# TOWN OF SOUTH BOSTON, VIRGINIA

# ANNUAL FINANCIAL REPORT

# FISCAL YEAR ENDED JUNE 30, 2018

TOWN OF SOUTH BOSTON, VIRGINIA

COUNCIL MEMBERS AND OFFICERS

MEMBERS OF COUNCIL

| | |
|---|---|
| W.R. Snead | Edward Owens |
| Robert B. Hughes | Coleman Speece |
| Tina Wyatt-Younger | Billy L. Clarke |
| Winston Harrell | |

OFFICERS

| | |
|---|---|
| Edward Owens | Mayor |
| Tom Raab | Town Manager |
| Mickey Wilkerson | Deputy Finance Director |
| James Binner | Police Chief |
| Alan R. Auld | Director of Public Works |
| Steve Phillips | Fire Chief |
| Jane P. Jones | Clerk of Council |

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# FINANCIAL SECTION

HHN&Co.

Harris, Harvey, Neal & Co., LLP
Certified Public Accountants

# 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, 2018, 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.

2309 Riverside Drive • P.O. Box 3424 • Danville, VA 24543 • 434/792-3220 • Fax 434/792-8604

## 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, 2018, 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.

## Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2018 the Town adopted new accounting guidance, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions* and GASB No. 75, *Accounting for Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

## Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, and schedules related to pension, group life insurance and line of duty act on pages 4-8 and 67-75 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 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 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 fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The other statistical information 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, 2018, 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, 2018

**TOWN OF SOUTH BOSTON, VIRGINIA**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**FOR THE YEAR ENDED JUNE 30, 2018**

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, 2018. 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.

- **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 27.7 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 | |
|---|---|---|
| | 2018 | 2017 |
| Current and other assets | $ 14,090,411 | $ 10,784,345 |
| Capital assets | 12,882,302 | 11,883,724 |
| Total assets | $ 26,972,713 | $ 22,668,069 |
| Long-term debt outstanding | $ 13,933,158 | $ 11,247,039 |
| Other liabilities | 5,438,534 | 5,466,583 |
| Total liabilities | $ 19,371,692 | $ 16,713,622 |
| Net position: | | |
| Invested in capital assets, net of debt | $ 4,984,972 | $ 3,234,697 |
| Restricted | 1,775,883 | 1,535,883 |
| Unrestricted | 840,166 | 1,183,867 |
| Total net position | $ 7,601,021 | $ 5,954,447 |

Table 2
Changes in Net Position

| | Governmental Activities 2018 | Governmental Activities 2017 |
|---|---|---|
| Revenues | | |
| Program revenues: | | |
| Charges for services | $ 259,161 | $ 324,251 |
| Grants and contributions | 3,811,922 | 4,459,563 |
| General revenues: | | |
| Property taxes | 1,733,085 | 1,696,827 |
| Other taxes | 4,866,054 | 4,662,392 |
| Sale of cemetery lots | 31,000 | 42,750 |
| Investment earnings | 104,118 | 114,969 |
| Total revenues | 10,805,340 | 11,300,752 |
| Program expenses: | | |
| General government | 763,156 | 844,460 |
| Public safety | 3,252,695 | 3,718,819 |
| Public works | 3,065,184 | 3,201,179 |
| Parks, recreation, and cultural | 366,618 | 338,875 |
| Community development | 579,145 | 561,118 |
| Nondepartmental | 83,179 | 93,455 |
| Landfill closure | 72,405 | 100,121 |
| Interest on long-term debt | 153,612 | 182,261 |
| Total expenses | 8,335,994 | 9,040,288 |
| Adjustment of estimated accumulated post-closure costs | (36,772) | - |
| Increase in net position | $ 2,432,574 | $ 2,260,464 |

**Governmental Activities**

Revenues for the Town's governmental activities decreased 4.38 percent, while expenses decreased 7.8 percent. The revenue decrease is due to decreased funding relating to the revenue sharing received from the Virginia Department of Transportation. Expenses decreased due to purchase of new fire truck in the prior year.

## THE TOWN'S FUNDS

As the Town completed the year, its governmental funds reported a fund balance of $11,197,975, which is 52.1 percent higher than last year. The primary reason for the increase was due to the principal received on the general obligation bonds issued during the year relating to the renovation of the Tultex building.

## GENERAL FUND BUDGETARY HIGHLIGHTS

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

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

Actual disbursements were $468,879 higher than budgeted amounts. A majority of the difference is due to storm water projects that were budgeted for in prior year but not started until fiscal year 2017 and additional principal was paid on debt that was not budgeted. Actual revenues were $775,204 higher than budgeted amounts due to revenue sharing projects that were budgeted to begin during fiscal year ending 06/30/17 but will not begin until fiscal year ending 06/30/18.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The Town's investment in capital assets for its governmental activities as of June 30, 2018, amounts to $12,882,302 (net of accumulated depreciation). This investment in capital assets includes police and fire equipment, buildings, park facilities, and improvements. This amount represents a net increase (including additions and deductions) of $998,578, or 8.4 percent, above last year.

| | Governmental Activities | |
|---|---|---|
| | 2018 | 2017 |
| Land, building, and improvements | $ 11,105,315 | $ 10,208,917 |
| Machinery, equipment, and vehicles | 1,776,987 | 1,674,807 |
| Totals | $ 12,882,302 | $ 11,883,724 |

This year's major additions included:

| | |
|---|---|
| Storm water projects, paid for with grant revenue | $ 868,164 |
| Street sweeper, paid for with general revenue | 234,416 |

### Debt

At year-end, the Town had $11,840,512 in bonds and notes outstanding compared to $9,182,966 last year - an increase of 28.9 percent as shown in the following table.

| | Governmental Activities | |
|---|---|---|
| | 2018 | 2017 |
| General obligation bonds | $ 11,840,512 | $ 9,054,796 |
| Notes payable | - | 128,170 |
| Totals | $ 11,840,512 | $ 9,182,966 |

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 2019 fiscal year.

General Fund tax rates will remain the same for the 2019 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, 2018

Exhibit 1

| ASSETS | Governmental Activities |
|---|---|
| Cash | $ 5,288,145 |
| Investments | 207,630 |
| Receivables (net of allowances for uncollectibles): | |
| Taxes, including penalties | 205,066 |
| Accounts | 82,515 |
| Notes | 4,864,182 |
| Due from other governmental units | 2,826,788 |
| Inventories, at cost | 86,138 |
| Fixed assets (net of accumulated depreciation) | 12,882,302 |
| Deferred outflows of resources-VRS | 529,947 |
| Total assets | 26,972,713 |
| LIABILITIES | |
| Excess of checks written over funds available | 605,943 |
| Accrued interest payable | 57,367 |
| Accounts payable | 64,379 |
| Long-term obligations: | |
| Due within one year | 1,092,106 |
| Due beyond one year | 12,841,052 |
| Net pension liability | 3,243,505 |
| Net group life insurance liability | 249,000 |
| Net line of duty act liability | 511,000 |
| Deferred inflows of resources-VRS | 707,340 |
| Total liabilities | 19,371,692 |
| NET POSITION | |
| Net investment in capital assets | 4,984,972 |
| Restricted for: | |
| VRS | |
| Perpetual care: | |
| Expendable | 268,971 |
| Nonexpendable | 806,912 |
| Other purposes: | 700,000 |
| Unrestricted | 840,166 |
| Total net position | $ 7,601,021 |

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, 2018

Exhibit 2

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net Revenue (Expense) and Changes in Net Position: Primary Government: Governmental Activities |
|---|---|---|---|---|---|
| Primary government: | | | | | |
| Governmental activities: | | | | | |
| General government | $ 763,156 | $ 197,754 | $ 295,732 | $ - | $ (269,670) |
| Public safety | 3,252,695 | 42,106 | 637,671 | - | (2,572,918) |
| Public works | 3,065,184 | 10,546 | 2,745,358 | - | (309,280) |
| Parks, recreation, and cultural | 366,618 | 8,755 | - | - | (357,863) |
| Community development | 579,145 | - | - | - | (579,145) |
| Nondepartmental | 83,179 | - | - | - | (83,179) |
| Landfill closure | 72,405 | - | 133,161 | - | 60,756 |
| Interest on long-term debt | 153,612 | - | - | - | (153,612) |
| Total governmental activities | $ 8,335,994 | $ 259,161 | $ 3,811,922 | $ - | $ (4,264,911) |

| | |
|---|---|
| General Revenues: | |
| Property taxes | $ 1,733,085 |
| Other taxes and revenues | 4,866,054 |
| Sale of cemetery lots | 31,000 |
| Unrestricted investment earnings | 104,118 |
| Total general revenues | 6,734,257 |
| Change in net position | 2,469,346 |
| Net position - beginning, as restated | 5,168,447 |
| Adjustment of estimated accumulated post-closure costs | (36,772) |
| Net position - ending | $ 7,601,021 |

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

TOWN OF SOUTH BOSTON, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

Exhibit 3

| ASSETS | General | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| Cash | $ 4,532,845 | $ 755,304 | $ 5,288,149 |
| Investments | - | 207,630 | 207,630 |
| Receivables (net of allowances for uncollectibles): | | | |
| Taxes, including penalties | 205,066 | - | 205,066 |
| Accounts | 82,515 | - | 82,515 |
| Notes | 4,864,182 | - | 4,864,182 |
| Due from other funds | 62,341 | - | 62,341 |
| Due from other governmental units | 1,262,756 | - | 1,262,756 |
| Inventories, at cost | 86,138 | - | 86,138 |
| Total assets | $ 11,095,843 | $ 962,934 | $ 12,058,777 |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Excess of checks written over funds available | $ 606,056 | $ - | $ 606,056 |
| Accounts payable | 64,380 | - | 64,380 |
| Unavailable revenue - property taxes | 190,364 | - | 190,364 |
| Total liabilities | 860,800 | - | 860,800 |
| Fund balances: | | | |
| Nonspendable: | | | |
| Inventories | 86,138 | - | 86,138 |
| Restricted for: | | | |
| Perpetual care | - | 962,934 | 962,934 |
| Landfill closure | 508,829 | - | 508,829 |
| Assigned to: | | | |
| Construction of capital assets | 700,000 | - | 700,000 |
| Unassigned: | | | |
| Undesignated | 8,940,076 | - | 8,940,076 |
| Total fund balances | 10,235,043 | 962,934 | 11,197,977 |
| Total liabilities and fund balances | $ 11,095,843 | $ 962,934 | |

| | |
|---|---|
| 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. | 12,882,301 |
| Other long-term liabilities are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds. | 190,364 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds. | (12,488,721) |
| Some liabilities, including net pension, group life insurance and line of duty obligations, are not due and payable in the current period and, therefore, are not reported in the funds. | (4,003,505) |
| Deferred outflows and inflows or resources related to pensions, group life insurance, and line of duty act are applicable to future periods and, therefore, are not reported in the funds | (177,393) |
| Net position of governmental activities | $ 7,601,023 |

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, 2018

Exhibit 4

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| Revenues: | | | |
| General property taxes | $ 2,030,043 | $ - | $ 2,030,043 |
| Other local taxes | 4,830,451 | - | 4,830,451 |
| Permits, privilege fees, and regulatory licenses | 4,155 | - | 4,155 |
| Fines and forfeitures | 42,106 | - | 42,106 |
| Interest and investment revenue | 85,758 | 37,389 | 123,147 |
| Charges for service | 19,301 | - | 19,301 |
| Miscellaneous | 289,497 | 510 | 290,007 |
| Recovered costs | 659,267 | - | 659,267 |
| Sale of cemetery lots | - | 31,000 | 31,000 |
| Intergovernmental | 3,119,258 | 216,174 | 3,335,432 |
| Total revenues | 11,079,836 | 285,073 | 11,364,909 |
| Expenditures: | | | |
| Current: | | | |
| General government administration | 751,454 | 170,452 | 921,906 |
| Public safety | 3,534,955 | 216,174 | 3,751,129 |
| Public works | 4,187,742 | - | 4,187,742 |
| Parks, recreation, and cultural | 523,188 | - | 523,188 |
| Community development | 334,685 | - | 334,685 |
| Nondepartmental | 177,514 | - | 177,514 |
| Capital projects | 16,227 | - | 16,227 |
| Landfill closure | 60,955 | - | 60,955 |
| Debt service: | | | |
| Principal retirement | 1,275,170 | - | 1,275,170 |
| Interest and fiscal charges | 221,051 | - | 221,051 |
| Total expenditures | 11,082,941 | 386,626 | 11,469,567 |
| (Deficiency) of revenues (under) expenditures | (3,105) | (101,553) | (104,658) |
| Other financing sources (uses): | | | |
| General obligation bond issued | 3,943,182 | - | 3,943,182 |
| Operating transfers in (out) | (120,755) | 120,755 | - |
| Total other financing sources and uses | 3,822,427 | 120,755 | 3,943,182 |
| Net change in fund balances | 3,819,322 | 19,202 | 3,838,524 |
| Fund balance at beginning of year | 6,415,721 | 943,732 | 7,359,453 |
| Fund balance at end of year | $ 10,235,043 | $ 962,934 | $ 11,197,977 |

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, 2018

Exhibit 5

| | |
|---|---|
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Net change in fund balances - total governmental funds | $ 3,838,524 |
| 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. | 998,577 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds. | (1,225) |
| 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. | (3,139,885) |
| 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. | 8,310 |
| Governmental funds report pension, group life insurance, and line of duty act contributions as expenditures. However, in the statement of activities, the cost of pension, group life insurance and line of duty act benefits earned, net of employee contributions, is reported as expense. | 765,045 |
| Change in net position of governmental activities | $ 2,469,346 |

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, 2018

Exhibit 6

| | Agency Fund |
|---|---|
| ASSETS | |
| Cash and cash equivalents | $ 312,826 |
| Land and buildings | 3,354,140 |
| Accounts receivable | 1,029,382 |
| Total assets | 4,696,348 |
| LIABILITIES | |
| Accounts payable | 2,000 |
| Due to other governmental units | 2,691,173 |
| Note payable | 2,003,175 |
| Total liabilities | 4,696,348 |
| NET POSITION | $ - |

The accompanying notes are an integral part of the 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.

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.

Note 1. Summary of Significant Accounting Policies (Continued)

The following fund types are used by the Town:

1. Governmental Funds:

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

   a. General fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

   b. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

2. Fiduciary Funds:

   Fiduciary funds are used to report assets held in a trustee or agency capacity for others and, therefore, are not available to support Town programs. The reporting focus is on net Position and changes in net position, which are reported using accounting principles similar to proprietary funds. The Town's fiduciary funds are presented in the fiduciary fund financial statements by type (permanent and agency). These funds consist of the Cemetery Fund, which is a permanent fund and the Industrial Development Authority Fund, which is an agency fund. Since by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

<u>Basis of Accounting</u>

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.

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 $38,564 in the Governmental Activities at June 30, 2018.

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.

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.

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 positon 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.

13. New Accounting Pronouncements

In fiscal year 2018, management adopted the provisions of the Governmental Accounting Standards Board Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans and Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The statements replace the requirements of GASB statements No. 43 and No. 45 on accounting and financial reporting by employers for postemployment benefits other than pensions. See Note 19 for the restatement of beginning net position.

Note 1. Summary of Significant Accounting Policies (Continued)

14. Group Life Insurance

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

15. Line of duty act program

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

Note 2. Deposits and Investments

Deposits

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

Investments

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

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

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

| | Category 2 | Carrying Amount | Market Value |
|---|---|---|---|
| *45 Shares of Common Stock – | | | |
| U.S. Steel Corporation | $ 2,019 | $ 2,019 | $ 1,252 |
| Alliance U.S. Bond Fund | 226,406 | 226,406 | 206,378 |
| Total Investments | $228,425 | $228,425 | $207,630 |

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.

Note 4. Due From Other Governmental Units

Consisted of the following at June 30, 2018:

| | General Fund | Nonmajor Governmental Funds | Total Governmental Activities |
|---|---|---|---|
| County of Halifax: | | | |
| Contribution reimbursement | $ 357,793 | $ - | $ 357,793 |
| Halifax County Service Authority | 2,314,704 | - | 2,314,704 |
| Local sales taxes | 39,470 | - | 39,470 |
| Communications tax | 114,821 | - | 114,821 |
| Total | $2,826,788 | $ - | $2,826,788 |

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2018, was as follows:

| | Balance 7/1/17 | Additions | Deletions | Balance 6/30/18 |
|---|---|---|---|---|
| Governmental activities: | | | | |
| Capital assets, being depreciated: | | | | |
| Land, buildings, and improvements | $ 13,378,865 | $ 1,358,628 | $ - | $ 14,737,493 |
| Equipment | 6,772,552 | 618,345 | (139,084) | 7,251,813 |
| Total capital assets being depreciated | 20,151,417 | 1,976,973 | (139,084) | 21,989,306 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 3,169,948 | 462,230 | - | 3,632,178 |
| Equipment | 5,097,745 | 516,165 | (139,084) | 5,474,826 |
| Total accumulated depreciation | 8,267,693 | 978,395 | (139,084) | 9,107,004 |
| Governmental activities capital assets, net | $ 11,883,724 | $ 998,578 | $ - | $ 12,882,302 |

Note 5. Capital Assets (Continued)

Depreciation expense was charged to governmental functions as follows:

| | |
|---|---|
| Governmental activities: | |
| General government | $ 4,848 |
| Public safety | 228,738 |
| Public works | 536,234 |
| Parks, recreation, and cultural | 19,636 |
| Community development | 163,534 |
| Landfill closure | 11,450 |
| Cemetery | 13,955 |
| Total depreciation expense-governmental activities | $ 978,395 |

Note 6. Long-Term Debt

Governmental activities:

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

General Obligation Public Improvement and Refunding Bond – Series 2013A

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

| Year Ending June 30, | General Obligation Public Improvement and Refunding Bond | | |
|---|---|---|---|
| | Principal | Interest | Total |
| 2019 | $ 65,467 | $ 74,791 | $ 140,258 |
| 2020 | 65,467 | 72,272 | 137,739 |
| 2021 | 70,467 | 69,475 | 139,942 |
| 2022 | 75,467 | 67,122 | 142,589 |
| 2023-2027 | 412,335 | 239,281 | 651,616 |
| 2028-2032 | 502,335 | 200,544 | 702,879 |
| 2033-2037 | 607,335 | 88,384 | 695,719 |
| 2038 | 135,457 | 2,716 | 138,173 |
| Total | $1,934,330 | $ 814,585 | $2,748,915 |

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, | Principal | Interest | Governmental Activities General Fund 71.02 Percent Landfill Closure Fund Principal | Governmental Activities General Fund 71.02 Percent Landfill Closure Fund Interest | Business-type Activities HCSA 28.98 Percent Water and Sewer Fund Principal | Business-type Activities HCSA 28.98 Percent Water and Sewer Fund Interest |
|---|---|---|---|---|---|---|
| 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 |
| | $ 2,970,000 | $ 277,475 | $2,109,159 | $ 197,063 | $ 860,841 | $ 80,412 |

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

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, | Principal | Interest |
|---|---|---|
| 2019 | $ - | $ - |
| 2020 | 74,000 | 3,595 |
| 2021 | 71,000 | 535 |
| | $ 145,000 | $ 4,130 |

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:

| | | | General Fund 28.74 Percent Landfill Closure Fund | | HCSA 71.26 Percent Water and Sewer Fund | |
|---|---|---|---|---|---|---|
| Year Ending June 30, | Principal | Interest | Principal | Interest | Principal | Interest |
| 2019 | $ 418,000 | $ 16,729 | $ - | $ - | $ 418,000 | $ 16,729 |
| 2020 | 430,000 | 4,838 | - | - | 430,000 | 4,838 |
| | $ 848,000 | $ 21,567 | $ - | $ - | $848,000 | $ 21,567 |

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, | Principal | Interest | Total |
|---|---|---|---|
| 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 |
| | $ 2,000,000 | $ 189,000 | $ 2,189,000 |

Tax-Exempt General Obligation Bond 2017A

On November 3, 2017, the Town issued a $3,000,000 General Obligation Bond. The bond was obtained to loan to the Industrial Development Authority of the Town of South Boston (IDA), who will, in turn, loan to a developer to renovate the Tultex/Imperial building. As funds are needed, the developer will request of the IDA, who will, in turn, request a draw down from the Town. Repayment of the loan will be funded partially through historical tax credits received from the developer. A repayment schedule will be determined when the project is completed. Interest is at 2.35 percent.

Note 6. Long-Term Debt (Continued)

Taxable General Obligation Bond, 2017B

On November 3, 2017, the Town issued a $2,600,000 General Obligation Bond. The bond was obtained to loan to the Industrial Development Authority of the Town of South Boston (IDA), who will, in turn, loan to a developer to renovate the Tultex/Imperial building. As funds are needed, the developer will request of the IDA, who will, in turn, request a draw down from the Town. Repayment of the loan will be funded partially through historical tax credits received from the developer. A repayment schedule will be determined when the project is completed. Interest is at 3.62 percent.

Changes in Long-Term Debt:

The following is a summary of long-term debt transactions of the Town for the year ended June 30, 2018:

| | Payable at 7/1/17 | Plus Additions | Less Retirements | Payable at 6/30/18 | Due within One year |
|---|---|---|---|---|---|
| Governmental activities: | | | | | |
| Bonds and notes payable: | | | | | |
| General obligation bonds: | | | | | |
| 06/05/13 | $ 1,999,796 | $ - | $ 65,466 | $ 1,934,330 | $ 65,467 |
| 03/13/15 | 3,266,000 | - | 296,000 | 2,970,000 | 330,000 |
| 03/13/15 | 284,000 | - | 139,000 | 145,000 | - |
| 03/13/15 | 1,255,000 | - | 407,000 | 848,000 | 407,000 |
| 10/01/15 | 2,250,000 | | 250,000 | 2,000,000 | 250,000 |
| 11/03/17 | - | 3,000,000 | - | 3,000,000 | - |
| 11/03/17 | - | 943,182 | - | 943,182 | - |
| Notes payable: | | | | | |
| 11/26/14 | 128,170 | - | 128,170 | - | - |
| Total bonds and notes payable | 9,182,966 | 3,943,182 | 1,285,636 | 11,840,512 | 1,052,467 |
| Other liabilities: | | | | | |
| Compensated absences | 396,390 | 31,472 | 39,783 | 388,079 | 39,639 |
| Landfill post-closure care | 1,667,683 | 36,884 | - | 1,704,567 | - |
| Total other liabilities | 2,064,073 | 68,356 | 39,783 | 2,092,646 | 39,639 |
| Governmental activities long-term liabilities | $ 11,247,039 | $ 4,011,538 | $ 1,325,419 | $ 13,933,158 | $ 1,092,106 |

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

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 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 |
| **About VRS Plan 1**<br>VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. | **About VRS Plan 2**<br>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. | **About the Hybrid Retirement Plan**<br>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”) |

Note 8. Defined Benefit Pension Plan (continued)

| VRS<br>PLAN 1 | VRS<br>PLAN 2 | HYBRID<br>RETIREMENT PLAN |
|---|---|---|
| | | • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.<br>• 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.<br>• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees. |
| **Eligible Members**<br>Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.<br><br>**Hybrid Opt In Election**<br>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. | **Eligible Members**<br>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.<br><br>**Hybrid Opt in Election**<br>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. | **Eligible Members**<br>Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This include:<br>• Political subdivision employees*<br>• 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. |

Note 8. Defined Benefit Pension Plan (continued)

| VRS<br>PLAN 1 | VRS<br>PLAN 2 | HYBRID<br>RETIREMENT PLAN |
|---|---|---|
| The Hyrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.<br><br>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.<br><br>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. | The Hybrid Retirement Plan’s effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.<br><br>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.<br><br>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. | *Non-Eligible Members<br>Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:<br>• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees<br><br>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. |
| **Retirement Contributions**<br>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. | **Retirement Contributions**<br>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. | **Retirement Contributions**<br>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. |

Note 8. Defined Benefit Pension Plan (continued)

| VRS<br>PLAN 1 | VRS<br>PLAN 2 | HYBRID<br>RETIREMENT PLAN |
|---|---|---|
| **Creditable Service**<br>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. | **Creditable Service**<br>Same as VRS Plan 1. | **Creditable Service**<br>**<u>Defined Benefit Component</u>:**<br>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.<br>**<u>Defined Contributions Component</u>:**<br>Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan. |

Note 8. Defined Benefit Pension Plan (continued)

| VRS PLAN 1 | VRS PLAN 2 | HYBRID RETIREMENT PLAN |
| --- | --- | --- |
| **Vesting**<br>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.<br><br>Members are always 100% vested in the contributions that they make. | **Vesting**<br>Same as VRS Plan 1. | **Vesting**<br>**<u>Defined Benefit Component</u>:**<br>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.<br><br>**<u>Defined Contributions Component</u>:**<br>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.<br><br>Members are always 100% vested in the contributions that they make.<br><br>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.<br>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.<br>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.<br>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.<br><br>Distribution is not required by law until age 70 1/2. |

Note 8. Defined Benefit Pension Plan (continued)

| VRS<br>PLAN 1 | VRS<br>PLAN 2 | HYBRID<br>RETIREMENT PLAN |
|---|---|---|
| **Calculating the Benefit**<br>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.<br><br>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. | **Calculating the Benefit**<br>See definition under VRS Plan 1. | **Calculating the Benefit**<br>**Defined Benefit Component:**<br>See definition under VRS Plan 1<br><br>**Defined Contribution Component:**<br>The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions. |
| **Average Final Compensation**<br>A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee. | **Average Final Compensation**<br>A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee. | **Average Final Compensation**<br>Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan. |
| **Service Retirement Multiplier VRS**<br>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%.<br><br>**Sheriffs and regional jail superintendents**<br>The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. | **Service Retirement Multiplier VRS**<br>Same as Plan1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.<br><br>**Sheriffs and regional jail superintendents**<br>Same as VRS Plan 1. | **Service Retirement Multiplier VRS**<br>**Defined Benefit Component**<br>The retirement multiplier for the defined benefit component is 1.00%.<br><br>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.<br><br>**Sheriffs and regional jail superintendents**<br>Not applicable. |

Note 8. Defined Benefit Pension Plan (continued)

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

Note 8. Defined Benefit Pension Plan (continued)

| VRS<br>PLAN 1 | VRS<br>PLAN 2 | HYBRID<br>RETIREMENT PLAN |
|---|---|---|
| **Earliest Reduced Retirement Eligibility VRS**<br>Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.<br><br>**Political subdivisions hazardous duty employees**<br>50 with at least five years of creditable service. | **Earliest Reduced Retirement Eligibility VRS**<br>Age 60 with at least five years (60 months) of creditable service.<br><br>**Political subdivisions hazardous duty employees**<br>Same as VRS Plan 1. | **Earliest Reduced Retirement Eligibility VRS**<br>**<u>Defined Benefit Component</u>:**<br>Age members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.<br><br>**Political subdivisions hazardous duty employees:** Not applicable.<br><br>**<u>Defined Contribution Component</u>:**<br>Members are eligible to receive distributions upon leaving employment, subject to restrictions. |
| **Cost-of-Living Adjustment (COLA) in Retirement**<br>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%.<br><br>**<u>Eligibility</u>:**<br>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.<br><br>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. | **Cost-of-Living Adjustment (COLA) in Retirement**<br>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%.<br><br>**<u>Eligibility</u>:**<br>Same as VRS Plan 1. | **Cost-of-Living Adjustment (COLA) in Retirement**<br>**<u>Defined Benefit Component</u>:**<br>Same as VRS Plan 2.<br><br>**<u>Defined Contribution Component</u>:**<br>Not applicable.<br><br>**<u>Eligibility</u>:**<br>Same as VRS Plan 1 and VRS Plan 2. |

Note 8. Defined Benefit Pension Plan (continued)

| VRS PLAN 1 | VRS PLAN 2 | HYBRID RETIREMENT PLAN |
|---|---|---|
| **Exceptions to COLA Effective Dates:**<br>The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:<br>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.<br>• The member retires on disability.<br>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).<br>• The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.<br>• 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. | **Exceptions to COLA Effective Dates:**<br>Same as VRS Plan 1. | **Exceptions to COLA Effective Dates:**<br>Same as VRS Plan 1 and VRS Plan 2. |
| **Disability Coverage**<br>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.<br><br>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits. | **Disability Coverage**<br>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.<br><br>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits. | **Disability Coverage**<br>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.<br><br>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. |

Note 8. Defined Benefit Pension Plan (continued)

| VRS PLAN 1 | VRS PLAN 2 | HYBRID RETIREMENT PLAN |
|---|---|---|
| **Purchase of Prior Service**<br>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**<br>Same as VRS Plan 1. | **Purchase of Prior Service**<br>**Defined Benefit Component:**<br>Same as VRS Plan 1, with the following exceptions:<br>• Hybrid Retirement Plan members are inelieible for ported service.<br>• The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.<br>• 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.<br><br>**Defined Contribution Component**<br>Not applicable. |

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

| | Number |
|---|---|
| Inactive members or their beneficiaries currently receiving benefits | 78 |
| Inactive members: | |
| Vested inactive members | 15 |
| Non-vested inactive members | 13 |
| Inactive members active elsewhere in VRS | 35 |
| Total inactive members | 63 |
| Active members | 75 |
| Total covered employees | 216 |

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, 2017 was 15.18 percent of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

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 $485,382 and $462,209 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability

The political subdivisions net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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, 2015, 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, 2016.

| | |
|---|---|
| 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* |

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, 2015 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

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, 2015, 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, 2016.

| | |
|---|---|
| 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.

Note 8. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – Public Safety Employees (Continued)

The actuarial assumptions used in the June 30, 2015 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 |
|---|---|---|---|
| Public Equity | 40.00% | 4.54% | 1.82% |
| Fixed Income | 15.00% | 0.69% | 10.00% |
| Credit Strategies | 15.00% | 3.96% | 59.00% |
| Real Assets | 15.00% | 5.76% | 86.00% |
| Private Equity | 15.00% | 9.53% | 1.43% |
| Total | 100.00% | | 4.80% |
| Inflation | | | 2.50% |
| *Expected arithmetic nominal return | | | 7.30% |

Note 8. Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return (Continued)

*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a media return of 6.83 %, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, 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, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability Increase (Decrease)

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
|---|---|---|---|
| Balances at June 30, 2016 | $ 21,478,501 | $ 17,082,910 | $ 4,395,591 |
| Changes for the year: | | | |
| Service cost | 391,298 | - | 391,298 |
| Interest | 1,465,904 | - | 1,465,904 |
| Changes of assumptions | (32,983) | - | (32,983) |
| Difference between expected and actual experience | (320,146) | - | (320,146) |
| Contributions - employer | - | 453,409 | (453,409) |
| Contributions - employee | - | 156,096 | (156,096) |
| Net investment income | - | 2,060,599 | (2,060,599) |
| Benefit payments, including refunds of employee contributions | (1,074,023) | (1,074,023) | - |
| Administrative expense | - | (12,121) | 12,121 |
| Other changes | - | (1,824) | 1,824 |
| Net changes | 430,050 | 1,582,136 | (1,152,086) |
| Balances at June 30, 2017 | $ 21,908,551 | $ 18,665,046 | $ 3,243,505 |

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

| | (6.00%) | (7.00%) | (8.00%) |
|---|---|---|---|
| Political subdivision's Net Pension Liability | $ 5,909,417 | $ 3,243,505 | $ 1,006,751 |

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

For the year ended June 30, 2018, the political subdivision recognized pension expense of $199,290. At June 30, 2018, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ - | $ 335,184 |
| Change in assumptions | - | 21,328 |
| Net difference between projected and actual earnings on pension plan investments | - | 268,828 |
| Employer contributions subsequent to the measurement date | 485,382 | - |
| Total | $ 485,382 | $ 625,340 |

$485,382 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 fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

| Year ended June 30 | |
|---|---|
| 2019 | $ (429,820) |
| 2020 | (21,253) |
| 2021 | 2,042 |
| 2022 | (176,309) |
| Thereafter | - |
| | $ (625,340) |

Note 8. Defined Benefit Pension Plan (Continued)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS Comprehensive Annual Financials Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

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

General information about the group life insurance program

Plan description

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

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

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

Eligible Employees

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

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

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

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

Benefit amounts

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

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

Reduction in benefits amounts

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

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

For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at $8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently $8,111.

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the Group Life Insurance Program from the entity were $42,089 and $39,927 for the years ended June 30, 2018 and June 30, 2017, respectively.

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

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

At June 30, 2018, the entities reported a liability of $249,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employer's proportion was .01652% as compared to .01659% at June 30, 2016.

For the year ended June 30, 2018, the participating employer recognized GLI OPEB expense of $2,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ - | $ 15,000 |
| Net difference between projected and actual earnings on GLI OPEB program investments | | |
| Change in assumptions | - | 13,000 |
| Changes in proportion | - | - |
| Employer contributions subsequent to the measurement date | 16,707 | - |
| Total | $ 16,707 | $ 28,000 |

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

$16,707 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year ended June 30

| | |
|---|---|
| 2019 | ($6,000) |
| 2020 | ($6,000) |
| 2021 | ($6,000) |
| 2022 | ($6,000) |
| 2023 | ($3,000) |
| Thereafter | ($1,000) |

Actuarial assumptions:

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, 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, 2017.

| | |
|---|---|
| Inflation | 2.5 percent |
| Salary increases, including inflation – | |
| General state employees | 3.50 percent – 5.35 percent |
| Teachers | 3.50 percent – 5.95 percent |
| SPORS employees | 3.50 percent – 4.75 percent |
| VaLORS employees | 3.50 percent – 4.75 percent |
| JRS employees | 4.50 percent |
| Locality – General employees | 3.50 percent – 5.35 percent |
| Locality – Hazardous Duty employees | 3.50 percent – 4.75 percent |
| Investment rate of return | 7.0 percent, net of investment expenses, Including inflation* |

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

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

**Mortality rates – general state employees**

Pre-retirement:

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

Post-retirement:

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

Post-disablement:

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

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

| | |
|---|---|
| Mortality rates (pre-retirement, post-retirement healthy, and disabled | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement rates | Lowered rates at older ages and changed final retirement from 70 59 75 |
| Withdrawal rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability rates | Adjusted rates to better match experience |
| Salary scale | No change |
| Line of duty disability | Increased rate from 14% to 25% |

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

Pre-retirement:

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

Post-retirement:

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

Post-disablement:

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

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

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

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

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

Pre-retirement:

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

Post-retirement:

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

Post-disablement:

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

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

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

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

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

Pre-retirement:

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

Post-retirement:

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

Post-disablement:

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

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

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

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

Pre-retirement:

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

Post-retirement:

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

Post-disablement:

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

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

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

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

Net GLI OPEB liability:

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

| | Group Life Insurance OPEB Program |
|---|---|
| Total GLI OPEB liability | $ 2,942,426 |
| Plan fiduciary net position | 1,437,586 |
| Employers' net GLI OPEB liability (asset) | $ 1,504,840 |
| Plan fiduciary net position as a percentage of the total GLI OPEB liability | 48.86% |

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

Long-term expected rate of return:

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

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

| Asset Class (Strategy) | Target Allocation | Arithmetic Long-Term Expected Rate of Return | Weighted Average Long-Term Expected Rate of Return |
|---|---|---|---|
| Public equity | 40.00% | 4.54% | 1.82% |
| Fixed income | 15.00% | 0.69% | 0.10% |
| Credit strategies | 15.00% | 3.96% | 0.59% |
| Real assets | 15.00% | 5.76% | 0.86% |
| Private equity | 15.00% | 9.53% | 1.43% |
| Total | 100.00% | | 4.80% |
| | Inflation | | 2.50% |
| | *Expected arithmetic nominal return | | 7.30% |

Discount rate:

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

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

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

| | 1.00% Decrease (6.00%) | Current Discount Rate (7.00%) | 1.00% Increase (8.00%) |
|---|---|---|---|
| Employer's proportionate share of the Group Life Insurance Program Net OPEB Liability | $ 322,000 | $ 249,000 | $ 190,000 |

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

Group life insurance program fiduciary net position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

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

General information about the line of duty act program

Plan description:

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

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

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

Line of Duty Act Program (LODA) Plan Provisions

Eligible employees:

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

Benefit amounts:

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

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

Contributions

The contribution requirements for the Line of Duty Act Program (LODA) are governed by §9.1-400.1 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer’s contractually required employer contribution rate for the Line of Duty Act Program (LODA) for the year ended June 30, 2018 was $567.37 per covered full-time-equivalent employee. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and rep-

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

resents the pay-as-you-go funding rate and not the full actuarial cost of the benefits under the program. The actuarially determined pay-as-you-go rate was expected to finance the costs and related expenses of benefits payable during the year. Contributions to the Line of Duty Act Program (LODA) from the entity were $19,858 and $20,992 for the years ended June 30, 2018 and June 30, 2017, respectively.

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

At June 30, 2018, the entity reported a liability of $511,000 for its proportionate share of the Net LODA OPEB Liability. The Net LODA OPEB Liability was measured as of June 30, 2017 and the total LODA OPEB liability used to calculate the Net LODA OPEB Liability was determined by an actuarial valuation as of that date. The entity's proportion of the Net LODA OPEB Liability was based on the entity's actuarially determined pay-as-you-go employer contributions to the LODA OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined pay-as-you-go employer contributions for all participating employers. At June 30, 2017, the entity's proportion was .19464% as compared to .191444% at June 30, 2016.

For the year ended June 30, 2018, the entity recognized LODA OPEB expense of $46,000. Since there was a change in proportionate share between measurement dates, a portion of the LODA OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the agency reported deferred outflows of resources and deferred inflows of resources related to the LODA OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ - | $ 1,000 |
| Net difference between projected and actual earnings on LODA OPEB program investments | | |
| Change in assumptions | - | 53,000 |
| Changes in proportion | 8,000 | - |
| Employer contributions subsequent to the measurement date | 19,858 | - |
| Total | $ 27,858 | $ 54,000 |

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

$19,858 reported as deferred outflows of resources related to the LODA OPEB resulting from the entity's contributions subsequent to the measurement date will be recognized as a reduction of the Net LODA OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the LODA OPEB will be recognized in LODA OPEB expense in future reporting periods as follows:

| Year ended June 30 | |
|---|---|
| 2019 | ($6,000) |
| 2020 | ($6,000) |
| 2021 | ($6,000) |
| 2022 | ($6,000) |
| 2023 | ($6,000) |
| Thereafter | ($16,000) |

Actuarial assumptions:

The total LODA OPEB liability was based on an actuarial valuation as of June 30, 2016, 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, 2017.

| | |
|---|---|
| Inflation | 2.5 percent |
| Salary increases, including inflation – | |
| General state employees | 3.50 percent – 5.35 percent |
| SPORS employees | 3.50 percent – 4.75 percent |
| VaLORS employees | 3.50 percent – 4.75 percent |
| Locality employees | 3.50 percent – 4.75 percent |
| Medical cost trend rates assumption – | |
| Under age 65 | 7.75 percent – 5.00 percent |
| Ages 65 and older | 5.75 percent – 5.00 percent |
| Investment rate of return | 3.56 percent, net of OPEB plan Investment expenses, including inflation* |

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 3.56%. However, since the difference was minimal, a more conservative 3.56% investment return assumption has been used. Since LODA is funded on a current-disbursement basis, the assumed annual rate of return of 3.56% was used since it approximates the risk-free rate of return.

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

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

Pre-retirement:

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

Post-retirement:

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

Post-disablement:

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

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

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

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

Pre-retirement:

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

Post-retirement:

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

Post-disablement:

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

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

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

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

**Changes to the LODA Program Associated with HB 1345 (2016) and HB 2243 (2017)**

The following changes were made to the LODA Program as a result of legislation in 2016 and 2017, but were specifically not considered in the June 30, 2016 actuarial valuation results which were rolled forward to the measurement date of June 30, 2017. There was no current actuarial experience on which to base the adjustments and the combined impact of the changes was not considered to be material to the final results. These changes will be factored into future actuarial valuations for the LODA Program.

- The discontinuance of spouse health care coverage, if a covered spouse divorces a disabled employee or a covered surviving spouse remarries.
- The potential for VRS's periodic review of the disability status of a disabled employee.
- For those beneficiaries who become eligible for health care benefits as the result of a disability occurring after June 30, 2017, the suspension of health care benefits in years when VRS certifies current income exceeds salary at the time of the disability, indexed for inflation.
- The extension of health care benefits for dependent children to age 26.
- The expansion of the definition of presumption of death or disability to include infectious diseases.

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

Net LODA OPEB Liability:

The net OPEB liability (NOL) for the Line of Duty Act Program (LODA) represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Line of Duty Act Program (LODA) is as follows (amounts expressed in thousands):

| | Line of Duty Act Program |
|---|---|
| Total LODA OPEB liability | $ 266,252 |
| Plan fiduciary net position | 3,461 |
| Employers' net OPEB liability (asset) | $ 262,791 |
| Plan fiduciary net position as a percentage of the total LODA OPEB liability | 1.30% |

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

**Long-term expected rate of return**

The long-term expected rate of return on LODA OPEB Program's investments was set at 3.56% for this valuation. Since LODA is funded on a current-disbursement basis, it is not able to use the VRS Pooled Investments 7.00% assumption. Instead, the assumed annual rate of return of 3.56% was used since it approximates the risk-free rate of return. This Single Equivalent Interest Rate (SEIR) is the applicable municipal bond index rate based on the Bond Buyer General Obligation 20-year Municipal Bond Index published monthly by the Board of Governors of the Federal Reserve System as of the measurement date of June 30, 2017.

**Discount rate**

The discount rate used to measure the total LODA OPEB liability was 3.56%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by participating employers to the LODA OPEB Program will be subject to the portion of the VRS Board certified rates that are funded by the Virginia General Assembly.

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

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

The following presents the covered employer's proportionate share of the net LODA OPEB liability using the discount rate of 3.56%, as well as what the covered employer's proportionate share of the net LODA OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.56%) or one percentage point higher (4.56%) than the current rate:

| | 1.00% Decrease (2.56%) | Current Discount Rate (3.56%) | 1.00% Increase (4.56%) |
|---|---|---|---|
| Covered employer's proportionate share of the total LODA Net OPEB liability | $ 580,000 | $ 511,000 | $ 454,000 |

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

Because the Line of Duty Act Program (LODA) contains a provisions for the payment of health insurance premiums, the liabilities are also impacted by the health care trend rates. The following presents the covered employer's proportionate share of the net LODA OPEB liability using health care trend rate of 7.75% decreasing to 5.00%, as well as what the covered employer's proportionate share of the net LODA OPEB liability would be if it were calculated using a health care trend rate that is one percentage point lower (6.75% decreasing to 4.00%) or one percentage point higher (8.75% decreasing to 6.00%) than the current rate:

| | 1.00% Decrease (6.75% decreasing to 4.00%) | Health Care Trend Rates (7.75% decreasing to 5.00%) | 1.00% Increase (8.75% decreasing to 6.00%) |
|---|---|---|---|
| Covered employer's proportionate share of the total LODA Net OPEB liability | $ 434,000 | $ 511,000 | $ 607,000 |

LODA OPEB Plan Fiduciary Net Position:

Detailed information about the Line of Duty Act Program (LODA) Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

## Note 11. Contingent Liabilities

The Town participates in federally-assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for and including the year ended June 30, 2018, and previous years have been conducted by the grantors or their representatives.

## Note 12. Industrial Development Authority

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

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

## Note 13. Legal Compliance

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

## Note 14. Surety Bonds

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

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

The Town also participates with Halifax County in the Regional Library. During the year, the Town contributed $81,233 to the Library.

Note 16. Municipal Solid Waste Landfill

State and federal laws and regulations require the county to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post closure care costs will be paid only near or after the date that the landfill stops accepting waste, the Town records a liability for a portion of these closure and post closure care costs in each period based on landfill capacity used as of each balance sheet date. Closure of the County's landfill site is complete. The $1,704,567 reported as landfill post closure care liability at June 30, 2018, 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 2018. 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 $220,830. The Town also has demonstrated financial assurance requirements for closure and post closure care, and corrective action costs through the submission of a Local Government Financial Test to the Virginia Department of Environmental Quality in accordance with Section 9VA-20-70 of the Virginia Administrative Code.

Note 17. Transfer of Water and Sewer Fund

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

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

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

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

## Note 18. Contingencies

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

## Note 19. Cumulative Effect of Change in Accounting Principle

As a result of implementation of GASB 75, the beginning net position was restated as follows:

| | |
|---|---|
| Net Position as reported at June 30, 2017 | $ 5,954,447 |
| Implementation of GASB Statement No. 75 | (786,000) |
| Net Position as restated at June 30, 2017 | $ 5,168,447 |

## Note 20. Subsequent Events

Management has evaluated subsequent events through November 30, 2018, 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, 2018

Exhibit 7

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| Revenues: | | | | |
| General property taxes | $ 1,953,831 | $ 1,953,831 | $ 2,030,043 | $ 76,212 |
| Other local taxes | 4,496,650 | 4,496,650 | 4,830,451 | 333,801 |
| Permits, privilege fees, and regulatory licenses | 2,430 | 2,430 | 4,155 | 1,725 |
| Fines and forfeitures | 50,550 | 50,550 | 42,106 | (8,444) |
| Interest and investment revenue | 73,397 | 73,397 | 85,758 | 12,361 |
| Charges for service | 26,500 | 26,500 | 19,301 | (7,199) |
| Miscellaneous | 213,750 | 213,750 | 289,497 | 75,747 |
| Recovered costs | 718,956 | 718,956 | 659,267 | (59,689) |
| Intergovernmental | 2,788,568 | 2,788,568 | 3,119,258 | 330,690 |
| Total revenues | 10,324,632 | 10,324,632 | 11,079,836 | 755,204 |
| Expenditures: | | | | |
| Current: | | | | |
| General government administration | 743,060 | 743,060 | 751,454 | (8,394) |
| Public safety | 3,436,223 | 3,436,223 | 3,534,955 | (98,732) |
| Public works | 3,015,840 | 3,015,840 | 4,187,742 | (1,171,902) |
| Parks, recreation, and cultural | 394,853 | 394,853 | 523,188 | (128,335) |
| Community development | 326,262 | 326,262 | 334,685 | (8,423) |
| Nondepartmental | 227,965 | 227,965 | 177,514 | 50,451 |
| Capital projects | 1,009,500 | 1,009,500 | 16,227 | 993,273 |
| Landfill closure | 73,700 | 73,700 | 60,955 | 12,745 |
| Debt service: | | | | |
| Principal retirement | 1,166,191 | 1,166,191 | 1,275,170 | (108,979) |
| Interest and fiscal charges | 220,468 | 220,468 | 221,051 | (583) |
| Total expenditures | 10,614,062 | 10,614,062 | 11,082,941 | (468,879) |
| (Deficiency) of revenues (under) expenditures | (289,430) | (289,430) | (3,105) | 286,325 |
| Other financing sources (uses): | | | | |
| General obligation bond issued | - | - | 3,943,182 | 3,943,182 |
| Operating transfers in/(out) | 289,430 | 289,430 | (120,755) | (410,185) |
| Transfer to reserve funds | - | - | - | - |
| Total other financing sources and uses | 289,430 | 289,430 | 3,822,427 | 3,532,997 |
| Net change in fund balances | | | 3,819,322 | |
| Fund balance at beginning of year | | | 6,415,721 | |
| Fund balance at end of year | | | $ 10,235,043 | |

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
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS
For the Year Ended June 30, 2018 *

Exhibit 8

| | 2017 | 2016 |
|---|---|---|
| **Total Pension Liability** | | |
| Service costs | $ 391,298 | $ 383,666 |
| Interest | 1,465,904 | 1,437,223 |
| Changes of benefit terms | - | - |
| Differences between expected and actual experience | (320,146) | (389,726) |
| Changes in assumptions | (32,983) | - |
| Benefit payments, including refunds of employee contributions | (1,074,023) | (968,845) |
| Net change in total pension liability | 430,050 | 462,318 |
| Total pension liability - beginning | 21,478,501 | 21,016,183 |
| Total pension liability - ending (a) | $ 21,908,551 | $ 21,478,501 |
| **Plan fiduciary net position** | | |
| Contributions - employer | $ 453,409 | $ 503,073 |
| Contributions - employee | 156,096 | 149,590 |
| Net investment income | 2,060,599 | 294,852 |
| Benefit payments, including refunds of employee contributions | (1,074,023) | (968,845) |
| Administrative expenses | (12,121) | (10,705) |
| Other expenses | (1,824) | (125) |
| Net change in plan fiduciary net position | 1,582,136 | (32,160) |
| Plan fiduciary net position - beginning | 17,082,910 | 17,115,070 |
| Plan fiduciary net position - ending (b) | $ 18,665,046 | $ 17,082,910 |
| Political subdivision's net pension liability - ending (a) - (b) | $ 3,243,505 | $ 4,395,591 |
| Plan fiduciary net position as a percentage of the total pension liability | 79.53% | 81.43% |
| Covered-employee payroll | $ 3,044,855 | $ 2,980,538 |
| Political subdivision's net pension liability as a percentage of covered-employee payroll | 106.52% | 147.48% |

SCHEDULE OF EMPLOYER CONTRIBUTIONS

| Date | Contractually Required Contributions | Contributions in Relation to Contractually Required Contributions | Contribution Deficiency (Excess) | Employer's Covered Employees Payroll | Contribution as a % of Covered Employees Payroll |
|---|---|---|---|---|---|
| 2015 | $ 509,712 | $ 509,712 | $ - | $ 2,982,516 | 17.09% |
| 2016 | $ 509,374 | $ 509,374 | $ - | $ 2,980,538 | 17.09% |
| 2017 | $ 462,209 | $ 462,209 | $ - | $ 3,044,855 | 15.18% |
| 2018 | $ 485,352 | $ 485,352 | $ - | $ 3,197,314 | 15.18% |

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.

NOTES TO SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS
For the Year Ended June 30, 2018 *

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.

## SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
## GROUP LIFE INSURANCE PROGRAM
For the Year Ended June 30, 2018 *

Exhibit 9

| | 2018 |
|---|---|
| Employer's proportion of the net GLI OPEB liability (asset) | 0.01652% |
| Employer's proportionate share of the net GLI OPEB liability (asset) | $ 249,000 |
| Employer's covered payroll | $ 3,212,892 |
| Employer's proportionate share of the net GLI OPEB liability (asset) as a percentage of its covered payroll | 7.75003% |
| Plan fiduciary net position as a percentage of the total GLI OPEB liability | 48.86% |

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

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

## SCHEDULE OF EMPLOYER CONTRIBUTIONS
## GROUP LIFE INSURANCE PROGRAM
For the Years Ended June 30, 2009 through 2018

| Date | Contractually Required Contribution (1) | Contributions in Relation to Contractually Required Contribution (2) | Contribution Deficiency (Excess) (3) | Employer's Covered Payroll (4) | Contributions as a % of Covered Payroll (5) |
|---|---|---|---|---|---|
| 2018 | $ 16,707 | $ 16,707 | $ - | $ 3,212,892 | 0.52% |
| 2017 | $ 15,849 | $ 15,849 | $ - | $ 3,047,850 | 0.52% |
| 2016 | $ 15,802 | $ 14,311 | $ 1,491 | $ 2,981,571 | 0.48% |
| 2015 | $ 15,870 | $ 14,373 | $ 1,497 | $ 2,994,414 | 0.48% |
| 2014 | $ 15,945 | $ 14,441 | $ 1,504 | $ 3,008,499 | 0.48% |
| 2013 | $ 15,911 | $ 14,410 | $ 1,501 | $ 3,002,154 | 0.48% |
| 2012 | $ 12,078 | $ 7,686 | $ 4,392 | $ 2,745,028 | 0.28% |
| 2011 | $ 11,869 | $ 7,553 | $ 4,316 | $ 2,697,597 | 0.28% |
| 2010 | $ 9,693 | $ 5,458 | $ 4,235 | $ 2,021,636 | 0.27% |
| 2009 | $ 9,487 | $ 7,115 | $ 2,372 | $ 2,635,404 | 0.27% |

NOTES TO SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS
GROUP LIFE INSURANCE PROGRAM
For the Year Ended June 30, 2018

Exhibit 9

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

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

**Largest ten locality employers – general employees**

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

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

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

NOTES TO SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS
GROUP LIFE INSURANCE PROGRAM
For the Year Ended June 30, 2018

Exhibit 9

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

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

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

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

TOWN OF SOUTH BOSTON, VIRGINIA

SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
LINE OF DUTY ACT PROGRAM
For the Year Ended June 30, 2018*

Exhibit 10

| | 2018 |
|---|---|
| Employer's proportion of the net LODA OPEB liability (asset) | 0.19464% |
| Employer's proportionate share of the net LODA OPEB liability (asset) | $ 511,000 |
| Covered-employee payroll | ** |
| Employer's proportionate share of the net LODA OPEB liability (asset) as a percentage of its covered-employee payroll | ** |
| Plan fiduciary net position as a percentage of the total LODA OPEB liability | 1.30% |

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

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

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

TOWN OF SOUTH BOSTON, VIRGINIA

SCHEDULE OF EMPLOYER CONTRIBUTIONS
LINE OF DUTY ACT PROGRAM
For the Years Ended June 30, 2009 through 2018*

Exhibit 10

| Date | Contractually Required Contribution (1) | Contributions in Relation to Contractually Required Contribution (2) | Contribution Deficiency (Excess) (3) | Covered-Employee Payroll (4) | Contributions as a % of Covered-Employee Payroll (5) |
|---|---|---|---|---|---|
| 2018 | $ 19,858 | $ 19,858 | $ - | $ - | |
| 2017 | $ 18,106 | $ 18,106 | $ - | $ - | |
| 2016 | $ 18,603 | $ 18,603 | $ - | $ - | |
| 2015 | $ 18,669 | $ 18,669 | $ - | $ - | |
| 2014 | $ 19,313 | $ 19,313 | $ - | $ - | |
| 2013 | $ 17,069 | $ 17,069 | $ - | $ - | |
| 2012 | $ 8,186 | $ 8,186 | $ - | $ - | |
| 2011 | N/A ** | N/A ** | $ - | N/A ** | N/A ** |
| 2010 | N/A ** | N/A ** | $ - | N/A ** | N/A ** |
| 2009 | N/A ** | N/A ** | $ - | N/A ** | N/A ** |

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

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

TOWN OF SOUTH BOSTON, VIRGINIA

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
LINE OF DUTY ACT PROGRAM
For the Year Ended June 30, 2018*

Exhibit 10

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

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

Employees in the largest ten locality employers with public safety employees

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

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

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

# OTHER SUPPLEMENTARY INFORMATION

TOWN OF SOUTH BOSTON, VIRGINIA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2018

Exhibit 9

| ASSETS | Virginia Alcohol Safety Action Program Fund | Permanent Fund: Perpetual Care | Total Nonmajor Governmental Funds |
|---|---|---|---|
| Cash | $ - | $ 755,304 | $ 755,304 |
| Investments | - | 207,630 | 207,630 |
| Total assets | $ - | $ 962,934 | $ 962,934 |
| **LIABILITIES AND FUND BALANCES** | | | |
| Accounts payable | $ - | $ - | $ - |
| Total liabilities | - | - | - |
| Fund balances: | | | |
| Reserved for: | | | |
| Perpetual care | - | 962,934 | 962,934 |
| Total fund balances | - | 962,934 | 962,934 |
| Total liabilities and fund balances | $ - | $ 962,934 | $ 962,934 |

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, 2018

Exhibit 10

| | Special Revenue | Permanent Fund | |
|---|---|---|---|
| | Virginia Alcohol Safety Action Program Fund | Perpetual Care | Total Nonmajor Governmental Funds |
| Revenues: | | | |
| Interest and investment revenue | $ - | $ 37,389 | $ 37,389 |
| Miscellaneous | - | 510 | 510 |
| Sale of cemetery lots | - | 31,000 | 31,000 |
| Intergovernmental | 216,174 | - | 216,174 |
| Total revenues | 216,174 | 68,899 | 285,073 |
| Expenditures: | | | |
| Current: | | | |
| General government administration | - | 170,452 | 170,452 |
| Public safety | 216,174 | - | 216,174 |
| Total expenditures | 216,174 | 170,452 | 386,626 |
| (Deficiency) of revenues (under) expenditures | - | (101,553) | (101,553) |
| Other financing sources: | | | |
| Operating transfers in | - | 120,755 | 120,755 |
| Total other financing sources | - | 120,755 | 120,755 |
| Net change in fund balances | - | 19,202 | 19,202 |
| Fund balance at beginning of year | - | 943,732 | 943,732 |
| Fund balance at end of year | $ - | $ 962,934 | $ 962,934 |

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 Year | General Government Administration | Public Safety | Public Works | Parks, Recreation, and Cultural | Community Development | Non-Departmental | Capital Projects | Landfill Closure | Debt Service | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| 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 |
| 2016-17 | 621,729 | 3,646,347 | 4,621,954 | 392,449 | 305,330 | 184,741 | 60,219 | 87,118 | 1,758,569 | 11,678,456 |
| 2017-18 | 751,454 | 3,534,955 | 4,187,742 | 523,188 | 334,685 | 177,514 | 16,227 | 60,955 | 1,496,221 | 11,082,941 |

TOWN OF SOUTH BOSTON, VIRGINIA

GENERAL GOVERNMENTAL REVENUES BY SOURCE
LAST TEN FISCAL YEARS

Schedule 2

| Fiscal Year | General Property Taxes | Other Local Taxes | Permits, Privilege Fees, and Regulatory Licenses | Fines and Forfeitures | Revenues From Use of Money and Property | Charges for Service | Miscellaneous | Recovered Costs | Inter-Governmental | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| 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 |
| 2016-17 | 2,095,014 | 4,625,288 | 4,595 | 44,258 | 82,871 | 23,297 | 358,787 | 658,536 | 3,769,280 | 11,661,926 |
| 2017-18 | 2,030,043 | 4,830,451 | 4,155 | 42,106 | 85,758 | 19,301 | 289,497 | 659,267 | 3,119,258 | 11,079,836 |

TOWN OF SOUTH BOSTON, VIRGINIA

PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

Schedule 3

| Fiscal Year | Total Tax (1) Levy | Current Tax (1) Collections | Percent of Levy Collected | Delinquent (1) Tax (2) Collections (3) | Total Tax Collections | Percent of Total Tax Collections To Tax Levy | Outstanding Delinquent Taxes | Percent of Delinquent Taxes to Tax Levy |
|---|---|---|---|---|---|---|---|---|
| 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 |
| 2016-17 | 1,638,798 | 1,549,271 | 94.54 | 94,037 | 1,643,308 | 100.27 | 149,526 | 9.12 |
| 2017-18 | 1,633,979 | 1,533,691 | 93.86 | 48,543 | 1,582,234 | 96.83 | 160,943 | 9.85 |

TOWN OF SOUTH BOSTON, VIRGINIA

ASSESSED VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS

Schedule 4

| | | | | | Public Utility | | |
|---|---|---|---|---|---|---|---|
| Fiscal Year | Real Estate | Personal Property | Mobile Homes | Machinery and Tools | Real Estate | Personal Property | Total |
| 2008-09 | $486,915,503 | $41,815,600 | $ 985,400 | $ 2,706,500 | $18,470,335 | $ 257,001.0 | $ 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 |
| 2016-17 | 479,858,289 | 45,934,900 | 643,800 | 1,966,100 | 29,209,395 | 466,852 | 558,079,336 |
| 2017-18 | 480,241,434 | 45,757,200 | 617,200 | 1,681,600 | 30,414,019 | 347,269 | 559,058,722 |

PROPERTY TAX RATES
LAST TEN FISCAL YEARS

| | | | | | Public Utility | |
|---|---|---|---|---|---|---|
| Fiscal Year | Real Estate | Personal Property | Mobile Homes | Machinery and Tools | Real Estate | Personal Property |
| 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 |
| 2016-17 | 0.21 | 2.00 | 0.21 | 0.31 | 0.21 | 2.00 |
| 2017-18 | 0.21 | 2.00 | 0.21 | 0.31 | 0.21 | 2.00 |

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

| Fiscal Year | Population (1) | Assessed Value of All Taxable Property (In Thousands) | Gross Bonded Debt (2) | Less: Debt Payable From Enterprise Revenues | Net Bonded Debt | Ratio of Net Bonded Debt to Assessed Value | Net Bonded Debt per Capita |
|---|---|---|---|---|---|---|---|
| 2008-09 | 8,491 | $ 551,150 | $ 11,382,754 | $ 81,544 | $ 11,301,210 | .021:1 | 1,331 |
| 2009-10 | 8,491 | 552,927 | 10,631,221 | 68,945 | 10,562,276 | .019:1 | 1,244 |
| 2010-11 | 8,142 | 558,407 | 9,840,862 | 55,965 | 9,784,897 | .017:1 | 1,202 |
| 2011-12 | 8,142 | 562,126 | 10,730,485 | - | 10,730,485 | .019:1 | 1,318 |
| 2012-13 | 8,142 | 543,609 | 10,688,173 | - | 10,688,173 | .017:1 | 1,312 |
| 2013-14 | 8,142 | 548,347 | 9,657,446 | - | 9,657,446 | .019:1 | 1,186 |
| 2014-15 | 8,142 | 542,625 | 9,393,759 | - | 9,393,759 | .017:1 | 1,153 |
| 2015-16 | 8,142 | 549,896 | 10,695,281 | - | 10,695,281 | .019:1 | 1,313 |
| 2016-17 | 7,950 | 558,079 | 9,182,966 | - | 9,182,966 | .016:1 | 1,155 |
| 2017-18 | 7,773 | 559,059 | 11,840,512 | - | 11,840,512 | .021:1 | 1,523 |

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, 2018

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, 2018) | | $ 559,058,722 |
| Legal debt limit (10% of assessed value) | | $ 55,905,872 |
| Gross debt issued and outstanding | 11,840,512 | |
| Less deduction for self-supporting revenue bonds | - | |
| Total net debt chargeable to current debt limit | | 11,840,512 |
| Current debt-incurring capacity | | $ 44,065,360 |

TOWN OF SOUTH BOSTON, VIRGINIA

STATEMENT OF THE TREASURER'S ACCOUNTABILITY
June 30, 2018

Schedule 7

| | |
|---|---|
| Assets held by the Treasurer: | |
| Cash in banks: | |
| Checking: | |
| SunTrust Bank | $ 5,294 |
| American National Bank & Trust Company | 700,000 |
| Benchmark Community Bank | 3,759,287 |
| Carter Bank and Trust | 768,263 |
| Infnex Financial Group | 55,301 |
| Investments: | |
| Common stock – 45 shares of U. S. Steel Corporation | 820 |
| Alliance U. S. Bond Fund | 206,378 |
| Total assets | $ 5,495,343 |
| Liabilities of the Treasurer: | |
| Balance of Town Funds | $ 5,495,343 |
| Total liabilities | $ 5,495,343 |

TOWN OF SOUTH BOSTON, VIRGINIA

INDUSTRIAL DEVELOPMENT AUTHORITY OF SOUTH BOSTON AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
June 30, 2018

Schedule 8

| | Balance July 01, 2017 | Additions | Deletions | Balance June 30, 2018 |
|---|---|---|---|---|
| ASSETS | | | | |
| Cash | $ 289,059 | $ 267,241 | $ 243,474 | $ 312,826 |
| Land and buildings | | | | |
| (net of accumulated depreciation) | 2,468,520 | 943,681 | 58,061 | 3,354,140 |
| Accounts receivable | 26,100 | 1,006,182 | 2,900 | 1,029,382 |
| Total assets | $ 2,783,679 | $ 2,217,104 | $ 304,435 | $ 4,696,348 |
| LIABILITIES | | | | |
| Accounts payable | $ 17,503 | $ - | $ 15,503 | $ 2,000 |
| Due to other governmental units | 1,584,011 | 1,107,162 | - | 2,691,173 |
| Note payable | 1,182,165 | 943,182 | 122,172 | 2,003,175 |
| Total liabilities | $ 2,783,679 | $ 2,050,344 | $ 137,675 | $ 4,696,348 |

# 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, 2018, 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, 2018.

**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.



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**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, 2018