

**SUPPLEMENT TO OFFICIAL STATEMENT  
FOR  
\$17,530,000  
CITY OF BRISTOL, VIRGINIA  
TAXABLE GENERAL OBLIGATION REFUNDING NOTES  
SERIES 2015C**

**CUSIP NUMBERS: 110331 NT8  
110331 NU5**

The Official Statement, dated August 12, 2015, for the above referenced notes (the “Notes”) states that “[i]nterest on the Notes shall be payable by wire or by check mailed to the holders as of the first day of the month in which each interest payment date occurs.” Such record date is being changed so that interest on the Notes shall be payable by wire or by check mailed to the holders as of the fifteenth day of the month immediately preceding any month in which an interest payment date occurs (the “New Record Date”). The registrar for the Notes shall not be required to transfer or exchange any Note during the period from the New Record Date to the interest payment date corresponding thereto.

**Raymond James**

**Stifel**

The date of this Supplement is August 26, 2015.

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**BOOK-ENTRY ONLY**

**RATINGS:**

See “**RATINGS**” herein.

*In the opinion of Bond Counsel, under current law interest on the Notes is includable in the gross income of the holders thereof for federal income tax purposes, Bond Counsel is further of the opinion that the interest on the Notes is excludable from the gross income of the holders thereof for purposes of income taxation by the Commonwealth of Virginia. A holder may be subject to other tax consequences as described in the Section herein “**TAX MATTERS.**”*

**\$17,530,000**  
**CITY OF BRISTOL, VIRGINIA**  
**Taxable General Obligation Refunding Notes,**  
**Series 2015C**

**Dated: Date of Delivery**

**Due: October 1, as shown on inside front cover**

The Taxable General Obligation Refunding Notes, Series 2015C (the “Notes”) are general obligations of the City of Bristol, Virginia (the “City”) for the payment of which the City’s full faith and credit are irrevocably pledged. The City Council is authorized and required, unless other funds are lawfully available and appropriated for timely payment of the Notes, to levy and collect an annual ad valorem tax, over and above all other taxes authorized or limited by law and without limitation as to rate or amount, upon all locally taxable property within the City sufficient to pay when due the principal of and premium, if any, and interest on the Notes. See the Section herein “**SECURITY AND SOURCES OF PAYMENT OF THE NOTES.**”

Interest on the Notes will be payable semiannually on April 1 and October 1 in each year, commencing on April 1, 2016, by wire or by check mailed to the registered owner thereof. Principal of and premium, if any, on the Notes will be payable upon presentation and surrender at the corporate trust office of U.S. Bank National Association, Richmond, Virginia, as Registrar and Paying Agent. The Notes will be issuable only in the form of fully registered notes, in denominations of \$5,000 and integral multiples thereof, and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Notes. Individual purchasers will not receive physical delivery of certificates representing their interest in the Notes purchased. So long as Cede & Co. is the registered owner of the Notes as nominee of DTC, references herein to the holders or registered owners of the Notes shall mean Cede & Co., and shall not mean the beneficial owners of the Notes. See the Section herein “**DESCRIPTION OF THE NOTES – Book-Entry Only System.**”

The Notes are subject to optional redemption prior to maturity as described in the subsection “**DESCRIPTION OF THE NOTES -- “Optional Redemption.”**”

The Notes are being issued to refund certain existing indebtedness of the City and pay costs of issuance. See the Section herein “**DESCRIPTION OF THE NOTES – Authority For and Purpose of Issuance**” and “**DESCRIPTION OF THE NOTES – Refunding.**”

The scheduled payment of principal of and interest on the Notes when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Notes by **ASSURED GUARANTY MUNICIPAL CORP.** See the Section herein “**BOND INSURANCE.**”



***This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement and all Appendices hereto to obtain information essential to the making of an informed investment decision.***

The Notes are offered when, as and if issued by the City and received by the Underwriters, subject to the approval of validity by Troutman Sanders LLP, Richmond, Virginia, Bond Counsel to the City, and to certain other matters referred to herein. Certain legal matters will be passed upon the City by Pete Curcio, Esquire, City Attorney, and for the Underwriters by Kaufman & Canoles, P.C., Richmond, Virginia. It is expected that the Notes will be available for delivery through the facilities of The Depository Trust Company, New York, New York, on or about August 27, 2015.

**Raymond James**

**Stifel**

The date of this Official Statement is August 12, 2015.

**CITY OF BRISTOL, VIRGINIA**

**\$17,530,000**  
**Taxable General Obligation Refunding Notes,**  
**Series 2015C**

**Due October 1, as shown below**  
**(Base CUSIP\* Number 110331)**

<u>Year</u> <u>of Maturity</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP*</u> <u>Suffix</u>
2020	\$10,030,000	3.002%	3.002%	100%	NT8
2022	7,500,000	3.668	3.668	100	NU5

**Optional Redemption.** The Notes maturing on October 1, 2022, will be subject to redemption prior to maturity at the option of the City on or after October 1, 2020, in whole or in part (in increments of \$5,000) at any time, upon payment of the redemption price of 100% of the principal amount of the Notes to be redeemed, plus unpaid accrued interest to the redemption date.

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\* A registered trademark of the American Bankers Association, used by S&P in its operation of the CUSIP Service Bureau for the ABA. The above CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by an organization not affiliated with the City, and the City is not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of noteholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such securities or the use of secondary market financial products. The City has not agreed to, and there is no duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers set forth above.

**CITY OF BRISTOL, VIRGINIA**

CITY COUNCIL

Archie Hubbard, *Mayor*  
Bill Hartley, *Vice Mayor*  
Guy Odum  
Catherine Brillhart  
Jim Steele

CITY OFFICIALS

Tabitha Crowder, *City Manager*  
Andrew Omer Trivette, *Assistant City Manager*  
Kim Orfield, *Chief Financial Officer*  
Pete Curcio, *City Attorney*

BOND COUNSEL

Troutman Sanders LLP  
Richmond, Virginia

FINANCIAL ADVISOR

Davenport & Company LLC  
Richmond Virginia

CERTIFIED PUBLIC ACCOUNTANTS

Blackburn, Childers & Steagall, PLC  
Johnson City, Tennessee

The Notes are exempt from registration under the Securities Act of 1933, as amended. As obligations of a political subdivision of the Commonwealth of Virginia, the Notes are also exempt from registration under the securities laws of the Commonwealth of Virginia.

No dealer, broker, salesman or other person has been authorized by the City to give any information or to make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Notes by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or owners of any of the Notes.

The information set forth in this Official Statement has been obtained from the City and other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of Raymond James & Associates, Inc. and Stifel, Nicolaus & Company, Incorporated (collectively, the “Underwriters”) or, as to information from other sources, the City. The information and the expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made under it will, under any circumstances, create any implication that there has been no change in the affairs of the City since the date of this Official Statement or the earliest date as of which such information is given.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The Underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the Notes, including transactions (a) to over allot in arranging the sales of the Notes and (b) to make purchases in sales of Notes, for long or short accounts, on a when-issued basis or otherwise, at such prices, in such amounts and in such manner as the Underwriters may determine.

All quotations from, and summaries and explanations of, provisions of law and documents herein do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representations of fact.

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute “forward-looking statements.” In this respect, the words, “estimate,” “project,” “anticipate,” “expect,” “intend,” “believe” and similar expressions are intended to identify forward-looking statements. A number of important factors affecting the City’s financial results could cause actual results to differ materially from those stated in the forward-looking statements.

Assured Guaranty Municipal Corp. (the “Bond Insurer”) makes no representation regarding the Notes or the advisability of investing in the Notes. In addition, the Bond Insurer has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of, this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Bond Insurer, supplied by the Bond Insurer and presented under the heading “BOND INSURANCE” and “Appendix E - Specimen Municipal Bond Insurance Policy.”

## TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION .....	1
DESCRIPTION OF THE NOTES .....	1
Authority For and Purpose of Issuance .....	1
Refunding .....	1
The Falls at Bristol Project .....	2
Form of the Notes .....	2
Optional Redemption .....	2
Effect, Manner and Notice of Redemption .....	2
Book-Entry Only System .....	3
ESTIMATED SOURCES AND USES OF FUNDS .....	5
SECURITY AND SOURCES OF PAYMENT OF THE NOTES .....	5
Noteholders’ Remedies in the Event of Default .....	5
BOND INSURANCE .....	6
Bond Insurance Policy .....	6
Assured Guaranty Municipal Corp. ....	6
RATINGS .....	8
LITIGATION .....	9
APPROVAL OF LEGAL PROCEEDINGS .....	9
TAX MATTERS .....	9
Opinion of Bond Counsel .....	9
Summary .....	9
General Federal Income Tax Status of the Notes .....	10
Sale and Exchange of Notes .....	10
Defeasance .....	10
Foreign Investors .....	11
Circular 230 .....	11
Backup Withholding .....	11
Miscellaneous .....	11
FINANCIAL ADVISOR .....	11
UNDERWRITING .....	11
RELATIONSHIPS OF PARTIES .....	12
CONTINUING DISCLOSURE .....	12
FINANCIAL STATEMENTS .....	12
MISCELLANEOUS .....	13
Appendices:	
A - City of Bristol, Virginia	
B - Financial Statements of the City of Bristol, Virginia	
C - Form of Continuing Disclosure Certificate	
D - Specimen of Bond Counsel Opinion	
E - Specimen Municipal Bond Insurance Policy	

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# CITY OF BRISTOL, VIRGINIA

## OFFICIAL STATEMENT

With Respect to

**\$17,530,000**

**Taxable General Obligation Refunding Notes,  
Series 2015C**

### INTRODUCTION

The purpose of this Official Statement, including the cover page and the appendices, is to set forth information with respect to the City of Bristol, Virginia, a political subdivision of the Commonwealth of Virginia (the "City"), and the issuance by it of its \$17,530,000 Taxable General Obligation Refunding Notes, Series 2015C (the "Notes"). The proceeds of the Notes will be used to refund all of the City's \$15,000,000 Taxable General Obligation Note, Series 2012B (the "2012B Note") and a portion of the City's \$2,591,150 Taxable General Obligation Note, Series 2012C (the "2012C Note"). The 2012B Note and the 2012C Note were issued to finance land acquisition, cell tower relocation and related costs for The Falls at Bristol Project located in the City and are held by banking institutions. This introduction is qualified in its entirety by information found elsewhere in the Official Statement. This Official Statement speaks only as of its date and the information herein is subject to change.

The City has undertaken in the Continuing Disclosure Certificate, hereinafter defined, to comply with the provisions of Rule 15c2-12 (the "Rule"), promulgated by the Securities and Exchange Commission (the "SEC") and as in effect on the date hereof, by providing annual financial information and material event notices required by the Rule. See the Section herein "**CONTINUING DISCLOSURE**."

The Notes are general obligations of the City, for the payment of which the full faith and credit and taxing power of the City are irrevocably pledged. Payment of the principal of, redemption premium, if any, and interest on the Notes is not limited to a particular fund or revenue source. The scheduled payment of principal of and interest on the Notes when due will be insured by a municipal bond insurance policy to be issued concurrently with the delivery of the Notes by Assured Guaranty Municipal Corp. (the "Bond Insurer") and purchased by the City. See **Appendix E** for a specimen of the policy, which has been provided by the Bond Insurer.

Financial and other information contained in this Official Statement and in **Appendix A** hereto has been prepared by the City from its records (except where other sources are noted). The information is not intended to indicate continuing trends in the economic or financial condition of the City.

### DESCRIPTION OF THE NOTES

#### **Authority For and Purpose of Issuance**

The Notes are being issued pursuant to the Public Finance Act of 1991 (Chapter 26 of Title 15.2 of the Code of Virginia of 1950, as amended). The Notes were authorized by a resolution adopted by the City Council on July 14, 2015 (the "Bond Resolution"). The proceeds of the Notes will be used to (a) refund (i) all of the Series 2012B Note (the "2012B Refunded Note") and (ii) \$2,167,000 of the Series 2012C Note (the "2012C Refunded Note") and (b) pay the costs of issuing the Notes. The 2012B Refunded Note and the 2012C Refunded Note are collectively referred to herein as the "Refunded Obligations." See the Sections herein "**DESCRIPTION OF THE NOTES – Refunding**" and "**ESTIMATED SOURCES AND USES OF FUNDS**."

#### **Refunding**

The City will use the proceeds of the Notes to refund the Refunded Obligations for the purpose of restructuring the City's outstanding indebtedness with respect to The Falls at Bristol Project, which is being

undertaken by the Industrial Development Authority of the City of Bristol, Virginia (the "IDA"). The portion of the 2012C Note not being refunded from the proceeds of the Notes is being refunded from the proceeds of the City's \$30,000,000 Taxable General Obligation Refunding Note, Series 2015B (the "2015B Note") issued on August 5, 2015 and sold to Capital Bank. The proceeds of the 2015B Note are also being used to refund other City indebtedness outstanding with respect to The Falls at Bristol Project.

### **The Falls at Bristol Project**

The Falls at Bristol is a large scale commercial development located between Exits 5 and 7 on Interstate 81. The City used the proceeds of the Refunded Obligations, together with other proceeds, to acquire the land for the development and relocate a cell tower located thereon. The City has conveyed portions of the land to the IDA for site development and will convey additional portions as future phases of the site are developed. The first phase of The Falls at Bristol is under construction, with the first anchor store, Cabela's Wholesale, Inc., scheduled to open during the Fall of 2015. Phases two, three and four are currently in the planning stages on the land purchased by the City, with an expectation of a fifth phase in the future on land not currently owned by the City or the IDA.

### **Form of the Notes**

The Notes will be dated the date of their issuance and delivery and will bear interest from their date at the rates set forth on the inside cover page of this Official Statement, payable semi-annually on April 1 and October 1 in each year, commencing April 1, 2016. The Notes will mature, subject to redemption as described below under "**Optional Redemption**," on October 1 in the years and amounts set forth on the inside cover page of this Official Statement.

The Notes are issuable only in the form of registered notes in the denomination of \$5,000 each or any integral multiple thereof. One Note for each maturity will be issued to Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Principal of and premium, if any, and interest on the Notes will be payable by U.S. Bank National Association, Richmond, Virginia, which has been appointed note registrar and paying agent (the "Registrar" or "Paying Agent"), to DTC, which will remit the payments to DTC Participants for payment to Beneficial Owners of the Notes, as hereinafter described in the subsection "Book-Entry Only System." Interest on the Notes shall be payable by wire or by check mailed to the holders as of the first day of the month in which each interest payment date occurs, at their addresses as they appear on the registration books kept by the Registrar.

### **Optional Redemption**

The Notes maturing on October 1, 2022, will be subject to redemption prior to maturity at the option of the City on or after October 1, 2020, in whole or in part (in increments of \$5,000) at any time, upon payment of the redemption price of 100% of the principal amount of the Notes to be redeemed, plus unpaid accrued interest to the redemption date.

### **Effect, Manner and Notice of Redemption**

On the date on which any Notes have been called for redemption and sufficient funds for their payment on the redemption date are held by the Registrar, interest on such Notes will cease to accrue and their holders will be entitled to receive payment only from the Registrar from funds available for that purpose.

If less than all of the Notes of the 2022 maturity are called for redemption, the Notes to be redeemed will be selected by DTC or any successor securities depository pursuant to its rules and procedures or, if the book-entry system is discontinued, will be selected by the Registrar by lot in such manner as the Registrar may determine. In either case, (i) the portion of any Notes to be redeemed will be in the principal amount of \$5,000 or some integral thereof and (ii) in selecting Notes for redemption, each portion of \$5,000 principal amount shall be counted as one Note for this purpose.

The Registrar will give notice of redemption, at least 30 days and no more than 60 days prior to the applicable redemption date, by facsimile transmission, registered or certified mail or overnight express delivery to DTC or its nominee as the registered owner of the Notes. The City shall not be responsible for mailing notice of

redemption to anyone other than DTC or another qualified securities depository or its nominee unless no qualified securities depository is the registered owner of the Notes. If no qualified securities depository is the registered owner of the Notes, notice of redemption shall be mailed to the registered owners of the Notes. If a portion of a Note is called for redemption, a new Note in principal amount equal to the unredeemed portion thereof will be issued to the registered owner upon the surrender thereof.

**During the period that DTC or the DTC nominee is the registered owner of the Notes, the Registrar will not be responsible for mailing notices of redemption to the Beneficial Owners of the Notes. See the Section below “Book-Entry Only System.”**

### **Book-Entry Only System**

*The description which follows of the procedures and record keeping with respect to beneficial ownership interests in the Notes, payments of principal of and premium, if any, and interest on the Notes to DTC, its nominee, Indirect or Direct Participants (defined below) or Beneficial Owners (defined below), confirmation and transfer of beneficial ownership interests in the Notes and other bond or note related transactions by and between DTC, the Direct and Indirect Participants and Beneficial Owners is based solely on information furnished by DTC. The information in this Section concerning DTC and DTC’s book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.*

DTC will act as securities depository for the Notes. The Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Note certificate will be issued for each maturity of the Notes, each in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Direct and Indirect Participants (together, the “Participants”) are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC’s records. The ownership interest of each actual purchaser of each Note (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as may be requested by an authorized

representative of DTC. The deposit of Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemptions, tenders, defaults and proposed amendments to the Note documents. For example, Beneficial Owners of the Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Notes of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal of and premium, if any, and interest payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Paying Agent on the payable date in accordance with their respective holdings as shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, and premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Paying Agent or the City, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue provided its services as depository with respect to the Notes at any time by giving notice to the Paying Agent and the City. If the City fails to locate another qualified securities depository to replace DTC, the City will execute and the Paying Agent will authenticate and deliver replacement Notes to the Beneficial Owners or to the Participants on behalf of the Beneficial Owners.

The City may decide to discontinue the use of the system of book-entry only transfers through DTC (or a successor securities depository) by giving notice of the same to DTC. In that event, the City may use another qualified securities depository or execute and the Paying Agent authenticate and deliver, replacement Notes to the Beneficial Owners or to the Participants on behalf of the Beneficial Owners.

The foregoing information in this Section concerning DTC and DTC's book-entry only system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

THE CITY AND THE PAYING AGENT DISCLAIM ANY RESPONSIBILITY OR OBLIGATION TO THE PARTICIPANTS OR THE BENEFICIAL OWNERS OF THE NOTES WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT; (2) THE PAYMENT BY DTC TO ANY PARTICIPANT OR BY ANY PARTICIPANT TO ANY BENEFICIAL OWNER OF ANY

AMOUNT DUE WITH RESPECT TO THE PRINCIPAL OR PREMIUM, IF ANY, AND INTEREST ON THE NOTES; (3) THE DELIVERY BY DTC TO ANY PARTICIPANT OR BY ANY PARTICIPANT TO ANY BENEFICIAL OWNER OF ANY NOTICE WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE BOND RESOLUTION TO BE GIVEN TO THE HOLDERS OF THE NOTES; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE NOTES; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF THE NOTES, INCLUDING THE EFFECTIVENESS OF ANY ACTION TAKEN PURSUANT TO AN OMNIBUS PROXY.

**So long as Cede & Co. is the registered owner of the Notes, as nominee of DTC, references in this Official Statement to the Noteholders or holders of the Notes shall mean Cede & Co. and shall not mean the Beneficial Owners, and Cede & Co. will be treated as the only Noteholder of the Notes for all purposes under the Bond Resolution.**

**The City may enter into amendments to the agreement with DTC or successor agreements with a successor securities depository, relating to the book-entry system to be maintained with respect to the Notes without the consent of the Beneficial Owners.**

### **ESTIMATED SOURCES AND USES OF FUNDS**

The following table reflects the estimated sources and uses of funds related to the Notes:

Sources	
Par Amount of Notes	<u>\$17,530,000</u>
TOTAL SOURCES	<u>\$17,530,000</u>
Uses	
Payment of Refunded Obligations	\$17,167,000
Cost of Issuance (including Underwriters' discount and bond insurance premium)	<u>363,000</u>
TOTAL USES	<u>\$17,530,000</u>

### **SECURITY AND SOURCES OF PAYMENT OF THE NOTES**

The Notes will be general obligations of the City for the payment of which its full faith and credit will be irrevocably pledged. The City Council is authorized and required, unless other funds are lawfully available and appropriated for timely payment of the Notes, to levy and collect an annual ad valorem tax, over and above all other taxes authorized or limited by law and without limitation as to rate or amount, upon all locally taxable property in the City sufficient to pay the principal of, premium, if any, and interest on the Notes. The payment of the principal of and interest on the Notes when due will be guaranteed by a municipal bond insurance policy issued by the Bond Insurer contemporaneously with the delivery of the Notes. See the Section herein “**BOND INSURANCE.**” If the Bond Insurer fails to perform its obligations under such policy, the City is not required to provide additional or substitute credit enhancement.

The City has never defaulted in payment of either principal of or interest on any indebtedness.

#### **Noteholders’ Remedies in the Event of Default**

Section 15.2-2659 of the Code of Virginia of 1950, as amended, provides that upon affidavit filed with the Governor of the Commonwealth of Virginia (the “Commonwealth”) by any holder of or paying agent for a general obligation bond or note in default as to payment of principal, premium, if any, or interest, the Governor shall conduct a summary investigation to his satisfaction and, if satisfied that such default has occurred, the Governor shall order the State Comptroller to withhold all funds appropriated and payable by the Commonwealth to the political subdivision so in default and apply such funds to payment of the defaulted principal, premium and interest.

Section 15.2-2659 also provides for notice to the registered owners of such bonds or notes of the default and the availability of withheld funds. The State Comptroller advises that to date no order to withhold funds

pursuant to Section 15.2-2659, or its predecessor provisions, Section 15.1-225 and Section 15.1-227.61, has ever been issued. Although neither Section 15.2-2659, nor its predecessor provisions, Section 15.1-225 and Section 15.1-227.61, have been approved by a Virginia court, the Attorney General of Virginia has opined that appropriated funds may be withheld by the Commonwealth pursuant to the prior Section 15.1-225. In fiscal year ended June 30, 2014, direct appropriations paid by the Commonwealth to the City totaled \$15,803,211.

Neither the Notes nor the proceedings with respect thereto specifically provide any remedies that would be available to a Noteholder if the City defaults in the payment of principal of, premium, if any, or interest on the Notes, nor do they contain any provision for the appointment of a trustee to protect and enforce the interests of the Noteholders upon the occurrence of such a default. Upon any default in the payment of principal, premium or interest, a Noteholder may, among other things, seek to obtain from an appropriate court a writ of mandamus requiring the City Council to levy and collect taxes as described above. The mandamus remedy, however, may be impracticable and difficult to enforce. Furthermore, the right to levy and collect taxes and to enforce payment of the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws and equitable principles, which may limit the specific enforcement of certain remedies.

Chapter 9 of the United States Bankruptcy Code (the “Bankruptcy Code”) permits a municipality such as the City, if insolvent or otherwise unable to pay its debts as they become due, to file a voluntary petition for the adjustment of debts provided that such municipality is “specifically authorized, in its capacity as a municipality or by name, to be a debtor...” Bankruptcy Code, Section 109(c)(2). Current Virginia statutes do not expressly authorize the City or municipalities generally to file under Chapter 9 but could in the future. Chapter 9 does not authorize the filing of involuntary petitions against municipalities such as the City.

Bankruptcy proceedings by the City could have adverse effects on Noteholders, including (a) delay in enforcement of their remedies, (b) subordination of their claims to claims of those supplying goods and services to the City after the initiation of bankruptcy proceedings and to the administrative expenses of bankruptcy proceedings, and (c) imposition without their consent of a reorganization plan reducing or delaying payment of the Notes. The Bankruptcy Code contains provisions intended to ensure that, in any reorganization plan not accepted by at least a majority of a class of creditors such as the holders of general obligation bonds or notes, such creditors will have the benefit of their original claim or the “indubitable equivalent.” The effect of these and other provisions of the Bankruptcy Code cannot be predicted and may be significantly affected by judicial interpretations.

## **BOND INSURANCE**

*Set forth below is a brief summary of certain information concerning the Bond Insurer and the principal terms of its municipal bond insurance policy for the Notes, which has been supplied to the City by the Bond Insurer. No representation is made by the City or the Underwriters as to the accuracy or adequacy of that information or as to the absence of material adverse changes in that information subsequent to the date of this Official Statement. The following discussion does not purport to be complete and is qualified in its entirety by reference to the municipal bond insurance policy, a specimen of which is attached as Appendix E.*

### **Bond Insurance Policy**

Concurrently with the issuance of the Notes, Assured Guaranty Municipal Corp. (the “Bond Insurer” or “AGM”) will issue its Municipal Bond Insurance Policy for the Notes (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Notes when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

### **Assured Guaranty Municipal Corp.**

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets.

Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

#### *Current Financial Strength Ratings*

On June 29, 2015, S&P issued a credit rating report in which it affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On November 13, 2014, KBRA assigned an insurance financial strength rating of "AA+" (stable outlook) to AGM. AGM can give no assurance as to any further ratings action that KBRA may take.

On July 2, 2014, Moody's issued a rating action report stating that it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). On February 18, 2015, Moody's published a credit opinion under its new financial guarantor ratings methodology maintaining its existing rating and outlook on AGM. AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

#### *Capitalization of AGM*

At, June 30, 2015, AGM's policyholders' surplus and contingency reserve were approximately \$3,729 million and its net unearned premium reserve was approximately \$1,670 million. Such amounts represent the combined surplus, contingency reserve and net unearned premium reserve of AGM, AGM's wholly owned subsidiary Assured Guaranty (Europe) Ltd. and 60.7% of AGM's indirect subsidiary Municipal Assurance Corp.; each amount of surplus, contingency reserve and net unearned premium reserve for each company was determined in accordance with statutory accounting principles.

#### *Incorporation of Certain Documents by Reference*

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (filed by AGL with the SEC on February 26, 2015);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015 (filed by AGL with the SEC on May 8, 2015); and

- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015 (filed by AGL with the SEC on August 6, 2015).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof “furnished” under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Notes shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC’s website at <http://www.sec.gov>, at AGL’s website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52<sup>nd</sup> Street, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL’s website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption “**BOND INSURANCE – Assured Guaranty Municipal Corp.**” or included in a document incorporated by reference herein (collectively, the “AGM Information”) shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

#### *Miscellaneous Matters*

AGM or one of its affiliates may purchase a portion of the Notes or any uninsured notes offered under this Official Statement and such purchases may constitute a significant proportion of the notes offered. AGM or such affiliate may hold such Notes or uninsured notes for investment or may sell or otherwise dispose of such Notes or uninsured notes at any time or from time to time.

AGM makes no representation regarding the Notes or the advisability of investing in the Notes. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “**BOND INSURANCE**”.

#### **RATINGS**

The Notes are expected to be assigned ratings of “AA” (stable outlook) by Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“Standard & Poor’s”) and “A2” (stable outlook) by Moody’s Investors Service, Inc. (“Moody’s”), with the understanding that, contemporaneously with the delivery of the Notes, the municipal bond insurance policy will be issued by the Bond Insurer. In addition, the Notes have been assigned underlying ratings of “Baa2” (negative outlook) by Moody’s and “A” (stable) by Standard & Poor’s, respectively. Moody’s has also assigned an enhanced rating of “A3” (negative outlook) to the Notes based upon the Virginia localities intercept program, which is described in “**SECURITY AND SOURCES OF PAYMENT OF THE NOTES—Noteholders’ Remedies in the Event of Default.**”

These ratings reflect only the views of Moody’s and Standard & Poor’s, respectively, and any explanation of the significance of such ratings may be obtained only from the rating agencies furnishing them. Generally, rating agencies base their ratings on such information and materials as they deem necessary and on investigations, studies and assumptions made by the rating agencies themselves. There is no assurance that the ratings will remain in effect for any given period of time or that the ratings may not be lowered or withdrawn entirely by one or more of these rating agencies if in its judgment circumstances so warrant. Any such downward change in or withdrawal of a rating may have an adverse effect on the market price or marketability of the Notes.



Neither the City nor the Underwriters have undertaken any responsibility after the issuance of the Notes to assure maintenance of the ratings, to bring to the attention of the holders of the Notes any proposed revision to or withdrawal of such ratings or to oppose any such revision or withdrawal.

## **LITIGATION**

There is an ongoing investigation of one of the City's component units (see "**LOCAL GOVERNMENT SERVICES – The Utility Systems**" in Appendix A hereto), and there are miscellaneous claims against the City including claims in litigation, none of which, in the opinion of the City Attorney, would materially affect the City's financial position. There is no litigation pending, or to the information, knowledge and belief of the City Attorney, threatened in either state or federal courts which, if decided adversely to the City, would affect in any way the validity of the Notes or the right of the City to levy or collect an ad valorem tax, over and above all other taxes authorized by law and without limitation as to rate or amount, upon all locally taxable property within the City to pay the principal of or premium, if any, or the interest on the Notes, or in any manner questioning the proceedings and authority under which the Notes are issued. In addition, there currently is no litigation pending against any of the City's bond or note indebtedness.

## **APPROVAL OF LEGAL PROCEEDINGS**

Certain legal matters relating to the authorization and validity of the Notes will be subject to the approving opinion of Troutman Sanders LLP, Richmond, Virginia, Bond Counsel, which will be furnished at the expense of the City upon delivery of the Notes (the "Bond Opinion"). The Bond Opinion will be limited to matters relating to authorization and validity of the Notes and to the status of interest on the Notes as described in the Section "**TAX MATTERS.**" Bond Counsel has not been engaged to investigate the financial resources of the City or its ability to provide for payment of the Notes, and the Bond Opinion will make no statement as to such matters or as to the accuracy or completeness of this Official Statement or any other information that may have been relied on by anyone in making the decision to purchase Notes.

Certain legal matters will be passed upon for the City by the City Attorney, Pete Curcio, Esquire, and for the Underwriters by Kaufman & Canoles, P.C.

## **TAX MATTERS**

### **Opinion of Bond Counsel**

Bond Counsel's opinion will state that, under current law, interest on the Notes is includable in the gross income of the holders thereof for purposes of federal income taxation. Bond Counsel's opinion will also state that, under current law, interest on the Notes is excludable from the gross income of the holders thereof for purposes of income taxation by the Commonwealth of Virginia. No other opinion is expressed by Bond Counsel regarding the tax consequences of the ownership of or the receipt or accrual of interest on the Notes.

### **Summary**

The following is a summary of certain of the United States federal income tax consequences of the ownership of the Notes as of the date hereof. Each prospective purchaser of the Notes should consult with its own tax advisor regarding the application of United States federal income tax laws, as well as any state, local, foreign or other tax laws, to its particular situation.

This summary is based on the Code, as well as Treasury regulations and administrative and judicial rulings and practice. Legislative, judicial and administrative changes may occur, possibly with retroactive effect, that could alter or modify the continued validity of the statements and conclusions set forth herein. This summary is intended as a general explanatory discussion of the consequences of holding the Notes generally and does not purport to furnish information in the level of detail or with the prospective purchaser's specific tax circumstances that would be provided by a prospective purchaser's own tax advisor. For example, it generally is addressed only to original purchasers of the Notes that are "U.S. holders" (as defined below), deals only with the Notes held as capital assets within the meaning of Section 1221 of the Code and does not address tax consequences to owners

that may be relevant to investors subject to special rules, such as individuals, trusts, estates, tax-exempt investors, foreign investors, cash method taxpayers, dealers in securities, currencies or commodities, banks, thrifts, insurance companies, electing large partnerships, mutual funds, regulated investment companies, real estate investment trusts, S corporations, persons that hold the Notes as part of a straddle, hedge, integrated or conversion transaction, and persons whose “functional currency” (as defined in the Code) is not the U.S. dollar. In addition, this summary does not address alternative minimum tax issues or the indirect consequences to a holder of an equity interest in an owner of the Notes.

As used herein, a “U.S. holder” is a “U.S. person” that is a beneficial owner of a Note. A “non-U.S. holder” is a holder (or beneficial owner) of a Note that is not a U. S. person. For these purposes, a “U.S. person” is a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof (except, in the case of a partnership, to the extent otherwise provided in Treasury regulations), an estate the income of which is subject to United States federal income taxation regardless of its source or a trust if (i) a United States court is able to exercise primary supervision over the trust’s administration and (ii) one or more United States persons have the authority to control all of the trust’s substantial decisions.

### **General Federal Income Tax Status of the Notes**

The Notes will be treated, for federal income tax purposes, as a debt instrument. Accordingly, interest will be included in the income of the owner as it is paid (or, if the owner is an accrual method taxpayer, as it is accrued) as interest.

Owners of the Notes that allocate a basis in the Notes that is greater than the principal amount of the Notes should consult their own tax advisors with respect to whether or not they should elect to amortize such premium under Section 171 of the Code.

If an owner purchases the Notes for an amount that is less than the principal amount of the Notes, and such difference is not considered to be de minimis, then such discount will represent market discount that ultimately will constitute ordinary income (and not capital gain). Further, absent an election to accrue market discount currently, upon a sale or exchange of a Note, a portion of any gain will be ordinary income to the extent it represents the amount of any such market discount that was accrued through the date of sale. In addition, absent an election to accrue market discount currently, the portion of any interest expense incurred or continued to carry a market discount bond that does not exceed the accrued market discount for any taxable year, will be deferred.

### **Sale and Exchange of Notes**

Upon a sale or exchange of a Note, an owner generally will recognize gain or loss on the Note equal to the difference between the amount realized on the sale and its adjusted tax basis in such Note. Such gain or loss generally will be capital gain (although any gain attributable to accrued market discount of the Note not yet taken into income will be ordinary). The adjusted basis of the owner in a Note will (in general) equal its original purchase price increased by any original issue discount or market discount includible in the gross income of the owner with respect to the Notes and decreased by any principal payments received on the Notes. In general, if any Note is held for longer than one year, any gain or loss would be long term capital gain or loss, and capital losses are subject to certain limitations.

### **Defeasance**

The City may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the Notes to be deemed to be no longer outstanding (a “defeasance”). For federal income tax purposes, such defeasance could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, the character and timing of receipt of payments on the Notes subsequent to any such defeasance could also be affected.

## **Foreign Investors**

Distributions of the Notes to a non-U.S. holder that has no connection with the United States other than holding its Note generally will be made free of withholding tax, as long as that the non-U.S. holder has complied with certain tax identification and certification requirements.

## **Circular 230**

Under 31 C.F.R. part 10, the regulations governing practice before the Internal Revenue Service (Circular 230), the City and its tax advisors are (or may be) required to state that (i) any advice contained herein, including any opinions of counsel referred to herein, is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer; (ii) any such advice is written to support the promotion of marketing of the Note and the transactions described herein (or in such opinion or other advice); and (iii) each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

## **Backup Withholding**

Under current United States federal income tax laws, a 28% backup withholding tax requirement may apply to certain payments of interest and original issue discount on, and the proceeds of a sale, exchange or redemption of, the Notes. Certain persons making such payments are required to submit information returns (that is, IRS Forms 1099) to the IRS with regard to those payments. Backup withholding and information reporting will generally not apply with respect to payments made to certain exempt recipients such as corporations or certain exempt entities.

## **Miscellaneous**

Prospective purchasers of the Notes should consult their own tax advisors as to the status of interest on the Notes under the tax laws of any state other than the Commonwealth.

## **FINANCIAL ADVISOR**

Davenport and Company LLC ("Davenport") is employed as the financial advisor to the City in connection with the issuance of the Notes. Davenport, in its capacity as financial advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents provided, agreed to or made by others, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

Although Davenport has assisted in the preparation of this Official Statement, Davenport is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

## **UNDERWRITING**

The Notes are being purchased by Raymond James & Associates, Inc. ("Raymond James") and Stifel, Nicolaus & Company, Incorporated (collectively, the "Underwriters"). The purchase contract for the Notes (the "Note Purchase Agreement") sets forth the Underwriters' obligation to purchase the Notes at a price of \$17,381,447.50 (representing a par amount of \$17,530,000 minus an Underwriters' discount of \$148,552.50 from the initial public offering prices set forth on the inside cover page of this Official Statement), and is subject to certain terms and conditions, including the approval of certain legal matters by counsel. The Note Purchase Agreement provides that the Underwriters will purchase all of the Notes if any are purchased. The Underwriters may offer and sell the Notes to certain dealers (including dealers depositing the Notes into investment trusts) and others at prices different from the public offering prices stated on the cover page of this Official Statement. The public offering prices may be changed from time to time at the discretion of the Underwriters.

The City intends to use a portion of the proceeds of the Notes to refund and redeem the Refunded Obligations. To the extent the Underwriters or an affiliate of either of them is an owner of any Refunded Obligations, such Underwriters or affiliates, as applicable, would receive a portion of the proceeds of the Notes in connection with the refunding and redemption of such Refunded Obligations.

### **RELATIONSHIPS OF PARTIES**

Troutman Sanders LLP, Richmond, Virginia, bond counsel, has served as counsel to the Registrar and Paying Agent and the Underwriters from time to time in unrelated matters. Kaufman & Canoles, P.C., the Underwriters' counsel, has served as counsel to the Registrar and Paying Agent from time to time in unrelated matters, and served as counsel to Capital Bank in connection with its purchase of the Series 2015B Note.

Raymond James has served as financial advisor to the Industrial Development Authority of the City of Bristol, Virginia in connection with economic development matters, specifically The Falls at Bristol Project.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. The Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the City, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City.

The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets securities and instruments.

### **CONTINUING DISCLOSURE**

The City desires to assist the Underwriters in complying with the provisions of the Rule and has agreed to execute a Continuing Disclosure Certificate at closing, substantially in the form attached hereto as **Appendix C**, in order to provide certain annual financial information and material event notices required by the Rule. Such undertaking requires the City to provide only limited information at specified times. The Annual Reports will be filed by the City with (i) the Municipal Securities Rulemaking Board (the "MSRB") via the Electronic Municipal Market Access system ("EMMA") maintained by the MSRB for purposes of the Rule and (ii) the appropriate state information depository, if any then exists and requires the submission of such financial information and operating data. The City did inadvertently file, in an otherwise timely fashion, its Annual Report for the fiscal years ending June 30, 2009 and June 30, 2010 with the nationally recognized municipal securities information repositories that existed at the time of its previous undertakings rather than with EMMA, but has since filed such Annual Report with EMMA. The City currently has procedures in effect to insure that its Annual Report is filed timely with EMMA each year.

### **FINANCIAL STATEMENTS**

The City's audited general purpose financial statements for the Fiscal Year 2014 are published in **Appendix B** with accompanying notes. In addition, **Appendix B** also includes a report of the City's independent auditors. That report states that the auditors have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units and each major fund of the City for the fiscal year ended June 30, 2014, and the related notes to the financial statements. In the auditor's opinion, the financial statements referenced in the preceding sentence present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units and each major fund of the City as of June 30, 2014.

**MISCELLANEOUS**

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of the estimates will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the holder of the Notes.

The attached Appendices are an integral part of this Official Statement and must be read together with the balance of this Official Statement.

The City has deemed this Official Statement final as of its date within the meaning of the Rule.

**CITY OF BRISTOL, VIRGINIA**

By /s/ Tabitha H. Crowder  
City Manager

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**APPENDIX A**

**CITY OF BRISTOL, VIRGINIA**

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# APPENDIX A

## TABLE OF CONTENTS

	<u>Page</u>
<b>INTRODUCTION</b> .....	1
<b>CITY GOVERNMENT</b> .....	1
Form of Government .....	1
Elected Officials .....	1
Certain City Staff Members.....	3
<b>ORGANIZATIONAL CHART</b> .....	4
<b>LOCAL GOVERNMENT SERVICES</b> .....	5
Public Safety.....	5
Courts .....	6
Public Works .....	6
The Utility Systems .....	6
Transportation .....	8
Education.....	8
Public Education.....	8
Private Education .....	9
Higher Education.....	9
Public Library.....	10
Parks and Recreation .....	10
Economic Development .....	10
<b>ECONOMIC AND DEMOGRAPHIC DATA</b> .....	10
Population of Bristol and Adjacent Areas .....	10
Population Distribution by Age as of 2010 .....	11
Income .....	11
Housing .....	11
Building Permits and Value.....	12
Commerce, Industry and Employment.....	12
Principal Industries.....	13
Taxable Retail Sales Data.....	14
Unemployment Rate.....	14
<b>FINANCIAL PROCEDURES</b> .....	15
Description of Funds .....	15
Annual Audit .....	15
Budgetary Procedure .....	16
<b>SELECTED FINANCIAL INFORMATION</b> .....	16
Statement of General Fund Revenues and Expenditures .....	16
Discussion of Financial Results.....	18
<b>GENERAL FUND REVENUES AND DISBURSEMENTS</b> .....	18
Revenues .....	18
Disbursements .....	19
Operating Budget .....	20
<b>OPERATING DATA</b> .....	21
Assessed Value of Taxable Property .....	21
Tax Rate (per \$100 Assessment).....	22
Tax Levies and Tax Collection.....	22
Principal Real Property Taxpayers as of June 30, 2014 .....	22

<b>DEBT ADMINISTRATION</b> .....	23
Debt Burden .....	23
Summary of General Obligation Long-Term Debt Service Requirements to Maturity (as of June 30, 2015) .....	24
Outstanding General Obligation Debt Upon Issuance of Notes .....	25
Legal Debt Margin .....	26
Lease Commitments and Contractual Obligations .....	26
Pension Plan .....	26
Post-Employment Benefits Other Than Pensions.....	27

## APPENDIX A

### CITY OF BRISTOL, VIRGINIA

This Appendix A contains information on the operations of the City of Bristol, Virginia (the “City”), and should be read by purchasers of the Notes to assist them in evaluating the general credit of the City. Certain financial information with respect to the City is included in this Appendix A. This information should be read in connection with the City’s financial statements for the fiscal year ended June 30, 2014 and the notes thereto, included in Appendix B, which should be read in their entirety. See the section in the Official Statement entitled “**FINANCIAL STATEMENTS.**” Reference should also be made to the section in the Official Statement entitled “**SECURITY AND SOURCES OF PAYMENT OF THE NOTES -- Noteholders’ Remedies in the Event of Default**” for a description of the security for the Notes.

### INTRODUCTION

The Virginia-Tennessee State Line bisects the principal business street and commercial center of the twin cities of Bristol, Virginia, and Bristol, Tennessee. Each of the Cities is independent of the other in governmental administration and operation. Bristol, Virginia, encompassing 11.53 square miles, is geographically located north of the State Line and is adjacent to Washington County, Virginia. The City was founded in 1771 and has grown to become the principal center of commerce in the southern highlands of Southwest Virginia. Bristol is at the apex of a triangle completed by Johnson City and Kingsport in Tennessee, all within 25 miles of each other. Those cities constitute the “Tri-Cities Area.”

### CITY GOVERNMENT

#### **Form of Government**

The City government is organized under the Council-Manager form of government. The governing body, a Council elected at-large to staggered 4-year terms by the voters, makes policies for proper administration of the City. The Council is composed of five members. The Mayor and Vice-Mayor are chosen by majority vote of all members of Council from its own members. Council appoints a City Manager to act as administrative head of the City. The City Manager serves at the pleasure of the Council, carries out its policies, directs business procedures, and appoints and has the power to remove the heads of all departments and all employees of the City.

At the Council’s organizational meeting which occurs in early July every year, City Council also appoints the City Clerk and City Attorney.

The School Board is an elected body. Members’ terms and election dates coincide with the terms and election dates of City Council members. Under Virginia law, all operations of the School Board are completely independent of the Council or the City Administration. City Council is required to make an annual appropriation to the School Board but has no authority over how the appropriation is spent.

Constitutional officers are elected by the voters.

#### **Elected Officials**

##### City Council:

Guy P. Odum, Councilman, was elected on July 1, 2012. This is his second term on Council. Mr. Odum attended East Tennessee State University and is retired from UPS after 36 years of service. He serves as a council representative on the following boards and committees: the Planning Commission, Mount Rogers PDC Rural Technical Committee, Metropolitan Planning Organization, Mount Rogers Planning District, Bristol Virginia Utility Authority, District Three Governmental Cooperative Board, and Bristol Rhythm and Roots.

Catherine Brillhart, Councilwoman, was elected on July 1, 2012 and served as Vice Mayor in 2013 and Mayor in 2014. Ms. Brillhart holds an AAS Degree in Business Management from Mountain Empire Community

College and a BS Degree in Business Management from Emory & Henry College. She is retired from 13 years in banking, and worked several years as a real estate broker and insurance agent. She also was an adjunct professor at Mountain Empire Community College. Ms. Brillhart serves as a council representative on the following boards and committees: Smart Beginnings Virginia Highlands, People, Inc., Bristol Redevelopment & Housing Authority (Advisory), Appalachian Juvenile Commission, New River/Mount Rogers Workforce Investment Area Consortium, Economic Development Committee, Bristol Virginia Utilities Authority, Joint Planning Commission of the Cities of Bristol Virginia and Tennessee, and Celebrate Bristol. She also serves on the Bristol Virginia Public Schools Education Foundation board and volunteers with Bristol Rhythm & Roots and several civic organizations in the community.

Jim R. Steele, Councilman, was elected on July 1, 2014. This is his second term on Council. He graduated from Richlands High School in Richlands, Virginia and attended Lynchburg College and Southwest Virginia Community College. He is a former Deputy Sheriff in Tazewell County, Virginia, business owner and forestry technician with the Virginia Department of Forestry. He retired from Mountain City Lumber Co. in April 2007. He served 12 years on the Cumberland Plateau Planning Commission and served 7 years on the Tazewell County Department of Social Services Board, and also served with the Tazewell County Emergency Services and on the Governor's Disaster Recovery Team. He moved to Bristol in August 2007. Mr. Steele serves as a council representative on the following boards and committees: Bristol Social Services Board, Children's Advocacy Center, Downtown Farmer's Market, Mount Rogers PDC Rural Technical Committee (alternate), Keep Bristol Beautiful, and District Three Governmental Cooperative Board (alternate).

Archie H. Hubbard, Mayor, was elected to City Council July 1, 2014. He is a lifelong resident of Bristol, Virginia. He is a graduate of Virginia High School and holds a BA in mathematics from King University. Mr. Hubbard is retired from the family business, Goodpasture Motor Company, Inc., after 47 years serving as the Treasurer and IT Specialist. He previously served the City on the Highlands Community Services Board for 17 years. He has served on the Bristol Economic Development Committee for several years and previously served on the Bristol Virginia Utilities Board for 17 years. He has also served on the board of Sullins Academy. He has served as Chairman and as Treasurer for all of the above mentioned boards except for the Economic Development Committee. He also serves as a council representative on the following boards and committees: City Finance Committee, Chamber of Commerce Board of Directors, Library Board, Joint Planning Commission of the Cities of Bristol Virginia and Tennessee, Highlands Community Policy and Management Board, the Transportation and Safety Commission of the City of Bristol, Virginia, and the Bristol Train Station Foundation.

Bill Hartley, Vice Mayor, was elected to City Council on July 1, 2014. He is a native of Bristol and a 1987 graduate of Virginia High School. He holds degrees from Clemson University (B.A., History & Political Science), University of Alabama (M.A., History) and King University (M.B.A.). Bill has worked as an educator, non-profit administrator, and was named one of the Tri-Cities Business Journal's "Top Forty Under Forty." He is currently employed at East Tennessee State University as a Grants Coordinator with the College of Nursing. He serves as a council representative on the following boards and committees: City Finance Committee, Economic Development Committee, Highlands Community Services Board, Convention and Visitors Bureau, Believe in Bristol, Bristol Youth Services Board, and Birthplace of Country Music. Mr. Hartley also is a member of the Bristol Rotary Club, Arts in Public Places Board of Directors, and Arts Alliance Mountain Empire Board of Directors.

#### Other Constitutional Officers:

Angel Harris, Treasurer, was elected to serve as Treasurer in November 2009 and was reelected in 2013. She received her Bachelor of Science Degree from Virginia Intermont College in Organizational Management. Her professional career began in the bookkeeping department of Dominion National Bank in 1983. She has worked as a mortgage loan officer, affiliate real estate broker and in the pharmaceutical industry.

Terry C. Frye, Commissioner of the Revenue, was elected Commissioner of the Revenue in November 2001 and has been reelected since then. He graduated from East Tennessee State University in 1980 and from the University of Memphis School of Law in 1986. He was previously employed as a municipal judge in Bluff City, Tennessee, from 1995 to 2001, and prior to that, as Assistant District Attorney, Assistant Public Defender, and Corporate Insurance Counsel, Legal Services Corporation. He is a member of the Commissioner of Revenue Association, Tennessee Judicial Conference, the Virginia and Tennessee Bar Associations and the Bristol Tennessee Bar Association.

### **Certain City Staff Members**

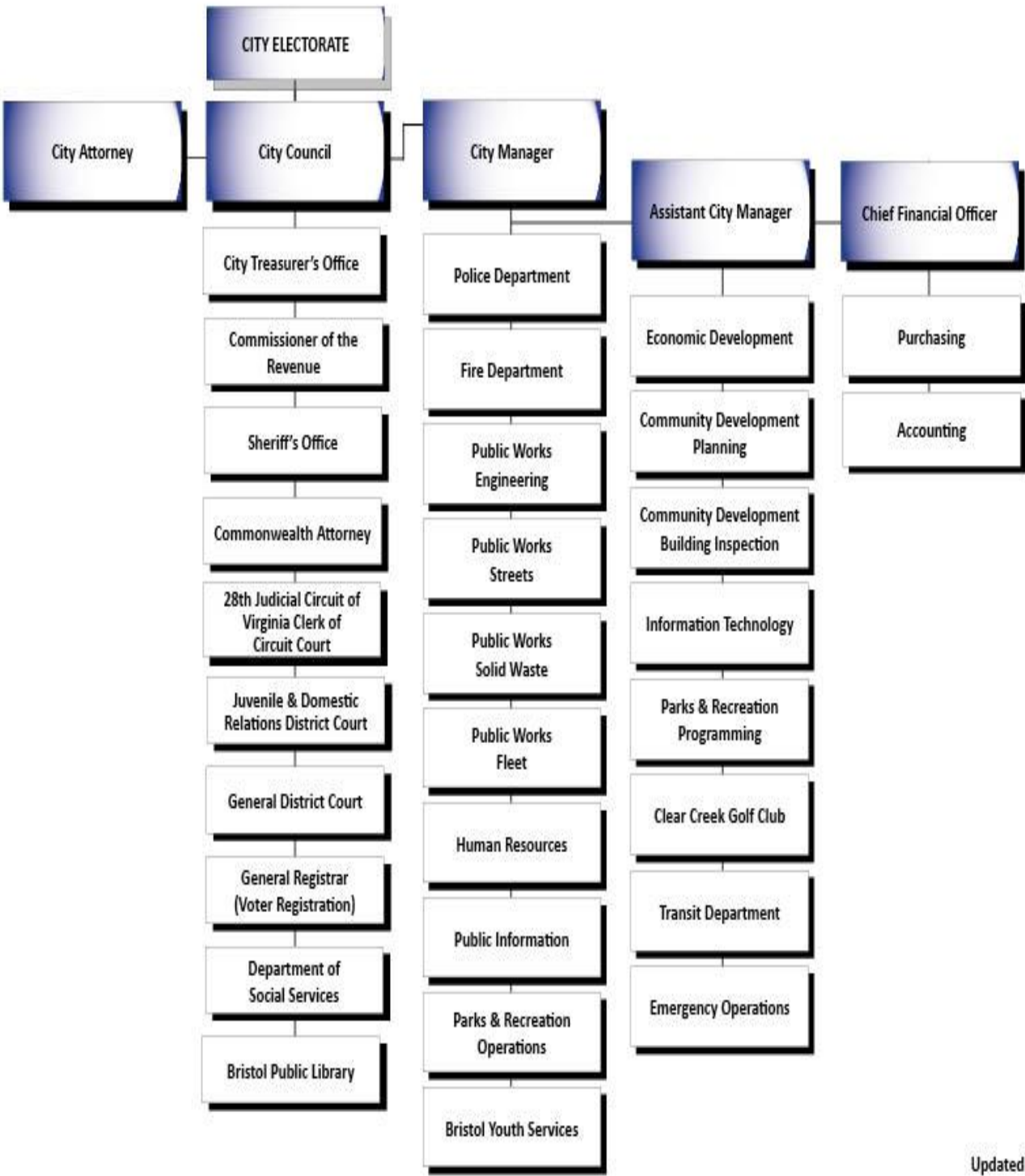
Tabitha H. Crowder was appointed City Manager in June 2014. Prior to that she served as Interim City Manager since July 1, 2013 and Director of Public Works since February 2009 as well as Assistant City Manager since February 2013. She received a Bachelor of Science degree from the University of Virginia in 1995 in Civil Engineering and a Master of Science degree from Virginia Tech in Infrastructure and Engineering Management in 2000. In 2015, she received a Graduate Certificate in Local Government Management from Virginia Tech. She has over 12 years of experience working for the City of Virginia Beach and the City of Bristol and, prior to that, eight years working for a consulting engineer.

Andrew Trivette was appointed Assistant City Manager in February 2013. He has additional responsibilities for economic and community development. He came to work for the City on October 2009 and he is a graduate of University of Virginia with a Bachelor of Arts in Environmental Science. In 2015, he received a Graduate Certificate in Local Government Management from Virginia Tech. He has over 14 years of experience with governmental agencies.

Kim Orfield was appointed Chief Financial Officer of the City in October 2014. Prior to that she worked for the City for seven years as the Senior Accountant. Ms. Orfield has over 20 years of accounting experience. She graduated from Emory and Henry College with a Bachelor of Arts degree in Accounting.

Peter Curcio, Esquire, is a partner in the Bristol Virginia firm of Curcio and Stout PC (formerly, Bressler Curcio and Stout). The firm has served in the capacity of City Attorney to Bristol Virginia since 1980. He joined the firm in 1981 and has served as Assistant City Attorney, Co-City Attorney and Chief City Attorney during that period. He is a 1979 graduate of The University of Notre Dame and earned his JD degree in 1981 from The University of Tennessee School of Law.

# City of Bristol, Virginia | Organization Chart



Updated 03.04.15

## LOCAL GOVERNMENT SERVICES

The City provides a full range of services, including general government administration, judicial administration, public safety, public works, human services, education, community development, and parks, recreation and cultural activities. See “**ORGANIZATIONAL CHART**” on the previous page.

The Comprehensive Annual Financial Report and the adopted budget are issued based upon the activities managed by the City. Management of such activities is determined by financial interdependency, selection of governing authority, designation of management, ability to influence operations significantly, and accountability for fiscal matters. Activities meeting the preceding criteria include, but are not limited to, general operations and support services of the City, activities of the Industrial Development Authority of the City of Bristol, Virginia, school operations and community services activities.

### **Public Safety**

The Public Safety Department consists of all divisions necessary to maintain public safety.

#### **Police Department**

The Police Department consists of 52 sworn officers and 22 non-sworn personnel. City Police Department personnel are trained in law enforcement and certified by the Virginia Department of Criminal Justice Services. There are four divisions within the department as follows:

Administrative Division- Responsible for the administration and operation of the Police Department.

Field Operations Division- Encompasses the uniform patrol division, canine unit, animal control, and school resource officers.

Support Services Division- Includes 911 communications, records, booking, warrants, vehicle maintenance and data entry.

Professional Standards Division- Includes maintenance of professional standards records, policies and procedures, grant administration, and crime prevention units.

#### **Fire Department**

The Fire Department consists of 45 paid fire personnel and one staff employee. The Fire Department provides services for fire, rescue, emergency medical services, inspections and hazardous materials responses. The Department is designated by code to act as the enforcing agency for enforcement of the Virginia Statewide Fire Prevention Code. They are licensed by the Virginia Department of Health, Office of Emergency Medical Services as an Advanced Life Support (ALS) First Responder Agency to provide emergency medical services in cooperation with the local volunteer rescue squad. The Department’s Hazardous Materials Response Team is State certified and is designated as one of the State’s Regional Response Team by the Virginia Department of Emergency Management. A Fire Marshal completes all fire investigations and fire inspections required by the Code. Emergency medical services are provided in cooperation with the local volunteer rescue squad. The City has an Insurance Services Organization rating of 4.

#### **Sheriff’s Office**

The Sheriff’s Office is responsible for a number of law enforcement activities. The Sheriff’s Office is divided into three divisions: Jail Operations, Court Services and Administrative Services.

The office operates a jail with a state rated capacity of 67 prisoners. Services such as General Equivalency Diploma training, drug abuse counseling and rehabilitation training through work details, such as the jail farm operation, are offered to inmates. Twenty-four hour medical coverage through a jail physician and jail paramedics is

offered in addition to services provided by the Bristol Lifesaving Crew. A full-service kitchen supervised by full-time cooks allows inmates to prepare jail population meals.

Court Services Division personnel provide security to three courts located in the jurisdiction, in addition to service of civil process and criminal warrants coming through the office.

Administrative Services is responsible for a myriad of duties that include public relations, training, drug education, medical supervision, jail farm supervision, fiscal projection, control of inventory and records, computer operations for the department and crime prevention.

Currently, the staff consists of 51 full-time sworn officers, many of whom are cross trained as both correctional and street officers. Part-time deputies are also utilized as well as volunteers through the Good News Prison and Jail Ministries Organization.

## **Courts**

The City's Judiciary System consists of three courts: Circuit Court, General District Court, and Juvenile and Domestic Relations Court, the judges of each of which are elected by the General Assembly of Virginia. Each court has a Clerk of Court whose duties pertain to that specific court and includes the setting of court dockets.

The Juvenile and Domestic Relations Court has original jurisdiction over all juvenile cases involving dependent, neglected or delinquent children under the age of 18 and living in the City. The court has extended jurisdiction of offenses committed against children, a family member, or any other situation where the welfare of a child is at stake.

The General District Court has both civil and criminal jurisdiction and is primarily designed to hear and determine misdemeanors, civil cases involving amounts less than \$15,000 and preliminary hearings for felonies.

The Circuit Court has jurisdiction in criminal and civil cases, appellate jurisdiction in cases appealed from the General District Court or the Juvenile and Domestic Relations Court and original jurisdiction in divorce and adoption proceedings. The duties of the Circuit Court are numerous. They include the keeping of records of all mortgages, deeds, licenses, etc. which are filed and maintained by the Clerk of Court and the issuance of marriage licenses and probate of wills.

## **Public Works**

The Public Works Department employs a work force of 54 personnel. Areas of operational responsibility include construction and maintenance activities for 260 lane miles of city streets and highways, more than 400 miles of storm sewer, open ditch and other subsurface drainage and collection systems and construction and maintenance responsibility for 34 bridges and box culverts. The Engineering Division is responsible for design and contract administration for all projects related to the corporate infrastructure of the City. The division is currently managing the location, design and construction supervision work for more than \$30 million in street improvement projects.

The Solid Waste Division consists of collections and disposal. Solid Waste, including household trash, yard waste, bulky items, and brush, is collected once per week from 7,200 residential dwelling units and one or more times per week from approximately 150 business and commercial locations. The department operates an integrated solid waste landfill in a former limestone quarry, a material recovery facility for the processing and beneficial end use of scrap tires, a yard waste composting facility. The solid waste management complex serves the City and other governmental and commercial entities in its immediate vicinity. It is estimated that with the current stream of 650 tons of solid waste per day being processed at its several permitted facilities, the facility will have a life of more than 30 years.

## **The Utility Systems**

The electric, water, wastewater and fiber-optic telecommunication and information services systems (collectively, the "System") in the City are operated by the BVU Authority (the "BVU Authority"), which was



created effective July 1, 2010 by legislation adopted by the Virginia General Assembly at its 2010 session as an independent political subdivision of the Commonwealth of Virginia. On July 1, 2010, the System and all debt related thereto was transferred by operation of law from the City to the BVU Authority. The City no longer has any responsibility for the system, the rates charged or the debt allocable thereto. The City Council does appoint several board members to the BVU Authority.

The BVU Authority is authorized to construct, maintain and operate all facilities necessary to provide electric, water, sewer and telecommunications services, to sell and distribute the same and to establish the rates and charges provided therefor. Included within such services are cable television, internet and all services that may be lawfully rendered by the BVU Authority's fiber optic system. The BVU Authority appoints a President and Chief Executive Officer and may provide for such other employees and officers as may be deemed expedient and proper, and the BVU Authority has sole control and management of such employees and the operation of the System. The President and Chief Executive Officer manage the day-to-day operations of the System.

#### *Electric System.*

BVU Authority's Electric System purchases its entire power requirements from Tennessee Valley Authority under a twenty year contract that commenced on January 1, 2008 that includes transmission services.

Electric power is received at two points: the North Bristol Substation and the Wolf Hills Substation, at 138,000kV. The substations have 300,000 kVa of transformer capacity. BVU Authority distributes power to eight substations through a 69kV sub-transmission system. The distribution system consists of approximately 33 circuit miles of 69kV transmission lines, 10 distribution substations and 577 pole-miles of 13.2kV distribution lines. The service area for the system consists of the City and parts of Washington and Scott Counties in Virginia and Sullivan County in Tennessee.

The area contains approximately 16,300 customers.

#### *Water System.*

BVU Authority's water system serves approximately 7,900 residential, commercial and industrial customers. BVU Authority intakes raw water from South Holston Lake southeast of Abingdon, Virginia. Water is pumped from the lake to a 10 million gallon per day ("MGD") treatment plant located about three miles south of Interstate Route 81. The plant was renovated and expanded in 1981 and is in good condition. BVU Authority treats an average of approximately 2.3 MGD per day.

The water storage and distribution system includes 6 storage tanks with a total capacity of 6.5 million gallons, twelve miles of 24-inch transmission main and more than 100 miles of smaller distribution lines throughout the City. BVU Authority furnishes water to homes and businesses within the City, and occasionally sells water to Bristol, Tennessee to meet extraordinary needs.

#### *Wastewater System.*

The BVU Authority's existing wastewater system serves approximately 7,700 customers in the City and industrial customers located in the Bristol-Washington County Industrial Park located in Washington County, Virginia, and provides sewer capacity and transmission service to other Washington County residences through the Washington County Services Authority. BVU Authority collects that sewage and transports it to a 15 MGD sewage treatment plant located in Bristol, Tennessee. The BVU Authority and Bristol, Tennessee own that plant jointly and it is operated by a private contractor under contract to both entities. A committee composed of staff and elected officials from both entities oversee the contract operations. These arrangements are memorialized in written agreements dating back to 1951.

The sewage treatment plant utilizes an activated sludge process for treatment, which encompasses pretreatment, primary settling, aeration, secondary clarification, and chlorination. Sludge is disposed of by an in-vessel composting facility which mixes de-watered sludge with wood chips to produce a saleable compost material which can be used for landscaping and nursery functions. Treated effluent released to Boone Lake Plant is within

the permitted standards. The plant typically operates at about 50% of its rated capacity BOD and TSS and approximately 66% of its hydraulic capacity.

#### *Telecommunications & Information Services System.*

Telecommunications & Information Services, known as BVU OptiNet, began in 1999. There are approximately 1,040 miles of fiber optic cable to serve the City and nine surrounding Southwest Virginia counties. The telecommunications and information services network provides high-speed data information services, voice services and video applications to schools, government, businesses, and residential customers.

#### *Investigation of BVU Authority*

The Washington County Commonwealth's Attorney's office commenced an investigation of the BVU Authority in October, 2013, which has resulted in the former CEO of the BVU Authority, two former Vice Presidents of the BVU Authority, and contractors who performed services for the BVU Authority pleading guilty to one or more various conspiracies to commit fraud. The investigation is ongoing, and it is impossible to predict whether, and against whom, any further charges may be filed as a result of the investigation. For the fiscal year ended June 30, 2014, the BVU Authority represented 0.86% of the City's general fund revenues. See Note IV E in **Appendix B**.

### **Transportation**

US Highways 11, 19, 58 and 421 as well as Interstate 81 pass through the City. US Highways 11 and 19 are major north-south arteries connecting the western portion of Virginia with northeastern and central Tennessee through the City. US Highway 58 spans the southern portion of Virginia, passing through the City, from east to west with vital connecting access to Interstate 81, which also bisects the City, and other major arteries in the southwestern portion of the State. The City is situated approximately 75 miles west of Interstate 81's connection with Interstate 77 and approximately 80 miles east of Interstate 81's connection with Interstates 40 and 75. Approximately 20 miles west of the City, Interstate 81 also intersects with Interstate 26 which provides connection to Asheville, North Carolina and provides another north-south interstate route in close proximity to the City. In addition, Interstate 81 intersects via US Route 23, which has been improved to interstate standards, to Kentucky and West Virginia.

Rail service is provided to the City by Norfolk Southern Railway which serves 14 states and southern Canada.

Several truck lines are authorized for both interstate and intrastate shipping to and from the City. Express service is provided to the area by United Parcel Service and Federal Express.

The nearby Tri-City Regional Airport located in Blountville, Tennessee offers passenger and freight service via three major airlines and several commuter lines for direct flights to major cities and airline hubs. A smaller airport, Virginia Highlands Airport, is located approximately 10 miles east of the City and is used primarily for training, pleasure and private business. Its runway has recently undergone a lengthening which will allow it to accommodate small corporate jet traffic.

### **Education**

The City offers substantial educational advantages in comparison with other cities of comparable size or location. It is the traditional regional center of education and training for the aptitudes and skills needed by both commerce and industry. The diversity and capacity afforded by the educational facilities within the immediate area provide a continuing in-depth source of a pretrained or preskilled work force over a wide range of employment levels.

#### **Public Education**

The City School System is operated under the jurisdiction of the Bristol Virginia School Board, and is comprised of 6 schools as of the 2014-2015 school year: one high school, one middle school, and four elementary schools. All of the schools are accredited by the Virginia State Department of Education and the Southern

Association of Colleges and Schools, in addition to being accredited in No Child Left Behind (NCLB). Special programs are available for the gifted and special education students, and vocational and adult education is available at the high school.

**STATISTICAL REPORT**

	<u>2009-2010</u>	<u>2010-2011</u>	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>
Number of School Buildings	6	6	6	6	6
Number of Teachers, Principals & Supervisors	231	231	231	231	231
Number of Students Enrolled	2244	2303	2295	2251	2194
Average Daily Attendance:					
Grades K-7	1393	1475	1454	1360	1376
Grades 8-12	851	757	839	848	818

Source: City of Bristol School Board.

**Private Education**

St. Anne’s School, a private Catholic parochial school, offers pre-school and provides education for kindergarten through grade 8. It is fully accredited by the Southern Association of Colleges and Schools.

Sullins Academy offers pre-school and provides education for kindergarten, primer and grades 1 through 8. It is accredited by the Southern Association of Colleges and Schools.

**Higher Education**

There are eight colleges and universities in the general vicinity of the City.

King University is a four-year co-educational college with approximately 1,950 students and is affiliated with the Presbyterian Church. Bachelor of Arts, Bachelor of Science, and Masters Degrees are offered.

Virginia Highlands Community College at Abingdon serves the City, Washington County and the surrounding area with an enrollment of approximately 3,600 students. It is approved by the State Board of Community Colleges and by the State Department of Community Colleges. The college is a part of the Commonwealth of Virginia Community College system.

Major colleges and universities within approximately 150 miles:

Emory & Henry College (Emory, Virginia).....	20 miles
Northeast State Community College (Blountville, Tennessee) .....	22 miles
East Tennessee State University (Johnson City).....	23 miles
University of Virginia (Wise) .....	60 miles
Virginia Polytechnic Institute & State University (Blacksburg).....	100 miles
University of Tennessee (Knoxville).....	120 miles

Washington County Technical School is a regional vocational school offering trade, technical and business courses both as pre-employment training for high school students and adults and as post-employment opportunities to increase skills or continue occupational training.

## Public Library

The Bristol public library is funded by local funds derived from the tax bases of the City and the City of Bristol, Tennessee and through Commonwealth of Virginia matching funds as well as Tennessee, Virginia and Federal grants. State and Federal funds are used exclusively for the purchase of library materials and to fund specific projects, such as the Literacy Academy of Bristol.

The library is open every day, except holidays, for 63 weekly hours of service. Besides the traditional library function of lending books, the library also provides e-books, free wi-fi, public Internet access, computer instruction, and public fax service. It has a children's department and a teen department. The library's full-time equivalent staff of 23 includes 3 librarians with master's degrees, a full-time cataloger, a full-time children's librarian, a part-time teen librarian, and a reference staff of 4 full-time employees to assist people with their information needs.

## Parks and Recreation

The Parks and Recreation Department is responsible for all recreation facilities, rights-of-ways, school grounds and recreation programs. Employees of this department consist of 19 full-time employees. Full-time employees are supplemented by seasonal employees as needed.

Within the department are three (3) divisions, the administrative division is responsible for administration, clerical assistance, personnel, planning and accounting. The maintenance division is responsible for all parks, park buildings, school grounds, municipal properties, mowing rights-of-ways, medians and parks. This division also handles litter control, snow removal, and chemical vegetation control in the downtown area. Employees in the recreation division schedule, organize, manage, and promote special events, athletic/sports leagues, summer playground programs, and educational/instructional classes. The recreation division also operates/manages a newly renovated 6,000 square foot senior citizen center including all programs and activities for the senior adult members.

The City's existing recreational facilities consist of a large regional park complete with a 3-field softball complex, soccer complex, 75-unit camping area, and large picnic area. A farm club of the Pittsburgh Pirates plays its home games on department facilities. Also maintained by the department maintenance division are little league fields, a football stadium and tennis courts, 2 additional softball fields, neighborhood parks and pocket parks.

## Economic Development

In early 2012, the City began undertaking the development of The Falls at Bristol Project ("The Falls") as a "development of regional impact" under Virginia statutory provisions that enable the City to receive the remittance of a portion of Virginia's sales tax revenues generated by retail sales at The Falls. The Falls is considered by the City to be a destination retail development that is important to the preservation and growth of its sales tax receipts.

The Smithsonian-affiliated Birthplace of Country Music Museum, a 24,000 square foot museum, recently opened in the City's historic downtown district. In addition, the City expects a 70-room boutique hotel will be opening in the City's historic downtown district in Fall, 2016. These attractions are projected to increase the number of visitors in the downtown area, which currently hosts over 300,000 visitors annually.

## ECONOMIC AND DEMOGRAPHIC DATA

### Population of Bristol and Adjacent Areas

	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
City of Bristol	18,406	17,367	17,835	17,780	17,702	17,728	17,690
Washington County	45,887	51,103	54,879	55,179	55,479	55,207	54,943
Commonwealth of Virginia	6,187,358	7,079,030	8,001,024	8,096,604	8,185,867	8,260,405	8,326,289

Source: United States Census, 1990, 2000; Weldon Cooper Center for Public Service, University of Virginia, Charlottesville, Virginia, 2010-2014.

**Population Distribution by Age as of 2010**

	<u>Median Age</u>	<u>% Under 18</u>	<u>% 65 or over</u>	<u>Persons/ Household</u>
City of Bristol	41.3	20.8%	19.0%	2.22
Washington County	43.7	19.3	18.7	2.32
Commonwealth of Virginia	37.5	22.7	13.0	2.59

Source: 2010 United States Census.

**Income**

Per capita income in the City has generally risen since 2003. The following table represents per capita personal income data for the City, Commonwealth of Virginia and the United States for the years 2005 through 2013 (the latest available figures).

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Bristol <sup>(1)</sup>	\$27,704	\$29,565	\$30,325	\$32,133	\$31,630	\$32,106	\$35,304	\$37,070	\$37,018
Commonwealth of Virginia	39,841	42,085	43,927	44,901	44,056	44,836	47,076	48,715	48,838
United States	35,888	38,127	39,804	40,873	39,379	40,144	42,332	44,200	44,765

Source: United States Department of Commerce, Bureau of Economic Analysis.

(1) Combined with Washington County.

**Housing**

According to the 2010 Census there were 8,831 housing units in the City. The 2010 Census reflected an average population per household of 2.22 persons.

The following table presents new housing starts, including single and multifamily housing units, in the City.

<u>Calendar Year</u>	<u>Total Units</u>
2005	97
2006	74
2007	127
2008	20
2009	14
2010	5
2011	34
2012	13
2013	6
2014	10

Source: City of Bristol Community Development Department.

### **Building Permits and Value**

The following table sets forth the value of building permits issued by the City.

<u>Calendar Year</u>	<u>Total Construction Permit Value</u>	<u>No. of Permits</u>
2005	\$22,316,000	338
2006	22,742,000	270
2007	21,208,637	290
2008	11,501,657	264
2009	6,265,344	242
2010	29,235,639	237
2011	22,382,626	280
2012	8,165,233	255
2013	18,492,245	229
2014	25,536,017	206

Source: City of Bristol Community Development Department.

### **Commerce, Industry and Employment**

The economy of the City has been historically dependent on manufacturing as a major component. The twin cities of Bristol, Virginia, and Bristol, Tennessee, serve as a commercial trade center for Southwest Virginia and Northeast Tennessee. Also, other sectors of the economy such as services and government are becoming more important. The City appears to be in economic transition from a manufacturing center to a more diverse economy incorporating trade, services, governmental functions and attendant activities such as construction, finance, insurance and real estate.

In 1985, the City became the second Virginia city to attain certification by the Governor through a program administered by the Virginia Department of Economic Development, as a prepared community ready for economic investment.

The City has combined a diversified industrial base with residential development. The City currently has over 1,680 acres zoned for industrial use.

## Principal Industries

The following table sets forth the principal industries in the City of Bristol, Virginia and the City of Bristol, Tennessee as of June 30, 2014.

<u>Name of Company</u>	<u>Approximate Number of Employees</u>
Wellmont Health System-TN/VA	1,848
City of Bristol, TN	752
City of Bristol, VA	720
Century Link	640
Commonwealth of Virginia-Dept of Transportation	608
U.S. Solutions	582
Electro Mechanical Corp	550
Sprint Telecenter	475
Robinette Company	338
Bristol Metals LP	320
Shearer's (Formerly Moore's Snack Foods)	310
Strongwell Corp.	300
Office Max <sup>1</sup>	296

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Source: City of Bristol, Virginia CAFR & City of Bristol, Tennessee CAFR.

<sup>1</sup>Office Max has announced that its call center is closing, with the related jobs being phased out through the end of 2016.

The following table sets forth the principal industries in the City of Bristol, Virginia as of June 30, 2014.

<u>Name of Company</u>	<u>Approximate Number of Employees</u>
City of Bristol	720
Commonwealth of Virginia-Dept of Transportation	608
Electro Mechanical Corp.	550
Shearer's (Formerly Moore's Snack Foods)	310
Strongwell Corp.	300
Office Max <sup>1</sup>	296
Alpha Natural Resources <sup>2</sup>	262
United Parcel Service	243
Ball Corporation (formerly Reynolds Metal) <sup>3</sup>	241
Aerus (formerly Electrolux)	167

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Source: City of Bristol, Virginia CAFR.

<sup>1</sup>Office Max has announced that its call center is closing, with the related jobs being phased out through the end of 2016.

<sup>2</sup>Alpha Natural Resources filed on August 3, 2015 for Chapter 11 bankruptcy, which permits the reorganization of financial obligations. The impact of the filing of the Chapter 11 petition on the employees of Alpha Natural Resources located in Bristol cannot be known at this time.

<sup>3</sup>On July 29, 2015, the Ball Corporation announced that it is closing its Bristol plant by May 2016.

## Taxable Retail Sales Data

The following table reflects taxable retail sales in the City on a per capita basis.

<u>Year</u>	<u>Population</u>	<u>Taxable Retail Sales</u>	<u>Taxable Retail Sales Per Capita</u>
2005	17,479	\$288,024,203 <sup>1</sup>	\$16,364
2006	17,425	327,255,610	18,781
2007	17,571	361,849,302	20,594
2008	17,429	356,576,047	20,459
2009	17,516	339,817,504	19,400
2010	17,835	328,478,141	18,417
2011	17,780	335,839,002	18,889
2012	17,702	350,105,803	19,778
2013	17,728	333,704,112	18,823
2014	17,690	326,413,567	18,451

Source: Virginia Department of Taxation.

<sup>1</sup>Because of database modifications at the Department of Taxation, the business classification categories changed to reflect NAICS Codes starting with the third quarter 2005 files. Consequently, the files before the third quarter of 2005 may not be directly comparable to the files from the third quarter of 2005 and thereafter.

## Unemployment Rate

The following table reflects comparative unemployment rates for the City, the Commonwealth of Virginia and the United States for the years 2005 through 2014 (the latest available figures for all three).

<u>Year</u>	<u>Bristol<sup>1</sup></u>	<u>Commonwealth of Virginia</u>	<u>United States</u>
2005	5.5%	3.6%	5.1%
2006	4.9	3.1	4.6
2007	5.1	3.0	4.6
2008	5.8	3.9	5.8
2009	10.0	6.7	9.3
2010	8.8	7.1	9.6
2011	8.3	6.6	8.9
2012	7.4	6.0	8.1
2013	7.1	5.7	7.4
2014	6.4	5.2	6.2

Source: Virginia Employment Commission and Bureau of Labor Statistics.

<sup>1</sup>Bristol's unemployment rate for May, 2015 was 5.7%.



## FINANCIAL PROCEDURES

### Description of Funds

The City's accounts are organized on the basis of fund classifications and account groups, each of which is considered to be a separate accounting entity. Each fund is a separate set of self-balancing accounts that consists of assets, liabilities, fund equity, revenues, and expenditures or expenses. Account groups are used to establish accounting control over certain assets and liabilities that are not recorded in funds. The various fund and account groups are as follows:

1. **Governmental Fund Types** account for the expendable financial resources, other than those accounted for in Proprietary and Fiduciary funds. The Governmental Fund Types measurement focus is based upon determination of financial position and changes in financial position, rather than upon net income determination. The individual Governmental Fund Types are:

**General Fund** accounts for all revenues and expenditures applicable to the general operation of the City, which are not accounted for in other funds.

**Special Revenue Funds** account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. The Special Revenue Funds consist of the Community Development Block Grant Fund; the School Operating Fund; the School Health Insurance Premium Fund; the School Construction Renovation, Maintenance, Capital Outlay and Debt Service Fund; and the School Cafeteria Fund.

2. **Proprietary Fund Types** account for activities that are similar to those found in the private sector. The measurement focus is based upon determination of financial position, net income or loss, and cash flows. The Proprietary Fund Types consist of the Enterprise Funds.

**Enterprise Funds** account for the financing of services to general public where all or most of the operating expenses involved are intended to be recovered in the form of user charges or where management has decided that periodic determination of revenues earned, expenses incurred, and/or net income or loss is appropriate for management control, accountability or other purposes. Enterprise Funds consist of the Solid Waste Disposal.

3. **Fiduciary Fund Types** account for assets held by the City in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds. The City has two Agency Funds – the Special Welfare Fund and the Flexible Spending Account, while it has two Trust Funds – the Dental Assistance Trust Fund and the Tree/Shrub Fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The expendable trust fund (Dental Assistance) is accounted for in essentially the same manner as a Governmental Fund Type while the nonexpendable fund (Tree/Shrub) is accounted for in essentially the same manner as a Proprietary Fund since capital maintenance is critical.

4. **Account Groups** account for general fixed assets and general obligation long-term debt. Fixed assets and long-term debt related to Proprietary Funds are accounted for in these funds.

5. **Combined Financial Statements** are referred to as General Purpose Financial Statements and provide a summary overview of the financial position of all funds and account groups and of the operating results of all funds. All funds and account groups of the specific fund classification are combined and presented as one in the financial statements.

### Annual Audit

The City has an annual audit made of the books of accounts, financial records and transactions of administrative departments of the City by a certified public accountant selected by the City Council. The most recently completed accountants' report was for the fiscal year ended June 30, 2014, and was submitted by

Blackburn, Childers & Steagall, PLC, Certified Public Accountants, Johnson City, Tennessee, and is included herein as **Appendix B**. The report states that the auditors have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units and each major fund of the City for the fiscal year ended June 30, 2014, and the related notes to the financial statements. In the auditor's opinion, the financial statements referenced in the preceding sentence present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units and each major fund of the City as of June 30, 2014. Blackburn, Childers & Steagall, PLC has not undertaken a review of any other financial information concerning the City presented in this Official Statement.

The City's audited financial statements are available for inspection at the office of the City Clerk/Comptroller, City Hall, Bristol, Virginia 24201 or can be obtained online at [www.bristolva.org](http://www.bristolva.org).

### **Budgetary Procedure**

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

1. The City Manager submits to the City Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriation Budget Resolution.
4. The Appropriations Budget Resolution places legal restrictions on expenditures at the department level or category level. The appropriation for each department or category can be revised only by the City Council. The City Manager is authorized to transfer budgeted amounts within general governmental departments; however, only the School Board is authorized to transfer budgeted amounts within the school system's categories.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds (except the School Fund). The School Fund is integrated only at the level of legal adoption.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30 for all City units.

## **SELECTED FINANCIAL INFORMATION**

### **Statement of General Fund Revenues and Expenditures**

The financial data shown below presents a summary for the last five fiscal years ended June 30 of the City's General Fund Revenues and Expenditures (excluding Special Enterprise Funds and Component Unit Funds). This summary has been compiled from the financial statements and accounting records of the City for the fiscal years ended June 30, 2010 through June 30, 2014. This summary should be read in conjunction with the financial statements and notes thereto for the fiscal year ended June 30, 2014, which have been audited by Blackburn, Childers & Steagall, PLC, Certified Public Accountants, and are included as **Appendix B** hereto. Blackburn, Childers & Steagall, PLC has not undertaken a review of any other financial information concerning the City presented in this Official Statement.

	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
<b>REVENUES</b>					
General property taxes	\$13,171,228	\$14,007,725	\$13,915,700	\$15,192,406	\$15,120,260
Other local taxes	11,448,949	11,722,627	12,419,037	12,427,340	12,316,335
Permits, privilege fees, and regulatory licenses	31,359	104,035	69,455	48,089	69,535
Fines and forfeitures	175,137	222,367	228,566	212,516	196,285
Investment earnings	52,479	38,040	20,568	14,534	11,149
Charges for services	332,728	274,959	1,161,149	1,084,589	992,034
Revenue for Use of Property	306,020	313,350	308,524	528,249	529,654
Other	970,307	1,671,932	1,590,455	2,051,878	1,413,866
Intergovernmental	18,145,550	20,494,481	18,786,544	16,019,554	18,536,059
Total revenues	<u>\$44,633,757</u>	<u>\$48,849,516</u>	<u>\$48,499,998</u>	<u>\$47,579,155</u>	<u>\$49,185,177</u>
<b>EXPENDITURES</b>					
Current:					
General government administration	\$2,587,737	\$2,425,753	\$2,669,506	\$3,136,968	\$3,127,195
Judicial administration	1,401,759	1,485,763	1,453,743	1,379,353	1,284,285
Public safety	12,199,613	12,908,930	13,202,148	13,090,233	13,378,990
Public works	4,136,424	4,267,752	4,750,566	4,965,547	5,191,466
Health and welfare	5,507,342	5,635,487	6,016,795	6,198,340	6,359,553
Education	8,976,766	8,298,377	8,701,292	9,151,682	9,281,682
Parks, recreation, and cultural	2,514,823	2,504,239	3,458,881	3,616,612	3,544,177
Community development	2,469,705	4,596,437	2,040,298	1,416,823	2,261,353
Transit	520,962	598,985	519,256	578,936	474,236
Capital projects	2,024,195	2,259,068	5,901,666	23,797,731	19,906,730
Debt service:					
Principal retirement	1,354,194	876,400	1,170,405	6,278,820	7,804,710
Principal Retirement – Tax Anticipation Note	6,000,000	6,000,000	3,300,000	4,550,000	7,600,000
Interest and fiscal charges	979,386	923,095	1,007,191	1,699,310	2,127,968
Total expenditures	<u>50,672,905</u>	<u>52,780,286</u>	<u>54,191,747</u>	<u>79,860,355</u>	<u>82,342,345</u>
Excess (deficiency) of revenues over expenditures	<u>\$(6,039,148)</u>	<u>\$(3,930,770)</u>	<u>\$(5,691,749)</u>	<u>\$(32,281,200)</u>	<u>\$(33,157,168)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	\$350,000	-	-	-	-
Transfers out	(1,702,839)	-	\$(2,996,108)	-	-
Proceeds from Bond issuances	630,569	\$234,584	2,765,416	\$25,000,000	\$15,000,000
Proceeds from Tax Anticipation Note	6,000,000	6,000,000	3,300,000	4,550,000	7,600,000
Proceeds/Premium from Bond Refunding	-	-	-	4,565,513	6,156,450
Proceeds from Bond Restructuring	-	35,889	-	-	-
Capital Lease	-	-	81,070	411,251	496,408
Insurance Recoveries	-	21,468	671,165	9,474	193,306
Sale of capital assets	105,806	16,421	20,791	55,112	130,139
Total other financing sources and uses	<u>5,383,536</u>	<u>6,308,362</u>	<u>3,842,334</u>	<u>34,591,350</u>	<u>29,576,303</u>
Net change in fund balance	(655,613)	2,377,592	(1,849,415)	2,310,150	(3,580,865)
<b>FUND BALANCES AT JULY 1</b>	<u>24,442,494</u>	<u>23,786,881</u>	<u>26,653,440</u>	<u>24,804,025</u>	<u>27,114,175</u>
Prior Period Adjustment	-	488,967 <sup>1</sup>	-	-	-
<b>FUND BALANCES RESTATED</b>	<u>24,442,494</u>	<u>24,275,848</u>	<u>26,653,440</u>	<u>24,804,025</u>	<u>27,114,175</u>
<b>FUND BALANCES AT JUNE 30</b>	<u>\$23,786,881</u>	<u>\$26,653,440</u>	<u>\$24,804,025</u>	<u>\$27,114,175</u>	<u>\$23,533,310</u>

<sup>1</sup>During the 2011 fiscal year, it was determined that certain prior year grant revenues totaling \$488,967 were incorrectly recorded in the 2011 fiscal year rather than the prior year. To correct this error, the beginning fund balance of the General Fund of \$23,786,881, as originally reported, has been increased to \$24,275,848.

## Discussion of Financial Results

*Fiscal Year 2010.* The City's fund balance decreased approximately \$656,000. Total revenues reflected a 4% increase from the prior fiscal year, while total expenditures reflected a 12% increase for the same period. The increase in revenues was principally from intergovernmental funds received capital projects. The decrease in fund balance was attributable to expenses related to debt.

*Fiscal Year 2011.* The City's fund balance increased approximately \$2,867,000. Total revenues reflected a 9% increase from the prior fiscal year, while total expenditures reflected a 4% increase for the same period. The increase in revenues was principally from monies received from the Virginia Tobacco Commission for Community Revitalization and an increase in general property taxes. These increases resulted in an increase in the fund balance for the fiscal year.

*Fiscal Year 2012.* The City's fund balance decreased approximately \$1,849,000. Total revenues reflected a .7% decrease from the prior fiscal year, while total expenditures reflected a 3% increase for the same period. The decrease in revenues was principally from a decrease in intergovernmental funds. The decrease in fund balance was attributable the Clear Creek Golf Course being classified by the auditors as a governmental fund and not as a proprietary fund because it was part of the City's parks and recreation function and was not a material enterprise fund.

*Fiscal Year 2013.* The City's fund balance increased approximately \$2,310,000. Total revenues reflected a 2% decrease from the prior fiscal year, while total expenditures reflected a 47% increase for the same period. The increase in expenditures is attributed to costs associated with an economic development project known as The Falls at Bristol. The decrease in fund balance was attributable to the costs associated with such economic development project and other capital projects. See the section "**LOCAL GOVERNMENT SERVICES – "Economic Development."**"

*Fiscal Year 2014.* The City's fund balance decreased by \$3,581,000. Total revenues reflected a 3% increase from the prior fiscal year, while total expenditures reflected a 3% increase for the same period. Approximately \$2.5 million of the decrease in fund balance is attributed to the accrual of capital expenditures for The Falls Project. These expenses were recognized in FY2014 but the matching revenue was recognized in FY2015. Other factors attributing to the decrease in fund balance are projected revenues coming in lower than budgeted and the loss of a solid waste disposal contract.

*Fiscal Year 2015 (unaudited).* The City's unassigned fund balance is projected to increase by \$4,500,000 bringing the unassigned fund balance to \$4,200,000. Total revenues reflect a 5% increase from the prior fiscal year, while total expenditures reflect a 26% decrease for the same period. The increase in revenues is attributed to a one-time reimbursement for "The Falls" project costs and the receipt of revenues for expenses recognized in FY2014. A decrease in capital project costs related to "The Falls" project accounts for the decrease in expenses.

## GENERAL FUND REVENUES AND DISBURSEMENTS

The General Fund is maintained by the City to account for revenue derived from City-wide property taxes, other local taxes, licenses, fees, permits, certain revenue from Federal and state agencies, and interest earned on invested cash balances in the General Fund. General Fund disbursements include the cost of general City government, transfers to the School Operating Funds to pay the local share of operating the City's public schools, and transfers to Debt Service Funds to pay debt service on City general obligation bonds and for certain capital improvement projects, respectively.

The following is a discussion of the General Fund revenue structure and major classifications of General Fund Disbursements. See **Appendix B** for a detailed statement of General Fund revenues and expenditures for the fiscal year ended June 30, 2014.

### Revenues

Property Taxes. An annual ad valorem tax is levied by the City on the assessed value of real and tangible personal property located within the City as of the January 1 preceding the fiscal year in which such tax is due. The

ratio of the assessed value of property to its appraised value is 100% in the case of real property and varies for the several classes of the personal property but generally is 100%. Real property taxes are due on June 5 and December 5, such twice-a-year collection of real property taxes having commenced in 2006. Tangible personal property taxes are due and payable once a year on December 5. The penalty for late payment is 10% of the amount due, and interest on delinquent taxes and penalties accrues at a rate of 10% per annum. In cases of property on which delinquent taxes are not paid within three years, the City records a lien on the property effective for 20 years and the property is eligible to be sold through judicial proceedings. There is no limit at the present time on the property tax rates which may be established by the City. In the fiscal year ended June 30, 2014, property taxes (including penalties for late payment of prior years' taxes) represented approximately 31% of total General Fund receipts.

Other Local Taxes. The City levies various other local taxes including: consumer utility, motor vehicle, bank franchise, lodging and meals taxes. These receipts represented approximately 15% of total General Fund receipts in the fiscal year ended June 30, 2014.

Sales Tax Collections. The Commonwealth sets and imposes sales tax on retail sales within the State. A combined rate of 5.5% is composed of a 4.5% state portion and a 1% local portion. The amount returned to the City represented approximately 12% of total General Fund receipts in the fiscal year ended June 30, 2014.

Business and Occupational Licenses. The City requires that licenses or permits be obtained in order to perform certain activities in the City and that fees be paid for services provided by certain City departments. These receipts represented approximately 3% of total General Fund receipts in the fiscal year ended June 30, 2014.

Revenues from the Commonwealth. The City is reimbursed by the Commonwealth for a portion of shared expenses including certain expenditures for social services, the sheriff's office, the courts, the office of the Commonwealth's Attorney and other constitutional officers. Additionally, the City receives a share of the net profits from the State Alcoholic Beverage Control Board's liquor sales. Revenue from the Commonwealth represented approximately 27% of total General Fund receipts in the fiscal year ended June 30, 2014.

Other Revenue. All other sources of revenue accounted for approximately 12% of total General Fund receipts in the fiscal year ended June 30, 2014, the principal sources of which are other local taxes not referenced above, charges for services, fines and forfeitures, and other categorical aid from the federal government.

## **Disbursements**

Cost of General City Government. The City pays from the General Fund the costs of general City government. These costs include expenditures for public safety (police, fire, etc.), courts administration and support, social services, libraries, health, conservation, housing and community development. This classification represented approximately 43% of total General Fund disbursements in the fiscal year ended June 30, 2014.

Education. The City transfers moneys from the General Fund to the School Operating Fund to pay the City's share of the cost of operating public schools in the City. This transfer represented approximately 11% of total General Fund disbursements in the fiscal year ended June 30, 2014. No debt service on City general obligation bonds is paid from the School Operating Fund and revenues from the Federal government and the Commonwealth which are credited to the School Operating Fund are not available to pay debt service on City general obligation bonds (except as described under "**SECURITY AND SOURCES OF PAYMENT OF THE NOTES - Noteholders' Remedies in the Event of Default**").

Debt Service. The City transfers from the General Fund to the Debt Service Fund an amount sufficient to pay principal and interest on the City's general obligation bonds. Transfers to the Debt Service Funds represented approximately 21% of total General Fund disbursements in the fiscal year ended June 30, 2014.

Capital Funds. The City transfers from the General Fund to the Capital Projects Funds moneys to pay the cost of certain capital improvements. The General Fund transfer to the Capital Projects Funds represented 24% of total General Fund disbursements in the fiscal year ended June 30, 2014.

## Operating Budget (Fiscal Year 2014-2015 & 2015-2016)

Shown below are the City's budgeted general fund revenues and expenditures for the fiscal years ending June 30, 2015 and 2016. The City is not currently aware of any financial condition that would have a materially adverse effect upon the City's ability to meet the Budget for 2015-2016.

	<b>Adopted Budget <u>2014-15</u><sup>1</sup></b>	<b>Adopted Budget <u>2015-16</u><sup>1</sup></b>
<b>Sources of Financial Resources</b>		
<b><u>Budgeted Revenues</u></b>		
General Property Taxes	\$16,133,990	\$16,778,990
Other Local Taxes	13,600,000	14,926,400
Permits & Privilege Fees	127,500	157,176
Fines & Forfeitures	241,000	202,000
Revenues from Money & Property	233,545	155,820
Charges for Services	1,168,000	1,172,500
Miscellaneous	1,475,785	1,469,100
Intergovernmental	21,885,190	25,105,801
Bond Issuance	0	1,970,000
Total Revenue	<u><u>\$54,865,010</u></u>	<u><u>\$61,937,787</u></u>
<b>Uses of Financial Sources</b>		
<b><u>Budgeted Expenditures</u></b>		
General	\$3,091,654	\$3,344,896
Judicial	1,189,485	1,485,666
Public Safety	13,867,525	14,036,314
Public Works	5,083,005	5,060,974
Health & Welfare	7,388,963	7,210,731
Education	9,346,760	9,671,236
Recreation & Cultural	3,298,798	3,388,806
Comm. Development	1,601,610	1,702,075
Non-Departmental	442,554	563,751
Capital Projects	5,186,000	7,980,000
Debt Service:		
Principal Retirement	675,352	427,500
Interest	2,639,059	3,153,848
Transfers <sup>2</sup>	1,054,245	3,911,990
Total Expenditures <sup>3</sup>	<u><u>\$54,865,010</u></u>	<u><u>\$61,937,787</u></u>

<sup>1</sup> Budget figures for Fiscal Year 2015 & 2016 are presented only for comparative purposes. For fiscal years 2010 through 2014, actual revenue and expenditure figures are presented in the section "**SELECTED FINANCIAL INFORMATION -- Statement of General Fund Revenues and Expenditures.**"

<sup>2</sup> The sizable increase in "Transfers" results from expected transfers to the IDA of the City of Bristol, Virginia for The Falls at Bristol Project.

<sup>3</sup> The increase in "Total Expenditures" results from the aforementioned transfers to the IDA for The Falls at Bristol Project and from capital projects.

*Budget Year 2015.* Based on the City's FY2014 financial performance, City Council implemented a FY2015 budget based on more conservative revenue projections which incorporated:

- ♦ A 6¢ real estate tax increase generating \$600,000;
- ♦ Other revised local taxes generating \$152,400;
- ♦ Establishment of/enhancement in certain user fees generating \$110,000;
- ♦ Personnel reductions creating a savings of \$436,300; and
- ♦ Other contractual and reductions in funding creating savings of \$98,250.

The combined effect of the above budgetary actions allowed the City to have a structurally balanced budget and the City is projecting a \$700,000 excess of recurring revenues over recurring expenses that will increase unassigned fund balance.

*Budget Year 2016.* Continuing with the FY2016 Budget, City Council has adopted a budget that is based on conservative revenue projections which incorporates:

- ♦ A 5¢ real estate tax increase generating \$500,000;
- ♦ Increase in Solid Waste Collection fees generating \$160,000;
- ♦ Mandated 1% VRS increase for City and Schools;
- ♦ Salary Increases – City 1.5%/Constitutional officers/2.0% Schools 1.5%.

The combined effect of the above budgetary actions allowed the City to have a structurally balanced budget and the City is projecting a \$900,000 excess of recurring revenues over recurring expenses that will increase unassigned fund balance.

## OPERATING DATA

The following data are presented to illustrate trends and characteristics of the City's tax related revenues.

### Assessed Value of Taxable Property<sup>(1)</sup>

<u>Fiscal Year</u>	<u>Real Estate</u>	<u>Personal Property</u>	<u>Machinery And Tools</u>	<u>Public Service Corporation Real Estate</u>	<u>Mobile Homes<sup>(2)</sup></u>	<u>Total</u>
2005	\$754,670,575	\$36,732,886	\$18,095,654	\$18,955,042	-	\$828,454,157
2006	767,041,575	34,747,388	17,859,218	16,764,883	-	836,413,064
2007	874,768,300	35,898,923	17,593,513	19,560,928	\$1,664,016	949,485,680
2008	918,459,200	38,417,934	12,790,535	14,250,641	1,505,142	985,423,452
2009	932,366,500	40,381,108	10,815,071	15,573,204	1,495,279	1,000,631,162
2010	1,037,501,250	36,755,193	10,657,820	15,375,438	1,534,142	1,101,823,843
2011	1,042,533,650	49,163,845	12,137,866	17,495,045	1,468,048	1,122,798,454
2012	1,055,329,250	43,626,984	12,067,951	19,026,098	1,377,046	1,131,427,329
2013	1,034,599,500	41,927,567	11,930,403	18,414,192	1,279,636	1,108,148,298
2014	1,031,933,300	43,791,409	12,545,868	18,782,178	991,762	1,108,044,517

Source: Compiled from the City's audited financial statements.

<sup>(1)</sup> Assessed at 100% fair market value.

<sup>(2)</sup> Included in personal property for years 2000 - 2006.

### Tax Rate (per \$100 Assessment)

Fiscal Year:	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Real Property	\$0.98	\$1.05	\$1.05	\$0.94	\$0.94	\$0.94	\$0.99	\$1.01	\$1.07	\$1.15
Personal Property	6.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	2.10 <sup>1</sup>
Machinery & Tools	6.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00 <sup>2</sup>

Source: Compiled from City's audited financial statements.

<sup>1</sup>2007-2015 based on an assessment ratio of 30%; 2016 assessment ratio is 100%

<sup>2</sup>2007-2016 assessment ratio 30%

### Tax Levies and Tax Collection

Fiscal Year Ended June 30	Total Tax Levy for Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Adjusted Levy		Amount	Percentage of Levy
2005	\$10,748,059	\$10,370,212	96.48%	\$206,204	\$10,576,416	98.40%
2006	11,769,692	11,281,140	95.85	300,926	11,582,066	98.41
2007	12,294,395	11,351,927	92.33	755,446	12,107,373	98.48
2008	13,397,350	12,815,457	95.66	367,043	13,182,500	98.40
2009	13,552,799	12,800,034	94.45	568,760	13,368,794	98.64
2010	13,454,389	12,645,361	93.99	645,847	13,291,208	98.79
2011	13,721,770	12,948,516	93.89	657,180	13,540,864	97.68
2012	13,724,757	12,948,516	94.34	517,444	13,465,960	98.11
2013	14,091,943	13,394,232	95.05	338,004	13,732,236	97.45
2014	13,937,773	13,327,035	95.62	-	13,327,035	95.62

Source: Compiled from the City's audited financial statements.

### Principal Real Property Taxpayers as of June 30, 2014<sup>1</sup>

<u>Taxpayer</u>	<u>Description</u>	<u>Total Assessed Value</u>
Johnson Sugar Hollow, LLC <sup>2</sup>	Office Complex	\$17,547,000
Bristol Mall Acquisition LLC <sup>3</sup>	Shopping Mall	16,871,900
D&J Virginia Real Estate LLC	Hotel Complex	9,078,400
HD Development of MD (Home Depot)	Shopping Complex	8,392,900
Debora Jean Limited	Theater & Shopping Complex	7,287,900
BLC Bristol-GC LLC	Assisted Living	6,895,900
Apple Nine SPE Bristol (Marriott)	Hotel Complex	6,502,700
Ball Corporation <sup>4</sup>	Manufacturing Facility	5,733,000
Yale Linden Associates LLC (Linden Dr)	Shopping Complex	5,007,100
Pacific Capital Group (Post Office/Food Lion)	Retail Complex	4,552,900

Source: Commissioner of the Revenue of the City.

<sup>1</sup>The top ten taxpayers represent 8.52% of the City's total real property assessed value.

<sup>2</sup>Johnson Sugar Hollow, LLC sold the real property to One Alpha Place, LLC pursuant to a deed recorded on February 10, 2015 at a price of \$28,000,000. The property is currently leased by the owner to Alpha Natural Resources, which filed on August 3, 2015 for Chapter 11 bankruptcy.

<sup>3</sup>The Bristol Mall is being auctioned off to the highest bidder on August 18, 2015 pursuant to a trustee's sale because the owners are in default of their payment obligations.

<sup>4</sup>On July 29, 2015, the Ball Corporation announced that it is closing its Bristol plant by May 2016.



## DEBT ADMINISTRATION

### Debt Burden

<u>Fiscal Year</u>	<u>Population</u>	<u>Assessed Value (In Thousands)</u>	<u>Net Bonded Debt</u>	<u>Ratio of Net Bonded Debt To Assessed Value<sup>(1)</sup></u>	<u>Net Bonded Debt Per Capita<sup>(2)</sup></u>
2005	17,479	\$828,454	\$12,710,937	1.53	\$727
2006	17,425	836,414	12,345,291	1.48	708
2007	17,571	949,485	16,277,411	1.71	926
2008	17,429	985,423	19,534,789	1.98	1,121
2009	17,516	1,000,631	18,786,751	1.88	1,073
2010	17,835	1,101,824	18,394,451	1.67	1,031
2011	17,780	1,122,798	17,961,234	1.60	1,010
2012	17,702	1,131,427	23,389,548	2.07	1,321
2013	17,728	1,108,530	46,907,400	4.23	2,646
2014	17,690	1,108,044	61,320,700	5.53	3,466

Source: City's audited financial statements.

<sup>(1)</sup> Excludes general obligation indebtedness, the debt service on which is expected to be paid from various Enterprise Funds.

<sup>(2)</sup> Rounded to the nearest dollar.

**Summary of General Obligation Long-Term Debt Service Requirements to Maturity (as of August 5, 2015)**

Fiscal Year Ended June 30	<u>General Obligation Bonds</u>			<u>Literary Fund Loans</u>			<u>Total</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016 <sup>(1)</sup>	\$17,529,500	\$3,586,321	\$21,115,821	\$240,000	\$18,000	\$258,000	\$17,769,500	\$3,604,321	\$21,373,821
2017	377,500	3,471,240	3,848,740	240,000	10,800	250,800	617,500	3,482,040	4,099,540
2018	387,500	3,462,350	3,849,850	240,000	3,600	243,600	627,500	3,465,950	4,093,450
2019	647,500	3,447,540	4,095,040	0	0	0	647,500	3,447,540	4,095,040
2020	3,727,500	3,359,120	7,086,620	0	0	0	3,727,500	3,359,120	7,086,620
2021 <sup>(2)</sup>	33,942,500	2,668,973	36,611,473	0	0	0	33,942,500	2,668,973	36,611,473
2022	3,982,500	1,965,310	5,947,810	0	0	0	3,982,500	1,965,310	5,947,810
2023	4,122,500	1,774,585	5,897,085	0	0	0	4,122,500	1,774,585	5,897,085
2024	4,457,500	1,567,260	6,024,760	0	0	0	4,457,500	1,567,260	6,024,760
2025	4,387,500	1,368,693	5,756,193	0	0	0	4,387,500	1,368,693	5,756,193
2026	4,922,500	1,165,799	6,088,299	0	0	0	4,922,500	1,165,799	6,088,299
2027	5,162,500	931,065	6,093,565	0	0	0	5,162,500	931,065	6,093,565
2028	725,000	809,887	1,534,887	0	0	0	725,000	809,887	1,534,887
2029	765,000	776,261	1,541,261	0	0	0	765,000	776,261	1,541,261
2030	795,000	740,780	1,535,780	0	0	0	795,000	740,780	1,535,780
2031	830,000	703,908	1,533,908	0	0	0	830,000	703,908	1,533,908
2032	880,000	665,413	1,545,413	0	0	0	880,000	665,413	1,545,413
2033	915,000	624,599	1,539,599	0	0	0	915,000	624,599	1,539,599
2034	950,000	582,161	1,532,161	0	0	0	950,000	582,161	1,532,161
2035	995,000	535,725	1,530,725	0	0	0	995,000	535,725	1,530,725
2036	1,045,000	487,089	1,532,089	0	0	0	1,045,000	487,089	1,532,089
2037	1,105,000	436,010	1,541,010	0	0	0	1,105,000	436,010	1,541,010
2038	1,150,000	381,997	1,531,997	0	0	0	1,150,000	381,997	1,531,997
2039	1,205,000	325,785	1,530,785	0	0	0	1,205,000	325,785	1,530,785
2040	1,270,000	266,885	1,536,885	0	0	0	1,270,000	266,885	1,536,885
2041	1,335,000	204,807	1,539,807	0	0	0	1,335,000	204,807	1,539,807
2042	1,395,000	139,552	1,534,552	0	0	0	1,395,000	139,552	1,534,552
2043	<u>1,460,000</u>	<u>71,365</u>	<u>1,531,365</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,460,000</u>	<u>71,365</u>	<u>1,531,365</u>
<b>Total</b>	<b><u>\$100,467,000</u></b>	<b><u>\$36,520,481</u></b>	<b><u>\$136,987,481</u></b>	<b><u>\$720,000</u></b>	<b><u>\$32,400</u></b>	<b><u>\$752,400</u></b>	<b><u>\$101,187,000</u></b>	<b><u>\$36,552,881</u></b>	<b><u>\$137,739,881</u></b>

Source: City Manager.

See the section entitled “**DEBT ADMINISTRATION – Outstanding General Obligation Debt Upon Issuance of Notes**” for debt service projections including the Notes.

<sup>(1)</sup> \$17,167,000 of principal maturing in Fiscal Year 2016 will be retired with a portion of the proceeds of the Notes.

<sup>(2)</sup> The principal amount due in Fiscal Year 2021 includes short-term notes that the City expects to refinance with long-term bonds, using available debt capacity, which it expects will be sufficient for such purposes. See the sections entitled “**LOCAL GOVERNMENT SERVICES – Economic Development**” and “**DEBT ADMINISTRATION – Legal Debt Margin**.”

### Outstanding General Obligation Debt Upon Issuance of Notes

Fiscal Year Ended 6/30	Outstanding General Obligation Debt <sup>(1)</sup>			Less: Refunded Notes			Plus: Notes			Total Debt Service <sup>(4)</sup>		
	Principal	Interest	Total	Principal	Interest <sup>(3)</sup>	Total	Principal	Interest	Total	Principal	Interest	Total
2016	\$17,769,500	\$3,604,321	\$21,373,821	(\$17,167,000)	0	(\$17,167,000)	\$0	\$342,519	\$342,519	\$602,500	\$3,946,841	\$4,549,341
2017	617,500	3,482,040	4,099,540	0	0	0	0	576,201	576,201	617,500	4,058,241	4,675,741
2018	627,500	3,465,950	4,093,450	0	0	0	0	576,201	576,201	627,500	4,042,150	4,669,650
2019	647,500	3,447,540	4,095,040	0	0	0	0	576,201	576,201	647,500	4,023,741	4,671,241
2020	3,727,500	3,359,120	7,086,620	0	0	0	0	576,201	576,201	3,727,500	3,935,320	7,662,820
2021 <sup>(2)</sup>	33,942,500	2,668,973	36,611,473	0	0	0	10,030,000	425,650	10,455,650	43,972,500	3,094,624	47,067,124
2022	3,982,500	1,965,310	5,947,810	0	0	0	0	275,100	275,100	3,982,500	2,240,410	6,222,910
2023	4,122,500	1,774,585	5,897,085	0	0	0	7,500,000	137,550	7,637,550	11,622,500	1,912,135	13,534,635
2024	4,457,500	1,567,260	6,024,760	0	0	0	0	0	0	4,457,500	1,567,260	6,024,760
2025	4,387,500	1,368,693	5,756,193	0	0	0	0	0	0	4,387,500	1,368,693	5,756,193
2026	4,922,500	1,165,799	6,088,299	0	0	0	0	0	0	4,922,500	1,165,799	6,088,299
2027	5,162,500	931,065	6,093,565	0	0	0	0	0	0	5,162,500	931,065	6,093,565
2028	725,000	809,887	1,534,887	0	0	0	0	0	0	725,000	809,887	1,534,887
2029	765,000	776,261	1,541,261	0	0	0	0	0	0	765,000	776,261	1,541,261
2030	795,000	740,780	1,535,780	0	0	0	0	0	0	795,000	740,780	1,535,780
2031	830,000	703,908	1,533,908	0	0	0	0	0	0	830,000	703,908	1,533,908
2032	880,000	665,413	1,545,413	0	0	0	0	0	0	880,000	665,413	1,545,413
2033	915,000	624,599	1,539,599	0	0	0	0	0	0	915,000	624,599	1,539,599
2034	950,000	582,161	1,532,161	0	0	0	0	0	0	950,000	582,161	1,532,161
2035	995,000	535,725	1,530,725	0	0	0	0	0	0	995,000	535,725	1,530,725
2036	1,045,000	487,089	1,532,089	0	0	0	0	0	0	1,045,000	487,089	1,532,089
2037	1,105,000	436,010	1,541,010	0	0	0	0	0	0	1,105,000	436,010	1,541,010
2038	1,150,000	381,997	1,531,997	0	0	0	0	0	0	1,150,000	381,997	1,531,997
2039	1,205,000	325,785	1,530,785	0	0	0	0	0	0	1,205,000	325,785	1,530,785
2040	1,270,000	266,885	1,536,885	0	0	0	0	0	0	1,270,000	266,885	1,536,885
2041	1,335,000	204,807	1,539,807	0	0	0	0	0	0	1,335,000	204,807	1,539,807
2042	1,395,000	139,552	1,534,552	0	0	0	0	0	0	1,395,000	139,552	1,534,552
2043	1,460,000	71,365	1,531,365	0	0	0	0	0	0	1,460,000	71,365	1,531,365
<b>Total</b>	<b>\$101,187,000</b>	<b>\$36,552,881</b>	<b>\$137,739,881</b>	<b>(\$17,167,000)</b>	<b>0</b>	<b>(\$17,167,000)</b>	<b>\$17,530,000</b>	<b>\$3,485,622</b>	<b>\$21,015,622</b>	<b>\$101,550,000</b>	<b>\$40,038,502</b>	<b>\$141,588,502</b>

Source: City Manager.

<sup>(1)</sup> Includes debt service due on gross general obligation indebtedness (including general obligation indebtedness of the School Board) prior to issuance of the Notes.

<sup>(2)</sup> The principal amount due in Fiscal Year 2021 includes short-term notes that the City expects to refinance with long-term bonds, using available debt capacity, which it expects will be sufficient for such purposes. See the sections entitled "LOCAL GOVERNMENT SERVICES – Economic Development" and "DEBT ADMINISTRATION – Legal Debt Margin."

<sup>(3)</sup> Prior to or in connection with the issuance of the Notes, the City will have paid in Fiscal Year 2016 \$311,711.80 of accrued interest on the Refunded Notes from sources other than the Notes or other City indebtedness.

<sup>(4)</sup> Does not include Tax Anticipation Notes in the amount of up to \$6,000,000 available to be advanced thereunder, which mature on December 31, 2015.

## Legal Debt Margin

Pursuant to the Constitution of Virginia and the Public Finance Act of 1991, a city in Virginia is authorized to issue bonds and notes secured by a pledge of its full faith and credit. The Constitution and the Public Finance Act of 1991 also limit the indebtedness which may be incurred by cities. This limit is 10% of the assessed valuation of real estate subject to local taxation.

Assessed value of taxable Real Property (January 2015)	\$1,063,675,578
Debt Limit 10% of assessed value	106,367,558
Gross General Obligation Debt issued and outstanding as of August 5, 2015	<u>103,637,000</u>
Legal Debt Margin before Note issue	\$2,730,558
Legal Debt Margin after Note issue	\$2,367,558

Source: City Finance Dept.

## Lease Commitments and Contractual Obligations

The City has entered into various lease commitments and contractual obligations. See Note No. IV of the City's Financial Statements in **Appendix B**.

## Pension Plan

All eligible full-time employees of the City are automatically enrolled in the Virginia Retirement System (the "VRS"), which provides group term life insurance, retirement, disability and death benefits. The City assumed the employees' contribution to the retirement system effective July 1, 1978, except professional employees of the School Board whose contribution is assumed by the Commonwealth. See Note No. V to the Financial Statements in **Appendix B**.

The VRS maintains separate accounts for each participating locality based on contributions made by the locality and the benefits being paid to former employees. The City's contributions are actuarially determined for VRS every two years at rates that provide for both normal and accrued fund liability. The VRS basic calculation method is an entry age normal cost calculation with 40-year amortization of the unfunded accrued liability.

The entry age normal cost method is designed to produce level normal costs over the working lives of the participating employees and to permit the amortization of any unfunded liability over a period of years. The unfunded liability arises because normal costs based on the current benefit formula have not been paid throughout the working lives of current employees. The value of the unpaid normal costs, adjusted for actuarial gains and losses comprises the unfunded liability.

The liability of the City to its employees under the VRS at June 30, 2014, the latest actuarial valuation, is as follows:

Funded Liability	\$80,167,754
Unfunded Liability	<u>25,724,521</u>
Total Liability	<u>\$105,892,275</u>

Source: Virginia Retirement System.

## **Post-Employment Benefits Other Than Pensions**

The Governmental Accounting Standards Board (GASB) adopted Statement No. 45 entitled "Accounting and Financial Reporting by Employers for Post-Retirement Benefits other than Pensions" that requires localities to recognize the post-retirement benefits other than pensions (such as healthcare and related costs) that localities have agreed to provide their retired employees. The City has implemented GASB Statement No. 45 and incorporated such information into its financial statements beginning in fiscal year 2009.

### Post-employment Health Care Benefits (OPEB)

From an accrual accounting perspective, the cost of post-employment healthcare benefits, like the cost of the pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB Statement No. 45 during the year ended June 30, 2009, the City recognizes the cost of post-employment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the City's future cash flows. Recognition of the liability accumulated for prior years will be phased in over 30 years, commencing with the 2009 liability.

### Plan Description

The City, including the School Board, administers a single-employer defined benefit healthcare plan. The plan provides healthcare insurance for eligible retirees and their spouses through the City's group health insurance plan, which covers both active and retired members. Retirees are allowed to continue on health and dental insurance until they reach the age of 65. If the retiree has their spouse covered on the insurance plan, the insurance continues until the spouse reaches the age of 65. The policy rate goes from employee/spouse rates to a single member rate once one of the individuals reaches the age of 65.

A retired employee, who is participating in the employer's medical program is eligible to elect post-employment coverage if: (a) eligible for immediate retirement benefits under VRS (age 50 with 10 years of total service), or (b) permanently, totally disabled and injured in the line of duty and is eligible for immediate disability retirement benefits under VRS.

For the City and School Board, the medical coverage for retirees is as follows: (1) the retiree pays 100% of the employee premium if retired with less than 25 years of service, (2) the retiree pays the employee premium less \$100 monthly credit if retired with 25 or more years of service but less than 30 years of service, (3) the retiree pays the employee premium less \$200 monthly credit if retired with 30 or more years of service but less than 35 years of service or (4) the retiree pays the employee premium less \$300 monthly credit if retired with 35 or more years of service. For all spouses, the retiree pays 100% of the employee's spousal premium. Coverage continues to age 65 for retirees and spouses.

### Funding Policy

The contribution requirements of plan members and the City and School Board are based on pay-as-you go financing requirements with the risk shared equally among the participants.

### Annual OPEB Cost and Net OPEB Obligation

The City's other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (of funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's OPEB obligation.

	<u>City</u>	<u>School Board</u>	<u>Total</u>
Annual Required Contribution (ARC)	\$260,400	\$259,600	\$520,000
Interest on Net OPEB Pension Obligation (NPO)	5,400	5,300	10,700
Adjustment to Annual Required Contribution	<u>(5,400)</u>	<u>(5,300)</u>	<u>(10,700)</u>
Annual OPEB Cost (Expense)	260,400	259,600	520,000
Contributions Made	<u>(137,400)</u>	<u>(217,200)</u>	<u>(354,600)</u>
Increase in Net OPEB Pension Obligation	123,000	42,400	165,400
Net OPEB Obligation – Beginning of Year	<u>689,100</u>	<u>122,900</u>	<u>812,000</u>
Net OPEB Obligation – End of Year	<u>\$812,100</u>	<u>\$165,300</u>	<u>\$977,400</u>

Source: City's audited financial statements.

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2014 is as follows:

<u>Fiscal Year Ending</u>	<u>Cost (ARC)</u>	<u>Percentage Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2014	\$520,000	68.2%	\$977,400

Source: City's audited financial statements.

#### Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$7,035,600.

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

#### Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2012, actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 4.25% investment rate of return and medical and dental trend rate of 9% for pre-Medicare coverage, decreasing at a rate of .5% per year until an ultimate rate of 5.0% is reached. The unfunded accrued actuarial liability is being amortized as a level percentage over 30 years.

**APPENDIX B**

**AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR FISCAL YEAR ENDING  
JUNE 30, 2014**

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## INDEPENDENT AUDITORS' REPORT

The Honorable Members of the City Council  
City of Bristol, Virginia

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the City of Bristol, Virginia (the City), as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

### *Auditors' Responsibility*

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the City of Bristol, Virginia as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund and Community Development Block Grant Fund for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and analyses of funding progress for defined benefit pension plan and other post-employment benefits on pages 6 through 14 and 88 through 89 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bristol, Virginia's basic financial statements. The introductory section, Industrial Development Authority (IDA) discretely presented component unit statements, and other supplemental information section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2014, on our consideration of the City of Bristol, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Bristol, Virginia's internal control over financial reporting and compliance.

*Blackburn, Childers, & Steagall, PC*  
BLACKBURN, CHILDERS & STEAGALL, PLC  
Johnson City, Tennessee

November 26, 2014



**CITY OF BRISTOL, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2014**

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As management of the City of Bristol, Virginia (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2014.

**Financial Highlights**

- The assets of the City exceeded its liabilities at the close of the 2014 fiscal year by \$16,774,548 (*net position*). Of this amount, \$21,040,925 of the Governmental Activities (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position decreased by \$3,444,528 during the current fiscal year. Of this amount \$1,115,884 is attributable to governmental activities and \$2,328,644 is from business-type activities.
- As of the close of the current fiscal year, the City's general fund had an ending fund balance of \$23,533,310.
- The City's total debt increased by \$13,175,509 during the current fiscal year. General Obligation Bonds (bonded debt) increased \$13,140,577. Other Debt which is comprised of capital lease obligations, long term loans, notes payables, and compensated absences increased \$34,932. During the fiscal year the City issued \$15,000,000 in Bond Anticipation Notes for the construction of "The Falls" project. It is anticipated that "The Falls" will be a development of regional impact.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components:

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the financial statements.

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

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

**CITY OF BRISTOL, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2014**

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**Overview of the Financial Statements (Continued)**

**Statement of Net Position** - presents information on all of the City's assets, liabilities and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the whether the financial position of the City is improving or deteriorating.

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

In the Statement of Net Position and the Statement of Activities, the City's fund-based activity is classified as follows:

- **Governmental activities** - Most of the City's basic services are reported here, including general government, judicial administration, public safety, public works, health and welfare, education, parks, recreation and cultural, community development and transit. Property taxes, other local taxes, and federal and state grants finance most of these activities.
- **Business-type activities** - The City's Solid Waste Disposal enterprise is reported here as the City charges fees for services to customers.
- **Component Units** - The City includes three legally separate component units in this report, Bristol Virginia School Board (the School Board), BVU Authority (BVU), and the Industrial Development Authority. Although legally separate, the component units are included as the City is financially accountable for the School Board and appoints the majority of the Boards for BVU and IDA; as such, exclusion could cause the City's financial statements to be misleading. Complete financial statements for the School Board and BVU can be obtained from their Finance Departments. Financial information for the Industrial Development Authority is included in this report.

The government-wide financial statements can be found on pages 15 - 18 of this report.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories.

**Governmental Funds** - Most of the City's basic services are included in governmental funds. Fund based financial statements focus on how resources flow into and out of those funds and the balances left at year-end that are available for future spending. Unlike the government-wide financial statements, governmental fund financial statements provide a detailed short-term overview that helps the reader determine the financial resources that can be spent in the near future.

**CITY OF BRISTOL, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2014**

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**Overview of the Financial Statements (Continued)**

***Governmental Funds (Continued)***

Because the focus of governmental funds is narrower than that of the government-wide financial statements; it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains two governmental funds, the general fund and the community development block grant fund (CDBG). Information for each fund is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund and community development block grant fund.

The basic governmental fund financial statements and the budgetary comparison statements can be found on pages 19 - 26 of this report.

***Proprietary Funds*** - The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for its solid waste disposal fund.

*Proprietary funds* provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the solid waste disposal fund, which is considered to be a major fund.

The basic proprietary fund financial statements can be found on pages 27 - 30 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31 - 87 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide pension and other post-employment benefits to its employees. Required supplementary information can be found on pages 88 - 89 of this report.

The statements referred to earlier in connection with the Industrial Development Authority, a discretely presented component unit, are presented immediately following the required supplementary information. These statements can be found on pages 90 - 91 of this report.

**CITY OF BRISTOL, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2014**

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**Government-Wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, total assets and deferred outflows of resources exceeded total liabilities by \$16,774,548 at the close of the most recent fiscal year.

By far the largest portion of the City's net position reflects its investment in capital assets (e.g., land, buildings, plant in service, machinery, and equipment), less any related debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position, \$1,149,693 represents resources that are subject to external restrictions on how they may be used. These resources are comprised of Commonwealth Attorney Federal Sharing Revenue, unspent General Obligation Bond Money issued for "The Falls" project and funds from the Dental Fund. The remaining balance of *unrestricted net position* may be used to meet the government's ongoing obligations to citizens and creditors. The City's net position decreased by \$3,444,528 in the current fiscal year.

**The City's Net Position  
(in thousands 000's)**

	Governmental Activities		Business-Type Activities		Total	
	2013	2014	2013	2014	2013	2014
Current and Other Assets	\$ 41,006	40,976	483	664	41,489	41,640
Capital Assets	77,627	93,982	25,883	24,875	103,510	118,857
Total Assets	118,633	134,958	26,366	25,539	144,999	160,497
Deferred Outflows of Resources	410	854	739	1,191	1,149	2,045
Long-Term Liabilities Outstanding	52,566	66,567	40,955	40,129	93,521	106,696
Other Liabilities	12,391	16,274	20,017	22,797	32,408	39,071
Total Liabilities	64,957	82,841	60,972	62,926	125,929	145,767
Net Position						
Net Investment in Capital Assets	27,984	30,780	-	-	27,984	30,780
Restricted	642	1,150	-	-	642	1,150
Unrestricted	25,460	21,041	(33,867)	(36,196)	(8,407)	(15,155)
Total Net Position	\$ 54,086	52,971	(33,867)	(36,196)	20,219	16,775

**CITY OF BRISTOL, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2014**

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

	The City's Changes in Net Position (in thousands 000's)					
	Governmental Activities		Business-Type Activities		Total	
	2013	2014	2013	2014	2013	2014
Revenues						
Program Revenue						
Charges for Services	\$ 1,905	1,695	4,838	3,878	6,743	5,573
Operating Grants and Contributions	14,278	15,648	-	-	14,278	15,648
Capital Grants and Contributions	1,371	2,723	-	-	1,371	2,723
General Revenues						
Property Taxes	13,833	14,381	-	-	13,833	14,381
Other Taxes	12,427	12,316	-	-	12,427	12,316
Grants and Contributions						
Not Restricted	3,222	3,327	-	-	3,222	3,327
Unrestricted Investment Earnings	35	31	1	-	36	31
Gain (Loss) on Sale of Property	(84)	78	(9)	(5)	(93)	73
Other	9	194	-	-	9	194
Total Revenues	<u>46,996</u>	<u>50,393</u>	<u>4,830</u>	<u>3,873</u>	<u>51,826</u>	<u>54,266</u>
Expenses						
General Government	3,863	3,645	-	-	3,863	3,645
Judicial Administration	1,447	1,403	-	-	1,447	1,403
Public Safety	13,304	13,658	-	-	13,304	13,658
Public Works	5,826	6,079	-	-	5,826	6,079
Health and Welfare	6,189	6,341	-	-	6,189	6,341
Education	9,370	9,469	-	-	9,370	9,469
Parks, Recreation, and Cultural	3,933	3,817	-	-	3,933	3,817
Community Development	2,791	5,183	-	-	2,791	5,183
Transit	475	507	-	-	475	507
Interest on Long-Term Debt	1,495	1,406	-	-	1,495	1,406
Solid Waste Disposal	-	-	6,799	6,202	6,799	6,202
Total Expenses	<u>48,693</u>	<u>51,508</u>	<u>6,799</u>	<u>6,202</u>	<u>55,492</u>	<u>57,710</u>
Change in Net Position	(1,697)	(1,115)	(1,969)	(2,329)	(3,666)	(3,444)
Net Position -- July 1, as Restated	<u>55,783</u>	<u>54,086</u>	<u>(31,898)</u>	<u>(33,867)</u>	<u>23,885</u>	<u>20,219</u>
Net Position -- June 30	<u>\$ 54,086</u>	<u>52,971</u>	<u>(33,867)</u>	<u>(36,196)</u>	<u>20,219</u>	<u>16,775</u>



**CITY OF BRISTOL, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2014**

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

**Governmental Activities.** Governmental activities decreased the City's net position by \$1,115,884 during the current fiscal year. Revenues from governmental activities totaled \$50,392,546. This was an increase of \$3,396,232 over last year. Operating Grants and Contributions (31%), Property taxes (29%), and Other Local Taxes (24%) were the major sources of revenues. The increase in revenues is mainly attributed to funding received from the Virginia Department of Transportation for the widening of Lee Highway at Exit 7 and pass-thru grants received from the Virginia Tobacco Commission.

Expenses for governmental activities totaled \$51,508,430. This is a \$2,815,650 increase over last year. Public safety (27%), education (18%), health and welfare (12%), public works (12%), community development (10%) comprise the major expenses for the City. The increase in expenses is attributed to costs associated with community development, public safety, and public works.

**Business-type Activities.** Net position of the business-type activities decreased an overall \$2,328,644 from the prior year. The following highlights the activities that impacted this net change:

- The Solid Waste Disposal fund operating revenues decreased \$960,421 over the previous year.
- The Solid Waste Disposal fund operating expenses decreased \$741,055 in comparison with the previous year.
- The Solid Waste Disposal fund non-operating expenses such as interest expense (\$1,479,268) and bond issue costs (\$345,025) contributed to an overall loss.

Program revenues for the business-type funds totaled \$3,877,782 of which 99% was Charges for Services. Expenses totaled \$6,201,423.

**Component Units.** The School Board's total net position decreased by \$474,224. This decrease is attributable to the decrease in current year funding in basically of all areas of revenue for this fiscal year, including the reduction of federal and state funding and reduction in food service revenues which have been attributed to new federal school lunch guidelines. BVU Authority increased its net position by \$5,561,281 in FY 14. Of this approximately, \$2,076,000 was from the Virginia Tobacco Commission and the U.S. Department of Commerce for fiber optic expansion in Southwest Virginia. As a result of the construction in progress at the "The Falls", the Industrial Development Authority net position increased by \$1,170,092.

**CITY OF BRISTOL, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2014**

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**Financial Analysis of the Government's Funds**

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$23,533,310 a decrease of \$3,571,940 in comparison with the prior year. At year end the Governmental Fund did not have an *unassigned fund balance* because it was made up of *nonspendable, restricted or assigned balances*. These classifications indicate that the fund balance is not available for new spending because it primarily represents advances to other funds which are not expected to be collected in the near term.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$(277,620), while total fund balance reached \$23,533,310. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 34% of total general fund expenditures.

The fund balance of the City's general fund decreased by \$3,580,865 during the current fiscal year. This decrease is primarily due to the under collection of Real Estate Taxes, Local Sales Taxes, and Restaurant/Meal Taxes. Also the accrual of project expenses for "The Falls" in the amount of \$2,441,970 resulted in a decrease to fund balance because the revenues were received in FY2015.

**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Net position of the proprietary fund, Solid Waste Disposal, amounted to (\$36,196,097). This was a decrease of \$2,328,644 as compared with a decrease of \$1,969,406 in fiscal year 2013. Overall the Solid Waste Disposal Fund had an operating loss of \$618,420. This was a result of the loss of several landfill customer contracts and a competitive market.

**General Fund Budgetary Highlights**

The difference between the original budget and the final amended budget was approximately an increase of \$20,500,000 which can be briefly summarized as follows:

**CITY OF BRISTOL, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2014**

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**General Fund Budgetary Highlights (Continued)**

- The budget was increased for an appropriation of an aggregate total of Tax Anticipation Notes in the amount of \$5,000,000. The appropriation was approved with the original budget ordinance but was not added until June 2014.
- The budget was increased for the issuance of General Obligation Bonds in the amount of \$15,000,000 to be used for the development of "The Falls" project.
- The budget was increased approximately \$340,000 for grants received from the Virginia Tobacco Commission that were pass thru monies for economic development.

The difference between final amended budget and actual results show noted differences due to the following:

- Actual revenues were less than budgeted revenues by approximately \$6,300,000. This difference is attributed to the budgeting of several capital projects (Intergovernmental Funds) that did not get started in 2013-2014. Also as noted above the collection of Real Estate Taxes, Local Sales Taxes, and Restaurant/Meal Taxes was less than budgeted.
- Actual expenditures were more than budgeted expenditures by approximately \$8,000,000. The primary difference for actual expenses being more than budget is the inclusion of expenditures related to the refunding of multiple bonds that were not included in the budget. See Note III "Excess of Expenditures over Appropriations".
- Other financing sources were more than budgeted by approximately \$9,300,000. This difference is primarily attributable to the inclusion of financing sources related to the refunding of multiple bonds.

**Capital Asset and Debt Administration**

**Capital Assets.** The City's capital assets for its governmental and business-type activities as of June 30, 2014, amounts to \$118,856,595 (net of accumulated depreciation). This total is comprised of land, buildings, machinery and equipment, and infrastructure. The total increase in the City's capital assets for the current fiscal year was \$15,346,733 or 14.83%.

Major capital asset events during the current fiscal year included the following:

- Construction in Progress increased for site development for "The Falls" project in the amount of \$15,341,526.

Additional information on the City's capital assets can be found in Note IV on pages 47- 51 of this report.

**CITY OF BRISTOL, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2014**

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**Capital Asset and Debt Administration (Continued)**

**Long-term Debt.** At the end of the current fiscal year, the City had total debt outstanding of \$106,696,440. Of this amount, \$94,838,532 (89%) comprises debt backed by the full faith and credit of the government.

- The City's total bonded debt increased by \$13,140,577. Other long-term debt which is comprised of debt not bonded, capital lease obligations, long-term loans, notes payables, and compensated absences increased \$34,932.
- The City maintains the states intercept rating of A1 from Moody's for general obligation debt. The underlying rating for the City is A3 from Moody's and A for Standard and Poor's.

Additional information on the City's long-term debt can be found in Note IV on pages 56 - 62 of this report.

**Economic Factors Impacting Next Year's Budget**

- Phase I of the "The Falls" Project will be completed in next year's budget along with the start of Phase II. The entire "Falls" project which consists of four phases has been determined to be a "Development of Regional Impact" (DRI) due to its ability to generate \$5 million in sales annually, attract 1 million visitors and the expectation to create 2,000 permanent jobs.
- Concerns of state funding and how it will impact local government.
- Employee costs including health care, retirement and compensation.
- The production and marketing of landfill methane gas at the Solid Waste Disposal Facility.

**Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Comptroller's Office, City of Bristol, Virginia (276)645-7287.

**CITY OF BRISTOL, VIRGINIA**  
**STATEMENT OF NET POSITION**  
**June 30, 2014**

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	School Board	BVU Authority	Industrial Development Authority
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 2,000,041	187,765	2,187,806	1,937,983	18,418,083	4,186
Investments	-	-	-	482,650	-	-
Receivables, Net of Allowance	12,346,351	389,275	12,735,626	298,040	7,392,368	64,315
Notes Receivable	620,000	-	620,000	-	478,829	-
Other Receivables	-	-	-	-	400,547	-
Due from Component Units	-	87,504	87,504	-	-	-
Due from Primary Government	-	-	-	-	-	147,472
Due from Other Governments	2,174,808	-	2,174,808	1,048,249	2,613,333	-
Due from Others	-	-	-	37,920	-	-
Internal Balances	22,120,731	(22,120,731)	-	-	-	-
Prepays	-	-	-	-	935,793	-
Inventories	102,963	-	102,963	33,633	4,443,733	-
Residential Lots for Sale	437,543	-	437,543	-	-	-
Other Current Assets	-	-	-	-	42,824	-
Restricted Assets						
Cash and Cash Equivalents	1,174,017	-	1,174,017	428,617	1,441,146	-
Investments	-	-	-	266,078	1,557,293	-
Notes Receivable	-	-	-	-	514,094	-
Capital Assets, Net	93,981,924	24,874,671	118,856,595	22,735,415	152,597,343	1,771,087
<b>TOTAL ASSETS</b>	<b>134,958,378</b>	<b>3,418,484</b>	<b>138,376,862</b>	<b>27,268,585</b>	<b>190,835,386</b>	<b>1,987,060</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred Loss on Refunding, Net	853,564	1,191,545	2,045,109	-	5,810,127	-
<b>LIABILITIES</b>						
Accounts Payable and Accrued Liabilities	4,176,354	77,374	4,253,728	826,621	6,579,827	211,787
Accrued Payroll and Related Liabilities	691,944	50,339	742,283	1,574,585	241,202	-
Accrued Interest Payable	608,933	548,665	1,157,598	-	447,654	-
Due to Component Units	40,545	-	40,545	-	-	-
Due to Primary Government	-	-	-	409,861	112,213	-
Due to Other Governmental Units	-	-	-	-	1,317	-
Unearned Revenue	10,694,736	-	10,694,736	6,826	1,560,446	-
Potential Development Credits	-	-	-	-	37,000	-
Customer Deposits Payable	-	-	-	-	1,441,146	-
Assets Held in Agency Capacity	62,092	-	62,092	-	-	-
Long-Term Liabilities						
Due Within One Year	1,708,642	422,442	2,131,084	249,435	2,171,537	-
Due in More Than One Year	64,858,051	39,707,306	104,565,357	3,835,261	46,254,046	-
<b>TOTAL LIABILITIES</b>	<b>82,841,297</b>	<b>40,806,126</b>	<b>123,647,423</b>	<b>6,902,589</b>	<b>58,846,388</b>	<b>211,787</b>

(Continued)

**CITY OF BRISTOL, VIRGINIA**  
**STATEMENT OF NET POSITION**  
**June 30, 2014**

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	School Board	BVU Authority	Industrial Development Authority
NET POSITION						
Net Investment in Capital Assets	30,780,027	-	30,780,027	15,255,071	112,939,156	-
Restricted For						
Commonwealth Attorney	590,963	-	590,963	-	-	-
Capital Projects	478,730	-	478,730	1,096,266	-	-
Dental Fund	80,000	-	80,000	-	-	-
Unrestricted	21,040,925	(36,196,097)	(15,155,172)	4,014,659	24,859,969	1,775,273
<b>TOTAL NET POSITION</b>	<b>\$ 52,970,645</b>	<b>(36,196,097)</b>	<b>16,774,548</b>	<b>20,365,996</b>	<b>137,799,125</b>	<b>1,775,273</b>

See accompanying notes to the financial statements.

**CITY OF BRISTOL, VIRGINIA  
STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2014**

		NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION								
		PROGRAM REVENUES			Primary Government			Component Units		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	School Board	BVU Authority	Industrial Development Authority
Primary Government										
Governmental Activities										
General Government	\$ 3,644,857	393,855	1,928,966	-	(1,322,036)	-	(1,322,036)	-	-	-
Judicial Administration	1,403,143	316,409	814,567	-	(272,167)	-	(272,167)	-	-	-
Public Safety	13,658,662	118,852	2,944,854	970,415	(9,624,541)	-	(9,624,541)	-	-	-
Public Works	6,078,768	724	4,254,945	1,699,823	(123,276)	-	(123,276)	-	-	-
Health and Welfare	6,340,817	-	4,739,053	-	(1,601,764)	-	(1,601,764)	-	-	-
Education	9,468,882	-	-	-	(9,468,882)	-	(9,468,882)	-	-	-
Parks, Recreation, and Cultural	3,817,264	832,374	2,676	42,563	(2,939,651)	-	(2,939,651)	-	-	-
Community Development	5,182,711	1,476	576,219	10,000	(4,595,016)	-	(4,595,016)	-	-	-
Transit	506,937	31,164	386,654	-	(89,119)	-	(89,119)	-	-	-
Interest on Long-Term Debt	1,406,389	-	-	-	(1,406,389)	-	(1,406,389)	-	-	-
Total Governmental Activities	<u>51,508,430</u>	<u>1,694,854</u>	<u>15,647,934</u>	<u>2,722,801</u>	<u>(31,442,841)</u>	<u>0</u>	<u>(31,442,841)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Business-type Activities										
Solid Waste Disposal	6,201,423	3,877,782	-	-	-	(2,323,641)	(2,323,641)	-	-	-
Total Business-type Activities	<u>6,201,423</u>	<u>3,877,782</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2,323,641)</u>	<u>(2,323,641)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Primary Government	<u>\$ 57,709,853</u>	<u>5,572,636</u>	<u>15,647,934</u>	<u>2,722,801</u>	<u>(31,442,841)</u>	<u>(2,323,641)</u>	<u>(33,766,482)</u>	<u>0</u>	<u>0</u>	<u>0</u>

(Continued)

**CITY OF BRISTOL, VIRGINIA  
STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2014**

Functions/Programs	Expenses	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION								
		PROGRAM REVENUES			Primary Government			Component Units		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	School Board	BVU Authority	Industrial Development Authority
Component Units										
School Board	\$ 27,287,910	583,340	10,211,471	138,872			(16,354,227)	-	-	
BVU Authority	80,460,639	84,070,710	-	2,076,268			-	5,686,339	-	
Industrial Development Authority	1,167,856	-	-	-			-	-	(1,167,856)	
Total Component Units	<u>\$108,916,405</u>	<u>84,654,050</u>	<u>10,211,471</u>	<u>2,215,140</u>			<u>(16,354,227)</u>	<u>5,686,339</u>	<u>(1,167,856)</u>	
General Revenues										
Property Taxes					14,380,655	-	14,380,655	-	-	-
Other Taxes					12,316,335	-	12,316,335	-	-	-
State Aid					-	-	-	6,297,882	-	-
Payments from Primary Government					-	-	-	9,381,000	-	2,085,698
Grants and Contributions Not Restricted to Specific Programs					3,327,544	-	3,327,544	-	-	-
Unrestricted Investment Earnings					31,149	99	31,248	47,755	86,004	152,250
Gain (Loss) on Sale of Property					77,968	(5,102)	72,866	17,019	34,065	-
Insurance Recoveries					193,306	-	193,306	-	-	-
Other					-	-	-	136,347	(245,127)	100,000
Total General Revenues					<u>30,326,957</u>	<u>(5,003)</u>	<u>30,321,954</u>	<u>15,880,003</u>	<u>(125,058)</u>	<u>2,337,948</u>
Change in Net Position					<u>(1,115,884)</u>	<u>(2,328,644)</u>	<u>(3,444,528)</u>	<u>(474,224)</u>	<u>5,561,281</u>	<u>1,170,092</u>
Net Position, Beginning					54,086,529	(33,867,453)	20,219,076	20,840,220	132,958,688	605,181
Prior Period Adjustment					-	-	-	-	(720,844)	-
Net Position, Beginning - Restated					<u>54,086,529</u>	<u>(33,867,453)</u>	<u>20,219,076</u>	<u>20,840,220</u>	<u>132,237,844</u>	<u>605,181</u>
Net Position, Ending					<u>\$ 52,970,645</u>	<u>(36,196,097)</u>	<u>16,774,548</u>	<u>20,365,996</u>	<u>137,799,125</u>	<u>1,775,273</u>

See accompanying notes to the financial statements.



**CITY OF BRISTOL, VIRGINIA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2014**

	General Fund	Community Development Block Grant Fund	Total Governmental Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 2,000,041	-	2,000,041
Cash and Cash Equivalents, Restricted	1,174,017	-	1,174,017
Receivables, Net	12,183,922	162,429	12,346,351
Due from Other Governmental Units	2,174,808	-	2,174,808
Inventories	102,963	-	102,963
Residential Lots for Sale	437,543	-	437,543
Advances to Other Funds	22,120,731	-	22,120,731
Notes Receivable	620,000	-	620,000
<b>TOTAL ASSETS</b>	<b>\$ 40,814,025</b>	<b>162,429</b>	<b>40,976,454</b>
<b>LIABILITIES</b>			
Accounts Payable and Accrued Liabilities	\$ 4,176,354	-	4,176,354
Accrued Payroll and Related Liabilities	691,944	-	691,944
Due to Component Units	40,545	-	40,545
Unearned Revenue	10,694,736	-	10,694,736
Assets Held in Agency Capacity	62,092	-	62,092
<b>TOTAL LIABILITIES</b>	<b>15,665,671</b>	<b>0</b>	<b>15,665,671</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue	1,615,044	162,429	1,777,473
<b>FUND BALANCES</b>			
Nonspendable			
Inventories	102,963	-	102,963
Residential Lots for Sale	437,543	-	437,543
Advances to Other Funds	22,120,731	-	22,120,731
Restricted For			
Commonwealth Attorney	590,963	-	590,963
Capital Projects	478,730	-	478,730
Dental Trust Fund	80,000	-	80,000
Unassigned	(277,620)	-	(277,620)
<b>TOTAL FUND BALANCES</b>	<b>23,533,310</b>	<b>0</b>	<b>23,533,310</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 40,814,025</b>	<b>162,429</b>	<b>40,976,454</b>

See accompanying notes to the financial statements.

**CITY OF BRISTOL, VIRGINIA**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**  
**June 30, 2014**

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

Fund Balances - Total Governmental Funds	\$ 23,533,310
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	93,981,924
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable in the funds.	1,777,473
Interest on long-term debt is not accrued in the funds as in the government-wide statements.	(608,933)
Long-term liabilities, including bonds payable and related premiums, capital leases, and other post-employment benefits are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(65,713,129)</u>
Net Position of Governmental Activities	<u>\$ 52,970,645</u>

See accompanying notes to the financial statements.

**CITY OF BRISTOL, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Fiscal Year Ended June 30, 2014**

	General Fund	Community Development Block Grant Fund	Total Governmental Funds
<b>REVENUES</b>			
General Property Taxes	\$ 15,120,260	-	15,120,260
Other Local Taxes	12,316,335	-	12,316,335
Intergovernmental	18,536,059	217,859	18,753,918
Charges for Services	992,034	-	992,034
Revenue from Use of Property Permits, Privilege Fees, and Regulatory Licenses	529,654	-	529,654
Fines and Forfeitures	69,535	-	69,535
Investment Earnings	196,285	-	196,285
Other	11,149	-	11,149
	1,413,866	-	1,413,866
<b>TOTAL REVENUES</b>	<b>49,185,177</b>	<b>217,859</b>	<b>49,403,036</b>
<b>EXPENDITURES</b>			
Current			
General Government	3,127,195	-	3,127,195
Judicial Administration	1,284,285	-	1,284,285
Public Safety	13,378,990	-	13,378,990
Public Works	5,191,466	-	5,191,466
Health and Welfare	6,359,553	-	6,359,553
Education	9,281,682	-	9,281,682
Parks, Recreation, and Cultural	3,544,177	-	3,544,177
Community Development	2,261,353	208,934	2,470,287
Transit	474,236	-	474,236
Capital Projects	19,906,730	-	19,906,730
Debt Service			
Principal Retirement	15,404,710	-	15,404,710
Interest and Fiscal Charges	1,896,466	-	1,896,466
Bond Issue Costs	231,502	-	231,502
<b>TOTAL EXPENDITURES</b>	<b>82,342,345</b>	<b>208,934</b>	<b>82,551,279</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(33,157,168)	8,925	(33,148,243)

(Continued)

**CITY OF BRISTOL, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Fiscal Year Ended June 30, 2014**

	General Fund	Community Development Block Grant Fund	Total Governmental Funds
<b>OTHER FINANCING SOURCES (USES)</b>			
Bond Anticipation Notes Issued	15,000,000	-	15,000,000
Tax Anticipation Notes Issued	7,600,000	-	7,600,000
Refunding Bonds Issued	6,156,450	-	6,156,450
Capital Lease	496,408	-	496,408
Insurance Recoveries	193,306	-	193,306
Sale of Capital Assets	130,139	-	130,139
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>29,576,303</b>	<b>0</b>	<b>29,576,303</b>
Net Change in Fund Balances	(3,580,865)	8,925	(3,571,940)
FUND BALANCES, JULY 1, 2013	27,114,175	(8,925)	27,105,250
FUND BALANCES, JUNE 30, 2014	<u>\$ 23,533,310</u>	<u>0</u>	<u>23,533,310</u>

See accompanying notes to the financial statements.

**CITY OF BRISTOL, VIRGINIA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**For the Fiscal Year Ended June 30, 2014**

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

Net Change in Fund Balances - Total Governmental Funds	\$ (3,571,940)
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which new capital assets, \$17,800,502 exceed depreciation (\$2,274,024) in the current period.	15,526,478
The net effect of various transactions involving capital assets (contributions and sales) is to decrease net position.	996,678
Recognition of the allocation of capital assets to the discretely presented component unit - School Board equal to the debt service payment net of accumulated depreciation.	(168,000)
Revenues in the funds are recorded when they provide current financial resources to the government; while in the Statement of Activities, those revenues were recorded at the time when they were considered earned.	(330,613)
The change in accrued interest expense reported in the Statement of Activities does not require the use of current financial resources. Therefore, it is not reported as an expenditure in the governmental funds.	(11,852)
Governmental funds report the effect of premiums, discounts, and similar items similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	811,207
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net position.	(14,370,270)
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.	<u>2,428</u>
Change in Net Position of Governmental Activities	<u><u>\$ (1,115,884)</u></u>

See accompanying notes to the financial statements.

**CITY OF BRISTOL, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**For the Fiscal Year Ended June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
General Property Taxes	\$ 15,543,990	15,543,990	15,120,260	(423,730)
Other Local Taxes	13,940,000	13,940,000	12,316,335	(1,623,665)
Intergovernmental	22,822,409	23,032,409	18,536,059	(4,496,350)
Charges for Services	1,145,000	1,145,000	992,034	(152,966)
Revenue from Use of Property Permits, Privilege Fees, and Regulatory Licenses	309,920	309,920	529,654	219,734
Fines and Forfeitures	77,500	77,500	69,535	(7,965)
Investment Earnings	231,079	231,079	196,285	(34,794)
Other	12,000	12,000	11,149	(851)
	<u>1,243,173</u>	<u>1,252,236</u>	<u>1,413,866</u>	<u>161,630</u>
<b>TOTAL REVENUES</b>	<u>55,325,071</u>	<u>55,544,134</u>	<u>49,185,177</u>	<u>(6,358,957)</u>
<b>EXPENDITURES</b>				
<b>Current</b>				
General Government	2,982,818	2,982,818	3,127,195	(144,377)
Judicial Administration	1,195,330	1,195,330	1,284,285	(88,955)
Public Safety	13,135,617	13,160,454	13,378,990	(218,536)
Public Works	4,758,633	4,923,145	5,191,466	(268,321)
Health and Welfare	7,198,096	7,198,096	6,359,553	838,543
Education	9,259,682	9,281,682	9,281,682	-
Parks, Recreation, and Cultural	3,505,025	3,515,842	3,544,177	(28,335)
Community Development	1,390,257	1,730,257	2,261,353	(531,096)
Transit	535,091	535,091	474,236	60,855
Capital Projects	6,114,000	21,114,000	19,906,730	1,207,270
<b>Debt Service</b>				
Principal Retirement	1,263,400	6,263,400	15,404,710	(9,141,310)
Interest and Fiscal Charges	1,643,601	1,643,601	1,896,466	(252,865)
Bond Issue Costs	6,500	6,500	231,502	(225,002)
<b>TOTAL EXPENDITURES</b>	<u>52,988,050</u>	<u>73,550,216</u>	<u>82,342,345</u>	<u>(8,792,129)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,337,021</u>	<u>(18,006,082)</u>	<u>(33,157,168)</u>	<u>(15,151,086)</u>

(Continued)

**CITY OF BRISTOL, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**For the Fiscal Year Ended June 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Transfers In/Out	(2,338,021)	(2,338,021)	-	2,338,021
Bond Anticipation Notes Issued	-	15,000,000	15,000,000	-
Tax Anticipation Notes Issued	-	5,000,000	7,600,000	2,600,000
Refunding Bonds Issued	-	-	6,156,450	6,156,450
Capital Lease	-	-	496,408	496,408
Insurance Recoveries	-	174,636	193,306	18,670
Sale of Capital Assets	1,000	119,467	130,139	10,672
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(2,337,021)</b>	<b>17,956,082</b>	<b>29,576,303</b>	<b>11,620,221</b>
Net Change in Fund Balance	-	(50,000)	(3,580,865)	(3,530,865)
FUND BALANCE, JULY 1, 2013	-	-	27,114,175	27,114,175
FUND BALANCE, JUNE 30, 2014	<u>\$ 0</u>	<u>(50,000)</u>	<u>23,533,310</u>	<u>23,583,310</u>

See accompanying notes to the financial statements.

**CITY OF BRISTOL, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL**  
**COMMUNITY DEVELOPMENT BLOCK GRANT FUND**  
**For the Fiscal Year Ended June 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ -	390,921	217,859	(173,062)
TOTAL REVENUES	<u>0</u>	<u>390,921</u>	<u>217,859</u>	<u>(173,062)</u>
EXPENDITURES				
Current				
Community Development	-	390,921	208,934	181,987
TOTAL EXPENDITURES	<u>0</u>	<u>390,921</u>	<u>208,934</u>	<u>181,987</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	8,925	8,925
FUND BALANCE, JULY 1, 2013	<u>-</u>	<u>-</u>	<u>(8,925)</u>	<u>(8,925)</u>
FUND BALANCE, JUNE 30, 2014	<u>\$ 0</u>	<u>0</u>	<u>0</u>	<u>0</u>

See accompanying notes to the financial statements.



**CITY OF BRISTOL, VIRGINIA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**June 30, 2014**

	Business-type Activities - Enterprise Fund	
	Solid Waste Disposal Fund	Total Enterprise Fund
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents	\$ 187,765	187,765
Accounts Receivable, Net	389,275	389,275
Due from Component Units	87,504	87,504
Total Current Assets	<u>664,544</u>	<u>664,544</u>
Noncurrent Assets		
Capital Assets, Net	<u>24,874,671</u>	<u>24,874,671</u>
<b>TOTAL ASSETS</b>	<u>25,539,215</u>	<u>25,539,215</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Loss on Refunding, Net	<u>1,191,545</u>	<u>1,191,545</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts Payable and Accrued Liabilities	77,374	77,374
Accrued Payroll and Related Liabilities	50,339	50,339
Accrued Interest Payable	548,665	548,665
Bonds and Leases Payable	331,319	331,319
Compensated Absences Payable	91,123	91,123
Total Current Liabilities	<u>1,098,820</u>	<u>1,098,820</u>
Long-Term Liabilities		
Advances from Other Funds	22,120,731	22,120,731
Compensated Absences Payable	54,852	54,852
Bonds and Leases Payable, Net of Unamortized Bond Premium	33,124,784	33,124,784
Landfill Closure Costs	6,527,670	6,527,670
Total Long-Term Liabilities	<u>61,828,037</u>	<u>61,828,037</u>
<b>TOTAL LIABILITIES</b>	<u>62,926,857</u>	<u>62,926,857</u>
<b>NET POSITION</b>		
Unrestricted	<u>(36,196,097)</u>	<u>(36,196,097)</u>
<b>TOTAL NET POSITION</b>	<u>\$ (36,196,097)</u>	<u>(36,196,097)</u>

See accompanying notes to the financial statements.

**CITY OF BRISTOL, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUND**  
**For the Fiscal Year Ended June 30, 2014**

	Business-type Activities - Enterprise Fund	
	Solid Waste Disposal Fund	Total Enterprise Fund
<b>OPERATING REVENUES</b>		
Charges for Services, Net Sales	\$ 3,835,522 42,260	3,835,522 42,260
<b>TOTAL OPERATING REVENUES</b>	<u>3,877,782</u>	<u>3,877,782</u>
<b>OPERATING EXPENSES</b>		
Landfill Closure and Post Closure Care	10,074	10,074
Administrative and General	3,168,961	3,168,961
Depreciation	1,317,167	1,317,167
<b>TOTAL OPERATING EXPENSES</b>	<u>4,496,202</u>	<u>4,496,202</u>
Operating Income (Loss)	<u>(618,420)</u>	<u>(618,420)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest Income	99	99
Interest Expense	(1,479,268)	(1,479,268)
Amortization of Bond Premium	119,072	119,072
Bond Issue Costs	(345,025)	(345,025)
Gain (Loss) on Disposal of Assets	(5,102)	(5,102)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>(1,710,224)</u>	<u>(1,710,224)</u>
Change in Net Position	(2,328,644)	(2,328,644)
NET POSITION, JULY 1, 2013	<u>(33,867,453)</u>	<u>(33,867,453)</u>
NET POSITION, JUNE 30, 2014	<u>\$ (36,196,097)</u>	<u>(36,196,097)</u>

See accompanying notes to the financial statements.

**CITY OF BRISTOL, VIRGINIA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
For the Fiscal Year Ended June 30, 2014**

	Business-type Activities - Enterprise Fund	
	Solid Waste Disposal Fund	Total Enterprise Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Customers and Users	\$ 3,802,619	3,802,619
Payments to Suppliers	(1,670,428)	(1,670,428)
Payments to Employees	(1,506,176)	(1,506,176)
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<b>626,015</b>	<b>626,015</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from Sale of Equipment	9,275	9,275
Bond Issue Costs	(345,025)	(345,025)
Purchase of Capital Assets	(94,996)	(94,996)
Net Proceeds from Bond Debt	1,205,800	1,205,800
Principal Paid on Capital Debt	(1,991,046)	(1,991,046)
Interest Paid on Capital Debt	(2,166,370)	(2,166,370)
Interfund Loan Receipts	2,862,341	2,862,341
<b>NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(520,021)</b>	<b>(520,021)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received	99	99
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<b>99</b>	<b>99</b>
Net Increase (Decrease) in Cash and Cash Equivalents	106,093	106,093
CASH AND CASH EQUIVALENTS, BEGINNING OF FISCAL YEAR	81,672	81,672
CASH AND CASH EQUIVALENTS, END OF FISCAL YEAR	<b>\$ 187,765</b>	<b>187,765</b>

(Continued)

**CITY OF BRISTOL, VIRGINIA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
For the Fiscal Year Ended June 30, 2014**

	Business-type Activities - Enterprise Fund	
	Solid Waste Disposal Fund	Total Enterprise Fund
RECONCILIATION OF OPERATING INCOME (LOSS)		
TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (618,420)	(618,420)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:		
Depreciation Expense	1,317,167	1,317,167
(Increase) Decrease in Net Receivables	(69,481)	(69,481)
(Increase) Decrease in Due from Component Units	(5,682)	(5,682)
Increase (Decrease) in Accounts Payable	8,736	8,736
Increase (Decrease) in Accrued Liabilities	10,074	10,074
Increase (Decrease) in Accrued Payroll and Related Liabilities	26,983	26,983
Increase (Decrease) in Compensated Absences Payable	(43,362)	(43,362)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 626,015</u>	<u>626,015</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Asset Acquisitions Financed through Capital Leases	<u>\$ 228,124</u>	<u>228,124</u>

See accompanying notes to the financial statements.

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Financial Reporting Entity**

**Primary Government**

The City of Bristol, Virginia (the City) was founded in 1890. It is a political subdivision of the Commonwealth of Virginia operating under the Council-Manager form of government. The Council consists of a mayor, vice mayor and three other Council members. The City is not part of a county and has taxing powers subject to state-wide restrictions and limits. The City is the primary government of the reporting entity.

The City provides a full range of municipal services including police and fire, sanitation, health and social services, public improvements, planning and zoning, general administrative services, economic development, education, landfill, emergency 911 communications, and recreational services.

**Discretely Presented Component Units**

The City of Bristol, Virginia School Board (the School Board) is a legally separate entity, which operates elementary schools, a middle school, and a high school for students residing in the City. The citizens elect School Board members. The City Council approves the School Board's operational and capital budgets, and must approve the issuance of bonded debt. Based on these facts, the City reports the School Board as a discretely presented component unit. Complete financial statements of the City of Bristol, Virginia School Board may be obtained at 220 Lee Street, Bristol, Virginia 24201.

Bristol Virginia Public Schools Education Foundation (the Foundation), a Virginia non-stock corporation, is an independent community-based organization, formed for charitable and educational purposes, as defined under 501(c)(3) of the Internal Revenue Code of 1986. Based on the Foundation's relationship with the School Board, it is reported as a discretely presented component unit of the School Board. The Foundation issues separate audited combined financial statements and may be obtained from the School Board's administrative office at 220 Lee Street, Bristol, Virginia 24201. The combined financial statements include the Foundation and six other entities that are related through common ownership and/or control. The Foundation's fiscal year end is December 31. However, the year end is treated consistently each year for reporting in the School Board's financial statements.

BVU Authority (BVU) was created from the separately managed and financed division of the City of Bristol, Virginia, formerly known as Bristol Virginia Utilities, by an act of the General Assembly of the Commonwealth of Virginia. BVU provides electric, water, wastewater, and OptiNet services to Bristol, Virginia. The City appoints a voting majority of BVU's Board (two City Council members and three other members); therefore, BVU is reported as a discretely presented component unit. Complete financial statements may be obtained from BVU Authority at 15022 Lee Highway, Bristol, Virginia 24202.

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**A. Financial Reporting Entity (Continued)**

**Discretely Presented Component Units (Continued)**

The Industrial Development Authority (the IDA) of the City was established to promote industry and develop trade within the City. The IDA is governed by a Board of Directors appointed by the City Council and due to their close relationship, the City reports the IDA as a discretely presented component unit. The IDA is authorized to acquire, own, lease and dispose of properties to the extent that such activities foster and stimulate industrial development.

The following entities are excluded from the accompanying financial statements:

**Joint Venture**

*Jointly-Owned Wastewater Facility*

BVU, in conjunction with the City of Bristol, Tennessee, established a jointly-owned wastewater facility located in Bristol, Tennessee. The two are joint equitable owners of the facility. A six member Sewer Oversight Committee has advisory authority with respect to the facility. Each equitable owner appoints three members to the Oversight Committee. Refer to Note V.E for additional information.

*Jointly-Owned Public Library*

The City, along with the City of Bristol, Tennessee, established a jointly-owned public library located in Bristol, Virginia. Each City Council appoints five members to the Library Board, on which there is one at-large member appointed by the Board itself. Each locality provides equal funding to the Library annually and each has fifty percent ownership of the capital assets which are included in capital assets in the government-wide statements. During the fiscal year, the City contributed \$694,968 to fund operations of the Library. Financial Statements of the Bristol Public Library can be obtained from the Library, located at 701 Goode Street, Bristol, Virginia 24201.

**Related Organizations**

*Jointly-Governed Regional Airport*

The City, in conjunction with Bristol, Tennessee, Kingsport, Tennessee, Johnson City, Tennessee, Washington County, Tennessee, and Sullivan County, Tennessee jointly govern the Regional Airport located in Sullivan County, Tennessee. The City appoints one member to the Airport Board of Commissioners. Complete financial statements of the Airport Authority can be obtained from its corporate office.

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**A. Financial Reporting Entity (Continued)**

**Related Organizations (Continued)**

*Highlands Juvenile Detention Center*

The Highlands Juvenile Detention Center Commission (the Commission) was organized in 1984 and is a jointly-governed organization by the City, the counties of Washington, Smyth, Lee, Dickenson, Tazewell, Wise, Russell, Buchanan and Scott and the City of Norton. One member of the Commission Board is appointed by City Council; however, City Council is not financially accountable for the Commission.

*Bristol Redevelopment and Housing Authority*

Under the Code of Virginia, the Commonwealth of Virginia (Commonwealth) created in each city and county a redevelopment and housing authority which is a separate political Sub-Board of the Commonwealth. The Bristol Redevelopment and Housing Authority (the BRHA) owns and operates federal and state-assisted housing projects for low income families and administers urban development projects. Commissioners of the BRHA are appointed by City Council; however, City Council is not financially accountable for BRHA.

**Other Boards and Commissions**

City Council appoints certain members of various boards and commissions, which are advisory in nature; however, City Council is not financially accountable for these organizations.

**B. Government-Wide and Fund Financial Statements**

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

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

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they become both measurable and available. Accordingly, real and personal property taxes are recorded as deferred revenues and receivables when billed, net of allowances of uncollectible amounts. Real and personal property taxes recorded at June 30, and received within the first 60 days after fiscal year end are included in tax revenues, with the related amount reduced from deferred revenues. Sales and utility taxes, which are collected by the Commonwealth or utility companies and subsequently remitted to the City, are recognized as revenues and amounts receivable when the underlying exchange transaction occurs, which is generally one or two months preceding receipt by the City. Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting of federal, state and other grants for the purpose of specific funding are recognized when earned or at the time of the specific reimbursable expenditure. Revenues from general-purpose grants are recognized in the period in which the grant applies. All other revenue items are considered to be measurable and available only when the government receives cash.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this rule include (1) accumulated unpaid vacation leave, sick leave, and other employee amounts, which are recorded as compensated absences, are recognized when paid and (2) principal and interest payments on general long-term debt, both of which are recognized when paid.

The City reports two major governmental funds:

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

The *community development block grant fund* accounts for funds received and expended under the federal Community Development Entitlement Grant.



**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

The City reports the following major proprietary fund:

The *solid waste disposal fund* accounts for the operations of the landfill and waste collection system.

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

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

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

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity**

**1. Deposits and Investments**

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

Investments for the School Board and BVU, discretely presented component units, are reported at fair value.

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)**

**2. Receivables and Payables**

The two major sources of property taxes are described below:

*Real Estate*

The City levies real estate taxes on all real estate within its boundaries, except that exempted by statute, at a rate enacted by City Council on the assessed value of property (except public utility property) as determined by the Commissioner of Revenue of the City of Bristol, Virginia. Public utility property is assessed by the Commonwealth. The tax rate is \$1.01 per \$100 of assessed value. For the 2014 tax year, the real estate and public utility property tax rate is \$1.07 per \$100 assessed value.

Property taxes are levied as of January 1 on property assessed as of the same date. The tax levy is divided into two billings: The first billing, mailed in June is one-half of the estimate of the current year's levy based on the prior year's taxes. The remaining one-half is adjusted to the current year's actual levy and mailed in October. The billings are considered past due 60 days after the respective tax billing date, at which time the applicable property is subject to lien, and penalties and interest are assessed. Property taxes recognized as receivable before the period of revenue recognition have been reported as unearned revenues.

*Personal Property*

The City levies personal property taxes on motor vehicles, boats, aircraft, mobile homes and tangible business property. Personal property is assessed each year as of January 1, with payment due the following December 5. The tax rate is \$7.00 per \$100 assessed value multiplied by 30% of the property's assessed value.

**Rehabilitation Loans**

Rehabilitation loans were made by the Community Development Block Grant Fund in prior fiscal years in conjunction with the Department of Housing and Urban Development to qualifying low-income homeowners to stimulate renovation of urban neighborhoods.

**Allowance for Uncollectible Accounts**

The City and BVU provides an allowance for uncollectible accounts using historical collection data and specific account analysis. Trade and property tax receivables are shown net of allowances for uncollectible accounts.

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)**

**3. Inventories and Prepays**

Inventory of governmental fund types is recorded at cost (determined on a first-in, first-out basis) except for where usability is affected by physical deterioration or obsolescence, and for commodities received from the federal government which are valued at market. Inventory in the general fund consists of expendable supplies held for consumption. The cost is recorded as expenditure at the time of consumption. Governmental fund type inventories are offset by fund balance reserves, which indicate that they do not constitute available expendable resources. Inventory of some proprietary fund types is valued at the lower of cost (first-in, first-out) or market.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements and on the fund level for the proprietary fund. The payments are being recorded as expenditures on the fund level for the governmental funds.

**4. Restricted Assets**

Restricted cash and cash equivalents of the City and School Board consist primarily of funds restricted by Commonwealth or other legislation for specified purposes and unspent bond proceeds.

Restricted cash and cash equivalents for BVU consist primarily of customer deposits, reserve accounts related to revenue and refunding bonds, and amounts for the costs of improvements.

**5. 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 City and BVU as assets with an initial, individual cost of more than \$5,000 and \$1,000, respectively, and an estimated useful life in excess of one and three years, respectively. Capital assets are defined by the School Board as assets with an initial, individual cost of more than \$1,000, with the exception of textbooks, library books and certain technological equipment which are considered a capital asset regardless of cost. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)**

**5. Capital Assets (Continued)**

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Landfill development costs are depreciated based on percentage of capacity filled. Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives.

Utility Systems	25-50 years
Golf Course	25 years
Buildings	8-50 years
Equipment, Machinery and Vehicles	3-25 years
Public Domain Infrastructure	20-25 years
Fiber	25 years

*Capitalization of Interest*

BVU capitalizes interest costs incurred on funds used to construct property, plant, and equipment. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest cost capitalized was \$219,548 in fiscal year 2014.

*School Board Capital Assets and Related Debt Reporting*

Local governments in Virginia now have a "tenancy in common" with the School Board whenever the locality incurs a financial obligation for school property which is payable over more than one fiscal year. The primary government reports this debt in its financial statements. In order to match the capital assets with the related debt, the legislation permits the primary government to report the portion of the school property related to the outstanding financial obligation. As principal is repaid, capital assets equal to the amount of principal debt reduction will be removed from the primary government's financial statements and reported in the School Board's financial statements. The School Board retains authority and responsibility over the operation and control of this property.

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)**

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

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense / expenditure) until then. The City and BVU only have one item that qualifies for reporting in this category. It is the deferred loss on bond refunding reported in the government-wide and proprietary fund statements of net position. Deferred bond refunding costs result from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has one type of item, which arises only under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from various sources: property taxes not collected within 60 days of fiscal year end and funds received in advance for services to be provided subsequent to fiscal year end, including membership fees to Clear Creek golf course. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**7. Compensated Absences**

The City, BVU, and the School Board have 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 fund financial statements. A liability for these amounts is reported in governmental funds when the leave is due and payable.

**8. Long-Term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)**

**8. Long-Term Obligations (Continued)**

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

**9. Net Position**

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

**10. Fund Equity**

In the fund financial statements, governmental funds report the following classifications of fund balance:

Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. All amounts reported as nonspendable at June 30, 2014 by the City are nonspendable in form. The City has not reported any amounts that are legally or contractually required to be maintained intact.

Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

Committed – includes amounts that can only be used for specific purposes determined by a formal action of the government’s highest level of decision-making authority. The City Council is the highest level of decision-making authority for the government that can, by adoption of an ordinance, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)**

**10. Fund Equity (Continued)**

Assigned – includes amounts that the City intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Amounts can be assigned by the City Council.

Unassigned – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the general fund.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first, unless legal requirements disallow it or unrestricted funds will be lost if not utilized. When expenditures are incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City has provided otherwise in its commitment or assignment actions.

**11. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**12. Other Post-Employment Benefits Than Pensions (OPEB)**

GASB Statement No. 45, *Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*, establishes standards for the measurement, recognition and display of OPEB expense and related liabilities in the financial statements. The cost of post-employment health care benefits should be associated with the periods in which the cost occurs, rather than in the future years when it will be paid. The City recognizes the cost of post-employment healthcare in the fiscal year when the employee services are received, reports the accumulated liability from prior fiscal years, and provides information useful in assessing potential demands on the City's future cash flows. Recognition of the liability accumulated from prior fiscal years will be phased in over 30 years, commencing with the 2009 liability. The OPEB disclosure is documented in Note V.A.

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE II - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**A. Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position**

The governmental funds balance sheet includes reconciliation between *fund balances-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable and related premiums, capital leases, and other post-employment benefits are not due and payable in the current period and, therefore, are not reported in the funds.” The details of this \$(65,713,129) difference are as follows:

Bonds Payable	\$ (21,320,700)
Less: Deferred charge on refunding (net of amortization of \$66,403 recorded as interest expense)	853,564
Add: Bond premium (net of amortization of \$60,954)	(438,356)
Bond Anticipation Notes	(40,000,000)
Literary Fund Loans	(960,000)
Capital Lease Obligations	(1,336,405)
Other Post-Employment Benefits	(812,100)
Compensated Absences	<u>(1,699,132)</u>
Net adjustment to reduce <i>fund balances-total governmental funds</i> to arrive at <i>net position-governmental activities</i>	<u>\$ (65,713,129)</u>



**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE II - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**  
**(CONTINUED)**

**B. Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net change in fund balances-total governmental funds* and *change in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “The net effect of various transactions involving capital assets (i.e., contributions and sales) is to decrease net position.” The details of this \$996,678 difference are as follows:

Donations of capital assets received increase net position in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	\$ 1,048,849
The statement of activities reports an adjustment to expenses arising from the disposal of capital assets. Conversely, governmental funds do not report any gain or loss on disposals of capital assets.	<u>(52,171)</u>
Net adjustment to increase <i>net change in fund balances - total governmental funds</i> to arrive at <i>change in net position of governmental activities</i>	<u>\$ 996,678</u>

Another element of that reconciliation states that “Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities”. The details of this \$811,207 difference are as follows:

Deferred Charges on Refunding Amortization	\$ (296,066)
Deferred Charges on Refunding	739,836
Bond Premiums Amortization	<u>367,437</u>
Net adjustment to increase <i>net change in fund balances - total governmental funds</i> to arrive at <i>change in net position of governmental activities</i> .	<u>\$ 811,207</u>

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE III - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

The City's budget is presented in accordance with accounting principles generally accepted in the United States of America. The following procedures are used by the City in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to City Council a proposed operating and capital budget for the fiscal year commencing the following July 1, which includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the fund level. Appropriations for each fund can be revised only by City Council. The City Manager is authorized to transfer amounts within general government departments.
5. Formal budgetary integration is employed as a management control device for the general fund.
6. All budgets are adopted on a basis consistent with U.S. generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30.
8. All budgetary data presented is the revised budget as of June 30.

**Excess of Expenditures Over Appropriations**

For the fiscal year ended June 30, 2014, expenditures exceeded appropriations in the general fund by \$8,792,129 due to the refunding of multiple bonds not being included in the budget. However, bond proceeds for the same refunding were also not budgeted.

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE IV - DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

All cash of the City and IDA is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance.

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

Neither the City nor IDA has any formally adopted deposit and investment policies that limit allowable deposits or investments.

**B. Receivables**

Receivables for the City's individual major funds and discretely presented component units are as follows:

	Primary Government			Component Units		
	General	Community Development Block Grant	Solid Waste Disposal	School Board	BVU Authority	Industrial Development Authority
Receivables						
Taxes	\$ 12,082,367	-	-	-	-	-
Accounts	1,309,433	-	393,730	298,040	7,811,214	-
Rehabilitation Loans	-	187,429	-	-	-	-
Property Sale	-	-	-	-	-	64,315
Gross Receivables	13,391,800	187,429	393,730	298,040	7,811,214	64,315
Less: Allowance for Uncollectibles	(1,207,878)	(25,000)	(4,455)	-	(418,846)	-
Net Receivables	\$ 12,183,922	162,429	389,275	298,040	7,392,368	64,315

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE IV - DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**B. Receivables (Continued)**

Governmental funds report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred inflows of resources* (unavailable revenue) and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Receivables			
Taxes for Ensuing Fiscal Year	\$ -	10,094,736	10,094,736
Taxes Not Collected during Period of Availability	897,046	-	897,046
Due from Component Unit	64,315	-	64,315
Rehabilitation Loans	162,429	-	162,429
Notes Receivable	620,000	-	620,000
BVU Authority	-	600,000	600,000
Other	33,683	-	33,683
	<u>\$ 1,777,473</u>	<u>10,694,736</u>	<u>12,472,209</u>

**Receivable on Property Sales**

During fiscal year 2005, the City transferred \$1,450,000 to the IDA to fund the purchase of land and building. Subsequent to the acquisition of the property, the IDA began leasing the property under a capital lease (as discussed in Note IV.F) with all monthly lease payments to be remitted to the City as they are collected, resulting in an amount due from the IDA. The remaining interfund balance of \$64,315 has been deferred as unavailable in the general fund.

**Notes Receivable**

Two promissory notes were issued by the City in February 2007 to construct/renovate an old school (Douglas) into housing. The notes are for \$350,000 and \$150,000, respectively. Both notes have an interest rate of 4.00% and have a 31 year term. Accrued interest was \$120,000 as of June 30, 2014. All accrued interest and principal is due in one balloon payment at maturity.

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE IV - DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**C. Capital Assets**

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

**Primary Government**

Governmental Activities	Beginning Balance	Increases	Decreases	Transfers/ Adjustments	Ending Balance
Capital Assets, Not Depreciated					
Land	\$ 32,303,668	981,704	10,000	-	33,275,372
Construction in Progress	989,579	15,464,931	-	(21,151)	16,433,359
Total Capital Assets, Not Depreciated	<u>33,293,247</u>	<u>16,446,635</u>	<u>10,000</u>	<u>(21,151)</u>	<u>49,708,731</u>
Capital Assets, Being Depreciated					
Buildings and Improvements	16,604,521	100,320	-	(240,000)	16,464,841
Land Development Costs	480,000	-	-	-	480,000
Machinery and Equipment	11,045,834	691,681	348,618	-	11,388,897
Library Assets	6,934,065	42,563	-	-	6,976,628
Public Domain Infrastructure	87,492,850	1,568,152	-	21,151	89,082,153
Total Capital Assets, Being Depreciated	<u>122,557,270</u>	<u>2,402,716</u>	<u>348,618</u>	<u>(218,849)</u>	<u>124,392,519</u>
Less Accumulated Depreciation For					
Buildings and Improvements	7,428,235	352,466	-	(52,800)	7,727,901
Land Development Costs	307,200	19,200	-	-	326,400
Machinery and Equipment	7,027,443	709,945	306,447	-	7,430,941
Library Assets	1,986,066	159,048	-	-	2,145,114
Public Domain Infrastructure	61,474,805	1,014,165	-	-	62,488,970
Total Accumulated Depreciation	<u>78,223,749</u>	<u>2,254,824</u>	<u>306,447</u>	<u>(52,800)</u>	<u>80,119,326</u>
Total Capital Assets, Being Depreciated, Net	<u>44,333,521</u>	<u>147,892</u>	<u>42,171</u>	<u>(166,049)</u>	<u>44,273,193</u>
Governmental Activities Capital Assets, Net	<u>\$ 77,626,768</u>	<u>16,594,527</u>	<u>52,171</u>	<u>(187,200)</u>	<u>93,981,924</u>

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE IV - DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**C. Capital Assets (Continued)**

**Primary Government (Continued)**

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Depreciated				
Land	\$ 802,062	-	-	802,062
Total Capital Assets, Not Depreciated	<u>802,062</u>	<u>0</u>	<u>0</u>	<u>802,062</u>
Capital Assets, Being Depreciated				
Land Development Costs	34,846,553	94,996	-	34,941,549
Infrastructure	29,792	-	-	29,792
Plant in Service	1,317,317	-	-	1,317,317
Machinery and Equipment	5,910,781	228,124	143,726	5,995,179
Total Capital Assets, Being Depreciated	<u>42,104,443</u>	<u>323,120</u>	<u>143,726</u>	<u>42,283,837</u>
Less Accumulated Depreciation For				
Land Development Costs	12,520,287	1,011,365	-	13,531,652
Infrastructure	19,019	409	-	19,428
Plant in Service	482,781	33,846	-	516,627
Machinery and Equipment	4,001,324	271,547	129,350	4,143,521
Total Accumulated Depreciation	<u>17,023,411</u>	<u>1,317,167</u>	<u>129,350</u>	<u>18,211,228</u>
Total Capital Assets, Being Depreciated, Net	<u>25,081,032</u>	<u>(994,047)</u>	<u>14,376</u>	<u>24,072,609</u>
Business-Type Activities Capital Assets, Net	<u>\$ 25,883,094</u>	<u>(994,047)</u>	<u>14,376</u>	<u>24,874,671</u>

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE IV - DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**C. Capital Assets (Continued)**

**Primary Government (Continued)**

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities	
General Government	\$ 138,983
Judicial Administration	118,858
Public Safety	461,948
Public Works	1,134,261
Health and Welfare	23,767
Education	19,200
Parks, Recreations and Cultural	344,306
Transit	32,701
Total Depreciation Expense, Governmental Activities	<u><u>\$ 2,274,024</u></u>

At June 30, 2014, the City had uncompleted construction contracts related to the Exit 5 project. The remaining commitment on these construction contracts was approximately \$2,724,004.

**Discretely Presented Component Units**

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

*Industrial Development Authority*

<u>Industrial Development Authority</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Depreciated				
Construction in Progress	\$ 600,995	1,170,092	-	1,771,087
Total Capital Assets, Not Depreciated	<u><u>\$ 600,995</u></u>	<u><u>1,170,092</u></u>	<u><u>0</u></u>	<u><u>1,771,087</u></u>

The City contributed \$1,170,092 to the IDA from the bond anticipation notes issued for construction in progress related to the Exit 5 project.

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE IV - DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**C. Capital Assets (Continued)**

**Discretely Presented Component Units (Continued)**

*School Board*

School Board	Beginning Balance	Increases	Decreases	Transfers/ Adjustments	Ending Balance
Capital Assets, Not Depreciated					
Land	\$ 273,242	-	-	-	273,242
Construction in Progress	-	2,806,254	-	-	2,806,254
Total Capital Assets, Not Depreciated	<u>273,242</u>	<u>2,806,254</u>	<u>0</u>	<u>0</u>	<u>3,079,496</u>
Capital Assets, Being Depreciated					
Buildings and Improvements	29,353,854	28,161	-	240,000	29,622,015
Furniture and Fixtures	9,714,898	462,614	243,183	-	9,934,329
Transportation Equipment	2,187,196	154,670	101,709	-	2,240,157
Total Capital Assets, Being Depreciated	<u>41,255,948</u>	<u>645,445</u>	<u>344,892</u>	<u>240,000</u>	<u>41,796,501</u>
Less Accumulated Depreciation For					
Buildings and Improvements	12,971,392	688,874	-	52,800	13,713,066
Furniture and Fixtures	6,133,856	862,277	242,624	-	6,753,509
Transportation Equipment	1,592,261	183,455	101,709	-	1,674,007
Total Accumulated Depreciation	<u>20,697,509</u>	<u>1,734,606</u>	<u>344,333</u>	<u>52,800</u>	<u>22,140,582</u>
Total Capital Assets, Being Depreciated, Net	<u>20,558,439</u>	<u>(1,089,161)</u>	<u>559</u>	<u>187,200</u>	<u>19,655,919</u>
School Board Capital Assets, Net	<u>\$ 20,831,681</u>	<u>1,717,093</u>	<u>559</u>	<u>187,200</u>	<u>22,735,415</u>

The capital assets for the School Board also include the capital assets of its component unit, the Foundation, in the amount of \$4,974,471, net of accumulated depreciation of \$300,381.

School capital assets and related debt incurred by the City on behalf of the School Board have been reported with the City for financial statement purposes as required by the Code of Virginia. The table below shows the assets with related debt that are included in the above City governmental activities capital assets and have been netted out of the School Board capital assets.

	Beginning Balance	Increases	Decreases	Ending Balance
Buildings and Improvements	\$ 1,200,000	-	(240,000)	960,000
Accumulated Depreciation	(360,000)	(19,200)	72,000	(307,200)
	<u>\$ 840,000</u>	<u>(19,200)</u>	<u>(168,000)</u>	<u>652,800</u>



**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE IV - DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**C. Capital Assets (Continued)**

**Discretely Presented Component Units (Continued)**

*BVU Authority*

BVU Authority	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Depreciated				
Land	\$ 1,226,839	-	-	1,226,839
Construction in progress	30,357,477	3,648,803	1,269,360	32,736,920
<b>Total Capital Assets, Not Depreciated</b>	<b>31,584,316</b>	<b>3,648,803</b>	<b>1,269,360</b>	<b>33,963,759</b>
Capital Assets, Being Depreciated				
Distribution System	50,333,712	502,255	308,672	50,527,295
General Plant	64,252,097	2,282,075	66,691	66,467,481
Equipment	54,029,143	4,441,714	1,138,773	57,332,084
Buildings	2,119,882	226,608	-	2,346,490
Fiber	41,781,820	1,500,522	54,939	43,227,403
Furniture and Fixtures	52,964	-	-	52,964
Transportation Equipment	608,959	290,295	73,064	826,190
<b>Total Capital Assets, Being Depreciated</b>	<b>213,178,577</b>	<b>9,243,469</b>	<b>1,642,139</b>	<b>220,779,907</b>
Less Accumulated Depreciation For				
Distribution System	22,379,278	1,424,870	308,137	23,496,011
General Plant	33,817,937	1,776,913	35,592	35,559,258
Equipment	37,245,421	6,321,540	505,663	43,061,298
Transportation Equipment	25,340	4,416	-	29,756
<b>Total Accumulated Depreciation</b>	<b>93,467,976</b>	<b>9,527,739</b>	<b>849,392</b>	<b>102,146,323</b>
<b>Total Capital Assets, Being Depreciated, Net</b>	<b>119,710,601</b>	<b>(284,270)</b>	<b>792,747</b>	<b>118,633,584</b>
<b>BVU Authority Capital Assets, Net</b>	<b>\$ 151,294,917</b>	<b>3,364,533</b>	<b>2,062,107</b>	<b>152,597,343</b>

BVU Authority received contributions in aid of construction of \$338,473 for 2014. This amount is reported as a reduction in costs of the related assets.

Idle property in the amount of \$24,175 was held at June 30, 2014 for BVU Authority.

**CITY OF BRISTOL, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014**

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**NOTE IV - DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**D. Interfund Receivables, Payables and Transfers**

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." The general fund has advanced \$22,120,731 as of June 30, 2014 to the solid waste disposal fund. The advances to the solid waste disposal fund from the general fund represent payments made on behalf of that fund that are to be reimbursed. Fund balance has been classified as nonspendable for this amount as payment is not expected in the near term.

**E. Due To/From Component Units and Other Governmental Units**

Amounts due between the primary government and discretely presented component units are as follows:

Receivable Entity	Payable Entity	Amount
Primary Government - General Fund	Industrial Development Authority	\$ 64,315
Industrial Development Authority	Primary Government - General Fund	211,787
Primary Government - General Fund	School Board	82,218
Primary Government - General Fund	BVU Authority	24,709
Primary Government - Solid Waste Disposal Fund	BVU Authority	87,504

The due to primary government for the School Board includes advances of \$327,643 that are due from the Foundation to the School Board at December 31, 2013.

The City receives tax equivalent payments related to electric system property from BVU which are determined by an agreement between the entities. The amount for the fiscal year ended June 30, 2014 was \$350,000. In addition, based on the BVU Authority Transition agreement, BVU will pay the City an in-lieu of tax payment related to non-electric division property of \$100,000 per year for ten years. The entire amount was paid by BVU in fiscal year 2011; therefore, \$100,000 was recognized in the current year and the remaining \$600,000 is considered unearned revenue as of June 30, 2014 as disclosed in Note IV.B. Beginning in fiscal year 2014, the City received an additional \$100,000 in-lieu of tax payment related to BVU OptiNet property. The total revenue from BVU recorded in the statement of revenues, expenditures, and changes in fund balance for the fiscal year ended June 30, 2014 was \$550,000.

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE IV - DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**E. Due To/From Component Units and Other Governmental Units (Continued)**

Amounts due from other governmental units are as follows:

	Governmental Activities	Component Units	
		School Board	BVU Authority
Commonwealth of Virginia			
State and Local Sales Tax	\$ 427,779	-	-
Welfare Grants	126,690	-	-
Comprehensive Service Grants	320,618	-	-
Categorical Aid Shared Expenses	227,307	-	-
VDOT Reimbursement	406,516	-	-
School Grants	-	455,623	-
Other	126,588	-	-
Federal Government			
School Grants	-	592,626	-
Welfare Grants	163,601	-	-
Department of Transportation Grants	188,898	-	-
Other	95,970	-	-
Other			
Bristol, Tennessee (Joint Sewerage System)	-	-	1,800,701
Other	90,841	-	812,632
Total Due from Other Governments	<u>\$ 2,174,808</u>	<u>1,048,249</u>	<u>2,613,333</u>

**F. Leases**

**City as Lessor**

**IDA** - On December 10, 2004, the IDA entered into a lease agreement with another party to lease certain property for a term of 10 years. The annual rental is one tenth of \$1,450,000, the determined price of the premises, payable in advance monthly installments, plus 10%. The percentage applied to the rental amount is to be adjusted downward from 10% to 5% as the tenant meets specified employment levels. The tenant has an option to purchase the property at the end of the lease term for \$1. The option to purchase may be exercised at any time during the term of the lease with specified written notice. The purchase price on the early option is \$12,083 times the number of months remaining in the lease term.

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE IV - DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**F. Leases (Continued)**

**City as Lessor (Continued)**

The aggregate minimum future lease payments to be received based on the lowest percentage factor of 5% are \$67,531. Future payments are to be received as follows:

Fiscal Year Ended June 30	
2015	\$ <u>67,531</u>
Total	\$ <u><u>67,531</u></u>

The City owns the School Board's Central Office and receives \$187,500 annually in lease income.

**Capital Leases**

As of June 30, 2014, the City has the following capital leases:

	Interest Rates	Issue Date	Final Maturity Date	Original Lease	Governmental Activities	Business- Type Activities
<b>Governmental</b>						
Fire Trucks	4.60%	09-07	01-18	\$ 1,400,899	\$ 646,909	-
Golf Carts	3.50%	07-12	07-16	267,490	143,977	-
Mower	1.80%	08-12	06-16	22,746	11,975	-
Vac Truck	1.99%	05-14	05-18	344,906	277,970	-
Police Vehicles	3.98%	11-13	07-18	151,502	151,502	-
Small Wheel Loader	3.20%	06-13	06-18	121,015	104,072	-
<b>Solid Waste</b>						
Excavator	4.00%	12-10	01-16	202,354	-	68,497
Skid Steer Loader	5.55%	12-11	12-14	67,713	-	12,102
Skid Steer Loader	4.90%	12-11	12-14	47,263	-	18,581
Garbage Truck	1.89%	02-14	02-19	228,124	-	213,577
Garbage Truck	3.24%	01-12	01-17	122,755	-	63,870
					<u>\$ 1,336,405</u>	<u>376,627</u>

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE IV - DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**F. Leases (Continued)**

**Capital Leases (Continued)**

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014, are as follows:

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>
2015	\$ 393,654	150,530
2016	393,919	119,277
2017	321,857	61,599
2018	303,318	47,851
2019	<u>39,896</u>	<u>31,900</u>
Total Minimum Lease Payments	1,452,644	411,157
Less: Interest	<u>(116,239)</u>	<u>(34,530)</u>
Present Value of Payments	<u>\$ 1,336,405</u>	<u>376,627</u>

The equipment category of the primary government includes assets recorded under capital lease with a cost of \$2,349,132 and accumulated amortization of \$788,630. The equipment category of the business-type activities includes assets recorded under capital lease obligations with a cost of \$774,412 and accumulated amortization of \$101,536. Amortization expense is included in depreciation expense.

**Operating Leases**

The City has operating leases for two pieces of equipment in the Solid Waste Disposal Fund. Future minimum lease payments as of June 30, 2014 are as follows:

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Business-Type</u> <u>Activities</u>
2015	\$ 185,634
2016	185,634
2017	<u>61,523</u>
	<u>\$ 432,791</u>

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE IV - DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**F. Leases (Continued)**

**Discretely Presented Component Unit - BVU Authority**

OptiNet leases network fiber optic cable to others. The leases are non-cancelable operating leases with terms of ten to thirty years. The lease terms required the entire lease amount to be paid on acceptance of the fiber. Receipts under these agreements have totaled approximately \$1,639,530 as of June 30, 2014.

**G. Long-Term Liabilities**

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Government Activities</b>					
General Obligation Bonds	\$ 21,907,400	6,156,450	(6,743,150)	21,320,700	198,750
Bond Premiums	805,793	-	(367,437)	438,356	-
Tax Anticipation Note	-	7,600,000	(7,600,000)	-	-
Bond Anticipation Notes	25,000,000	15,000,000	-	40,000,000	-
Literary Fund Loans	1,200,000	-	(240,000)	960,000	240,000
Capital Lease Obligations	1,139,435	496,408	(299,438)	1,336,405	348,063
Other Post-Employment Benefits	689,100	123,000	-	812,100	-
Compensated Absences	1,824,560	864,449	(989,877)	1,699,132	921,829
	<u>\$ 52,566,288</u>	<u>30,240,307</u>	<u>(16,239,902)</u>	<u>66,566,693</u>	<u>1,708,642</u>
<b>Governmental Activities, Long-Term Liabilities</b>					
<b>Business-Type Activities</b>					
General Obligation Bonds	\$ 33,037,600	10,663,550	(11,334,350)	32,366,800	188,750
Bond Premiums	947,162	-	(234,486)	712,676	-
Capital Lease Obligations	262,949	228,124	(114,446)	376,627	142,569
Landfill Closure Liability	6,517,596	10,074	-	6,527,670	-
Compensated Absences	189,337	47,761	(91,123)	145,975	91,123
	<u>\$ 40,954,644</u>	<u>10,949,509</u>	<u>(11,774,405)</u>	<u>40,129,748</u>	<u>422,442</u>
<b>Business-Type Activities, Long-Term Liabilities</b>					

**CITY OF BRISTOL, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014**

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**NOTE IV - DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**G. Long-Term Liabilities (Continued)**

Changes in the deferred loss on refunding for the fiscal year ended June 30, 2014 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities	\$ (409,794)	(739,836)	296,066	(853,564)
Business-Type Activities	(738,998)	(521,304)	68,757	(1,191,545)
Total Primary Government	<u>\$ (1,148,792)</u>	<u>(1,261,140)</u>	<u>364,823</u>	<u>(2,045,109)</u>

**Series 2011A General Obligation Bond**

The City issued a \$3,000,000 Qualified School Construction Bond (QSCB) in June 2011 with an interest rate of 4.50% and maturity date of June 2027 for renovation of the school administrative building. The QSCB proceeds funded the \$2,940,000 Contribution Agreement to the Foundation in May 2012. The City has received a federal subsidy grant (expected to be close to 100%) for the interest portion of the bond. The Foundation agreed to manage the funds to assure compliance with all the terms of the City's obligations to the Virginia Public School Authority. In the initial tax credit period, the Foundation will make the principal payment of \$187,500 annually starting July 1, 2013 and will end when the related entities dissolve in 2017 (approximately five years) for a total of \$937,500. The Foundation's pledge payable is reported in long-term liabilities on the statement of net position.

**Series 2013 and Series 2014 Bond Anticipation Notes**

General Obligation Taxable Bond Anticipation Notes, Series 2013 was issued by the City in the amount of \$10,000,000 on October 18, 2013 with an interest rate of 2.43%. The General Obligation Taxable Bond Anticipation Notes, Series 2014 was issued by the City in the amount of \$5,000,000 on March 31, 2014 with an interest rate of 2.43%. The Series 2013 and 2014 bonds were issued for development of the Exit 5 project and finance the costs of issuance. Interest only will be paid on the bonds beginning in fiscal year 2014 until the principal payment is due for Series 2013 in October 2015 and for Series 2014 in April 2016.

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE IV - DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**G. Long-Term Liabilities (Continued)**

**Series 2014 Taxable General Obligation Public Improvement Refunding Bonds**

Taxable General Obligation Public Improvement Refunding Bonds, Series 2014 was issued by the City in the amount of \$16,820,000 on May 22, 2014. The bonds were issued to refund certain maturities of the General Obligation Public Improvement Bonds, Series 2006B, Taxable General Obligation Public Improvement Bonds, Series 2006C, Taxable General Obligation Refunding Bonds, Series 2007A, Taxable General Obligation Public Improvement Refunding Bonds, Series 2007C, General Obligation Refunding Bonds, Series 2009, General Obligation Public Improvement and Refunding Bonds, Series 2010, the General Obligation Public Improvement Revenue and Refunding Bond, Series 2012A, and General Obligation Public Improvement Refunding Bond, Series 2012B and to pay the costs of the issuance of the Bonds. The refunding was used to current refund the Series 2009 Bonds in the amount of \$1,555,000 and accrued interest on that debt in the amount of \$15,583. The remaining issues listed above in the amount of \$13,435,000 were advance refunded with the Series 2014 funds of \$14,699,854 being placed in escrow for the defeased bonds. Also, included in the Series 2014 issue was \$549,563 of bond issue costs which have been expensed. The interest rate is variable and will average 4.88%. Interest payments began September 2014 and principal payments will begin June 2028. The bonds were issued to provide a cost savings from the refunding and provided a net present value gain of \$1,635,592. The deferred costs of the bonds which were advanced refunded are being amortized over the shorter of the life of the new bonds or the bonds which were refunded as a component of interest expense. The total of the deferred costs was \$1,464,424.

**Defeasance of Debt**

The City defeased certain general obligation bonds by placing the proceeds in an irrevocable trust to provide for all future debt service on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. As of June 30, 2014, \$13,435,000 of bonds are considered defeased. The deferred costs are being amortized over the life of the new bonds as a component of interest expense.



**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE IV - DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**G. Long-Term Liabilities (Continued)**

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

Fiscal Year Ended June 30	Governmental Activities			
	General Obligation Bonds		Literary Fund Loans	
	Principal	Interest	Principal	Interest
2015	\$ 198,750	763,285	240,000	25,200
2016	187,500	867,748	240,000	18,000
2017	187,500	867,748	240,000	10,800
2018	249,500	866,043	240,000	3,600
2019	562,500	856,513	-	-
2020-2024	7,308,500	3,525,200	-	-
2025-2029	7,014,750	1,900,588	-	-
2030-2034	1,599,600	1,214,093	-	-
2035-2039	2,013,700	793,058	-	-
2040-2043	1,998,400	249,809	-	-
	<u>\$ 21,320,700</u>	<u>11,904,086</u>	<u>960,000</u>	<u>57,600</u>

Fiscal Year Ended June 30	Governmental Activities		Business-Type Activities	
	Bond Anticipation Notes		General Obligation Bonds	
	Principal	Interest	Principal	Interest
2015	\$ -	1,106,838	188,750	1,374,133
2016	30,000,000	749,500	175,000	1,549,164
2017	10,000,000	135,500	190,000	1,542,852
2018	-	-	138,000	1,536,088
2019	-	-	85,000	1,531,230
2020-2024	-	-	12,924,000	6,213,386
2025-2029	-	-	8,947,750	3,148,583
2030-2034	-	-	2,770,400	2,102,768
2035-2039	-	-	3,486,300	1,373,546
2040-2043	-	-	3,461,600	432,801
	<u>\$ 40,000,000</u>	<u>1,991,838</u>	<u>32,366,800</u>	<u>20,804,550</u>

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE IV - DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**G. Long-Term Liabilities (Continued)**

Details of long-term indebtedness are as follows:

General Obligation Bonds	Interest Rates	Issue Date	Final Maturity Date	Original Issue	Governmental Activities	Business- Type Activities
Public Improvement 2006B Series	3.50 - 5.00%	12-06	07-26	\$ 3,675,000	\$ 2,095,000	-
Taxable Re-Structuring 2007A Series	5.00-5.5	10-07	07-17	3,245,000	62,000	138,000
Public Improvement 2007B Series	4.00-4.25	10-07	07-26	4,055,000	4,055,000	-
Taxable General Obligation 2007C Series	5.653	10-07	07-23	12,050,000	1,491,000	9,159,000
Gen Obligation Refunding Bonds 2010 Series	2.00-3.00	11-10	07-21	1,015,000	-	415,000
Gen Obligation Refunding Bonds 2010 Series	2.00-5.00	11-10	07-26	15,175,000	3,393,750	10,256,250
2011 Qualified School Construction Bond	4.50	06-11	06-27	3,000,000	2,437,500	-
Public Improvement 2012C Non-AMT Series	2.82-4.83	10-12	10-24	3,965,000	1,630,000	-
Public Improvement 2012C AMT Series	2.27-3.75	10-12	10-22	2,550,000	-	1,735,000
Gen Obligation Refunding Bonds 2014 Series	4.68-4.88	05-14	01-43	16,820,000	6,156,450	10,663,550
					<u>\$ 21,320,700</u>	<u>32,366,800</u>
<b>Other Long-Term Debt</b>						
Literary Fund Loans - VA Middle School	3.00%	09-97	09-17	\$ 4,800,000	\$ 960,000	-
Bond Anticipation Note 2012A Series	2.71	08-12	09-16	\$ 7,408,850	\$ 7,408,850	-
Bond Anticipation Note 2012B Series	3.14	08-12	09-15	15,000,000	15,000,000	-
Bond Anticipation Note 2012C Series	2.71	11-12	09-16	2,591,150	2,591,150	-
Bond Anticipation Note 2013 Series	2.43	10-13	10-15	10,000,000	10,000,000	-
Bond Anticipation Note 2014 Series	2.43	03-14	04-16	5,000,000	5,000,000	-
					<u>\$ 40,000,000</u>	<u>0</u>

**Component Unit - School Board**

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Discretely Presented					
Component Unit - School Board					
Compensated Absences	\$ 391,454	66,827	(95,139)	363,142	61,935
Other Post-Employment Benefits	122,900	42,400	-	165,300	-
Energy Performance Lease	-	2,806,254	-	2,806,254	-
Foundation Pledge Payable	937,500	(187,500)	-	750,000	187,500
School Board, Long-Term Liabilities	<u>\$ 1,451,854</u>	<u>2,727,981</u>	<u>(95,139)</u>	<u>4,084,696</u>	<u>249,435</u>

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE IV - DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**G. Long-Term Liabilities (Continued)**

**Component Unit - BVU**

Changes in long-term liabilities for the fiscal year ended June 30, 2014 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Discretely Presented					
Component Unit - BVU Authority					
Revenue and Refunding Bonds	\$ 42,185,000	-	(1,255,000)	40,930,000	1,320,000
Bond Premiums	2,409,287	-	(118,006)	2,291,281	-
VRA Loans	2,127,964	-	(103,704)	2,024,260	107,049
SERCAP Loan	-	226,000	(3,227)	222,773	7,947
Retirement Benefits Payable	53,939	-	(38,849)	15,090	-
Other Post-Employment Benefits	1,060,300	369,000	(122,962)	1,306,338	-
Compensated Absences	1,623,921	747,097	(735,177)	1,635,841	736,541
	<u>\$ 49,460,411</u>	<u>1,342,097</u>	<u>(2,376,925)</u>	<u>48,425,583</u>	<u>2,171,537</u>
BVU, Long-Term Liabilities	<u>\$ 49,460,411</u>	<u>1,342,097</u>	<u>(2,376,925)</u>	<u>48,425,583</u>	<u>2,171,537</u>

Changes in the deferred loss on refunding for the fiscal year ended June 30, 2014 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Discretely Presented				
Component Unit - BVU	\$ (6,173,260)	-	363,133	(5,810,127)
	<u>\$ (6,173,260)</u>	<u>-</u>	<u>363,133</u>	<u>(5,810,127)</u>

**CITY OF BRISTOL, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE IV - DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**G. Long-Term Liabilities (Continued)**

**Component Unit - BVU (Continued)**

The debt service requirements for BVU's bonds and notes are as follows:

Fiscal Year Ended June 30	Discretely Presented Component Unit					
	BVU Authority					
	Virginia Resources Authority Loans		Revenue and Refunding Bonds		SERCAP Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 107,049	63,927	1,320,000	2,163,991	7,947	7,977
2016	110,503	60,474	1,375,000	2,105,266	8,241	7,683
2017	114,067	56,909	1,445,000	2,041,866	8,546	7,378
2018	117,747	53,229	1,515,000	1,972,916	8,863	7,062
2019	121,544	49,432	1,595,000	1,895,166	9,191	6,734
2020-2024	669,122	185,761	9,190,000	8,192,615	179,985	29,231
2025-2029	784,228	70,655	11,035,000	5,605,028	-	-
2030-2034	-	-	13,455,000	2,058,181	-	-
	<u>\$ 2,024,260</u>	<u>540,387</u>	<u>40,930,000</u>	<u>26,035,029</u>	<u>222,773</u>	<u>66,065</u>

Details of long-term indebtedness are as follows:

	Interest Rates	Issue Date	Final Maturity Date	Original Issue	Amount Outstanding
Series 2010 Revenue and Refunding Bonds	2.35 - 6.14%	10-10	10-33	\$ 44,545,000	\$ 40,930,000
VRA RLF Loans	3.20	09-08	04-29	2,466,068	2,024,260
SERCAP Note Payable	3.64	12-13	02-24	226,000	222,773
					<u>\$ 43,177,033</u>

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE IV - DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**H. Landfill Closure and Post-Closure Care Costs**

The City owns and operates two landfills, a compost facility, a compost facility. One landfill has been in operation for a number of years. It is referred to as the Old Landfill. The other, formerly a quarry, began operations in 1998 and is referred to as the quarry balefill.

State and federal laws and regulations require that the City place a final cover on its landfill sites and perform certain maintenance and monitoring functions at the landfill sites for a minimum of thirty years after closure. In addition to operating expenses related to current activities of the landfill sites, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfills no longer accept waste. The recognition of these landfill closure and postclosure care costs is based on the landfill capacity used as of each statement of net position date.

The estimated landfill closure and postclosure care cost liability for the old landfill is \$2,689,709 as of June 30, 2014, which is based on 65.00% usage (filled) of the landfill. It is estimated that an additional \$1,241,404 will be recognized as closure and postclosure care expenses between the date of the statement of net position and the date the landfill is currently expected to be filled to capacity (the year 2020). The City is mining waste from the old landfill, baling it, and placing it in the quarry balefill. The old landfill is expected to remain open until its mandated closure date in 2020.

The estimated liability for landfill closure and postclosure care costs for the quarry balefill is \$3,751,936 as of June 30, 2014, which is based on 39.97% usage (filled) of the landfill. It is estimated that an additional \$5,634,945 will be recognized as closure and postclosure care expenses between the date of the statement of net position and the date the landfill is currently expected to be filled to capacity (the year 2043).

The estimated liability from landfill closure and postclosure care costs of the compost facility as of June 30, 2014 is \$86,024. It is estimated that an additional \$309,307 will be recognized for the compost facility as closure expense between the date of the statement of net position and the date the facility is expected to be closed.

It should be recognized that the formula for closure/postclosure costs are based on a prescribed formula established by the Department of Environmental Quality without regard to regions or cost differentials across the State. The estimated total current cost of the landfill closure and postclosure care (\$13,920,226) is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfills were acquired as of June 30, 2014. However, the actual costs of closure will be paid out at the time of closure of each facility and postclosure will be paid out in the thirty years following the closure of each facility. The actual costs of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE IV - DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**H. Landfill Closure and Post-Closure Care Costs (Continued)**

Federal and state regulations require owners of permitted solid waste landfills to provide financial assurance to assure that funds are available to properly close the facility to protect human health and the environment. The City qualifies to use the allowable financial assurances test in order to demonstrate financial responsibility, and those calculations are in compliance with the applicable regulations.

**I. Net Position**

The solid waste disposal fund has an accumulated deficit in net position of (\$36,196,097). The City is currently funding the operating losses out of the general fund; however, it continues to monitor the operations of the landfill and is exploring opportunities to produce operating surpluses in future fiscal years to reduce the deficit.

Restricted net position for specified purposes represents certain deposits restricted for specified expenditures and resources that have restrictions to particular uses imposed by federal awarding agencies or by state legislation.

**NOTE V - OTHER INFORMATION**

**A. Other Post-Employment Health Care Benefits (OPEB)**

*Plan Description*

The City, including the School Board, and BVU administer single-employer defined benefit healthcare plans (the Plan). The plans provide healthcare insurance for eligible retirees and their spouses through the City's and BVU's group health insurance plans, which covers both active and retired members. Retirees are allowed to continue on health and dental insurance until they reach the age of 65. If the retiree has their spouse covered on the insurance plan, the insurance continues until the spouse reaches the age of 65. The policy rate goes from employee/spouse rates to a single member rate once one of the individuals reaches the age of 65.

A retired employee, who is participating in the employer's medical program is eligible to elect post-employment coverage if: (a) eligible for immediate retirement benefits under the Virginia Retirement System (VRS) (age 50 with 10 years of total service), or (b) permanently, totally disabled and injured in the line of duty and is eligible for immediate disability retirement benefits under VRS.

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE V - OTHER INFORMATION (CONTINUED)**

**A. Other Post-Employment Health Care Benefits (OPEB) (Continued)**

For the City and School Board, the medical coverage for retirees is as follows:

- Under 25 years of service-retiree pays 100% of employee premium
- 25-29 years of service-retiree receives \$100 monthly credit toward employee premium
- 30-34 years of service-retiree receives \$200 monthly credit toward employee premium
- 35+ years of service retiree receives \$300 monthly credit toward employee premium
- For all spouses, the retiree pays 100% of the employee's spousal premium.

For BVU, if the retiree has completed 30 years of service, BVU pays the entire health insurance premium. If the retiree has less than 20 years of service, they must pay the entire health insurance premium. If years of service are between 20 and 30 years, BVU pays a portion of insurance based on years of service. The amount paid by BVU is 3.00% per year of service. All retirees pay 100% of dental insurance premium.

*Funding Policy*

The contribution requirements of plan members and the City and School Board are based on pay-as-you-go financing requirements with the risk shared equally among the participants. BVU contributes the net claims paid during the fiscal year.

*Annual OPEB Cost and Net OPEB Obligation*

The City's and BVU's other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each fiscal year and amortize any unfunded actuarial liabilities (of funding excess) over a period not to exceed thirty years.

The following table shows the components of the City's annual OPEB cost for the fiscal year, the amount actually contributed to the Plan, and changes in the City's OPEB obligation.

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE V - OTHER INFORMATION (CONTINUED)**

**A. Other Post-Employment Health Care Benefits (OPEB) (Continued)**

*Annual OPEB Cost and Net OPEB Obligation (Continued)*

	<u>City</u>	<u>School Board</u>	<u>Total</u>
Annual Required Contribution (ARC)	\$ 260,400	259,600	520,000
Interest on Net OPEB Pension Obligation (NPO)	5,400	5,300	10,700
Adjustment to Annual Required Contribution	(5,400)	(5,300)	(10,700)
Annual OPEB Cost (Expense)	<u>260,400</u>	<u>259,600</u>	<u>520,000</u>
Contributions Made	<u>(137,400)</u>	<u>(217,200)</u>	<u>(354,600)</u>
Increase (Decrease) in Net OPEB			
Pension Obligation	123,000	42,400	165,400
Net OPEB Obligation - Beginning of Fiscal Year	<u>689,100</u>	<u>122,900</u>	<u>812,000</u>
Net OPEB Obligation - End of Fiscal Year	<u>\$ 812,100</u>	<u>165,300</u>	<u>977,400</u>

The following table shows the components of BVU's annual OPEB cost for the fiscal year, the amount actually contributed to the Plan, and changes in BVU's OPEB obligation.

	<u>BVU</u>
Annual Required Contribution (ARC)	\$ 369,500
Interest on Net OPEB Pension Obligation (NPO)	45,100
Adjustment to Annual Required Contribution	(45,600)
Annual OPEB Cost (Expense)	<u>369,000</u>
Contributions Made	<u>(122,962)</u>
Increase (Decrease) in Net OPEB	246,038
Net OPEB Obligation - Beginning of Fiscal Year	<u>1,060,300</u>
Net OPEB Obligation - End of Fiscal Year	<u>\$ 1,306,338</u>



**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE V - OTHER INFORMATION (CONTINUED)**

**A. Other Post-Employment Health Care Benefits (OPEB) (Continued)**

*Annual OPEB Cost and Net OPEB Obligation (Continued)*

For the City, the annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the current fiscal year and each of the two preceding fiscal years are as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (ARC)</u>	<u>Percentage Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2014	\$ 520,000	68.2%	\$ 977,400
June 30, 2013	505,900	59.1%	812,000
June 30, 2012	461,500	76.6%	604,900

For BVU, the annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the current fiscal year and each of the two preceding fiscal years are as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (ARC)</u>	<u>Percentage Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2014	\$ 369,000	33.3%	\$ 1,306,338
June 30, 2013	351,700	17.5%	1,060,300
June 30, 2012	375,700	28.7%	770,300

*Funded Status and Funding Progress*

As of June 30, 2012, the most recent actuarial valuation date, the Plan was not funded. For the City, the actuarial accrued liability for benefits was \$7,035,600. The covered payroll was \$27,115,600, and the ratio of the UAAL to the covered payroll was 25.90%. For BVU, the actuarial accrued liability for benefits was \$3,701,100. The covered payroll was \$8,290,100, and the ratio of the UAAL to the covered payroll was 44.64%.

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE V - OTHER INFORMATION (CONTINUED)**

**A. Other Post-Employment Health Care Benefits (OPEB) (Continued)**

*Funded Status and Funding Progress (Continued)*

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

*Actuarial Methods and Assumptions*

The entry age normal cost method is used to determine the Plan's funding liabilities and costs. Under this cost method, the actuarial present value of projected benefits of every active participant as if the Plan's provisions on the valuation date had always been in effect, is determined as a level percentage of expected annual earnings for each future year of expected service. A normal cost for each year from the assumed entry date is determined by applying this level percentage of pay to the assumed earnings for that year.

Under these methods, inactive participants have no normal cost, and their actuarial liability is the present value of the plan benefits to which they and their beneficiaries are entitled. The Plan's total annual normal cost and actuarial liability are the sum of the individual participant amounts.

An experience gain or loss is a decrease or increase in the unfunded actuarial liability attributable to actual experience that differed from that expected by the actuarial assumptions. Such gains or losses are explicitly recognized under this method. Liabilities and costs shown are net of any retiree contributions.

In the June 30, 2012 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 4.25% investment rate of return and medical and dental trend rate of 9.00% for pre-Medicare coverage, decreasing at a rate of 0.50% per fiscal year until an ultimate rate of 5.00% is reached. The UAAL is being amortized as a level percentage over 30 years.

**CITY OF BRISTOL, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014**

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**NOTE V - OTHER INFORMATION (CONTINUED)**

**B. Pension Plan**

*Plan Description*

The City and BVU contribute to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by VRS. In addition, professional and non-professional employees of the School Board are covered by VRS.

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

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

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

**CITY OF BRISTOL, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE V - OTHER INFORMATION (CONTINUED)**

**B. Pension Plan (Continued)**

*Plan Description (Continued)*

		<ul style="list-style-type: none"> <li>• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.</li> <li>• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.</li> </ul>
<p><b>Eligible Members</b> Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.</p>	<p><b>Eligible Members</b> Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p>	<p><b>Eligible Members</b> Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> <li>• State employees*</li> <li>• School division employees</li> <li>• Political subdivision employees*</li> <li>• Judges appointed or elected to an original term on or after January 1, 2014</li> <li>• Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.</li> </ul>

**CITY OF BRISTOL, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE V - OTHER INFORMATION (CONTINUED)**

**B. Pension Plan (Continued)**

*Plan Description (Continued)*

<p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.</p>	<p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.</p>	<p><b>*Non-Eligible Members</b> Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> <li>• Members of the State Police Officers' Retirement System (SPORS)</li> <li>• Members of the Virginia Law Officers' Retirement System (VaLORS)</li> <li>• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees</li> </ul> <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.</p>
<p><b>Retirement Contributions</b> Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016.</p>	<p><b>Retirement Contributions</b> Same as VRS Plan 1.</p>	<p><b>Retirement Contributions</b> 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.</p>

**CITY OF BRISTOL, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE V - OTHER INFORMATION (CONTINUED)**

**B. Pension Plan (Continued)**

*Plan Description (Continued)*

<p>Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>		<p>Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>
<p><b>Creditable Service</b> Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p><b>Creditable Service</b> Same as VRS Plan 1.</p>	<p><b>Creditable Service</b> <b><u>Defined Benefit Component:</u></b> 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. <b><u>Defined Contribution Component:</u></b> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>

**CITY OF BRISTOL, VIRGINIA  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2014**

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**NOTE V - OTHER INFORMATION (CONTINUED)**

**B. Pension Plan (Continued)**

*Plan Description (Continued)*

<p><b>Vesting</b>          Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p><b>Vesting</b>          Same as VRS Plan 1.</p>	<p><b>Vesting</b>  <u><b>Defined Benefit Component:</b></u>          Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u><b>Defined Contribution Component:</b></u>          Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p>
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**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE V - OTHER INFORMATION (CONTINUED)**

**B. Pension Plan (Continued)**

*Plan Description (Continued)*

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



**CITY OF BRISTOL, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE V - OTHER INFORMATION (CONTINUED)**

**B. Pension Plan (Continued)**

*Plan Description (Continued)*

<p><b>Average Final Compensation</b> A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b> A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b> Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p><b>Service Retirement Multiplier</b> The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.</p>	<p><b>Service Retirement Multiplier</b> Same as VRS Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members, the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p>	<p><b>Service Retirement Multiplier</b> The retirement multiplier is 1.0%.  For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p>
<p><b>Normal Retirement Age</b> Age 65.</p>	<p><b>Normal Retirement Age</b> Normal Social Security retirement age.</p>	<p><b>Normal Retirement Age</b> <b>Defined Benefit Component:</b> Same as VRS Plan 2.  <b>Defined Contribution Component:</b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

**CITY OF BRISTOL, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE V - OTHER INFORMATION (CONTINUED)**

**B. Pension Plan (Continued)**

*Plan Description (Continued)*

<p><b>Earliest Unreduced Retirement Eligibility</b> Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b> Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b> <b><u>Defined Benefit Component:</u></b> Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.  <b><u>Defined Contribution Component:</u></b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Reduced Retirement Eligibility</b> Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p><b>Earliest Reduced Retirement Eligibility</b> Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p>	<p><b>Earliest Reduced Retirement Eligibility</b> <b><u>Defined Benefit Component:</u></b> Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.  <b><u>Defined Contribution Component:</u></b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

**CITY OF BRISTOL, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE V - OTHER INFORMATION (CONTINUED)**

**B. Pension Plan (Continued)**

*Plan Description (Continued)*

<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><b>Eligibility:</b> 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.</p> <p><b>Exceptions to COLA Effective Dates:</b> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><b>Eligibility:</b> Same as VRS Plan 1.</p> <p><b>Exceptions to COLA Effective Dates:</b> Same as VRS Plan 1.</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> <b><u>Defined Benefit Component:</u></b> Same as VRS Plan 2. <b><u>Defined Contribution Component:</u></b> Not applicable.</p> <p><b>Eligibility:</b> Same as VRS Plan 1 and VRS Plan 2.</p> <p><b>Exceptions to COLA Effective Dates:</b> Same as VRS Plan 1 and VRS Plan 2.</p>
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**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE V - OTHER INFORMATION (CONTINUED)**

**B. Pension Plan (Continued)**

*Plan Description (Continued)*

<ul style="list-style-type: none"><li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li><li>• The member retires on disability.</li><li>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</li><li>• The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.</li><li>• The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.</li></ul>		
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**CITY OF BRISTOL, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE V - OTHER INFORMATION (CONTINUED)**

**B. Pension Plan (Continued)**

*Plan Description (Continued)*

<p><b>Disability Coverage</b> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><b>Disability Coverage</b> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><b>Disability Coverage</b> Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>
<p><b>Purchase of Prior Service</b> 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.</p>	<p><b>Purchase of Prior Service</b> Same as VRS Plan 1.</p>	<p><b>Purchase of Prior Service</b> <b><u>Defined Benefit Component:</u></b> Same as VRS Plan 1.</p> <p><b><u>Defined Contribution Component:</u></b> Not applicable.</p>

**CITY OF BRISTOL, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014**

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**NOTE V - OTHER INFORMATION (CONTINUED)**

**B. Pension Plan (Continued)**

*Plan Description (Continued)*

<p>Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>		
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The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/pdf/Publications/2013-Annual-Report.pdf> or by writing to VRS's Chief Financial Officer at P.O. Box 2500, Richmond, Virginia 23218-2500.

*Funding Policy*

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period 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. In addition, the City is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's contribution rate for the fiscal year ended June 30, 2014 was 16.66% (11.66% plus 5.00% member contribution) of annual covered payroll. The School Board's contribution rate for the fiscal year ended June 30, 2014 was 14.38% (9.38% plus 5.00% member contribution) of annual covered payroll. BVU's contribution rate for the fiscal year ended June 30, 2014 was 14.54% of annual covered payroll.

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE V - OTHER INFORMATION (CONTINUED)**

**B. Pension Plan (Continued)**

*Annual Pension Cost*

For the fiscal year ended June 30, 2014, the City's and the School Board's annual pension cost of \$2,360,988 and \$50,691, respectively, were equal to their required and actual contributions. For the fiscal year ended June 30, 2014, BVU's annual pension cost of \$785,303 for VRS was equal to the required and actual contributions.

Three-Year Trend Information for the City

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2014	\$ 2,360,988	100%	\$ -
June 30, 2013	2,376,516	100%	-
June 30, 2012	2,214,303	100%	-

Three-Year Trend Information for the School Board

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2014	\$ 50,691	100%	\$ -
June 30, 2013	50,489	100%	-
June 30, 2012	50,045	100%	-

Three-Year Trend Information for BVU Authority

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2014	\$ 785,303	100%	\$ -
June 30, 2013	827,620	100%	-
June 30, 2012	832,048	100%	-

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE V - OTHER INFORMATION (CONTINUED)**

**B. Pension Plan (Continued)**

*Annual Pension Cost*

The fiscal year 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases of 3.75% to 5.60% per year for local general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%.

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

*Funded Status and Funding Progress*

As of June 30, 2013, the most recent actuarial valuation date, the City's plan was 72.14% funded. The actuarial accrued liability for benefits was \$103,803,462, and the actuarial value of assets was \$74,884,226, resulting in an unfunded actuarial accrued liability (UAAL) of \$28,919,236. The covered payroll (annual payroll of active employees covered by the plan) was \$14,314,297, and the ratio of the UAAL to the covered payroll was 202.03%.

As of June 30, 2013, the most recent actuarial valuation date, the School Board's plan was 82.95% funded. The actuarial accrued liability for benefits was \$2,684,082, and the actuarial value of assets was \$2,226,509, resulting in an unfunded actuarial accrued liability (UAAL) of \$457,573. The covered payroll (annual payroll of active employees covered by the plan) was \$348,975, and the ratio of the UAAL to the covered payroll was 131.12%.



**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE V - OTHER INFORMATION (CONTINUED)**

**B. Pension Plan (Continued)**

*Funded Status and Funding Progress (Continued)*

As of June 30, 2013, the most recent actuarial valuation date, BVU's plan was 129.68% funded. The actuarial accrued liability for benefits was \$2,987,145, and the actuarial value of assets was \$3,873,873, resulting in an overfunded actuarial accrued liability (UAAL) of \$886,728. The covered payroll (annual payroll of active employees covered by the plan) was \$7,749,557, and ratio of the UAAL to the covered payroll was (11.44%).

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

**C. Service Contracts**

In September 2006, the Authority entered into an agreement with the Tennessee Valley Authority for the purchase of wholesale power for distribution. This contract began on January 1, 2008 and will end December 31, 2027. For the fiscal year ended June 30, 2014, \$40,717,621 was expensed under this contract.

**D. Risk Management**

*Workmen's Compensation*

Workmen's Compensation Insurance is provided through the Virginia Municipal Self-Insurance Association for the City. Benefits are those afforded through the State of Virginia as outlined in the Code of Virginia Section 65.2-100; premiums are based upon covered payroll, job rates and claims experience.

*General Liability and Other*

The City provides general liability, machinery, property and other insurance through policies with the Virginia Municipal Liability Pool. General and business automobile liability has a \$2,000,000 aggregate limit. Machinery coverage and property insurance are covered as per statement of values. Police professional liability and public officials' liability with a \$1,000,000 limit are covered through a policy with the Commonwealth of Virginia.

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE V - OTHER INFORMATION (CONTINUED)**

**D. Risk Management (Continued)**

*Healthcare*

Healthcare Insurance coverage is provided to the City's employees through a policy with Local Choice/Anthem, which is a State of Virginia pooled plan. Partial premiums are withheld from the employee's earnings and remaining premiums are paid by the City. Retired employees and dependents of employees of the City are also covered by the program provided they pay a premium to the provider.

*Dental*

The City maintains a Dental Assistance Plan, which reimburses eligible employees at a rate of 50% of dental expenses per covered individual not to exceed \$750 per fiscal year. Claims incurred but not reported are included in liabilities of the trust and are based on actual claims received subsequent to fiscal year end. Claims are required to be turned in for reimbursement within 90 days of payment or are otherwise denied.

Reconciliation of claim liabilities is as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Balance, July 1	\$ 3,919	6,573	4,216
Claims Incurred	120,312	108,548	27,747
Claims Paid	117,658	110,905	33,536
Balance, June 30	<u>\$ 6,573</u>	<u>4,216</u>	<u>(1,573)</u>

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

**E. Jointly-Owned Wastewater Facility**

In 1979, the City of Bristol, Virginia and the City of Bristol, Tennessee entered into a contract for operation of a jointly-owned wastewater facility. The City of Bristol, Virginia's ownership interest in the facility moved to BVU upon its creation. The two are joint equitable owners in the facility, with ownership percentages determined by usage. Usage is determined by a cost-sharing formula included in the contract. The share of future principal payments is determined yearly to reflect usage of the facility by each of the two cities during the year. BVU's share of debt applicable to the facility at June 30, 2014 was approximately 45.00%. The plant's operating expenses are allocated between the two cities based on usage.

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE V - OTHER INFORMATION (CONTINUED)**

**E. Jointly-Owned Wastewater Facility (Continued)**

Audits of the facility are performed each fiscal year. At that time, amounts due to or from each are determined based on the yearly expenses allocated to each and the contributions made by each.

BVU's portion of the Joint Sewerage System is included in the wastewater division on the statement of net position as follows:

Due from other governmental units:

Contributions in Excess of Allocated Capital Outlays	\$ 1,596,096
Due from Joint Sewerage System	204,605
	\$ 1,800,701

Due from Joint Sewerage System consisted of the following:

Contributions to Joint Wastewater	\$ 1,472,629
Other Income	1,923
Total Contributions and Other Income	1,474,552
Expenditures - The Authority's portion	(1,269,947)
	\$ 204,605

Capital assets of the Joint Sewerage System reported in the Wastewater Fund are as follows:

Land	\$ 181,015
Equipment, Treatment, and Composting Plant	15,397,093
Accumulated Depreciation	(10,149,411)
Net Capital Assets	\$ 5,428,697

**F. Revenue Sharing Agreement**

Effective December 31, 1998, the City entered into an agreement with Washington County, Virginia, whereby the City pays a share of real estate, personal property and machinery and tools tax revenues derived from certain areas. Payments are to be 60% of the related tax for years 1-5, 40% for 6-10 years and 25% for years 11 and beyond. Amounts paid to Washington County during the fiscal year were approximately \$157,908.

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE V - OTHER INFORMATION (CONTINUED)**

**G. Commitments and Contingencies**

*Special Purpose Grants*

Special purpose grants are subject to audit to determine compliance with their requirements. City officials believe that if any refunds are required, they will be immaterial.

*Litigation and Regulatory Issues*

Various claims and lawsuits are pending against the City. In the opinion of City management, after consulting with legal counsel, the potential loss on all claims and lawsuits will not materially affect the City's financial position.

*Economic Development Performance Agreement*

In April 2010, the City entered into an agreement with a Company to pay from its Economic Development Funds. The City received \$1,000,000 as Governor's Development Opportunity Fund grant and remitted it to the Company during the fiscal year ended June 30, 2011. The City transferred land to the Company and will make a local match of \$1,166,444 which will be paid in increments of \$116,644 over 10 years which began during the fiscal year ended June 30, 2013.

The Company has constructed a building in the City of Bristol, Virginia where it will locate its corporate headquarters, employees, and corporate operations. All payments are expressly subject to the Company achieving certain milestones on capital investment and employment obligations through the end of the payment period.

**H. Economic Dependency**

The City receives a substantial amount of its revenue and support from federal and state governments. A significant reduction in the level of this support, if this were to occur, may have an effect on the City's programs and activities.

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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**NOTE V - OTHER INFORMATION (CONTINUED)**

**I. Subsequent Events**

In September 2014, the City approved the issuance of taxable General Obligation Note Series 2014B, not to exceed \$6 million, related to The Falls project.

In October 2014, the IDA approved the issuance of taxable Revenue Bonds, Series 2014A and tax exempt Revenue Bonds, Series 2014B. On November 24, 2014, the bond purchasing agreement was signed for issuance of \$6,355,000 in Taxable Revenue Bonds, Series 2014A and \$27,500,000 in Tax Exempt Revenue Bonds, Series 2014B.

**J. Prior Period Adjustment**

*Discretely Presented Component Units*

During the fiscal year ended June 30, 2014, BVU implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which required restatement of the bond issuance costs. Under this statement, all future bond issuance costs, other than the cost of insurance, will be expensed in the fiscal year the cost is incurred. Under prior statements, the bond issuance costs had been amortized, and therefore, the remaining bond issuance costs of \$720,844 were written off to the unrestricted net position.

**CITY OF BRISTOL, VIRGINIA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**ANALYSIS OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN**  
**June 30, 2014**

City Employees - Pension Plan

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded Actuarial Accrued Liability (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
June 30, 2013	\$ 74,884,226	\$ 103,803,462	\$ 28,919,236	72.14%	\$ 14,314,297	202.03%
June 30, 2012	74,594,071	103,942,007	29,347,936	71.77%	13,722,566	213.87%
June 30, 2011	76,700,176	99,723,361	23,023,185	76.91%	13,824,803	166.54%

Component Unit - City of Bristol, Virginia School Board - Pension Plan

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded Actuarial Accrued Liability (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
June 30, 2013	\$ 2,226,509	\$ 2,684,082	\$ 457,573	82.95%	\$ 348,975	131.12%
June 30, 2012	2,230,622	2,679,151	448,529	83.26%	367,833	121.94%
June 30, 2011	2,313,685	2,815,819	502,134	82.17%	350,356	143.32%

Component Unit - BVU Authority - Pension Plan

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded Actuarial Accrued Liability (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
June 30, 2013	\$ 3,873,873	\$ 2,987,145	\$ (886,728)	129.68%	\$ 7,749,557	(11.44%)
June 30, 2012	2,608,343	2,033,918	(574,425)	128.24%	7,740,084	(7.42%)
June 30, 2011	1,366,492	1,411,185	44,693	96.83%	8,910,312	0.50%

See Independent Auditors' Report.

**CITY OF BRISTOL, VIRGINIA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**ANALYSIS OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS**  
**June 30, 2014**

City and School Board - Other Post-Employment Benefits

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded Actuarial Accrued Liability (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
June 30, 2012	\$ -	\$ 7,035,600	\$ 7,035,600	0.00%	\$27,115,600	25.90%
June 30, 2010	-	5,692,600	5,692,600	0.00%	25,883,600	22.00%
June 30, 2008	-	5,084,800	5,084,800	0.00%	28,051,700	18.10%

Component Unit - BVU Authority - Other Post-Employment Benefits

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded Actuarial Accrued Liability (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
June 30, 2012	\$ -	\$ 3,701,100	\$ 3,701,100	0.00%	\$ 8,290,100	44.64%
June 30, 2010	-	3,410,200	3,410,200	0.00%	8,654,000	39.40%
June 30, 2008	-	2,459,100	2,459,100	0.00%	9,823,000	25.00%

See Independent Auditors' Report.

**CITY OF BRISTOL, VIRGINIA  
BALANCE SHEET  
INDUSTRIAL DEVELOPMENT AUTHORITY  
DISCRETELY PRESENTED COMPONENT UNIT  
June 30, 2014**

<hr/>	
ASSETS	
Cash	\$ 4,186
Receivables	64,315
Due From Primary Government	<u>147,472</u>
TOTAL ASSETS	<u><u>\$ 215,973</u></u>
LIABILITIES	
Accounts Payable	<u>\$ 211,787</u>
FUND BALANCE	
Unassigned	<u>4,186</u>
TOTAL FUND BALANCE	<u>4,186</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 215,973</u></u>
Amounts reported in the Statement of Net Position are different because:	
Fund Balance	\$ 4,186
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	<u>1,771,087</u>
Net Position of Industrial Development Authority	<u><u>\$ 1,775,273</u></u>

See Independent Auditors' Report.



**CITY OF BRISTOL, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**INDUSTRIAL DEVELOPMENT AUTHORITY**  
**DISCRETELY PRESENTED COMPONENT UNIT**  
**For the Fiscal Year Ended June 30, 2014**

REVENUES	
Intergovernmental	
City of Bristol, Virginia	\$ 2,085,698
Investment Earnings	152,250
Other	<u>100,000</u>
TOTAL REVENUES	<u>2,337,948</u>
EXPENDITURES	
Economic Development	<u>2,337,948</u>
Net Change in Fund Balance	-
FUND BALANCE, JULY 1, 2013	<u>4,186</u>
FUND BALANCE, JUNE 30, 2014	<u><u>\$ 4,186</u></u>

Amounts reported in the Statement of Activities are different because:

Net Change in Fund Balance	\$ -
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over the useful lives. This is the amount by which capital outlays exceeded depreciation expense in the current period.	1,170,092
Revenues in the funds are recorded when they provide current financial resources to the government while in the statement of activities, those revenues were recorded at the time when they were considered earned.	(145,000)
Expenditures are reported in the funds when they require the use of current financial resources while in the statement of activities those expenses are recorded when incurred.	<u>145,000</u>
Change in Net Position	<u><u>\$ 1,170,092</u></u>

See Independent Auditors' Report.

**CITY OF BRISTOL, VIRGINIA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Fiscal Year Ended June 30, 2014**

Federal Grantor/Program Title	Pass-Through Grantor (Commonwealth of Virginia)	Federal CFDA Number	Federal Expenditures
<u>Department of Agriculture</u>			
State Administrative Matching Grant for Food Stamp Program	Department of Social Services	10.561	\$ 338,694
<u>Department of Health and Human Services</u>			
Family Preservation and Support	Department of Social Services	93.556	15,402
Temporary Assistance to Needy Families	Department of Social Services	93.558	422,449
Refugee and Entrant Assistance - State Administered Programs	Department of Social Services	93.566	2,043
Low-Income Home Energy Assistance	Department of Social Services	93.568	34,987
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Department of Social Services	93.596	50,357
Chafee Education and Training Vouchers Program	Department of Social Services	93.599	3,077
Child Welfare Services - State Grants	Department of Social Services	93.645	2,515
Foster Care - Title IV-E	Department of Social Services	93.658	560,618
Adoption Assistance	Department of Social Services	93.659	232,808
Social Services Block Grant	Department of Social Services	93.667	247,805
Independent Living	Department of Social Services	93.674	8,328
State Children's Insurance Program	Department of Social Services	93.767	10,252
Medical Assistance Program	Department of Social Services	93.778	272,319
Other Program	Department of Social Services	93.999	45,060
<u>Department of Housing and Urban Development</u>			
Community Development Block Grant - Entitlement Grants	N/A	14.218	208,935
<u>Department of Homeland Security</u>			
Emergency Management Performance Grants	Department of Emergency Management	97.042	15,500
Emergency Preparedness	Department of Emergency Management	97.999	49,340
2012 Heavy Tactical Rescue Team Equipment, Exercise and Training Grant	Department of Criminal Justice Services	97.067	3,395
State Homeland Security Program Grant 2012 EOC Establishment	Department of Criminal Justice Services	97.067	50,000
2012 Haz-Mat Team Equipment, Exercise and Training Grant	Department of Criminal Justice Services	97.067	24,900
2011 Haz-Mat Team Equipment, Exercise and Training Grant	Department of Emergency Management	97.073	1,566
<u>Department of Justice</u>			
Violence Against Women Formula Grants Vest Grant	Department of Criminal Justice Services	16.588	10,886
	Department of Criminal Justice Services	16.607	2,230
Drug Court Discretionary Grant Program	N/A	16.585	16,020
<u>Department of Transportation</u>			
Drive Hammered Get Nailed	Department of Transportation	20.600	26,083
Transit Operating Assistance Grant	Department of Transportation	20.507	<u>269,008</u>
Total Federal Award Expenditures			<u>\$ 2,924,577</u>

See Independent Auditors' Report.

**CITY OF BRISTOL, VIRGINIA**  
**NOTES TO SCHEDULE OF FEDERAL AWARDS**  
**June 30, 2014**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICY**

**Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting as promulgated by U.S. generally accepted accounting principles.

**NOTE 2 - SUBGRANTEES**

The federal expenditures for the Community Development Block Grant Program include grants to subrecipients as follows:

Adult Learning Lab	\$ 26,500
Believe in Bristol	13,875
Children's Advocacy Center	3,129
Court Appointed Special Advocates	1,000
Crossroads Medical Mission	2,275
Family Promise of Bristol	2,750
King Mountain Permanent Housing	<u>2,600</u>
	<u>\$ 52,129</u>

**NOTE 3 - PROGRAM INCOME**

In accordance with terms of the Community Development Block Grant Program, program income was used to reduce the amount of federal funds used in conjunction with the program's objective.

See Independent Auditors' Report.

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**APPENDIX C**

**FORM OF CONTINUING DISCLOSURE CERTIFICATE**

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## CONTINUING DISCLOSURE CERTIFICATE

This **CONTINUING DISCLOSURE CERTIFICATE** (the “Certificate”) is executed and delivered as of August 27, 2015, by the **CITY OF BRISTOL, VIRGINIA** (the “City”) in connection with the issuance by the City of its \$17,530,000 Taxable General Obligation Refunding Notes, Series 2015C (the “Notes”). The Notes are being issued pursuant to a resolution adopted by the City Council of the City on July 14, 2015 (the “Resolution”). The City covenants and agrees as follows:

**Section 1. Purpose of the Continuing Disclosure Certificate.** This Certificate is being executed and delivered by the City for the benefit of the Noteholders and in order to assist the Participating Underwriters in complying with the Rule, as such capitalized terms are defined herein.

**Section 2. Definitions.** In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Certificate unless otherwise defined herein, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Certificate.

“Noteholders” or “Holders of the Notes” shall mean holders of the Notes, including holders of beneficial interests in the Notes, which are persons (a) having the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Notes (including persons holding Notes through nominees, depositories, or other intermediaries) or (b) treated as the owner of any Notes for federal income tax purposes.

“EMMA” shall mean the Electronic Municipal Market Access system as described in 1934 Act Release No. 59062 and maintained by the Municipal Securities Rulemaking Board for purposes of the Rule.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Certificate.

“National Repository” shall mean the Municipal Securities Rulemaking Board via EMMA.

“Participating Underwriters” shall mean the original Underwriters of the Notes required to comply with the Rule in connection with the offering of the Notes.

“Repository” shall mean the National Repository and each SID, if any.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“SID” shall mean any public or private repository or entity designated by the Commonwealth as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Certificate, there is no SID.

**Section 3. Provision of Annual Reports.**

(a) The City shall provide to each Repository an Annual Report that is consistent with the requirements of Section 4 of this Certificate, not later than 270 days after the end of each of the City’s fiscal years (the “Annual Report Date”), commencing with the fiscal year ending June 30, 2015. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4; *provided*, that audited financial statements of the City may be submitted to each Repository separately from the balance of the Annual Report and later than the Annual Report Date if they are not available by that date, as provided by the Rule. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If the City fails to provide a copy of such Annual Report to each Repository as of the Annual Report Date, the City shall send a notice of such failure to each Repository in substantially the form attached as Exhibit A to this Certificate.

(c) The City shall determine each year prior to the Annual Report Date the name and address of each Repository.

**Section 4. Content of Annual Reports.**

(a) The City's Annual Report shall contain or incorporate by reference the following:

- (i) The City's annual audited financial statements for the most recent fiscal year, prepared in accordance with generally accepted accounting principles applicable to governmental entities from time to time;
- (ii) A comparative statement of revenues, expenditures, transfers and fund balances for the City for the five most recent fiscal years;
- (iii) The assessed value of taxable property in the City for the ten most recent fiscal years;
- (iv) Property tax rates in the City for the ten most recent fiscal years;
- (v) Property tax levies and collections in the City for the ten most recent fiscal years; and
- (vi) A list of principal holders of taxable real estate in the City for the most recent fiscal year.

(b) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been previously submitted to each of the Repositories, or filed with the Securities and Exchange Commission; *provided*, that if the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

**Section 5. Reporting of Significant Events.**

(a) Pursuant to the provisions of this Section 5, the City shall give notice of the occurrence of any of the following events with respect to the Notes:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions, other IRS determinations or material events or notices affecting the tax status of the Notes;
- (vii) Modifications to the rights of the Noteholders, if material;
- (viii) Bond calls, subject to subsection (b) below, if material, and tender offers;



- (ix) Defeasances of all or any portion of the Notes;
- (x) Release, substitution, or sale of property securing repayment of the Notes, if material;
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar proceedings;
- (xiii) Mergers, consolidations, acquisitions, the sale of all or substantially all of the assets of the City, the entry of the City into a definitive agreement to undertake any of the foregoing or the termination of a definitive agreement relating to any such actions other than pursuant to its terms, if material;
- (xiv) Appointment of a successor or additional trustee or a change in the name of a trustee, if material.

(b) The City shall promptly file a notice of the occurrence of a Listed Event with the National Repository not in excess of ten business days after the occurrence thereof. Any notice under clauses (a)(viii) and (ix) above need not be given any earlier than the notice of the underlying event is given to Noteholders pursuant to the Resolution. The City does not undertake to provide the above-described notice in the event of a scheduled mandatory sinking fund redemption of the Notes, if (i) the terms, dates and amounts of redemption are set forth in detail in the City's official statement for the Notes, (ii) the only open issue is which Notes will be redeemed in the case of a partial redemption, (iii) notice of redemption is given to the Holders as required under the terms of the Resolution, and (iv) public notice of the redemption is given pursuant to 1934 Act Release No. 23856 of the Securities and Exchange Commission, even if the originally scheduled amounts may be reduced by prior optional redemptions or purchases of the Notes.

**Section 6. Termination of Reporting Obligation.** The obligations of the City under this Certificate shall terminate upon the redemption, defeasance (within the meaning of the Rule), or payment in full of all of the Notes. If such termination occurs prior to the final maturity of the Notes, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

**Section 7. Amendment; Modification.** Notwithstanding any other provision of this Certificate, the City may amend or modify its obligations under this Certificate if the City receives an opinion of counsel with expertise in federal securities law to the effect that such amendment or modification complies with the Rule as it exists at the time of modification. If such amendment or modification occurs, the City shall promptly send notice to each Repository.

**Section 8. Additional Information.** Nothing in this Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Certificate, the City shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

**Section 9. Default.** In the event of a failure of the City to comply with any provision of this Certificate, any Noteholder may, by notice to the City, take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City to comply with its obligations under this Certificate. A default under this Certificate shall not be deemed a default or an Event of Default under the Resolution or the Notes, and the sole remedy under this Certificate in the event of any failure of the City to comply with this Certificate shall be an action to compel performance.

**Section 10. Notices.** Any notices or communications to the City may be given as follows:

City of Bristol, Virginia  
300 Lee Street  
Bristol, Virginia 24201  
Telephone: (276) 645-7333  
Facsimile: (276) 645-7345  
Attention: City Manager

**Section 11. Beneficiaries.** This Certificate shall inure solely to the benefit of the City, the Participating Underwriters, and the Holders from time to time of the Notes, and shall create no rights in any other person or entity.

**Section 12. EMMA.** All filings made pursuant to the Rule under this Certificate shall be made by transmitting such filings to the National Repository, as described in 1934 Act Release No. 59062. Should the Securities and Exchange Commission approve any additional or subsequent internet-based electronic filing system for satisfying the continuing disclosure filing requirements of the Rule, any filings required under this Certificate may be made by transmitting such filing to such system, as described in the applicable Securities and Exchange Commission regulation or release approving such filing system.

**Section 13. Governing Law.** This Certificate shall be governed by and construed in accordance with the law of the Commonwealth of Virginia.

**Section 14. Compliance with Prior Undertakings.** The City has previously undertaken to provide continuing disclosure pursuant to the Rule. Prior to July 1, 2009, filings by the City were made through the then existing nationally recognized municipal securities information repositories (“NRMSIRs”), and the City had previously entered into continuing disclosure agreements to provide certain annual financial information and material event notices with respect to the City’s outstanding obligations. Pursuant to such agreements, the City agreed to provide such annual financial information through the required filing process within 270 days after the end of the City’s fiscal year. For fiscal year 2009 and fiscal year 2010, the City did inadvertently file, in an otherwise timely fashion, its Annual Report with NRMSIRs (Bloomberg, among others) and not with EMMA, but has since filed such Annual Report with EMMA. The City regularly reviews the effectiveness of its continuing disclosure policies and procedures and takes prompt action to remedy any deficiencies.

**CITY OF BRISTOL, VIRGINIA**

By: \_\_\_\_\_

Name: Tabitha H. Crowder

Title: City Manager

**EXHIBIT A TO CONTINUING DISCLOSURE CERTIFICATE**

**NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT**

Name of Obligated Person: CITY OF BRISTOL, VIRGINIA

Name of Note Issue: \$17,530,000 TAXABLE GENERAL OBLIGATION REFUNDING NOTES, SERIES 2015C

Dated Date of Notes: August 27, 2015

Date of Issuance: August 27, 2015

CUSIP Numbers: 110331NT8 and 110331NU5

NOTICE IS HEREBY GIVEN that the Obligated Person named above has not provided an Annual Report [the audited financial statements for the most recent fiscal year] with respect to the above-named Notes as required by Section 3 of the Continuing Disclosure Certificate dated as of August 27, 2015, executed and delivered by the Obligated Person named above. [The Obligated Person anticipates that the Annual Report [financial statements] will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_

**CITY OF BRISTOL, VIRGINIA**

By \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

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**APPENDIX D**

**SPECIMEN OF BOND COUNSEL OPINION**

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*Set forth below is the form of the opinion of Troutman Sanders LLP, Bond Counsel.*

August 27, 2015

Mayor and City Council of the City of Bristol, Virginia  
Bristol, Virginia

**City of Bristol, Virginia**  
**Taxable General Obligation Refunding Notes, Series 2015C**

We have acted as bond counsel in connection with the issuance by the City of Bristol, Virginia (the “City”) of its \$17,530,000 Taxable General Obligation Refunding Notes, Series 2015C (the “Notes”). We have examined the applicable law and certified copies of such proceedings and other papers, including the resolution adopted by the City Council of the City on July 14, 2015 (the “Resolution”), as we have deemed necessary to render this opinion. We have also examined the form of the Notes.

The Notes are dated the date hereof and bear interest and are payable as to principal and interest as set forth therein. The Notes are subject to redemption prior to maturity as set forth therein.

The Notes recite that they are authorized and issued pursuant to the Resolution and the Public Finance Act of 1991, Chapter 26, Title 15.2, Code of Virginia of 1950, as amended (the “Act”). The purposes for which the proceeds of the Notes are being used are set forth therein.

As to questions of fact material to the opinions, we have relied upon (i) representations of the City, including, without limitation, representations as to the use of proceeds of the Notes, (ii) certifications of public officials furnished to us, and (iii) certifications and representations contained in certificates of the City and others delivered at closing, without undertaking to verify them by independent investigation.

We have assumed that all signatures on documents, certificates, and instruments examined by us are genuine, all documents, certificates, and instruments submitted to us as originals are authentic, and all documents, certificates, and instruments submitted to us as copies conform to the originals. In addition, we have assumed that all documents, certificates, and instruments relating to this financing have been duly authorized, executed, and delivered by all parties to them other than the City, and we have further assumed the due organization, existence, and powers of all parties other than the City.

Based upon the foregoing and subject to the limitations contained herein, we are of the opinion, as of the date hereof, that:

(1) The Notes have been duly authorized and issued in accordance with the Constitution and statutes of the Commonwealth of Virginia (the “Commonwealth”), including the Act, and, subject to paragraph (3) below, constitute valid and legally binding general obligations of the City, for the payment of which the City’s full faith and credit have been irrevocably pledged. The City is authorized and required, unless other funds are lawfully available and appropriated for timely payment of the Notes, to levy and collect annually on all locally taxable property in the City an *ad valorem* tax, over and above all the taxes authorized or limited by law, sufficient to pay principal of, redemption premium, if any, and interest on, the Notes when due.

August 27, 2015

Page 2

(2) All proceedings for the issuance of the Notes have been held and adopted in due time, form and manner as required by the laws of the Commonwealth.

(3) The enforceability of rights or remedies with respect to the Notes (but not their validity) may be limited by bankruptcy, reorganization, insolvency, moratorium and similar laws affecting creditors' rights generally, heretofore or hereafter enacted, and usual equity principles.

(4) Interest on the Notes is includible in the gross income of the owners of the Notes for federal income tax purposes. We express no opinion regarding any other federal tax consequences with respect to the Notes.

(5) Interest on the Notes is excludable from gross income of the owners thereof for purposes of income taxation by the Commonwealth. We express no opinion regarding (i) other tax consequences arising with respect to the Notes under the laws of the Commonwealth, or (ii) any consequences arising with respect to the Notes under the tax laws of any state or local jurisdiction other than the Commonwealth.

Our services as bond counsel to the City have been limited to a review of the legal proceedings required for the authorization of the Notes and to rendering the opinions set forth above. Such opinions do not consider or extend to any documents, agreements or other materials of any kind concerning the Notes that are not mentioned herein. We were not asked to examine, and therefore we have not examined, any documents or other information concerning the operations or financial resources of the City. Consequently, we express no opinion as to the accuracy or completeness of any such information that may have been relied upon by any purchasers of the Notes in making the decision to purchase any of the Notes. This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,



**APPENDIX E**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

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# MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.  
31 West 52nd Street, New York, N.Y. 10019  
(212) 974-0100

Form 500NY (5/90)