAL –
GOVERNMENTAL FUND
Year Ended June 30, 2014**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 175,000	\$ 175,000	\$ 157,400	\$ (17,600)
Personal property taxes	110,000	110,000	120,895	10,895
Penalties and interest	1,500	1,500	12,033	10,533
Total general property taxes	286,500	286,500	290,328	3,828
Other local taxes:				
Local sales and use taxes	60,000	60,000	70,907	10,907
Consumption taxes	7,000	7,000	7,332	332
Communications sales and use taxes	5,700	5,700	6,360	660
Business license taxes	160,000	160,000	171,445	11,445
Motor vehicle licenses	23,000	23,000	22,812	(188)
Bank stock taxes	130,000	130,000	123,496	(6,504)
Lodging taxes	30,000	30,000	32,915	2,915
Restaurant food tax	736,000	736,000	810,410	74,410
Total other local taxes	1,151,700	1,151,700	1,245,677	93,977
Permits, privilege fees, and regulatory licenses:				
Permits and other licenses	2,000	2,000	2,340	340
Revenue from use of money and property:				
Revenue from use of money	12,000	12,000	8,705	(3,295)
Revenue from use of property	5,000	5,000	7,282	2,282
Total revenue from use of money and property	17,000	17,000	15,987	(1,013)
Miscellaneous revenue:				
Miscellaneous	3,500	3,500	19,343	15,843
Total revenue from local sources	1,460,700	1,460,700	1,573,675	112,975

(Continued)

SCHEDULE 1**TOWN OF APPOMATTOX, VIRGINIA**

**SCHEDULE OF REVENUES – BUDGET AND ACTUAL –
GOVERNMENTAL FUND
Year Ended June 30, 2014**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue from the Commonwealth:				
Non-categorical aid:				
Auto rental taxes	\$ 3,000	\$ 3,000	\$ 4,061	\$ 1,061
Personal property tax relief funds	-	-	23,106	23,106
Total non-categorical aid	3,000	3,000	27,167	24,167
Categorical aid:				
Other grants	5,000	5,000	-	(5,000)
Fire programs	8,000	18,000	18,000	-
DCJS grants for law enforcement	42,000	42,000	41,408	(592)
Total categorical aid	55,000	65,000	59,408	(5,592)
Total revenue from the Commonwealth	58,000	68,000	86,575	18,575
Total governmental fund	<u>\$ 1,518,700</u>	<u>\$ 1,528,700</u>	<u>\$ 1,660,250</u>	<u>\$ 131,550</u>

SCHEDULE 2

TOWN OF APPOMATTOX, VIRGINIA

**SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL –
GOVERNMENTAL FUND
Year Ended June 30, 2014**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
General government administration:				
Legislative:				
Town council	\$ 38,320	\$ 67,520	\$ 54,701	\$ 12,819
General and financial administration:				
Town manager and financial administration	271,231	271,231	249,021	22,210
Legal services	15,000	62,400	60,709	1,691
Other professional services	30,000	30,000	30,650	(650)
Total general and financial administration	316,231	363,631	340,380	23,251
Total general government administration	354,551	431,151	395,081	36,070
Public safety:				
Law enforcement and traffic control:				
Police department	46,932	52,932	52,932	-
Fire and rescue services:				
Fire department	20,000	50,000	54,257	(4,257)
Total public safety	66,932	102,932	107,189	(4,257)
Public works:				
Maintenance of highways, streets, bridges, and sidewalks:				
Street maintenance	458,272	698,187	576,522	121,665
Sanitation and waste removal:				
Refuse collection and disposal	94,000	95,500	94,801	699
Maintenance of general buildings, grounds, and equipment:				
Town shop	13,250	29,450	25,133	4,317
Town office	22,250	29,750	20,513	9,237
Other properties	42,000	75,130	9,432	65,698
Total maintenance of general buildings, grounds, and equipment	77,500	134,330	55,078	79,252
Total public works	629,772	928,017	726,401	201,616
Community development:				
Planning and community development:				
Tourism	75,060	75,060	60,324	14,736
Zoning	12,000	5,000	2,896	2,104
Civic organization contributions	4,500	4,500	4,143	357
Contribution to EDA	-	-	3,500	(3,500)
Total community development	91,560	84,560	70,863	13,697
Capital outlay:				
Capital outlay	373,746	365,746	1,845	363,901

(Continued)

SCHEDULE 2**TOWN OF APPOMATTOX, VIRGINIA****SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL –
GOVERNMENTAL FUND
Year Ended June 30, 2014**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Debt service:				
Principal retirement	\$ 1,019	\$ 1,819	\$ 1,770	\$ 49
Interest and fiscal charges	1,120	1,120	1,120	-
Total debt service	2,139	2,939	2,890	49
Total governmental fund	<u>\$ 1,518,700</u>	<u>\$ 1,915,345</u>	<u>\$ 1,304,269</u>	<u>\$ 611,076</u>

THIS PAGE INTENTIONALLY BLANK

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
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
2005	806,509	128,370	-	261,225	599,284	83,249	24,992	31,085	1,934,714

TABLE 2

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

Fiscal Years Ended June 30	General Government Administration	Public Safety	Public Works	Health and Welfare	Parks, Recreation, and Cultural	Community Development	Non- Departmental	Interest on Long-Term Debt	Enterprise Funds	Totals
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
2005	344,844	82,989	214,103	-	5,000	27,620	-	896	975,706	1,651,158

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
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
2005	260,945	599,284	1,575	72,213	-	82,789	17,226	49,379	1,083,411

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
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
2005	376,811	92,492	196,829	-	6,172	32,620	704,924

⁽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
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%
2005	289,671	275,636	95.15%	4,724	280,360	96.79%	24,881	8.59%

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	
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
2005	101,895,800	12,966,883	10,470,946	880,000	4,382,987	4,411	130,601,027

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
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
2005	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, 2014
UNAUDITED

Assessed value of real estate, January 1, 2013		<u>\$ 146,645,100</u>
Legal debt limit, (10% of assessed value)		14,664,510
Total bonded debt	<u>\$ 547,630</u>	<u>547,630</u>
Legal debt margin		<u><u>\$ 14,116,880</u></u>

THIS PAGE INTENTIONALLY BLANK

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, 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, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated June 17, 2015.

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.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 as Item 10-1, we identified a certain deficiency in internal control that we consider to be a material weakness.**

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 14-1.**

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
June 17, 2015

TOWN OF APPOMATTOX, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2014

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

LOCAL COMPLIANCE MATTERS

Town Charter

TOWN OF APPOMATTOX, VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2014

A. FINDINGS – FINANCIAL STATEMENT AUDIT

10-1: 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, and 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.

B. FINDINGS – COMMONWEALTH OF VIRGINIA

14-1: Budget Appropriations

Condition:

Expenditures exceeded budgeted appropriations in public safety category.

Recommendation:

Steps should be taken to ensure that excess expenditures over budgeted appropriations are approved by Town Council and the budget amended accordingly.

Management's Response:

The department of fire was not over-budget, but separating some of the expenses as capital outlay led to public safety being over-budget. The Town will re-align items and make transfers or supplemental appropriations when necessary in the future to keep this from occurring again.

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

June 30, 2014

CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT ON COMMENTS AND SUGGESTIONS	3
COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS FOR YOUR CONSIDERATION	5
SUMMARY OF THE STATUS OF PRIOR YEAR COMMENTS AND SUGGESTIONS	6
ACCOUNTING AND OTHER MATTERS	11
REQUIRED COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE	16
MANAGEMENT REPRESENTATIONS	20

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 governmental activities, the business-type activities, the discretely presented component unit, and the major fund of the Town of Appomattox, Virginia (the "Town") as of and for the year ended June 30, 2014, 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 in the circumstances 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. 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
June 17, 2015

COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS FOR YOUR CONSIDERATION

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.

Management's Response:

The Town has a practice of obtaining and retaining all supporting documentation for expenditures. This was most likely a misfiling of the documentation due to human error.

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.

Management's Response:

The Town Manager has obtained the appropriate clauses from the Town Attorney and will be including them in all future contracts.

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.

Management's Response:

The Town Treasurer has obtained this information and put steps in place to have it timely in future years.

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 2014. 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 2015.*

BANK RECONCILIATION

We noted during our audit that bank reconciliations were not prepared or reviewed timely during the fiscal year, generally lagging six months past month end. Failure to complete timely reconciliations leaves the Town with an increased risk of loss due to errors or misappropriation of funds that could remain undetected until reconciliation is complete. Timely preparation and review of reconciliations can provide a level of control in a system with limited segregation of duties. We recommend that bank reconciliations be prepared and reviewed in a more timely manner.

Current Status: *No similar instances were noted during the fiscal year 2014 audit.*

Water and Sewer Inventory

Inventory for the Water and Sewer Department has never been recorded. Often, water and sewer departments have significant items such as chemicals, pipes, meters, etc. Currently, these items are expensed as purchased. We recommend that management consider performing a physical count on the water and sewer inventory and recording these items in the financial records. In addition, maintaining adequate inventory records provides an internal control to safeguard these assets.

Current Status: *The Town completed the count of inventory in fiscal year 2014. Inventory is now recorded and procedures are in place for inventory counts.*

REVIEW OF PAYROLL CHANGES

We noted that the current software does not generate a master change log showing any edits to payroll information, including input of new employees. We also noted that changes are not being reviewed in any alternative manner either. The Town treasurer's changes to payroll related information should be reviewed for appropriateness and compared to proper supporting documentation by the individual reviewing payroll prior to payment.

Current Status: *The Town clerk is now reviewing all payroll changes made by the Town treasurer as part of the payroll review process.*

(Continued)

SUMMARY OF THE STATUS OF PRIOR YEAR COMMENTS AND SUGGESTIONS

REVIEW OF FEDERAL TAX PAYMENTS

We noted that electronic check payments for federal tax payments are not being reviewed as part of the current payroll review. All payments should be reviewed for accuracy prior to disbursement.

Current Status: *The Town clerk is now reviewing all tax payments as part of the payroll review process.*

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.*

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, 2014. 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, 2014.*

SUMMARY OF THE STATUS OF PRIOR YEAR COMMENTS AND SUGGESTIONS

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, 2014.*

PROPER SUPPORTING DOCUMENTATION

Documentation of Travel Costs

We noted that the purpose of many trips was not listed on the documentation provided for reimbursement. Providing the reason for the trip is important documentation as it provides evidence that the travel was for appropriate and necessary Town business. It also ensures that the travel is charged to the most appropriate department.

Current Status: *No similar instances were noted during the fiscal year 2014 audit.*

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, 2014.*

(Continued)

SUMMARY OF THE STATUS OF PRIOR YEAR COMMENTS AND SUGGESTIONS

SERVER BACK-UP PROCEDURES

Currently, back-ups are made nightly, with tapes rotated on a weekly basis, meaning the prior Monday's back-up is overwritten the following Monday. Back-up tapes are stored in the Mayor's office, with the server, rather than in an offsite location, increasing the risk that both the server and the tapes could be subject to loss at the same time. We recommend the Town begin using an off-site storage location and a tape rotation that would allow it to have a recent tape offsite at all times, as well as a full-system restore and backup plan in place with offsite storage of the related data. This would mitigate the risk of loss of work in the event of a natural disaster or malfunction of the server or a back-up tape.

Current Status: *Server back-up is performed nightly. The back-up from the prior night is taken to public works every morning and stored in a fire proof safe.*

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, 2014.*

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. 68

On June 25, 2012, the Governmental Accounting Standards Board (GASB) approved **GASB Statement No. 68**, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits.

The AICPA State and Local Government Expert Panel (SLGEP) issued a Whitepaper in February 2014 titled *Governmental Employer Participation in Cost-Sharing Multiple-Employer Plans: Issues Related to Information for Employer Reporting* to assist with employer reporting. An excerpt from that Whitepaper is as follows:

“Once GASB Statement No. 68 is implemented, employers will be required to recognize a liability as employees earn their pension benefits (that is, as they provide services to the government). For the first time, employers participating in cost-sharing plans will recognize their proportionate share of the collective pension amounts for all benefits provided through the plan. Pension amounts to be recognized by employers include the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. To the extent that a long-term obligation to provide pension benefits (that is, total pension liability) is larger than the value of the assets available in the plan to pay pension benefits, there is a collective net pension liability for which each employer will need to report its proportionate share in their financial statements. This is significant because the employer’s proportionate share of collective net pension liability will appear on the face of the employer’s accrual-based financial statements for the first time, along with the employer’s other long-term liabilities. In many cases, the net pension liability will be material, perhaps more so than any other long-term liability appearing in the financial statements. Further, changes in the net pension liability will be recognized immediately as pension expense, or reported as deferred outflows of resources or deferred inflows of resources, depending on the nature of the change, which could result in reporting four possible categories of deferrals for presentation purposes. Theoretically, the pension amounts reported individually by each employer participating in a cost-sharing plan will equal the collective pension amounts for the plan as a whole.”

Implementation challenges include obtaining the necessary information to support new recognized amounts. For those localities using the Virginia Retirement System (VRS), this information should be provided on your VRS report. As auditors, we will be challenged to obtain sufficient audit evidence to opine on these amounts.

GASB issued two pension implementation toolkits in March 2014, one for GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* and one for GASB No. 68. The toolkits provide useful information, including implementation guides, for prepares and auditors to comply with the new requirements.

GASB Statement No. 68 is effective for periods beginning after June 15, 2014. Earlier application is encouraged.

(Continued)

ACCOUNTING AND OTHER MATTERS

GASB STATEMENT NO. 69

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term operations for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.

In addition, this Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

GASB Statement No. 69 is effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged.

GASB STATEMENT NO. 71

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68* addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual-basis financial statements of employers and nonemployer contributing entities.

The provisions of this Statement are required to be applied simultaneously with the provisions of **GASB Statement No. 68**.

ACCOUNTING AND OTHER MATTERS

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 Principals, 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).

CURRENT GASB PROJECTS

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

- **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.

(Continued)

ACCOUNTING AND OTHER MATTERS

CURRENT GASB PROJECTS (Continued)

- ***Fair Value Measurement and Application.*** There is a proposed GASB Statement that would enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent definition and accepted valuation techniques. The proposed Statement also would enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. Note disclosures related to fair value would include:
 - Fair value measurement at the end of the period
 - Level of the fair value hierarchy
 - Description of valuation techniques
 - Any change in technique and the reason for the change
 - Reason for measurement (if nonrecurring)

Disclosures of quantitative information about significant unobservable inputs and their sensitivity to change are not required. An exposure draft was approved in May 2014 with a comment period ending August 2014. GASB anticipates issuing the final statement in February 2015.

- ***Fiduciary Responsibilities.*** The primary objective of this project would be to develop guidance regarding the application of the fiduciary responsibility criteria 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. The project is currently being deliberated.
- ***GAAP Hierarchy.*** There is a proposed GASB Statement that would supersede the GAAP hierarchy, as set forth in **GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments***. Currently, GASB Statement No. 55 includes four categories of authoritative GAAP. The proposed statement reduces the GAAP hierarchy to two categories. Category A includes GASB Statements of Governmental Accounting Standards (including previously issued GASB Interpretations). Category B includes GASB Technical Bulletins, GASB Implementation Guides, and guidance from the AICPA that is specifically cleared by the GASB. An exposure draft was issued December 20, 2013 with a comment period ending December 31, 2014. GASB anticipates issuing the final statement in June 2015.
- ***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 is expected to be issued for public comment in November 2014, with a final statement in late 2015.

(Continued)

ACCOUNTING AND OTHER MATTERS

CURRENT GASB PROJECTS (Continued)

- ***Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*** The exposure draft states that “the principal objective of the proposed statement is to improve the usefulness of information for decisions made by the various users of the general purpose external financial reports of governments whose employees – both active employees and inactive employees – are provided with postemployment benefits other than pensions. An additional objective is to improve the information provided in government financial reports about OPEB-related financial support provided by certain nonemployer entities for OPEB that is provided to the employees of other entities.” An exposure draft was issued for public comment in May 2014. GASB anticipates issuing the final statement in June 2015.
- ***Tax Abatement Disclosures.*** The objective of this project would be to consider developing disclosure guidance for governments that have granted tax abatements. For purposes of this project, tax abatements are a reduction of or exemption from taxes, offered by a government to a specific taxpayer, typically for the purpose of spurring economic development. The project would not consider guidance for programs that reduce the tax liabilities of broad classes of taxpayers, such as senior citizen or veterans, and which are not the product of individual agreements with each taxpayer. The project also would not consider issues related to recognition. GASB currently plans to issue an exposure draft in October 2014 and then issuing the final statement in August 2015.

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, collectively hereafter referred to as the “Town,” for the year ended June 30, 2014. 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 July 30, 2014. 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. The Town changed accounting policies related to certain items previously reported as assets and liabilities by adopting GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* during 2014. 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.

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.

Significant Audit Findings (Continued)

Qualitative Aspects of Accounting Practices (Continued)

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 and long-term debt.

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 \$323,000 in the sewer fund, and a corresponding increase in accumulated depreciation.
- We decreased accounts receivable in the general fund for approximately \$13,000, decreased allowance for doubtful accounts for approximately \$4,000, resulting in a net decrease of deferred revenue of approximately \$9,000.
- We increased accounts payable for approximately \$10,000, and a corresponding increase in public safety expense/expenditures.

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

Unposted adjustments:

- An understatement of sales tax receivable of approximately \$7,000, an understatement of beginning net position/fund balance of approximately \$5,000, resulting in a net understatement of current year revenue of approximately \$2,000 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.

Significant Audit Findings (Continued)

Corrected and Uncorrected Misstatements (Continued)

Unposted adjustments: (Continued):

- An understatement of accounts payable and a corresponding understatement of expense of approximately \$5,000 in the water fund.
- An estimated understatement of \$39,000 in beginning water fund inventory, with corresponding understatements of beginning net position and current year expenses. Additionally, an estimated understatement of \$13,000 in beginning sewer inventory, with corresponding understatements of beginning net position and current year expenses. Both understatements stem from the Town not recording inventory in the water and sewer funds prior to fiscal year 2014. The recording of inventory in fiscal year 2014 was as an adjustment to current year expenses, rather than allocating between current year purchases and amounts on hand at the beginning of the fiscal year.
- 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. A copy of those representations 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

We applied certain limited procedures to management's discussion and analysis and analysis of funding progress for defined benefit pension plan, which are required supplementary information (RSI) that supplements 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.

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

June 17, 2015

P. O. BOX 705
210 LINDEN STREET
APPOMATTOX, VA 24522

PHONE: (434) 352-8268
FAX: (434) 352-2126
www.townofappomattox.com

Town of Appomattox



MAYOR
PAUL D. HARVEY
COUNCIL MEMBERS:
STEVEN T. CONNER
TIMOTHY W. GARRETT
N. H. (JIMMY) MAYBERRY
C. LEWIS MCDEARMON, JR.
CLAUDIA G. PUCKETTE
MARY LOU SPIGGLE
CLERK OF COUNCIL
ROXANNE W. PAULETTE, CMC

June 17, 2015

Brown, Edwards, & Company, L.L.P.
Certified Public Accountants
P.O. Box 10189
Lynchburg, VA 24506

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, 2014, 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 June 17, 2015 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 July 30, 2014, 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 summarized below are immaterial, both individually and in the aggregate, to the financial statements as a whole for each opinion unit. In addition, you have proposed adjusting journal entries that we agree with and have posted, and we understand the nature of those entries and their impact on the financial statements.
 - a) An understatement of sales tax receivable of approximately \$7,000, an understatement of beginning net position/fund balance of approximately \$5,000, resulting in a net understatement of current year revenue of approximately \$2,000 in the general fund related to time of recording June sales tax each year.
 - b) An overstatement of beginning net position and a corresponding overstatement of current year expense of approximately \$5,000 in the water fund.
 - c) An understatement of accounts payable and a corresponding understatement of expense of approximately \$5,000 in the water fund.
 - d) An estimated understatement of \$39,000 in beginning water fund inventory, with corresponding understatements of beginning net position and current year expenses. Additionally, an estimated understatement of \$13,000 in beginning sewer fund inventory, with corresponding understatements of beginning net position and current year expenses. Both understatements stem from the Town not recording inventory in the water and sewer funds prior to fiscal year 2014. The recording of inventory in fiscal year 2014 was as an adjustment to current year expenses, rather than allocating between current year purchases and amounts on hand at the beginning of the fiscal year.
- 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.

Information Provided

- 11) 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.
- 12) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 13) 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.
- 14) 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, or
 - Others where the fraud could have a material effect on the financial statements.
- 15) 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.
- 16) 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.
- 17) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 18) 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.

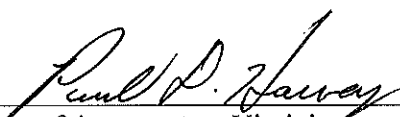
Government—specific


- 19) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 20) We have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that you have reported to us.
- 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 GASB 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 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.
- 47) We believe that the actuarial assumptions and methods used to measure pension and OPEB liabilities and costs for financial accounting purposes are appropriate in the circumstances, if applicable.
- 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