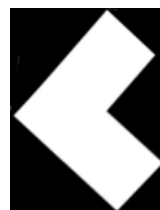


Town of South Hill, Virginia
Comprehensive Annual Financial Report
Year Ended June 30, 2014



***Creedle, Jones
& Alga, P.C.***
Certified Public Accountants

Town of South Hill, Virginia

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FINANCIAL SECTION





**Creedle
Jones
& Alga**

A Professional Corporation

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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of South Hill, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Town of South Hill, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of South Hill, Virginia, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 8 and 46 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of South Hill, Virginia's basic financial statements. The accompanying 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 not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2014, on our consideration of the Town of South Hill, 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 Town of South Hill, Virginia's internal control over financial reporting and compliance.

Credle, Jones & Alga, P.C.

Credle, Jones & Alga, P.C.
Certified Public Accountants

South Hill, Virginia
September 23, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Town of South Hill, Virginia presents the following discussion and analysis as an overview of the Town of South Hill, Virginia's financial activities for the fiscal year ending June 30, 2014. We encourage readers to read this discussion and analysis in conjunction with the transmittal letter and the Town's financial statements.

Financial Highlights

Highlights for Government-Wide Financial Statements

- At the close of the fiscal year, the assets of the Town exceeded its liabilities by \$20,744,448. Of this amount, \$14,118,440 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors. For the enterprise activities, the assets exceeded liabilities by \$10,516,396. Of this amount, \$1,085,795 is unassigned and is available for funding water and sewer activities.
- For the fiscal year, general and program revenues of the Town's governmental activities were \$9,196,585 and expenses amounted to \$7,153,202. The Town's total net position increased \$2,043,383 before transfers.
- For business-type activities, revenues were \$3,412,682 and expenses were \$2,683,976. The net position increased by \$728,706 before transfers.

Highlights for Fund Financial Statements

- As of June 30, 2014, the Town's Governmental Funds reported combined fund balances of \$14,603,632, an increase of \$1,559,593 in comparison with the prior year. Approximately 99.59 percent of the combined fund balances, \$14,542,859, is available to meet the Town's current and future needs.
- The General Fund reported a fund balance of \$14,542,859, an increase of \$1,566,805 from June 30, 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements report information about the Town as a whole using accounting methods similar to those found in the private sector. They also report the Town's net position and how they have changed during the fiscal year.

Statement of Net Position: presents information on all of the Town's assets and liabilities. The difference between a) assets and deferred outflows of resources and b) liabilities and deferred inflows of resources can be used as one way to measure the Town's financial health or financial condition. Over time, increases or decreases in the net position can be one indicator of whether the Town's financial condition is improving or deteriorating. Other nonfinancial factors will also need to be considered, such as changes in the Town's property tax base and the condition of Town facilities.

Statement of Activities: presents information using the accrual basis accounting method and shows how the Town's net position changed during the fiscal year. All of the current year's revenues and expenses are shown in the Statement of Activities, regardless of when cash is received or paid.

The government-wide financial statements distinguish governmental activities from business-type activities identified as the primary government. The governmental activities of the Town include general government administration, public safety, public works, parks, recreation and cultural, and community development. Public utilities represent the business-type activities.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Town uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the Town's most significant funds rather than the Town as a whole. Major funds are separately reported while all others are combined into a single aggregated presentation.

The Town has three types of funds:

Governmental Funds - Most of the Town's basic services are included in Governmental Funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances remaining at year end that are available for spending. The Governmental Funds financial statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. Because this information does not encompass the long-term focus of the government-wide statements, additional information is provided with the fund's financial statements to explain the relationship (or differences). The Town maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, West Main Street Community Development Fund, and Cemetery Fund, all of which are considered to be major funds.

Proprietary Funds – The Town uses an Enterprise Fund which operates in a manner similar to private business enterprises. Costs are recovered primarily through user charges. Proprietary Fund financial statements provide both long and short-term financial information.

Fiduciary Funds – The Town is the trustee, or fiduciary, for the Town's agency funds. Agency funds utilize the accrual basis of accounting described in the Governmental Fund presentation. Since by definition, these assets are being held for the benefit of a third party and cannot be used to support activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

Notes to the Basic Financial Statements

The accompanying notes to the basic financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

Other

In addition to the basic financial statements and accompanying notes, this report also presents certain required and other supplementary information such as budgetary comparison schedules and combining financial statements.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

Summary of Net Position

As of June 30, 2014 and 2013

	<u>Governmental Activities</u>		<u>Enterprise Activities</u>		<u>Total Entity</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Assets						
Current and other assets	\$ 14,927,883	\$ 13,338,463	\$ 1,230,499	\$ 791,568	\$ 16,158,382	\$ 14,130,031
Capital assets (net)	<u>8,586,235</u>	<u>8,249,854</u>	<u>13,569,640</u>	<u>14,004,392</u>	<u>22,155,875</u>	<u>22,254,246</u>
Total Assets	<u>\$ 23,514,118</u>	<u>\$ 21,588,317</u>	<u>\$ 14,800,139</u>	<u>\$ 14,795,960</u>	<u>\$ 38,314,257</u>	<u>\$ 36,384,277</u>
Liabilities						
Other liabilities	\$ 244,667	\$ 220,771	\$ 144,703	\$ 268,389	\$ 389,370	\$ 489,160
Long-term liabilities	<u>2,525,003</u>	<u>3,038,837</u>	<u>4,139,040</u>	<u>4,612,837</u>	<u>6,664,043</u>	<u>7,651,674</u>
Total Liabilities	<u>2,769,670</u>	<u>3,259,608</u>	<u>4,283,743</u>	<u>4,881,226</u>	<u>7,053,413</u>	<u>8,140,834</u>
Net Position						
Net investment in capital assets	6,565,235	5,695,323	9,430,601	9,391,554	15,995,836	15,086,877
Restricted	60,773	67,985	-	-	60,773	67,985
Unassigned	<u>14,118,440</u>	<u>12,565,401</u>	<u>1,085,795</u>	<u>523,180</u>	<u>15,204,235</u>	<u>13,088,581</u>
Total Net Position	<u>20,744,448</u>	<u>18,328,709</u>	<u>10,516,396</u>	<u>9,914,734</u>	<u>31,260,844</u>	<u>28,243,443</u>
Total Liabilities and Net Position	<u>\$ 23,514,118</u>	<u>\$ 21,588,317</u>	<u>\$ 14,800,139</u>	<u>\$ 14,795,960</u>	<u>\$ 38,314,257</u>	<u>\$ 36,384,277</u>

Statement of Activities

The following table summarizes revenues and expenses for the primary government:

Summary of Changes in Net Position

For the Fiscal Years Ended June 30, 2014 and 2013

	<u>Governmental Activities</u>		<u>Enterprise Activities</u>		<u>Total Entity</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues						
Program Revenues						
Charges for services	\$ 905,640	\$ 916,458	\$ 3,410,646	\$ 3,068,791	\$ 4,316,286	\$ 3,985,249
Operating grants and contributions	1,934,413	1,418,562	-	-	1,934,413	1,418,562
General Revenues						
General property taxes, real and personal	2,087,951	2,062,613	-	-	2,087,951	2,062,613
Other taxes	3,655,815	3,585,776	-	-	3,655,815	3,585,776
Noncategorical aid from the state	324,699	168,482	-	-	324,699	168,482
Use of property	21,095	16,512	-	-	21,095	16,512
Investment earnings	59,834	22,454	2,036	248	61,870	22,702
Miscellaneous	207,138	137,545	-	-	207,138	137,545
Total Revenues	9,196,585	8,328,402	3,412,682	3,069,039	12,609,267	11,397,441
Expenses						
General government administration	881,537	839,535	-	-	881,537	839,535
Public safety	2,316,715	2,301,903	-	-	2,316,715	2,301,903
Public works	2,968,867	2,429,509	-	-	2,968,867	2,429,509
Parks, recreation, and cultural	470,000	458,472	-	-	470,000	458,472
Community development	450,702	514,439	-	-	450,702	514,439
Interest on long-term debt	65,381	104,544	-	-	65,381	104,544
Water and sewer activities	-	-	2,683,976	2,710,342	2,683,976	2,710,342
Total Expenses	7,153,202	6,648,402	2,683,976	2,710,342	9,837,178	9,358,744
Increase in Net Position	2,043,383	1,680,000	728,706	358,697	2,772,089	2,038,697
Beginning Net Position	18,328,709	16,449,906	9,914,734	9,683,033	28,243,443	26,132,939
Transfers	127,044	126,996	(127,044)	(126,996)	-	-
Prior Period Adjustment	245,312	71,807	-	-	245,312	71,807
Ending Net Position	\$ 20,744,448	\$ 18,328,709	\$ 10,516,396	\$ 9,914,734	\$ 31,260,844	\$ 28,243,443

Governmental activities increased the Town's net position by \$2,043,383 for fiscal year 2014. Revenues from governmental activities (without transfers) totaled \$9,196,585. Real estate, personal property, and other local taxes comprise the largest source of these revenues, totaling \$5,743,766 or 62.42 percent of all governmental activities revenue. Enterprise activities increased the Town's net position by \$728,706 with revenues reported of \$3,412,682.

The total cost of all governmental activities for this fiscal year was \$7,029,319. Public works was the Town's largest program with expenses totaling \$2,968,867. Public safety, which totals \$2,316,715, represents the second largest expense. Enterprise activities reported expenses of \$2,683,976.

For the Town's governmental activities, the net expense (total cost less fees generated by the activities and program-specific governmental aid) is illustrated in the following table:

Net Cost of Governmental Activities

For the Fiscal Years Ended June 30, 2014 and 2013

	<u>2014</u>		<u>2013</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
General government administration	\$ 881,537	\$ (881,537)	\$ 839,535	\$ (839,535)
Public safety	2,316,715	(2,132,759)	2,301,903	(2,032,754)
Public works	2,968,867	(937,131)	2,429,509	(417,915)
Parks, recreation, and cultural	470,000	(465,000)	458,472	(453,472)
Community development	450,702	168,659	514,439	(465,162)
Interest on long-term debt	<u>65,381</u>	<u>(65,381)</u>	<u>104,544</u>	<u>(104,544)</u>
Total	<u>\$ 7,153,202</u>	<u>\$ (4,313,149)</u>	<u>\$ 6,648,402</u>	<u>\$ (4,313,382)</u>

Net Cost of Enterprise Activities

For the Fiscal Years Ended June 30, 2014 and 2013

	<u>2014</u>		<u>2013</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Water and sewer activities	\$ 2,683,976	\$ 726,670	\$ 2,710,342	\$ 358,449
Total	<u>\$ 2,683,976</u>	<u>\$ 726,670</u>	<u>\$ 2,710,342</u>	<u>\$ 358,449</u>

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As of June 30, 2014, the Town's Governmental Funds reported a combined ending fund balance of 99.59 percent, or \$14,542,859, is available for spending at the government's discretion (unassigned fund balance).

The General Fund is the main operating fund of the Town. At the end of the current fiscal year, the General Fund had an unassigned fund balance of \$14,542,859. The General Fund's liquidity can be measured by comparing unassigned fund balance to total fund expenditures. Unassigned fund balance represents 203.31 percent of total fund expenditures.

BUDGETARY HIGHLIGHTS

General Fund

The following table provides a comparison of original budget, final budget, and actual revenues and expenditures in the General Fund:

Budgetary Comparison						
General Fund						
For the Fiscal Years Ended June 30, 2014 and 2013						
	<u>2014</u>			<u>2013</u>		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Revenues						
Taxes, real and personal property	\$ 1,963,300	\$ 1,963,300	\$ 2,082,020	\$ 1,954,300	\$ 1,954,300	\$ 2,060,767
Other local taxes	2,900,000	2,900,000	3,360,974	3,057,000	3,057,000	3,585,776
Other revenues	927,796	927,796	1,069,473	874,646	874,646	1,090,742
Intergovernmental	<u>1,447,168</u>	<u>1,447,168</u>	<u>2,553,954</u>	<u>1,108,068</u>	<u>1,108,068</u>	<u>1,544,430</u>
Total	7,238,264	7,238,264	9,066,421	6,994,014	6,994,014	8,281,715
Expenditures	<u>7,358,264</u>	<u>7,358,264</u>	<u>7,626,660</u>	<u>6,963,851</u>	<u>6,963,851</u>	<u>7,088,408</u>
Excess (Deficiency) of Revenues Over Expenditures	(120,000)	(120,000)	1,439,761	30,163	30,163	1,193,307
Other Financing Sources (Uses)						
Transfers in	120,000	120,000	127,044	120,000	120,000	126,996
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>(150,163)</u>	<u>(150,163)</u>	<u>-</u>
Total	<u>120,000</u>	<u>120,000</u>	<u>127,044</u>	<u>(30,163)</u>	<u>(30,163)</u>	<u>126,996</u>
Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,566,805</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,320,303</u>

Final amended budget revenues were more than the original budget by \$1,828,157.

The final amended budget appropriations for expenditures exceeded the original appropriation by \$268,396.

Actual revenues were more than final budget amounts by \$1,828,157, or 25.26 percent, while actual expenditures were \$268,396, or 3.65 percent more than final budget amounts.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

As of June 30, 2014, the Town's net investment in capital assets totals \$6,565,235, which is net capital assets less related debt for governmental activities and \$9,430,600 for business-type activities.

During fiscal year 2014, the Town's net capital assets (including additions, decreases, and depreciation) increased \$91,069, or 1.08 percent, for governmental activities and decreased \$434,752, or 3.11 percent, for business-type activities, as summarized in the following table:

Change in Capital Assets

	<u>Balance July 1, 2013</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2014</u>
Governmental Activities			
Land, land improvements, and easements	\$ 1,660,435	\$ -	\$ 1,660,435
Buildings and improvements	7,084,923	71,167	7,156,090
Streets and related infrastructure	8,587,418	76,113	8,663,531
Machinery, equipment, and vehicles	4,959,307	422,919	5,382,226
Total Capital Assets	22,292,083	570,199	22,862,282
Less: Accumulated depreciation and amortization	(13,796,917)	(479,130)	(14,276,047)
Total Capital Assets, Net	8,495,166	91,069	8,586,235
Enterprise Activities			
Land, land improvements, and easements	664,020	-	664,020
Water and sewer infrastructure	24,891,544	74,539	24,966,083
Machinery, equipment, and vehicles	1,222,015	30,918	1,252,933
Total Capital Assets	26,777,579	105,457	26,883,036
Less: Accumulated depreciation and amortization	(12,773,187)	(540,209)	(13,313,396)
Total Capital Assets, Net	14,004,392	(434,752)	13,569,640
Total Reporting Entity	<u>\$ 22,499,558</u>	<u>\$ (343,683)</u>	<u>\$ 22,155,875</u>

Long-Term Debt

As of June 30, 2014, the Town's long-term obligations total \$6,664,043.

Change in Long-Term Debt

	<u>Balance July 1, 2013</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2014</u>	<u>Due Within One Year</u>
Governmental Activities				
General obligation bonds	\$ 1,330,723	\$ (212,723)	\$ 1,118,000	\$ -
General obligation bonds	1,191,808	(304,808)	887,000	-
Note payable - Edmonds & Associates	32,000	(16,000)	16,000	16,000
Landfill obligation	147,067	2,059	149,126	-
Compensated absences	337,239	17,638	354,877	-
Total Outstanding Debt	3,038,837	(513,834)	2,525,003	16,000
Business-Type Activities				
Virginia Resources Authority	3,001,184	(283,144)	2,718,040	293,144
Benchmark Community Bank	-	1,421,000	1,421,000	-
Community National Bank	1,611,653	(1,611,653)	-	-
Total Outstanding Debt	4,612,837	(473,797)	4,139,040	293,144
Total Reporting Entity	<u>\$ 7,651,674</u>	<u>\$ (987,631)</u>	<u>\$ 6,664,043</u>	<u>\$ 309,144</u>

General obligation indebtedness must be approved by voter referendum prior to issuance.

More detailed information on the Town's long-term obligations is presented in Note 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The average unemployment rate for the Town of South Hill, Virginia in June 2014, which uses Mecklenburg County's rate, was 9.0 percent. This compares unfavorably to the state's rate of 5.4 percent and the national rate of 6.3 percent.
- According to the 2010 U.S. Census, the population in the Town of South Hill, Virginia was 4,650, an increase of 5.61 percent, since the 2000 U.S. Census.
- The per capita income in the Town of South Hill, Virginia was \$21,646, compared to \$27,705 for the state, according to the 2010 U.S. Census data.

The fiscal year 2015 adopted budget anticipates General Fund revenues and expenditures to be \$7,662,714, a 4.14 percent increase over the fiscal year 2014 budget.

The fiscal year 2015 adopted budget anticipates water and sewer revenue to be \$3,152,588, a 7.26 percent increase over the fiscal year 2014 budget.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. Questions concerning this report or requests for additional information should be directed to Kim Callis, Town Manager, or Katherine Ward, Director of Finance, Town of South Hill, Virginia, 211 South Mecklenburg Avenue, South Hill, Virginia 23970, telephone 434-447-3191, or visit the Town's website at www.southhillva.org.

BASIC FINANCIAL STATEMENTS



Town of South Hill, Virginia

Statement of Net Position

At June 30, 2014

Primary Government

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 14,490,852	\$ 867,636	\$ 15,358,488
Property taxes receivable, net	88,982	-	88,982
Receivables, net	348,049	362,863	710,912
Capital Assets			
Land, land improvements, and easements	1,660,435	664,020	2,324,455
Buildings and improvements	7,156,090	-	7,156,090
Infrastructure	8,653,823	24,966,083	33,619,906
Machinery, equipment, and vehicles	5,391,934	1,252,933	6,644,867
Less: Accumulated depreciation	<u>(14,276,047)</u>	<u>(13,313,396)</u>	<u>(27,589,443)</u>
Capital Assets, Net	<u>8,586,235</u>	<u>13,569,640</u>	<u>22,155,875</u>
 Total Assets	 <u>\$ 23,514,118</u>	 <u>\$ 14,800,139</u>	 <u>\$ 38,314,257</u>
 Liabilities			
Accounts payable and accrued expenses	\$ 244,667	\$ 42,600	\$ 287,267
Customer deposits	-	102,103	102,103
Long-Term Liabilities			
<i>Due within one year</i>			
Bonds and notes payable	571,145	571,145	1,142,290
<i>Due in more than one year</i>			
Compensated absences	354,877	-	354,877
Landfill obligation	149,126	-	149,126
Bonds and notes payable	<u>1,449,855</u>	<u>3,567,895</u>	<u>5,017,750</u>
 Total Liabilities	 2,769,670	 4,283,743	 7,053,413
 Net Position			
Net investment in capital assets	6,565,235	9,430,601	15,995,836
Restricted	60,773	-	60,773
Unrestricted	<u>14,118,440</u>	<u>1,085,795</u>	<u>15,204,235</u>
 Total Net Position	 <u>20,744,448</u>	 <u>10,516,396</u>	 <u>31,260,844</u>
 Total Liabilities and Net Position	 <u>\$ 23,514,118</u>	 <u>\$ 14,800,139</u>	 <u>\$ 38,314,257</u>

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

Town of South Hill, Virginia

Statement of Activities

For the Year Ended June 30, 2014

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Primary Government Business-Type Activities</u>	<u>Total</u>
Primary Government						
Governmental Activities						
General government administration	\$ 881,537	\$ -	\$ -	\$ (881,537)	\$ -	\$ (881,537)
Public safety	2,316,715	148,223	35,733	(2,132,759)	-	(2,132,759)
Public works	2,968,867	757,417	1,274,319	(937,131)	-	(937,131)
Parks, recreation, and cultural	470,000	-	5,000	(465,000)	-	(465,000)
Community development	450,702	-	619,361	168,659	-	168,659
Interest on long-term debt	<u>65,381</u>	<u>-</u>	<u>-</u>	<u>(65,381)</u>	<u>-</u>	<u>(65,381)</u>
Total Governmental Activities	7,153,202	905,640	1,934,413	(4,313,149)	-	(4,313,149)
Business-Type Activities						
Water and sewer fund	<u>2,683,976</u>	<u>3,410,646</u>	<u>-</u>	<u>-</u>	<u>726,670</u>	<u>726,670</u>
Total Primary Government	<u>\$ 9,837,178</u>	<u>\$ 4,316,286</u>	<u>\$ 1,934,413</u>	(4,313,149)	726,670	(3,586,479)
General Revenues						
Taxes						
General property taxes, real and personal				2,087,951	-	2,087,951
Other local taxes				3,655,815	-	3,655,815
Noncategorical aid from state				324,699	-	324,699
Use of property				21,095	-	21,095
Investment earnings				59,834	2,036	61,870
Miscellaneous				207,138	-	207,138
Transfers				<u>127,044</u>	<u>(127,044)</u>	<u>-</u>
Total General Revenues				<u>6,483,576</u>	<u>(125,008)</u>	<u>6,358,568</u>
Change in Net Position				2,170,427	601,662	2,772,089
Prior Period Adjustment				245,312	-	245,312
Net Position - Beginning of Year				<u>18,328,709</u>	<u>9,914,734</u>	<u>28,243,443</u>
Net Position - End of Year				\$ 20,744,448	\$ 10,516,396	\$ 31,260,844

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

Town of South Hill, Virginia

Balance Sheet

Governmental Funds

At June 30, 2014

	General Fund	West Main Street Community Development Fund	Cemetery Fund	Total Governmental Funds
Assets				
Cash and investments	\$ 14,437,690	\$ (7,611)	\$ 60,773	\$ 14,490,852
Property taxes receivable, net	88,982	-	-	88,982
Accounts receivable, net	<u>328,755</u>	<u>19,294</u>	<u>-</u>	<u>348,049</u>
Total Assets	<u>\$ 14,855,427</u>	<u>\$ 11,683</u>	<u>\$ 60,773</u>	<u>\$ 14,927,883</u>
Liabilities				
Accounts payable and accrued liabilities	\$ <u>232,984</u>	\$ <u>11,683</u>	\$ <u>-</u>	\$ <u>244,667</u>
Total Liabilities	232,984	11,683	-	244,667
Deferred Inflows of Resources				
Unavailable revenue - property taxes	<u>79,584</u>	<u>-</u>	<u>-</u>	<u>79,584</u>
Total Deferred Inflows of Resources	79,584	-	-	79,584
Fund Balance				
Restricted	-	-	60,773	60,773
Unassigned	<u>14,542,859</u>	<u>-</u>	<u>-</u>	<u>14,542,859</u>
Total Fund Balance	<u>14,542,859</u>	<u>-</u>	<u>60,773</u>	<u>14,603,632</u>
Total Liabilities, Deferred Inflows of of Resources, and Fund Balance	<u>\$ 14,855,427</u>	<u>\$ 11,683</u>	<u>\$ 60,773</u>	<u>\$ 14,927,883</u>

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

Town of South Hill, Virginia

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

At June 30, 2014

Total Fund Balances for Governmental Funds		\$ 14,603,632
Total net position reported for governmental activities in the Statement of Net Position is different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land, land improvements, and easements	\$ 1,660,435	
Buildings and improvements, net of accumulated depreciation	4,834,688	
Streets and related infrastructure, net of accumulated depreciation	798,780	
Machinery, equipment, and vehicles, net of accumulated depreciation	<u>1,292,332</u>	
Total Capital Assets		8,586,235
Other Assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds statement.		
Unavailable revenue - property taxes		79,584
Liabilities applicable to the Town's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities.		
Balances of long-term liabilities affecting net position are as follows:		
Bonds and notes payable	(2,021,000)	
Landfill obligation	(149,126)	
Compensated absences	<u>(354,877)</u>	
Total		<u>(2,525,003)</u>
Total Net Position of Governmental Activities		<u>\$ 20,744,448</u>

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

Town of South Hill, Virginia

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2014

	<u>General Fund</u>	<u>West Main Street Community Development Fund</u>	<u>Cemetery Fund</u>	<u>Total Governmental Funds</u>
Revenues				
Property taxes	\$ 2,082,020	\$ -	\$ -	\$ 2,082,020
Other local taxes	3,360,974	-	-	3,360,974
Permits, privilege fees, and regulatory licenses	47,165	-	-	47,165
Fines and forfeitures	148,223	-	-	148,223
Use of money and property	103,404	-	-	103,404
Charges for services	710,252	-	-	710,252
Miscellaneous	60,429	-	350	60,779
<i>Intergovernmental</i>				
Revenue from the Commonwealth of Virginia	1,898,860	-	-	1,898,860
Revenue from the Federal Government	655,094	265,609	-	920,703
Total Revenues	9,066,421	265,609	350	9,332,380
Expenditures				
Current				
General government administration	807,666	-	-	807,666
Public safety	2,339,054	-	-	2,339,054
Public works	3,117,243	-	-	3,117,243
Parks, recreation, and cultural	433,801	-	-	433,801
Community development	454,102	265,609	7,562	727,273
Debt service	474,794	-	-	474,794
Total Expenditures	7,626,660	265,609	7,562	7,899,831
Excess (Deficiency) of Revenues Over Expenditures	1,439,761	-	(7,212)	1,432,549
Other Financing Sources (Uses)				
Transfers in	127,044	-	-	127,044
Total Other Financing Sources (Uses)	127,044	-	-	127,044
Net Change in Fund Balance	1,566,805	-	(7,212)	1,559,593
Fund Balance - Beginning of Year	12,976,054	-	67,985	13,044,039
Fund Balance - End of Year	<u>\$ 14,542,859</u>	<u>\$ -</u>	<u>\$ 60,773</u>	<u>\$ 14,603,632</u>

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

Town of South Hill, Virginia

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities

Year Ended June 30, 2014

Net Change in Fund Balances - Total Governmental Funds \$ 1,559,593

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 91,069

Revenues in the Statement of Activities that do not provide current financial resources are deferred in the fund statements. This amount represents the difference in the amounts deferred in the fund financial statements, but recognized in the Statement of Activities. 5,931

Bond and capital lease proceeds are reported as financing sources in Governmental Funds and thus contribute to the change in fund balance. In the Statement of Net Position, however, issuing debt increases the long-term liabilities and does not affect the Statement of Activities. Similarly, the repayment of principal is an expenditure in the Governmental Funds but reduces the liability in the Statement of Net Position.

General long-term debt \$ 533,531

Net Adjustment 533,531

Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following:

Compensated absences (17,638)
Landfill obligation (2,059)

Net Adjustment (19,697)

Change in Net Position of Governmental Activities \$ 2,170,427

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

Town of South Hill, Virginia

Statement of Net Position

Proprietary Fund

At June 30, 2014

**Business-Type
Activities -
Enterprise Fund
Water and
Sewer Fund****Assets****Current Assets**

Cash	\$ 867,636
Accounts receivable (net of allowance for bad debts)	<u>362,863</u>
Total Current Assets	1,230,499

Capital Assets

Fixed assets	26,883,037
Less: Accumulated depreciation	<u>(13,313,397)</u>
Total Capital Assets	<u>13,569,640</u>
Total Assets	<u><u>\$ 14,800,139</u></u>

Liabilities and Net Position**Liabilities****Current Liabilities**

Accounts payable and accrued liabilities	\$ 42,600
Current portion of general obligation bonds	<u>571,145</u>
Total Current Liabilities	613,745

Noncurrent Liabilities

Customer deposits	102,103
General obligation bonds (net of current portion)	<u>3,567,895</u>
Total Noncurrent Liabilities	<u>3,669,998</u>
Total Liabilities	4,283,743

Net Position

Net investment in capital assets	9,430,601
Unrestricted	<u>1,085,795</u>
Total Net Position	<u>10,516,396</u>
Total Liabilities and Net Position	<u><u>\$ 14,800,139</u></u>

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

Town of South Hill, Virginia

Statement of Revenues, Expenses, and Changes in Fund Net Position

Proprietary Fund

Year Ended June 30, 2014

	<u>Business-Type Activities - Enterprise Fund Water and Sewer Fund</u>
Operating Revenues	
Charges for services	\$ 3,311,150
Miscellaneous	32,145
Connection and cut-on fees	<u>67,351</u>
Total Operating Revenues	3,410,646
Operating Expenses	
Water purchases	1,007,746
Salaries and wages	295,654
Fringe benefits	105,525
Contractual services	49,665
Chemicals	11,977
Vehicle and power equipment	8,244
Repairs and maintenance	245,806
Other charges	107,331
Bond issuance costs	10,455
Depreciation	540,209
Utilities	124,812
Insurance	<u>8,177</u>
Total Operating Expenses	<u>2,515,601</u>
Operating Income	895,045
Nonoperating Revenues (Expenses)	
Investment and interest income	2,036
Interest expense on bonds	<u>(168,375)</u>
Total Nonoperating Revenues (Expenses)	<u>(166,339)</u>
Income Before Operating Transfers	728,706
Operating Transfers In (Out)	<u>(127,044)</u>
Change in Net Position	601,662
Total Net Position - Beginning of Year	<u>9,914,734</u>
Total Net Position - End of Year	<u><u>\$ 10,516,396</u></u>

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

Town of South Hill, Virginia

Statement of Cash Flows

Proprietary Fund

Year Ended June 30, 2014

**Business-Type
Activities -
Enterprise Fund
Water and
Sewer Fund****Cash Flows from Operating Activities**

Receipts from customers	\$ 3,406,167
Payments to personnel and related costs	(401,179)
Payments to suppliers	<u>(1,697,899)</u>

Net Cash Provided by Operating Activities 1,307,089

Cash Flows from Noncapital Financing Activities

Funds from (paid to) other funds	<u>(127,044)</u>
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Net Cash Used in Noncapital Financing Activities (127,044)

Cash Flows from Financing Capital and Related Activities

Purchase of capital assets	(105,458)
Proceeds from loans	1,421,000
Principal paid on long-term debt	(1,894,796)
Interest paid on capital debt	<u>(168,375)</u>

Net Cash Used in Financing Capital and
Related Activities (747,629)

Cash Flows from Investing Activities

Investment and interest income	<u>2,036</u>
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Net Cash Provided by Investing Activities 2,036

Net Increase in Cash 434,452

Cash - Beginning of Year 433,184

Cash - End of Year \$ 867,636

Reconciliation of Operating Income (Loss) to Net**Cash Provided by (Used in) Operating Activities**

Operating income	\$ 895,045
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used in) Operating Activities	
Depreciation expense	540,209
Changes in assets and liabilities	
Receivables, net	(4,479)
Accounts payable and accrued expenses	(136,738)
Customer deposits	<u>13,052</u>

Net Cash Provided by Operating Activities \$ 1,307,089

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

Town of South Hill, Virginia

Notes to Financial Statements

Year Ended June 30, 2014

1 Summary of Significant Accounting Policies

Narrative Profile

The Town of South Hill, Virginia (the “Town”), which was incorporated in 1901, has a population of approximately 4,650 living within an area of 9.3 square miles. The Town is located in eastern Mecklenburg County, Virginia at the intersection of Interstate Highway 85 and U. S. Highway 58. The Town is governed by a Mayor, Town Manager, and an eight-member Town Council with each serving administrative and legislative functions.

The Town engages in a comprehensive range of municipal services, including general government administration, public safety, public works, parks, recreation, and cultural, and community development.

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

1-A. Financial Reporting Entity

The basic criterion for determining whether a governmental department, agency, institution, commission, public authority, or other governmental organization should be included in a primary governmental unit’s reporting entity for the basic financial statements is financial accountability. Financial accountability includes the appointment of a voting majority of the organization’s governing body and the ability of the primary government to impose its will on the organization or if there is a financial benefit/burden relationship. In addition, an organization which is fiscally dependent on the primary government should be included in its reporting entity. These financial statements present the Town of South Hill, Virginia (the primary government).

Exclusions from the Reporting Entity

Jointly Governed Organizations

Jointly governed organizations are regional governments or other multi-governmental arrangements that are governed by representation from each of the governments that create the organizations, and the participants do not retain an ongoing financial interest or responsibility in the organization.

The financial activities of the following organizations are excluded from the accompanying financial statements for the reasons indicated:

Southside Regional Library

The Southside Regional Library provides library services to the Counties of Mecklenburg and Lunenburg and towns within the counties. The participating localities, including the Town of South Hill, Virginia, provide annual contributions for operations based on book circulation. No one locality contributes more than 50 percent of the Library's funding nor can impose its will on the organization, and there is no financial benefit/burden relationship. The Town appropriated to the Library \$33,900 in operating funds in fiscal year 2014. The Town owns the R. T. Arnold Library building that operates in the Town of South Hill, Virginia.

Related Organization

Industrial Development Authority of the Town of South Hill, Virginia

The Authority is a separate and distinct entity from the Town of South Hill, Virginia and is, in accordance with the Act, a political subdivision of the Commonwealth of Virginia and not subject to income taxation.

The Authority is governed by a seven-member Board of Directors appointed by the Town Council of the Town of South Hill, Virginia to serve staggered terms of four years.

1-B. Financial Reporting Model

The Town's Comprehensive Annual Financial Report includes management's discussion and analysis, the basic financial statements, and other supplementary information, described as follows:

Management's Discussion and Analysis – The basic financial statements are accompanied by a narrative introduction as well as an analytical overview of the Town's financial activities.

Government-wide Financial Statements – The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements report financial information for the Town as a whole. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and grants and the Town's general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. The fiduciary funds of the primary government are not included in the government-wide financial statements.

The Statement of Net Position presents the financial position of the governmental and business-type activities of the Town at year end.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities and for each identifiable activity of the business-type activities of the Town. Direct expenses are those that are specifically associated with a function and, therefore, clearly identifiable to that particular function. The Town does not allocate indirect expenses to functions in the Statement of Activities.

The Statement of Activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees and other charges to users of the Town's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. For identifying to which function program revenue pertains, the determining factor for *charges for services* is which function *generates* the revenue. For *grants and contributions*, the determining factor is to which function the revenues are *restricted*.

Other revenue sources not considered to be program revenues are reported as general revenues of the Town. The comparison of direct expenses with program revenues identifies the extent to which each governmental function and each identifiable business activity is self-financing or draws from the general revenues of the Town.

Fund Financial Statements – During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at this more detailed level. Fund financial statements are provided for governmental, proprietary, and fiduciary funds.

Major individual governmental and proprietary funds are reported in separate columns.

Reconciliation of Government-wide and Fund Financial Statements – Since the governmental funds financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements, a summary reconciliation of the difference between total fund balances as reflected on the governmental funds Balance Sheet and total governmental activities Net Position as shown on the government-wide Statement of Net Position is presented. In addition, a summary reconciliation of the difference between the total net change in fund balances as reflected on the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances, and the change in Net Position of governmental activities as shown on the government-wide Statement of Activities is presented.

1-C. Financial Statement Presentation

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

Governmental Funds – Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The Town reports the difference between its governmental fund assets and deferred outflows of resources and its liabilities and deferred inflows of resources as fund balance. The following are the Town's major governmental funds:

Major Governmental Funds

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

Special Revenue Funds – Special Revenue Funds account for the proceeds of specific revenue sources (other than those derived from special assessments, expendable trusts, or dedicated for major capital projects) requiring separate accounting due to legal or regulatory provisions or administrative action. Special Revenue Funds include the following:

Cemetery Fund – This fund accounts for Town revenues collected and disbursed for maintenance of the Cemetery Fund controlled by the Town.

Capital Projects Funds – The Capital Projects Fund consists of the West Main Street Community Development Fund which accounts for financial resources to be used for rehabilitation projects, other than those financed by proprietary funds.

Proprietary Funds – Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The Town has one enterprise fund, the Water and Sewer Fund, which accounts for operations that are financed and operated in a manner similar to private business enterprises. The intent of the Town is that the cost of providing services to the general public be financed or recovered through user charges.

Fiduciary Funds – (Agency Funds) – Fiduciary funds account for assets held by the Town in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds. Agency funds utilize the accrual basis of accounting. Since by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements. The Town has no Fiduciary Funds at this time.

1-D. Measurement Focus and Basis of Accounting

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

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

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

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

The Town's fiduciary funds are presented in the fund financial statements by type. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

1-E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity

1-E-1 Cash and Cash Equivalents

The Town operates a cash and investment pool which all funds utilize. The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

The Town allocates investment earnings of the cash and investment pool to each participating fund on a monthly basis in accordance with that fund's average equity balance in the pool for that month.

1-E-2 Investments

Investments are stated at fair value which approximates market; no investments are valued at cost. Certificates of deposit and short-term repurchase agreements are reported in the accompanying financial statements as cash and cash equivalents.

State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, the State Treasurer's Local Government Investment Pool (LGIP), and the State Non-Arbitrage Program (SNAP).

1-E-3 Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portions of the interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statement as internal balances.

All trade and property tax receivables are shown net of an allowance for uncollectibles. The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance is composed of the following:

	<u>General</u>	<u>Water and Sewer</u>	<u>Total</u>
Property Taxes	\$ 88,982	\$ -	\$ 88,982
Garbage	88,997	-	88,997
Water and Sewer	-	361,713	361,713
	<u>\$ 177,979</u>	<u>\$361,713</u>	<u>\$539,692</u>

Real and Personal Property Tax Data

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

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

The Town bills and collects its own property taxes.

A ten percent penalty or \$10 minimum is levied on all taxes not collected on or before their due date. An interest charge of ten percent per annum is also levied on such taxes beginning on January 6.

1-E-4 Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30 are recorded as prepaid items using the consumption method by recording an asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed. At the fund reporting level, an equal amount of fund balance is reported as nonspendable as this amount is not available for general appropriation.

1-E-5 Capital Assets

General capital assets are those capital assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in governmental funds. The Town reports these assets in the governmental activities column of the government-wide Statement of Net Position but does not report these assets in the governmental fund financial statements. Capital assets utilized by enterprise funds are reported both in the business-type activities column of the government-wide Statement of Net Position and in the enterprise funds' Statement of Net Position.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Town maintains a capitalization threshold of \$5,000. The Town's infrastructure consists primarily of roads and bridges. Improvements to capital assets are capitalized; however, the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Capital assets of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Description</u>	<u>Estimated Lives</u>
Buildings and improvements	10 to 40 years
Infrastructure	40 years
Furniture and other equipment	3 to 20 years

1-E-6 Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources until then.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources until that time. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30 and is deferred and recognized as an inflow of resources in the period that the amount becomes available.

1-E-7 Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Town will compensate the employees for the benefits through paid time off or some other means.

All compensated absence liabilities include salary-related payments, where applicable.

The total compensated absence liability is reported on the government-wide financial statements. Proprietary funds report the total compensated absence liability in each individual fund at the fund reporting level. Governmental funds report the compensated absence liability at the fund reporting level when paid.

1-E-8 Retirement Plan

Retirement plan contributions are actuarially determined for the Virginia Retirement System (VRS) and consist of current service costs and amortization of prior service cost over a 30-year period. The Town's policy is to fund pension cost at the actuarially determined rates.

1-E-9 Fund Equity

Fund equity at the governmental fund financial reporting level is classified as fund balance. Fund equity for all other reporting is classified as net position.

Governmental Fund Balances – Generally, governmental fund balances represent the difference between the current assets and deferred outflows of resources, and current liabilities and deferred inflows of resources. Governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which resources can be spent. Fund balances are classified as follows:

Nonspendable – amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level of action to remove or change the constraint.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes.

Unassigned – all amounts not classified as nonspendable, restricted, committed, or assigned.

Net Position – Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of cost of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. This net investment in capital assets amount also is adjusted by any bond issuance deferral amounts. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net position is reported as unrestricted.

1-E-10 Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Town, these revenues are charges for services for water and sewer. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All other items that do not directly relate to the principal and usual activity of the fund are recorded as nonoperating revenues and expenses. These items include investment earnings and gains or losses on the disposition of capital assets.

1-E-11 Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after the non-operating revenues/expenses section in proprietary funds.

1-E-12 Long-Term Obligations

The Town reports long-term debt of Governmental Funds at face value in the general long-term debt account group. The face value of the debt is believed to approximate fair value. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group. Long-term debt and other obligations financed by Proprietary Funds are reported as liabilities in the appropriate funds.

1-E-13 Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

2 Stewardship, Compliance, and Accountability

Budgets and Budgetary Accounting

The Town Council annually adopts budgets for the various funds of the primary government. All appropriations are legally controlled at the department level for the primary Government Funds. Unexpended appropriations lapse at the end of each fiscal year.

Budgetary Data

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

1. Prior to April 1, the Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing July 1. The operating budget and capital budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the fund, function, and departmental level. These appropriations for each fund, function, and department can be revised only by the Town Council.
5. Formal budgetary integration is employed as a management control device during the year and budgets are legally adopted for all major funds.

6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Supplemental Appropriations are adopted if necessary during the fiscal year.

Expenditures exceeded appropriations in the following funds at June 30, 2014:

The General Fund expenditures exceeded appropriations by \$268,396.

There were no fund deficits at June 30, 2014.

3 Cash and Cash Equivalents

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

The following is a summary and reconciliation of the pooled cash and certificates of deposit at June 30, 2014:

<u>Asset Type</u>	<u>Balance June 30, 2014</u>
Petty cash	\$ 950
Deposit accounts	<u>15,357,538</u>
Total Cash and Cash Equivalents	<u>\$ 15,358,488</u>

4 Net Receivables

Receivables at June 30, 2014 consist of the following:

Primary Government

	<u>Governmental Activities</u>				<u>Enterprise Activities</u>	
	<u>General</u>	<u>Community Development</u>	<u>Special Revenue</u>	<u>Total Governmental</u>		<u>Total</u>
Utility taxes	\$ 13,247	\$ -	\$ -	\$ 13,247	\$ -	\$ 13,247
Garbage, water and sewer	88,997	-	-	88,997	361,713	450,710
Meals tax	151,600	-	-	151,600	-	151,600
Lodging tax	32,518	-	-	32,518	-	32,518
Sales tax	6,870	-	-	6,870	-	6,870
Fines	10,865	-	-	10,865	-	10,865
Miscellaneous	<u>24,658</u>	<u>19,294</u>	<u>-</u>	<u>43,952</u>	<u>1,150</u>	<u>45,102</u>
Total Net Receivables	<u>\$ 328,755</u>	<u>\$ 19,294</u>	<u>\$ -</u>	<u>\$ 348,049</u>	<u>\$ 362,863</u>	<u>\$ 710,912</u>

5 Interfund Transfers

Interfund transfers for the year ended June 30, 2014 consisted of the following:

Primary Government

	<u>Transfer To</u>	<u>Transfer From</u>
General Fund		
From Water and Sewer Fund for administrative fees	\$ -	\$ 127,044
Total General Fund	-	127,044
Water and Sewer Fund		
To General Fund for administrative fees	127,044	-
Total Water and Sewer Fund	127,044	-
Total Transfers	<u>\$ 127,044</u>	<u>\$ 127,044</u>

6 Capital Assets

The following is a summary of changes in capital assets:

Governmental Activities

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital Assets Not Being Depreciated				
Land, land improvements, and easements	\$ 1,660,435	\$ -	\$ -	\$ 1,660,435
Total Capital Assets Not Being Depreciated	1,660,435	-	-	1,660,435
Other Capital Assets				
Buildings and improvements	7,084,923	71,167	-	7,156,090
Streets and related infrastructure	8,577,710	76,113	-	8,653,823
Machinery, equipment, and vehicles	4,969,015	422,919	-	5,391,934
Total Other Capital Assets	20,631,648	570,199	-	21,201,847
Less: Accumulated depreciation for				
Buildings and improvements	2,132,612	188,790	-	2,321,402
Streets and related infrastructure	7,831,003	24,040	-	7,855,043
Machinery, equipment, and vehicles	3,833,302	266,300	-	4,099,602
Total Accumulated Depreciation	13,796,917	479,130	-	14,276,047
Other Capital Assets, Net	6,834,731	91,069	-	6,925,800
Net Capital Assets	\$ 8,495,166	\$ 91,069	\$ -	\$ 8,586,235

Depreciation expense was allocated as follows:

General government administration	\$ 75,809
Public safety	86,588
Public works	190,030
Parks, recreation, and cultural	126,703
Total Depreciation Expense	\$ 479,130

Business-Type Activities

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital Assets Not Being Depreciated				
Land, land improvements, and easements	\$ 664,020	\$ -	\$ -	\$ 664,020
Total Capital Assets Not Being Depreciated	664,020	-	-	664,020
Other Capital Assets				
Water and sewer infrastructure	24,891,544	74,539	-	24,966,083
Machinery, equipment, and vehicles	1,222,015	30,918	-	1,252,933
Total Other Capital Assets	26,113,559	105,457	-	26,219,016
Less: Accumulated depreciation for				
Water and sewer infrastructure	12,087,821	494,181	-	12,582,002
Machinery, equipment, and vehicles	685,366	46,028	-	731,394
Total Accumulated Depreciation	12,773,187	540,209	-	13,313,396
Other Capital Assets, Net	13,340,372	(434,752)	-	12,905,620
Net Capital Assets	\$ 14,004,392	\$ (434,752)	\$ -	\$ 13,569,640

7 Compensated Absences

Town employees can accumulate up to 360 hours of compensated leave. Upon termination, employees are paid accumulated vacation leave. The Town has outstanding compensated absences totaling \$337,239 for the governmental activities.

8 Long-Term Debt

PRIMARY GOVERNMENT

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

Year(s) Ended June 30.	<u>General Fund</u>		<u>Enterprise Fund</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 615,000	\$ 9,126	\$ 571,145	\$ 120,741	\$ 1,186,145	\$ 129,867
2016	604,000	15,613	578,145	115,934	1,182,145	131,547
2017	426,000	9,546	597,145	99,227	1,023,145	108,773
2018	253,000	4,888	616,145	81,145	869,145	86,033
2019	123,000	1,599	389,372	67,463	512,372	69,062
2020-2024	-	-	551,860	254,462	551,860	254,462
2025-2029	-	-	676,856	122,098	676,856	122,098
2030-2034	-	-	158,372	3,909	158,372	3,909
Total	<u>\$ 2,021,000</u>	<u>\$ 40,772</u>	<u>\$ 4,139,040</u>	<u>\$ 864,979</u>	6,160,040	<u>\$ 905,751</u>
Landfill obligation					149,126	
Compensated absences					<u>354,877</u>	
Total Long-Term Debt					<u>\$ 6,664,043</u>	

Changes in Long-Term Debt

The following is a summary of changes in long-term obligations of the Town:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due Within</u> <u>One Year</u>
General Fund					
First Citizens Bank - GO Bond - Series 2006	\$ 1,330,723	\$ -	\$ 1,330,723	\$ -	\$ -
First Citizens Bank - GO Bond - Series 2008	1,191,808	-	1,191,808	-	-
Benchmark Community Bank - Bond Series 2014C	-	1,118,000	-	1,118,000	245,000
Benchmark Community Bank - Bond Series 2014B	-	887,000	-	887,000	354,000
Note payable - Edmonds & Associates	<u>32,000</u>	<u>-</u>	<u>16,000</u>	<u>16,000</u>	<u>16,000</u>
Subtotal	2,554,531	2,005,000	2,538,531	2,021,000	615,000
Landfill obligation	147,067	2,059	-	149,126	-
Compensated absences	<u>337,239</u>	<u>17,638</u>	<u>-</u>	<u>354,877</u>	<u>-</u>
Total General Fund	3,038,837	2,024,697	2,538,531	2,525,003	615,000
Enterprise Funds - Water and Sewer					
Community National Bank - Refunding Series 2004	1,611,653	-	1,611,653	-	-
Benchmark Community Bank - Bond Series 2014A	-	1,421,000	-	1,421,000	278,000
Virginia Resources Authority - Series 2010	1,775,000	-	75,000	1,700,000	75,000
Virginia Resources Authority - Series 2009	<u>1,010,000</u>	<u>-</u>	<u>185,000</u>	<u>825,000</u>	<u>195,000</u>
Total Water and Sewer Fund	4,396,653	1,421,000	1,871,653	3,946,000	548,000
ADD:					
Unamortized Premium on Bond Series 2009A and 2010A	<u>216,184</u>	<u>-</u>	<u>23,144</u>	<u>193,040</u>	<u>23,144</u>
Total Enterprise Funds - Water and Sewer	<u>4,612,837</u>	<u>1,421,000</u>	<u>1,894,797</u>	<u>4,139,040</u>	<u>571,144</u>
Grand Total - All Debt	<u>\$ 7,651,674</u>	<u>\$ 3,445,697</u>	<u>\$ 4,433,328</u>	<u>\$ 6,664,043</u>	<u>\$ 1,186,144</u>

Bonds and notes payable at June 30, 2014 are comprised of the following:

Governmental Activities

General Obligation Bond Series 2014 with Benchmark Community Bank for \$887,000 payable in annual installments ranging from \$176,000 to \$357,000 for three years with a stated interest rate of 0.800 percent.

Proceeds used to pay off prior bond series. \$ 887,000

General Obligation Bond Series 2014 with Benchmark Community Bank for \$1,118,000 payable in annual installments ranging from \$123,000 to \$245,000 for five years with a stated interest rate of 1.300 percent.

Proceeds used to pay off prior bond series. 1,118,000

Note payable with Edmonds & Associates for new computer system payable in three annual payments of \$16,000. Interest free.

16,000

Subtotal 2,021,000

Landfill obligation 149,126

Compensated absences 354,877

Total Governmental Activities 2,525,003

Water and Sewer Fund - Enterprise Fund Debt

General Obligation Bond Series 2014 with Benchmark Community Bank for \$1,421,000 payable in annual installments ranging from \$278,000 to \$291,000 for five years with a stated interest rate of 1.300 percent. Proceeds used to pay off prior bond series.

1,421,000

\$1,995,000 Virginia Resources Authority, Pooled Bond Loan Program, Wastewater and Storm Facilities GOB Series 2010A, semiannual interest payments at varying rates from 2.88 percent to 5.20 percent and annual principal payments ranging from \$80,000 per year to \$150,000 per year for a 20-year period.

1,700,000

\$1,705,000 Water and Sewer Revenue Bonds 2009 with Virginia Resources Authority, semiannual interest payments at varying rates from 1.125 percent to 5.125 percent with annual payments to Virginia Resources Authority varying from \$170,000 to \$220,000 annually for a period of 9 years.

825,000

Unamortized Premiums on Bond Series 2009A and 2010A 193,040

Total Water and Sewer Fund - Enterprise Fund Debt 4,139,040

Total Long-Term Debt \$ 6,664,043

9 Net Investment in Capital Assets

The "net investment in capital assets" amount reported on the government-wide Statement of Net Position as of June 30, 2014 is determined as follows:

	Governmental Activities	Business- Type Activities
Net Investment in Capital Assets		
Cost of capital assets	\$ 22,862,282	\$ 26,883,037
Less: Accumulated depreciation	<u>(14,276,047)</u>	<u>(13,313,397)</u>
Book value	8,586,235	13,569,640
Less: Capital related debt	<u>(2,021,000)</u>	<u>(4,139,039)</u>
Less: Unamortized debt issuance premium	-	-
Net Investment in Capital Assets	<u>\$ 6,565,235</u>	<u>\$ 9,430,601</u>

10 Deferred Inflows of Resources

Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30, second half installments levied during the fiscal year but due after June 30, and amounts prepaid on the second half installments and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Deferred inflows of resources from unavailable property taxes are comprised of the following:

Primary Government - Deferred Inflows of Resources

General Fund

Delinquent taxes not collected within 60 days	\$ -
Unavailable revenue - property taxes	<u>79,584</u>
Total Deferred Inflows of Resources - Governmental Funds	<u>\$ 79,584</u>

11 Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town joined together with other local governments in Virginia to form the Virginia Municipal Liability Pool, a public entity risk pool currently operating as a common risk management and insurance program for participating local governments. The Town pays an annual premium to the pool for substantially all of its insurance coverage. In the event of a loss deficit and depletion of all available excess insurance, the pool may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

The Town continues to carry commercial insurance for all other risks of loss, including employee dishonesty and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

12 Commitments and Contingencies

Federal programs in which the Town participates were audited in accordance with the provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Pursuant to the provisions of this circular, all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by the audit, the Federal Government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowance of current grant program expenditures, if any, would be immaterial.

13 Litigation

At June 30, 2014, there were no matters of litigation involving the Town which would materially affect the Town's financial position should any court decisions or pending matters not be favorable to such entities.

14 Legal Compliance

Computation of Legal Debt Margin

Total Assessed Value of Taxed Real Estate	\$ 548,732,427
Debt Limit - 10 Percent of Total Assessed Value	\$ 54,873,243
Amount of Debt Applicable to Debt Limit	
General obligation debt	2,525,003
Legal Debt Margin	\$ 52,348,240

15 Surety Bond Information

The following constitutional and appointed officers are insured through the Commonwealth of Virginia Faithful Performance of Duty Bond Plan in effect at June 30, 2014:

<u>Name</u>	<u>Title</u>	<u>Amount</u>
Kim Callis	Town Manager	\$ 200,000
Bill Wilson	Public Works Director	50,000
Heidi Porter	Finance Director	400,000
Anna Cratch	Town Clerk	25,000
Karen Lambert	HR Manager	50,000
All Employees	Faithful Performance Blanket Bond	10,000

16 Landfill Obligation

State and Federal laws and regulations require the Town to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for ten years after closure.

The Town will recognize the remaining estimated costs of post-closure care of \$149,126 as the costs to finalize closure of its landfill. These amounts are based on what it would cost to perform all post-closure care as of June 30, 2014. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The Town is paying these costs on an annual pay-as-you-go basis.

17 Pension Plan

A. Plan Description

<i>Name of Plan:</i>	Virginia Retirement System (VRS)
<i>Identification of Plan:</i>	Agent and Cost-Sharing Multiple-Employer Pension Plan
<i>Administering Entity:</i>	Virginia Retirement System (System)

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 service 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 different eligibility and benefit structures as set out in the table below:

VRS PLAN 1

About VRS Plan 1

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

Eligible Members

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

Hybrid Opt-In Election

VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.

VRS PLAN 2

About VRS Plan 2

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.

Eligible Members

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.

Hybrid Opt-In Election

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.

The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.

HYBRID RETIREMENT PLAN

About the Hybrid Retirement Plan

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

- The defined benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula.
- The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
- In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

Eligible Members

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

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

****Non-Eligible Members***

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

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

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

**VRS
PLAN 1**

Retirement Contributions

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. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

Creditable Service

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

Vesting

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

Members are always 100% vested in the contributions that they make.

**VRS
PLAN 2**

Retirement Contributions

Same as VRS Plan 1.

Creditable Service

Same as VRS Plan 1.

Vesting

Same as VRS Plan 1.

**HYBRID
RETIREMENT PLAN**

Retirement Contributions

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

Creditable Service

Defined Benefit Component:

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

Defined Contribution Component:

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

Vesting

Defined Benefit Component:

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

Defined Contribution Component:

Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.

Members are always 100% vested in the contributions that they make

Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

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

Distribution is not required by law until age 70 1/2.

**VRS
PLAN 1**

Calculating the Benefit

The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.

An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

Average Final Compensation

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

Service Retirement Multiplier

The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. 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.

Normal Retirement Age

Age 65.

Earliest Unreduced Retirement Eligibility

Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (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.

Earliest Reduced Retirement Eligibility

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.

**VRS
PLAN 2**

Calculating the Benefit

See definition under VRS Plan 1.

Average Final Compensation

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

Service Retirement Multiplier

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

Normal Retirement Age

Normal Social Security retirement age.

Earliest Unreduced Retirement Eligibility

Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (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.

Earliest Reduced Retirement Eligibility

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

**HYBRID
RETIREMENT PLAN**

Calculating the Benefit

Defined Benefit Component:

See definition under VRS Plan 1.

Defined Contribution Component:

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

Average Final Compensation

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

Service Retirement Multiplier

The retirement multiplier is 1.0%.

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.

Normal Retirement Age

Defined Benefit Component:

Same as VRS Plan 2.

Defined Contribution Component:

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

Earliest Unreduced Retirement Eligibility

Defined Benefit Component:

Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

Defined Contribution Component:

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

Earliest Reduced Retirement Eligibility

Defined Benefit Component:

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

Defined Contribution Component:

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

**VRS
PLAN 1**

Cost-of-Living Adjustment (COLA) in Retirement

The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.

Eligibility:

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

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

Exceptions to COLA Effective Dates:

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

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

Disability Coverage

Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased, or granted.

Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

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

**VRS
PLAN 2**

Cost-of-Living Adjustment (COLA) in Retirement

The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.

Eligibility:

Same as VRS Plan 1

Exceptions to COLA Effective Dates:

Same as VRS Plan 1

Disability Coverage

Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it is earned, purchased, or granted.

Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

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

**HYBRID
RETIREMENT PLAN**

Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component:

Same as VRS Plan 2

Defined Contribution Component:

Not applicable

Eligibility:

Same as VRS Plan 1 and VRS Plan 2

Exceptions to COLA Effective Dates:

Same as VRS Plan 1 and VRS Plan 2

Disability Coverage

Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.

State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

**VRS
PLAN 1**

Purchase of Prior Service

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

**VRS
PLAN 2**

Purchase of Prior Service

Same as VRS Plan 1

**HYBRID
RETIREMENT PLAN**

Purchase of Prior Service

Defined Benefit Component:

Same as VRS Plan 1

Defined Contribution Component:

Not applicable

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

B. 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% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period 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 Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2014 was **11.64%** of annual covered payroll.

C. Annual Pension Cost

For fiscal year 2014, Town's annual pension cost of **\$287,776** was equal to the Town's required and actual contributions.

Three-Year Trend Information for Town

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2012	\$ 400,660	100%	\$ -
June 30, 2013	305,339	100%	-
June 30, 2014	287,776	100%	-

The FY 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 ranging from **3.75% to 5.60%** per year for general government employees, **3.75% to 6.20%** per year for teachers, and **3.50% to 4.75%** for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of **2.50%** per year for Plan 1 employees and **2.25%** for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of **2.50%**. The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. Town's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

D. Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the plan was **63.00%** funded. The actuarial accrued liability for benefits was **\$9,251,295**, and the actuarial value of assets was **\$5,828,738**, resulting in an unfunded actuarial accrued liability (UAAL) of **\$2,422,557**. The covered payroll (annual payroll of active employees covered by the plan) was **\$2,469,837**, and ratio of the UAAL to the covered payroll was **138.57%**.

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

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for Town

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2011	\$5,186,354	\$ 8,319,433	\$ 3,133,079	62.34%	\$ 2,279,610	137.44%
June 30, 2012	5,460,170	8,882,261	3,422,091	61.47%	2,303,891	148.54%
June 30, 2013	5,828,738	9,251,295	3,422,557	63.00%	2,469,837	138.57%

This information presented in the above schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent, Open
Payroll Growth Rate	3.00%
Remaining Amortization Period	30 Years (decreasing by one each year in subsequent valuations until reaching 0 years)
Asset Valuation Method	Five-Year Smoothed Market Value
Actuarial Assumptions	
a. Investment Rate of Return*	7.00%
b. Projected Salary Increases*	
1) Non-LEO Members	3.50% to 5.35%
2) LEO Members	3.50% to 4.75%
c. Cost-of-Living Adjustments	
1) Plan 1 Members	2.50%
2) Plan 2 Members	2.25%

*Includes Inflation of 2.5%

18 Fund Balances – Governmental Funds

As of June 30, 2014, fund balances are composed of the following:

Primary Government

Cemetery Fund

Assigned for

Subsequent years' appropriations	\$	<u>60,773</u>
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Total Fund Balances	\$	<u><u>60,773</u></u>
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19 Implementation of GASB Statement No. 65

The Town implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in fiscal year ended June 30, 2014. These statements required changes in account captions in the Statements of Net Position.

20 Prior Period Adjustment

During the current fiscal year, the Town included the cost basis of the R. T. Arnold Library to its fixed asset schedule. The cost of the Library was \$375,000 with accumulated depreciation of \$129,688 resulting in a prior period adjustment of \$245,312 to be included in the current year financial statements.

REQUIRED SUPPLEMENTARY INFORMATION



Town of South Hill, Virginia

Budgetary Comparison Schedule

Year Ended June 30, 2014

General Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
General Property Taxes				
Real property taxes	\$ 1,400,000	\$ 1,400,000	\$ 1,454,435	\$ 54,435
Public service corporation property taxes	55,200	55,200	60,585	5,385
Personal property taxes	480,000	480,000	537,763	57,763
Delinquent taxes	20,100	20,100	141	(19,959)
Interest on taxes	3,000	3,000	12,835	9,835
Penalties on taxes	5,000	5,000	16,261	11,261
Total General Property Taxes	1,963,300	1,963,300	2,082,020	118,720
Other Local Taxes				
Local sales and use taxes	175,000	175,000	177,104	2,104
Consumers' utility taxes	190,000	190,000	197,831	7,831
Business licenses	553,000	553,000	783,368	230,368
Motor vehicle licenses	36,000	36,000	31,484	(4,516)
Bank stock taxes	170,000	170,000	184,836	14,836
Hotel and motel room taxes	300,000	300,000	372,429	72,429
Meals taxes	1,470,000	1,470,000	1,607,922	137,922
Other local taxes	6,000	6,000	6,000	-
Total Other Local Taxes	2,900,000	2,900,000	3,360,974	460,974
Permits, Privilege Fees, and Regulatory Licenses				
Building permits	35,000	35,000	47,165	12,165
Total Permits, Privilege Fees, and Regulatory Licenses	35,000	35,000	47,165	12,165
Fines and Forfeitures				
Court fines	120,000	120,000	146,278	26,278
Parking fines	3,000	3,000	1,945	(1,055)
Total Fines and Forfeitures	123,000	123,000	148,223	25,223
Revenue from Use of Money and Property				
Revenue from use of money	22,000	22,000	59,834	37,834
Revenue from use of property	19,596	19,596	23,021	3,425
Revenue from sale of property	13,000	13,000	20,549	7,549
Total Revenue from Use of Money and Property	54,596	54,596	103,404	48,808

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Charges for Services				
Sanitation and waste removal	475,000	475,000	493,205	18,205
Landfill tipping fees	225,000	225,000	216,897	(8,103)
Other miscellaneous charges	500	500	150	(350)
Total Charges for Services	700,500	700,500	710,252	9,752
Miscellaneous	14,700	14,700	60,429	45,729
Intergovernmental				
<i>Revenue from the Commonwealth of Virginia</i>				
<i>Noncategorical Aid</i>				
Personal Property Tax Relief Act	113,068	113,068	113,068	-
Sales and use tax	300,000	300,000	294,841	(5,159)
Rolling stock tax	-	-	108	108
State asset forfeiture	-	-	676	676
Mobile home tax	-	-	545	545
Auto rental tax	15,000	15,000	30,371	15,371
Total Noncategorical Aid	428,068	428,068	439,609	11,541
<i>Categorical Aid</i>				
Street and highway revenues	865,000	865,000	1,274,319	409,319
Police Law Enforcement Grant	109,100	109,100	109,100	-
Fire Department Grant	-	-	13,832	13,832
Other project grants	30,000	30,000	57,000	27,000
Cultural and Arts Grants	5,000	5,000	5,000	-
Total Categorical Aid	1,009,100	1,009,100	1,459,251	450,151
Total Revenue from the Commonwealth of Virginia	1,437,168	1,437,168	1,898,860	461,692
Revenue from the Federal Government				
Tea 21 - Downtown Revitalization Grant	-	-	619,361	619,361
Police Grants	10,000	10,000	35,733	25,733
Total Revenue from the Federal Government	10,000	10,000	655,094	645,094
Total Intergovernmental Revenues	1,447,168	1,447,168	2,553,954	1,106,786
Total Revenues	7,238,264	7,238,264	9,066,421	1,828,157

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Expenditures				
Current				
<i>General Government Administration</i>				
Town Council	72,830	72,830	64,716	8,114
Other general administration	40,500	40,500	51,442	(10,942)
Finance Director	400,470	400,470	390,439	10,031
Town Manager	193,790	193,790	193,779	11
Municipal Services	107,845	107,845	107,290	555
Total General Government Administration	815,435	815,435	807,666	7,769
<i>Public Safety</i>				
Police Department	1,806,720	1,806,720	1,869,122	(62,402)
Fire Department	301,840	301,840	329,964	(28,124)
Building Inspector	139,800	139,800	139,968	(168)
Total Public Safety	2,248,360	2,248,360	2,339,054	(90,694)
<i>Public Works</i>				
Sanitation	651,860	651,860	670,857	(18,997)
Maintenance of highways and streets	1,574,161	1,574,161	2,046,085	(471,924)
Town shop maintenance	228,570	228,570	204,403	24,167
Building and grounds maintenance	162,480	162,480	195,898	(33,418)
Total Public Works	2,617,071	2,617,071	3,117,243	(500,172)
<i>Parks, Recreation, and Cultural</i>				
Library	44,100	44,100	33,900	10,200
Parks and recreation	320,727	320,727	399,901	(79,174)
Total Parks, Recreation, and Cultural	364,827	364,827	433,801	(68,974)
<i>Community Development</i>				
South Hill Community Development Association	265,000	265,000	265,000	-
Other planning and community development	414,511	414,511	189,102	225,409
Total Community Development	679,511	679,511	454,102	225,409
<i>Debt Service</i>	633,060	633,060	474,794	158,266
Total Expenditures	7,358,264	7,358,264	7,626,660	(268,396)
Excess (Deficiency) of Revenues Over Expenditures	(120,000)	(120,000)	1,439,761	1,559,761
Other Financing Sources (Uses)				
Transfers in	120,000	120,000	127,044	7,044
Total Other Financing Sources (Uses)	120,000	120,000	127,044	7,044
Net Change in Fund Balance	\$ -	\$ -	1,566,805	\$ 1,566,805
Fund Balance - Beginning of Year			12,976,054	
Fund Balance - End of Year			\$ 14,542,859	

West Main Street Community Development Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Intergovernmental				
<i>Revenue from the Federal Government</i>				
Department of Housing and Community Development				
Community Development Block Grant	\$ -	\$ -	\$ 265,609	\$ 265,609
Total Revenues	-	-	265,609	265,609
Expenditures				
Community Improvement Project				
Administration	-	-	24,398	(24,398)
Owner occupied rehabilitation	-	-	64,448	(64,448)
Substantial reconstruction	-	-	136,660	(136,660)
Storm drainage improvements	-	-	20,510	(20,510)
Sewer improvements	-	-	19,593	(19,593)
Total Expenditures	-	-	265,609	(265,609)
Excess (Deficiency) of Revenues Over Expenditures	-	-	-	-
Other Financing Sources (Uses)				
Transfers in (out)	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balance - Beginning of Year			-	
Fund Balance - End of Year			<u>\$ -</u>	

COMPLIANCE SECTION



You'll like the view from
South Hill



**Creedle
Jones
& Alga**

A Professional Corporation

*Robin B. Jones, CPA, CFP
David V. Alga, CPA, CVA, CFF
Denise C. Williams, CPA, CSEP
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Town Council
Town of South Hill, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of South Hill, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Town of South Hill, Virginia's basic financial statements and have issued our report thereon dated September 23, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Credle, Jones & Alga, P.C.

Credle, Jones & Alga, P.C.
Certified Public Accountants

South Hill, Virginia
September 23, 2014



**Creedle
Jones
& Alga**

A Professional Corporation

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

To the Town Council
Town of South Hill, Virginia

Report on Compliance for Each Major Federal Program

We have audited Town of South Hill, Virginia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Town of South Hill, Virginia's major federal programs for the year ended June 30, 2014. Town of South Hill, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Town of South Hill, Virginia's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*; and *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards, *OMB Circular A-133*, and specifications require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Town of South Hill, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Town of South Hill, Virginia's compliance.

Opinion on Each Major Federal Program

In our opinion, Town of South Hill, Virginia, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Town of South Hill, Virginia is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Town of South Hill, Virginia's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Town of South Hill, Virginia's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Creedle, Jones & Alga, P.C.

Creedle, Jones & Alga, P.C.
Certified Public Accountants

South Hill, Virginia
September 23, 2014

Town of South Hill, Virginia

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

Federal Granting Agency/Recipient State Agency/ Grant Program	<u>Federal Catalog Number</u>	<u>State Agency Number</u>	<u>Expenditures</u>
U. S. Department of Housing and Community Development			
Pass-Through Payments			
Community Development Block Grants	14.228	N/A	\$ 265,609
U. S. Department of Transportation			
Pass-Through Payments			
Highway Planning and Construction	20.205*	501	619,361
Ground Transportation Systems - Police	20.607	510	<u>35,733</u>
Subtotal - U. S. Department of Transportation			<u>655,094</u>
Grand Totals			<u><u>\$ 920,703</u></u>

*Denotes Major Program

Notes to Schedule of Expenditures of Federal Awards

1. Significant Accounting Policies

Basis of Presentation and Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the Town and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Federal Financial Assistance – The Single Audit Act Amendments of 1996 (Public Law 104-156) and OMB Circular A-133 define federal financial assistance as grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations or other assistance. Nonmonetary deferral assistance including food commodities is considered federal assistance and, therefore, is reported on the Schedule of Expenditures of Federal Awards. Federal financial assistance does not include direct federal cash assistance to individuals.

Direct Payments – Assistance received directly from the Federal government is classified as direct payments on the Schedule of Expenditures of Federal Awards.

Pass-through Payments – Assistance received in a pass-through relationship from entities other than the Federal government is classified as pass-through payments on the Schedule of Expenditures of Federal Awards.

Major Programs – The Single Audit Act Amendments of 1996 and OMB Circular A-133 establish the criteria to be used in defining major programs. Major programs for the Town were determined using a risk-based approach in accordance with OMB Circular A-133.

Catalog of Federal Domestic Assistance – The Catalog of Federal Domestic Assistance (CFDA) is a government-wide compendium of individual federal programs. Each program included in the catalog is assigned a five-digit program identification number (CFDA Number), which is reflected in the accompanying schedule.

Cluster of Programs – Closely related programs that share common compliance requirements are grouped into clusters of programs. A cluster of programs is considered as one federal program for determining major programs.

2. Relationship to Financial Statements

Federal expenditures, revenues and capital contributions are reported in the Town's basic financial statements as follows:

Intergovernmental Federal Revenues per the Basic Financial Statements

Primary Government

General Fund

Community Development Block Grant \$ 265,609

Police Grant 35,733

TEA 21 - Downtown Revitalization Grant 619,361

Total Primary Government 920,703

Less: Amounts Not Reported on Schedule of Expenditures of Federal Awards

E-Rate -

Department of Interior - Payments in lieu of taxes -

Total Federal Expenditures per Basic Financial Statements \$ 920,703

Total Federal Expenditures per the Schedule of Expenditures of Federal Awards \$ 920,703

Town of South Hill, Virginia

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

1. SUMMARY OF AUDITOR'S RESULTS

- (a) The auditor's report expresses an **unmodified opinion** on the financial statements of the Town of South Hill, Virginia.
- (b) **No deficiencies** relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- (c) **No instances of noncompliance** material to the financial statements of the Town of South Hill, Virginia were disclosed during the audit.
- (d) **No deficiencies** relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133.
- (e) The auditor's report on compliance for the major federal award programs for the Town of South Hill, Virginia expresses an **unmodified opinion** on all major federal programs.
- (f) There were **no audit findings** relative to the major federal award programs for the Town of South Hill, Virginia to be reported in this schedule.
- (g) The program tested as a major program included:

CFDA #20.205, Highway Planning and Construction

- (h) The **threshold** for distinguishing Types A and B programs was **\$300,000**.
- (i) The Town of South Hill, Virginia **was** determined **not** to be a **low-risk auditee**.

2. FINDINGS - FINANCIAL STATEMENT AUDIT

None

3. FINDINGS AND QUESTIONED COSTS - MAJOR PROGRAMS AUDIT

None

Town of South Hill, Virginia

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2014

FINANCIAL STATEMENTS

A single audit was not required in 2013; therefore, there were no findings in the prior year.