

TOWN OF BROOKNEAL, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2016

TOWN OF BROOKNEAL, VIRGINIA
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INTRODUCTORY SECTION

TOWN OF BROOKNEAL, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2016

TOWN COUNCIL

Phyllis Campbell, Mayor
James Nowlin, Vice Mayor
Richard Adams
Joseph B. David, Jr.
Robert Jean
Barbara LaPrade
Mark Wilkes

APPOINTED OFFICIALS

Russell B. Thurston	Town Manager
Bobbie Waller	Clerk/Treasurer
Michael Crews	Public Works Director
Richard W. Baldwin	Chief of Police

FINANCIAL SECTION

M. JERRY REYNOLDS, P.C.

Certified Public Accountant

801 Church Street
Lynchburg, Virginia 24504

Independent Auditor's Report

Honorable Members of Town Council
Town of Brookneal, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Brookneal, Virginia (the "Town") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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 and each major fund of the Town of Brookneal, Virginia, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2016 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Mr. Jerry Reynolds, P.C.

Lynchburg, Virginia
November 18, 2016

BASIC FINANCIAL STATEMENTS

TOWN OF BROOKNEAL, VIRGINIA
STATEMENT OF NET POSITION
June 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,060,881	\$ 560,048	\$ 1,620,929
Receivables, net	27,456	46,395	73,851
Due from other governmental units	76,939	-	76,939
Capital assets			
Land	180,088	22,129	202,217
Depreciable buildings, property and equipment, net	<u>263,825</u>	<u>7,381,701</u>	<u>7,645,526</u>
Total assets	<u>\$ 1,609,189</u>	<u>\$ 8,010,273</u>	<u>\$ 9,619,462</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension plan	<u>\$ 39,071</u>	<u>\$ 26,046</u>	<u>\$ 65,117</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ 8,331	\$ 4,217	\$ 12,548
Accrued payroll and related liabilities	-	-	-
Noncurrent liabilities:			
Net pension liability	245,471	163,647	409,118
Due within one year	9,936	19,380	29,316
Due in more than one year	<u>3,284</u>	<u>982,983</u>	<u>986,267</u>
Total liabilities	<u>\$ 267,022</u>	<u>\$ 1,170,227</u>	<u>\$ 1,437,249</u>
DEFERRED INFLOWS OF RESOURCES			
Pension plan	<u>\$ 20,899</u>	<u>\$ 13,932</u>	<u>\$ 34,831</u>
NET POSITION			
Net Investment in capital assets	\$ 443,913	\$ 6,408,135	\$ 6,852,048
Unrestricted	<u>916,426</u>	<u>444,025</u>	<u>1,360,451</u>
Total net position	<u>\$ 1,360,339</u>	<u>\$ 6,852,160</u>	<u>\$ 8,212,499</u>

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

TOWN OF BROOKNEAL, VIRGINIA
STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities							
General Government Administration	\$ 194,878	\$ -	\$ -	\$ -	\$ (194,878)	\$ -	\$ (194,878)
Public Safety	172,075	-	41,387	-	(130,688)	-	(130,688)
Public Works	249,391	21,689	1,071	-	(226,631)	-	(226,631)
Parks, Recreation and Cultural	34,410	-	-	-	(34,410)	-	(34,410)
Community Development	241,152	-	238,926	-	(2,226)	-	(2,226)
Total governmental activities	<u>891,906</u>	<u>21,689</u>	<u>281,384</u>	<u>-</u>	<u>(588,833)</u>	<u>-</u>	<u>(588,833)</u>
Business-type activities							
Water	420,442	271,968	50,000	-	-	(98,474)	(98,474)
Sewer	177,616	131,536	-	-	-	(46,080)	(46,080)
Total business-type activities	<u>598,058</u>	<u>403,504</u>	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>(144,554)</u>	<u>(144,554)</u>
Total government	<u>\$ 1,489,964</u>	<u>\$ 425,193</u>	<u>\$ 331,384</u>	<u>\$ -</u>	<u>(588,833)</u>	<u>(144,554)</u>	<u>(733,387)</u>
General revenues:							
Property taxes					203,148	-	203,148
Other local taxes					361,319	-	361,319
Intergovernmental revenue not restricted to specific programs					12,474	-	12,474
Interest					6,256	5,479	11,735
Rents					5,459	-	5,459
Other					12,533	4,884	17,417
Transfers					-	-	-
Total general revenues and transfers					<u>601,189</u>	<u>10,363</u>	<u>611,552</u>
Change in net position					12,356	(134,191)	(121,835)
Net position - beginning					<u>1,347,983</u>	<u>6,986,351</u>	<u>8,334,334</u>
Net position - ending					<u>\$ 1,360,339</u>	<u>\$ 6,852,160</u>	<u>\$ 8,212,499</u>

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

TOWN OF BROOKNEAL, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2016

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 1,035,585	\$ 25,296	\$ 1,060,881
Receivables, net	27,456	-	27,456
Due from other governmental units	-	76,939	76,939
Due from (to) other funds	<u>76,939</u>	<u>(76,939)</u>	<u>-</u>
Total assets	<u>\$ 1,139,980</u>	<u>\$ 25,296</u>	<u>\$ 1,165,276</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts payable and accrued liabilities	\$ 8,331	\$ -	\$ 8,331
Accrued payroll and related liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>8,331</u>	<u>-</u>	<u>8,331</u>
Deferred Inflows of Resources			
Unavailable revenue - property taxes	<u>22,067</u>	<u>-</u>	<u>22,067</u>
Total deferred inflows of resources	<u>22,067</u>	<u>-</u>	<u>22,067</u>
Fund Balances			
Nonspendable	-	-	-
Restricted	-	-	-
Committed	-	-	-
Unassigned	<u>1,109,582</u>	<u>25,296</u>	<u>1,134,878</u>
Total fund balances	<u>1,109,582</u>	<u>25,296</u>	<u>1,134,878</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,139,980</u>	<u>\$ 25,296</u>	<u>\$ 1,165,276</u>

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

TOWN OF BROOKNEAL, VIRGINIA
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION

As of June 30, 2016

Total fund balances per Balance Sheet - Governmental Funds		\$ 1,134,878
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in governmental funds.		
Governmental capital assets	\$ 1,607,051	
Less accumulated depreciation	<u>(1,163,138)</u>	
Net capital assets		443,913
Certain receivables are not available to pay for current-period expenditures and, therefore, are deferred in governmental funds.		
Unavailable revenue related to property taxes		22,067
Deferred outflows of resources represent a consumption of net position that applies to a future period and, therefore, are not recognized as expenditures in governmental funds.		
Pension plan		39,071
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in governmental funds.		
Compensated absences	(13,220)	
Net pension liability	<u>(245,471)</u>	(258,691)
Deferred inflows of resources represent an acquisition of net position that applies to a future period and, therefore, are not recognized as revenue in governmental funds.		
Pension plan		<u>(20,899)</u>
Net position of governmental activities		<u>\$ 1,360,339</u>

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

TOWN OF BROOKNEAL, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

Year Ended June 30, 2016

	General Fund	Special Revenue Fund	Total Governmental Funds
Revenues:			
General property taxes	\$ 192,897	\$ -	\$ 192,897
Other local taxes	361,319	-	361,319
Permits, privilege fees and regulatory licenses	-	-	-
Fines and forfeitures	3,492	-	3,492
Interest earned	6,224	32	6,256
Rental income	5,459	-	5,459
Charges for services	21,689	-	21,689
Intergovernmental	54,932	238,926	293,858
Other	6,998	2,043	9,041
Total revenues	<u>653,010</u>	<u>241,001</u>	<u>894,011</u>
Expenditures:			
Current			
General government administration	183,268	-	183,268
Public safety	153,407	-	153,407
Public works	241,189	-	241,189
Parks, recreation and cultural	34,153	-	34,153
Community development	-	241,152	241,152
Capital outlay	-	-	-
Debt service			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	<u>612,017</u>	<u>241,152</u>	<u>853,169</u>
Excess of revenues (expenditures) over expenditures (revenues)	<u>40,993</u>	<u>(151)</u>	<u>40,842</u>
Other Financing Sources (Uses):			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	40,993	(151)	40,842
Fund balances - beginning	<u>1,068,589</u>	<u>25,447</u>	<u>1,094,036</u>
Fund balances - ending	<u>\$ 1,109,582</u>	<u>\$ 25,296</u>	<u>\$ 1,134,878</u>

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

TOWN OF BROOKNEAL, VIRGINIA
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

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

Net change in fund balances - total government funds		\$ 40,842
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:		
Expenditures for capital assets	\$ 24,142	
Less depreciation expense	<u>(55,854)</u>	
Excess of depreciation over capital outlays		(31,712)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:		
Property taxes		10,251
Deferred outflows of resources		
Pension plan		14,593
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:		
Increase in compensated absences	(1,179)	
Pension expense	<u>(20,439)</u>	<u>(21,618)</u>
Change in net position of governmental activities		<u>\$ 12,356</u>

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

TOWN OF BROOKNEAL, VIRGINIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS

June 30, 2016

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 544,898	\$ 15,150	\$ 560,048
Receivables, net	31,549	14,846	46,395
Due from other governmental units	<u>-</u>	<u>-</u>	<u>-</u>
Total current assets	<u>576,447</u>	<u>29,996</u>	<u>606,443</u>
Noncurrent assets			
Capital assets			
Land	22,129	-	22,129
Depreciable buildings, property and equipment, net	<u>6,408,987</u>	<u>972,714</u>	<u>7,381,701</u>
Total noncurrent assets	<u>6,431,116</u>	<u>972,714</u>	<u>7,403,830</u>
Total assets	<u>\$ 7,007,563</u>	<u>\$ 1,002,710</u>	<u>\$ 8,010,273</u>
 DEFERRED OUTFLOWS OF RESOURCES			
Pension plan	<u>\$ 20,837</u>	<u>\$ 5,209</u>	<u>\$ 26,046</u>
 LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	\$ 3,221	\$ 996	\$ 4,217
Accrued payroll and related liabilities	-	-	-
Due to other funds	-	-	-
Current portion of long-term debt	14,454	-	14,454
Compensated absences	<u>3,422</u>	<u>1,504</u>	<u>4,926</u>
Total current liabilities	<u>21,097</u>	<u>2,500</u>	<u>23,597</u>
Noncurrent liabilities			
Net pension liability	130,918	32,729	163,647
Long-term debt	981,241	-	981,241
Compensated absences	<u>1,050</u>	<u>692</u>	<u>1,742</u>
Total noncurrent liabilities	<u>1,113,209</u>	<u>33,421</u>	<u>1,146,630</u>
Total liabilities	<u>\$ 1,134,306</u>	<u>\$ 35,921</u>	<u>\$ 1,170,227</u>
 DEFERRED INFLOWS OF RESOURCES			
Pension plan	<u>\$ 11,146</u>	<u>\$ 2,786</u>	<u>\$ 13,932</u>
 NET POSITION			
Net investment in capital assets	\$ 5,435,421	\$ 972,714	\$ 6,408,135
Unrestricted (deficit)	<u>447,527</u>	<u>(3,502)</u>	<u>444,025</u>
Total net position	<u>\$ 5,882,948</u>	<u>\$ 969,212</u>	<u>\$ 6,852,160</u>

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

TOWN OF BROOKNEAL, VIRGINIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS

Year ended June 30, 2016

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating revenues:			
Charges for services	\$ 271,968	\$ 131,536	\$ 403,504
Other	<u>2,442</u>	<u>2,442</u>	<u>4,884</u>
Total operating revenues	<u>274,410</u>	<u>133,978</u>	<u>408,388</u>
Operating expenses:			
Salaries	75,665	52,449	128,114
Fringe benefits	30,115	22,498	52,613
Contractual services	3,750	3,750	7,500
Filter plant and sewer plant operating expense	20,058	18,690	38,748
Office supplies and expense	4,683	2,469	7,152
Repairs and miscellaneous	33,932	16,230	50,162
Supplies and chemicals	39,111	14,034	53,145
Truck and equipment operating expense	3,069	1,828	4,897
Depreciation	<u>171,794</u>	<u>45,668</u>	<u>217,462</u>
Total operating expenses	<u>382,177</u>	<u>177,616</u>	<u>559,793</u>
Operating income (loss)	<u>(107,767)</u>	<u>(43,638)</u>	<u>(151,405)</u>
Nonoperating revenues (expenses):			
Interest expense	(38,265)	-	(38,265)
Interest income	2,740	2,739	5,479
Campbell County grant	<u>50,000</u>	<u>-</u>	<u>50,000</u>
Total nonoperating revenues	<u>14,475</u>	<u>2,739</u>	<u>17,214</u>
Income (loss) before operating transfers	(93,292)	(40,899)	(134,191)
Operating transfers in	-	-	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	(93,292)	(40,899)	(134,191)
Total net position - beginning	<u>5,976,240</u>	<u>1,010,111</u>	<u>6,986,351</u>
Total net position - ending	<u>\$ 5,882,948</u>	<u>\$ 969,212</u>	<u>\$ 6,852,160</u>

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

TOWN OF BROOKNEAL, VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

Year ended June 30, 2016

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating Activities:			
Receipts from customers	\$ 269,663	\$ 131,747	\$ 401,410
Payments to employees	(75,396)	(52,934)	(128,330)
Payments for employee benefits	(24,698)	(21,144)	(45,842)
Payments to suppliers	<u>(103,891)</u>	<u>(56,781)</u>	<u>(160,672)</u>
Net cash provided by operating activities	<u>65,678</u>	<u>888</u>	<u>66,566</u>
Noncapital Financing Activities:			
Campbell County grant received	<u>50,000</u>	<u>-</u>	<u>50,000</u>
Net cash provided by noncapital financing activities	<u>50,000</u>	<u>-</u>	<u>50,000</u>
Capital and Related Financing Activities:			
Proceeds from issuance of debt	-	-	-
Acquisition of capital assets	(37,694)	-	(37,694)
Principal paid on debt	(13,827)	-	(13,827)
Interest paid on capital debt	<u>(38,265)</u>	<u>-</u>	<u>(38,265)</u>
Net cash used in capital and related financing activities	<u>(89,786)</u>	<u>-</u>	<u>(89,786)</u>
Investing Activities:			
Interest received	<u>2,740</u>	<u>2,739</u>	<u>5,479</u>
Net cash provided by investing activities	<u>2,740</u>	<u>2,739</u>	<u>5,479</u>
Net increase in cash and cash equivalents	28,632	3,627	32,259
Cash and Cash Equivalents:			
Beginning of year	<u>516,266</u>	<u>11,523</u>	<u>527,789</u>
End of year	<u>\$ 544,898</u>	<u>\$ 15,150</u>	<u>\$ 560,048</u>
Reconciliation of Operating Income (loss) to Net Cash Provided by Operating Activities:			
Operating loss	\$ (107,767)	\$ (43,638)	\$ (151,405)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	171,794	45,668	217,462
Pension expense	15,388	3,846	19,234
Change in assets and liabilities:			
Increase in deferred outflows	(9,971)	(2,492)	(12,463)
Increase in receivables	(4,747)	(2,231)	(6,978)
Increase (decrease) in accounts payable and other liabilities	<u>981</u>	<u>(265)</u>	<u>716</u>
Net cash provided by operating activities	<u>\$ 65,678</u>	<u>\$ 888</u>	<u>\$ 66,566</u>

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

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 1. Summary of Significant Accounting Policies

Narrative Profile

The Town of Brookneal, Virginia was established in 1802. It is a political subdivision of the Commonwealth of Virginia operating under the Council-Manager form of government. The Town Council consists of a mayor and six other council members. The Town is part of Campbell county and has taxing powers subject to statewide restrictions and tax limits.

The Town of Brookneal provides a full range of municipal services including police, refuse collection, public improvements, planning and zoning, general administrative services, recreation, and water and sewer services. Fire and first aid services are provided by volunteer departments.

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

A. The Financial Reporting Entity

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This statement, known as the "Reporting Model" statement, affects the way the Town prepares and presents financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private sector financial reports.

GASB Statement No. 34 established requirements and a reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

Management's Discussion and Analysis: GASB Statement No. 34 requires that 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). This analysis is similar to analysis the private sector provides in their annual reports.

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 (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter.

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

A. The Financial Reporting Entity (Continued)

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 report all capital assets, including infrastructure, in the government-wide Statement of Net Position and 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.

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).

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 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. The Town and many other governments revise their original budgets over the course of the year for a variety of reasons.

As required by the accounting principles generally accepted in the United States of America, these financial statements present the primary government. The Town has no component units required to be included in its financial statements.

B. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the Town as a whole) and fund financial statements. The focus is on both the Town as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the government-wide Statement of Net Position, the governmental activities columns (a) are presented on a consolidated basis, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information. The Town generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The Town may defer the use of restricted assets based on a review of the specific transaction.

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

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

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, etc.) that 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, etc.) or a business-type activity. 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, and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The Town does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

Propriety Fund operating revenues consist of charges for services and related revenues. Nonoperating revenues consist of contributions, grants, investment earnings, and other revenues not directly derived from the providing of services.

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. The fund statements are presented on a current financial resource and modified accrual basis of accounting.

This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustment necessary to reconcile the fund financial statements to the governmental column of the government-wide financial statements.

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

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

The following is a brief description of the specific funds used by the Town:

Governmental Funds - Governmental Funds account for the expendable financial resources, other than those accounted for in the Proprietary Funds. The Governmental Funds utilize the modified accrual basis of accounting where the measurement focus is upon determination of financial position and changes in financial position, rather than upon net income determination as would apply to a commercial enterprise. The individual governmental funds are:

General Fund - The General Fund is the primary operating fund of the Town and accounts for all revenues and expenditures applicable to the general operations of the Town which are not accounted for in other funds. Revenues are derived primarily from property and other local taxes, licenses, permits, charges for services, use of money and property, and intergovernmental grants. The general fund is considered a major fund for financial reporting purposes.

Special Revenue Fund - The Special Revenue Fund accounts for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative action. The Town's special revenue fund accounts for financial resources related to grants requiring separate accounting.

Proprietary Funds - Proprietary Funds account for operations that are financed in a manner similar to private business enterprises. The Proprietary Funds utilize the accrual basis of accounting where the measurement focus is upon determination of net income, financial position, and changes in financial position. The Town's Proprietary Funds consist of Enterprise Funds.

Enterprise Funds - The Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the Town is that the cost of providing services to the general public be financed or recovered through user charges. The Enterprise Funds consist of the following:

The Water Fund accounts for activities associated with providing water services to customers in the Town.

The Sewer Fund accounts for activities associated with providing sewer services to customers in the Town.

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet in the funds statement. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of the Governmental Funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide Statements of Net Position and Statements of Activities and the Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the Statement of Net Position. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The fund financial statements of the General and Special Revenue Funds are maintained and reported on the modified accrual basis of accounting using the current financial resources measurement focus. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenue and other local taxes, the term "available" is limited to collection within forty-five days of the fiscal year end. Levies made prior to the fiscal year end but which are not available are deferred. Interest income is recorded as earned. Federal and State reimbursement-type grants are recorded as revenue when related eligible expenditures are incurred. Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

D. Budgets and Budgetary Accounting

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

1. Prior to May 30, the Budget committee submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. This budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments.

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets and Budgetary Accounting (Continued)

3. Prior to June 30, the budgets for the general and enterprise funds are legally enacted through passage of an Appropriations Resolution. Town Council may, from time to time, amend the budget, providing for additional expenditures and the means of financing them.
4. The Appropriations Resolution places legal restrictions on expenditures at the fund level. The appropriations for each department or category can be revised only by the Town council. The Budget Committee is authorized to transfer budgeted amounts within general government departments.
5. Formal budgetary integration is employed as a management control device during the year for the general and enterprise funds.
6. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
7. Appropriations lapse on June 30, for all Town units.

E. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, money market funds, certificates of deposit and investments with maturities of three months or less.

F. Allowance for Uncollectible Accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and specific account analysis. The allowance at June 30 is composed of the following:

General Fund

Real estate tax	\$ 3,121
Personal Property tax	<u>4,753</u>
Total	<u>\$ 7,874</u>

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

G. Capital Assets

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

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	20 - 40 years
Machinery and equipment	5 - 20 years
Water and sewer system	50 years
Public domain infrastructure	20 - 50 years

H. Capitalization of Interest

The Town follows the policy of capitalizing net interest costs on funds borrowed to finance the construction of proprietary fixed assets. Interest is not capitalized on the construction of assets used in governmental activities.

I. Deferred Inflows of Resources

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial element, deferred inflow of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Town has one such item, unavailable/unearned revenue. Unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes and other receivables not collected within 45 days of year end and property taxes collected in advance but levied to fund future years. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

J. Compensated Absences

The Town has policies which allow for the accumulation and vesting of limited amounts of vacation and sick leave until termination or retirement. Amounts of such absences are accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

K. Fund Equity

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

L. Estimates

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

Note 2. Deposits

All cash of the Town of Brookneal, Virginia is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, or covered by Federal Depository Insurance.

Note 3. Receivables

Receivables for the Town's individual major funds are as follows:

	<u>General</u>	Water and <u>Sewer</u>	<u>Total</u>
Taxes	\$ 31,171	\$ -	\$ 31,171
Accounts	<u>4,159</u>	<u>46,395</u>	<u>50,554</u>
Gross receivables	35,330	46,395	81,725
Less allowance for uncollectible	<u>7,874</u>	<u>-</u>	<u>7,874</u>
Net total receivables	<u>\$ 27,456</u>	<u>\$ 46,395</u>	<u>\$ 73,851</u>

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 4. Due from Other Governmental Units

Amounts due from other governmental units is as follows:

Governmental Activities

Due from Commonwealth of Virginia \$76,939

Note 5. Capital Assets

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

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 180,088	\$ -	\$ -	\$ 180,088
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, not depreciated	<u>180,088</u>	<u>-</u>	<u>-</u>	<u>180,088</u>
Capital assets, depreciated				
Buildings and improvements	691,092	-	-	691,092
Machinery and equipment	560,005	24,142	13,196	570,951
Public domain infrastructure	<u>164,920</u>	<u>-</u>	<u>-</u>	<u>164,920</u>
Total capital assets, depreciated	1,416,017	24,142	13,196	1,426,963
Less accumulated depreciation	<u>1,120,480</u>	<u>55,854</u>	<u>13,196</u>	<u>1,163,138</u>
Total capital assets, depreciated, net	<u>295,537</u>	<u>(31,712)</u>	<u>-</u>	<u>263,825</u>
Governmental activities capital assets, net	<u>\$ 475,625</u>	<u>\$ (31,712)</u>	<u>\$ -</u>	<u>\$ 443,913</u>

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 5. Capital Assets (Continued)

<u>Business-type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ <u>22,129</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>22,129</u>
Total capital assets, not depreciated	<u>22,129</u>	<u>-</u>	<u>-</u>	<u>22,129</u>
Capital assets, depreciated				
Water system and Sewer system	<u>10,341,962</u>	<u>37,694</u>	<u>6,437</u>	<u>10,373,219</u>
Total capital assets, depreciated	<u>10,341,962</u>	<u>37,694</u>	<u>6,437</u>	<u>10,373,219</u>
Less accumulated depreciation	<u>2,780,493</u>	<u>217,462</u>	<u>6,437</u>	<u>2,991,518</u>
Total capital assets, depreciated, net	<u>7,561,469</u>	<u>(179,768)</u>	<u>-</u>	<u>7,381,701</u>
Business-type activities capital assets, net	<u>\$ 7,583,598</u>	<u>\$ (179,768)</u>	<u>\$ -</u>	<u>\$ 7,403,830</u>

Depreciation was charged to functions/programs as follows:

Governmental activities	
General government administration	\$ 7,887
Public safety	17,593
Public works	30,117
Parks, recreational and cultural	<u>257</u>
Total depreciation expense - governmental activities	<u>\$ 55,854</u>
Business-type activities	
Water	\$ 171,794
Sewer	<u>45,668</u>
Total depreciation expense - business-type activities	<u>\$ 217,462</u>

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 6. Long-term Liabilities

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

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Compensated Absences	\$ <u>12,041</u>	\$ <u>1,179</u>	\$ <u>-</u>	\$ <u>13,220</u>	\$ <u>9,936</u>
Total	\$ <u>12,041</u>	\$ <u>1,179</u>	\$ <u>-</u>	\$ <u>13,220</u>	\$ <u>9,936</u>
<u>Business-Type Activities</u>					
Gen. Obligation Bonds	\$ 1,009,522	\$ -	\$ 13,827	\$ 995,695	\$ 14,454
Compensated absences	<u>6,884</u>	<u>-</u>	<u>216</u>	<u>6,668</u>	<u>4,926</u>
Total	\$ <u>1,016,406</u>	\$ <u>-</u>	\$ <u>14,043</u>	\$ <u>1,002,363</u>	\$ <u>19,380</u>

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

<u>Fiscal Year</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>Principal</u>	<u>Interest</u>	<u>General Obligation Bonds</u>		<u>Principal</u>	<u>Interest</u>
			<u>Principal</u>	<u>Interest</u>		
2017	\$ -	\$ -	\$ 14,454	\$ 37,638	\$ 14,454	\$ 37,638
2018	-	-	14,998	37,094	14,998	37,094
2019	-	-	15,563	36,529	15,563	36,529
2020	-	-	16,049	36,025	16,049	36,025
2021	-	-	16,757	35,335	16,757	35,335
2022-2026	-	-	93,723	166,737	93,723	166,737
2027-2031	-	-	113,034	147,426	113,034	147,426
2032-2036	-	-	136,441	124,019	136,441	124,019
2037-2041	-	-	165,066	95,394	165,066	95,394
2042-2046	-	-	199,824	60,636	199,824	60,636
2047-2051	<u>-</u>	<u>-</u>	<u>209,786</u>	<u>18,641</u>	<u>209,786</u>	<u>18,641</u>
Totals	\$ <u>-</u>	\$ <u>-</u>	\$ <u>995,695</u>	\$ <u>795,474</u>	\$ <u>995,695</u>	\$ <u>795,474</u>

Details of long-term indebtedness are as follows:

	<u>Interest Rate</u>	<u>Date Issued</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding</u>	
					<u>Govern- mental Activities</u>	<u>Business- Type Activities</u>
General Obligation Bond	4.125%	2011	2051	\$ 866,000	\$ -	\$ 831,132
General Obligation Bond	2.250%	2011	2051	\$ 175,000	\$ -	\$ 164,563

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 7. Pension Plan

Plan Description

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

All full-time, salaried permanent employees of the Town are automatically covered by VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria 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 below:

VRS Plan 1

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

Eligible Members - Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

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

Retirement Contributions - Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 7. Pension Plan (Continued)

Plan Description (Continued)

VRS Plan 1 (Continued)

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

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

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

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

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

Normal Retirement Age -

VRS: Age 65.

Political subdivisions hazardous duty employees: Age 60.

Earliest Unreduced Retirement Eligibility -

VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.

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.

Earliest Reduced Retirement Eligibility -

VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.

Political subdivisions hazardous duty employees: Age 50 with at least five years of creditable service.

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 7. Pension Plan (Continued)

Plan Description (Continued)

VRS Plan 1 (Continued)

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%.

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

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

The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.

The member retires on disability.

The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).

The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.

The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

Disability Coverage - Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

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

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 7. Pension Plan (Continued)

Plan Description, (Continued)

VRS Plan 2

About Plan 2 - Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Eligible Members - Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Hybrid Opt-In Election - Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.

Retirement Contributions - Employees contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.

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

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

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 7. Pension Plan (Continued)

Plan Description (Continued)

VRS Plan 2 (Continued)

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

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

Service Retirement Multiplier -

The retirement multiplier is a factor used in the formula to determine a final retirement benefit.

For service earned, purchased or granted prior to January 1, 2013 -

The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.

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

Normal Retirement Age -

VRS: Normal Social Security retirement age.

Political subdivisions hazardous duty employees: Age 60.

Earliest Unreduced Retirement Eligibility -

VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.

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.

Earliest Reduced Retirement Eligibility -

VRS: Age 60 with at least five years (60 months) of creditable service.

Political subdivisions hazardous duty employees: Age 50 with at least five years of creditable service.

Cost-of-Living Adjustment (COLA) in Retirement - The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 2%) for a maximum COLA of 3%.

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 7. Pension Plan (Continued)

Plan Description (Continued)

VRS Plan 2 (Continued)

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

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

The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.

The member retires on disability.

The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).

The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.

The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

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

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

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 7. Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan

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

The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.

The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.

In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

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

Political subdivision employees*

Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 - April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

*Non-Eligible Members - Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under 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.

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.

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 7. Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

Creditable Service

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

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

Vesting

Defined Benefit Component - Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (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.

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

After two years, a member is 50% vested and may withdraw 50% of employer contributions.

After three years, a member is 75% vested and may withdraw 75% of employer contributions.

After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

Distribution is not required by law until age 70 ½.

Calculating the Benefit

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

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

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 7. Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

Average Final Compensation - A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee. It is used in the retirement formula for the defined benefit component of the plan.

Service Retirement Multiplier - Defined Benefit Component: The retirement multiplier for the defined benefit component is 1.00%. 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. Not applicable for sheriffs and regional jail superintendents, political subdivision hazardous duty employees, or the defined contribution component.

Normal Retirement Age -

Defined Benefit Component -

VRS: Normal Social Security retirement age.

Political subdivisions hazardous duty employees: Not applicable.

Defined Contribution Component -

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Unreduced Retirement Eligibility -

Defined Benefit Component -

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.

Political subdivisions hazardous duty employees: Not applicable.

Defined Contribution Component -

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Reduced Retirement Eligibility -

Defined Benefit Component -

VRS: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

Political subdivisions hazardous duty employees: Not applicable.

Defined Contribution Component -

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 7. Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component - The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 2%) for a maximum COLA of 3%.

Defined Contribution Component - Not Applicable.

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

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

The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.

The member retires on disability.

The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).

The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.

The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

Disability Coverage - Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. 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.

TOWN OF BROOKNEAL, VIRGINIA
 NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 7. Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

Purchase of Prior Service

Defined Benefit Component - Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay. Hybrid Retirement Plan members are ineligible for ported service. The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.

Defined Contribution Component - Not Applicable.

Employees Covered by Benefit Terms

As of the June 30, 2014 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	1
Non-vested inactive members	6
Inactive members active elsewhere in VRS	<u>9</u>
Total inactive members	16
Active members	<u>9</u>
Total covered employees	<u><u>39</u></u>

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 7. Pension Plan (Continued)

Contributions

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

The Town's contractually required contribution rate for the year ended June 30, 2016 was 14.07% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$35,318 and \$38,063 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension Liability

The Town's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

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, 2014, 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, 2015.

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

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

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 7. Pension Plan (Continued)

Actuarial Assumptions - General Employees (Continued)

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

Largest 10 - Non- LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-LEOS:

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

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

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

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 7. Pension Plan (Continued)

Actuarial Assumptions - Public Safety Employees

The total pension liability for public safety employees in the Town's retirement plan was based on an actuarial valuation as of June 30, 2014, 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, 2015.

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

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

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

Largest 10 - LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

All Others (Non 10 Largest) - LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 7. Pension Plan (Continued)

Actuarial Assumptions - Public Safety Employees (Continued)

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) - LEOS:

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

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:

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

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 7. Pension Plan (Continued)

Long-Term Expected Rate of Return (Continued)

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

Discount Rate

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

Changes in Net Pension Liability

	Increase (decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2014	\$ <u>1,570,948</u>	\$ <u>1,244,692</u>	\$ <u>326,256</u>
Changes for the year:			
Service cost	22,591	-	22,591
Interest	106,536	-	106,536
Difference between expected and actual experience	59,900	-	59,900
Contributions - employer	-	37,877	(37,877)
Contributions - employee	-	13,244	(13,244)
Net investment income	-	55,854	(55,854)
Benefit payments, including refunds of employee contributions	(98,001)	(98,001)	-
Administrative expenses	-	(799)	799
Other changes	-	(11)	11
Net changes	<u>91,026</u>	<u>8,164</u>	<u>82,862</u>
Balances at June 30, 2015	\$ <u>1,661,974</u>	\$ <u>1,252,856</u>	\$ <u>409,118</u>

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 7. Pension Plan (Continued)

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

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

	1.00% Decrease <u>(6.00%)</u>	Current Discount Rate <u>(7.00%)</u>	1.00% Increase <u>(8.00%)</u>
Net Pension Liability	\$604,449	\$409,118	\$245,869

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

For the year ended June 30, 2016, the Town recognized pension expense of \$40,248. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual and actual experience	\$ 29,799	\$ 0
Change in assumptions	0	0
Net difference between projected and actual earnings on pension plan investments	0	34,831
Employer contributions subsequent to the Measurement date	<u>35,318</u>	<u>0</u>
Total	<u>\$ 65,117</u>	<u>\$ 34,831</u>

\$35,318 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 year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30

2017	\$ 16,215
2018	(13,584)
2019	(13,584)
2020	5,921
2021	0
Thereafter	0

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 8. Property Taxes

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

Property taxes are levied annually on assessed values as of January 1 and are due by December 5. Personal property taxes do not create a lien on property; however, the Town utilizes the DMV Stop program for individuals having outstanding personal property taxes.

The annual assessment for real estate is based on 100% of the assessed fair market value. A penalty of 10% of the unpaid tax is due for late payment. Interest is accrued at 10% for the initial year of delinquency, and thereafter at the maximum annual rate authorized by the Internal Revenue Code Section 6621(b). The effective tax rates per \$100 of assessed value for the year ended June 30 were as follows:

Real estate	\$ 0.17
Personal property	\$ 1.70
Machinery and tools	\$ 1.70

Note 9. Risk Management

The Town of Brookneal is insured for Worker's Compensation, General Liability, Health and other risks. The risk management programs are as follows:

Worker's Compensation Insurance is provided through the Virginia Municipal League. During fiscal year 2016, total premiums paid were approximately \$8,000. Benefits are those afforded through the Commonwealth of Virginia as outlined in the Code of Virginia Section 65.2-100; premiums are based on covered payroll, job rates and claims experience.

The Town provides general liability and other insurance through policies with the Virginia Municipal League. General liability and business automobile coverage have a \$1,000,000 limit per occurrence. Boiler and machinery has a \$2,000,000 limit. Property insurance is covered per statement of values and is approximately \$3,000,000. Police professional liability and public officials liability insurance with a \$1,000,000 limit are covered through a policy with the Commonwealth of Virginia.

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

The Town provides healthcare coverage for employees through a policy with Anthem Blue Cross Blue Shield. The Town contributes a percentage of the required premium amount for single coverage for each employee. The Town also pays a percentage of the coverage for dependents and spouses of employees. Total premiums paid for fiscal year 2016 were approximately \$44,000.

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 10. Pending GASB Statements

At June 30, 2016, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by the Town. The statement which might impact the Town is as follows:

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, addresses certain issues that have been raised with respect to Statement No. 67, *Financial Reporting for Pension Plans*, Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement will be effective for the year ending June 30, 2017, except for certain provisions regarding assumptions for plans with a measurement date that differs from the employer's reporting date - those provisions are effective for the year ending June 30, 2018.

REQUIRED

SUPPLEMENTARY INFORMATION

TOWN OF BROOKNEAL, VIRGINIA
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

Year ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:				
General property taxes	\$ 193,507	\$ 193,507	\$ 192,897	\$ (610)
Other local taxes	327,574	352,574	361,319	8,745
Permits, privilege fees and regulatory licenses	1,500	1,500	-	(1,500)
Fines and forfeitures	12,000	12,000	3,492	(8,508)
Interest	7,000	7,000	6,224	(776)
Rents	5,400	5,400	5,459	59
Charges for services	23,000	23,000	21,689	(1,311)
Intergovernmental	51,121	51,121	54,932	3,811
Other	<u>2,300</u>	<u>6,100</u>	<u>6,998</u>	<u>898</u>
Total revenues	<u>623,402</u>	<u>652,202</u>	<u>653,010</u>	<u>808</u>
Expenditures:				
Current:				
General government administration	212,657	195,935	183,268	12,667
Public safety	168,942	168,799	153,407	15,392
Public works	213,465	249,373	241,189	8,184
Parks, recreation and cultural	28,338	38,095	34,153	3,942
Community development	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>623,402</u>	<u>652,202</u>	<u>612,017</u>	<u>40,185</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>40,993</u>	<u>40,993</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,993</u>	<u>\$ 40,993</u>

TOWN OF BROOKNEAL, VIRGINIA

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

JUNE 30, 2016

	Plan Year	
	2015	2014
Total Pension Liability		
Service cost	\$ 22,591	\$ 24,950
Interest on total pension liability	106,536	105,181
Difference between expected and actual experience	59,900	-
Benefit payments, including refunds of employee contributions	<u>(98,001)</u>	<u>(123,534)</u>
Net change in total pension liability	91,026	6,597
Total pension liability - beginning	<u>1,570,948</u>	<u>1,564,351</u>
Total pension liability - ending	<u>1,661,974</u>	<u>1,570,948</u>
Plan Fiduciary Net Position		
Contributions - employer	37,877	30,438
Contributions - employee	13,244	13,384
Net investment income	55,854	175,213
Benefit payments, including refunds of employee contributions	(98,001)	(123,534)
Administrative expenses	(799)	(1,000)
Other	<u>(11)</u>	<u>9</u>
Net change in plan fiduciary net position	8,164	94,510
Plan fiduciary net position - beginning	<u>1,244,692</u>	<u>1,150,182</u>
Plan fiduciary net position - ending	<u>1,252,856</u>	<u>1,244,692</u>
Net pension liability - ending	<u>\$ 409,118</u>	<u>\$ 326,256</u>
Plan fiduciary net position as a percentage of total pension liability	<u>75.38%</u>	<u>79.23%</u>
Covered employee payroll	<u>\$ 269,204</u>	<u>\$ 271,762</u>
Net pension liability as a percentage of covered employee payroll	<u>151.97%</u>	<u>120.05%</u>

The plan years above are reported in the Town's financial statements in the fiscal year following the plan year - i.e, plan year 2014 information was presented in the Town's fiscal year 2015 financial report.

This schedule is intended to show information for 10 years. Since fiscal year 2015 was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

The notes to required supplementary information are an integral part of this statement.

TOWN OF BROOKNEAL, VIRGINIA
 SCHEDULE OF PENSION CONTRIBUTIONS

JUNE 30, 2016

<u>Year Ended June 30</u>	<u>Actuarially Determined Contribution</u>	<u>Contributions In Relation to actuarially Determined Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Employee Payroll</u>	<u>Contributions as a percentage of Covered Payroll</u>
2016	\$ 35,318	\$ 35,318	-	\$ 251,016	14.07%
2015	\$ 38,063	\$ 38,063	-	\$ 270,526	14.07%

This schedule is intended to show information for 10 years. Since fiscal year 2015 was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

The notes to required supplementary information are an integral part of this statement.

TOWN OF BROOKNEAL, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016

Note 1. Changes of Benefit Terms

There have been no actuarially material changes to the Virginia Retirement System (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 was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 are not material.

Note 2. Changes of Assumptions

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

Largest 10 - Non-LEOS:

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

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) - LEOS:

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

Teacher cost-sharing pool:

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for 3 through 9 years of service
- Decrease in rates of disability
- Reduce rates of salary increase by 0.25% per year

COMPLIANCE SECTION

M. JERRY REYNOLDS, P.C.

Certified Public Accountant

801 Church Street
Lynchburg, Virginia 24504

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

Honorable Members of Town Council
Town of Brookneal, 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, and each major fund of the Town of Brookneal, Virginia (the "Town") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 18, 2016.

Internal Control over Financial Reporting

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

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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*.

Purpose of this Report

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

Mr. Jerry Reynolds, P. C.

Lynchburg, Virginia
November 18, 2016