

TOWN OF SOUTH BOSTON, VIRGINIA
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2016

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
Tom Raab
Mickey Wilkerson
James Binner
Alan R. Auld
Steve Phillips
Jane P. Jones

Mayor
Town Manager
Deputy Finance Director
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, 2016, 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, 2016, 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 50 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 30, 2016, 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 30, 2016

TOWN OF SOUTH BOSTON, VIRGINIA MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

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, 2016. 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, 2016**

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

THE TOWN AS A WHOLE

The Town's net position increased by 69.8 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>2016</u>	<u>2015</u>
Current and other assets	\$ 11,655,674	\$ 10,302,609
Capital assets	<u>9,948,957</u>	<u>8,445,705</u>
Total assets	<u>\$ 21,604,631</u>	<u>\$ 18,748,314</u>
Long-term debt outstanding	\$ 12,744,310	\$ 11,421,894
Other liabilities	<u>5,166,338</u>	<u>5,151,510</u>
Total liabilities	<u>\$ 17,910,648</u>	<u>\$ 16,573,404</u>
Net position:		
Invested in capital assets, net of debt	\$ 1,935,634	\$ 2,202,558
Restricted	1,295,883	(2,931,319)
Unrestricted	<u>462,466</u>	<u>2,903,670</u>
Total net position	<u>\$ 3,693,983</u>	<u>\$ 2,174,909</u>

**TOWN OF SOUTH BOSTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

Table 2
Changes in Net Position

	Governmental Activities	
	<u>2016</u>	<u>2015</u>
Revenues		
Program revenues:		
Charges for services	\$ 216,609	\$ 240,721
Grants and contributions	3,541,091	3,328,230
General revenues:		
Property taxes	1,739,951	1,660,558
Other taxes	4,656,544	4,218,226
Sale of cemetery lots	26,000	43,250
Investment earnings	<u>65,798</u>	<u>67,040</u>
Total revenues	<u>10,245,993</u>	<u>9,558,025</u>
Program expenses:		
General government	770,581	853,885
Public safety	3,299,851	3,222,856
Public works	3,042,626	3,056,165
Parks, recreation, and cultural	333,156	392,353
Community development	848,502	884,018
Nondepartmental	122,080	208,767
Landfill closure	93,567	56,561
Interest on long-term debt	<u>192,676</u>	<u>514,551</u>
Total expenses	<u>8,703,039</u>	<u>9,189,156</u>
Adjustment of estimated accumulated post-closure costs	<u>(23,881)</u>	<u>218,092</u>
Increase in net position	<u>\$ 1,519,073</u>	<u>\$ 586,961</u>

Governmental Activities

Revenues for the Town's governmental activities increased 7.2 percent, while expenses decreased 5.3 percent. The revenue increase is due primarily to the 2 percent increase in the meals tax rate in the current year. Expenses decreased from the prior year primarily due to the interest paid on long-term debt that was issued at lower rates in March of 2015.

**TOWN OF SOUTH BOSTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

THE TOWN'S FUNDS

As the Town completed the year, its governmental funds reported a fund balance of \$7,442,613, which is 29.2 percent higher than last year. The primary reasons for the increase were due to the principal received on the refunding bonds issued during the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

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

Actual disbursements were \$2,804,677 lower than budgeted amounts. A majority of the difference is due to storm water projects that were budgeted for but not started in fiscal year 2016. Actual revenues were \$616,678 lower than budgeted amounts due to revenue sharing projects that were budget to begin during fiscal year ending 06/30/16 but will not begin until fiscal year ending 06/30/17.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets for its governmental activities as of June 30, 2016, amounts to \$9,448,957 (net of accumulated depreciation). This investment in capital assets includes police and fire equipment, buildings, park facilities, and improvements. This amount represents a net decrease (including additions and deductions) of \$1,503,252, or 2.9 percent, below last year.

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Land, building, and improvements	\$ 9,052,458	\$ 7,452,944
Machinery, equipment, and vehicles	<u>896,499</u>	<u>992,761</u>
Totals	<u>\$ 9,948,957</u>	<u>\$ 8,445,705</u>

This year's major additions included:

Storm water projects, paid for with grant revenue and debt issued	\$ 1,711,455
Fire department vehicle, paid for with general revenue	69,124

Debt

At year-end, the Town had \$10,695,281 in bonds and notes outstanding compared to \$9,393,759 last year - an increase of 13.8 percent as shown in the following table.

**TOWN OF SOUTH BOSTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
General		
obligation bonds	\$ 10,253,252	\$ 8,951,730
Notes payable	<u>442,029</u>	<u>442,029</u>
Totals	<u>\$ 10,695,281</u>	<u>\$ 9,393,759</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 2017 fiscal year.

General Fund tax rates will remain the same for the 2017 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, 2016

	Exhibit 1
ASSETS	Governmental Activities
Cash	\$ 5,479,849
Investments	200,367
Receivables (net of allowances for uncollectibles):	
Taxes, including penalties	311,276
Accounts	92,838
Notes	979,000
Due from other governmental units	3,997,706
Inventories, at cost	83,290
Fixed assets (net of accumulated depreciation)	9,948,957
Deferred outflows of resources-pension contributions	<u>511,348</u>
Total assets	<u>21,604,631</u>
 LIABILITIES	
Excess of checks written over funds available	712,095
Accrued interest payable	72,019
Accounts payable	219,052
Long-term obligations:	
Due within one year	1,362,823
Due beyond one year	11,381,487
Net pension liability	3,901,113
Deferred inflows of resources-VRS	<u>262,059</u>
Total liabilities	<u>17,910,648</u>
 NET POSITION	
Net investment in capital assets	1,935,634
Restricted for:	
Perpetual care:	
Expendable	268,971
Nonexpendable	806,912
Other purposes:	220,000
Unrestricted	<u>462,466</u>
Total net position	<u>\$ 3,693,983</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, 2016

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	\$ 770,581	\$ 144,994	\$ 295,432	\$ -	\$ (330,155)
Public safety	3,299,851	43,383	615,822	-	(2,640,646)
Public works	3,042,626	10,115	2,198,906	-	(833,605)
Parks, recreation, and cultural	333,156	18,117	-	-	(315,039)
Community development	848,502	-	-	302,136	(546,366)
Nondepartmental	122,080	-	-	-	(122,080)
Landfill closure	93,567	-	128,795	-	35,228
Interest on long-term debt	192,676	-	-	-	(192,676)
Total governmental activities	<u>\$ 8,703,039</u>	<u>\$ 216,609</u>	<u>\$ 3,238,955</u>	<u>\$ 302,136</u>	<u>\$ (4,945,339)</u>
General Revenues:					
Property taxes					\$ 1,739,951
Other taxes and revenues					4,656,544
Sale of cemetery lots					26,000
Unrestricted investment earnings					65,798
Total general revenues					<u>6,488,293</u>
Change in net position					1,542,954
Net position - beginning					2,174,910
Adjustment of estimated accumulated post-closure costs					<u>(23,881)</u>
Net position - ending					<u>\$ 3,693,983</u>

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

TOWN OF SOUTH BOSTON, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

Exhibit 3

ASSETS	<u>General</u>	Other Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Cash	\$ 4,779,850	\$ 700,000	\$ 5,479,850
Investments	-	200,369	200,369
Receivables (net of allowances for uncollectibles):			
Taxes, including penalties	311,276	-	311,276
Accounts	92,838	-	92,838
Notes	979,000	-	979,000
Due from other funds	62,341	-	62,341
Due from other governmental units	1,458,072	-	1,458,072
Inventories, at cost	83,289	-	83,289
	<u>\$ 7,766,666</u>	<u>\$ 900,369</u>	<u>\$ 8,667,035</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Excess of checks written over funds available	\$ 712,095	\$ -	\$ 712,095
Accounts payable	219,052	-	219,052
Unavailable revenue - property taxes	293,270	-	293,270
	<u>1,224,417</u>	<u>-</u>	<u>1,224,417</u>
Fund balances:			
Nonspendable:			
Inventories	83,289	-	83,289
Restricted for:			
Perpetual care	-	900,369	900,369
Landfill closure	498,283	-	498,283
Assigned to:			
Construction of capital assets	220,000	-	220,000
Unassigned:			
Undesignated	5,740,677	-	5,740,677
	<u>6,542,249</u>	<u>900,369</u>	<u>7,442,618</u>
Total fund balances	<u>\$ 7,766,666</u>	<u>\$ 900,369</u>	
Total liabilities and fund balances			
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			9,948,958
Other long-term liabilities are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.			293,270
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.			(10,339,039)
Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds.			(3,901,113)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds			249,289
Net position of governmental activities			<u>\$ 3,693,983</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, 2016

			Exhibit 4
			Total Governmental Funds
	General Fund	Other Governmental Funds	
Revenues:			
General property taxes	\$ 2,021,113	\$ -	\$ 2,021,113
Other local taxes	4,620,938	-	4,620,938
Permits, privilege fees, and regulatory licenses	3,053	-	3,053
Fines and forfeitures	43,383	-	43,383
Interest and investment revenue	57,328	27,495	84,823
Charges for service	28,233	-	28,233
Miscellaneous	232,899	2,260	235,159
Recovered costs	648,142	-	648,142
Sale of cemetery lots	-	26,000	26,000
Intergovernmental	2,861,097	220,925	3,082,022
Total revenues	<u>10,516,186</u>	<u>276,680</u>	<u>10,792,866</u>
Expenditures:			
Current:			
General government administration	652,599	138,210	790,809
Public safety	3,161,509	220,925	3,382,434
Public works	4,592,895	-	4,592,895
Parks, recreation, and cultural	412,593	-	412,593
Community development	608,855	-	608,855
Nondepartmental	247,961	-	247,961
Capital projects	-	63,803	63,803
Landfill closure	78,713	-	78,713
Debt service:			
Principal retirement	1,188,011	-	1,188,011
Interest and fiscal charges	244,170	-	244,170
Total expenditures	<u>11,187,306</u>	<u>422,938</u>	<u>11,610,244</u>
(Deficiency) of revenues (under) expenditures	<u>(671,120)</u>	<u>(146,258)</u>	<u>(817,378)</u>
Other financing sources (uses):			
General obligation bond issued	2,500,000	-	2,500,000
Operating transfers in (out)	<u>(134,602)</u>	<u>134,602</u>	<u>-</u>
Total other financing sources and uses	<u>2,365,398</u>	<u>134,602</u>	<u>2,500,000</u>
Net change in fund balances	1,694,278	(11,656)	1,682,622
Fund balance at beginning of year	<u>4,847,971</u>	<u>912,025</u>	<u>5,759,996</u>
Fund balance at end of year	<u>\$ 6,542,249</u>	<u>\$ 900,369</u>	<u>\$ 7,442,618</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, 2016

Exhibit 5

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

Net change in fund balances - total governmental funds	\$ 1,682,622
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.	1,503,253
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	14,271
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which proceeds exceeded repayments.	(1,780,643)
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.	(20,521)
Governmental funds report pension contributions as expenditures. However in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.	<u>143,972</u>
Change in net position of governmental activities	<u><u>\$ 1,542,954</u></u>

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

TOWN OF SOUTH BOSTON, VIRGINIA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2016

Exhibit 6

ASSETS	<u>Agency Fund</u>
Cash and cash equivalents	\$ 38,481
Land and buildings	2,526,580
Accounts receivable	<u>29,000</u>
Total assets	<u>2,594,061</u>
LIABILITIES	
Accounts payable	2,000
Due to other governmental units	1,342,815
Note payable	<u>1,249,246</u>
Total liabilities	<u>2,594,061</u>
NET POSITION	<u>\$ -</u>

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

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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 \$39,400 in the Governmental Activities at June 30, 2016.

4. Inventories:

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

5. Capital Assets:

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

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

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

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

6. Revenues:

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

7. Expenditures:

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

8. Compensated Absences:

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

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

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

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

10. Pensions

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

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

11. Net Position:

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

12. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has one item that qualifies for reporting in this category. It is comprised of contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date, which will be recognized as a reduction of the net pension liability next fiscal year. For more detailed information on these items, reference the pension note.

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

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, and the State Treasurer's Local Government Investment Pool (LGIP).

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

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

	<u>Category 2</u>	<u>Carrying Amount</u>	<u>Market Value</u>
*45 Shares of Common Stock –			
U.S. Steel Corporation	\$ 2,019	\$ 2,019	\$ 820
Alliance U.S. Bond Fund	<u>226,406</u>	<u>226,406</u>	<u>199,547</u>
Total Investments	<u>\$228,425</u>	<u>\$228,425</u>	<u>\$200,367</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, 2016:

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Activities</u>
County of Halifax:			
Contribution reimbursement	\$ 588,892	\$ -	\$ 588,892
Halifax County Service Authority	3,251,729	-	3,251,729
Local sales taxes	33,487	-	33,487
Communications tax	<u>123,598</u>	<u>-</u>	<u>123,598</u>
 Total	 <u>\$3,997,706</u>	 <u>\$ -</u>	 <u>\$3,997,706</u>

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balance <u>7/1/15</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>6/30/16</u>
Governmental activities:				
Capital assets, being depreciated:				
Land, buildings, and improvements	\$ 9,933,058	\$ 1,904,317	\$ -	\$ 11,837,375
Equipment	<u>5,561,825</u>	<u>234,485</u>	<u>-</u>	<u>5,796,310</u>
Total capital assets being depreciated	<u>15,494,883</u>	<u>2,138,802</u>	<u>-</u>	<u>17,633,685</u>
Less accumulated depreciation for:				
Buildings and improvements	2,480,114	304,803	-	2,784,917
Equipment	<u>4,569,064</u>	<u>330,747</u>	<u>-</u>	<u>4,899,811</u>
Total accumulated depreciation	<u>7,049,178</u>	<u>635,550</u>	<u>-</u>	<u>7,684,728</u>
Governmental activities capital assets, net	<u>\$ 8,445,705</u>	<u>\$ 1,503,252</u>	<u>\$ -</u>	<u>\$ 9,948,957</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	158,114
Public works	261,362
Parks, recreation, and cultural	11,577
Community development	162,831
Landfill closure	14,854
Cemetery	<u>14,368</u>
Total depreciation expense-governmental activities	<u>\$ 635,550</u>

Note 6. Long-Term Debt

Governmental activities:

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

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. A portion of this bond was defeased with an advanced refunding of General Obligation Bonds, Series 2015A, as described below. Interest is payable at 4.20 percent to 4.30 percent. Installments of principal are due annually on August 1, through August 1, 2016. Installments of interest are due on each August 1 and February 1, through August 1, 2016. 71.02 percent is allocable to the General Fund, and 28.98 percent is allocable to the former Water and Sewer Fund, which will be reimbursed by the Halifax County Service Authority.

Year Ending June 30,	Principal	Interest	Governmental Activities 71.02 Percent General Fund		Business-type Activities 28.98 Percent Water and Sewer Fund	
			Principal	Interest	Principal	Interest
2017	<u>\$ 240,000</u>	<u>\$ 151,906</u>	<u>\$ 170,429</u>	<u>\$ 107,878</u>	<u>\$ 69,571</u>	<u>\$ 44,028</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. A portion of this bond was defeased with an advanced refunding of General Obligation Bonds, Series 2015A, as described below. Interest is payable at 3.80 percent to 4.74 percent. Installments of principal are due annually on October 1, through October 1, 2016. Installments of interest are due on each October 1 and April 1, through October 1, 2016. This bond will be reimbursed by the Halifax County Service Authority.

<u>Year Ending</u> <u>June 30,</u>	<u>Water and Sewer Fund</u> <u>Revenue Bonds</u> <u>Public Improvement Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	<u>\$ 370,000</u>	<u>\$ 66,256</u>	<u>\$ 436,256</u>

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</u> <u>June 30,</u>	<u>General Obligation</u> <u>Public Improvement and</u> <u>Refunding Bond</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 60,467	\$ 79,100	\$ 139,567
2018	65,467	77,284	142,751
2019	65,467	74,791	140,258
2020	65,467	72,272	137,739
2021	70,467	69,475	139,942
2022-2026	397,335	306,403	703,738
2027-2031	482,335	220,500	702,835
2032-2036	587,335	112,087	699,422
2037-2038	<u>265,923</u>	<u>10,725</u>	<u>276,648</u>
Total	<u>\$2,060,263</u>	<u>\$ 1,022,637</u>	<u>\$3,082,900</u>

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Debt (Continued)

Advance Refunding

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

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

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

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

Annual debt service requirements to maturity are as follows:

Year Ending June 30,			Governmental <u>Activities</u> General Fund 71.02 Percent		Business-type <u>Activities</u> HCSA 28.98 Percent	
	<u>Principal</u>	<u>Interest</u>	<u>Landfill Closure Fund</u> <u>Principal</u>	<u>Interest</u>	<u>Water and Sewer Fund</u> <u>Principal</u>	<u>Interest</u>
2017	\$ 48,000	\$ 72,644	\$ 34,090	\$ 51,592	\$ 13,910	\$ 21,052
2018	296,000	70,224	210,219	49,873	85,781	20,351
2019	330,000	63,525	234,366	45,115	95,634	18,410
2020	340,000	56,221	241,468	39,928	98,532	16,293
2021	345,000	48,708	245,019	34,592	99,981	14,116
2022	422,000	40,689	299,704	28,897	122,296	11,792
2023	433,000	31,350	307,517	22,265	125,483	9,085
2024	441,000	21,780	313,198	15,468	127,802	6,312
2025	453,000	10,065	321,721	7,148	131,279	2,917
2026	101,000	3,982	71,730	2,828	29,270	1,154
2027	105,000	1,155	74,436	822	30,564	333
	<u>\$ 3,314,000</u>	<u>\$ 420,343</u>	<u>\$2,353,468</u>	<u>\$ 298,528</u>	<u>\$ 960,532</u>	<u>\$ 121,815</u>

On March 13, 2015, the Town issued \$424,000 of General Obligation Refunding Bond, Series 2015B, with an interest rate of 1.50 percent.

The net proceeds (after issuance costs of \$8,425) were used to advance refund the General Obligation Bonds – Series 2001.

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt services

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Debt (Continued)

payments on the refunded bond. As a result, the refundable bonds are considered to be defeased, and the related liability for the bonds has been removed from the Town's liabilities.

Installments of principal and interest are due on each August 1 and February 1, through August 1, 2020.

Annual debt service requirements to maturity are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>
2017	\$ 71,000	\$ 5,055
2018	68,000	4,005
2019	71,000	2,978
2020	74,000	1,898
2021	71,000	533
	<u>\$ 355,000</u>	<u>\$ 14,469</u>

On March 13, 2015, the Town issued \$1,842,000 of General Obligation Refunding Bond, Series 2015C, with an interest rate of 2.20 percent.

The net proceeds (after issuance costs of \$36,978) were used to advance refund a portion of the General Obligation Refunding Bond – Series 2006C and to advance refund the General Obligation Refunding Bond – Series 2008.

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

Annual debt service requirements to maturity are as follows:

Year Ending June 30,	Governmental <u>Activities</u> General Fund 28.74 Percent		Business-type <u>Activities</u> HCSA 71.26 Percent	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 204,000	\$ 35,719	\$ 58,630	\$ 10,266
2018	587,000	27,979	168,704	8,041
2019	418,000	16,729	120,133	4,808
2020	430,000	4,838	123,563	1,390
	<u>\$ 1,639,000</u>	<u>\$ 85,265</u>	<u>\$ 471,030</u>	<u>\$ 24,505</u>

<u>Water and Sewer Fund</u>	
<u>Principal</u>	<u>Interest</u>
\$ 145,370	\$ 25,453
418,296	19,938
297,867	11,921
306,437	3,448
<u>\$1,167,970</u>	<u>\$ 60,760</u>

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Debt (Continued)

The total of all advance refundings was done in order to reduce the amount of debt payments and resulted in an economic gain of \$408,159.

Installments of principal and interest are due on each August 1 and February 1, through August 1, 2019. 28.74 percent is allocable to the General Fund and 71.26 percent is allocable to the former Water and Sewer Fund, which will be reimbursed by the Halifax County Service Authority.

General Obligation Bond 2016 – Revenue Sharing

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

Annual debt services requirements to maturity are as follows:

Year Ending

June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 250,000	\$ 52,500	\$ 302,500
2018	250,000	47,250	297,250
2019	250,000	42,000	292,000
2020	250,000	36,750	286,750
2021	250,000	31,500	281,500
2022	250,000	26,250	276,250
2023	250,000	21,000	271,000
2024	250,000	15,750	265,750
2025	250,000	10,500	260,500
2026	250,000	5,250	255,250
	<u>\$ 2,500,000</u>	<u>\$ 288,750</u>	<u>\$ 2,788,750</u>

Notes Payable

On November 26, 2014, the Town of South Boston borrowed funds in the amount of \$355,000, for the purpose of purchasing police vehicles. Interest is payable at 1.50 percent. Installments of combined principal and interest are due monthly.

Annual debt service requirements to maturity are as follows:

Year Ending

June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 88,848	\$ 2,646	\$ 91,494
2018	90,189	1,303	91,492
2019	37,981	143	38,124
	<u>\$ 217,018</u>	<u>\$ 4,092</u>	<u>\$ 221,110</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, 2016:

	Payable at <u>7/1/15</u>	Plus <u>Additions</u>	Less <u>Retirements</u>	Payable at <u>6/30/16</u>	Due within <u>One year</u>
Governmental activities:					
Bonds and notes payable:					
Bonds-Public Improvement					
07/13/06 Refunding issue	\$ 333,775	\$ -	\$ 163,346	\$ 170,429	\$ 170,429
General obligation bonds:					
07/13/06	136,225	-	66,654	69,571	69,571
12/01/06	725,000	-	355,000	370,000	370,000
06/05/13	2,120,730	-	60,467	2,060,263	60,467
03/13/15	3,370,000	-	56,000	3,314,000	48,000
03/13/15	424,000	-	69,000	355,000	71,000
03/13/15	1,842,000	-	203,000	1,639,000	204,000
10/01/15	-	2,500,000	-	2,500,000	250,000
Notes payable:					
09/06/11	137,484	-	137,484	-	-
11/26/14	<u>304,545</u>	<u>-</u>	<u>87,527</u>	<u>217,018</u>	<u>88,848</u>
 Total bonds and notes payable	 <u>9,393,759</u>	 <u>2,500,000</u>	 <u>1,198,478</u>	 <u>10,695,281</u>	 <u>1,332,315</u>
Other liabilities:					
Compensated absences	384,333	26,226	29,213	381,346	30,508
Landfill post-closure care	<u>1,643,802</u>	<u>23,881</u>	<u>-</u>	<u>1,667,683</u>	<u>-</u>
Total other liabilities	<u>2,028,135</u>	<u>50,107</u>	<u>29,213</u>	<u>2,049,029</u>	<u>30,508</u>
Governmental activities long-term liabilities	<u>\$ 11,421,894</u>	<u>\$ 2,550,107</u>	<u>\$ 1,227,691</u>	<u>\$ 12,744,310</u>	<u>\$ 1,362,823</u>

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 7. Fund Balances – Governmental Funds

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

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

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

Note 8. Defined Benefit Pension Plan

A. Plan Description

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

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined Benefit Pension Plan (Continued)

A. Plan Description (Continued)

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

RETIREMENT PLAN PROVISIONS		
VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>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.</p>	<p>About VRS Plan 2 VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p>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”)</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 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, 2010, 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 Eligible VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1, through April 30, 2014.</p>	<p>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"> • Political subdivision employees* • Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined Benefit Pension Plan (continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.</p>	<p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.</p>	<p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • 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 Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.</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 contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined Benefit Pension Plan (continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>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 VRS The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier</p> <p>Sheriffs and regional jail superintendents The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p>	<p>Service Retirement Multiplier VRS Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p> <p>Sheriffs and regional jail superintendents Same as VRS Plan 1.</p>	<p>Service Retirement Multiplier VRS <u>Defined Benefit Component</u> The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p>Sheriffs and regional jail superintendents Not applicable.</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
Political subdivision hazardous duty employees The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	Political subdivision hazardous duty employees Same as VRS Plan 1.	Political subdivision hazardous duty employees Not applicable. <u>Defined Contribution Component</u> Not applicable.
Normal Retirement Age VRS Age 65. Political subdivisions hazardous duty employees Age 60	Normal Retirement Age VRS Normal Social Security retirement age. Political subdivisions hazardous duty employees Same as VRS Plan 1.	Normal Retirement Age VRS <u>Defined Benefit Component:</u> Same as VRS Plan 2. Political subdivisions hazardous duty employees Not applicable. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility VRS Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Political subdivisions hazardous duty employees Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	Earliest Unreduced Retirement Eligibility VRS Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. Political subdivisions hazardous duty employees Same as VRS Plan 1.	Earliest Unreduced Retirement Eligibility VRS <u>Defined Benefit Component:</u> Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. Political subdivisions hazardous duty employees Not applicable. <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>Earliest Reduced Retirement Eligibility VRS Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p>Political subdivisions hazardous duty employees 50 with at least five years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees Same as VRS Plan 1.</p>	<p>Earliest Reduced Retirement Eligibility VRS Defined Benefit Component: Age members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<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>Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</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>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>Eligibility: Same as VRS Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement Defined Benefit Component: Same as VRS Plan 2.</p> <p>Defined Contribution Component: Not applicable.</p> <p>Eligibility: Same as VRS Plan 1 and VRS Plan 2.</p>

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined Benefit Pension Plan (continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p><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 causes other than job performance or misconduct and is eligible to retire under the Work force Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 	<p><u>Exceptions to COLA Effective Dates:</u> Same as VRS Plan 1.</p>	<p><u>Exceptions to COLA Effective Dates:</u> Same as VRS Plan 1 and VRS Plan 2.</p>
<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>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>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage Employees of political subdivisions (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined Benefit Pension Plan (continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
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 Defined Benefit Component: Same as VRS Plan 1, with the following exceptions: <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. Defined Contribution Component Not applicable.

Employees Covered by Benefit Terms

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

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>69</u>
Inactive members:	
Vested inactive members	15
Non-vested inactive members	17
Inactive members active elsewhere in VRS	<u>43</u>
Total inactive members	<u>75</u>
Active members	<u>77</u>
Total covered employees	<u><u>221</u></u>

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined Benefit Pension Plan (Continued)

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00 percent of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00 percent member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00 percent member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00 percent 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.

The political subdivision's contractually required contribution rate for the year ended June 30, 2016 was 17.09 percent of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$509,374 and \$520,904 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension Liability

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

Actuarial Assumptions – General Employees

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

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

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined Benefit Pension Plan (Continued)

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

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest 10 – Non-LEOS

Update mortality table

Decrease in rates of service retirement

Decrease in rates of disability retirement

Reduce rates of salary increase by 0.25 percent per year

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

Update mortality table

Decrease in rates of service retirement

Decrease in rates of disability retirement

Reduce rates of salary increase by 0.25 percent per year

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – Public Safety Employees

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

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

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

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

Largest 10 – LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

All Others (Non 10 Largest) – LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – Public Safety Employees (Continued)

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

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – LEOS

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

Long-Term Expected Rate of Return

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

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

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return (Continued)

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

Discount Rate

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

Changes in Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2014	\$ 20,120,260	\$ 16,849,531	\$ 3,270,729
Changes for the year:			
Service cost	380,507	-	380,507
Interest	1,368,308	-	1,368,308
Changes of assumptions	-	-	-
Difference between expected and actual experience	293,119	-	293,119
Contributions - employer	-	509,712	(509,712)
Contributions - employee	-	151,932	(151,932)
Net investment income	-	760,783	(760,783)
Benefit payments, including refunds of employee contributions	(1,146,011)	(1,146,011)	-
Administrative expense	-	(10,718)	10,718
Other changes	-	(159)	159
Net changes	895,923	265,539	630,384
Balances at June 30, 2015	\$ 21,016,183	\$ 17,115,070	\$ 3,901,113

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined Benefit Pension Plan (Continued)

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

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

	<u>(6.00%)</u>	<u>Rate (7.00%)</u>	<u>(8.00%)</u>
Political subdivision's			
Net Pension Liability	\$ 6,509,337	\$ 3,901,113	\$ 1,714,786

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

For the year ended June 30, 2016, the political subdivision recognized pension expense of \$365,402. At June 30, 2016, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 194,426	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	456,485
Employer contributions subsequent to the measurement date	-	-
Total	<u>\$ 194,426</u>	<u>\$ 456,485</u>

\$511,347 reported as deferred outflows of resources related to pensions resulting from the political division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30

2016	\$ (80,225)
2017	(83,185)
2018	(178,919)
2019	80,270
Thereafter	-
	<u>\$ (262,059)</u>

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

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, 2016, 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.

Note 12. Surety Bonds

VML –	
Tom Raab – 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.

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

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 \$1,667,683 reported as landfill post closure care liability at June 30, 2016, 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 2016. 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 \$216,052. 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.

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

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

TOWN OF SOUTH BOSTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 16. Contingencies

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

Note 17. Subsequent Events

Management has evaluated subsequent events through November 30, 2016, 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, 2016

Exhibit 7

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive (Negative)</u>
Revenues:				
General property taxes	\$ 1,967,932	\$ 1,967,932	\$ 2,021,113	\$ 53,181
Other local taxes	4,526,100	4,526,100	4,620,938	94,838
Permits, privilege fees, and regulatory licenses	1,730	1,730	3,053	1,323
Fines and forfeitures	54,050	54,050	43,383	(10,667)
Interest and investment revenue	66,766	66,766	57,328	(9,438)
Charges for service	25,500	25,500	28,233	2,733
Miscellaneous	185,955	185,955	232,899	46,944
Recovered costs	722,282	722,282	648,142	(74,140)
Intergovernmental	<u>3,582,549</u>	<u>3,582,549</u>	<u>2,861,097</u>	<u>(721,452)</u>
Total revenues	<u>11,132,864</u>	<u>11,132,864</u>	<u>10,516,186</u>	<u>(616,678)</u>
Expenditures:				
Current:				
General government administration	757,051	757,051	652,599	104,452
Public safety	3,144,637	3,144,637	3,161,509	(16,872)
Public works	2,927,778	2,927,778	4,592,895	(1,665,117)
Parks, recreation, and cultural	438,405	438,405	412,593	25,812
Community development	320,731	320,731	608,855	(288,124)
Nondepartmental	321,415	321,415	247,961	73,454
Capital projects	4,264,000	4,264,000	-	4,264,000
Landfill closure	89,300	89,300	78,713	10,587
Debt service:				
Principal retirement	1,434,556	1,434,556	1,188,011	246,545
Interest and fiscal charges	<u>294,110</u>	<u>294,110</u>	<u>244,170</u>	<u>49,940</u>
Total expenditures	<u>13,991,983</u>	<u>13,991,983</u>	<u>11,187,306</u>	<u>2,804,677</u>
(Deficiency) of revenues (under) expenditures	<u>(2,859,119)</u>	<u>(2,859,119)</u>	<u>(671,120)</u>	<u>2,187,999</u>
Other financing sources (uses):				
General obligation bond issued	3,014,000	3,014,000	2,500,000	(514,000)
Operating transfers (out)	(154,881)	(154,881)	(134,602)	20,279
Transfer to reserve funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources and uses	<u>2,859,119</u>	<u>2,859,119</u>	<u>2,365,398</u>	<u>(493,721)</u>
Net change in fund balances			1,694,278	
Fund balance at beginning of year			<u>4,847,971</u>	
Fund balance at end of year			<u>\$ 6,542,249</u>	

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

TOWN OF SOUTH BOSTON, VIRGINIA

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

SCHEDULE OF EMPLOYER CONTRIBUTIONS

For the Year Ended June 30, 2016 *

Exhibit 8

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

	2015	2014
Total Pension Liability		
Service costs	\$ 380,507	\$ 406,713
Interest	1,368,308	1,320,647
Changes of benefit terms	-	-
Differences between expected and actual experience	293,119	-
Changes in assumptions	-	-
Benefit payments, including refunds of employee contributions	(1,146,011)	(946,978)
Net change in total pension liability	895,923	780,382
Total pension liability - beginning	20,120,260	19,339,878
Total pension liability - ending (a)	<u>\$ 21,016,183</u>	<u>\$ 20,120,260</u>
Plan fiduciary net position		
Contributions - employer	\$ 509,712	\$ 505,682
Contributions - employee	151,932	153,057
Net investment income	760,783	2,323,304
Benefit payments, including refunds of employee contributions	(1,146,011)	(946,978)
Administrative expenses	(10,718)	(12,652)
Other expenses	(159)	123
Net change in plan fiduciary net position	265,539	2,022,536
Plan fiduciary net position - beginning	16,849,531	14,826,995
Plan fiduciary net position - ending (b)	<u>\$ 17,115,070</u>	<u>\$ 16,849,531</u>
Political subdivision's net pension liability - ending (a) - (b)	<u>\$ 3,901,113</u>	<u>\$ 3,270,729</u>
Plan fiduciary net position as a percentage of the total pension liability	81.43%	83.74%
Covered-employee payroll	\$ 2,982,516	\$ 2,958,935
Political subdivision's net pension liability as a percentage of covered-employee payroll	130.80%	110.54%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

	Contributions in			Contribution	
	Contractually	Relation to	Employer's	as a % of	
	Required	Contractually	Covered	Covered	
	Contributions	Required	Employees	Employees	
Date		Contributions	Payroll	Payroll	
2015	\$ 509,712	\$ 509,712	\$ -	\$ 2,982,516	17.09%
2016	\$ 509,374	\$ 509,374	\$ -	\$ 2,980,538	17.09%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

TOWN OF SOUTH BOSTON, VIRGINIA

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

For the Year Ended June 30, 2016 *

Exhibit 8

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

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

Largest 10 – Non-LEOS:

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

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All others (Non 10 Largest) – LEOS:

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

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

OTHER SUPPLEMENTARY INFORMATION

TOWN OF SOUTH BOSTON, VIRGINIA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2016

Exhibit 9

		<u>Permanent Fund</u>	
	Virginia Alcohol Safety Action <u>Program Fund</u>	Perpetual <u>Care</u>	Total Nonmajor Governmental <u>Funds</u>
ASSETS			
Cash	\$ -	\$ 700,000	\$ 700,000
Investments	<u>-</u>	<u>200,369</u>	<u>200,369</u>
Total assets	<u>\$ -</u>	<u>\$ 900,369</u>	<u>\$ 900,369</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>900,369</u>	<u>900,369</u>
Total fund balances	<u>-</u>	<u>900,369</u>	<u>900,369</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 900,369</u>	<u>\$ 900,369</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, 2016

Exhibit 10

	<u>Special Revenue</u>	<u>Permanent Fund</u>	
	<u>Virginia Alcohol Safety Action Program Fund</u>	<u>Perpetual Care</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues:			
Interest and investment revenue	\$ -	\$ 27,495	\$ 27,495
Miscellaneous	-	2,260	2,260
Sale of cemetery lots	-	26,000	26,000
Intergovernmental	<u>220,925</u>	<u>-</u>	<u>220,925</u>
Total revenues	<u>220,925</u>	<u>55,755</u>	<u>276,680</u>
Expenditures:			
Current:			
General government administration	-	138,210	138,210
Public safety	220,925	-	220,925
Capital projects	<u>-</u>	<u>63,803</u>	<u>63,803</u>
Total expenditures	<u>220,925</u>	<u>202,013</u>	<u>422,938</u>
(Deficiency) of revenues (under) expenditures	<u>-</u>	<u>(146,258)</u>	<u>(146,258)</u>
Other financing sources:			
Operating transfers in	<u>-</u>	<u>134,602</u>	<u>134,602</u>
Total other financing sources	<u>-</u>	<u>134,602</u>	<u>134,602</u>
Net change in fund balances	-	(11,656)	(11,656)
Fund balance at beginning of year	<u>-</u>	<u>912,025</u>	<u>912,025</u>
Fund balance at end of year	<u>\$ -</u>	<u>\$ 900,369</u>	<u>\$ 900,369</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>
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
2014-15	715,156	3,347,745	2,766,141	395,227	648,036	340,682	-	36,406	1,408,461	9,657,854
2015-16	652,599	3,161,509	4,592,895	412,593	608,855	247,961	-	78,713	1,432,181	11,187,306

TOWN OF SOUTH BOSTON, VIRGINIA

GENERAL GOVERNMENTAL REVENUES BY SOURCE
LAST TEN FISCAL YEARS

Schedule 2

Fiscal <u>Year</u>	General Property <u>Taxes</u>	Other Local <u>Taxes</u>	Permits, Privilege Fees, and Regulatory <u>Licenses</u>	Fines and Forfeitures	Revenues From Use of Money and <u>Property</u>	Charges for <u>Service</u>	<u>Miscellaneous</u>	Recovered <u>Costs</u>	Inter- Governmental	<u>Total</u>
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
2014-15	1,887,029	4,187,449	2,753	52,745	74,504	34,197	233,051	669,109	2,632,025	9,772,862
2015-16	2,021,113	4,620,938	3,053	43,383	57,328	28,233	232,899	648,142	2,861,097	10,516,186

TOWN OF SOUTH BOSTON, VIRGINIA

PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

Schedule 3

Fiscal <u>Year</u>	Total Tax (1) <u>Levy</u>	Current Tax (1) <u>Collections</u>	Percent of Levy <u>Collected</u>	Delinquent (1) Tax (2) <u>Collections (3)</u>	Total Tax <u>Collections</u>	Percent of Total Tax Collections To Tax <u>Levy</u>	Outstanding Delinquent <u>Taxes</u>	Percent of Delinquent Taxes to Tax Levy <u>Tax Levy</u>
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
2014-15	1,541,738	1,436,962	93.20	74,637	1,511,599	98.04	244,978	15.89
2015-16	1,595,643	1,506,206	94.39	69,911	1,576,117	98.78	242,420	15.19

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	
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
2014-15	472,887,360	43,642,900	592,700	1,924,000	22,812,967	765,306	542,625,233
2015-16	477,851,516	43,981,900	669,200	1,964,700	24,837,772	591,098	549,896,186

PROPERTY TAX RATES
 LAST TEN FISCAL YEARS

Fiscal Year	Real Estate	Personal Property	Mobile Homes	Machinery and Tools	Public Utility	
					Real Estate	Personal Property
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
2014-15	0.19	2.00	0.19	0.31	0.19	2.00
2015-16	0.21	2.00	0.21	0.31	0.21	2.00

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

TOWN OF SOUTH BOSTON, VIRGINIA

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

Schedule 5

<u>Fiscal</u> <u>Year</u>	<u>Population (1)</u>	Assessed Value of All Taxable Property <u>(In Thousands)</u>	Gross Bonded <u>Debt (2)</u>	<u>Less:</u> Debt Payable From Enterprise <u>Revenues</u>	Net Bonded <u>Debt</u>	Ratio of Net Bonded Debt to Assessed <u>Value</u>	Net Bonded Debt per <u>Capita</u>
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	(10,695,281)	10,688,173	.017:1	1,312
2013-14	8,142	548,347	9,657,446	-	9,657,446	.019:1	1,186
2014-15	8,142	542,625	9,393,759	-	9,393,759	.017:1	1,153
2015-16	8,142	549,896	10,695,281	-	10,695,281	.017:1	1,153

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, 2016

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, 2015)		<u>\$ 549,896,186</u>
Legal debt limit (10% of assessed value)		\$ 54,989,619
Gross debt issued and outstanding	10,695,281	
Less deduction for self-supporting revenue bonds	<u>-</u>	
Total net debt chargeable to current debt limit		<u>10,695,281</u>
Current debt-incurring capacity		<u>\$ 44,294,338</u>

TOWN OF SOUTH BOSTON, VIRGINIA

STATEMENT OF THE TREASURER'S ACCOUNTABILITY

June 30, 2016

Schedule 7

Assets held by the Treasurer:

Cash in banks:

Checking:

SunTrust Bank	\$ 1,104,050
Benchmark Community Bank	4,046,673
Carter Bank and Trust	257,126

Investments:

Common stock – 45 shares of U. S. Steel Corporation	820
Alliance U. S. Bond Fund	<u>199,547</u>

Total assets	<u>\$ 5,608,216</u>
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Liabilities of the Treasurer:

Balance of Town Funds	<u>\$ 5,608,216</u>
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Total liabilities	<u>\$ 5,608,216</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, 2016

Schedule 8

	Balance <u>July 01, 2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2016</u>
ASSETS				
Cash	\$ 47,056	\$ 195,087	\$ 203,662	\$ 38,481
Land and buildings (net of accumulated depreciation)	2,584,640	-	58,060	2,526,580
Accounts receivable	<u>31,900</u>	<u>-</u>	<u>2,900</u>	<u>29,000</u>
Total assets	<u>\$ 2,663,596</u>	<u>\$ 195,087</u>	<u>\$ 264,622</u>	<u>\$ 2,594,061</u>
LIABILITIES				
Accounts payable	\$ 2,000	\$ -	\$ -	\$ 2,000
Due to other governmental units	1,297,033	45,782	-	1,342,815
Note payable	<u>1,364,563</u>	<u>-</u>	<u>115,317</u>	<u>1,249,246</u>
Total liabilities	<u>\$ 2,663,596</u>	<u>\$ 45,782</u>	<u>\$ 115,317</u>	<u>\$ 2,594,061</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, 2016, 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 30, 2016.

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 30, 2016