

TOWN OF SOUTH BOSTON, VIRGINIA
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2014

TOWN OF SOUTH BOSTON, VIRGINIA

COUNCIL MEMBERS AND OFFICERS

MEMBERS OF COUNCIL

W.R. Snead
Robert B. Hughes
Tina Wyatt-Younger
Winston Harrell

Edward Owens
. Coleman Speece
Billy L. Clarke

OFFICERS

Edward Owens
T. A. Daniel
L. Erle Scott
James Binner
Alan R. Auld
Steve Phillips
Jane P. Jones

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

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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 Town of South Boston, Virginia as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of South Boston, Virginia, as of June 30, 2014, 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 on pages 4-8 and 46 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 introductory section, combining and individual nonmajor fund financial statements 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 nonmajor fund financial statements 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 nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2014, on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of South Boston, Virginia's internal control over financial reporting and compliance.

Harris Harvey Neal & Co. LLP

Danville, Virginia
November 26, 2014

TOWN OF SOUTH BOSTON, VIRGINIA MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

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, 2014. 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, 2014**

- **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 5.1 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>2014</u>	<u>2013</u>
Current and other assets	\$ 9,750,534	\$ 10,830,541
Capital assets	<u>8,698,710</u>	<u>8,618,964</u>
Total assets	<u>\$ 18,449,244</u>	<u>\$ 19,449,505</u>
Long-term debt outstanding	\$ 11,910,796	\$ 12,979,764
Other liabilities	<u>946,298</u>	<u>1,148,729</u>
Total liabilities	<u>\$ 12,857,094</u>	<u>\$ 14,128,493</u>
Net position:		
Invested in capital assets, net of debt	\$ 2,414,788	\$ 1,690,144
Restricted	1,287,356	1,287,356
Unrestricted	<u>1,890,006</u>	<u>2,343,512</u>
Total net position	<u>\$ 5,592,150</u>	<u>\$ 5,321,012</u>

The increase in governmental net position is due to the purchase and construction of several fixed assets and payments on long-term debt in the current year.

**TOWN OF SOUTH BOSTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014**

Table 2
Changes in Net Position

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Revenues		
Program revenues		
Charges for services	\$ 259,328	\$ 269,400
Grants and contributions	3,192,207	3,944,412
General revenues:		
Property taxes	1,642,431	1,656,631
Other taxes	3,967,559	3,957,661
Sale of cemetery lots	45,750	45,000
Investment earnings	<u>87,500</u>	<u>88,197</u>
Total revenues	<u>9,194,775</u>	<u>9,961,301</u>
Program expenses		
General government	\$ 897,413	\$ 939,082
Public safety	3,397,873	3,435,549
Public works	3,307,598	3,097,704
Parks, recreation, and cultural	418,820	485,866
Community development	552,069	452,902
Nondepartmental	66,486	106,219
Landfill closure	28,657	46,034
Interest on long-term debt	<u>281,439</u>	<u>239,070</u>
Total expenses	<u>8,950,355</u>	<u>8,802,426</u>
Adjustment of estimated accumulated post-closure costs	<u>26,567</u>	<u>(611,086)</u>
Increase in net position	<u>\$ 270,987</u>	<u>\$ 547,789</u>

Governmental Activities

Revenues for the Town's governmental activities decreased 7.7 percent, while expenses increased 1.7 percent. The revenue decrease is due primarily to federal funds received in the prior year for the construction of the Halifax Dental Clinic. Expenses increased from the prior year primarily due to an increase in street paving within the public works department.

**TOWN OF SOUTH BOSTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014**

THE TOWN'S FUNDS

As the Town completed the year, its governmental funds reported a fund balance of \$5,301,633, which is 8.3 percent lower than last year. The primary reasons for the decrease were due to the principal retirement on long-term debt.

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 \$251,014 higher than budgeted amounts. A majority of the difference is due to amounts not budgeted for Washington Coleman building which was subsequently funded with issuance of debt. Actual revenues were \$601,281 higher than budgeted amounts due to more local tax revenue received.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets for its governmental activities as of June 30, 2014, amounts to \$8,698,710 (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 \$79,746, or 0.9 percent, above last year.

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Land, building, and improvements	\$ 7,695,759	\$ 7,055,731
Machinery, equipment, and vehicles	<u>1,002,951</u>	<u>1,563,233</u>
Totals	<u>\$ 8,698,710</u>	<u>\$ 8,618,964</u>

This year's major additions included:

Curb and gutter work, paid for with general revenue and grant revenue	\$ 364,752
Washington Coleman Center, paid for with proceeds from debt issued	676,246

Debt

At year-end, the Town had \$9,657,446 in bonds and notes outstanding compared to \$10,688,173 last year - a decrease of 9.6 percent as shown in the following table.

**TOWN OF SOUTH BOSTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
General		
obligation bonds	\$ 9,386,475	\$ 10,193,946
Notes payable	<u>270,971</u>	<u>494,227</u>
Totals	<u>\$ 9,657,446</u>	<u>\$ 10,688,173</u>

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 Phase II of the Landfill Gas Control and Reclamation Project, Closed Vessel Mulching System, and storm water management improvements.

All of these factors were considered in preparing the Town's budget for the 2015 fiscal year.

General Fund tax rates will remain the same for the 2015 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, 2014

	Exhibit 1
ASSETS	Governmental Activities
Cash	\$ 2,964,796
Investments	231,705
Receivables (net of allowances for uncollectibles):	
Taxes, including penalties	252,865
Accounts	97,817
Notes	1,017,000
Due from other governmental units	5,119,133
Inventories, at cost	67,218
Fixed assets (net of accumulated depreciation)	<u>8,698,710</u>
Total assets	<u>18,449,244</u>
LIABILITIES	
Excess of checks written over funds available	818,247
Accrued interest payable	80,322
Accounts payable	47,729
Long-term obligations:	
Due within one year	987,438
Due beyond one year	<u>10,923,358</u>
Total liabilities	<u>12,857,094</u>
NET POSITION	
Invested in capital assets, net of related debt	2,414,788
Restricted for:	
Perpetual care:	
Expendable	255,747
Nonexpendable	767,240
Other purposes	264,369
Unrestricted	<u>1,890,006</u>
Total net position	<u>\$ 5,592,150</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, 2014

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	\$ 897,413	\$ 168,484	\$ 295,432	\$ -	\$ (433,497)
Public safety	3,397,873	64,654	613,474	-	(2,719,745)
Public works	3,307,598	9,644	2,138,425	-	(1,159,529)
Parks, recreation, and cultural	418,820	16,546	-	-	(402,274)
Community development	552,069	-	-	19,000	(533,069)
Nondepartmental	66,486	-	-	-	(66,486)
Landfill closure	28,657	-	125,876	-	97,219
Interest on long-term debt	281,439	-	-	-	(281,439)
Total governmental activities	<u>\$ 8,950,355</u>	<u>\$ 259,328</u>	<u>\$ 3,173,207</u>	<u>\$ 19,000</u>	<u>\$ (5,498,820)</u>
General Revenues:					
Property taxes					\$ 1,642,431
Other taxes and revenues					3,967,559
Sale of cemetery lots					45,750
Unrestricted investment earnings					87,500
Total general revenues					<u>5,743,240</u>
Change in net position					244,420
Net position - beginning					5,321,163
Adjustment of estimated accumulated post-closure costs					<u>26,567</u>
Net position - ending					<u>\$ 5,592,150</u>

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

TOWN OF SOUTH BOSTON, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2014

Exhibit 3

ASSETS	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash	\$ 2,298,544	\$ 666,836	\$ 2,965,380
Investments	-	231,705	231,705
Receivables (net of allowances for uncollectibles):			
Taxes, including penalties	252,865	-	252,865
Accounts	97,817	-	97,817
Notes	1,017,000	-	1,017,000
Due from other funds	62,341	-	62,341
Due from other governmental units	1,683,320	-	1,683,320
Inventories, at cost	67,218	-	67,218
	<u>5,479,105</u>	<u>898,541</u>	<u>6,377,646</u>
Total assets			
	<u>\$ 5,479,105</u>	<u>\$ 898,541</u>	<u>\$ 6,377,646</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Excess of checks written over funds available	\$ 818,247	\$ -	\$ 818,247
Accounts payable	47,729	-	47,729
Deferred revenue	210,037	-	210,037
	<u>1,076,013</u>	<u>-</u>	<u>1,076,013</u>
Total liabilities			
	<u>1,076,013</u>	<u>-</u>	<u>1,076,013</u>
Fund balances:			
Nonspendable:			
Inventories	-	-	-
Restricted for:			
Perpetual care	-	898,541	898,541
Landfill closure	495,356	-	495,356
Assigned to:			
Construction of capital assets	264,369	-	264,369
Unassigned:			
Undesignated	3,643,367	-	3,643,367
	<u>4,403,092</u>	<u>898,541</u>	<u>5,301,633</u>
Total fund balances			
	<u>4,403,092</u>	<u>898,541</u>	<u>5,301,633</u>
Total liabilities and fund balances			
	<u>\$ 5,479,105</u>	<u>\$ 898,541</u>	
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			8,698,710
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.			129,714
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.			(8,537,907)
Net position of governmental activities			<u>\$ 5,592,150</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, 2014

			Exhibit 4
	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
General property taxes	\$ 1,933,676	\$ -	\$ 1,933,676
Other local taxes	3,931,487	-	3,931,487
Permits, privilege fees, and regulatory licenses	3,122	-	3,122
Fines and forfeitures	64,654	-	64,654
Interest and investment revenue	72,816	14,684	87,500
Charges for service	26,190	-	26,190
Miscellaneous	236,943	1,115	238,058
Recovered costs	676,419	-	676,419
Sale of cemetery lots	-	45,750	45,750
Intergovernmental	2,516,049	220,214	2,736,263
Total revenues	<u>9,461,356</u>	<u>281,763</u>	<u>9,743,119</u>
Expenditures:			
Current:			
General government administration	710,353	186,035	896,388
Public safety	3,021,200	220,214	3,241,414
Public works	3,086,669	-	3,086,669
Parks, recreation, and cultural	422,464	-	422,464
Community development	342,008	-	342,008
Nondepartmental	198,695	-	198,695
Capital projects	553,665	-	553,665
Landfill closure	18,446	-	18,446
Debt service:			
Principal retirement	1,020,261	-	1,020,261
Interest and fiscal charges	442,427	-	442,427
Total expenditures	<u>9,816,188</u>	<u>406,249</u>	<u>10,222,437</u>
(Deficiency) of revenues (under) expenditures	<u>(354,832)</u>	<u>(124,486)</u>	<u>(479,318)</u>
Other financing sources (uses):			
Operating transfers in (out)	<u>(163,670)</u>	<u>163,670</u>	<u>-</u>
Total other financing sources and uses	<u>(163,670)</u>	<u>163,670</u>	<u>-</u>
Net change in fund balances	(518,502)	39,184	(479,318)
Fund balance at beginning of year	<u>4,921,594</u>	<u>859,357</u>	<u>5,780,951</u>
Fund balance at end of year	<u><u>\$ 4,403,092</u></u>	<u><u>\$ 898,541</u></u>	<u><u>\$ 5,301,633</u></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, 2014

Exhibit 5

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

Net change in fund balances - total governmental funds	\$ (479,318)
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.	79,747
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	4,188
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. 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 proceeds exceeded repayments.	634,373
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>5,430</u>
Change in net position of governmental activities	<u>\$ 244,420</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, 2014

Exhibit 6

ASSETS	<u>Agency Fund</u>
Cash and cash equivalents	\$ 34,600
Land and buildings	2,642,701
Accounts receivable	<u>34,797</u>
Total assets	<u>2,712,098</u>
LIABILITIES	
Accounts payable	2,000
Due to other governmental units	1,234,207
Note payable	<u>1,475,891</u>
Total liabilities	<u>2,712,098</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 accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Town has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Town has chosen not to do so. The more significant accounting policies established in GAAP and used by the Town are discussed below.

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.

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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.

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.

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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)

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 \$77,192 in the Governmental Activities at June 30, 2014.

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.

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.

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

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, 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	\$ 2,031
Alliance U.S. Bond Fund	<u>226,406</u>	<u>226,406</u>	<u>229,674</u>
Total Investments	<u>\$228,425</u>	<u>\$228,425</u>	<u>\$231,705</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 1st. Property taxes attach as an enforceable lien on property as of January 1st. Taxes are payable in one (1) installment on December 5th. 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, 2014:

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Activities</u>
County of Halifax:			
Contribution reimbursement	\$ 698,543	\$ -	\$ 698,543
Halifax County Service Authority	4,254,061	-	4,254,061
Local sales taxes	33,974	-	33,974
Communications tax	<u>132,555</u>	<u>-</u>	<u>132,555</u>
 Total	 <u>\$5,119,133</u>	 <u>\$ -</u>	 <u>\$5,119,133</u>

Note 5. Capital Assets

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

	Balance <u>7/1/13</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>6/30/14</u>
Governmental activities:				
Capital assets, being depreciated:				
Land, buildings, and improvements	\$ 8,978,952	\$ 894,801	\$ -	\$ 9,873,753
Equipment	<u>5,425,107</u>	<u>70,558</u>	<u>(243,203)</u>	<u>5,252,462</u>
Total capital assets being depreciated	<u>14,404,059</u>	<u>965,359</u>	<u>(243,203)</u>	<u>15,126,215</u>
Less accumulated depreciation for:				
Buildings and improvements	1,923,221	254,773	-	2,177,994
Equipment	<u>3,861,874</u>	<u>630,840</u>	<u>(243,203)</u>	<u>4,249,511</u>
Total accumulated depreciation	<u>5,785,095</u>	<u>885,613</u>	<u>(243,203)</u>	<u>6,427,505</u>
Governmental activities capital assets, net	<u>\$ 8,618,964</u>	<u>\$ 79,746</u>	<u>\$ -</u>	<u>\$ 8,698,710</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	\$ 12,444
Public safety	253,458
Public works	451,081
Parks, recreation, and cultural	10,782
Community development	137,878
Landfill closure	10,211
Cemetery	<u>9,759</u>
Total depreciation expense-governmental activities	<u>\$ 885,613</u>

Note 6. Long-Term Debt

Governmental activities:

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

General Obligation Bond – Series 2001

Year Ending <u>June 30,</u>	Public Improvements Bond 17.20 Percent to General Fund <u>82.80 Percent Landfill Closure Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 60,000	\$ 23,970
2016	60,000	20,910
2017	65,000	17,850
2018	65,000	14,535
2019	70,000	11,220
2020	75,000	7,650
2021	<u>75,000</u>	<u>3,825</u>
Total	<u>\$470,000</u>	<u>\$99,960</u>

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Debt (Continued)

Revenue Bonds Series 2006B

On July 13, 2006, the Town of South Boston entered into a refunding bond issue of \$5,105,000, for the purpose of refunding the Town's Bond Anticipation Note, Series 2004A and to fund various public utility, street improvements, and landfill closure costs and to pay the redemption price and issuance costs related thereto. Interest is payable at 3.65 percent to 5.00 percent. 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. 31.02 percent is allocable to the General Fund, 40.00 percent is allocable to the Landfill Closure Fund and 28.98 percent is allocable to the former Water and Sewer Fund which will be reimbursed by the Halifax County Service Authority.

Year Ending June 30,			Governmental Activities General Fund 40.00 Percent		Business-type Activities 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>
2015	\$ 220,000	\$ 171,460	\$ 156,235	\$ 121,764	\$ 63,765	\$ 49,696
2016	230,000	161,953	163,337	115,013	66,663	46,940
2017	240,000	151,906	170,438	107,878	69,562	44,028
2018	250,000	141,246	177,540	100,307	72,460	40,939
2019	260,000	129,896	184,642	92,247	75,358	37,649
2020	275,000	117,858	195,294	83,698	79,706	34,160
2021	285,000	104,545	202,396	74,244	82,604	30,301
2022	300,000	90,670	213,048	64,390	86,952	26,280
2023	315,000	76,675	223,700	54,452	91,300	22,223
2024	330,000	61,840	234,353	43,916	95,647	17,924
2025	345,000	45,625	245,005	32,401	99,995	13,224
2026	360,000	28,000	255,658	19,884	104,342	8,116
2027	<u>378,978</u>	<u>9,500</u>	<u>268,826</u>	<u>6,747</u>	<u>110,152</u>	<u>2,753</u>
	<u>\$ 3,788,978</u>	<u>\$1,291,174</u>	<u>\$2,690,472</u>	<u>\$ 916,941</u>	<u>\$1,098,506</u>	<u>\$ 374,233</u>

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Debt (Continued)

General Obligation Refunding Bond – Series 2006C

On December 1, 2006, the Town of South Boston entered into a refunding bond issue of \$3,305,000, for the purpose of refunding a portion of the Town's General Obligations Bonds, Series 2000A and to pay the redemption price and issuance costs related thereto. Interest is payable at 3.80 percent to 4.74 percent. Installments of principal are due annually on October 1, through October 1, 2019. Installments of interest are due on each October 1 and April 1, through October 1, 2019. This bond will be reimbursed by the Halifax County Service Authority.

Year Ending June 30,	<u>Water and Sewer Fund</u>		
	<u>Revenue Bonds</u>		
	Public Improvement Bonds		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 335,000	\$ 99,421	\$ 434,421
2016	355,000	83,269	438,269
2017	370,000	66,256	436,256
2018	385,000	48,473	433,473
2019	405,000	29,781	434,781
2020	<u>425,000</u>	<u>10,078</u>	<u>435,078</u>
Total	<u>\$2,275,000</u>	<u>\$ 337,278</u>	<u>\$2,612,278</u>

General Obligation Refunding Bond – Series 2008

On April 17, 2008, the Town of South Boston entered into a refunding bond issue of \$1,500,000 for the purpose of refunding the Town's line of credit. Interest is payable at 4.00 percent. Installments of principal and interest are due annually on April 1, through April 1, 2018.

Year Ending June 30,	<u>General Fund Revenue Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$158,084	\$ 26,852	\$184,936
2016	164,408	20,528	184,936
2017	170,984	13,952	184,936
2018	<u>177,824</u>	<u>7,113</u>	<u>184,937</u>
Total	<u>\$671,300</u>	<u>\$68,445</u>	<u>\$739,745</u>

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Debt (Continued)

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.

<u>Year Ending June 30,</u>	<u>General Obligation Public Improvement and Refunding Bond</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 60,467	\$ 82,275	\$ 142,742
2016	60,467	79,606	140,073
2017	60,467	79,100	139,567
2018	65,467	77,284	142,751
2019	65,467	74,785	140,252
2020-2024	367,335	334,891	702,226
2025-2029	442,335	257,313	699,648
2030-2034	547,335	157,655	704,990
2035-2038	<u>511,857</u>	<u>41,604</u>	<u>553,461</u>
Total	<u>\$2,181,197</u>	<u>\$ 1,184,513</u>	<u>\$3,365,710</u>

Notes Payable

On September 6, 2011, the Town of South Boston borrowed funds in the amount of \$653,392, for the purpose of purchasing various public works vehicles and equipment. Interest is payable at 2.96 percent. Installments of combined principal and interest are due on each September 6, December 6, March 6, and June 6, through June 6, 2016.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 133,487	\$ 6,553
2016	<u>137,484</u>	<u>2,554</u>
Total	<u>\$ 270,971</u>	<u>\$ 9,107</u>

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, 2014:

	Payable at <u>7/1/13</u>	Plus <u>Additions</u>	Less <u>Retirements</u>	Payable at <u>6/30/14</u>	Due within <u>One year</u>
Governmental activities:					
Bonds and notes payable:					
Bonds-Public Improvement					
06/27/01 Issue	\$ 525,000	\$ -	\$ 55,000	\$ 470,000	\$ 60,000
07/13/06 Refunding issue	2,839,605	-	149,133	2,690,472	156,235
General obligation bonds:					
07/13/06	1,159,374	-	60,868	1,098,506	63,765
12/01/06	2,600,000	-	325,000	2,275,000	335,000
04/17/08	823,304	-	152,004	671,300	158,084
06/05/13	2,246,663	-	65,466	2,181,197	60,467
Notes payable:					
09/06/11	400,576	-	129,605	270,971	133,487
09/06/11	<u>93,651</u>	<u>-</u>	<u>93,651</u>	<u>-</u>	<u>-</u>
 Total bonds and notes payable	 <u>10,688,173</u>	 <u>-</u>	 <u>1,030,727</u>	 <u>9,657,446</u>	 <u>967,038</u>
 Other liabilities:					
Compensated absences	403,136	20,400	32,074	391,462	20,400
Landfill post-closure care	<u>1,888,455</u>	<u>-</u>	<u>26,567</u>	<u>1,861,888</u>	<u>-</u>
 Total other liabilities	 <u>2,291,591</u>	 <u>20,400</u>	 <u>58,641</u>	 <u>2,253,350</u>	 <u>20,400</u>
Governmental activities long-term liabilities	<u>\$ 12,979,764</u>	<u>\$ 20,400</u>	<u>\$ 1,089,368</u>	<u>\$ 11,910,796</u>	<u>\$ 987,438</u>

TOWN OF SOUTH BOSTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Debt (Continued)

Details of Long-Term Indebtedness

Governmental Activities:

Amount
Outstanding

\$1,000,000 authorized and issued - Public improvement/landfill improvement bonds, issued 06/27/01, maturing annually with interest payable semi-annually. 17.20 percent applies to General Fund and 82.80 percent applies to Landfill Closure Fund.

Bonds bearing interest at 4.10 to 5.10 percent maturing on April 1, 2021 \$ 470,000

\$5,105,000 authorized and issued – General obligation bond issued 07/13/06, maturing annually with interest payable semi-annually, proceeds allocated between the General Fund and Landfill Closure Fund - \$2,839,605 and Water and Sewer Fund - \$1,159,374.

Bonds bearing interest at 3.65 to 5.00 percent maturing on August 1, 2026 2,690,472

\$5,105,000 authorized and issued – General obligation bond issued 07/13/06, maturing annually with interest payable semi-annually, proceeds allocated between the General Fund - \$2,839,605 and Water and Sewer Fund - \$1,159,374. This bond will be reimbursed by Halifax County Service Authority.

Bonds bearing interest at 3.65 to 5.00 percent maturing on August 1, 2026 1,098,506

\$3,305,000 authorized and issued – General obligation public improvement refunding bond issued 12/01/06, maturing annually with interest payable semi-annually. This bond will be reimbursed by Halifax County Service Authority.

Bonds bearing interest at 3.80 to 4.74 percent maturing on October 1, 2019 2,275,000

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Debt (Continued)

Details of Long-Term Indebtedness

\$1,500,000 authorized and issued - General Obligation Refunding Bond issued 04/17/08, maturing annually with interest payable annually.

Bonds bearing interest at 4.00 percent maturing on April 1, 2018	\$ 671,300
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\$2,246,663 authorized and issued – General Obligation Public Improvement And Refunding Bond issued 06/05/13, maturing semi-annually.

Bonds bearing interest at 2.49 to 4.89 percent maturing October 1, 2037	2,181,197
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\$653,392 authorized note payable issued 09/06/11, maturing quarterly with principal and interest payable quarterly.

Note bearing interest at 2.96 percent and maturing on June 6, 2016	270,971
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Compensated absences:

Vacation and sick leave	391,462
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Landfill closure and post-closure care	<u>1,861,888</u>
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\$11,910,796

Note 7. Fund Balances – Governmental Funds

The Town of South Boston, Virginia implemented GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year 2011. 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.
- 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.

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 7. Fund Balances – Governmental Funds (continued)

- 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

A. Plan Description

The Town of South Boston, Virginia contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer pension plan administered by the Virginia Retirement System (System). All full-time, salaried permanent employees of participating employers are automatically covered by VRS upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

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

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
About VRS Plan 1 VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	About VRS Plan 2 VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their member date is before July 1, 2010, and they were not vested as of January 1, 2013.	About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See “Eligible Members”)

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
		<ul style="list-style-type: none"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
<p>Eligible Members Employees are in VRS Plan 1 if their membership date is before July 1, 2012, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p>	<p>Eligible Members Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt in Election VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1, through April 30, 2014.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This include:</p> <ul style="list-style-type: none"> • State employees* • School division employees • Political subdivision employees* • Judges appointed or elected to an original term on or after January 1, 2014. • Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January

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 2, 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>1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.</p> <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Members of the State Police Officers' Retirement System (SPORS) • Members of the Virginia Law Officers' Retirement System (VaLORS) • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees <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>Retirement Contributions Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax deferred until they are withdrawn as part of a retirement benefit or as a refund.</p>	<p>Retirement Contributions Same as VRS Plan 1.</p>	<p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary</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
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.		contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Creditable Service Same as VRS Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service 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>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as VRS Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <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"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70 1/2.</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>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p>Calculating the Benefit See definition under VRS Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under VRS Plan 1</p> <p><u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.</p>	<p>Service Retirement Multiplier Same as Plan1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p>	<p>Service Retirement Multiplier The retirement multiplier is 1.0%.</p> <p>For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p>

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
Normal Retirement Age Age 65.	Normal Retirement Age Normal Social Security retirement age.	Normal Retirement Age <u>Defined Benefit Component:</u> Same as VRS Plan 2. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	Earliest Unreduced Retirement Eligibility Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	Earliest Reduced Retirement Eligibility Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.	Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. <u>Defined Contribution Component:</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>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><u>Exceptions to COLA Effective Dates:</u> 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"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for uses other than job performance or misconduct and is eligible to retire under the Work force Transition Act or the Transitional Benefits Program. 	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as VRS Plan 1.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as VRS Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as VRS Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as VRS Plan 1 and VRS Plan 2.</p> <p><u>Exceptions to COLA Effective Dates:</u> 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
<ul style="list-style-type: none"> 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. 		
<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>State employees (including VRS Plan 1 and VRS Plan2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>

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
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	Purchase of Prior Service Same as VRS Plan 1.	Purchase of Prior Service <u>Defined Benefit Component:</u> Same as VRS Plan 1. Defined Contribution Component: Not Applicable.

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined Benefit Pension Plan (Continued)

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

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their annual salary toward their retirement. The employer may assume this 5.00% member contribution. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Town of South Boston, Virginia is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended June 30, 2014 was 16.90% of annual covered payroll.

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined Benefit Pension Plan (Continued)

C. Annual Pension Cost

For fiscal year 2014, the Town of South Boston's, Virginia's annual pension cost of \$505,794 was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%. The actuarial value of the Town of South Boston, Virginia's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. Town of South Boston, Virginia's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

Three-Year Trend Information for the Town of South Boston

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2012	\$ 488,932	100%	\$ -
June 30, 2013	507,518	100%	-
June 30, 2014	505,794	100%	-

D. Funded Status and Funding Progress

The most recent actuarial valuation date was as of June 30, 2013 which shows 100.00% of the annual pension costs contributed. The actuarial accrued liability for benefits was \$19,339,878 and the actuarial value of assets was \$14,097,229, resulting in the plan being underfunded in the amount of \$5,242,649. The covered payroll (annual payroll of active employees covered by the plan) was \$3,023,468, and ratio of the UAAL to the covered payroll was 173.40%.

The schedule of funding progress, presented below as required supplemental information (RSI) presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined Benefit Pension Plan (Continued)

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for the Town of South Boston

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2011	\$13,821,420	\$17,954,132	\$ 4,132,712	76.98%	\$2,662,941	155.19%
June 30, 2012	13,634,353	18,601,219	4,966,866	73.30%	2,835,179	175.19%
June 30, 2013	14,097,229	19,339,878	5,242,649	72.89%	3,023,468	173.40%

Note 9. 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, 2014, and previous years have been conducted by the grantors or their representatives.

Note 10. 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 11. Legal Compliance

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

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 12. Surety Bonds

VML –	
Erle Scott – Director of Finance	\$350,000
VML –	
Blanket Bond – All Town Employees	250,000
Forgery Bond – All Town Employees	250,000

Note 13. Government Services Provided by Authorities/Organizations

The Town also participates with Halifax County in the Regional Library. During the year, the Town contributed \$75,000 to the Library.

Note 14. 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 \$1,861,888 reported as landfill post closure care liability at June 30, 2014, 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 2014. 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 \$303,765. 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 15. 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.

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 15. Transfer of Water and Sewer Fund (Continued)

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.

Note 16. Subsequent Events

Management has evaluated subsequent events through November 26, 2014, 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, 2014

Exhibit 7

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Revenues:				
General property taxes	\$ 1,808,432	\$ 1,808,432	\$ 1,933,676	\$ 125,244
Other local taxes	3,713,100	3,713,100	3,931,487	218,387
Permits, privilege fees, and regulatory licenses	650	650	3,122	2,472
Fines and forfeitures	56,050	56,050	64,654	8,604
Interest and investment revenue	71,881	71,881	72,816	935
Charges for service	16,800	16,800	26,190	9,390
Miscellaneous	220,000	220,000	236,943	16,943
Recovered costs	721,574	721,574	676,419	(45,155)
Intergovernmental	<u>2,251,440</u>	<u>2,251,440</u>	<u>2,516,049</u>	<u>264,609</u>
Total revenues	<u>8,859,927</u>	<u>8,859,927</u>	<u>9,461,356</u>	<u>601,429</u>
Expenditures:				
Current:				
General government administration	720,356	720,356	710,353	10,003
Public safety	3,111,702	3,111,702	3,021,200	90,502
Public works	2,864,452	2,864,452	3,086,669	(222,217)
Parks, recreation, and cultural	431,103	431,103	422,464	8,639
Community development	256,031	541,031	342,008	199,023
Nondepartmental	235,419	235,419	198,695	36,724
Capital projects	674,408	674,408	553,665	120,743
Landfill closure	25,900	25,900	18,446	7,454
Debt service:				
Principal retirement	1,020,261	1,020,261	1,020,261	-
Interest and fiscal charges	<u>442,570</u>	<u>442,570</u>	<u>442,427</u>	<u>143</u>
Total expenditures	<u>9,782,202</u>	<u>10,067,202</u>	<u>9,816,188</u>	<u>251,014</u>
(Deficiency) of revenues (under) expenditures	<u>(922,275)</u>	<u>(1,207,275)</u>	<u>(354,832)</u>	<u>852,443</u>
Other financing sources (uses):				
Long-term debt issued	200,000	200,000	-	(200,000)
Operating transfers (out)	(152,133)	(152,133)	(163,670)	(11,537)
Transfer to reserve funds	<u>874,408</u>	<u>1,159,408</u>	<u>-</u>	<u>(1,159,408)</u>
Total other financing sources	<u>922,275</u>	<u>1,207,275</u>	<u>(163,670)</u>	<u>(1,370,945)</u>
Net change in fund balances			(518,502)	
Fund balance at beginning of year			<u>4,921,594</u>	
Fund balance at end of year			<u><u>\$ 4,403,092</u></u>	

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

OTHER SUPPLEMENTARY INFORMATION

TOWN OF SOUTH BOSTON, VIRGINIA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2014

Exhibit 8

		<u>Permanent Fund</u>	
	Virginia Alcohol Safety Action <u>Program Fund</u>	Perpetual <u>Care</u>	Total Nonmajor Governmental <u>Funds</u>
ASSETS			
Cash	\$ -	\$ 666,836	\$ 666,836
Investments	-	231,705	231,705
Total assets	<u>\$ -</u>	<u>\$ 898,541</u>	<u>\$ 898,541</u>
LIABILITIES AND FUND BALANCES			
Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balances:			
Reserved for:			
Perpetual care	<u>\$ -</u>	<u>\$ 898,541</u>	<u>\$ 898,541</u>
Total fund balances	<u>-</u>	<u>898,541</u>	<u>898,541</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 898,541</u>	<u>\$ 898,541</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, 2014

Exhibit 9

	<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	\$ -	\$ 14,684	\$ 14,684
Miscellaneous	-	1,115	1,115
Sale of cemetery lots	-	45,750	45,750
Intergovernmental	<u>220,214</u>	<u>-</u>	<u>220,214</u>
 Total revenues	 <u>220,214</u>	 <u>61,549</u>	 <u>281,763</u>
Expenditures:			
Current:			
General government administration	-	186,035	186,035
Public safety	220,214	-	220,214
Capital projects	<u>-</u>	<u>-</u>	<u>-</u>
 Total expenditures	 <u>220,214</u>	 <u>186,035</u>	 <u>406,249</u>
 (Deficiency) of revenues (under) expenditures	 <u>-</u>	 <u>(124,486)</u>	 <u>(124,486)</u>
Other financing sources:			
Operating transfers in	<u>-</u>	<u>163,670</u>	<u>163,670</u>
 Total other financing sources	 <u>-</u>	 <u>163,670</u>	 <u>163,670</u>
 Net change in fund balances	 -	 39,184	 39,184
 Fund balance at beginning of year	 <u>-</u>	 <u>859,357</u>	 <u>859,357</u>
 Fund balance at end of year	 <u>\$ -</u>	 <u>\$ 898,541</u>	 <u>\$ 898,541</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, and Cultural	Community <u>Development</u>	Non- <u>Departmental</u>	Capital <u>Projects</u>	Landfill <u>Closure</u>	Debt <u>Service</u>	<u>Total</u>
2004-05	\$ 544,979	\$ 2,327,236	\$ 2,167,014	\$ 264,723	\$ 194,811	\$ 481,761	\$ 1,732,274	\$ 103,658	\$ 395,532	\$ 8,211,988
2005-06	593,914	2,646,892	2,355,010	281,472	234,450	533,280	791,194	120,043	338,795	7,895,050
2006-07	635,986	2,607,644	2,769,804	292,189	750,620	607,628	1,109,188	124,527	2,127,067	11,024,653
2007-08	586,128	2,712,575	2,394,312	334,193	638,104	345,140	123,214	1,603,757	729,642	9,467,065
2008-09	622,052	2,822,703	2,608,782	377,574	1,010,935	333,224	31,159	396,495	1,360,500	9,563,424
2009-10	599,453	2,734,042	2,631,000	384,692	266,502	166,964	376,842	105,922	1,354,666	8,620,083
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

TOWN OF SOUTH BOSTON, VIRGINIA

GENERAL GOVERNMENTAL REVENUES BY SOURCE
LAST TEN FISCAL YEARS

Schedule 2

<u>Fiscal</u> <u>Year</u>	<u>General</u> <u>Property</u> <u>Taxes</u>	<u>Other</u> <u>Local</u> <u>Taxes</u>	<u>Permits,</u> <u>Privilege</u> <u>Fees, and</u> <u>Regulatory</u> <u>Licenses</u>	<u>Fines and</u> <u>Forfeitures</u>	<u>Revenues</u> <u>From Use of</u> <u>Money and</u> <u>Property</u>	<u>Charges for</u> <u>Service</u>	<u>Miscellaneous</u>	<u>Recovered</u> <u>Costs</u>	<u>Inter-</u> <u>Governmental</u>	<u>Total</u>
2004-05	\$ 1,480,956	\$ 2,694,764	\$ 7,222	\$ 46,057	\$ 141,344	\$ 696,956	\$ 382,359	\$ 340,109	\$ 1,790,305	\$ 7,580,072
2005-06	1,540,197	3,065,260	8,840	50,365	186,238	807,019	265,332	357,186	1,909,638	8,190,075
2006-07	1,707,983	3,181,531	7,927	35,199	211,391	970,955	154,812	354,119	2,343,684	8,967,601
2007-08	1,704,069	3,505,014	3,815	46,077	226,259	259,832	189,452	215,131	2,509,093	8,658,742
2008-09	1,791,271	3,573,451	3,700	63,986	111,938	26,521	329,838	815,230	3,066,444	9,782,379
2009-10	1,776,489	3,548,211	2,962	69,452	101,570	20,484	242,219	751,537	2,178,925	8,691,849
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

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 Taxes	Percent of Delinquent Taxes to Tax Levy
2004-05	\$ 1,219,445	\$ 1,155,372	94.75	\$ 36,034	\$ 1,191,406	97.70	\$ 105,075	8.62
2005-06	1,214,858	1,155,353	95.10	36,101	1,191,454	98.07	107,976	8.89
2006-07	1,416,779	1,325,674	93.57	21,415	1,347,089	95.08	157,187	11.09
2007-08	1,407,515	1,306,462	92.82	58,264	1,364,726	96.96	185,537	13.18
2008-09	1,506,577	1,385,602	91.97	61,074	1,446,676	96.02	248,010	16.46
2009-10	1,436,986	1,331,415	92.65	73,770	1,405,185	97.79	243,219	16.93
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	100.24	233,725	15.29

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	
2004-05	\$ 398,105,607	\$ 50,425,000	\$ 1,140,360	\$ 2,105,400	\$ 17,575,314	\$ 203,760	\$ 469,555,441
2005-06	430,632,481	41,899,500	1,079,700	2,256,400	16,674,730	180,519	492,723,330
2006-07	366,171,492	41,656,000	1,072,600	2,560,800	17,810,306	180,519	429,451,717
2007-08	434,775,650	41,215,825	1,067,600	2,658,000	17,822,407	191,164	497,730,646
2008-09	486,915,503	41,815,600	985,400	2,706,500	18,470,335	257,001	551,150,339
2009-10	492,542,837	36,742,900	960,300	2,693,100	19,662,785	325,169	552,927,091
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

PROPERTY TAX RATES
LAST TEN FISCAL YEARS

Fiscal Year	Real Estate	Personal Property	Mobile Homes	Machinery and Tools	Public Utility	
					Real Estate	Personal Property
2004-05	0.19	1.42	0.19	0.31	0.19	1.42
2005-06	0.19	1.42	0.19	0.31	0.19	1.42
2006-07	0.19	2.00	0.19	0.31	0.19	2.00
2007-08	0.19	2.00	0.19	0.31	0.19	2.00
2008-09	0.19	2.00	0.19	0.31	0.19	2.00
2009-10	0.19	2.00	0.19	0.31	0.19	2.00
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

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 (In Thousands)	Gross Bonded Debt (2)	<u>Less:</u> Debt Payable From Enterprise Revenues	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2004-05	8,491	\$ 469,555	\$ 10,726,420	128,352	10,598,068	.023:1	1,248
2005-06	8,491	492,723	10,077,125	117,167	9,959,958	.020:1	1,173
2006-07	8,491	429,104	11,502,400	105,645	11,396,755	.027:1	1,342
2007-08	8,491	497,730	12,110,113	93,774	12,016,339	.024:1	1,415
2008-09	8,491	551,150	11,382,754	81,544	11,301,210	.021:1	1,331
2009-10	8,491	552,927	10,631,221	68,945	10,562,276	.019:1	1,244
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

NOTE: (1) Tayloe Murphy Institute at the University of Virginia

(2) Includes all long-term general obligation debt.

TOWN OF SOUTH BOSTON, VIRGINIA

COMPUTATION OF LEGAL DEBT MARGIN

June 30, 2014

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, 2014)		<u>\$ 548,347,012</u>
Legal debt limit (10% of assessed value)		\$ 54,834,701
Gross debt issued and outstanding	\$ 9,657,446	
Less deduction for self-supporting revenue bonds	<u>-</u>	
Total net debt chargeable to current debt limit		<u>9,657,446</u>
Current debt-incurring capacity		<u>\$ 45,177,255</u>

TOWN OF SOUTH BOSTON, VIRGINIA

STATEMENT OF THE TREASURER'S ACCOUNTABILITY

June 30, 2014

Schedule 7

Assets held by the Treasurer:

Cash on hand	\$ 1,304
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Cash in banks:

Checking:

SunTrust Bank	2,306,891
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Carter Bank and Trust	656,601
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Investments:

Common stock – 45 shares of U. S. Steel Corporation	1,713
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Alliance U. S. Bond Fund	<u>229,992</u>
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Total assets	<u><u>\$ 3,196,501</u></u>
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Liabilities of the Treasurer:

Balance of Town Funds	<u>\$ 3,196,501</u>
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Total liabilities	<u><u>\$ 3,196,501</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, 2014

Schedule 8

	Balance <u>July 01, 2013</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2014</u>
ASSETS				
Cash	\$ 11,930	\$ 224,921	\$ 202,251	\$ 34,600
Land and buildings (net of accumulated depreciation)	2,697,933	2,475	57,707	2,642,701
Accounts receivable	<u>39,365</u>	<u>-</u>	<u>4,568</u>	<u>34,797</u>
Total assets	<u>\$ 2,749,228</u>	<u>\$ 227,396</u>	<u>\$ 264,526</u>	<u>\$ 2,712,098</u>
LIABILITIES				
Accounts payable	\$ 1,000	\$ 1,000	\$ -	\$ 2,000
Due to other governmental units	1,164,831	69,376	-	1,234,207
Note payable	<u>1,583,397</u>	<u>-</u>	<u>107,506</u>	<u>1,475,891</u>
Total liabilities	<u>\$ 2,749,228</u>	<u>\$ 70,376</u>	<u>\$ 107,506</u>	<u>\$ 2,712,098</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 Town of South Boston, Virginia, as of and for the year ended, June 30, 2014, and the related notes to the financial statements, which collectively comprise Town of South Boston, Virginia's basic financial statements, and have issued our report thereon dated November 26, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 Town of South Boston, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 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 grants, 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 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
November 26, 2014