



**TOWN OF SOUTH BOSTON, VIRGINIA**

**FINANCIAL REPORT**

**FISCAL YEAR ENDED JUNE 30, 2020**

TOWN OF SOUTH BOSTON, VIRGINIA

COUNCIL MEMBERS AND OFFICERS

MEMBERS OF COUNCIL

Edward Owens  
Tina Wyatt-Younger  
Michael Byrd  
Winston Harrell  
Sharon Harris  
Robert Hughes  
W.R. Snead

Mayor  
Vice-Mayor  
Council Member  
Council Member  
Council Member  
Council Member  
Council Member

TOWN OFFICIALS

Tom Raab  
Mickey Wilkerson  
James Binner  
Danny McCormick  
Steve Phillips  
Jane P. Jones

Town Manager  
Finance Director  
Police Chief  
Director of Public Works  
Fire Chief  
Clerk of Council

## TABLE OF CONTENTS

Page

## FINANCIAL SECTION

<b>INDEPENDENT AUDITORS’ REPORT</b>	1-3
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b>	4-8
<b>BASIC FINANCIAL STATEMENTS</b>	9
<b><u>Exhibits</u></b>	
<b>Government-Wide Financial Statements</b>	
Exhibit 1 Statement of Net Position	10
Exhibit 2 Statement of Activities	11
<b>Fund Financial Statements</b>	
<b>Governmental Fund Financial Statements</b>	
Exhibit 3 Balance Sheet	12
Exhibit 4 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	13
Exhibit 5 Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds to the Statement of Activities	14
<b>Fiduciary Fund Financial Statements</b>	
Exhibit 6 Statement of Fiduciary Net Position	15
<b>Notes to the Financial Statements</b>	16-65
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	66
Exhibit 7 <b>Budgetary Comparison Schedule-Major Funds</b>	67
Exhibit 8 <b>Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Employer Contributions, and Related Notes</b>	68-70
Exhibit 9 <b>Schedule of Employer’s Share of Net OPEB Liability Group Life Insurance Program, Schedule of Employer Contributions, and Related Notes</b>	71-73
Exhibit 10 <b>Schedule of Employer’s Share of Net OPEB Liability Line of Duty Act Program, Schedule of Employer Contributions, and Related Notes</b>	74-76
<b>OTHER SUPPLEMENTARY INFORMATION</b>	77
<b>Combining and Individual Fund Statements and Schedules</b>	
Exhibit 11 Combining Balance Sheet-Nonmajor Governmental Funds	78
Exhibit 12 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances-Nonmajor Governmental Funds	79

<b><u>STATISTICAL SECTION</u></b>	80
SCHEDULE 1    General Governmental Expenditures by Function – Last Ten Fiscal Years	81
SCHEDULE 2    General Governmental Revenues by Source – Last Ten Fiscal Years	82
SCHEDULE 3    Property Tax Levies and Collections – Last Ten Fiscal Years	83
SCHEDULE 4    Assessed Value of Taxable Property and Property Tax Rates – Last Ten Fiscal Years	84
SCHEDULE 5    Ratio of Net General Obligation Debt to Assessed Value and Net Debt Per Capita - Last Ten Fiscal Years	85
SCHEDULE 6    Computation of Legal Debt Margin	86
SCHEDULE 7    Statement of the Treasurer’s Accountability	87
SCHEDULE 8    Industrial Development Authority of South Boston Agency Fund – Statement of Changes in Assets and Liabilities	88
<b><u>COMPLIANCE SECTION</u></b>	89
Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	90-91

## FINANCIAL SECTION

## INDEPENDENT AUDITORS' REPORT

To the Honorable Members of the Town Council  
Town of South Boston, Virginia

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of South Boston, Virginia (the "Town"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

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

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

### ***Auditors' Responsibility***

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

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of South Boston, Virginia, as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

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

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of South Boston, Virginia's basic financial statements. The combining and individual fund financial statements, the computation of legal debt margin, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2020, on our consideration of the Town of South Boston, 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 the effectiveness of the Town of South Boston, Virginia's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of South Boston, Virginia's internal control over financial reporting and compliance.

*Harris Harvey Neal & Co. LLP*

Danville, Virginia  
December 10, 2020



# **TOWN OF SOUTH BOSTON, VIRGINIA MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2020**

Our discussion and analysis of Town of South Boston, Virginia's financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2020. Please read it in conjunction with the Town's financial statements.

## **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. For governmental activities, fund financial statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. The remaining statements provide financial information about activities for which the Town acts solely as an agent for the benefit of those outside of the government.

### **Government-Wide Financial Statements**

The Statement of Net Position and the Statement of Activities include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's net position and changes in them. You can think of the Town's net position—the difference between assets and liabilities—as one way to measure the Town's financial health, or financial position. Over time, increases or decreases in the Town's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Town's property tax base and the condition of the Town's roads, to assess the overall health of the Town.

In the Statement of Net Position and the Statement of Activities, the Town consists of the following activity:

- **Governmental activities**—Most of the Town's basic services are reported here, including the police, fire, public works, parks departments, and general administration. Property taxes, franchise fees, and state and federal grants finance most of these activities.

### **Fund Financial Statements**

Our analysis of the Town's major funds provides detailed information about the most significant funds—not the Town as a whole. Some funds are required to be established by State law and by bond covenants. However, the Town Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The Town has two kinds of funds—governmental and fiduciary—which use the following accounting approaches:

- **Governmental funds**—Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in the reconciliation at the bottom of the fund financial statements.

**TOWN OF SOUTH BOSTON, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2020**

- **Fiduciary funds**—The Town is responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. All of the Town's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the Town's other financial statements because the Town cannot use these assets to finance its operations. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**THE TOWN AS A WHOLE**

The Town's net position increased by 9.3 percent from the prior year. Our analysis below focuses on the Net Position (Table 1) and changes in Net Position (Table 2) of the Town's governmental activities.

Table 1  
Net Position

	Governmental Activities	
	<u>2020</u>	<u>2019</u>
Current and other assets	\$ 15,876,435	\$ 14,181,752
Capital assets	<u>13,944,003</u>	<u>13,117,117</u>
Total assets	<u>\$ 29,820,438</u>	<u>\$ 27,298,869</u>
Long-term debt outstanding	\$ 13,117,427	\$ 12,328,422
Other liabilities	<u>6,061,946</u>	<u>5,307,609</u>
Total liabilities	<u>\$ 19,179,373</u>	<u>\$ 17,636,031</u>
Net position:		
Invested in capital assets, net of debt	\$ 9,435,139	\$ 8,608,253
Restricted	2,223,224	2,120,606
Unrestricted	<u>(1,017,298)</u>	<u>(1,066,021)</u>
Total net position	<u>\$ 10,641,065</u>	<u>\$ 9,662,838</u>

**TOWN OF SOUTH BOSTON, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2020**

Table 2  
Changes in Net Position

	<u>Governmental Activities</u>	
	<u>2020</u>	<u>2019</u>
Revenues		
Program revenues:		
Charges for services	\$ 345,984	\$ 250,852
Grants and contributions	3,630,454	3,631,712
General revenues:		
Property taxes	1,753,565	1,736,971
Other taxes	4,984,302	5,083,457
Sale of cemetery lots	45,350	43,250
Investment earnings	<u>108,680</u>	<u>133,954</u>
Total revenues	<u>10,868,335</u>	<u>10,880,196</u>
Program expenses:		
General government	855,134	796,117
Public safety	4,167,453	3,511,863
Public works	3,589,974	3,372,453
Parks, recreation, and cultural	454,155	419,477
Community development	512,009	518,450
Nondepartmental	53,934	110,488
Landfill closure	84,705	82,107
Interest on long-term debt	<u>132,833</u>	<u>143,865</u>
Total expenses	<u>9,850,197</u>	<u>8,954,820</u>
Adjustment of estimated accumulated post-closure costs	<u>(39,910)</u>	<u>(30,682)</u>
Increase in net position	<u>\$ 978,228</u>	<u>\$ 1,894,694</u>

**Governmental Activities**

Revenues for the Town's governmental activities decreased .1 percent, while expenses increased 10.1 percent. The revenue decrease is due less occupancy and meals taxes collected which were affected by the Governor imposing restrictions on travel and closure of restaurants due to the COVID-19 global pandemic. Charges for services increased in the current year due to reimbursements from private businesses for hiring public safety workers were offset against expenses in prior years. Expenses increased due to reimbursements were not offset against expenses and for the addition to the fire department expansion.

**TOWN OF SOUTH BOSTON, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2020**

**THE TOWN'S FUNDS**

As the Town completed the year, its governmental funds reported a fund balance of \$12,958,335, which is 13.9 percent higher than last year. The primary reason for the increase was due to additional principal received on the general obligation bonds issued during the year relating to phase 3 of the renovation of the Tultex building.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Town budgets conservatively. Revenues are budgeted based on historic trends. Expenditures are budgeted based on the previous adopted levy.

The Town Council receives monthly financial statements. The Council approves budget amendments. Budget amendments are made for encumbrances, new Council directives, or adjustments such as grants received after budget approval.

Actual disbursements were \$2,165,582 higher than budgeted amounts. A majority of the difference is due to the accounting for the bond proceeds received and paid to the Industrial Development Authority are shown as a note receivable on the balance sheet instead of as an expense. Actual revenues were \$654,499 less than budgeted amounts due to less street maintenance and revenue sharing received from the Commonwealth.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The Town's investment in capital assets for its governmental activities as of June 30, 2020, amounts to \$13,944,003 (net of accumulated depreciation). This investment in capital assets includes police and fire equipment, buildings, park facilities, and improvements. This amount represents a net increase (including additions and deductions) of \$826,886, or 6.3 percent, above last year.

<u>Governmental Activities</u>		
	<u>2020</u>	<u>2019</u>
Land, building, and improvements	\$ 11,818,470	\$ 11,406,690
Machinery, equipment, and vehicles	<u>2,125,533</u>	<u>1,710,427</u>
Totals	<u>\$ 13,944,003</u>	<u>\$ 13,117,117</u>

This year's major additions included:

Three SUV police vehicles, paid for with general revenue	\$ 163,306
Freightliner truck, paid for with general revenue	119,896
Storm water projects, paid for with grant and general revenue	452,342
Fire department addition, paid for with general revenue	937,172

**TOWN OF SOUTH BOSTON, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2020**

**Debt**

At year-end, the Town had \$10,910,818 in bonds and notes outstanding compared to \$10,188,864 last year - an increase of 7.1 percent as shown in the following table.

	<u>Governmental Activities</u>	
	<u>2020</u>	<u>2019</u>
General		
obligation bonds	<u>\$ 10,910,818</u>	<u>\$ 10,188,864</u>

The Town's debt includes \$5,991,420 which was obtained for other governmental entities and the payments of principal and interest are being reimbursed by these entities.

The Commonwealth limits the amount of general obligation debt that the Town can issue to 10.0 percent of the assessed value of all taxable property within the Town's corporate limits.

Other obligations include accrued vacation pay and sick leave. More detailed information about the Town's long-term liabilities is presented in Note 6 to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Capital improvement projects for the next five years include storm water management improvements. The Town will also begin the Poplar Creek Housing project which will be a development of 16 duplex houses for rent by Southside Outreach Group (SOG). These will be built on land owned and donated by the Town of South Boston to SOG. The Town has received a \$700,000 grant from the Department of Housing and Community Development to develop the infrastructure and road. SOG is using tax credits and low interest loans to build the duplexes.

All of these factors were considered in preparing the Town's budget for the 2021 fiscal year.

General Fund tax rates will remain the same for the 2021 fiscal year.

**CONTACTING THE TOWN'S FINANCIAL MANAGEMENT**

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 show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town Finance Office at 436 Ferry Street, South Boston, Virginia. The Town's phone number is 434-575-4210.

## BASIC FINANCIAL STATEMENTS

TOWN OF SOUTH BOSTON, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2020

See Independent Auditors' Report

	Exhibit 1
	Governmental
ASSETS	Activities
Cash	\$ 6,061,010
Investments	191,544
Receivables (net of allowances for uncollectibles):	
Taxes, including penalties	215,940
Accounts	95,593
Notes	6,160,420
Due from other governmental units	1,738,344
Inventories, at cost	134,165
Fixed assets (net of accumulated depreciation)	13,944,003
Deferred outflows of resources-VRS	1,279,419
Total assets	<u>29,820,438</u>
LIABILITIES	
Excess of checks written over funds available	499,791
Accrued interest payable	46,805
Accounts payable	324,758
Long-term obligations:	
Due within one year	753,849
Due beyond one year	12,363,578
Net pension liability	3,614,145
Net group life insurance liability	270,615
Net line of duty act liability	698,090
Deferred inflows of resources-VRS	607,742
Total liabilities	<u>19,179,373</u>
NET POSITION	
Net investment in capital assets	9,435,139
Restricted for:	
Perpetual care:	
Expendable	253,306
Nonexpendable	759,918
Other purposes	1,210,000
Unrestricted	<u>(1,017,298)</u>
Total net position	<u>\$ 10,641,065</u>

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

TOWN OF SOUTH BOSTON, VIRGINIA

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2020

See Independent Auditors' Report

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 855,134	\$ 280,142	\$ 295,732	\$ -	\$ (279,260)
Public safety	4,167,453	38,987	832,669	-	(3,295,797)
Public works	3,589,974	9,958	2,279,086	-	(1,300,930)
Parks, recreation, and cultural	454,155	16,897	-	-	(437,258)
Community development	512,009	-	-	91,069	(420,940)
Nondepartmental	53,934	-	-	-	(53,934)
Landfill closure	84,705	-	131,898	-	47,193
Interest on long-term debt	132,833	-	-	-	(132,833)
Total governmental activities	<u>\$ 9,850,197</u>	<u>\$ 345,984</u>	<u>\$ 3,539,385</u>	<u>\$ 91,069</u>	<u>\$ (5,873,759)</u>
General Revenues:					
Property taxes					\$ 1,753,565
Other taxes and revenues					4,984,302
Sale of cemetery lots					45,350
Unrestricted investment earnings					108,680
Total general revenues					<u>6,891,897</u>
Change in net position					1,018,138
Net position - beginning					9,662,837
Adjustment of estimated accumulated post-closure costs					<u>(39,910)</u>
Net position - ending					<u>\$ 10,641,065</u>

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



## TOWN OF SOUTH BOSTON, VIRGINIA

BALANCE SHEET  
GOVERNMENTAL FUNDS

June 30, 2020

See Independent Auditors' Report

Exhibit 3

ASSETS	General	Other Governmental Funds	Total Governmental Funds
Cash	\$ 5,239,330	\$ 821,680	\$ 6,061,010
Investments	-	191,544	191,544
Receivables (net of allowances for uncollectibles):			
Taxes, including penalties	215,940	-	215,940
Accounts	95,593	-	95,593
Notes	6,160,420	-	6,160,420
Due from other funds	62,231	-	62,231
Due from other governmental units	1,054,583	-	1,054,583
Inventories, at cost	134,165	-	134,165
Total assets	<u>\$ 12,962,262</u>	<u>\$ 1,013,224</u>	<u>\$ 13,975,486</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Excess of checks written over funds available	\$ 499,791	\$ -	\$ 499,791
Accounts payable	324,758	-	324,758
Unavailable revenue - property taxes	192,602	-	192,602
Total liabilities	<u>1,017,151</u>	<u>-</u>	<u>1,017,151</u>
Fund balances:			
Nonspendable:			
Inventories	134,165	-	134,165
Restricted for:			
Perpetual care	-	1,013,224	1,013,224
Landfill closure	576,224	-	576,224
Assigned to:			
Construction of capital assets	1,210,000	-	1,210,000
Unassigned:			
Undesignated	10,024,721	-	10,024,721
Total fund balances	<u>11,945,110</u>	<u>1,013,224</u>	<u>12,958,334</u>
Total liabilities and fund balances	<u>\$ 12,962,261</u>	<u>\$ 1,013,224</u>	
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			13,944,003
Other long-term assets and liabilities are not available to pay for current-period amounts and, therefore are deferred in the governmental funds.			814,132
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.			(13,117,427)
Some liabilities, including net pension, group life insurance, and line of duty obligations, are not due and payable in the current period and, therefore, are not reported in the funds.			(4,629,655)
Deferred outflows and inflows or resources related to pensions, group life insurance, and line of duty act are applicable to future periods and, therefore, are not reported in the funds.			671,677
Net position of governmental activities			<u>\$ 10,641,064</u>

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

TOWN OF SOUTH BOSTON, VIRGINIA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 For the Year Ended June 30, 2020  
 See Independent Auditors' Report

		Other Governmental Funds	Exhibit 4 Total Governmental Funds
	General Fund		
Revenues:			
General property taxes	\$ 2,082,868	\$ -	\$ 2,082,868
Other local taxes	4,972,613	-	4,972,613
Permits, privilege fees, and regulatory licenses	2,610	-	2,610
Fines and forfeitures	38,987	-	38,987
Interest and investment revenue	100,365	27,345	127,710
Charges for service	26,855	-	26,855
Miscellaneous	217,803	640	218,443
Recovered costs	950,087	-	950,087
Sale of cemetery lots	-	45,350	45,350
Intergovernmental	2,764,569	227,281	2,991,850
Total revenues	<u>11,156,757</u>	<u>300,616</u>	<u>11,457,373</u>
Expenditures:			
Current:			
General government administration	669,519	183,230	852,749
Public safety	4,823,447	227,281	5,050,728
Public works	3,500,852	-	3,500,852
Parks, recreation, and cultural	464,960	-	464,960
Community development	342,514	-	342,514
Nondepartmental	145,514	-	145,514
Capital projects	2	8,740	8,742
Landfill closure	74,461	-	74,461
Debt service:			
Principal retirement	1,605,813	-	1,605,813
Interest and fiscal charges	165,634	-	165,634
Total expenditures	<u>11,792,716</u>	<u>419,251</u>	<u>12,211,967</u>
(Deficiency) of revenues (under) expenditures	<u>(635,959)</u>	<u>(118,635)</u>	<u>(754,594)</u>
Other financing sources (uses):			
General obligation bond issued	2,338,233	-	2,338,233
Operating transfers in (out)	<u>(134,795)</u>	<u>134,795</u>	<u>-</u>
Total other financing sources and uses	<u>2,203,438</u>	<u>134,795</u>	<u>2,338,233</u>
Net change in fund balances	1,567,479	16,160	1,583,639
Fund balance at beginning of year	<u>10,377,631</u>	<u>997,064</u>	<u>11,374,695</u>
Fund balance at end of year	<u>\$ 11,945,110</u>	<u>\$ 1,013,224</u>	<u>\$ 12,958,334</u>

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

TOWN OF SOUTH BOSTON, VIRGINIA

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

For the Year Ended June 30, 2020

See Independent Auditors' Report

Exhibit 5

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

Net change in fund balances - total governmental funds	\$ 1,583,639
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	826,886
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	(33,571)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayments exceeded proceeds.	(1,241,953)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(21,243)
Governmental funds report pension, group life insurance, and line of duty act contributions as expenditures. However, in the statement of activities, the cost of pension, group life insurance, and line of duty act benefits earned, net of employee contributions, is reported as expense.	<u>(95,621)</u>
Change in net position of governmental activities	<u><u>\$ 1,018,137</u></u>

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

TOWN OF SOUTH BOSTON, VIRGINIA

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

June 30, 2020

Exhibit 6

ASSETS	<u>Agency Fund</u>
Cash and cash equivalents	\$ 77,928
Land and buildings	3,666,978
Accounts receivable	<u>5,324,820</u>
Total assets	<u>9,069,726</u>
 LIABILITIES	
Accounts payable	2,000
Due to other governmental units	8,365,092
Note payable	<u>702,634</u>
Total liabilities	<u>9,069,726</u>
 NET POSITION	 <u>\$ -</u>

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

## TOWN OF SOUTH BOSTON, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

#### Note 1. Summary of Significant Accounting Policies

##### A. Reporting Entity

The Town of South Boston, Virginia (the primary government) is a municipal corporation governed by a seven-member council. The Town's major operations include police and fire protection, parks, library and recreation, public works, and general administrative services.

The Town's financial statements are prepared in conformity with accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board and the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia. The more significant accounting policies established in GAAP and used by the Town are discussed below.

##### B. Basic Financial Statements - Government-Wide Statements

The Town's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of the Governmental Activities for the Town. Fiduciary activities of the Town are not included in these statements.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Town's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the Town are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated. In the Statement of Activities, internal service fund transactions have been eliminated.

The Town does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net position resulting from the current year's activities.

##### C. Basic Financial Statements—Fund Financial Statements

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

## TOWN OF SOUTH BOSTON, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

#### Note 1. Summary of Significant Accounting Policies (Continued)

The following fund types are used by the Town:

##### 1. Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Town:

- a. General fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.
- b. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

##### 2. Fiduciary Funds:

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and, therefore, are not available to support Town programs. The reporting focus is on net position and changes in net position, which are reported using accounting principles similar to proprietary funds. The Town's fiduciary funds are presented in the fiduciary fund financial statements by type (permanent and agency). These funds consist of the Cemetery Fund, which is a permanent fund and the Industrial Development Authority Fund, which is an agency fund. 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.

#### D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

##### 1. Accrual:

The governmental activities in the government-wide financial statements and the fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

##### 2. Modified Accrual:

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

## TOWN OF SOUTH BOSTON, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

#### Note 1. Summary of Significant Accounting Policies (Continued)

##### E. Financial Statement Amounts

###### 1. Cash and Cash Equivalents:

The Town has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agents. Additionally, each fund's equity in the Town's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

###### 2. Investments:

Investments, including deferred compensation funds, are stated at fair value (quoted market price or the best available estimate).

###### 3. Allowances for Uncollectible Accounts:

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowances amounted to \$42,986 in the Governmental Activities at June 30, 2020.

###### 4. Inventories:

Inventories in the general fund consist of expendable supplies held for the Town's use and are carried at cost using the first-in, first-out method.

###### 5. Capital Assets:

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20–50 years
Machinery and equipment	5–10 years
Improvements	10–20 years
Other infrastructure	10–50 years

GASB Statement No. 34 requires the Town to report and depreciate new infrastructure assets. No new infrastructure assets were constructed or purchased during the year. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), etc. These infrastructure assets are likely to be the largest asset class of the Town. Neither their historical cost nor related depreciation has historically been reported in the financial statements.

## TOWN OF SOUTH BOSTON, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

#### Note 1. Summary of Significant Accounting Policies (Continued)

##### 6. Revenues:

Substantially all governmental fund revenues are accrued. Property taxes are billed and collected within the same period in which the taxes are levied. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASB Statement No. 33. In applying GASB Statement No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

##### 7. Expenditures:

Expenditures are recognized when the related fund liability is incurred. Inventory costs are reported in the period when inventory items are used, rather than in the period purchased.

##### 8. Compensated Absences:

The Town accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The non-current portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

##### 9. Bonds and Related Premiums, Discounts and Issuance Costs:

In the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In governmental fund financial statements, bond premiums, discounts and issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt issuance expenditures.

##### 10. Pensions:

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



## TOWN OF SOUTH BOSTON, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

#### Note 1. Summary of Significant Accounting Policies (Continued)

##### 11. Net Position:

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

##### 12. 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 (expense/expenditure) until then. The Town has three items that qualifies for reporting in this category. It is comprised of contributions to the pension plan, group life insurance plan, and line of duty act made during the current year and subsequent to the net pension, group life insurance, and line of duty liability measurement date, which will be recognized as a reduction of the net pension liability next fiscal year. For more detailed information on these items, reference the pension, group life insurance, and line of duty act notes.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Certain items related to the measurement of the net pension, group life insurance, and line of duty act liabilities are reported as deferred inflows of resources. These include differences between expected and actual experience, change in assumptions, the net difference between projected and actual earnings on plan investments and changes in proportion and differences between employer contributions and proportionate share of contributions. For more detailed information on these items, reference the pension, group life insurance, and line of duty act notes.

## TOWN OF SOUTH BOSTON, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

#### Note 1. Summary of Significant Accounting Policies (Continued)

##### 13. Group Life Insurance:

The Virginia Retirement System (VRS) Group Life Insurance Program is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The Group Life Insurance Program was established pursuant to §51.1-500 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The Group Life Insurance Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net Group Life Insurance Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance Program OPEB, and Group Life Insurance Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System Group Life Insurance program OPEB and the additions to/deductions from the VRS Group Life Insurance Program OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

##### 14. Line of duty act program:

The Virginia Retirement System (VRS) Line of Duty Act Program (LODA) is a multiple-employer, cost-sharing plan. The Line of Duty Act Program was established pursuant to §9.1-400 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The Line of Duty Act Program provides death and health insurance benefits to eligible state employees and local government employees, including volunteers, who die or become disabled as a result of the performance of their duties as a public safety officer. In addition, health insurance benefits are provided to eligible survivors and family members. For purposes of measuring the net Line of Duty Act Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Line of Duty Act Program OPEB, and Line of Duty Act Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System Line of Duty Act Program OPEB Plan and the additions to/deductions from the VRS Line of Duty Act Program OPEB Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## TOWN OF SOUTH BOSTON, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

#### Note 2. Deposits and Investments

##### 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 percent to 130 percent of excess deposits. Accordingly, all deposits are considered fully collateralized.

##### Investments

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

Investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Town or its safekeeping agent in the Town's name. Category 2 includes uninsured or unregistered investments for which the securities are held by the broker, or dealer bank's trust department, or safekeeping agent in the Town's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department, or safekeeping agent but not in the Town's name.

At year-end, the Town's investment balances were as follows:

	<u>Category 2</u>	<u>Carrying Amount</u>	<u>Market Value</u>
*45 Shares of Common Stock –			
U.S. Steel Corporation	\$ 2,019	\$ 2,019	\$ 340
Alliance U.S. Bond Fund	<u>226,406</u>	<u>226,406</u>	<u>191,204</u>
Total Investments	<u>\$228,425</u>	<u>\$228,425</u>	<u>\$191,544</u>

Note: \*These shares of stock were donated to the Town in a prior year.

#### Note 3. Property Taxes Receivable

Property is assessed at its value on January 1<sup>st</sup>. Property taxes attach as an enforceable lien on property as of January 1<sup>st</sup>. Taxes are payable in one (1) installment on December 5<sup>th</sup>. The Town bills and collects its own property taxes.

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 4. Due From Other Governmental Units

Consisted of the following at June 30, 2020:

	General Fund	Nonmajor Governmental Funds	Total Governmental Activities
County of Halifax:			
Halifax County Service Authority	\$1,592,012	\$ -	\$1,592,012
Local sales taxes	40,218	-	40,218
Commonwealth of Virginia:			
Communications tax	<u>106,114</u>	<u>-</u>	<u>106,114</u>
 Total	 <u>\$1,738,344</u>	 <u>\$ -</u>	 <u>\$1,738,344</u>

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2020, was as follows:

	Balance <u>7/1/19</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>6/30/20</u>
Governmental activities:				
Capital assets, being depreciated:				
Land, buildings, and improvements	\$ 15,573,372	\$ 980,525	\$ -	\$ 16,553,897
Equipment	<u>7,568,779</u>	<u>959,748</u>	<u>(51,209)</u>	<u>8,477,318</u>
Total capital assets being depreciated	<u>23,142,151</u>	<u>1,940,273</u>	<u>(51,209)</u>	<u>25,031,215</u>
Less accumulated depreciation for:				
Buildings and improvements	4,166,682	568,745	-	4,735,427
Equipment	<u>5,858,352</u>	<u>544,642</u>	<u>(51,209)</u>	<u>6,351,785</u>
Total accumulated depreciation	<u>10,025,034</u>	<u>1,113,387</u>	<u>(51,209)</u>	<u>11,087,212</u>
Governmental activities capital assets, net	<u>\$ 13,117,117</u>	<u>\$ 826,886</u>	<u>\$ -</u>	<u>\$ 13,944,003</u>

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets (Continued)

Depreciation expense was charged to governmental functions as follows:

Governmental activities:

General government	\$ 10,787
Public safety	285,620
Public works	698,448
Parks, recreation, and cultural	30,901
Community development	66,391
Landfill closure	10,243
Cemetery	<u>10,997</u>
Total depreciation expense-governmental activities	<u>\$ 1,113,387</u>

Note 6. Long-Term Debt

Governmental activities:

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

General Obligation Public Improvement and Refunding Bond – Series 2013A

On June 5, 2013, the Town of South Boston entered into a refunding bond issue of \$2,246,663, for the purpose of refunding the Town's 2011 Bond Anticipation note and to reimburse the Town's costs already incurred and paid from the general fund to finance certain capital improvements of the Washington Coleman School Building. Interest is payable at 2.49 percent to 4.89 percent. Installments of principal are due annually on October 1, through October 1, 2037. Installments of interest are due on each October 1 and April 1, through October 1, 2037.

Year Ending

June 30,	<u>General Obligation Public Improvement and Refunding Bond</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 70,467	\$ 69,475	\$ 139,942
2022	75,467	67,122	142,589
2023	75,467	64,641	140,108
2024	80,467	61,381	141,848
2025	80,467	58,206	138,673
2026-2030	462,335	239,427	701,762
2031-2035	567,335	135,178	702,513
2036-2039	<u>391,393</u>	<u>23,763</u>	<u>415,156</u>
	<u>\$ 1,803,398</u>	<u>\$ 719,193</u>	<u>\$ 2,522,591</u>

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Debt (Continued)

Advance Refunding

On March 13, 2015, the Town issued \$3,370,000 of General Obligation Refunding Bond, Series 2015A, with an interest rate of 2.20 percent.

The net proceeds (after issuance costs of \$67,156) were used to advance refund a portion of the Revenue Bond Series 2006B.

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt services payments on the refunded bond. As a result, the refundable bonds are considered to be defeased, and the related liability for the bonds has been removed from the Town's liabilities.

Installments of principal are due annually on August 1, through August 1, 2026. Installments of interest are due on each August 1 and February 1, through August 1, 2026. 71.02 percent is allocable to the General Fund and 28.98 percent is allocable to the former Water and Sewer Fund, which will be reimbursed by the Halifax County Service Authority.

Annual debt service requirements to maturity are as follows:

Year Ending June 30,			Governmental <u>Activities</u> General Fund 71.02 Percent		Business-type <u>Activities</u> HCSA 28.98 Percent	
	<u>Principal</u>	<u>Interest</u>	<u>Landfill Closure Fund</u> <u>Principal</u>	<u>Interest</u>	<u>Water and Sewer Fund</u> <u>Principal</u>	<u>Interest</u>
2021	\$ 345,000	\$ 48,708	\$ 254,000	\$ 34,155	\$ 91,000	\$ 14,553
2022	422,000	40,689	329,000	28,149	93,000	12,540
2023	433,000	31,350	337,000	20,878	96,000	10,472
2024	441,000	21,780	343,000	13,431	98,000	8,349
2025	453,000	10,065	353,000	3,881	100,000	6,184
2026	101,000	3,982	-	-	101,000	3,982
2027	105,000	1,155	-	-	105,000	1,155
	<u>\$ 2,300,000</u>	<u>\$ 157,729</u>	<u>\$ 1,616,000</u>	<u>\$ 100,494</u>	<u>\$ 684,000</u>	<u>\$ 57,235</u>

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Debt (Continued)

General Obligation Bond 2016 – Revenue Sharing

On October 1, 2015, the Town issued \$2,500,000 General Obligation Bond, issued to fund the revenue sharing program administered by the Virginia Department of Transportation. The bond principal and interest are due in varying annual installments through December 2025. Interest is at 2.10 percent.

Annual debt services requirements to maturity are as follows:

Year Ending

June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 250,000	\$ 31,500	\$ 281,500
2022	250,000	26,250	276,250
2023	250,000	21,000	271,000
2024	250,000	15,750	265,750
2025	250,000	10,500	260,500
2026	250,000	5,250	255,250
	<u>\$ 1,500,000</u>	<u>\$ 110,250</u>	<u>\$ 1,610,250</u>

Tax-Exempt General Obligation Bond 2017A

On November 3, 2017, the Town issued a \$3,000,000 General Obligation Bond. The bond was obtained to loan to the Industrial Development Authority of the Town of South Boston (IDA), who will, in turn, loan to a developer to renovate the Tultex/Imperial building. As funds were needed, the developer requested of the IDA, who, in turn, requested a draw down from the Town. Repayment of the loan will be funded partially through historical tax credits received from the developer. The bond principal and interest are due in varying annual installments through October 2039. Interest is at 2.35 percent.

Annual debt services requirements to maturity are as follows:

Year Ending

June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 121,935	\$ 68,966	\$ 190,901
2022	124,873	66,028	190,901
2023	127,881	63,020	190,901
2024	130,798	60,103	190,901
2025	133,961	56,941	190,902
2026-2030	719,815	234,692	954,507
2031-2035	810,835	143,671	954,506
2036-2040	771,047	42,032	813,079
	<u>\$ 2,941,145</u>	<u>\$ 735,453</u>	<u>\$ 3,676,598</u>

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Debt (Continued)

Taxable General Obligation Bond, 2017B

On November 3, 2017, the Town issued a \$2,600,000 General Obligation Bond. The bond was obtained to loan to the Industrial Development Authority of the Town of South Boston (IDA), who will, in turn, loan to a developer to renovate the Tultex/Imperial building. As funds were needed, the developer requested of the IDA, who, in turn, requested a draw down from the Town. Repayment of the loan will be funded partially through historical tax credits received from the developer. The bond agreement required that sufficient payments be made to reduce the principal balance outstanding not to exceed \$700,000 on or before November 3, 2019. Interest is at 3.62 percent.

Annual debt services requirements to maturity are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 25,034	\$ 25,034	\$ 50,068
2022	25,969	25,969	51,938
2023	26,939	26,939	53,878
2024	27,945	27,945	55,890
2025	28,988	28,988	57,976
2026-2030	162,010	88,033	250,043
2031-2035	194,606	55,438	250,044
2036-2040	196,551	16,644	213,195
	<u>\$ 688,042</u>	<u>\$ 294,990</u>	<u>\$ 983,032</u>

Note Payable – Industrial Development Authority

On August 19, 2019, the Town obtained a \$2,000,000 Note Payable. The note was obtained to loan to the Industrial Development Authority of the Town of South Boston (IDA), who will, in turn, loan to a developer to renovate Phase 3 of the Tultex/Imperial building. As funds were needed, the developer requested of the IDA, who, in turn, requested a draw down from the Town. A repayment schedule will be determined when the project is completed. Interest is at 4.75 percent. The balance as of June 30, 2020 is \$1,678,233.



TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Debt (Continued)

Changes in Long-Term Debt:

The following is a summary of long-term debt transactions of the Town for the year ended June 30, 2020:

	Payable at <u>7/1/19</u>	Plus <u>Additions</u>	Less <u>Retirements</u>	Payable at <u>6/30/20</u>	Due within <u>One year</u>
Governmental activities:					
Bonds and notes payable:					
General obligation bonds:					
06/05/13	\$ 1,868,864	\$ -	\$ 65,466	\$ 1,803,398	\$ 70,467
03/13/15	2,640,000	-	340,000	2,300,000	345,000
03/13/15	430,000	-	430,000	-	-
10/01/15	1,750,000	-	250,000	1,500,000	250,000
11/03/17	3,000,000	-	58,855	2,941,145	45,237
11/03/17	500,000	430,000	241,958	688,042	-
Notes payable:					
8/19/19	<u>-</u>	<u>1,908,233</u>	<u>230,000</u>	<u>1,678,233</u>	<u>-</u>
Total bonds and notes payable	<u>10,188,864</u>	<u>2,338,233</u>	<u>1,616,279</u>	<u>10,910,818</u>	<u>710,704</u>
Other liabilities:					
Compensated absences	404,309	54,281	27,141	431,449	43,145
Landfill post-closure care	<u>1,735,249</u>	<u>39,911</u>	<u>-</u>	<u>1,775,160</u>	<u>-</u>
Total other liabilities	<u>2,139,558</u>	<u>94,192</u>	<u>27,141</u>	<u>2,206,609</u>	<u>43,145</u>
Governmental activities long-term liabilities	<u>\$ 12,328,422</u>	<u>\$ 2,432,425</u>	<u>\$ 1,643,420</u>	<u>\$ 13,117,427</u>	<u>\$ 753,849</u>

Note 7. Fund Balances – Governmental Funds

The Town of South Boston, Virginia reports fund balance in accordance with GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In the fund financial statements, governmental funds report the following classifications of fund balance:

- Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact.
- Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.
- Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to ordinances passed by the Town Council, the Town's highest level of decision making authority. Commitments may be modified or rescinded only through ordinances approved by the Town's Council. The Town has not reported any amounts that are committed in the current year.

## TOWN OF SOUTH BOSTON, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

#### Note 7. Fund Balances – Governmental Funds (Continued)

- Assigned – includes amounts that the Town intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance.
- Unassigned – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

The details of the fund balances are included in the Governmental Funds Balance Sheet. Restricted funds are used first as appropriate. Assigned funds are reduced to the extent that expenditure authority has been budgeted by Council or the assignment has been changed by the Mayor. Decreases to fund balance first reduce unassigned fund balance; in the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

#### Note 8. Defined Benefit Pension Plan

##### **Plan Description**

All full-time, salaried permanent employees of the Town of South Boston, Virginia are automatically covered by a 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:

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined Benefit Pension Plan (Continued)

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

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined Benefit Pension Plan (continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.</p>	<p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.</p>	<p><b>*Non-Eligible Members</b> Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> <li>• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees</li> </ul> <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.</p>
<p><b>Retirement Contributions</b> Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund.</p> <p>The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p><b>Retirement Contributions</b> Same as Plan 1.</p>	<p><b>Retirement Contributions</b> A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined Benefit Pension Plan (continued)

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

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined Benefit Pension Plan (continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Vesting</b> Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of service credit. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p><b>Vesting</b> Same as VRS Plan 1.</p>	<p><b>Vesting</b> <b><u>Defined Benefit Component:</u></b> 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 service credit. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of service credit who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><b><u>Defined Contributions Component:</u></b> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distributions not required, except as governed by law.</p>

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined Benefit Pension Plan (continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<b>Calculating the Benefit</b> The basic benefit is determined using the average final compensation, service credit and plan multiplier. An early retirement reduction is applied to this amount if the member is retiring with a reduced benefit. In cases where the member has elected an optional form or retirement payment, an option factor specific to the option chosen is then applied.	<b>Calculating the Benefit</b> See definition under VRS Plan 1.	<b>Calculating the Benefit</b> <b><u>Defined Benefit Component:</u></b> See definition under VRS Plan 1  <b><u>Defined Contribution Component:</u></b> 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.
<b>Average Final Compensation</b> A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	<b>Average Final Compensation</b> A member's average final compensation is the average of the 60 consecutive months of highest compensation as a covered employee.	<b>Average Final Compensation</b> Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
<b>Service Retirement Multiplier VRS</b> The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.  <b>Sheriffs and regional jail superintendents</b> The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.	<b>Service Retirement Multiplier VRS</b> 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 service credit earned, purchased or granted on or after January 1, 2013.  <b>Sheriffs and regional jail superintendents</b> Same as VRS Plan 1.	<b>Service Retirement Multiplier VRS</b> <b><u>Defined Benefit Component</u></b> The retirement multiplier for the defined benefit component is 1.00%.  For members who opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.  <b>Sheriffs and regional jail superintendents</b> Not applicable.

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined Benefit Pension Plan (continued)

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



TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined Benefit Pension Plan (continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Earliest Reduced Retirement Eligibility VRS</b> Age 55 with at least five years (60 months) of service credit or age 50 with at least 10 years of service credit.</p> <p><b>Political subdivisions hazardous duty employees</b> Age 50 with at least five years of service credit.</p>	<p><b>Earliest Reduced Retirement Eligibility VRS</b> Age 60 with at least five years (60 months) of service credit.</p> <p><b>Political subdivisions hazardous duty employees</b> Same as VRS Plan 1.</p>	<p><b>Earliest Reduced Retirement Eligibility VRS</b> <b><u>Defined Benefit Component:</u></b> Age 60 with at least five years (60 months) of service credit.</p> <p><b>Political subdivisions hazardous duty employees:</b> Not applicable.</p> <p><b><u>Defined Contribution Component:</u></b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><b><u>Eligibility:</u></b> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of service credit, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of service credit, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><b><u>Eligibility:</u></b> Same as VRS Plan 1.</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> <b><u>Defined Benefit Component:</u></b> Same as VRS Plan 2.</p> <p><b><u>Defined Contribution Component:</u></b> Not applicable.</p> <p><b><u>Eligibility:</u></b> Same as VRS Plan 1 and VRS Plan 2.</p>

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined Benefit Pension Plan (continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p><b><u>Exceptions to COLA Effective Dates:</u></b></p> <p>The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> <li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>• The member retires on disability.</li> <li>• The member retires directly from short-term or long-term disability.</li> <li>• The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.</li> <li>• The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.</li> </ul>	<p><b><u>Exceptions to COLA Effective Dates:</u></b></p> <p>Same as VRS Plan 1.</p>	<p><b><u>Exceptions to COLA Effective Dates:</u></b></p> <p>Same as VRS Plan 1 and VRS Plan 2.</p>
<p><b>Disability Coverage</b></p> <p>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned purchased or granted.</p>	<p><b>Disability Coverage</b></p> <p>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p>	<p><b>Disability Coverage</b></p> <p>Employees of political subdivisions (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined Benefit Pension Plan (continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<b>Purchase of Prior Service</b> Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as service credit in their plan. Prior service credit counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.	<b>Purchase of Prior Service</b> Same as VRS Plan 1.	<b>Purchase of Prior Service</b> <u><b>Defined Benefit Component:</b></u> Same as VRS Plan 1, with the following exceptions: <ul style="list-style-type: none"> <li>• Hybrid Retirement Plan members are ineligible for ported service.</li> </ul> <u><b>Defined Contribution Component</b></u> Not applicable.

# TOWN OF SOUTH BOSTON, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

### Note 8. Defined Benefit Pension Plan (continued)

#### Employees Covered by Benefit Terms

As of the June 30, 2018 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	<u>86</u>
Inactive members:	
Vested inactive members	12
Non-vested inactive members	16
Inactive members active elsewhere in VRS	<u>34</u>
Total inactive members	<u>62</u>
Active members	<u>77</u>
Total covered employees	<u><u>225</u></u>

#### Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement.

The Town's contractually required employer contribution rate for the year ended June 30, 2020 was 15.43% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$539,504 and \$501,576 for the years ended June 30, 2020 and June 30, 2019, respectively.

#### Net Pension Liability

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For political subdivisions, the net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2018 rolled forward to the measurement date of June 30, 2019

## TOWN OF SOUTH BOSTON, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

#### Note 8. Defined Benefit Pension Plan (Continued)

##### **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, 2018, 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, 2019.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.35%
Investment rate of return	6.75%, 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of pension liabilities.

##### **Mortality rates**

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

###### **Pre-Retirement:**

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

###### **Post-Retirement:**

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

###### **Post-Disablement:**

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

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

###### **Pre-Retirement:**

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

###### **Post-Retirement:**

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

###### **Post-Disablement:**

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

# TOWN OF SOUTH BOSTON, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

### Note 8. Defined Benefit Pension Plan (Continued)

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study are as follows:

#### Largest 10 – Non-Hazardous Duty:

Mortality rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability rates	Lowered rates
Salary scale	No change
Line of duty disability	Increased rate from 14% to 20%
Discount Rate	Decrease rate from 7.00% to 6.75%

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

Mortality rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability rates	Lowered rates
Salary scale	No change
Line of duty disability	Increased rate from 14% to 15%
Discount Rate	Decrease rate from 7.00% to 6.75%

### Actuarial Assumptions – Public Safety Employees

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the Political Subdivision Retirement Plan was based on an actuarial valuation as of June 30, 2018, 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, 2019.

Inflation	2.50%
Salary increases, including inflation	3.50% - 4.75%
Investment rate of return	6.75%, net of pension plan investment expense, including inflation*

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined Benefit Pension Plan (Continued)

**Actuarial Assumptions – Public Safety Employees (Continued)**

\*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 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of pension liabilities.

**Mortality rates**

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined Benefit Pension Plan (Continued)

**Mortality rates (Continued)**

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest 10 – Hazardous Duty:

Mortality rates (pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table - RP-2014 projected to 2020
Retirement rates	Lowered rates at older ages
Withdrawal rates	Adjusted rates to better fit experience
Disability rates	Increased rates
Salary scale	No change
Line of duty disability	Increased rate from 60% to 70%
Discount rate	Decrease rate from 7.00% to 6.75%

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

Mortality rates (pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table - RP-2014 projected to 2020
Retirement rates	Lowered age 50 rates and lowered rates at older ages
Withdrawal rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability rates	Adjusted rates to better fit experience
Salary scale	No change
Line of duty disability	Decrease rate from 60% to 45%
Discount rate	Decrease rate from 7.00% to 6.75%



TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined Benefit Pension Plan (Continued)

**Long-Term Expected Rate of Return**

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS-Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP-Private Investment Partnership	3.00%	6.29%	0.19%
Total	<u>100.00%</u>		<u>5.13%</u>
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.63%</u>

\*The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11 %, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40<sup>th</sup> percentile of expected long-term results of the VRS fund asset allocation.

**Discount Rate**

The discount rate used to measure the total pension liability was 6.75%. 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. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2019, the alternate rate was the employer contribution rate used in FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017, actuarial valuations, whichever was greater. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined Benefit Pension Plan (Continued)

**Discount Rate (Continued)**

projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

Increase (Decrease)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2018	\$ 23,121,934	\$ 19,671,472	\$ 3,450,462
Changes for the year:			
Service cost	406,674	-	406,674
Interest	1,582,687	-	1,582,687
Changes of assumptions	643,628	-	643,628
Difference between expected and actual experience	(520,675)	-	(520,675)
Contributions - employer	-	493,177	(493,177)
Contributions - employee	-	162,312	(162,312)
Net investment income	-	1,306,976	(1,306,976)
Benefit payments, including refunds of employee contributions	(1,024,234)	(1,024,234)	-
Administrative expense	-	(13,012)	13,012
Other changes	-	(822)	822
Net changes	1,088,080	924,397	163,683
Balances at June 30, 2019	\$ 24,210,014	\$ 20,595,869	\$ 3,614,145

**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 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

	(5.75%)	(6.75%)	(7.75%)
Political subdivision's			
Net Pension Liability	\$ 6,540,276	\$ 3,614,145	\$ 1,264,439

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined Benefit Pension Plan (Continued)

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

For the year ended June 30, 2020, the Town recognized pension expense of \$605,205. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 87,199	\$ 329,250
Change in assumptions	407,000	-
Net difference between projected and actual earnings on pension plan investments	-	177,982
Employer contributions subsequent to the measurement date	539,469	-
Total	<u>\$ 1,033,668</u>	<u>\$ 507,232</u>

\$539,469 reported as deferred outflows of resources related to pensions resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2021. 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

2021	\$ 129,429
2022	(148,777)
2023	(5,014)
2024	11,329
Thereafter	-
	<u>\$ (13,033)</u>

## TOWN OF SOUTH BOSTON, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

#### Note 8. Defined Benefit Pension Plan (Continued)

##### **Pension Plan Data**

Information about the VRS Political Subdivision Retirement Plan is available in the separately issued VRS 2019 *Comprehensive Annual Financial Report* (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at [varetire.org/pdf/publications/2019-annual-report.pdf](http://varetire.org/pdf/publications/2019-annual-report.pdf), or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

#### Note 9. Postemployment Benefits Other Than Pension Benefits-Group Life Insurance

##### General information about the group life insurance program

##### **Plan Description**

All full-time, salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OBEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

The specific information for Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set out below:

##### **Eligible Employees**

The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:

- City of Richmond
- City of Portsmouth
- City of Roanoke
- City of Norfolk
- Roanoke City Schools Board

Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.

## TOWN OF SOUTH BOSTON, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

#### Note 9. Postemployment Benefits Other Than Pension Benefits-Group Life Insurance (Continued)

##### **Benefit amounts**

The benefits payable under the Group Life Insurance Program have several components.

- Natural death benefit – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.
- Accidental death benefit – The accidental death benefit is double the natural death benefit.
- Other benefit provisions – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:
  - Accidental dismemberment benefit
  - Safety belt benefit
  - Repatriation benefit
  - Felonious assault benefit
  - Accelerated death benefit option

##### **Reduction in benefits amounts**

The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.

##### **Minimum benefit amount and cost-of-living adjustment (COLA)**

For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$8,463 as of June 30, 2020.

##### **Contributions**

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2020 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the Group Life Insurance Program from the entity were \$45,801 and \$42,809 for the years ended June 30, 2020 and June 30, 2019, respectively.

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 9. Postemployment Benefits Other Than Pension Benefits-Group Life Insurance (Continued)

**GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB**

At June 30, 2020, the entities reported a liability of \$270,615 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2019 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2019 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the participating employer's proportion was .01663% as compared to .01687% at June 30, 2018.

For the year ended June 30, 2020, the participating employer recognized GLI OPEB expense of \$6,594. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2020, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 17,997	\$ 3,510
Net difference between projected and actual earnings on GLI OPEB program invest- ments		5,559
Change in assumptions	17,085	8,160
Changes in proportion	4,071	3,202
Employer contributions subsequent to the measurement date	18,180	-
Total	<u>\$ 57,333</u>	<u>\$ 20,431</u>

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 9. Postemployment Benefits Other Than Pension Benefits-Group Life Insurance (Continued)

**GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB (Continued)**

\$18,180 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year ended June 30

2020	\$1,297
2021	1,298
2022	3,652
2023	5,801
2024	5,322
Thereafter	1,352

**Actuarial assumptions**

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2018, 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, 2019.

Inflation	2.50 percent
Salary increases, including inflation –	
General state employees	3.50 percent – 5.35 percent
Teachers	3.50 percent – 5.95 percent
SPORS employees	3.50 percent – 4.75 percent
VaLORS employees	3.50 percent – 4.75 percent
JRS employees	4.50 percent
Locality – General employees	3.50 percent – 5.35 percent
Locality – Hazardous Duty employees	3.50 percent – 4.75 percent
Investment rate of return	7.00 percent, net of investment expenses, Including inflation*

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of the OPEB liabilities.

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 9. Postemployment Benefits Other Than Pension Benefits-Group Life Insurance (Continued)

**Mortality rates – general state employees**

Pre-retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

Post-disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016 except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability rates	Adjusted rates to better match experience
Salary scale	No change
Line of duty disability	Increased rate from 14% to 25 %
Discount rate	Decrease rate from 7.00% to 6.75%

**Mortality rates – largest ten locality employers – general employees**

Pre-retirement:

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

Post-retirement:

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

Post-disablement:

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



TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 9. Postemployment Benefits Other Than Pension Benefits-Group Life Insurance (Continued)

**Mortality rates – largest ten locality employers – general employees (Continued)**

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement rates	Lowered retirement rates at older ages and extended final retirement from 70 to 75
Withdrawal rates	Adjusted termination rates to better fit experience at each age and service year
Disability rates	Lowered disability rates
Salary scale	No change
Line of duty disability	Increased rate from 14% to 20 %
Discount rate	Decrease rate from 7.00% to 6.75%

**Mortality rates – non-largest ten locality employers – general employees**

Pre-retirement:

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

Post-retirement:

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

Post-disablement:

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 9. Postemployment Benefits Other Than Pension Benefits-Group Life Insurance (Continued)

**Mortality rates – non-largest ten locality employers – general employees (Continued)**

Mortality rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement rates	Lowered retirement rates at older ages and extended final retirement from 70 to 75
Withdrawal rates	Adjusted termination rates to better fit experience at each age and service year
Disability rates	Lowered disability rates
Salary scale	No change
Line of duty disability	Increased rate from 14% to 15 %
Discount rate	Decrease rate from 7.00% to 6.75%

**Mortality rates – largest ten locality employers – hazardous duty employees**

Pre-retirement:

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

Post-retirement:

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

Post-disablement:

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement rates	Lowered retirement rates at older ages
Withdrawal rates	Adjusted termination rates to better fit experience at each age and service year
Disability rates	Increased disability rates
Salary scale	No change
Line of duty disability	Increased rate from 60% to 70%
Discount rate	Decrease rate from 7.00% to 6.75%

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 9. Postemployment Benefits Other Than Pension Benefits-Group Life Insurance (Continued)

**Mortality rates – non-largest ten locality employers – hazardous duty employees**

Pre-retirement:

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

Post-retirement:

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

Post-disablement:

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement rates	Increased age 50 rates and lowered rates at older ages
Withdrawal rates	Adjusted termination rates to better fit experience at each age and service year
Disability rates	Adjusted rates to better match experience
Salary scale	No change
Line of duty disability	Decreased rate from 60% to 45%
Discount rate	Decrease rate from 7.00% to 6.75%

**Net GLI OPEB liability**

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2019, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program
Total GLI OPEB liability	\$ 3,390,238
Plan fiduciary net position	1,762,972
Employers' net GLI OPEB liability (asset)	<u>\$ 1,627,266</u>
Plan fiduciary net position as a percentage of the total GLI OPEB liability	52.00%

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 9. Postemployment Benefits Other Than Pension Benefits-Group Life Insurance (Continued)

**Net GLI OPEB liability (Continued)**

The total GLI OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

**Long-term expected rate of return**

The long-term expected rate of return on the System's 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 System's investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS-Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP-Private Investment Partnership	3.00%	6.29%	0.19%
Total	100.00%		5.13%
	Inflation		2.50%
	*Expected arithmetic nominal return		7.63%

\*The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40<sup>th</sup> percentile of expected long-term results of the VRS fund asset allocation.

# TOWN OF SOUTH BOSTON, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

### Note 9. Postemployment Benefits Other Than Pension Benefits-Group Life Insurance (Continued)

#### Discount rate

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

#### Sensitivity of the employer's proportionate share of the net GLI OPEB liability to changes in the discount rate

The following presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 6.75%, as well as what the employer's proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Employer's proportionate share of the Group Life Insurance Program Net OPEB Liability	\$ 355,513	\$ 270,615	\$ 201,765

#### Group life insurance program fiduciary net position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2019 *Comprehensive Annual Financial Report* (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at [varetire.org/pdf/publications/2019-annual-report.pdf](http://varetire.org/pdf/publications/2019-annual-report.pdf), or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

### Note 10. Postemployment Benefits Other Than Pension Benefits-Line of Duty Act Program

#### General information about the line of duty act program

##### Plan description

All paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VaLORS) are automatically covered by the Line of Duty Act Program (LODA). As required by statute, the Virginia Retirement System (the System) is responsible for managing the assets of the program. Participating employers made contributions to the program beginning in FY 2012. The employer contributions are

TOWN OF SOUTH BOSTON, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS

Note 10. Postemployment Benefits Other Than Pension Benefits-Line of Duty Act Program (Continued)

General information about the line of duty act program

**Plan description (Continued)**

determined by the System's actuary using anticipated program costs and the number of covered individuals associated with all participating employers.

The specific information for Disability Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

Line of Duty Act Program (LODA) Plan Provisions

Eligible employees:

The eligible employees of the Line of Duty Act Program (LODA) are paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VaLORS).

Benefit amounts:

The Line of Duty Act Program (LODA) provides death and health insurance benefits for eligible individuals:

- Death - The Line of Duty Act Program death benefit is a one-time payment made to the beneficiary or beneficiaries of a covered individual. Amounts vary as follows:
  - \$100,000 when a death occurs as a direct or proximate result of performing duty as of January 1, 2006, or after.
  - \$25,000 when the cause of death is attributed to one of the applicable presumptions and occurred earlier than five years after the retirement date.
  - An additional \$20,000 benefit is payable when certain members of the National Guard and U.S. military reserves are killed in action in any armed conflict on or after October 7, 2001.
- Health insurance - The Line of Duty Act Program provides health insurance benefits.
  - Prior to July 1, 2017, these benefits were managed through the various employer plans and maintained the benefits that existed prior to the employee's death or disability. These premiums were reimbursed to the employer by the LODA program.
  - Beginning July 1, 2017, the health insurance benefits are managed through the Virginia Department of Human Resource Management (DHRM). The health benefits are modeled after the State Employee Health benefits Program plans and provide consistent, premium-free continued health plan coverage for LODA-eligible disabled individuals, survivors and family members. Individuals receiving the health insurance benefits must continue to meet eligibility requirements as defined by the Line of Duty Act.

**Contributions**

The contribution requirements for the Line of Duty Act Program (LODA) are governed by §9.1-400.1 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the Line of Duty Act Program (LODA) for the year ended June 30, 2020 was \$705.77 per covered full-time-equivalent

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 10. Postemployment Benefits Other Than Pension Benefits-Line of Duty Act Program (Continued)

General information about the line of duty act program

**Contributions (Continued)**

employee. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017 and represents the pay-as-you-go funding rate and not the full actuarial cost of the benefits under the program. The actuarially determined pay-as-you-go rate was expected to finance the costs and related expenses of benefits payable during the year. Contributions to the Line of Duty Act Program (LODA) from the entity were \$26,114 and \$19,858 for the years ended June 30, 2020 and June 30, 2019, respectively.

*Line of Duty Act Program (LODA) OPEB Liabilities, LODA OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the LODA OPEB*

At June 30, 2020, the entity reported a liability of \$584,000 for its proportionate share of the Net LODA OPEB Liability. The Net LODA OPEB Liability was measured as of June 30, 2019 and the total LODA OPEB liability used to calculate the Net LODA OPEB Liability was determined by an actuarial valuation as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. The entity's proportion of the Net LODA OPEB Liability was based on the entity's actuarially determined pay-as-you-go employer contributions to the LODA OPEB plan for the year ended June 30, 2019 relative to the total of the actuarially determined pay-as-you-go employer contributions for all participating employers. At June 30, 2019, the entity's proportion was .18644% as compared to .19464% at June 30, 2018.

For the year ended June 30, 2020, the entity recognized LODA OPEB expense of \$45,000. Since there was a change in proportionate share between measurement dates, a portion of the LODA OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2020, the agency reported deferred outflows of resources and deferred inflows of resources related to the LODA OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 101,467	\$ -
Net difference between projected and actual earnings on LODA OPEB program invest- ments	-	1,382
Change in assumptions	32,755	60,516
Changes in proportion	28,082	18,181
Employer contributions subsequent to the measurement date	26,114	-
Total	<u>\$ 188,418</u>	<u>\$ 80,079</u>

# TOWN OF SOUTH BOSTON, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

### Note 10. Postemployment Benefits Other Than Pension Benefits-Line of Duty Act Program (Continued)

\$26,114 reported as deferred outflows of resources related to the LODA OPEB resulting from the entity's contributions subsequent to the measurement date will be recognized as a reduction of the Net LODA OPEB Liability in the Fiscal Year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the LODA OPEB will be recognized in LODA OPEB expense in future reporting periods as follows:

#### Year ended June 30

2019	\$ 9,746
2020	9,749
2021	9,962
2022	10,190
2023	10,257
Thereafter	32,321

### Actuarial assumptions

The total LODA OPEB liability was based on an actuarial valuation as of June 30, 2018, 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, 2019.

Inflation	2.50 percent
Salary increases, including inflation –	
General state employees	3.50 percent – 5.35 percent
SPORS employees	3.50 percent – 4.75 percent
VaLORS employees	3.50 percent – 4.75 percent
Locality employees	3.50 percent – 4.75 percent
Medical cost trend rates assumption –	
Under age 65	7.75 percent – 5.00 percent
Ages 65 and older	5.75 percent – 5.00 percent
Investment rate of return	3.56 percent, net of OPEB plan Investment expenses, including inflation*

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 3.50%. However, since the difference was minimal, a more conservative 3.50% investment return assumption has been used. Since LODA is funded on a current-disbursement basis, the assumed annual rate of return of 3.50% was used since it approximates the risk-free rate of return.



TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 10. Postemployment Benefits Other Than Pension Benefits-Line of Duty Act Program (Continued)

**Mortality rates – largest ten locality employers with public safety employees**

Pre-retirement:

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

Post-retirement:

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

Post-disablement:

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

**Mortality rates – non-largest ten locality employers with public safety employees**

Pre-retirement:

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

Post-retirement:

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

Post-disablement:

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

# TOWN OF SOUTH BOSTON, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

### Note 10. Postemployment Benefits Other Than Pension Benefits-Line of Duty Act Program (Continued)

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

#### Net LODA OPEB Liability:

The net OPEB liability (NOL) for the Line of Duty Act Program (LODA) represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the Measurement Date of June 30, 2019, NOL amounts for the Line of Duty Act Program (LODA) is as follows (amounts expressed in thousands):

	Line of Duty Act Program
Total LODA OPEB liability	\$ 361,626
Plan fiduciary net position	2,839
Employers' net OPEB liability (asset)	<u>\$ 358,787</u>
Plan fiduciary net position as a percentage of the total LODA OPEB liability	0.79%

The total LODA OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

#### Long-Term Expected Rate of Return

The long-term expected rate of return on LODA OPEB Program's investments was set at 3.50% for this valuation. Since LODA is funded on a current-disbursement basis, it is not able to use the VRS Pooled Investments 6.75% assumption. Instead, the assumed annual rate of return of 3.50% was used since it approximates the risk-free rate of return. This Single Equivalent Interest Rate (SEIR) is the applicable municipal bond index rate based on the Bond Buyer General Obligation 20-year Municipal Bond Index as of the measurement date of June 30, 2019.

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 10. Postemployment Benefits Other Than Pension Benefits-Line of Duty Act Program (Continued)

**Discount Rate**

The discount rate used to measure the total LODA OPEB liability was 3.50%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by participating employers to the LODA OPEB Program will be subject to the portion of the VRS Board certified rates that are funded by the Virginia General Assembly.

**Sensitivity of the Covered Employer's Proportionate Share of the Net LODA OPEB Liability to Changes in the Discount Rate**

The following presents the covered employer's proportionate share of the net LODA OPEB liability using the discount rate of 3.50%, as well as what the covered employer's proportionate share of the net LODA OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.50%) or one percentage point higher (4.50%) than the current rate:

	1.00% Decrease (2.50%)	Current Discount Rate (3.50%)	1.00% Increase (4.50%)
Covered employer's proportionate share of the total LODA			
Net OPEB liability	\$ 809,835	\$ 698,090	\$ 609,708

**Sensitivity of the Covered Employer's Proportionate Share of the Net LODA OPEB Liability to Changes in the Health Care Trend Rate**

Because the Line of Duty Act Program (LODA) contains provisions for the payment of health insurance premiums, the liabilities are also impacted by the health care trend rates. The following presents the covered employer's proportionate share of the net LODA OPEB liability using health care trend rate of 7.75% decreasing to 4.75%, as well as what the covered employer's proportionate share of the net LODA OPEB liability would be if it were calculated using a health care trend rate that is one percentage point lower (6.75% decreasing to 3.75%) or one percentage point higher (8.75% decreasing to 5.75%) than the current rate:

	1.00% Decrease (6.75% decreasing to 3.75%)	Health Care Trend Rates (7.75% decreasing to 4.75%)	1.00% Increase (8.75% decreasing to 5.75%)
Covered employer's proportionate share of the total LODA			
Net OPEB liability	\$ 590,229	\$ 698,090	\$ 834,115

## TOWN OF SOUTH BOSTON, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

#### Note 10. Postemployment Benefits Other Than Pension Benefits-Line of Duty Act Program (Continued)

##### LODA OPEB Plan Fiduciary Net Position:

Detailed information about the Line of Duty Act Program (LODA) Fiduciary Net Position is available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at [varetire.org/pdf/publications/2019-annual-report.pdf](http://varetire.org/pdf/publications/2019-annual-report.pdf), or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

#### Note 11. Contingent Liabilities

The Town participates in federally-assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for and including the year ended June 30, 2020, and previous years have been conducted by the grantors or their representatives.

#### Note 12. Industrial Development Authority

The Industrial Development Authority of the Town of South Boston was created on July 15, 1977, as a political subdivision of the Commonwealth with such public and corporate powers as are set forth in the Industrial Development and Revenue Bond Act, Chapter 33, Title 15.1 Code of Virginia. The Authority was created for the specific purpose of promoting and developing commercial, industrial, and manufacturing enterprises and encouraging employment within the boundaries of the Town. The seven members of the Board of Directors are all appointed by Town Council.

The law authorizes the Authority to issue industrial development bonds to qualified applicants after approval by the Town Council. The bonds do not constitute indebtedness of either the Town or the Commonwealth and are secured solely by the assets of the commercial organizations on whose behalf the bonds are issued. The Town assumes no responsibility for the day-to-day operating expenses of the Authority; such expenses are financed by fees charged to the commercial enterprises. Beginning in the year ended June 30, 1991, the Town started acting in a fiduciary capacity for the Authority, which is now included as an Agency Fund in these financial statements.

#### Note 13. Legal Compliance

Expenditures did not exceed appropriations in any of the Government Fund types.

#### Note 14. Surety Bonds

VML –	
Tom Raab – Town Manager	\$350,000
VML –	
Blanket Bond – All Town Employees	\$250,000
Forgery Bond – All Town Employees	\$250,000

#### Note 15. Government Services Provided by Authorities/Organizations

The Town also participates with Halifax County in the Regional Library. During the year, the Town contributed \$85,400 to the Library.

## TOWN OF SOUTH BOSTON, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

#### Note 16. Municipal Solid Waste Landfill

State and federal laws and regulations require the county 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 thirty years after closure. Although closure and post closure care costs will be paid only near or after the date that the landfill stops accepting waste, the Town records a liability for a portion of these closure and post closure care costs in each period based on landfill capacity used as of each balance sheet date. Closure of the County's landfill site is complete. The \$1,775,160 reported as landfill post closure care liability at June 30, 2020, represents the cumulative amount reported based on the use of 100 percent of the estimated capacity of the landfill. These amounts are based on what it would cost to perform all post closure care in 2020. Actual cost may be higher due to inflation, changes in technology, or changes in regulation. The Town intends to fund these costs from tipping fee revenues and from any fund accumulated for this purpose. The Town demonstrates financial assurance for potential corrective action costs of \$229,976. The Town also has demonstrated financial assurance requirements for closure and post closure care, and corrective action costs through the submission of a Local Government Financial Test to the Virginia Department of Environmental Quality in accordance with Section 9VA-20-70 of the Virginia Administrative Code.

#### Note 17. Transfer of Water and Sewer Fund

On June 30, 2007 a comprehensive agreement was made between the Town of South Boston, Virginia, the Town of Halifax, Virginia, the County of Halifax, Virginia and the Halifax County Service Authority. These localities concluded that a full service water and wastewater authority would be the best vehicle for ensuring the citizens of the localities the most reliable means of providing water and wastewater treatment.

The localities agreed to sell, assign, transfer, convey, and deliver to the Authority all real property and equipment, together with any easements or any other interests in land owned by the localities, personal property, cash, securities, software, inventories, intangible assets, and accounts receivable, including amounts on deposit. The authority agreed to assume the liabilities and obligations of the localities. The authority also agreed to pay to the Town of South Boston the amount of negative cash position payments as of the date of the agreement.

The debt that was transferred to the Authority remains in the name of each locality and the Authority pays the localities five working days before the due date of the payment. A receivable has been recorded to offset the debt payments.

The effective date of the agreement was January 1, 2008.

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 18. Contingencies

The Town is a defendant in lawsuits arising in the normal course of business. In the aggregate, these claims seek monetary damages in significant amounts. The outcome of these claims cannot be determined at this time so no loss has been accrued, nor can an estimate of any loss be estimated.

Note 19. Subsequent Events

Management has evaluated subsequent events through December 10, 2020, the date which the financial statements were available for issue.

## REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF SOUTH BOSTON, VIRGINIA  
BUDGETARY COMPARISON SCHEDULE - MAJOR FUNDS  
GENERAL FUND  
For the Year ended June 30, 2020  
See Independent Auditors' Report

Exhibit 7

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Revenues:				
General property taxes	\$ 1,944,231	\$ 1,944,231	\$ 2,082,868	\$ 138,637
Other local taxes	4,642,500	4,642,500	4,972,613	330,113
Permits, privilege fees, and regulatory licenses	2,450	2,450	2,610	160
Fines and forfeitures	42,650	42,650	38,987	(3,663)
Interest and investment revenue	93,774	93,774	100,365	6,591
Charges for service	22,200	22,200	26,855	4,655
Miscellaneous	208,250	208,250	217,803	9,553
Recovered costs	879,929	879,929	950,087	70,158
Intergovernmental	<u>3,975,273</u>	<u>3,975,273</u>	<u>2,764,569</u>	<u>(1,210,704)</u>
Total revenues	<u>11,811,257</u>	<u>11,811,257</u>	<u>11,156,757</u>	<u>(654,500)</u>
Expenditures:				
Current:				
General government administration	762,009	762,009	669,519	92,490
Public safety	3,691,187	3,691,187	4,823,447	(1,132,260)
Public works	3,918,487	3,918,487	3,500,852	417,635
Parks, recreation, and cultural	446,162	446,162	464,960	(18,798)
Community development	363,377	363,377	342,514	20,863
Nondepartmental	2,304,738	2,304,738	145,514	2,159,224
Capital projects	1,160,000	1,160,000	2	1,159,998
Landfill closure	71,700	71,700	74,461	(2,761)
Debt service:				
Principal retirement	1,075,000	1,075,000	1,605,813	(530,813)
Interest and fiscal charges	<u>165,638</u>	<u>165,638</u>	<u>165,634</u>	<u>4</u>
Total expenditures	<u>13,958,298</u>	<u>13,958,298</u>	<u>11,792,716</u>	<u>2,165,582</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,147,041)</u>	<u>(2,147,041)</u>	<u>(635,959)</u>	<u>1,511,082</u>
Other financing sources (uses):				
General obligation bond issued	2,000,000	2,000,000	2,338,233	338,233
Operating transfers in (out)	147,041	147,041	(134,795)	(281,836)
Transfer to reserve funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources	<u>\$ 2,147,041</u>	<u>\$ 2,147,041</u>	<u>2,203,438</u>	<u>\$ 56,397</u>
Net change in fund balances			1,567,479	
Fund balance at beginning of year			<u>10,377,631</u>	
Fund balance at end of year			<u><u>\$ 11,945,110</u></u>	

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



TOWN OF SOUTH BOSTON, VIRGINIA

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

For the Plan Years Ended June 30, 2014 - 2019

See Independent Auditors' Report

Exhibit 8

	2019	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>						
Service costs	\$ 406,674	\$ 396,485	\$ 391,298	\$ 383,666	\$ 380,507	\$ 406,713
Interest	1,582,687	1,499,042	1,465,904	1,437,223	1,368,308	1,320,647
Changes of benefit terms	-	-	-	-	-	-
Differences between expected and actual experience	(520,675)	305,199	(320,146)	(389,726)	293,119	-
Changes in assumptions	643,628	-	(32,983)	-	-	-
Benefit payments, including refunds of employee contributions	(1,024,234)	(987,343)	(1,074,023)	(968,845)	(1,146,011)	(946,978)
Net change in total pension liability	1,088,080	1,213,383	430,050	462,318	895,923	780,382
Total pension liability - beginning	23,121,934	21,908,551	21,478,501	21,016,183	20,120,260	19,339,878
Total pension liability - ending	<u>\$ 24,210,014</u>	<u>\$ 23,121,934</u>	<u>\$ 21,908,551</u>	<u>\$ 21,478,501</u>	<u>\$ 21,016,183</u>	<u>\$ 20,120,260</u>
<b>Plan fiduciary net position</b>						
Contributions - employer	\$ 493,177	\$ 476,099	\$ 453,409	\$ 503,073	\$ 509,712	\$ 505,682
Contributions - employee	162,312	155,480	156,096	149,590	151,932	153,057
Net investment income	1,306,976	1,375,350	2,060,599	294,852	760,783	2,323,304
Benefit payments, including refunds of employee contributions	(1,024,234)	(987,343)	(1,074,023)	(968,845)	(1,146,011)	(946,978)
Administrative expenses	(13,012)	(11,939)	(12,121)	(10,705)	(10,718)	(12,352)
Other expenses	(822)	(1,221)	(1,824)	(125)	(159)	123
Net change in plan fiduciary net position	924,397	1,006,426	1,582,136	(32,160)	265,539	2,022,836
Plan fiduciary net position - beginning	19,671,472	18,665,046	17,082,910	17,115,070	16,849,531	14,826,995
Plan fiduciary net position - ending	<u>\$ 20,595,869</u>	<u>\$ 19,671,472</u>	<u>\$ 18,665,046</u>	<u>\$ 17,082,910</u>	<u>\$ 17,115,070</u>	<u>\$ 16,849,831</u>
Political subdivision's net pension liability - ending	<u>\$ 3,614,145</u>	<u>\$ 3,450,462</u>	<u>\$ 3,243,505</u>	<u>\$ 4,395,591</u>	<u>\$ 3,901,113</u>	<u>\$ 3,270,429</u>
Plan fiduciary net position as a percentage of the total pension liability	85.07%	85.08%	85.20%	79.53%	81.44%	83.75%
Covered-employee payroll	\$ 3,250,927	\$ 3,197,314	\$ 3,044,855	\$ 2,980,538	\$ 2,982,516	\$ 2,958,935
Political subdivision's net pension liability as a percentage covered-employee payroll	111.17%	107.92%	106.52%	147.48%	130.80%	110.53%

See the related notes.

TOWN OF SOUTH BOSTON, VIRGINIA  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
For the Years Ended June 30, 2015 through 2020  
See Independent Auditors' Report

Exhibit 8

SCHEDULE OF EMPLOYER CONTRIBUTIONS						
Date	Contractually Required Contributions	Contributions in Relation to Contractually Required Contributions	Contribution Deficiency (Excess)	Employer's Covered Employees Payroll	Contribution as a % of Covered Employees Payroll	
2015	\$ 509,712	\$ 509,712	\$ -	\$ 2,982,516	17.09%	
2016	\$ 509,374	\$ 509,374	\$ -	\$ 2,980,538	17.09%	
2017	\$ 462,209	\$ 462,209	\$ -	\$ 3,044,855	15.18%	
2018	\$ 485,352	\$ 485,352	\$ -	\$ 3,197,314	15.18%	
2019	\$ 501,823	\$ 501,823	\$ -	\$ 3,252,257	15.43%	
2020	\$ 501,618	\$ 501,618	\$ -	\$ 3,250,927	15.43%	

Schedule is intended to show information for 10 years. Since 2020 is the sixth year for this presentation, no other data is available. However, additional years will be included as they become available.

See the related notes.

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS

For the Year Ended June 30, 2019 \*

Exhibit 8

**Changes of benefit terms** – There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013, and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

**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

\*The amounts presented have a measurement date of the previous fiscal year end.

TOWN OF SOUTH BOSTON, VIRGINIA

SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY  
GROUP LIFE INSURANCE PROGRAM

For the Years Ended June 30, 2019, 2018 and 2017\*

See Independent Auditors' Report

Exhibit 9

	2019	2018	2017
Employer's proportion of the net GLI OPEB liability (asset)	0.01663%	0.01687%	0.01652%
Employer's proportionate share of the net GLI OPEB liability (asset)	\$ 270,615	\$ 256,000	\$ 249,000
Employer's covered payroll	\$ 3,267,860	\$ 3,260,577	\$ 3,212,892
Employer's proportionate share of the net GLI OPEB liability (asset) as a percentage of its covered payroll	8.28110%	7.85137%	7.75003%
Plan fiduciary net position as a percentage of the total GLI OPEB liability	52.00%	51.22%	48.86%

Schedule is intended to show information for 10 years. Since 2019 is the third year for this presentation, only three years of data is available. However, additional years will be included as they become available.

\*The amounts presented have a measurement date of the previous fiscal year end.

SCHEDULE OF EMPLOYER CONTRIBUTIONS  
GROUP LIFE INSURANCE PROGRAM

For the Years Ended June 30, 2011 through 2020

Date	Contributions in Relation to			Contributions	
	Contractually Required Contribution	Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	as a % of Covered Payroll
	(1)	(2)	(3)	(4)	(5)
2020	\$ 16,993	\$ 16,993	\$ -	\$ 3,267,860	0.52%
2019	\$ 16,955	\$ 16,955	\$ -	\$ 3,260,577	0.52%
2018	\$ 16,707	\$ 16,707	\$ -	\$ 3,212,892	0.52%
2017	\$ 15,849	\$ 15,849	\$ -	\$ 3,047,850	0.52%
2016	\$ 15,802	\$ 14,311	\$ 1,491	\$ 2,981,571	0.48%
2015	\$ 15,870	\$ 14,373	\$ 1,497	\$ 2,994,414	0.48%
2014	\$ 15,945	\$ 14,441	\$ 1,504	\$ 3,008,499	0.48%
2013	\$ 15,911	\$ 14,410	\$ 1,501	\$ 3,002,154	0.48%
2012	\$ 12,078	\$ 7,686	\$ 4,392	\$ 2,745,028	0.28%
2011	\$ 11,869	\$ 7,553	\$ 4,316	\$ 2,697,597	0.28%

See the related notes.

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY  
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS  
GROUP LIFE INSURANCE PROGRAM  
For the Year Ended June 30, 2020

Exhibit 9

**Changes of benefit terms** – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

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

**Largest ten locality employers – general employees**

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

**Non-largest ten locality employers – general employees**

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

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY  
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS  
GROUP LIFE INSURANCE PROGRAM  
For the Year Ended June 30, 2020

Exhibit 9

**Largest ten locality employers – hazardous duty employees**

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

**Non-largest ten locality employers – hazardous duty employees**

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

TOWN OF SOUTH BOSTON, VIRGINIA

SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY  
LINE OF DUTY ACT PROGRAM

For the Years Ended June 30, 2017 through 2019\*

Exhibit 10

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Employer's proportion of the net LODA OPEB liability (asset)	0.19457%	0.18644%	0.19464%
Employer's proportionate share of the net LODA OPEB liability (asset)	\$ 698,090	\$ 584,000	\$ 511,000
Covered-employee payroll	**	**	**
Employer's proportionate share of the net LODA OPEB liability (asset) as a percentage of its covered-employee payroll	**	**	**
Plan fiduciary net position as a percentage of the total LODA OPEB liability	0.79%	0.60%	1.30%

Schedule is intended to show information for 10 years. Since 2019 is the third year for this presentation, only three years of data is available. However, additional years will be included as they become available.

\*The amounts presented have a measurement date of the previous fiscal year end.

\*\*The contributions for the Line of Duty Act Program are based on the number of participants in the Program using a per capita-based contribution versus a payroll-based contribution. Therefore, covered-employee payroll is the relevant measurement, which is the total payroll of the employees in the OPEB plan. However, when volunteers and part-time employees make up a significant percentage of the employer's members in the plan, the employer may determine covered-employee payroll is misleading and, therefore, not applicable for disclosure. See GASB codification section P50.728-1 for related guidance.

See the related notes.

TOWN OF SOUTH BOSTON, VIRGINIA

SCHEDULE OF EMPLOYER CONTRIBUTIONS  
LINE OF DUTY ACT PROGRAM  
For the Years Ended June 30, 2011 through 2020\*

Exhibit 10

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Covered- Employee Payroll (4)	Contributions as a % of Covered- Employee Payroll (5)
2020	\$ 26,113	\$ 26,113	\$ -	\$ -	
2019	\$ 26,113	\$ 26,113	\$ -	\$ -	
2018	\$ 19,858	\$ 19,858	\$ -	\$ -	
2017	\$ 18,106	\$ 18,106	\$ -	\$ -	
2016	\$ 18,603	\$ 18,603	\$ -	\$ -	
2015	\$ 18,669	\$ 18,669	\$ -	\$ -	
2014	\$ 19,313	\$ 19,313	\$ -	\$ -	
2013	\$ 17,069	\$ 17,069	\$ -	\$ -	
2012	\$ 8,186	\$ 8,186	\$ -	\$ -	
2011	N/A **	N/A **	\$ -	N/A **	N/A **

\*The contributions for the Line of Duty Act Program are based on the number of participants in the Program using a per capita-based contribution versus a payroll-based contribution. Therefore, covered-employee payroll is the relevant measurement, which is the total payroll of employees in the OPEB plan. However, when volunteers and part-time employees make up a significant percentage of the employer's members in the plan, the employer may determine that covered-employee payroll is misleading and, therefore, not applicable for disclosure. See GASB codification section P50.728-1 for related guidance.

\*\*FY 2011 was the first year for the Line of Duty Act Program (LODA), however, there were no contributions.

See the related notes.



TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY AND SCHEDULE  
OF EMPLOYER CONTRIBUTIONS

LINE OF DUTY ACT PROGRAM  
For the Year Ended June 30, 2020

Exhibit 10

**Changes of benefit terms** – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

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

Employees in the largest ten locality employers with public safety employees

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

Employees in the non-largest ten locality employers with public safety employees

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

## OTHER SUPPLEMENTARY INFORMATION

TOWN OF SOUTH BOSTON, VIRGINIA

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2020

Exhibit 11

		<u>Permanent Fund</u>	
	Virginia Alcohol Safety Action <u>Program Fund</u>	Perpetual <u>Care</u>	Total Nonmajor Governmental <u>Funds</u>
ASSETS			
Cash	\$ -	\$ 821,680	\$ 821,680
Investments	<u>-</u>	<u>191,544</u>	<u>191,544</u>
Total assets	<u>\$ -</u>	<u>\$ 1,013,224</u>	<u>\$ 1,013,224</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:			
Restricted for:			
Perpetual care	<u>-</u>	<u>1,013,224</u>	<u>1,013,224</u>
Total fund balances	<u>-</u>	<u>1,013,224</u>	<u>1,013,224</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 1,013,224</u>	<u>\$ 1,013,224</u>

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

TOWN OF SOUTH BOSTON, VIRGINIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES-NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2020

Exhibit 12

	<u>Special Revenue</u>	<u>Permanent Fund</u>	
	Virginia Alcohol Safety Action <u>Program Fund</u>	Perpetual Care	Total Nonmajor Governmental <u>Funds</u>
Revenues:			
Interest and investment revenue	\$ -	\$ 27,345	\$ 27,345
Miscellaneous	-	640	640
Sale of cemetery lots	-	45,350	45,350
Intergovernmental	<u>227,281</u>	<u>-</u>	<u>227,281</u>
 Total revenues	 <u>227,281</u>	 <u>73,335</u>	 <u>300,616</u>
Expenditures:			
Current:			
Capital projects	-	8,740	8,740
General government administration	-	183,230	183,230
Public safety	<u>227,281</u>	<u>-</u>	<u>227,281</u>
 Total expenditures	 <u>227,281</u>	 <u>191,970</u>	 <u>419,251</u>
 (Deficiency) of revenues (under) expenditures	 <u>-</u>	 <u>(118,635)</u>	 <u>(118,635)</u>
Other financing sources:			
Operating transfers in	<u>-</u>	<u>134,795</u>	<u>134,795</u>
 Total other financing sources	 <u>-</u>	 <u>134,795</u>	 <u>134,795</u>
 Net change in fund balances	 -	 16,160	 16,160
 Fund balance at beginning of year	 <u>-</u>	 <u>997,064</u>	 <u>997,064</u>
 Fund balance at end of year	 <u>\$ -</u>	 <u>\$ 1,013,224</u>	 <u>\$ 1,013,224</u>

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

## STATISTICAL SECTION

TOWN OF SOUTH BOSTON, VIRGINIA

GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION  
LAST TEN FISCAL YEARS

Schedule 1

Fiscal <u>Year</u>	General Government <u>Administration</u>	Public <u>Safety</u>	Public <u>Works</u>	Parks, Recreation, <u>and Cultural</u>	Community <u>Development</u>	Non- <u>Departmental</u>	Capital <u>Projects</u>	Landfill <u>Closure</u>	Debt <u>Service</u>	<u>Total</u>
2010-11	\$ 615,168	\$ 2,923,180	\$ 2,336,213	\$ 447,727	\$ 384,136	\$ 205,051	\$ 777,864	\$ 72,815	\$ 1,335,556	\$ 9,097,710
2011-12	623,122	3,202,458	3,456,263	483,269	156,176	189,012	1,677,154	60,757	1,837,146	11,685,357
2012-13	800,712	3,053,360	3,805,801	472,571	258,682	242,818	1,538,958	35,822	2,716,871	12,925,595
2013-14	710,353	3,021,200	3,086,669	422,464	342,008	198,695	553,665	18,446	1,462,688	9,816,188
2014-15	715,156	3,347,745	2,766,141	395,227	648,036	340,682	-	36,406	1,408,461	9,657,854
2015-16	652,599	3,161,509	4,592,895	412,593	608,855	247,961	-	78,713	1,432,181	11,187,306
2016-17	621,729	3,646,347	4,621,954	392,449	305,330	184,741	60,219	87,118	1,758,569	11,678,456
2017-18	751,454	3,534,955	4,187,742	523,188	334,685	177,514	16,227	60,955	1,496,221	11,082,941
2018-19	658,777	3,657,599	3,620,613	434,473	342,524	206,563	2,825	71,726	3,062,089	12,057,189
2019-20	669,519	4,823,447	3,500,852	464,960	342,514	145,514	2	74,461	1,771,447	11,792,716

TOWN OF SOUTH BOSTON, VIRGINIA

GENERAL GOVERNMENTAL REVENUES BY SOURCE  
LAST TEN FISCAL YEARS

Schedule 2

Fiscal <u>Year</u>	General Property <u>Taxes</u>	Other Local <u>Taxes</u>	Permits, Privilege Fees, and Regulatory <u>Licenses</u>	Fines and <u>Forfeitures</u>	Revenues From Use of Money and <u>Property</u>	Charges for <u>Service</u>	<u>Miscellaneous</u>	Recovered <u>Costs</u>	Inter- <u>Governmental</u>	<u>Total</u>
2010-11	\$ 1,888,643	\$ 3,640,816	\$ 3,528	\$ 57,985	\$ 68,703	\$ 18,948	\$ 308,994	\$ 819,953	\$ 2,877,105	\$ 9,684,675
2011-12	1,878,613	3,895,332	2,192	63,370	52,633	22,158	359,085	1,159,212	2,608,069	10,040,664
2012-13	1,982,751	3,922,316	2,170	63,969	84,326	26,390	253,118	674,822	3,266,002	10,275,864
2013-14	1,933,676	3,931,487	3,122	64,654	72,816	26,190	236,943	676,419	2,516,049	9,461,356
2014-15	1,887,029	4,187,449	2,753	52,745	74,504	34,197	233,051	669,109	2,632,025	9,772,862
2015-16	2,021,113	4,620,938	3,053	43,383	57,328	28,233	232,899	648,142	2,861,097	10,516,186
2016-17	2,095,014	4,625,288	4,595	44,258	82,871	23,297	358,787	658,536	3,769,280	11,661,926
2017-18	2,030,043	4,830,451	4,155	42,106	85,758	19,301	289,497	659,267	3,119,258	11,079,836
2018-19	1,996,895	5,049,433	4,355	40,832	106,960	22,077	281,844	652,496	2,940,993	11,095,885
2019-20	2,082,868	4,972,613	2,610	38,987	100,365	26,855	217,803	950,087	2,764,569	11,156,757

TOWN OF SOUTH BOSTON, VIRGINIA

PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN FISCAL YEARS

Schedule 3

Fiscal <u>Year</u>	Total Tax (1) <u>Levy</u>	Current Tax (1) <u>Collections</u>	Percent of Levy <u>Collected</u>	Delinquent (1) Tax (2) <u>Collections (3)</u>	Total Tax <u>Collections</u>	Percent of Total Tax Collections To Tax <u>Levy</u>	Outstanding Delinquent <u>Taxes</u>	Percent of Delinquent Taxes to Tax Levy <u>Tax Levy</u>
2010-11	\$ 1,468,948	\$ 1,356,554	92.35%	\$ 96,283	\$ 1,452,837	98.90%	\$ 268,652	18.29%
2011-12	1,500,446	1,386,699	92.42%	86,838	1,473,537	98.21%	268,369	17.89%
2012-13	1,516,431	1,417,036	93.45%	74,709	1,491,745	98.37%	286,129	18.87%
2013-14	1,528,779	1,435,629	93.91%	129,787	1,565,416	102.40%	233,725	15.29%
2014-15	1,541,738	1,436,962	93.20%	74,637	1,511,599	98.05%	244,978	15.89%
2015-16	1,595,643	1,506,206	94.39%	69,911	1,576,117	98.78%	242,420	15.19%
2016-17	1,638,798	1,549,271	94.54%	94,037	1,643,308	100.28%	149,526	9.12%
2017-18	1,633,979	1,533,691	93.86%	48,543	1,582,234	96.83%	160,943	9.85%
2018-19	1,612,211	1,538,720	95.44%	48,745	1,587,465	98.47%	184,758	11.46%
2019-20	1,679,390	1,578,461	93.99%	61,081	1,639,542	97.63%	173,527	10.33%



TOWN OF SOUTH BOSTON, VIRGINIA

ASSESSED VALUE OF TAXABLE PROPERTY  
LAST TEN FISCAL YEARS

Schedule 4

Fiscal Year	Real Estate	Personal Property	Mobile Homes	Machinery and Tools	Public Utility		Total
					Real Estate	Personal Property	
2010-11	\$496,514,382	\$37,885,100	\$ 858,300	\$ 2,724,600	\$20,147,486	\$ 277,351	\$ 558,407,219
2011-12	498,617,530	39,511,825	810,500	2,558,600	20,253,247	374,136	562,125,838
2012-13	475,693,486	41,394,725	797,900	2,190,600	22,388,621	1,143,392	543,608,724
2013-14	478,470,015	42,286,900	711,200	2,706,300	23,338,048	834,549	548,347,012
2014-15	472,887,360	43,642,900	592,700	1,924,000	22,812,967	765,306	542,625,233
2015-16	477,851,516	43,981,900	669,200	1,964,700	24,837,772	591,098	549,896,186
2016-17	479,858,289	45,934,900	643,800	1,966,100	29,209,395	466,852	558,079,336
2017-18	480,241,434	45,757,200	617,200	1,681,600	30,414,019	347,269	559,058,722
2018-19	474,631,982	44,603,800	533,900	1,667,900	30,574,693	318,291	552,330,566
2019-20	481,248,389	47,885,600	591,400	1,615,000	31,879,468	264,859	563,484,716

PROPERTY TAX RATES  
LAST TEN FISCAL YEARS

Fiscal Year	Real Estate	Personal Property	Mobile Homes	Machinery and Tools	Public Utility	
					Real Estate	Personal Property
2010-11	0.19	2.00	0.19	0.31	0.19	2.00
2011-12	0.19	2.00	0.19	0.31	0.19	2.00
2012-13	0.19	2.00	0.19	0.31	0.19	2.00
2013-14	0.19	2.00	0.19	0.31	0.19	2.00
2014-15	0.19	2.00	0.19	0.31	0.19	2.00
2015-16	0.21	2.00	0.21	0.31	0.21	2.00
2016-17	0.21	2.00	0.21	0.31	0.21	2.00
2017-18	0.21	2.00	0.21	0.31	0.21	2.00
2018-19	0.21	2.00	0.21	0.31	0.21	2.00
2019-20	0.21	2.00	0.21	0.31	0.21	2.00

NOTE: Public service corporation assessments and tax rates are regulated by the State Corporation Commission.

TOWN OF SOUTH BOSTON, VIRGINIA

RATIO OF NET GENERAL OBLIGATION DEBT  
TO ASSESSED VALUE AND NET DEBT PER CAPITA  
LAST TEN FISCAL YEARS

Schedule 5

<u>Fiscal</u> <u>Year</u>	<u>Population (1)</u>	Assessed Value of All Taxable Property ( <u>In Thousands</u> )	Gross Bonded <u>Debt (2)</u>	<u>Less:</u> Debt Payable From Enterprise <u>Revenues</u>	Net Bonded <u>Debt</u>	Ratio of Net Bonded Debt to Assessed <u>Value</u>	Net Bonded Debt per <u>Capita</u>
2010-11	8,142	\$ 558,407	\$ 9,840,862	\$ 55,965	\$ 9,784,897	.017:1	\$ 1,202
2011-12	8,142	562,126	10,730,485	-	10,730,485	.019:1	1,318
2012-13	8,142	543,609	10,688,173	-	10,688,173	.017:1	1,312
2013-14	8,142	548,347	9,657,446	-	9,657,446	.019:1	1,186
2014-15	8,142	542,625	9,393,759	-	9,393,759	.017:1	1,153
2015-16	8,142	549,896	10,695,281	-	10,695,281	.019:1	1,313
2016-17	7,950	558,079	9,182,966	-	9,182,966	.016:1	1,155
2017-18	7,773	559,059	11,840,512	-	11,840,512	.021:1	1,523
2018-19	7,659	552,331	10,188,864	-	10,188,864	.018:1	1,330
2019-20	7,588	563,485	10,910,818	-	10,910,818	.019:1	1,438

NOTE: (1) United States Census Bureau  
(2) Includes all long-term general obligation debt

TOWN OF SOUTH BOSTON, VIRGINIA

COMPUTATION OF LEGAL DEBT MARGIN

June 30, 2020

Schedule 6

The Constitution of the Commonwealth of Virginia authorizes a town in Virginia to issue bonds secured by a pledge of its full faith and credit, subject to a limitation. Certain classes of indebtedness may be excluded, such as: revenue anticipation notes maturing in one year or less and referendum-approved general obligation bonds payable from a specified revenue producing undertaking for as long as the undertaking is self-supporting.

Assessed value of taxable real property (as of January 1, 2019)		<u>\$ 563,484,716</u>
Legal debt limit (10% of assessed value)		\$ 56,348,472
Gross debt issued and outstanding	10,910,818	
Less deduction for self-supporting revenue bonds	<u>-</u>	
Total net debt chargeable to current debt limit		<u>10,910,818</u>
Current debt-incurring capacity		<u>\$ 45,437,654</u>

TOWN OF SOUTH BOSTON, VIRGINIA

STATEMENT OF THE TREASURER'S ACCOUNTABILITY  
June 30, 2020

Schedule 7

Assets held by the Treasurer:

Cash in banks:

Checking:

Benchmark Community Bank	\$ 4,205,909
Carter Bank and Trust	1,855,101

Investments:

Common stock – 45 shares of U. S. Steel Corporation	340
Alliance U. S. Bond Fund	<u>191,204</u>

Total assets	<u>\$ 6,252,554</u>
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Liabilities of the Treasurer:

Balance of Town Funds	<u>\$ 6,252,554</u>
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Total liabilities	<u><u>\$ 6,252,554</u></u>
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TOWN OF SOUTH BOSTON, VIRGINIA

INDUSTRIAL DEVELOPMENT AUTHORITY OF SOUTH BOSTON AGENCY FUND  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
June 30, 2020

Schedule 8

	Balance <u>July 01, 2019</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2020</u>
<b>ASSETS</b>				
Cash	\$ 195,377	\$ 3,286,988	\$ 3,404,437	\$ 77,928
Land and buildings (net of accumulated depreciation)	3,510,559	214,479	58,060	3,666,978
Accounts receivable	<u>3,520,297</u>	<u>2,108,233</u>	<u>303,710</u>	<u>5,324,820</u>
Total assets	<u>\$ 7,226,233</u>	<u>\$ 5,609,700</u>	<u>\$ 3,766,207</u>	<u>\$ 9,069,726</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 2,000	\$ -	\$ -	\$ 2,000
Due to other governmental units	6,403,577	2,615,573	654,058	8,365,092
Note payable	<u>820,656</u>	<u>-</u>	<u>118,022</u>	<u>702,634</u>
Total liabilities	<u>\$ 7,226,233</u>	<u>\$ 2,615,573</u>	<u>\$ 772,080</u>	<u>\$ 9,069,726</u>

## COMPLIANCE SECTION

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Members of the Town Council  
Town of South Boston, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of South Boston, Virginia, as of and for the year ended, June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town of South Boston, Virginia's basic financial statements, and have issued our report thereon dated December 10, 2020.

### Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 Boston, Virginia's financial statements are free of 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.

*Harris Harvey Neal & Co. LLP*

Danville, Virginia  
December 10, 2020