

# TOWN OF TAPPAHANNOCK, VIRGINIA



ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2018



TOWN OF TAPPAHANNOCK, VIRGINIA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2018

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# TOWN OF TAPPAHANNOCK, VIRGINIA

## ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2018

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# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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## Independent Auditors' Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Tappahannock, Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

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

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

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

## *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Tappahannock, Virginia, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension on pages 4-9, 63, and 64-66, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### *Supplementary and Other Information*

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2019, on our consideration of Town of Tappahannock, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Town of Tappahannock, Virginia's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Tappahannock, Virginia's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read 'R. F. Clark', followed by a horizontal line extending to the right.

Richmond, Virginia  
March 8, 2019

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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To the Honorable Members of the Town Council  
To the Citizens of the Town of Tappahannock  
Town of Tappahannock, Virginia

As management of Town of Tappahannock, Virginia we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2018. Please read it in conjunction with the Town's basic financial statements, which follow this section.

### Financial Highlights

#### Government-wide Financial Statements

- < The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$9,035,609 (net position).

#### Fund Financial Statements

The Governmental Funds, on a current financial resource basis, reported revenues and other financing sources in deficit of expenditures and other financing uses of \$166,799 (Exhibit 5).

- < As of the close of the current fiscal year; the Town's funds reported an ending fund balance of \$1,448,145, a decrease of \$166,799 in comparison with the prior year.
- < The combined long-term obligations decreased \$908,184 during the current fiscal year.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components:

1. Government-wide financial statements,
2. Fund financial statements, and
3. Notes to the financial statements.

This report also contains required and other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements - The Government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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### Overview of the Financial Statements (Continued)

#### Government-wide financial statements (Continued)

The statement of net position presents information on all of the Town's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, police protection, and sanitation.

Fund financial statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Tappahannock, Virginia, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental funds - Governmental funds are used to account for essentially the same functions or services reported as governmental activities in the government-wide financial statements. Whereas the government-wide financial statements are prepared on the accrual basis of accounting, the governmental fund financial statements are prepared on the modified accrual basis of accounting. The focus of modified accrual reporting is on near-term inflows and outflows of financial resources and the balance of financial resources available at the end of the fiscal year. Since the governmental funds focus is narrower than that of the government-wide financial statements a reconciliation between the two methods is provided. The Town has two major governmental funds - the General Fund and the Capital Projects Fund.

Proprietary funds - Proprietary funds consist of enterprise funds. Enterprise funds are established to account for the delivery of goods and services to the general public and use the accrual basis of accounting, similar to private sector business.

The Water and Sewer Fund provides a centralized source for water/sewer services.

Notes to the financial statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information for budgetary comparison schedules and the schedules related to pension funding and other supplementary information, including individual fund financial statements and budgetary comparison schedules.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Town's financial position. In the case of the Town, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$9,035,609 at the close of the most recent fiscal year. The following table summarizes the Town's Statement of Net Position:

Town of Tappahannock, Virginia's Net Position

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 1,484,039	\$ 1,698,261	\$ 496,478	\$ 490,402	\$ 1,980,517	\$ 2,188,663
Capital assets	2,609,031	2,695,451	12,988,161	13,513,757	15,597,192	16,209,208
Total assets	\$ 4,093,070	\$ 4,393,712	\$ 13,484,639	\$ 14,004,159	\$ 17,577,709	\$ 18,397,871
Deferred outflows of resources	\$ 74,398	\$ 169,131	\$ 26,243	\$ 59,660	\$ 100,641	\$ 228,791
Current liabilities	\$ 6,303	\$ 56,948	\$ 115,858	\$ 144,054	\$ 122,161	\$ 201,002
Long-term liabilities outstanding	1,522,425	1,760,775	6,750,741	7,420,575	8,273,166	9,181,350
Total liabilities	\$ 1,528,728	\$ 1,817,723	\$ 6,866,599	\$ 7,564,629	\$ 8,395,327	\$ 9,382,352
Deferred inflows of resources	\$ 183,656	\$ 76,311	\$ 63,758	\$ 26,513	\$ 247,414	\$ 102,824
Net position:						
Net investment in capital assets	\$ 1,470,146	\$ 1,375,124	\$ 6,358,550	\$ 6,240,228	\$ 7,828,696	\$ 7,615,352
Unrestricted	984,938	1,293,685	221,975	232,449	1,206,913	1,526,134
Total net position	\$ 2,455,084	\$ 2,668,809	\$ 6,580,525	\$ 6,472,677	\$ 9,035,609	\$ 9,141,486

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Government-wide Financial Analysis (Continued)**

During the current fiscal year, the Town's net position decreased by \$105,877. The following table summarizes the Town's Statement of Activities:

Town of Tappahannock, Virginia's Changes in Net Position						
	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 122,671	\$ 113,893	\$ 1,235,675	\$ 1,234,440	\$ 1,358,346	\$ 1,348,333
Operating grants and contributions	67,533	67,896	177,327	186,036	244,860	253,932
General revenues:						
General property taxes	411,625	425,066	-	-	411,625	425,066
Other local taxes	2,058,009	2,198,610	-	-	2,058,009	2,198,610
Grants and other contributions not restricted	157,077	165,442	-	-	157,077	165,442
Other general revenues	26,235	20,507	215	208	26,450	20,715
<b>Total revenues</b>	<b>\$ 2,843,150</b>	<b>\$ 2,991,414</b>	<b>\$ 1,413,217</b>	<b>\$ 1,420,684</b>	<b>\$ 4,256,367</b>	<b>\$ 4,412,098</b>
<b>Expenses:</b>						
General government administration						
	\$ 806,533	\$ 694,424	\$ -	\$ -	\$ 806,533	\$ 694,424
Public safety	1,077,311	929,503	-	-	1,077,311	929,503
Public works	843,817	759,408	1,600,444	1,614,024	2,444,261	2,373,432
Interest and other fiscal charges	34,139	36,748	-	-	34,139	36,748
<b>Total expenses</b>	<b>\$ 2,761,800</b>	<b>\$ 2,420,083</b>	<b>\$ 1,600,444</b>	<b>\$ 1,614,024</b>	<b>\$ 4,362,244</b>	<b>\$ 4,034,107</b>
Transfers	\$ (295,075)	\$ (331,868)	\$ 295,075	\$ 331,868	\$ -	\$ -
Change in net position	\$ (213,725)	\$ 239,463	\$ 107,848	\$ 138,528	\$ (105,877)	\$ 377,991
Beginning of year	2,668,809	2,429,346	6,472,677	6,334,149	9,141,486	8,763,495
End of year	<u>\$ 2,455,084</u>	<u>\$ 2,668,809</u>	<u>\$ 6,580,525</u>	<u>\$ 6,472,677</u>	<u>\$ 9,035,609</u>	<u>\$ 9,141,486</u>



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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### Financial Analysis of the Town's Funds

As noted earlier, the Town used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a Town's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town's governmental funds reported a fund balance of \$1,448,145, a decrease of \$166,799 in comparison with the prior year. Unassigned General Fund balance at year-end constituted approximately 86% of total governmental fund balance.

Proprietary Funds - The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position at the end of the year amounted to \$221,975. Net position increased \$107,848. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town's business-type activities.

### General Fund Budgetary Highlights

During the year, revenues and other sources exceeded budgetary estimates by \$149,166. Budgetary estimates exceeded expenditures and other uses by \$286,355 resulting in a positive variance of \$435,521.

### Capital Asset and Debt Administration

Capital assets - The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2018 amounts to \$2,609,031 and \$12,988,161, respectively (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and machinery and equipment.

Additional information on the Town's capital assets can be found in Note 5 of this report.

Long-term debt - At the end of the current fiscal year, the Town had total debt outstanding of \$7,465,544. Of this amount, \$7,097,910 comprises debt backed by the full faith and credit of the Town. The remainder of the Town's debt represents debt secured solely by specific property or specified revenue sources (i.e., notes or capital leases).

During the current fiscal year, the carrying value of the Town's total debt decreased by \$782,081.

Additional information on the Town's long-term debt can be found in Note 6 of this report.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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### Economic Factors and Next Year's Budgets and Rates

< Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the Town's budget for the 2019 fiscal year.

The fiscal year 2019 budget decreased approximately 1% in comparison to 2018 and property tax rates remained unchanged.

### Requests for Information

This financial report is designed to provide a general overview of the Town of Tappahannock, Virginia's finances for all those with an interest in the Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Manager, Post Office Box 266, Tappahannock, Virginia 22560.

*BASIC FINANCIAL STATEMENTS*

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*GOVERNMENT-WIDE FINANCIAL STATEMENTS*

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Town of Tappahannock, Virginia  
Statement of Net Position  
June 30, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,286,046	\$ 217,921	\$ 1,503,967
Restricted cash - customer deposits	-	59,462	59,462
Receivables (net of allowance for uncollectibles):			
Taxes receivable	39,051	-	39,051
Accounts receivable	90,243	219,095	309,338
Due from other governmental units	68,699	-	68,699
Capital assets (net of accumulated depreciation):			
Land and land improvements	1,081,444	-	1,081,444
Buildings and improvements	1,171,219	-	1,171,219
Utility plant in service	-	12,954,780	12,954,780
Machinery and equipment	356,368	33,381	389,749
Total assets	<u>\$ 4,093,070</u>	<u>\$ 13,484,639</u>	<u>\$ 17,577,709</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension related items	\$ 74,398	\$ 26,243	\$ 100,641
<b>LIABILITIES</b>			
Accounts payable	\$ 1,082	\$ 17,486	\$ 18,568
Accrued interest payable	5,221	38,910	44,131
Customer deposits payable	-	59,462	59,462
Long-term liabilities:			
Due within one year	220,379	610,169	830,548
Due in more than one year	1,302,046	6,140,572	7,442,618
Total liabilities	<u>\$ 1,528,728</u>	<u>\$ 6,866,599</u>	<u>\$ 8,395,327</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred revenue - property taxes	\$ 2,906	\$ -	\$ 2,906
Pension related items	180,750	63,758	244,508
Total deferred inflows of resources	<u>\$ 183,656</u>	<u>\$ 63,758</u>	<u>\$ 247,414</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 1,470,146	\$ 6,358,550	\$ 7,828,696
Unrestricted (deficit)	984,938	221,975	1,206,913
Total net position	<u>\$ 2,455,084</u>	<u>\$ 6,580,525</u>	<u>\$ 9,035,609</u>

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

Town of Tappahannock, Virginia  
Statement of Activities  
For the Year Ended June 30, 2018

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Operating		Primary Government		Total
		Charges for Services	Grants and Contributions	Governmental Activities	Business-type Activities	
<b>PRIMARY GOVERNMENT:</b>						
Governmental activities:						
General government administration	\$ 806,533	\$ 2,432	\$ -	\$ (804,101)	\$ -	\$ (804,101)
Public safety	1,077,311	32,304	67,533	(977,474)	-	(977,474)
Public works	843,817	87,935	-	(755,882)	-	(755,882)
Interest on long-term debt	34,139	-	-	(34,139)	-	(34,139)
Total governmental activities	\$ 2,761,800	\$ 122,671	\$ 67,533	\$ (2,571,596)	\$ -	\$ (2,571,596)
Business-type activities:						
Water and Sewer	\$ 1,600,444	\$ 1,235,675	\$ 177,327	\$ -	\$ (187,442)	\$ (187,442)
Total business-type activities	\$ 1,600,444	\$ 1,235,675	\$ 177,327	\$ -	\$ (187,442)	\$ (187,442)
Total primary government	\$ 4,362,244	\$ 1,358,346	\$ 244,860	\$ -	\$ (187,442)	\$ (2,759,038)
General revenues:						
General property taxes	\$ 411,625			\$ -		\$ 411,625
Other local taxes:						
Local sales and use taxes				262,540		262,540
Business license taxes				553,540		553,540
Bank stock tax				183,127		183,127
Restaurant food taxes				781,116		781,116
Other local taxes				277,686		277,686
Unrestricted revenues from use of money and property				792	215	1,007
Miscellaneous				25,443		25,443
Grants and contributions not restricted to specific programs				157,077		157,077
Transfers				(295,075)	295,075	-
Total general revenues and transfers	\$ 2,357,871			\$ 295,290	\$ 295,075	\$ 2,653,161
Change in net position	\$ (213,725)			\$ 107,848	\$ -	\$ (105,877)
Net position - beginning	2,668,809			6,472,677		9,141,486
Net position - ending	\$ 2,455,084			\$ 6,580,525	\$ -	\$ 9,035,609

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



*FUND FINANCIAL STATEMENTS*

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Town of Tappahannock, Virginia  
Balance Sheet  
Governmental Funds  
June 30, 2018

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Fund</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,084,136	\$ 200,700	\$ 1,210	\$ 1,286,046
Receivables (net of allowance for uncollectibles):				
Taxes receivable	39,051	-	-	39,051
Accounts receivable	90,243	-	-	90,243
Due from other governmental units	68,699	-	-	68,699
Total assets	<u>\$ 1,282,129</u>	<u>\$ 200,700</u>	<u>\$ 1,210</u>	<u>\$ 1,484,039</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 1,082	\$ -	\$ -	\$ 1,082
Total liabilities	<u>\$ 1,082</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,082</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - property taxes	\$ 34,812	\$ -	\$ -	\$ 34,812
Total deferred inflows of resources	<u>\$ 34,812</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,812</u>
<b>FUND BALANCES</b>				
Restricted	\$ -	\$ -	\$ 1,210	\$ 1,210
Committed	-	200,700	-	200,700
Unassigned	1,246,235	-	-	1,246,235
Total fund balances	<u>\$ 1,246,235</u>	<u>\$ 200,700</u>	<u>\$ 1,210</u>	<u>\$ 1,448,145</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,282,129</u>	<u>\$ 200,700</u>	<u>\$ 1,210</u>	<u>\$ 1,484,039</u>

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

Town of Tappahannock, Virginia  
 Reconciliation of the Balance Sheet of Governmental Funds  
 to the Statement of Net Position  
 June 30, 2018

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Amounts reported for governmental activities in the Statement of Net Position are different because:

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$	1,448,145
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		2,609,031
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.		
Unavailable revenue - property taxes		31,906
Deferred outflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.		
Pension related items		74,398
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. The following is a summary of items supporting this adjustment:		
General obligation bond	\$	(611,251)
General obligation note		(160,000)
Note payable		(344,954)
Capital leases		(22,680)
Accrued interest payable		(5,221)
Net pension liability		(261,117)
Compensated absences		(122,423)
		(1,527,646)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.		
Pension related items		(180,750)
Net position of governmental activities	\$	2,455,084

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

Town of Tappahannock, Virginia  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2018

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Fund</u>	<u>Total</u>
<b>REVENUES</b>				
General property taxes	\$ 410,948	\$ -	\$ -	\$ 410,948
Other local taxes	2,058,009	-	-	2,058,009
Permits, privilege fees, and regulatory licenses	3,349	-	-	3,349
Fines and forfeitures	31,387	-	-	31,387
Revenue from the use of money and property	340	447	5	792
Charges for services	87,935	-	-	87,935
Miscellaneous	25,443	-	-	25,443
Intergovernmental:				
Commonwealth	215,664	-	-	215,664
Federal	4,837	-	4,109	8,946
Total revenues	<u>\$ 2,837,912</u>	<u>\$ 447</u>	<u>\$ 4,114</u>	<u>\$ 2,842,473</u>
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 723,493	\$ -	\$ -	\$ 723,493
Public safety	936,662	-	4,328	940,990
Public works	695,895	-	-	695,895
Nondepartmental	65,538	-	-	65,538
Capital projects	-	71,913	-	71,913
Debt service:				
Principal retirement	204,122	-	-	204,122
Interest and other fiscal charges	34,926	-	-	34,926
Total expenditures	<u>\$ 2,660,636</u>	<u>\$ 71,913</u>	<u>\$ 4,328</u>	<u>\$ 2,736,877</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 177,276</u>	<u>\$ (71,466)</u>	<u>\$ (214)</u>	<u>\$ 105,596</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ -	\$ -	\$ 457	\$ 457
Transfers out	(295,532)	-	-	(295,532)
Issuance of capital leases	22,680	-	-	22,680
Total other financing sources (uses)	<u>\$ (272,852)</u>	<u>\$ -</u>	<u>\$ 457</u>	<u>\$ (272,395)</u>
Net change in fund balances	\$ (95,576)	\$ (71,466)	\$ 243	\$ (166,799)
Fund balances - beginning	1,341,811	272,166	967	1,614,944
Fund balances - ending	<u>\$ 1,246,235</u>	<u>\$ 200,700</u>	<u>\$ 1,210</u>	<u>\$ 1,448,145</u>

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

Town of Tappahannock, Virginia  
 Reconciliation of the Statement of Revenues,  
 Expenditures, and Changes in Fund Balances of Governmental Funds  
 to the Statement of Activities  
 For the Year Ended June 30, 2018

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

Net change in fund balances - total governmental funds \$ (166,799)

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

Capital asset additions	\$ 65,885	
Depreciation expense	<u>(152,305)</u>	(86,420)

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

Property taxes		677
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The issuance of long-term obligations (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The following is a summary of items supporting this adjustment:

Issuance of capital lease	\$ (22,680)	
Principal retirement on general obligation bond	92,103	
Principal retirement on general obligation note	20,000	
Principal retirement on note payable	80,846	
Principal retirement on capital leases	<u>11,173</u>	181,442

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.

The following is a summary of items supporting this adjustment:

(Increase) decrease in compensated absences	\$ 11,570	
Pension expense	(154,982)	
(Increase) decrease in accrued interest payable	<u>787</u>	(142,625)

Change in net position of governmental activities		<u><u>\$ (213,725)</u></u>
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The notes to the financial statements are an integral part of this statement.

Town of Tappahannock, Virginia  
Statement of Net Position  
Proprietary Fund  
June 30, 2018

	<u>Water and Sewer</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 217,921
Restricted cash - customer deposits	59,462
Accounts receivable, net of allowance for uncollectibles	219,095
Total current assets	\$ 496,478
Noncurrent assets:	
Capital assets, net of accumulated depreciation:	
Utility plant in service	\$ 12,954,780
Machinery and equipment	33,381
Total capital assets, net of accumulated depreciation	\$ 12,988,161
Total noncurrent assets	\$ 12,988,161
Total assets	\$ 13,484,639
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension related items	\$ 26,243
 <b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 17,486
Accrued interest payable	38,910
Customer deposits payable	59,462
Bonds payable - current portion	607,267
Compensated absences - current portion	2,902
Total current liabilities	\$ 726,027
Noncurrent liabilities:	
Bonds payable - net of current portion	\$ 5,719,392
Unamortized issuance premium	302,952
Net pension liability	92,107
Compensated absences - net of current portion	26,121
Total noncurrent liabilities	\$ 6,140,572
Total liabilities	\$ 6,866,599
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension related items	\$ 63,758
 <b>NET POSITION</b>	
Net investment in capital assets	\$ 6,358,550
Unrestricted	221,975
Total net position	\$ 6,580,525

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

Town of Tappahannock, Virginia  
Statement of Revenues, Expenses, and Changes in Fund Net Position  
Proprietary Fund  
For the Year Ended June 30, 2018

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	<u>Water and Sewer</u>
<b>OPERATING REVENUES</b>	
Charges for services:	
Water and sewer revenues	\$ 1,231,180
Other revenues	4,495
Total operating revenues	<u>\$ 1,235,675</u>
<b>OPERATING EXPENSES</b>	
Personnel services and fringe benefits	\$ 555,454
Contractual services	15,968
Other supplies and expenses	386,874
Depreciation	542,949
Total operating expenses	<u>\$ 1,501,245</u>
Operating income (loss)	<u>\$ (265,570)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment earnings	\$ 215
Connection/availability fees	22,250
Local government contribution	155,077
Interest expense	(99,199)
Total nonoperating revenues (expenses)	<u>\$ 78,343</u>
Income (loss) before transfers	\$ (187,227)
Transfers in	295,075
Change in net position	<u>\$ 107,848</u>
Total net position - beginning	6,472,677
Total net position - ending	<u><u>\$ 6,580,525</u></u>

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



Town of Tappahannock, Virginia  
Statement of Cash Flows  
Proprietary Fund  
For the Year Ended June 30, 2018

	<u>Water and Sewer</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers and users	\$ 1,249,986
Payments for operating expenses	(427,386)
Payments to and for employees	(510,708)
Net cash provided by (used for) operating activities	<u>\$ 311,892</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers from other funds	\$ 295,075
Local government contribution	155,077
Net cash provided by (used for) noncapital financing activities	<u>\$ 450,152</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchase of capital assets	\$ (17,353)
Principal payments on bonds payable	(600,639)
Connection fees	22,250
Interest payments	(146,130)
Net cash provided by (used for) capital and related financing activities	<u>\$ (741,872)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and dividends received	\$ 215
Net cash provided by (used for) investing activities	<u>\$ 215</u>
Net increase (decrease) in cash and cash equivalents	\$ 20,387
Cash and cash equivalents - beginning, including restricted cash of \$58,502	256,996
Cash and cash equivalents - ending, including restricted cash of \$59,462	<u>\$ 277,383</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>	
Operating income (loss)	<u>\$ (265,570)</u>
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:</b>	
Depreciation	542,949
(Increase) decrease in accounts receivable	14,311
(Increase) decrease in deferred outflows of pension related items	33,417
Increase (decrease) in customer deposits payable	960
Increase (decrease) in accounts payable	(25,504)
Increase (decrease) in compensated absences	(9,923)
Increase (decrease) in deferred inflows of pension related items	37,245
Increase (decrease) in net pension liability	(15,993)
Total adjustments	<u>\$ 577,462</u>
Net cash provided by (used for) operating activities	<u>\$ 311,892</u>

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

Town of Tappahannock, Virginia  
Statement of Fiduciary Net Position  
Fiduciary Fund  
June 30, 2018

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	Cemetery Private Purpose <u>Trust Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 158,000
	<u><u>158,000</u></u>
<b>NET POSITION</b>	
Held for cemetery perpetual care	\$ 158,000
	<u><u>158,000</u></u>

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

Town of Tappahannock, Virginia  
 Statement of Changes in Fiduciary Net Position  
 Fiduciary Fund  
 For the Year Ended June 30, 2018

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	Cemetery Private Purpose <u>Trust Fund</u>
<b>ADDITIONS</b>	
Contributions:	
Sale of cemetery lots	<u>\$ 11,304</u>
Investment earnings:	
Interest	<u>\$ 349</u>
Total additions	<u>\$ 11,653</u>
<b>DEDUCTIONS</b>	
Cemetery fees	<u>\$ 2,716</u>
Change in net position	\$ 8,937
Net position - beginning	<u>149,063</u>
Net position - ending	<u><u>\$ 158,000</u></u>

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

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# TOWN OF TAPPAHANNOCK, VIRGINIA

## Notes to Financial Statements As of June 30, 2018

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### Note 1—Summary of Significant Accounting Policies:

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The Town of Tappahannock, Virginia (the "Town") is governed by an elected seven member Council. The Town provides a full range of services for its citizens. These services include police and fire protection, sanitation services, and utilities.

The financial statements of Town of Tappahannock, Virginia have been prepared in conformity with the specifications promulgated by the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board (GASB). The more significant of the Town's accounting policies are described below.

Financial Statement Presentation - The Town's financial report is prepared in accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

Management's Discussion and Analysis - GASB Statement No. 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "Management's Discussion and Analysis" (MD&A).

### Government-wide and Fund Financial Statements

Government-wide financial statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities but also capital assets and long-term liabilities (such as buildings and general obligation debt).

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 primary government. 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.

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

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*Note 1—Summary of Significant Accounting Policies: (Continued)*

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

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

**A. Financial Reporting Entity**

The basic criterion for determining whether a governmental department, agency, institution, commission, public authority, or other governmental organization should be included in a primary governmental unit's reporting entity for the basic financial statements is financial accountability. Financial accountability includes the appointment of a voting majority of the organization's governing body and the ability of the primary government to impose its will on the organization or if there is a financial benefit/burden relationship. In addition, an organization which is fiscally dependent on the primary government should be included in its reporting entity. These financial statements present the Town of Tappahannock (the primary government). Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government.

*Note 1—Summary of Significant Accounting Policies: (Continued)*

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**B. Individual Component Unit Disclosures**

*Blended Component Units* - The Town has no blended component units at June 30, 2018.

*Discretely Presented Component Units* - The Town has no discretely presented component units at June 30, 2018.

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of 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.

The government-wide statement of activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) which are otherwise being supported by general government revenues, (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Note 1—Summary of Significant Accounting Policies: (Continued)

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

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as unavailable revenues. Sales and utility taxes, which are collected by the state or utility and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the state or utility, which is generally within two months preceding receipt by the Town.

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

In the fund financial statements, financial transactions and accounts of the Town are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

1. Governmental Funds

Governmental Funds are those through which most governmental functions typically are financed.

a. General Fund

The General Fund is the primary operating fund of the Town. This fund is used to account for and report all financial resources except those required to be accounted for and reported in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for service, and interest income. The General Fund is considered a major fund for reporting purposes.

b. Special Revenue Funds

Special Revenue Funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The only special revenue fund is the Drug Enforcement Fund, which is considered a nonmajor fund.



Note 1—Summary of Significant Accounting Policies: (Continued)

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

1. Governmental Funds (continued)

c. Capital Projects Fund

The Capital Projects Fund accounts for and reports financial resources that are restricted, committed or assigned to expenditure for capital outlays, except for those financed by proprietary funds or for assets held in trust for individuals, private organizations, or other governments. The Town's Capital Projects Fund is considered a major fund.

2. Proprietary Funds

Proprietary Funds account for operations that are financed in a manner similar to those found in private business enterprises. The measurement focus is upon determination of net income, financial position, and changes in financial position. Proprietary Funds consist of Enterprise Funds.

Enterprise Funds

Enterprise Funds account for the financing of services to the general public where all or most of the operating expenses involved are recorded in the form of charges to users of such services. Enterprise Funds consist of the Water and Sewer Fund.

3. Fiduciary Funds - (Trust and Agency Funds)

Fiduciary Funds (Trust and Agency Funds) account for assets held by the Town unit in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds. These funds include Trust Funds, which consist of the Cemetery Private Purpose Trust Fund. Fiduciary funds are not included in the government-wide financial statements.

D. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government.

E. Investments

Money market investments, participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity at time of purchase of one year or less, nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposit (CDs)) and external investment pools are measured at amortized cost. All other investments are reported at fair value.

*Note 1—Summary of Significant Accounting Policies: (Continued)*

**F. Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e. the current portions of the interfund loans). All other outstanding balances between funds are reported as “advances to/from other funds” (i.e. the noncurrent portion of interfund loans).

All trade and property tax receivables are shown net of an allowance for uncollectibles. The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$75,791 at June 30, 2018 and is comprised of property taxes of \$28,355 and water, sewer, garbage, and service connection charges of \$47,436.

**Real and Personal Property Tax Data:**

The tax calendars for real and personal property taxes are summarized below.

	<u>Real Property</u>	<u>Personal Property</u>
Levy	January 1	January 1
Due Date	December 5	December 5
Lien Date	January 1	January 1

The Town bills and collects its own property taxes.

**G. Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Town as land, buildings, and equipment with an initial individual cost of more than \$5,000 (with the exception of land values) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was attributable to capital assets for the year ended June 30, 2018.

*Note 1—Summary of Significant Accounting Policies: (Continued)*

**G. Capital Assets (Continued)**

Property, plant and equipment of the Town are depreciated using the straight-line method over the following estimated useful lives.

Assets	Years
Buildings and Improvements	10-40
Furniture, Vehicles, and Office Equipment	5-10
Infrastructure	20-40

**H. Compensated Absences**

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as an expense in the Statement of Activities and a long-term obligation in the Statement of Net Position. In accordance with the provisions of Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that is estimated will be taken as “terminal leave” prior to retirement.

**I. Use of Estimates**

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

**J. Net Position**

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

**K. Net Position Flow Assumption**

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

*Note 1—Summary of Significant Accounting Policies: (Continued)*

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L. Pensions

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

M. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued and premiums on issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

N. Fund Equity

The Town reports fund balances in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

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

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

*Note 1—Summary of Significant Accounting Policies: (Continued)*

**N. Fund Equity (Continued)**

Town Council establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by Town 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).

In the General Fund, the Town strives to maintain an unassigned fund balance to be used for unanticipated emergencies of approximately 25% of the actual GAAP basis expenditures and other financing sources and uses.

The details of governmental fund balances, as presented in aggregate on Exhibit 3, are as follows:

	<u>General</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Fund</u>	<u>Total</u>
Fund balances:				
Restricted:				
Police equipment	\$ -	\$ -	\$ 1,210	\$ 1,210
Committed:				
Capital projects	\$ -	\$ 200,700	\$ -	\$ 200,700
Unassigned	\$ 1,246,235	\$ -	\$ -	\$ 1,246,235
Total fund balances	<u>\$ 1,246,235</u>	<u>\$ 200,700</u>	<u>\$ 1,210</u>	<u>\$ 1,448,145</u>

**O. Proprietary Funds Operating and Nonoperating Revenues and Expenses**

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 fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

*Note 1—Summary of Significant Accounting Policies: (Continued)*

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**P. Deferred Outflows/Inflows of Resources**

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

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

*Note 2—Stewardship, Compliance, and Accounting:*

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

1. Prior to March 30th, the Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the department or category level. The appropriation for each department or category can be revised only by the Town Council.
5. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
6. Appropriations lapse on June 30, every year.

*Note 2—Stewardship, Compliance, and Accounting:*

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Expenditures and Appropriations

Expenditures exceeded appropriations in the Capital Projects Fund and Drug Enforcement Fund at June 30, 2018.

*Note 3—Deposits and Investments:*

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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 amounts insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments

Statutes authorize the Town to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes, banker’s acceptances, repurchase agreements and the State Treasurer’s Local Government Investment Pool (LGIP). The Town has no such investments at June 30, 2018.

*Note 4—Due from Other Governments:*

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At June 30, 2018, the Town has receivables from other governments as follows:

	<u>Governmental Activities</u>
Other Local Governments:	
County of Essex	\$ 51,832
Commonwealth of Virginia:	
Communications tax	9,305
Auto rental tax	6,587
Federal Government:	
Transportation safety grant	<u>975</u>
Total due from other governments	<u><u>\$ 68,699</u></u>

Town of Tappahannock, Virginia

Notes to Financial Statements (Continued)

As of June 30, 2018

*Note 5—Capital Assets:*

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2018:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
<i>Governmental activities:</i>				
Capital assets not subject to depreciation:				
Land and land improvements	\$ 1,081,444	\$ -	\$ -	\$ 1,081,444
Total capital assets not subject to depreciation	<u>\$ 1,081,444</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,081,444</u>
Capital assets subject to depreciation:				
Buildings and improvements	\$ 1,898,654	\$ -	\$ -	\$ 1,898,654
Machinery and equipment	1,118,881	65,885	22,800	1,161,966
Total capital assets subject to depreciation	<u>\$ 3,017,535</u>	<u>\$ 65,885</u>	<u>\$ 22,800</u>	<u>\$ 3,060,620</u>
Accumulated depreciation:				
Buildings and improvements	\$ 680,791	\$ 46,644	\$ -	\$ 727,435
Machinery and equipment	722,737	105,661	22,800	805,598
Total accumulated depreciation	<u>\$ 1,403,528</u>	<u>\$ 152,305</u>	<u>\$ 22,800</u>	<u>\$ 1,533,033</u>
Total capital assets subject to depreciation, net	<u>\$ 1,614,007</u>	<u>\$ (86,420)</u>	<u>\$ -</u>	<u>\$ 1,527,587</u>
Governmental activities capital assets, net	<u><u>\$ 2,695,451</u></u>	<u><u>\$ (86,420)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,609,031</u></u>



Town of Tappahannock, Virginia

Notes to Financial Statements (Continued)

As of June 30, 2018

*Note 5—Capital Assets: (Continued)*

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2018:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
<i>Business-type activities:</i>				
Capital assets subject to depreciation:				
Utility plant in service	\$ 22,015,182	\$ 17,353	\$ -	\$ 22,032,535
Machinery and equipment	275,536	-	-	275,536
Total capital assets subject to depreciation	<u>\$ 22,290,718</u>	<u>\$ 17,353</u>	<u>\$ -</u>	<u>\$ 22,308,071</u>
Accumulated depreciation:				
Utility plant in service	\$ 8,540,637	\$ 537,118	\$ -	\$ 9,077,755
Machinery and equipment	236,324	5,831	-	242,155
Total accumulated depreciation	<u>\$ 8,776,961</u>	<u>\$ 542,949</u>	<u>\$ -</u>	<u>\$ 9,319,910</u>
Total capital assets subject to depreciation, net	<u>\$ 13,513,757</u>	<u>\$ (525,596)</u>	<u>\$ -</u>	<u>\$ 12,988,161</u>
Business-type activities capital assets, net	<u><u>\$ 13,513,757</u></u>	<u><u>\$ (525,596)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 12,988,161</u></u>

Depreciation expense was charged to functions/programs as follows:

Primary Government	
Governmental activities:	
General government administration	\$ 47,110
Public safety	24,843
Public works	<u>80,352</u>
Total depreciation expense - governmental activities	<u>\$ 152,305</u>
Business-type activities:	
Water and Sewer fund	<u>\$ 542,949</u>
Total depreciation expense - primary government	<u><u>\$ 695,254</u></u>

Town of Tappahannock, Virginia

Notes to Financial Statements (Continued)

As of June 30, 2018

*Note 6—Long-term Obligations:*

The following is a summary of changes to long-term obligations for the fiscal year ended June 30, 2018:

	Balance at July 1, 2017	Issuances/ Increases	Retirements/ Decreases	Balance at June 30, 2018	Amounts Due Within One Year
<b>Primary Government Obligations:</b>					
<b>Governmental Activities:</b>					
Compensated absences payable	\$ 133,993	\$ -	\$ 11,570	\$ 122,423	\$ 12,242
Net pension liability	306,455	603,696	649,034	261,117	-
Capital leases	11,173	22,680	11,173	22,680	11,010
Note payable	425,800	-	80,846	344,954	71,651
General obligation note	180,000	-	20,000	160,000	25,000
General obligation bond	703,354	-	92,103	611,251	100,476
<b>Total Governmental Activities Obligations</b>	<b>\$ 1,760,775</b>	<b>\$ 626,376</b>	<b>\$ 864,726</b>	<b>\$ 1,522,425</b>	<b>\$ 220,379</b>
<b>Business-type Activities:</b>					
Compensated absences payable	\$ 38,946	\$ -	\$ 9,923	\$ 29,023	\$ 2,902
Net pension liability	108,100	212,950	228,943	92,107	-
General obligation bonds	6,927,298	-	600,639	6,326,659	607,267
Adjustment for deferred amounts:					
Issuance premium	346,231	-	43,279	302,952	-
<b>Total Business-type Activities Obligations</b>	<b>\$ 7,420,575</b>	<b>\$ 212,950</b>	<b>\$ 882,784</b>	<b>\$ 6,750,741</b>	<b>\$ 610,169</b>
<b>Total Primary Government Obligations</b>	<b>\$ 9,181,350</b>	<b>\$ 839,326</b>	<b>\$ 1,747,510</b>	<b>\$ 8,273,166</b>	<b>\$ 830,548</b>

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Town of Tappahannock, Virginia

Notes to Financial Statements (Continued)

As of June 30, 2018

*Note 6—Long-term Obligations: (Continued)*

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

Year Ending June 30,	Governmental Activities							
	General Obligation Bond		General Obligation Note		Note Payable		Capital Leases	
	Principal	Interest	Principal	Interest (1)	Principal	Interest	Principal	Interest
2019	\$ 100,476	\$ 11,500	\$ 25,000	n/a	\$ 71,651	\$ 13,181	\$ 11,010	\$ 1,361
2020	100,476	9,441	20,000	n/a	73,691	9,988	11,670	700
2021	100,476	7,381	25,000	n/a	58,631	6,823	-	-
2022	100,476	5,321	20,000	n/a	140,981	1,038	-	-
2023	104,662	3,218	25,000	n/a	-	-	-	-
2024	104,685	1,073	20,000	n/a	-	-	-	-
2025	-	-	25,000	n/a	-	-	-	-
Total	<u>\$ 611,251</u>	<u>\$ 37,934</u>	<u>\$ 160,000</u>	<u>n/a</u>	<u>\$ 344,954</u>	<u>\$ 31,030</u>	<u>\$ 22,680</u>	<u>\$ 2,061</u>

(1) The interest payments on this bond are not available. The interest rate is based on the commercial paper rate.

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*Note 6—Long-term Obligations: (Continued)*

Annual requirements to amortize long-term obligations and related interest are as follows: (continued)

Year Ending June 30,	Business-type Activities	
	General Obligation Bonds	
	Principal	Interest
2019	\$ 607,267	\$ 132,348
2020	627,266	119,478
2021	637,267	105,020
2022	652,266	88,798
2023	668,080	70,758
2024	693,058	50,812
2025	692,742	30,559
2026	342,743	18,930
2027	347,742	15,404
2028	347,743	11,692
2029	352,742	7,981
2030	357,743	4,083
Total	<u>\$ 6,326,659</u>	<u>\$ 655,863</u>

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Town of Tappahannock, Virginia

Notes to Financial Statements (Continued)

As of June 30, 2018

*Note 6—Long-term Obligations: (Continued)*

Primary Government Obligations:

	Interest <u>Rates</u>	Date <u>Issued</u>	Final Maturity <u>Date</u>	Amount of Original <u>Issue</u>	Amount <u>Outstanding</u>	Amount Due Within <u>One Year</u>
<b>Governmental Activities:</b>						
General obligation bond	2%	04/23/13	2024	\$ 996,409	\$ 611,251	\$ 100,476
General obligation note	Variable	04/01/05	2025	450,000	160,000	25,000
Note payable	5.125%	07/03/14	2019	49,850	1,149	1,149
Note payable	4.75%	12/11/14	2021	162,220	71,136	28,438
Note payable	3.88%	08/11/16	2021	165,409	150,006	8,878
Note payable	4.25%	12/15/16	2019	169,850	122,663	33,186
Capital lease	6%	11/03/17	2019	22,680	22,680	11,010
Compensated absences payable					122,423	12,242
Net pension liability					261,117	-
<b>Total Obligations - Governmental Activities</b>					<b>\$ 1,522,425</b>	<b>\$ 220,379</b>
<b>Business-type Activities:</b>						
General obligation bond	0%	05/01/08	2030	\$ 4,993,434	\$ 2,972,910	\$ 247,743
General obligation bond	2.10%	03/15/10	2030	1,585,000	1,100,000	75,000
General obligation bond	2.05%	04/23/13	2024	193,591	118,749	19,524
General obligation bond	3.125-5.125%	08/10/16	2025	2,410,000	2,135,000	265,000
Bond premium					302,952	-
Compensated absences					29,023	2,902
Net pension liability					92,107	-
<b>Total Obligations - Business-type Activities</b>					<b>\$ 6,750,741</b>	<b>\$ 610,169</b>
<b>Total - Primary Government</b>					<b>\$ 8,273,166</b>	<b>\$ 830,548</b>

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*Note 7—Capital Leases:*

The government has entered into a lease agreement as lessee for financing the acquisition of a police cruiser. This lease agreement qualifies as a capital lease for accounting purposes and therefore, has been recorded at the present value of future minimum lease payments as of the inception date.

The asset acquired through capital lease is as follows:

	<u>Governmental Activities</u>
Assets:	
Vehicle	\$ 35,051
Less: accumulated depreciation	<u>(3,505)</u>
Net	<u>\$ 31,546</u>

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2018, were as follows:

<u>Year Ended June 30</u>	<u>Governmental Activities</u>
2019	\$ 12,371
2020	<u>12,370</u>
Total minimum lease payments	\$ 24,741
Less: amount representing interest	<u>(2,061)</u>
Present value of minimum lease payments	<u>\$ 22,680</u>

*Note 8—Deferred/Unavailable Revenue:*

Deferred/unavailable revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Under the accrual basis, assessments for future periods are deferred. Deferred/unavailable revenue totaling \$34,812 is comprised of the following:

Unavailable Property Tax Revenue - Unavailable revenue representing uncollected tax billings not available for funding of current expenditures totaled \$31,906 at June 30, 2018.

Deferred Prepaid Property Taxes - Property taxes due subsequent to June 30, 2018 but paid in advance by the taxpayers totaled \$2,90638 at June 30, 2018.

*Note 9—Litigation:*

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At June 30, 2018, there were no matters of litigation involving the Town or which would materially affect the Town's financial position should any court decisions on pending matters not be favorable to the Town.

*Note 10—Risk Management:*

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The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates with other localities in a public entity risk pool for their coverage of workers' compensation and public officials' liability. The Town pays an annual premium to the pools for its general insurance through member premiums. The Town continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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**Note 11—Pension Plan:**

**Plan Description**

All full-time, salaried permanent employees of the Town are automatically covered by a VRS Retirement Plan upon employment. This is an agent multiple-employer plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

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

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>About Plan 1</b> 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.</p>	<p><b>About Plan 2</b> Plan 2 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula.</p>	<p><b>About the Hybrid Retirement Plan</b> The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</p> <ul style="list-style-type: none"> <li>• The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula.</li> <li>• 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.</li> </ul>



**Note 11—Pension Plan: (Continued)**

**Plan Description (Continued)**

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 (Cont.)	About Plan 2 (Cont.)	About the Hybrid Retirement Plan (Cont.) <ul style="list-style-type: none"> <li>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.</li> </ul>
<p><b>Eligible Members</b> Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.</p> <p><b>Hybrid Opt-In Election</b> VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan’s effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p><b>Eligible Members</b> Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan’s effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p><b>Eligible Members</b> Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> <li>Political subdivision employees*</li> <li>Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan’s effective date for opt-in members was July 1, 2014.</li> </ul> <p><b>*Non-Eligible Members</b> Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> <li>Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.</li> </ul>

**Note 11—Pension Plan: (Continued)**

**Plan Description (Continued)**

<b>RETIREMENT PLAN PROVISIONS (CONTINUED)</b>		
<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p>Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>*Non-Eligible Members (Cont.) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.</p>	<p>Retirement Contributions A member’s retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee’s creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

**Note 11—Pension Plan: (Continued)**

**Plan Description (Continued)**

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Creditable Service</b> Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member’s total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p><b>Creditable Service</b> Same as Plan 1.</p>	<p><b>Creditable Service</b> <u><b>Defined Benefit Component:</b></u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member’s total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u><b>Defined Contribution Component:</b></u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>

**Note 11—Pension Plan: (Continued)**

**Plan Description (Continued)**

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Vesting</b> Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p><b>Vesting</b> Same as Plan 1.</p>	<p><b>Vesting</b> <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contribution Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. After two years, a member is 50% vested and may withdraw 50% of employer contributions.</p>

**Note 11—Pension Plan: (Continued)**

**Plan Description (Continued)**

<b>RETIREMENT PLAN PROVISIONS (CONTINUED)</b>		
<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p>Vesting (Cont.)</p>	<p>Vesting (Cont.)</p>	<p>Vesting (Cont.) <u>Defined Contribution Component:</u> (Cont.)</p> <ul style="list-style-type: none"> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distribution is not required by law until age 70½.</p>
<p><b>Calculating the Benefit</b> The Basic Benefit is calculated based on a formula using the member’s average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p><b>Calculating the Benefit</b> See definition under Plan 1.</p>	<p><b>Calculating the Benefit</b> <u>Defined Benefit Component:</u> See definition under Plan 1.</p> <p><u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p><b>Average Final Compensation</b> A member’s average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b> A member’s average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b> Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>

**Note 11—Pension Plan: (Continued)**

**Plan Description (Continued)**

<b>RETIREMENT PLAN PROVISIONS (CONTINUED)</b>		
<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p>Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p> <p>Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p>Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p>	<p>Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p> <p>Sheriffs and regional jail superintendents: Same as Plan 1.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p>Sheriffs and regional jail superintendents: Not applicable.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p>
<p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

**Note 11—Pension Plan: (Continued)**

**Plan Description (Continued)**

<b>RETIREMENT PLAN PROVISIONS (CONTINUED)</b>		
<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p><b>Earliest Unreduced Retirement Eligibility</b> VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b> VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b> <u>Defined Benefit Component:</u> VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Reduced Retirement Eligibility</b> VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p><b>Earliest Reduced Retirement Eligibility</b> VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p><b>Earliest Reduced Retirement Eligibility</b> <u>Defined Benefit Component:</u> VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

**Note 11—Pension Plan: (Continued)**

**Plan Description (Continued)**

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> <li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>• The member retires on disability.</li> </ul>	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p>



**Note 11—Pension Plan: (Continued)**

**Plan Description (Continued)**

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u></p> <ul style="list-style-type: none"> <li>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</li> <li>• 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.</li> <li>• 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.</li> </ul>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p>
<p><b>Disability Coverage</b> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p>	<p><b>Disability Coverage</b> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p>	<p><b>Disability Coverage</b> Employees of political subdivisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p>

**Note 11—Pension Plan: (Continued)**

**Plan Description (Continued)**

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Disability Coverage (Cont.)	Disability Coverage (Cont.)	Disability Coverage (Cont.) Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
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. Members also may be eligible to purchase periods of leave without pay.	Purchase of Prior Service Same as Plan 1.	Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions: <ul style="list-style-type: none"> <li>• Hybrid Retirement Plan members are ineligible for ported service.</li> </ul> <u>Defined Contribution Component:</u> Not applicable.

**Pension Plan Data**

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

**Note 11—Pension Plan: (Continued)**

**Employees Covered by Benefit Terms**

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	14
Inactive members:	
Vested inactive members	3
Non-vested inactive members	9
Inactive members active elsewhere in VRS	<u>10</u>
Total inactive members	22
Active members	<u>28</u>
Total covered employees	<u><u>64</u></u>

**Contributions**

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

The Town’s contractually required employer contribution rate for the year ended June 30, 2018 was 8.33% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$100,641 and \$102,506 for the years ended June 30, 2018 and June 30, 2017, respectively.

**Net Pension Liability**

The Town’s net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

**Note 11—Pension Plan: (Continued)**

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**Actuarial Assumptions - General Employees**

The total pension liability for General Employees in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7.0%, net of pension plan investment expenses, including inflation*

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

**Mortality rates:**

**Largest 10 - Non-Hazardous Duty:** 20% of deaths are assumed to be service related

**Pre-Retirement:**

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

**Post-Retirement:**

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

**Post-Disablement:**

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

**All Others (Non 10 Largest) - Non-Hazardous Duty:** 15% of deaths are assumed to be service related

**Pre-Retirement:**

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

**Post-Retirement:**

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

**Post-Disablement:**

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

**Note 11—Pension Plan: (Continued)**

**Actuarial Assumptions - General Employees (Continued)**

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

All Others (Non 10 Largest) - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

**Note 11—Pension Plan: (Continued)**

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**Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits**

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5%
Salary increases, including inflation	3.5% - 4.75%
Investment rate of return	7.0%, net of pension plan investment expenses, including inflation*

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

**Mortality rates:**

**Largest 10 - Hazardous Duty: 70% of deaths are assumed to be service related**

**Pre-Retirement:**

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

**Post-Retirement:**

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

**Post-Disablement:**

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

**All Others (Non 10 Largest) - Hazardous Duty: 45% of deaths are assumed to be service related**

**Pre-Retirement:**

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

**Post-Retirement:**

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

**Post-Disablement:**

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

**Note 11—Pension Plan: (Continued)**

**Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits (Continued)**

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

All Others (Non 10 Largest) - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

**Note 11—Pension Plan: (Continued)****Long-Term Expected Rate of Return**

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

\* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.



**Note 11—Pension Plan: (Continued)****Discount Rate**

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the Town Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

**Changes in Net Pension Liability**

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2016	\$ 5,047,961	\$ 4,633,406	\$ 414,555
Changes for the year:			
Service cost	\$ 127,232	\$ -	\$ 127,232
Interest	346,351	-	346,351
Differences between expected and actual experience	(53,632)	-	(53,632)
Assumption changes	(95,542)	-	(95,542)
Benefit changes	339,327	-	339,327
Contributions - employer	-	102,506	(102,506)
Contributions - employee	-	61,345	(61,345)
Net investment income	-	564,952	(564,952)
Benefit payments, including refunds			
Refunds of employee contributions	(200,188)	(200,188)	-
Administrative expenses	-	(3,232)	3,232
Other changes	-	(504)	504
Net changes	\$ 463,548	\$ 524,879	\$ (61,331)
Balances at June 30, 2017	\$ 5,511,509	\$ 5,158,285	\$ 353,224

**Note 11—Pension Plan: (Continued)**

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

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

	Rate		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Town's Net Pension Liability (Asset) \$	1,058,051	\$ 353,224	\$ (232,676)

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

For the year ended June 30, 2018, the Town recognized pension expense of \$308,585. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience \$	-	\$ 106,379
Change in assumptions	-	67,441
Net difference between projected and actual earnings on pension plan investments	-	70,688
Employer contributions subsequent to the measurement date	100,641	-
Total	\$ 100,641	\$ 244,508

**Note 11—Pension Plan: (Continued)**

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

\$100,641 reported as deferred outflows of resources related to pensions resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30

2019	\$	(123,782)
2020		(53,349)
2021		(18,972)
2022		(48,405)
2023		-
Thereafter		-

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*Note 12-Surety Bonds:*

	<u>Amount</u>
VML Insurance Programs:	
Town employees - blanket bond	\$ 100,000 per occurrence

*Note 13-Interfund Transfers:*

Interfund transfers for the year ended June 30, 2018, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ -	\$ 295,532
Drug Enforcement	457	-
Water and Sewer	295,075	-
Total	<u>\$ 295,532</u>	<u>\$ 295,532</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgeting authorization.

*Note 14-Upcoming Pronouncements:*

Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

*Note 14-Upcoming Pronouncements: (Continued)*

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Statement No. 87, *Leases*, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, clarifies which liabilities governments should include when disclosing information related to debt. It defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, it requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

*Note 15-Line of Duty Act (LODA) (OPEB Benefits):*

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The Line of Duty Act (LODA) provides death and healthcare benefits to certain law enforcement and rescue personnel, and their beneficiaries, who were disabled or killed in the line of duty. Benefit provisions and eligibility requirements are established by title 9.1 Chapter 4 of the Code of Virginia. Funding of LODA benefits is provided by employers in one of two ways: (a) participation in the Line of Duty and Health Benefits Trust Fund (LODA Fund), administered by the Virginia Retirement System (VRS) or (b) self-funding by the employer or through an insurance company.

The Town has elected to provide LODA benefits through an insurance company. The obligation for the payment of benefits has been effectively transferred from the Town to VML Insurance Programs. VML Insurance Programs assumes all liability for the Town's LODA claims that are approved by VRS. The pool purchases reinsurance to protect the pool from extreme claims costs.

The current-year OPEB expense/expenditure for the insured benefits is defined as the amount of premiums or other payments required for the insured benefits for the reporting period in accordance with the agreement with the insurance company for LODA and a change in liability to the insurer equal to the difference between amounts recognized as OPEB expense and amounts paid by the employer to the insurer. The Town's LODA coverage is fully covered or "insured" through VML Insurance Programs. This is built into the LODA coverage cost presented in the annual renewals. The Town's LODA premium for the year ended June 30, 2018 was \$4,645.

*REQUIRED SUPPLEMENTARY INFORMATION*

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Town of Tappahannock, Virginia  
General Fund  
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
General property taxes	\$ 396,495	\$ 396,495	\$ 410,948	\$ 14,453
Other local taxes	1,990,233	1,990,233	2,058,009	67,776
Permits, privilege fees, and regulatory licenses	930	930	3,349	2,419
Fines and forfeitures	15,000	15,000	31,387	16,387
Revenue from the use of money and property	400	400	340	(60)
Charges for services	90,500	90,500	87,935	(2,565)
Miscellaneous	41,000	41,000	25,443	(15,557)
Intergovernmental:				
Commonwealth	176,868	176,868	215,664	38,796
Federal	-	-	4,837	4,837
Total revenues	<u>\$ 2,711,426</u>	<u>\$ 2,711,426</u>	<u>\$ 2,837,912</u>	<u>\$ 126,486</u>
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 761,984	\$ 761,984	\$ 723,493	\$ 38,491
Public safety	959,755	959,755	936,662	23,093
Public works	914,518	914,518	695,895	218,623
Nondepartmental	70,350	70,350	65,538	4,812
Debt service:				
Principal retirement	160,916	160,916	204,122	(43,206)
Interest and other fiscal charges	-	-	34,926	(34,926)
Total expenditures	<u>\$ 2,867,523</u>	<u>\$ 2,867,523</u>	<u>\$ 2,660,636</u>	<u>\$ 206,887</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (156,097)</u>	<u>\$ (156,097)</u>	<u>\$ 177,276</u>	<u>\$ 333,373</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	\$ (375,000)	\$ (375,000)	\$ (295,532)	\$ 79,468
Issuance of capital lease	-	-	22,680	22,680
Total other financing sources (uses)	<u>\$ (375,000)</u>	<u>\$ (375,000)</u>	<u>\$ (272,852)</u>	<u>\$ 102,148</u>
Net change in fund balances	\$ (531,097)	\$ (531,097)	\$ (95,576)	\$ 435,521
Fund balances - beginning	1,051,493	1,051,493	1,341,811	290,318
Fund balances - ending	<u>\$ 520,396</u>	<u>\$ 520,396</u>	<u>\$ 1,246,235</u>	<u>\$ 725,839</u>

Town of Tappahannock, Virginia  
 Schedule of Changes in Net Pension Liability and Related Ratios  
 Primary Government  
 For the Years Ended June 30, 2015 through June 30, 2018

	2017	2016	2015	2014
<b>Total pension liability</b>				
Service cost	\$ 127,232	\$ 111,978	\$ 127,043	\$ 120,777
Interest	346,351	343,664	332,321	313,729
Changes of benefit terms	339,327	-	-	-
Changes of assumptions	(95,542)	-	-	-
Differences between expected and actual experience	(53,632)	(131,191)	(4,640)	-
Benefit payments, including refunds of employee contributions	(200,188)	(371,957)	(213,396)	(124,407)
Net change in total pension liability	\$ 463,548	\$ (47,506)	\$ 241,328	\$ 310,099
Total pension liability - beginning	5,047,961	5,095,467	4,854,139	4,544,040
Total pension liability - ending (a)	<u>\$ 5,511,509</u>	<u>\$ 5,047,961</u>	<u>\$ 5,095,467</u>	<u>\$ 4,854,139</u>
<b>Plan fiduciary net position</b>				
Contributions - employer	\$ 102,506	\$ 92,300	\$ 91,197	\$ 106,239
Contributions - employee	61,345	61,857	61,405	67,081
Net investment income	564,952	78,795	210,894	628,737
Benefit payments, including refunds of employee contributions	(200,188)	(371,957)	(213,396)	(124,407)
Administrative expense	(3,232)	(3,051)	(2,909)	(3,315)
Other	(504)	(34)	(46)	33
Net change in plan fiduciary net position	\$ 524,879	\$ (142,090)	\$ 147,145	\$ 674,368
Plan fiduciary net position - beginning	4,633,406	4,775,496	4,628,351	3,953,983
Plan fiduciary net position - ending (b)	<u>\$ 5,158,285</u>	<u>\$ 4,633,406</u>	<u>\$ 4,775,496</u>	<u>\$ 4,628,351</u>
Town's net pension liability - ending (a) - (b)	\$ 353,224	\$ 414,555	\$ 319,971	\$ 225,788
Plan fiduciary net position as a percentage of the total pension liability	93.59%	91.79%	93.72%	95.35%
Covered payroll	\$ 1,251,059	\$ 1,263,195	\$ 1,236,201	\$ 1,313,717
Town's net pension liability as a percentage of covered payroll	28.23%	32.82%	25.88%	17.19%

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

Town of Tappahannock, Virginia  
 Schedule of Employer Contributions  
 For the Years Ended June 30, 2009 through June 30, 2018

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Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
Primary Government					
2018	\$ 100,641	\$ 100,641	-	\$ 1,230,149	8.18%
2017	102,506	102,506	-	1,251,059	8.19%
2016	93,603	93,603	-	1,263,195	7.41%
2015	91,602	91,602	-	1,236,201	7.41%
2014	101,944	101,944	-	1,313,717	7.76%
2013	98,452	98,452	-	1,268,713	7.76%
2012	56,856	56,856	-	1,246,832	4.56%
2011	57,498	57,498	-	1,260,918	4.56%
2010	40,983	40,983	-	1,205,381	3.40%
2009	39,977	39,977	-	1,175,792	3.40%

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

Town of Tappahannock, Virginia  
Notes to Required Supplementary Information  
For the Year Ended June 30, 2018

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Largest 10 - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

All Others (Non 10 Largest) - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

All Others (Non 10 Largest) - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

*OTHER SUPPLEMENTARY INFORMATION*

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Town of Tappahannock, Virginia  
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
 Capital Projects Fund  
 For the Year Ended June 30, 2018

	Capital Projects Fund			Variance with Final Budget - Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Revenue from the use of money and property	\$ -	\$ -	\$ 447	\$ 447
<b>EXPENDITURES</b>				
Capital projects	\$ -	\$ -	\$ 71,913	\$ (71,913)
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ (71,466)	\$ (71,466)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 50,000	\$ 50,000	\$ -	\$ (50,000)
Net change in fund balances	\$ 50,000	\$ 50,000	\$ (71,466)	\$ (121,466)
Fund balances - beginning	-	-	272,166	272,166
Fund balances - ending	\$ 50,000	\$ 50,000	\$ 200,700	\$ 150,700

Town of Tappahannock, Virginia  
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
 Nonmajor Special Revenue Fund  
 For the Year Ended June 30, 2018

	Drug Enforcement Fund			Variance with Final Budget Positive (Negative)				
	Budgeted Amounts		Actual					
	Original	Final						
<b>REVENUES</b>								
Revenue from the use of money and property	\$	-	\$	5	\$	5		
Intergovernmental:								
Federal		-	-	4,109		4,109		
Total revenues	\$	-	\$	-	\$	4,114		
<b>EXPENDITURES</b>								
Current:								
Public safety	\$	-	\$	-	\$	4,328	\$	(4,328)
Total expenditures	\$	-	\$	-	\$	4,328	\$	(4,328)
Excess (deficiency) of revenues over (under) expenditures	\$	-	\$	-	\$	(214)	\$	(214)
<b>OTHER FINANCING SOURCES (USES)</b>								
Transfers in	\$	-	\$	-	\$	457	\$	457
Net change in fund balances	\$	-	\$	-	\$	243	\$	243
Fund balances - beginning		-		-		967		967
Fund balances - ending	\$	-	\$	-	\$	1,210	\$	1,210



## *SUPPORTING SCHEDULES*

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Town of Tappahannock, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2018

Schedule 1  
Page 1 of 3

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>General Fund:</b>				
<b>Revenue from local sources:</b>				
<b>General property taxes:</b>				
Real property taxes	\$ 223,000	\$ 223,000	\$ 251,964	\$ 28,964
Real and personal public service corporation taxes	-	-	6,320	6,320
Personal property taxes	168,828	168,828	143,836	(24,992)
Penalties	2,334	2,334	5,934	3,600
Interest and fees	2,333	2,333	2,894	561
Total general property taxes	<u>\$ 396,495</u>	<u>\$ 396,495</u>	<u>\$ 410,948</u>	<u>\$ 14,453</u>
<b>Other local taxes:</b>				
Local sales and use taxes	\$ 240,000	\$ 240,000	\$ 262,540	\$ 22,540
Consumers' utility taxes	60,000	60,000	55,094	(4,906)
Consumption tax	-	-	15,910	15,910
Business license taxes	563,333	563,333	553,540	(9,793)
Tobacco tax	100,200	100,200	98,263	(1,937)
Motor vehicle licenses	45,500	45,500	56,005	10,505
Bank stock taxes	220,000	220,000	183,127	(36,873)
Hotel and motel room taxes	45,200	45,200	52,414	7,214
Restaurant food taxes	716,000	716,000	781,116	65,116
Total other local taxes	<u>\$ 1,990,233</u>	<u>\$ 1,990,233</u>	<u>\$ 2,058,009</u>	<u>\$ 67,776</u>
<b>Permits, privilege fees, and regulatory licenses:</b>				
Animal licenses	\$ 930	\$ 930	\$ 917	\$ (13)
Permits and other licenses	-	-	2,432	2,432
Total permits, privilege fees, and regulatory licenses	<u>\$ 930</u>	<u>\$ 930</u>	<u>\$ 3,349</u>	<u>\$ 2,419</u>
<b>Fines and forfeitures:</b>				
Court fines and forfeitures	\$ 15,000	\$ 15,000	\$ 31,387	\$ 16,387
<b>Revenue from use of money and property:</b>				
Revenue from use of money	\$ -	\$ -	\$ 340	\$ 340
Revenue from use of property	400	400	-	(400)
Total revenue from use of money and property	<u>\$ 400</u>	<u>\$ 400</u>	<u>\$ 340</u>	<u>\$ (60)</u>
<b>Charges for services:</b>				
Charges for sanitation and waste removal	\$ 90,500	\$ 90,500	\$ 87,935	\$ (2,565)
<b>Miscellaneous:</b>				
Miscellaneous	\$ 41,000	\$ 41,000	\$ 25,443	\$ (15,557)
Total revenue from local sources	<u>\$ 2,534,558</u>	<u>\$ 2,534,558</u>	<u>\$ 2,617,411</u>	<u>\$ 82,853</u>

Town of Tappahannock, Virginia  
 Schedule of Revenues - Budget and Actual  
 Governmental Funds  
 For the Year Ended June 30, 2018

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Communications tax	\$ 60,000	\$ 60,000	\$ 47,780	\$ (12,220)
Auto rental tax	-	-	51,016	51,016
Personal property tax relief funds	54,172	54,172	54,172	-
Total noncategorical aid	<u>\$ 114,172</u>	<u>\$ 114,172</u>	<u>\$ 152,968</u>	<u>\$ 38,796</u>
Categorical aid:				
Other categorical aid:				
DCJS grants for law enforcement	\$ 52,696	\$ 52,696	\$ 52,696	\$ -
Fire programs	10,000	10,000	10,000	-
Total other categorical aid	<u>\$ 62,696</u>	<u>\$ 62,696</u>	<u>\$ 62,696</u>	<u>\$ -</u>
Total categorical aid	<u>\$ 62,696</u>	<u>\$ 62,696</u>	<u>\$ 62,696</u>	<u>\$ -</u>
Total revenue from the Commonwealth	<u>\$ 176,868</u>	<u>\$ 176,868</u>	<u>\$ 215,664</u>	<u>\$ 38,796</u>
Revenue from the federal government:				
Other categorical aid:				
Transportation safety	\$ -	\$ -	\$ 4,837	\$ 4,837
Total General Fund	<u>\$ 2,711,426</u>	<u>\$ 2,711,426</u>	<u>\$ 2,837,912</u>	<u>\$ 126,486</u>
Special Revenue Fund:				
Drug Enforcement Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ -	\$ 5	\$ 5
Total revenue from use of money and property	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5</u>	<u>\$ 5</u>
Total revenue from local sources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5</u>	<u>\$ 5</u>

Town of Tappahannock, Virginia  
 Schedule of Revenues - Budget and Actual  
 Governmental Funds  
 For the Year Ended June 30, 2018

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Special Revenue Fund: (Continued)				
Drug Enforcement Fund: (Continued)				
Intergovernmental:				
Revenue from the federal government:				
Categorical aid:				
Byrne Justice Assistance Grant	\$ -	\$ -	\$ 4,109	\$ 4,109
Total Drug Enforcement Fund	\$ -	\$ -	\$ 4,114	\$ 4,114
Capital Projects Fund:				
Capital Projects Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ -	\$ 447	\$ 447
Total Revenues -- Primary Government	\$ 2,711,426	\$ 2,711,426	\$ 2,842,473	\$ 131,047

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Town of Tappahannock, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2018

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
General government administration:				
General and financial administration:				
Administration	\$ 761,984	\$ 761,984	\$ 723,493	\$ 38,491
Public safety:				
Law enforcement and traffic control:				
Police	\$ 840,966	\$ 840,966	\$ 812,901	\$ 28,065
Fire and rescue services:				
Fire department	\$ 108,789	\$ 108,789	\$ 118,789	\$ (10,000)
Ambulance and rescue services	10,000	10,000	4,972	5,028
Total fire and rescue services	\$ 118,789	\$ 118,789	\$ 123,761	\$ (4,972)
Total public safety	\$ 959,755	\$ 959,755	\$ 936,662	\$ 23,093
Public works:				
Public works	\$ 914,518	\$ 914,518	\$ 695,895	\$ 218,623
Nondepartmental:				
Unclassified	\$ 70,350	\$ 70,350	\$ 65,538	\$ 4,812
Debt service:				
Principal retirement	\$ 160,916	\$ 160,916	\$ 204,122	\$ (43,206)
Interest and other fiscal charges	-	-	34,926	(34,926)
Total debt service	\$ 160,916	\$ 160,916	\$ 239,048	\$ (78,132)
Total General Fund	\$ 2,867,523	\$ 2,867,523	\$ 2,660,636	\$ 206,887
Special Revenue Fund:				
Drug Enforcement Fund:				
Public Safety:				
Law enforcement and traffic control:				
Police equipment and drug grant	\$ -	\$ -	\$ 4,328	\$ (4,328)
Total Public Safety	\$ -	\$ -	\$ 4,328	\$ (4,328)
Total Drug Enforcement Fund	\$ -	\$ -	\$ 4,328	\$ (4,328)
Capital Projects Fund:				
Capital projects expenditures:				
Emergency communications	\$ -	\$ -	\$ 71,913	\$ (71,913)
Total Capital Projects Fund	\$ -	\$ -	\$ 71,913	\$ (71,913)
Total Expenditures -- Primary Government	\$ 2,867,523	\$ 2,867,523	\$ 2,736,877	\$ 130,646

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*OTHER STATISTICAL INFORMATION*

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Table 1

Town of Tappahannock, Virginia  
Government-wide Expenses by Function  
Last Ten Fiscal Years

Fiscal Year	General Government Administration			Public Safety		Public Works		Community Development		Interest on Long-Term Debt		Water and Sewer		Total
2009	\$	687,921	\$	844,250	\$	614,179	\$	-	\$	61,370	\$	1,384,172	\$	3,591,892
2010		662,962		810,481		675,408		-		58,722		1,939,606		4,147,179
2011		627,381		788,683		694,486		-		61,148		1,712,613		3,884,311
2012		645,787		821,001		676,631		-		64,499		1,728,466		3,936,384
2013		659,513		792,050		627,637		-		87,347		1,778,948		3,945,495
2014		671,654		840,205		630,687		-		38,537		1,729,926		3,911,009
2015		649,693		886,019		728,566		-		30,957		1,680,746		3,975,981
2016		202,129		885,425		677,189		5,587		35,848		1,599,633		3,405,811
2017		694,424		929,503		759,408		-		36,748		1,614,024		4,034,107
2018		806,533		1,077,311		843,817		-		34,139		1,600,444		4,362,244

Town of Tappahannock, Virginia  
 Government-wide Revenues  
 Last Ten Fiscal Years

Fiscal Year	PROGRAM REVENUES			GENERAL REVENUES							Total
	Charges for Services	Operating Grants and Contributions		General Property Taxes	Other Local Taxes	Unrestricted Revenues from Use of Money and Property	Miscellaneous	Grants and Contributions Not Restricted to Specific Programs			
2009	\$ 1,005,344	\$ 3,372,074	\$	\$ 385,915	\$ 1,774,948	\$	\$ 27,247	\$	\$ 9,249	\$ 112,136	\$ 6,686,913
2010	993,962	1,416,160		381,865	1,704,403		3,470		12,492	82,547	4,594,899
2011	1,167,762	257,999		389,754	1,583,624		8,294		45,214	146,044	3,598,691
2012	1,109,857	296,849		385,756	1,668,254		3,525		23,950	151,613	3,639,804
2013	1,317,991	241,104		421,231	1,931,662		5,202		61,438	152,506	4,131,134
2014	1,358,784	263,421		392,453	1,989,336		1,298		33,635	151,049	4,189,976
2015	1,332,238	252,157		415,256	2,056,220		1,225		136,853	149,152	4,343,101
2016	1,395,141	275,131		401,916	2,177,374		1,220		30,336	162,892	4,444,010
2017	1,348,333	253,932		425,066	2,198,610		1,378		19,337	165,442	4,412,098
2018	1,358,346	244,860		411,625	2,058,009		1,007		25,443	157,077	4,256,367

Town of Tappahannock, Virginia  
 General Governmental Expenditures by Function (1,2)  
 Last Ten Fiscal Years

Fiscal Year	General Government Administration	Public Safety	Public Works	Debt Service	Non-departmental	Total
2009	\$ 574,919	\$ 843,376	\$ 576,332	\$ 200,840	\$ 70,195	\$ 2,265,662
2010	598,122	788,472	691,943	182,239	55,103	2,315,879
2011	578,432	759,732	685,535	192,344	49,131	2,265,174
2012	773,894	786,673	642,725	188,420	51,125	2,442,837
2013	587,036	770,603	589,564	1,197,626	50,865	3,195,694
2014	607,297	873,146	758,177	232,935	57,749	2,529,304
2015	621,635	811,848	926,522	334,423	97,984	2,792,412
2016	646,375	878,193	671,461	223,579	59,099	2,478,707
2017	613,088	864,902	790,484	225,672	62,444	2,556,590
2018	723,493	940,990	695,895	239,048	65,538	2,664,964

(1) Includes General and Special Revenue Fund of the Primary Government.

(2) Excludes Capital Projects Fund.

Table 4

Town of Tappahannock, Virginia  
General Governmental Revenues by Source (1,2)  
Last Ten Fiscal Years

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, Regulatory Licenses	Fines and Forfeitures	Revenue from the Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental	Total
2009	\$ 376,982	\$ 1,774,948	\$ 3,839	\$ 106,658	\$ 2,910	\$ 88,564	\$ 9,249	\$ -	\$ 183,475	\$ 2,546,625
2010	386,740	1,704,403	4,203	57,449	1,388	96,359	12,492	-	144,084	2,407,118
2011	386,276	1,583,624	2,647	34,657	1,126	87,462	24,789	-	222,441	2,343,022
2012	372,826	1,668,254	2,737	15,197	777	93,157	4,900	-	218,104	2,375,952
2013	435,325	1,931,662	3,106	17,072	4,341	87,076	12,088	-	217,106	2,707,776
2014	407,794	1,989,336	2,907	21,232	720	87,536	33,635	-	231,301	2,774,461
2015	398,395	2,056,220	2,086	15,366	698	85,619	210,850	-	215,654	2,984,888
2016	397,645	2,177,374	3,005	33,667	647	92,301	18,336	-	244,517	2,967,492
2017	427,039	2,198,610	2,255	21,281	726	90,357	19,337	-	233,338	2,992,943
2018	410,948	2,058,009	3,349	31,387	345	87,935	25,443	-	224,610	2,842,026

(1) Includes General and Special Revenue Fund of the Primary Government.

(2) Excludes Capital Projects Fund.

Table 5

Town of Tappahannock, Virginia  
Property Tax Levies and Collections  
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy (1,2)	Current Tax Collections (1,2)	Percent of Levy Collected	Delinquent Tax Collections (1)	Total Tax Collections	Percent of	
						Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (1)
							Percent of Delinquent Taxes to Tax Levy
2009	\$ 429,555	\$ 423,681	98.63%	\$ 1,037	\$ 424,718	\$ 49,425	11.51%
2010	429,644	431,300	100.39%	(303)	430,997	41,730	9.71%
2011	430,827	430,671	99.96%	2,978	433,649	41,327	9.59%
2012	431,430	422,866	98.01%	(2,027)	420,839	51,798	12.01%
2013	441,948	441,163	99.82%	15,814	456,977	42,118	9.53%
2014	445,037	439,111	98.67%	14,062	453,173	34,210	7.69%
2015	450,889	427,870	94.89%	18,449	446,319	34,189	7.58%
2016	454,455	431,797	95.01%	10,482	442,279	43,193	9.50%
2017	467,957	449,770	96.11%	19,370	469,140	43,253	9.24%
2018	457,317	448,211	98.01%	8,082	456,293	50,511	11.05%

(1) Exclusive of penalties, interest and land redemptions.

(2) Tax levy and collections include the Commonwealth's personal property tax relief revenues.

Town of Tappahannock, Virginia  
Assessed Value of Taxable Property  
Last Ten Fiscal Years

Fiscal Year	Real Estate (1)	Personal Property	Business Personal Property	Machinery and Tools	Mobile Homes	Public Utility (2)			Total
						Real Estate	Personal Property	Personal Property	
2009	\$ 295,787,088	\$ 13,064,779	\$ -	\$ 1,022,874	\$ 864,696	\$ 5,409,615	\$ 11,750	\$ 316,160,802	
2010	297,988,348	13,237,908	-	1,364,916	868,750	5,803,039	44,683	319,307,644	
2011	297,683,885	12,857,943	-	1,407,245	752,800	5,718,755	37,313	318,457,941	
2012	299,183,186	12,739,177	-	1,461,325	765,100	5,858,034	37,522	320,044,344	
2013	299,416,618	12,969,583	-	1,435,100	759,375	5,685,641	42,455	320,308,772	
2014	260,281,840	14,328,837	-	920,425	830,800	5,605,066	8,154	281,975,122	
2015	260,131,540	13,966,912	-	930,625	852,500	5,907,408	8,154	281,797,139	
2016	260,557,640	14,389,007	-	703,750	844,400	6,149,796	-	282,644,593	
2017	260,843,554	15,202,077	-	1,006,075	876,475	6,150,232	-	284,078,413	
2018	250,810,100	12,116,029	14,596,700	5,795,650	650,562	6,320,061	-	290,289,102	

(1) Real estate is assessed at 100% of fair market value.

(2) Assessed values are established by the State Corporation Commission.



Town of Tappahannock, Virginia  
Property Tax Rates (1)  
Last Ten Fiscal Years

Fiscal Year	Real Estate	Personal Property	Business Personal Property	Machinery and Tools	Mobile Homes	Public Utility	
						Real Estate	Personal Property
2009	\$ 0.09	\$ 1.25	\$ -	\$ 1.00	\$ 0.09	\$ 0.09	\$ 1.25
2010	0.085	1.25	-	1.00	0.085	0.085	1.25
2011	0.085	1.25	-	1.00	0.085	0.085	1.25
2012	0.085	1.25	-	1.00	0.085	0.085	1.25
2013	0.085	1.25	-	1.00	0.085	0.085	1.25
2014	0.10	1.25	-	1.00	0.10	0.10	1.25
2015	0.10	1.25	-	1.00	0.10	0.10	1.25
2016	0.10	1.25	-	1.00	0.10	0.10	1.25
2017	0.10	1.25	-	1.00	0.10	0.10	1.25
2018	0.10	1.25	0.25	0.20	0.10	0.10	1.25

(1) Per \$100 of assessed value.

Town of Tappahannock, Virginia  
Ratio of Net General Bonded Debt to  
Assessed Value and Net Bonded Debt Per Capita  
Last Ten Fiscal Years

Fiscal Year	Population (1)	Assessed Value (2)	Gross Bonded Debt (3)	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2009	2,068	\$ 316,160,802	\$ 9,811,781	\$ 9,811,781	3.10%	\$ 4,745
2010	2,375	319,307,644	12,597,611	12,597,611	3.95%	5,304
2011	2,375	318,457,941	12,173,174	12,173,174	3.82%	5,126
2012	2,375	320,044,344	11,517,923	11,517,923	3.60%	4,850
2013	2,375	320,308,772	10,896,622	10,896,622	3.40%	4,588
2014	2,375	281,975,122	10,223,880	10,223,880	3.63%	4,305
2015	2,375	281,797,139	9,526,136	9,526,136	3.38%	4,011
2016	2,375	282,644,593	8,823,394	8,823,394	3.12%	3,715
2017	2,375	284,078,413	7,810,652	7,810,652	2.75%	3,289
2018	2,375	290,289,102	7,097,910	7,097,910	2.45%	2,989

(1) United States Census Bureau, Census 2000 and Census 2010

(2) From Table 6

(3) Includes all long-term general obligation bonded debt. Excludes revenue bonds, notes payable, capital leases, deferred issuance premium, compensated absences, and net pension liability.

Town of Tappahannock, Virginia  
 Computation of Legal Debt Margin  
 At June 30, 2018

Assessed value of real property, January 1, 2017 (1)	\$ 257,130,161
<hr/>	
Debt limit:	
10% of assessed value	\$ 25,713,016
Amount of debt applicable to debt limit:	
Gross debt (2)	\$ 7,442,864
Less: Revenue bonds and notes secured by property	(344,954)
Net general obligation bonds and loans	\$ 7,097,910
Legal debt limit	\$ 18,615,106

(1) Assessed value of real property, including public service corporations.

(2) Includes bonded debt and long-term notes payable.

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*COMPLIANCE SECTION*

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# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Tappahannock, Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Town of Tappahannock, Virginia's basic financial statements and have issued our report thereon dated March 8, 2019.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Tappahannock, Virginia's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Tappahannock, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Tappahannock, Virginia'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 or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses, 2019-001.

## Compliance and Other Matters

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

### Town of Tappahannock, Virginia's Responses to Finding

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

### Purpose of this Report

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

A handwritten signature in black ink, appearing to read "D. F. Clark", followed by a horizontal line extending to the right.

Richmond, Virginia  
March 8, 2019



Town of Tappahannock, Virginia  
 Schedule of Findings and Responses  
 For the Year Ended June 30, 2018

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**Section I-Summary of Auditors' Results**

**Financial Statements**

Type of auditor's report issued:		<i>unmodified</i>
Internal control over financial reporting:		
Material weakness(es) identified?	<u>      ✓      </u> yes	<u>                  </u> no
Significant deficiency(ies) identified?	<u>                  </u> yes	<u>      ✓      </u> none reported
Noncompliance material to financial statements noted?	<u>                  </u> yes	<u>      ✓      </u> no

**Section II-Financial Statement Findings**

2019-001

**Financial Reporting**

- Criteria:** Per Statement of Auditing Standards 115 (SAS 115), identification of adjustments to the financial statements that was not detected by the entity's internal controls indicates that a material weakness exists. Internal controls should be in place that provide assurance that audited financial statements reconcile to the Town's internal documents.
- Condition:** The financial statements did not contain all necessary adjustments to reconcile to the Town's internal documents to comply with generally accepted accounting principles (GAAP).
- Effect of Condition:** There is a reasonable possibility that a material misstatement of the Town's financial statements or notes to the financial statements will not be prevented or detected by the Town's internal controls over financial reporting.
- Cause of Condition:** Procedures have not been fully implemented to provide the necessary internal controls over financial reporting.
- Recommendation:** Procedures should be implemented providing for the posting of all year-end adjusting entries to allow for reconciliation between the audited financial statements and the Town's general ledger reports.
- Management's Response:** The Town is considering corrective action for FY19.

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