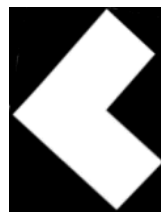


Town of South Hill, Virginia
Comprehensive Annual Financial Report
Year Ended June 30, 2016



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

Town of South Hill, Virginia

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FINANCIAL SECTION



You'll like the view from
South Hill



**Creedle
Jones
& Alga**

A Professional Corporation

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David V. Alga, CPA, CVA, CFF
Denise C. Williams, CPA, CSEP
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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 the Town of South Hill, Virginia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of South Hill, Virginia'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, and each major fund of the Town of South Hill, Virginia, as of June 30, 2016, and the respective changes in financial position, and 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 on pages 1-8 and budgetary comparison information, schedule of changes in the political subdivision's net pension liability and related ratios, schedule of employer contributions, and notes to required supplemental information on pages 49-57 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2016, 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 the Town of South Hill, Virginia's internal control over financial reporting and compliance.

Creedle, Jones & Alga, P.C.

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

South Hill, Virginia
November 7, 2016

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, 2016. We encourage readers to read this discussion and analysis in conjunction with the Town's basic financial statements.

Financial Highlights

Highlights for Government-Wide Financial Statements

- At the close of the fiscal year, the assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources by \$23,273,779. Of this amount, \$15,614,211 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors. For the enterprise activities, the assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$11,997,262. Of this amount, \$1,703,325 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 \$10,032,994 and expenses amounted to \$7,421,865. The Town's total net position increased \$2,611,129 before transfers.
- For business-type activities, revenues were \$4,152,666 and expenses were \$2,882,544. The net position increased by \$1,270,122 before transfers.

Highlights for Fund Financial Statements

- As of June 30, 2016, the Town's Governmental Funds reported combined fund balances of \$18,241,292, an increase of \$2,030,183 in comparison with the prior year. Approximately 99.67 percent of the combined fund balances, \$18,180,897, is available to meet the Town's current and future needs.
- The General Fund reported a fund balance of \$18,180,897, an increase of \$2,054,178 from June 30, 2015.

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 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 four 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, CRMP Exit 12 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 supplementary information such as budgetary comparison schedules.

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, 2016 and 2015

	<u>Governmental Activities</u>		<u>Enterprise Activities</u>		<u>Total Entity</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Assets						
Current and other assets	\$ 18,450,383	\$ 16,421,790	\$ 2,125,542	\$ 1,607,514	\$ 20,575,925	\$ 18,029,304
Capital assets (net)	8,394,824	8,564,107	13,283,410	13,251,648	21,678,234	21,815,755
Deferred Outflows of Resources	<u>258,535</u>	<u>254,664</u>	<u>32,817</u>	<u>32,348</u>	<u>291,352</u>	<u>287,012</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 27,103,742</u>	<u>\$ 25,240,561</u>	<u>\$ 15,441,769</u>	<u>\$ 14,891,510</u>	<u>\$ 42,545,511</u>	<u>\$ 40,132,071</u>
Liabilities						
Other liabilities	\$ 26,150	\$ 111,954	\$ 128,758	\$ 123,561	\$ 154,908	\$ 235,515
Long-term liabilities	<u>3,540,503</u>	<u>4,207,517</u>	<u>3,282,325</u>	<u>3,859,635</u>	<u>6,822,828</u>	<u>8,067,152</u>
Total Liabilities	3,566,653	4,319,471	3,411,083	3,983,196	6,977,736	8,302,667
Deferred Inflows of Resources	<u>263,310</u>	<u>390,066</u>	<u>33,424</u>	<u>49,548</u>	<u>296,734</u>	<u>439,614</u>
Net Position						
Net investment in capital assets	7,599,173	7,158,107	10,293,941	9,683,751	17,893,114	16,841,858
Restricted	60,395	59,590	-	-	60,395	59,590
Unassigned	<u>15,614,211</u>	<u>13,313,327</u>	<u>1,703,321</u>	<u>1,175,015</u>	<u>17,317,532</u>	<u>14,488,342</u>
Total Net Position	<u>23,273,779</u>	<u>20,531,024</u>	<u>11,997,262</u>	<u>10,858,766</u>	<u>35,271,041</u>	<u>31,389,790</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 27,103,742</u>	<u>\$ 25,240,561</u>	<u>\$ 15,441,769</u>	<u>\$ 14,891,510</u>	<u>\$ 42,545,511</u>	<u>\$ 40,132,071</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, 2016 and 2015

	<u>Governmental Activities</u>		<u>Enterprise Activities</u>		<u>Total Entity</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues						
Program Revenues						
Charges for services	\$ 997,781	\$ 945,592	\$ 4,146,172	\$ 3,629,120	\$ 5,143,953	\$ 4,574,712
Operating grants and contributions	1,984,449	1,332,032	-	-	1,984,449	1,332,032
General Revenues						
General property taxes, real and personal	2,167,864	2,112,858	-	-	2,167,864	2,112,858
Other taxes	4,335,844	3,964,922	-	-	4,335,844	3,964,922
Noncategorical aid from the state	297,195	249,492	-	-	297,195	249,492
Use of property	64,575	27,428	-	-	64,575	27,428
Investment earnings	80,793	67,270	6,494	4,314	87,287	71,584
Miscellaneous	104,493	289,615	-	-	104,493	289,615
Total Revenues	10,032,994	8,989,209	4,152,666	3,633,434	14,185,660	12,622,643
Expenses						
General government administration	1,055,176	1,119,940	-	-	1,055,176	1,119,940
Public safety	2,336,742	2,274,706	-	-	2,336,742	2,274,706
Public works	2,436,941	2,220,040	-	-	2,436,941	2,220,040
Parks, recreation, and cultural	493,086	493,313	-	-	493,086	493,313
Community development	1,093,690	706,069	-	-	1,093,690	706,069
Interest on long-term debt	6,230	21,755	-	-	6,230	21,755
Water and sewer activities	-	-	2,882,544	2,856,068	2,882,544	2,856,068
Total Expenses	7,421,865	6,835,823	2,882,544	2,856,068	10,304,409	9,691,891
Increase in Net Position	2,611,129	2,153,386	1,270,122	777,366	3,881,251	2,930,752
Beginning Net Position	20,531,024	18,251,582	10,858,766	10,207,456	31,389,790	28,459,038
Transfers	131,626	126,056	(131,626)	(126,056)	-	-
Ending Net Position	\$ 23,273,779	\$ 20,531,024	\$ 11,997,262	\$ 10,858,766	\$ 35,271,041	\$ 31,389,790

Governmental activities increased the Town's net position by \$2,611,129 for fiscal year 2016. Revenues from governmental activities (without transfers) totaled \$10,032,894. Real estate, personal property, and other local taxes comprise the largest source of these revenues, totaling \$6,503,708 or 64.84 percent of all governmental activities revenue. Enterprise activities increased the Town's net position by \$1,270,122 with revenues reported of \$4,152,666.

The total cost of all governmental activities for this fiscal year was \$7,421,865. Public works was the Town's largest program with expenses totaling \$2,436,941. Public safety, which totals \$2,336,742, represents the second largest expense. Enterprise activities reported expenses of \$2,882,544.

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, 2016 and 2015

	<u>2016</u>		<u>2015</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	\$ 1,055,176	\$ (1,055,176)	\$ 1,119,940	\$ (1,119,940)
Public safety	2,336,742	(2,197,197)	2,274,706	(2,092,670)
Public works	2,436,941	(211,150)	2,220,040	(129,452)
Parks, recreation, and cultural	493,086	(493,086)	493,313	(488,313)
Community development	1,093,690	(476,796)	706,069	(706,069)
Interest on long-term debt	<u>6,230</u>	<u>(6,230)</u>	<u>21,755</u>	<u>(21,755)</u>
Total	<u>\$ 7,421,865</u>	<u>\$ (4,439,635)</u>	<u>\$ 6,835,823</u>	<u>\$ (4,558,199)</u>

Net Cost of Enterprise Activities

For the Fiscal Years Ended June 30, 2016 and 2015

	<u>2016</u>		<u>2015</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	\$ 2,882,544	\$ 1,263,628	\$ 2,856,068	\$ 773,052
Total	<u>\$ 2,882,544</u>	<u>\$ 1,263,628</u>	<u>\$ 2,856,068</u>	<u>\$ 773,052</u>

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As of June 30, 2016, the Town's Governmental Funds reported a combined ending fund balance of 99.67 percent, or \$18,180,897, 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 \$18,180,897. The General Fund's liquidity can be measured by comparing unassigned fund balance to total fund expenditures. Unassigned fund balance represents 243.37 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, 2016 and 2015						
	<u>2016</u>			<u>2015</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	\$ 2,021,300	\$ 2,021,300	\$ 2,083,651	\$ 2,016,300	\$ 2,016,300	\$ 2,093,715
Other local taxes	3,063,500	3,063,500	4,163,171	3,088,800	3,088,800	3,786,976
Other revenues	1,494,950	1,494,950	1,244,222	957,446	957,446	1,218,960
Intergovernmental	<u>1,734,168</u>	<u>1,734,168</u>	<u>1,902,013</u>	<u>1,480,168</u>	<u>1,480,168</u>	<u>1,887,718</u>
Total	8,313,918	8,313,918	9,393,057	7,542,714	7,542,714	8,987,369
Expenditures	<u>8,443,918</u>	<u>8,443,918</u>	<u>7,470,505</u>	<u>7,662,714</u>	<u>7,662,714</u>	<u>7,529,565</u>
Excess (Deficiency) of Revenues Over Expenditures	(130,000)	(130,000)	1,922,552	(120,000)	(120,000)	1,457,804
Other Financing Sources (Uses)						
Transfers in	<u>130,000</u>	<u>130,000</u>	<u>131,626</u>	<u>120,000</u>	<u>120,000</u>	<u>126,056</u>
Total	<u>130,000</u>	<u>130,000</u>	<u>131,626</u>	<u>120,000</u>	<u>120,000</u>	<u>126,056</u>
Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,054,178</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,583,860</u>

Final amended budget revenues were the same as the original budget.

The final amended budget appropriations for expenditures were the same as the original appropriation.

Actual revenues were more than final budget amounts by \$1,079,139, or 12.98 percent, while actual expenditures were \$973,413, or 11.53 percent less than final budget amounts.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

As of June 30, 2016, the Town's net investment in capital assets totals \$7,599,173, which is net capital assets less related debt for governmental activities and \$10,293,941 for business-type activities.

During fiscal year 2016, the Town's net capital assets (including additions, decreases, and depreciation) decreased \$169,283, or 1.98 percent, for governmental activities and increased \$31,762, or .24 percent, for business-type activities, as summarized in the following table:

Change in Capital Assets

	<u>Balance July 1, 2015</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2016</u>
Governmental Activities			
Land, land improvements, and easements	\$ 1,660,435	\$ -	\$ 1,660,435
Buildings and improvements	7,213,927	88,878	7,302,805
Streets and related infrastructure	8,653,823	-	8,653,823
Machinery, equipment, and vehicles	<u>5,689,245</u>	<u>296,789</u>	<u>5,986,034</u>
Total Capital Assets	23,217,430	385,667	23,603,097
Less: Accumulated depreciation and amortization	<u>(14,653,323)</u>	<u>(554,950)</u>	<u>(15,208,273)</u>
Total Capital Assets, Net	8,564,107	(169,283)	8,394,824
Enterprise Activities			
Land, land improvements, and easements	664,020	-	664,020
Water and sewer infrastructure	25,187,674	192,283	25,379,957
Machinery, equipment, and vehicles	<u>1,252,933</u>	<u>396,596</u>	<u>1,649,529</u>
Total Capital Assets	27,104,627	588,879	27,693,506
Less: Accumulated depreciation and amortization	<u>(13,852,979)</u>	<u>(557,117)</u>	<u>(14,410,096)</u>
Total Capital Assets, Net	<u>13,251,648</u>	<u>31,762</u>	<u>13,283,410</u>
Total Reporting Entity	<u>\$ 21,815,755</u>	<u>\$ (137,521)</u>	<u>\$ 21,678,234</u>

Long-Term Debt

As of June 30, 2016, the Town's long-term obligations total \$4,222,889.

Change in Long-Term Debt

	<u>Balance July 1, 2015</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2016</u>	<u>Due Within One Year</u>
Governmental Activities				
General obligation bonds	\$ 873,000	\$ (253,314)	\$ 619,686	\$ 250,000
General obligation bonds	533,000	(357,035)	175,965	175,965
Landfill obligation	151,363	1,362	152,725	-
Compensated absences	<u>353,421</u>	<u>(68,380)</u>	<u>285,041</u>	-
Total Outstanding Debt	1,910,784	(677,367)	1,233,417	425,965
Business-Type Activities				
Virginia Resources Authority	2,424,896	(298,144)	2,126,752	313,144
Benchmark Community Bank	<u>1,143,000</u>	<u>(280,280)</u>	<u>862,720</u>	284,000
Total Outstanding Debt	<u>3,567,896</u>	<u>(578,424)</u>	<u>2,989,472</u>	597,144
Total Reporting Entity	<u>\$ 5,478,680</u>	<u>\$ (1,255,791)</u>	<u>\$ 4,222,889</u>	<u>\$1,023,109</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 2016, which uses Mecklenburg County's rate, was 5.2 percent. This compares unfavorably to the state's rate of 4.0 percent and the national rate of 5.1 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 2017 adopted budget anticipates General Fund revenues and expenditures to be \$5,443,768, a 6.26 percent increase over the fiscal year 2016 budget.

The fiscal year 2017 adopted budget anticipates water and sewer revenue to be \$6,434,404, a 2.00 percent increase over the fiscal year 2016 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



You'll like the view from
South Hill

Town of South Hill, Virginia

Statement of Net Position

At June 30, 2016

Primary Government

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 17,855,656	\$ 1,690,686	\$ 19,546,342
Property taxes receivable, net	186,240	-	186,240
Receivables, net	408,487	434,856	843,343
Capital Assets			
Land, land improvements, and easements	1,660,435	664,020	2,324,455
Buildings and improvements	7,302,805	-	7,302,805
Infrastructure	8,653,823	25,379,957	34,033,780
Machinery, equipment, and vehicles	5,986,034	1,649,529	7,635,563
Less: Accumulated depreciation	<u>(15,208,273)</u>	<u>(14,410,096)</u>	<u>(29,618,369)</u>
Capital Assets, Net	8,394,824	13,283,410	21,678,234
Deferred Outflows of Resources			
Deferred outflows - pension liability	<u>258,535</u>	<u>32,817</u>	<u>291,352</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 27,103,742</u>	<u>\$ 15,441,769</u>	<u>\$ 42,545,511</u>
Liabilities			
Accounts payable and accrued expenses	\$ 26,150	\$ 963	\$ 27,113
Customer deposits	-	127,795	127,795
Long-Term Liabilities			
<i>Due within one year</i>			
Bonds and notes payable	597,145	597,145	1,194,290
<i>Due in more than one year</i>			
Bonds and notes payable	198,506	2,392,327	2,590,833
Compensated absences	285,041	-	285,041
Net pension liability	2,307,086	292,853	2,599,939
Landfill obligation	<u>152,725</u>	<u>-</u>	<u>152,725</u>
Total Liabilities	3,566,653	3,411,083	6,977,736
Deferred Inflows of Resources			
Deferred inflows - pension liability	263,310	33,424	296,734
Net Position			
Net investment in capital assets	7,599,173	10,293,941	17,893,114
Restricted	60,395	-	60,395
Unrestricted	<u>15,614,211</u>	<u>1,703,321</u>	<u>17,317,532</u>
Total Net Position	<u>23,273,779</u>	<u>11,997,262</u>	<u>35,271,041</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 27,103,742</u>	<u>\$ 15,441,769</u>	<u>\$ 42,545,511</u>

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

Town of South Hill, Virginia

Statement of Activities

For the Year Ended June 30, 2016

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		<u>Total</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>	
Primary Government						
Governmental Activities						
General government administration	\$ 1,055,176	\$ -	\$ -	\$ (1,055,176)	\$ -	\$ (1,055,176)
Public safety	2,336,742	133,650	5,895	(2,197,197)	-	(2,197,197)
Public works	2,436,941	864,131	1,361,660	(211,150)	-	(211,150)
Parks, recreation, and cultural	493,086	-	-	(493,086)	-	(493,086)
Community development	1,093,690	-	616,894	(476,796)	-	(476,796)
Interest on long-term debt	<u>6,230</u>	<u>-</u>	<u>-</u>	<u>(6,230)</u>	<u>-</u>	<u>(6,230)</u>
Total Governmental Activities	7,421,865	997,781	1,984,449	(4,439,635)	-	(4,439,635)
Business-Type Activities						
Water and sewer fund	<u>2,882,544</u>	<u>4,146,172</u>	<u>-</u>		<u>1,263,628</u>	<u>1,263,628</u>
Total Primary Government	<u>\$ 10,304,409</u>	<u>\$ 5,143,953</u>	<u>\$ 1,984,449</u>		1,263,628	(3,176,007)
General Revenues						
Taxes						
General property taxes, real and personal				2,167,864	-	2,167,864
Other local taxes				4,335,844	-	4,335,844
Noncategorical aid from state				297,195	-	297,195
Use of property				64,575	-	64,575
Investment earnings				80,793	6,494	87,287
Miscellaneous				104,493	-	104,493
Transfers				<u>131,626</u>	<u>(131,626)</u>	<u>-</u>
Total General Revenues and Transfers				<u>7,182,390</u>	<u>(125,132)</u>	<u>7,057,258</u>
Change in Net Position				2,742,755	1,138,496	3,881,251
Net Position - Beginning of Year				<u>20,531,024</u>	<u>10,858,766</u>	<u>31,389,790</u>
Net Position - End of Year				<u>\$ 23,273,779</u>	<u>\$ 11,997,262</u>	<u>\$ 35,271,041</u>

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

Town of South Hill, Virginia

Balance Sheet

Governmental Funds

At June 30, 2016

	General Fund	West Main Street Community Development Fund	CRMP Exit 12 Fund	Cemetery Fund	Total Governmental Funds
Assets					
Cash and investments	\$ 17,885,431	\$ (88,570)	\$ (200)	\$ 58,995	\$ 17,855,656
Property taxes receivable, net	186,240	-	-	-	186,240
Accounts receivable, net	<u>318,317</u>	<u>88,570</u>	<u>200</u>	<u>1,400</u>	<u>408,487</u>
Total Assets	<u>\$ 18,389,988</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,395</u>	<u>\$ 18,450,383</u>
Liabilities					
Accounts payable and accrued liabilities	\$ 26,150	\$ -	\$ -	\$ -	\$ 26,150
Total Liabilities	26,150	-	-	-	26,150
Deferred Inflows of Resources					
Unavailable revenue - property taxes	<u>182,941</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>182,941</u>
Total Deferred Inflows of Resources	182,941	-	-	-	182,941
Fund Balance					
Restricted	-	-	-	60,395	60,395
Unassigned	<u>18,180,897</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,180,897</u>
Total Fund Balance	<u>18,180,897</u>	<u>-</u>	<u>-</u>	<u>60,395</u>	<u>18,241,292</u>
Total Liabilities, Deferred Inflows of of Resources, and Fund Balance	<u>\$ 18,389,988</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,395</u>	<u>\$ 18,450,383</u>

The accompanying notes to the 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, 2016

Total Fund Balances for Governmental Funds \$ 18,241,292

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	4,592,896
Streets and related infrastructure, net of accumulated depreciation	746,894
Machinery, equipment, and vehicles, net of accumulated depreciation	<u>1,394,599</u>

Total Capital Assets 8,394,824

Other Assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds statement.

Unavailable revenue - property taxes 182,941

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Deferred outflows of resources related to pensions	258,535
Deferred inflows of resources related to pensions	<u>(263,310)</u>

Total Deferred Outflows and Inflows of Resources (4,775)

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	(795,651)
Net pension liability	(2,307,086)
Landfill obligation	(152,725)
Compensated absences	<u>(285,041)</u>

Total (3,540,503)

Total Net Position of Governmental Activities \$ 23,273,779

The accompanying notes to the 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, 2016

	<u>General Fund</u>	<u>West Main Street Community Development Fund</u>	<u>CRMP Exit 12 Fund</u>	<u>Cemetery Fund</u>	<u>Total Governmental Funds</u>
Revenues					
Property taxes	\$ 2,083,651	\$ -	\$ -	\$ -	\$ 2,083,651
Other local taxes	4,335,844	-	-	-	4,335,844
Permits, privilege fees, and regulatory licenses	128,032	-	-	-	128,032
Fines and forfeitures	133,650	-	-	-	133,650
Use of money and property	145,368	-	-	-	145,368
Charges for services	736,099	-	-	-	736,099
Miscellaneous	101,073	-	200	3,220	104,493
<i>Intergovernmental</i>					
Revenue from the Commonwealth of Virginia	1,658,854	-	-	-	1,658,854
Revenue from the Federal Government	<u>70,486</u>	<u>552,304</u>	<u>-</u>	<u>-</u>	<u>622,790</u>
Total Revenues	9,393,057	552,304	200	3,220	9,948,781
Expenditures					
Current					
General government administration	995,164	-	-	-	995,164
Public safety	2,374,106	-	-	-	2,374,106
Public works	2,591,962	-	-	-	2,591,962
Parks, recreation, and cultural	378,723	-	-	-	378,723
Community development	513,971	552,304	25,000	2,415	1,093,690
Debt service	<u>616,579</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>616,579</u>
Total Expenditures	<u>7,470,505</u>	<u>552,304</u>	<u>25,000</u>	<u>2,415</u>	<u>8,050,224</u>
Excess (Deficiency) of Revenues Over Expenditures	1,922,552	-	(24,800)	805	1,898,557
Other Financing Sources (Uses)					
Transfers in	<u>131,626</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>131,626</u>
Total Other Financing Sources (Uses)	<u>131,626</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>131,626</u>
Net Change in Fund Balance	2,054,178	-	(24,800)	805	2,030,183
Fund Balance - Beginning of Year	<u>16,126,719</u>	<u>-</u>	<u>24,800</u>	<u>59,590</u>	<u>16,211,109</u>
Fund Balance - End of Year	<u>\$ 18,180,897</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,395</u>	<u>\$ 18,241,292</u>

The accompanying notes to the 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, 2016

Net Change in Fund Balances - Total Governmental Funds	\$ 2,030,183
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Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

	(169,283)
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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.

	84,213
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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	\$ 610,349	
Net Adjustment		610,349

Governmental funds report pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.

Pension contributions	258,535	
Cost of benefits earned net of employee contributions	<u>(138,260)</u>	
		120,275

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	68,380	
Landfill obligation	<u>(1,362)</u>	
Net Adjustment		<u>67,018</u>

Change in Net Position of Governmental Activities		\$ <u><u>2,742,755</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

Town of South Hill, Virginia

Statement of Net Position

Proprietary Fund

At June 30, 2016

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

Assets**Current Assets**

Cash	\$ 1,690,686
Accounts receivable (net of allowance for bad debts)	<u>434,856</u>
Total Current Assets	2,125,542

Capital Assets

Fixed assets	27,693,507
Less: Accumulated depreciation	<u>(14,410,097)</u>
Total Capital Assets	13,283,410

Deferred Outflows of Resources

Deferred outflows - pension liability	<u>32,817</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 15,441,769</u>

Liabilities**Current Liabilities**

Accounts payable and accrued liabilities	\$ 963
Current portion of general obligation bonds	<u>597,145</u>
Total Current Liabilities	598,108

Noncurrent Liabilities

Customer deposits	127,795
Net pension liability	292,853
General obligation bonds (net of current portion)	<u>2,392,327</u>
Total Noncurrent Liabilities	<u>2,812,975</u>

Total Liabilities	3,411,083
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Deferred Inflows of Resources

Deferred inflows - pension liability	33,424
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Net Position

Net investment in capital assets	10,293,941
Unrestricted	<u>1,703,321</u>
Total Net Position	<u>11,997,262</u>

Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 15,441,769</u>
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The accompanying notes to the 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, 2016

	Business-Type Activities - Enterprise Fund Water and Sewer Fund
Operating Revenues	
Charges for services	\$ 4,037,228
Miscellaneous	63,055
Connection and cut-on fees	<u>45,889</u>
Total Operating Revenues	4,146,172
Operating Expenses	
Water purchases	1,211,257
Salaries and wages	323,336
Fringe benefits	100,410
Contractual services	55,078
Chemicals	5,897
Vehicle and power equipment	18,134
Repairs and maintenance	217,138
Other charges	118,827
Depreciation	557,117
Utilities	139,887
Insurance	<u>15,000</u>
Total Operating Expenses	<u>2,762,081</u>
Operating Income	1,384,091
Nonoperating Revenues (Expenses)	
Investment and interest income	6,494
Interest expense on bonds	<u>(120,463)</u>
Total Nonoperating Revenues (Expenses)	<u>(113,969)</u>
Income Before Operating Transfers	1,270,122
Operating Transfers In (Out)	<u>(131,626)</u>
Change in Net Position	1,138,496
Total Net Position - Beginning of Year	<u>10,858,766</u>
Total Net Position - End of Year	<u>\$ 11,997,262</u>

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

Town of South Hill, Virginia

Statement of Cash Flows

Proprietary Fund

Year Ended June 30, 2016

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

Cash Flows from Operating Activities

Receipts from customers	\$ 4,130,682
Payments to personnel and related costs	(423,746)
Payments to suppliers	<u>(1,776,626)</u>
Net Cash Provided by Operating Activities	1,930,310

Cash Flows from Noncapital Financing Activities

Funds from (paid to) other funds	<u>(131,626)</u>
Net Cash Used in Noncapital Financing Activities	(131,626)

Cash Flows from Financing Capital and Related Activities

Purchase of capital assets	(588,880)
Principal paid on long-term debt	(578,424)
Interest paid on capital debt	<u>(120,463)</u>
Net Cash Used in Financing Capital and Related Activities	(1,287,767)

Cash Flows from Investing Activities

Investment and interest income	<u>6,494</u>
Net Cash Provided by Investing Activities	<u>6,494</u>

Net Increase in Cash	517,411
Cash - Beginning of Year	<u>1,173,275</u>
Cash - End of Year	<u><u>\$ 1,690,686</u></u>

**Reconciliation of Operating Income to Net
Cash Provided by Operating Activities**

Operating income	\$ 1,384,091
<i>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</i>	
Depreciation expense	557,117
<i>Changes in assets and liabilities</i>	
Receivables, net	(7,819)
Due from other funds	7,203
Accounts payable and accrued expenses	(6,138)
Customer deposits	11,335
Deferred outflows - pension liability	(469)
Net pension liability	1,114
Deferred inflows - pension liability	<u>(16,124)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 1,930,310</u></u>

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

Town of South Hill Virginia

Notes to the Financial Statements

Year Ended June 30, 2016

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:

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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 \$53,023 in operating funds in fiscal year 2016. 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 required 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.

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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.

Budgetary Comparison Schedules – Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments and have a keen interest in following the actual financial progress of their governments over the course of the year. The Town and many other governments revise their original budgets over the course of the year for a variety of reasons.

GASB-Required Supplementary Pension – GASB issued Statement No. 68–*Accounting and Financial Reporting for Pensions*—an amendment of GASB No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions.

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:
 - *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, and the CRMP Exit 12 Fund which accounts for financial resources used for improvements to Exit 12, Interstate 85.

- *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.

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	\$ 186,240	\$ -	\$ 186,240
	<u>\$ 186,240</u>	<u>\$ -</u>	<u>\$ 186,240</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.

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1-E-8 Pensions

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

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.

1-E-14 Adoption of New GASB Statements

During the fiscal year ended June 30, 2016, the Town adopted the following GASB statements:

-
- Statement No. 72, "Fair Value Measurement and Application"
- Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"
- Statement No. 77, "Tax Abatement Disclosures"

The adoption of these statements had no effect on the current financial statements.

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).

There were no fund deficits at June 30, 2016.

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, 2016:

<u>Asset Type</u>	<u>Balance June 30, 2016</u>
Petty cash	\$ 950
Deposit accounts	<u>19,545,392</u>
Total Cash and Cash Equivalents	<u>\$ 19,546,342</u>

4 Net Receivables

Receivables at June 30, 2016 consist of the following:

Primary Government

		<u>Governmental Activities</u>				
	<u>General</u>	<u>Community Development</u>	<u>Special Revenue</u>	<u>Total Governmental</u>	<u>Enterprise Activities</u>	<u>Total</u>
Utility taxes	\$ 12,979	\$ -	\$ -	\$ 12,979	\$ -	\$ 12,979
Garbage, water and sewer	90,044	-	-	90,044	432,527	522,571
Meals tax	162,816	-	-	162,816	-	162,816
Lodging tax	38,726	-	-	38,726	-	38,726
Sales tax	-	-	-	-	-	-
Fines	13,663	-	-	13,663	-	13,663
Miscellaneous	<u>89</u>	<u>88,570</u>	<u>1,600</u>	<u>90,259</u>	<u>2,329</u>	<u>92,588</u>
Total Net Receivables	<u>\$ 318,317</u>	<u>\$ 88,570</u>	<u>\$ 1,600</u>	<u>\$ 408,487</u>	<u>\$ 434,856</u>	<u>\$ 843,343</u>

5 Interfund Transfers

Interfund transfers for the year ended June 30, 2016 consisted of the following:

Primary Government

	<u>Transfer To</u>	<u>Transfer From</u>
General Fund		
From Water and Sewer Fund for administrative fees	\$ -	\$ 131,626
Total General Fund	-	131,626
Water and Sewer Fund		
To General Fund for administrative fees	<u>131,626</u>	-
Total Water and Sewer Fund	<u>131,626</u>	-
Total Transfers	<u>\$ 131,626</u>	<u>\$ 131,626</u>

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6 Capital Assets

The following is a summary of changes in capital assets:

Governmental Activities

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
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	7,213,927	88,878	-	7,302,805
Streets and related infrastructure	8,653,823	-	-	8,653,823
Machinery, equipment, and vehicles	5,689,245	296,789	-	5,986,034
Total Other Capital Assets	21,556,995	385,667	-	21,942,662
Less: Accumulated depreciation for				
Buildings and improvements	2,513,304	196,605	-	2,709,909
Streets and related infrastructure	7,880,986	25,943	-	7,906,929
Machinery, equipment, and vehicles	4,259,033	332,402	-	4,591,435
Total Accumulated Depreciation	14,653,323	554,950	-	15,208,273
Other Capital Assets, Net	6,903,672	(169,283)	-	6,734,389
Net Capital Assets	\$ 8,564,107	\$ (169,283)	\$ -	\$ 8,394,824

Depreciation expense was allocated as follows:

General government administration	\$ 110,739
Public safety	111,744
Public works	195,251
Parks, recreation, and cultural	137,216
Total Depreciation Expense	\$ 554,950

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Business-Type Activities

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
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	25,187,674	192,283	-	25,379,957
Machinery, equipment, and vehicles	1,252,933	396,596	-	1,649,529
Total Other Capital Assets	26,440,607	588,879	-	27,029,486
Less: Accumulated depreciation for				
Water and sewer infrastructure	13,042,824	166,726	-	13,209,550
Machinery, equipment, and vehicles	810,155	390,391	-	1,200,546
Total Accumulated Depreciation	13,852,979	557,117	-	14,410,096
Other Capital Assets, Net	12,587,628	31,762	-	12,619,390
Net Capital Assets	\$ 13,251,648	\$ 31,762	\$ -	\$ 13,283,410
Depreciation expense was allocated as follows:				
Water and sewer activities	\$ 557,117			
Total Depreciation Expense	\$ 557,117			

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 \$285,041 for the governmental activities.

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8 Long-Term Debt

PRIMARY GOVERNMENT

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

Year(s) Ended June 30.	General Fund		Enterprise Fund		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 425,965	\$ 9,546	\$ 597,145	\$ 99,226	\$ 1,023,110	\$ 108,772
2018	253,000	4,888	616,145	81,144	869,145	86,032
2019	116,686	1,599	389,092	67,463	505,778	69,062
2020	-	-	103,372	59,270	103,372	59,270
2021	-	-	103,372	55,161	103,372	55,161
2022-2026	-	-	596,860	207,320	596,860	207,320
2027-2031	-	-	583,486	58,720	583,486	58,720
Total	<u>\$ 795,651</u>	<u>\$ 16,033</u>	<u>\$ 2,989,472</u>	<u>\$ 628,304</u>	3,785,123	<u>\$ 644,337</u>
Landfill obligation					152,725	
Compensated absences					<u>285,041</u>	
Total Long-Term Debt					<u>\$ 4,222,889</u>	

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Changes in Long-Term Debt

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

	<u>Balance July 1, 2015</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2016</u>	<u>Due Within One Year</u>
General Fund					
Benchmark Community Bank - Bond Series 2014C	\$ 873,000	\$ -	\$ 253,314	\$ 619,686	\$ 250,000
Benchmark Community Bank - Bond Series 2014B	<u>533,000</u>	<u>-</u>	<u>357,035</u>	<u>175,965</u>	<u>175,965</u>
Subtotal	1,406,000	-	610,349	795,651	425,965
Landfill obligation	151,363	1,362	-	152,725	-
Compensated absences	<u>353,421</u>	<u>-</u>	<u>68,380</u>	<u>285,041</u>	<u>-</u>
Total General Fund	1,910,784	1,362	678,729	1,233,417	425,965
Enterprise Funds - Water and Sewer					
Benchmark Community Bank - Bond Series 2014A	1,143,000	-	280,280	862,720	284,000
Virginia Resources Authority - Series 2010	1,625,000	-	75,000	1,550,000	80,000
Virginia Resources Authority - Series 2009	<u>630,000</u>	<u>-</u>	<u>200,000</u>	<u>430,000</u>	<u>210,000</u>
Total Water and Sewer Fund	3,398,000	-	555,280	2,842,720	574,000
ADD					
Unamortized Premium on Bond Series 2009A and 2010A	<u>169,896</u>	<u>-</u>	<u>23,144</u>	<u>146,752</u>	<u>23,144</u>
Total Enterprise Funds - Water and Sewer	<u>3,567,896</u>	<u>-</u>	<u>578,424</u>	<u>2,989,472</u>	<u>597,144</u>
Grand Total - All Debt	<u>\$ 5,478,680</u>	<u>\$ 1,362</u>	<u>\$ 1,257,153</u>	<u>\$ 4,222,889</u>	<u>\$ 1,023,109</u>

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Bonds and notes payable at June 30, 2016 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. \$ 175,965

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. 619,686

Subtotal 795,651

Landfill obligation 152,725

Compensated absences 285,041

Total Governmental Activities 1,233,417

Enterprise Fund - Water and Sewer Fund

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. 862,720

\$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. 1,550,000

\$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. 430,000

Unamortized Premiums on Bond Series 2009A and 2010A 146,752

Total Enterprise Fund - Water and Sewer Fund 2,989,472

Total Long-Term Debt \$ 4,222,889

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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, 2016 is determined as follows:

	Governmental Activities	Business- Type Activities
Net Investment in Capital Assets		
Cost of capital assets	\$ 23,603,098	\$ 27,693,508
Less: Accumulated depreciation	<u>(15,208,274)</u>	<u>(14,410,097)</u>
Book value	8,394,824	13,283,411
Less: Capital related debt	(795,651)	(2,842,720)
Less: Unamortized debt issuance premium	<u>-</u>	<u>(146,750)</u>
Net Investment in Capital Assets	<u><u>\$ 7,599,173</u></u>	<u><u>\$ 10,293,941</u></u>

10 Deferred Inflows of Resources

Deferred inflows of resources from unavailable property taxes are comprised of the following:

Primary Government General Fund

Unavailable revenue - property taxes	<u>\$ 182,941</u>
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Total Deferred Inflows of Resources - Governmental Funds	<u><u>\$ 182,941</u></u>
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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.

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12 Commitments and Contingencies

If applicable, federal programs in which the Town participates were audited in accordance with the requirements by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Pursuant to the Uniform Guidance, 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, 2016, 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

The Virginia Public Finance Act contains state law for issuance of long-term and short-term debt. The Act states, in part, that no municipality may issue bonds or other interest-bearing obligations, including existing indebtedness, which will at any time exceed ten percent of the assessed valuation on real estate as shown by the last preceding assessment for taxes. Short-term revenue anticipation bonds/notes, general obligation bonds approved in a referendum, revenue bonds, and contract obligations for publically owned or regional projects should not be included in the debt limitation.

Computation of Legal Debt Margin

Total Assessed Value of Taxed Real Estate	<u>\$ 560,380,232</u>
Debt Limit - 10 Percent of Total Assessed Value	\$ 56,038,023
Amount of Debt Applicable to Debt Limit	
General obligation debt	<u>795,651</u>
Legal Debt Margin	<u>\$ 55,242,372</u>

15 Surety Bond Information

The following officers are insured through the Commonwealth of Virginia Faithful Performance of Duty Bond Plan in effect at June 30, 2016.

<u>Name</u>	<u>Title</u>	<u>Amount</u>
Kim Callis	Town Manager	\$ 200,000
Bill Wilson	Public Works Director	50,000
Katherine Ward	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 \$152,725 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, 2016. 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

Plan Description

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

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

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RETIREMENT PLAN PROVISIONS

PLAN 1

About Plan 1

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

Eligible Members

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

Hybrid Opt-In Election

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

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

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

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

PLAN 2

About Plan 2

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

Eligible Members

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

Hybrid Opt-In Election

Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

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

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

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

HYBRID RETIREMENT PLAN

About the Hybrid Retirement Plan

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

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

Eligible Members

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

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

**Non-Eligible Members*

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

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

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

PLAN 1

Retirement Contributions

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

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.

PLAN 2

Retirement Contributions

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

Creditable Service

Same as Plan 1.

Vesting

Same as 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. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Defined Contributions Component:

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

Vesting

Defined Benefit Component:

Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contributions Component:

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

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

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

VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.

Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.

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

PLAN 2

Calculating the Benefit

See definition under 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

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

Sheriffs and regional jail superintendents: Same as Plan 1.

Political subdivision hazardous duty employees: Same as Plan 1.

HYBRID RETIREMENT PLAN

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.

Calculating the Benefit

Defined Benefit Component:

See definition under 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 Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

Service Retirement Multiplier

Defined Benefit Component:

VRS: The retirement multiplier for the defined benefit component is 1.00%.

For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

Sheriffs and regional jail superintendents: Not applicable.

Political subdivision hazardous duty employees: Not applicable.

Defined Contribution Component

Not applicable.

PLAN 1

Normal Retirement Age

VRS: Age 65.

Political subdivisions hazardous duty employees:
Age 60.

Earliest Unreduced Retirement Eligibility

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

Political subdivisions hazardous duty employees:
Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

Earliest Reduced Retirement Eligibility

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

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

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.

PLAN 2

Normal Retirement Age

VRS: Normal Social Security retirement age.

Political subdivisions hazardous duty employees:
Same as Plan 1.

Earliest Unreduced Retirement Eligibility

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

Political subdivisions hazardous duty employees:
Same as Plan 1.

Earliest Reduced Retirement Eligibility

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

Political subdivisions hazardous duty employees:
Same as Plan 1.

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 Plan 1

HYBRID RETIREMENT PLAN

Normal Retirement Age

Defined Benefit Component:

VRS: Same as Plan 2.

Political subdivisions hazardous duty employees:
Not applicable.

Defined Contribution Component:

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

Earliest Unreduced Retirement Eligibility

Defined Benefit Component:

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

Political subdivisions hazardous duty employees:
Not applicable.

Defined Contribution Component:

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

Earliest Reduced Retirement Eligibility

Defined Benefit Component:

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

Political subdivisions hazardous duty employees:
Not applicable

Defined Contribution Component:

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

Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component:

Same as Plan 2

Defined Contribution Component:

Not applicable

Eligibility:

Same as Plan 1 and Plan 2

PLAN 1

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 1.70% on all service, regardless of when it was earned, purchased, or granted.

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

Purchase of Prior Service

Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts 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.

PLAN 2

Exceptions to COLA Effective Dates:

Same as 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 was earned, purchased, or granted.

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

Purchase of Prior Service

Same as Plan 1

HYBRID RETIREMENT PLAN

Exceptions to COLA Effective Dates:

Same as Plan 1 and Plan 2

Disability Coverage

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

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

Purchase of Prior Service

Defined Benefit Component:

Same as Plan 1, with the following exceptions:

- Hybrid Retirement Plan members are ineligible for ported service.
- The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.
- Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.

Defined Contribution Component:

Not applicable

Employees Covered by Benefit Terms

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	22
Inactive members:	
Vested inactive members	12
Non-vested inactive members	20
Inactive members active elsewhere in VRS	<u>17</u>
Total inactive members	49
Active members	<u>59</u>
Total covered employees	<u>130</u>

Contributions

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

If the employer used the certified rate: The political subdivision's contractually required contribution rate for the year ended June 30, 2016 was 10.91% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$294,948 and \$287,012 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension Liability

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

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

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

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

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest 10 – Non-LEOS:

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

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

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

Actuarial Assumptions – Public Safety Employees

The total pension liability for Public Safety employees in the Political Subdivision Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

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

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

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

Largest 10 – LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

All Others (Non 10 Largest) – LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – LEOS:

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

Long-Term Expected Rate of Return

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

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

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

Discount Rate

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

Changes in Net Pension Liability

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) - (b)</u>
Balances at June 30, 2014	\$ 9,889,978	\$ 7,301,506	\$ 2,588,472
Changes for the Year			
Service cost	221,445	-	221,445
Interest	683,450	-	683,450
Differences between expected and actual experience	(141,590)	-	(141,590)
Contributions - employer	-	284,506	(284,506)
Contributions - employee	-	130,070	(130,070)
Net investment income	-	341,779	(341,779)
Benefit payments, including refunds of employee contributions	(252,810)	(252,810)	-
Administrative expenses	-	(4,445)	4,445
Other changes	-	(72)	72
Net Changes	<u>510,495</u>	<u>499,028</u>	<u>11,467</u>
Balances at June 30, 2015	<u>\$ 10,400,473</u>	<u>\$ 7,800,534</u>	<u>\$ 2,599,939</u>

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Political subdivision's Net Pension Liability	\$ 4,107,146	\$ 2,599,939	\$ 1,359,595

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

For the year ended June 30, 2016, the political subdivision recognized pension expense of \$153,093. At June 30, 2016, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 106,887
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	291,352	189,847
Employer contributions subsequent to the measurement date	-	-
Total	<u>\$ 291,352</u>	<u>\$ 296,734</u>

\$291,352 reported as deferred outflows of resources related to pensions resulting from the political subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year Ended June 30.	
2017	\$ 109,903
2018	109,903
2019	109,903
2020	(32,188)
2021	-
Thereafter	-

18 Fund Balances – Governmental Funds

As of June 30, 2016, fund balances are composed of the following:

	Primary Government
Restricted	
Cemetery Fund - Subsequent years' appropriations	\$ 60,395
Total Restricted	<u>\$ 60,395</u>

REQUIRED SUPPLEMENTARY INFORMATION



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Town of South Hill, Virginia

Budgetary Comparison Schedule

Year Ended June 30, 2016

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	\$ 1,425,000	\$ 1,425,000	\$ 1,426,030	\$ 1,030
Public service corporation property taxes	55,200	55,200	62,608	7,408
Personal property taxes	525,000	525,000	580,429	55,429
Delinquent taxes	1,100	1,100	-	(1,100)
Interest on taxes	10,000	10,000	7,163	(2,837)
Penalties on taxes	<u>5,000</u>	<u>5,000</u>	<u>7,421</u>	<u>2,421</u>
Total General Property Taxes	2,021,300	2,021,300	2,083,651	62,351
Other Local Taxes				
Local sales and use taxes	250,000	250,000	611,195	361,195
Consumers' utility taxes	190,000	190,000	196,264	6,264
Business licenses	601,500	601,500	829,976	228,476
Motor vehicle licenses	36,000	36,000	40,394	4,394
Bank stock taxes	170,000	170,000	190,720	20,720
Hotel and motel room taxes	310,000	310,000	428,592	118,592
Meals taxes	1,500,000	1,500,000	1,860,030	360,030
Other local taxes	<u>6,000</u>	<u>6,000</u>	<u>6,000</u>	<u>-</u>
Total Other Local Taxes	3,063,500	3,063,500	4,163,171	1,099,671
Permits, Privilege Fees, and Regulatory Licenses				
Building permits	<u>40,000</u>	<u>40,000</u>	<u>128,032</u>	<u>88,032</u>
Total Permits, Privilege Fees, and Regulatory Licenses	40,000	40,000	128,032	88,032
Fines and Forfeitures				
Court fines	125,000	125,000	132,250	7,250
Parking fines	<u>1,500</u>	<u>1,500</u>	<u>1,400</u>	<u>(100)</u>
Total Fines and Forfeitures	126,500	126,500	133,650	7,150
Revenue from Use of Money and Property				
Revenue from use of money	50,000	50,000	80,793	30,793
Revenue from use of property	40,550	40,550	54,552	14,002
Revenue from sale of property	<u>-</u>	<u>-</u>	<u>10,023</u>	<u>10,023</u>
Total Revenue from Use of Money and Property	90,550	90,550	145,368	54,818

	<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	520,190	45,190
Landfill tipping fees	200,000	200,000	215,858	15,858
Other miscellaneous charges	<u>200</u>	<u>200</u>	<u>50</u>	<u>(150)</u>
Total Charges for Services	675,200	675,200	736,098	60,898
Miscellaneous	562,700	562,700	101,074	(461,626)
Intergovernmental				
<i>Revenue from the Commonwealth of Virginia</i>				
<i>Noncategorical Aid</i>				
Personal Property Tax Relief Act	113,068	113,068	113,068	-
Communication sales and use tax	175,000	175,000	172,673	(2,327)
Rolling stock tax	-	-	135	135
Mobile home tax	-	-	630	630
Auto rental tax	22,000	22,000	44,637	22,637
VDOT Revenue Sharing	<u>200,000</u>	<u>200,000</u>	<u>-</u>	<u>(200,000)</u>
Total Noncategorical Aid	510,068	510,068	331,143	(178,925)
<i>Categorical Aid</i>				
Street and highway revenues	1,100,000	1,100,000	1,361,660	261,660
Police Law Enforcement Grant	109,100	109,100	114,623	5,523
Fire Department Grant	-	-	16,901	16,901
Other project grants	-	-	7,200	7,200
Cultural and Arts Grants	<u>5,000</u>	<u>5,000</u>	<u>-</u>	<u>(5,000)</u>
Total Categorical Aid	<u>1,214,100</u>	<u>1,214,100</u>	<u>1,500,384</u>	<u>286,284</u>
Total Revenue from the Commonwealth of Virginia	1,724,168	1,724,168	1,831,527	107,359
Revenue from the Federal Government				
Downtown Revitalization	-	-	64,591	64,591
Police Grants	<u>10,000</u>	<u>10,000</u>	<u>5,895</u>	<u>(4,105)</u>
Total Revenue from the Federal Government	<u>10,000</u>	<u>10,000</u>	<u>70,486</u>	<u>60,486</u>
Total Intergovernmental Revenues	<u>1,734,168</u>	<u>1,734,168</u>	<u>1,902,013</u>	<u>167,845</u>
Total Revenues	8,313,918	8,313,918	9,393,057	1,079,139

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures				
Current				
<i>General Government Administration</i>				
Town Council	90,855	90,855	91,886	(1,031)
Other general administration	110,700	110,700	108,295	2,405
Finance Director	429,016	429,016	467,084	(38,068)
Town Manager	208,940	208,940	210,464	(1,524)
Municipal Services	<u>114,347</u>	<u>114,347</u>	<u>117,435</u>	<u>(3,088)</u>
Total General Government Administration	953,858	953,858	995,164	(41,306)
<i>Public Safety</i>				
Police Department	1,874,473	1,874,473	1,850,544	23,929
Fire Department	323,429	323,429	359,379	(35,950)
Building Inspector	<u>149,233</u>	<u>149,233</u>	<u>164,183</u>	<u>(14,950)</u>
Total Public Safety	2,347,135	2,347,135	2,374,106	(26,971)
<i>Public Works</i>				
Sanitation	670,762	670,762	688,532	(17,770)
Maintenance of highways and streets	2,183,109	2,183,109	1,399,078	784,031
Town shop maintenance	231,106	231,106	229,307	1,799
Building and grounds maintenance	<u>248,281</u>	<u>248,281</u>	<u>275,045</u>	<u>(26,764)</u>
Total Public Works	3,333,258	3,333,258	2,591,962	741,296
<i>Parks, Recreation, and Cultural</i>				
Library	46,445	46,445	53,023	(6,578)
Parks and recreation	<u>347,304</u>	<u>347,304</u>	<u>395,700</u>	<u>(48,396)</u>
Total Parks, Recreation, and Cultural	393,749	393,749	448,723	(54,974)
<i>Community Development</i>				
South Hill Community Development Association	307,662	307,662	308,017	(355)
Other planning and community development	<u>452,100</u>	<u>452,100</u>	<u>135,954</u>	<u>316,146</u>
Total Community Development	759,762	759,762	443,971	315,791
<i>Debt Service</i>				
	<u>656,156</u>	<u>656,156</u>	<u>616,579</u>	<u>39,577</u>
Total Expenditures	<u>8,443,918</u>	<u>8,443,918</u>	<u>7,470,505</u>	<u>973,413</u>
Excess (Deficiency) of Revenues Over Expenditures	(130,000)	(130,000)	1,922,552	2,052,552
Other Financing Sources (Uses)				
Transfers in	<u>130,000</u>	<u>130,000</u>	<u>131,626</u>	<u>1,626</u>
Total Other Financing Sources (Uses)	<u>130,000</u>	<u>130,000</u>	<u>131,626</u>	<u>1,626</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	2,054,178	<u>\$ 2,054,178</u>
Fund Balance - Beginning of Year			<u>16,126,719</u>	
Fund Balance - End of Year			<u>\$ 18,180,897</u>	

West Main Street Community Development Fund

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Intergovernmental				
<i>Revenue from the Federal Government</i>				
Department of Housing and Community Development				
Community Development Block Grant	\$ -	\$ -	\$ 552,304	\$ 552,304
Total Revenues	-	-	552,304	552,304
Expenditures				
Community Improvement Project				
Administration	-	-	77,375	(77,375)
Owner occupied rehabilitation	-	-	130,967	(130,967)
Investor owned rehabilitation	-	-	96,322	(96,322)
Substantial reconstruction	-	-	118,453	(118,453)
Storm drainage improvements	-	-	24,716	(24,716)
Water improvements	-	-	10,947	(10,947)
Sewer improvements	-	-	93,524	(93,524)
Total Expenditures	-	-	552,304	(552,304)
Excess (Deficiency) of Revenues Over Expenditures	-	-	-	-
Other Financing Sources (Uses)				
Transfers in (out)	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	\$ -	\$ -	-	\$ -
Fund Balance - Beginning of Year			-	
Fund Balance - End of Year			\$ -	

CRMP Exit 12 Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Miscellaneous revenue	\$ -	\$ -	\$ 200	\$ 200
Total Revenues	-	-	200	200
Expenditures				
Clearing and grading	-	-	25,000	(25,000)
Total Expenditures	-	-	25,000	(25,000)
Excess (Deficiency) of Revenues Over Expenditures	-	-	(24,800)	(24,800)
Other Financing Sources (Uses)				
Transfers in (out)	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	(24,800)	<u>\$ (24,800)</u>
Fund Balance - Beginning of Year			24,800	
Fund Balance - End of Year			<u>\$ -</u>	

Cemetery Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Miscellaneous revenue	\$ -	\$ -	\$ 3,220	\$ 3,220
Total Revenues	-	-	3,220	3,220
Expenditures				
Cemetery maintenance	-	-	2,415	(2,415)
Total Expenditures	-	-	2,415	(2,415)
Excess (Deficiency) of Revenues Over Expenditures	-	-	805	805
Other Financing Sources (Uses)				
Transfers in (out)	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	805	<u>\$ 805</u>
Fund Balance - Beginning of Year			59,590	
Fund Balance - End of Year			<u>\$ 60,395</u>	

Town of South Hill, Virginia

Schedule of Changes in the Political Subdivision's Net Pension Liability
and Related Ratios

Year Ended June 30, 2016

	<u>2015</u>	<u>2014</u>
Total pension liability		
Service cost	\$ 221,445	\$ 219,741
Interest	683,450	639,859
Changes of benefit terms	-	-
Differences between expected and actual experience	(141,590)	-
Changes in assumptions		
Benefit Payments, including refunds of employee contributions	<u>(252,810)</u>	<u>(220,917)</u>
Net change in total pension liability	510,495	638,683
Total pension liability - beginning	<u>9,889,978</u>	<u>9,251,295</u>
Total pension liability - ending (a)	<u><u>\$ 10,400,473</u></u>	<u><u>\$ 9,889,978</u></u>
 Plan fiduciary net position		
Contributions - employer	\$ 284,506	\$ 284,688
Contributions - employee	130,070	127,161
Net investment income	341,779	985,156
Benefit Payments, including refunds of employee contributions	(252,810)	(220,917)
Administrative expense	(4,445)	(5,106)
Other	<u>(72)</u>	<u>52</u>
Net change in plan fiduciary net position	499,028	1,171,034
Plan fiduciary net position - beginning	<u>7,301,506</u>	<u>6,130,472</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 7,800,534</u></u>	<u><u>\$ 7,301,506</u></u>
 Political subdivision's net pension liability - ending (a) - (b)	<u><u>\$ 2,599,939</u></u>	<u><u>\$ 2,588,472</u></u>
 Plan fiduciary net position as a percentage of the total Pension liability	75.00%	73.83%
 Covered payroll	\$ 2,616,697	\$ 2,507,933
 Political subdivision's net pension liability as a percentage of covered payroll	99.36%	103.21%

Town of South Hill, Virginia

Schedule of Employer Contributions

For the Years Ended June 30, 2007 through 2016

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2016	\$ 291,352	\$ 291,352	\$ -	\$ 3,079,442	9.46%
2015	287,012	287,012	-	2,862,798	10.03%
2014	287,776	287,776	-	2,469,837	11.65%
2013	305,339	305,339	-	2,469,837	12.36%
2012	400,660	400,660	-	2,303,891	17.39%
2011	383,155	383,155	-	2,279,610	16.81%
2010	326,791	326,791	-	2,293,815	14.25%
2009	331,920	331,920	-	2,343,262	14.16%
2008	345,093	345,093	-	2,244,399	15.38%
2007	335,594	335,594	-	2,123,710	15.80%

For Reference Only:

Column 1 – Employer contribution rate multiplied by the employer's covered payroll

Column 2 – Actual employer contribution remitted to VRS

Column 4 – Employer's covered payroll amount for the fiscal year

Town of South Hill, Virginia

Notes to Required Supplemental Information

For the Year Ended June 30, 2016

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 is not material.

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

Largest 10 – Non-LEOS:

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

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) – LEOS:

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

COMPLIANCE SECTION



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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, and each major fund of the Town of South Hill, Virginia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of South Hill, Virginia's basic financial statements and have issued our report thereon dated November 7, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Town of South Hill, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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.

Creedle, Jones & Alga, P.C.

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

South Hill, Virginia
November 7, 2016