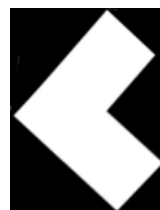


Town of South Hill, Virginia
Comprehensive Annual Financial Report
Year Ended June 30, 2021



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

Town of South Hill, Virginia

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FINANCIAL SECTION





**Creedle
Jones
& Associates**

A Professional Corporation

*Robin B. Jones, CPA, CFP
Kimberly W. Jackson, CPA*

Nadine L. Chase, CPA

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American Institute of Certified Public Accountants
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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of South Hill, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of South Hill, Virginia, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town of South Hill, Virginia's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of South Hill, Virginia, as of June 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension and OPEB funding on pages 1-8, 57-62, and 63-70 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 Hill, Virginia's basic financial statements. The statistical section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2021, on our consideration of the Town of South Hill, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Town of South Hill, Virginia's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of South Hill, Virginia's internal control over financial reporting and compliance.

Creedle, Jones & Associates, P.C.

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

South Hill, Virginia
December 8, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Town of South Hill, Virginia presents the following discussion and analysis as an overview of the Town of South Hill, Virginia's financial activities for the fiscal year ending June 30, 2021. We encourage readers to read this discussion and analysis in conjunction with the Town's basic financial statements.

Financial Highlights

- At the close of the fiscal year, the assets and deferred outflows of resources of the Town's governmental activities exceeded its liabilities and deferred inflows of resources by \$33,420,942. Of this amount, \$20,484,218 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors. For the business-type activities, the assets and deferred outflows of resources exceeded the liabilities and deferred inflows of resources by \$15,195,691 with an unrestricted balance of \$3,050,246.
- The Town's total net position before transfers increased by \$2,325,849 during the current fiscal year. Of this amount, an increase of \$1,774,758 is related to governmental activities and an increase of \$551,091 is attributed to business-type activities.
- As of June 30, 2021, the Town's Governmental Funds reported combined ending fund balances of \$24,029,386, an increase of \$1,923,267 in comparison with the prior year. Approximately 99.94% of this amount is available for spending at the Town's discretion (unassigned fund balance).
- At the end of fiscal year 2021, the general fund unassigned fund balance was \$24,015,526, or approximately 257.02% of total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements report information about the Town as a whole using accounting methods similar to those found in the private sector. They also report the Town's net position and how they have changed during the fiscal year.

Statement of Net Position: presents information on all of the Town's assets and liabilities. The difference between a) assets and deferred outflows of resources and b) liabilities and deferred inflows of resources can be used as one way to measure the Town's financial health or financial condition. Over time, increases or decreases in the net position can be one indicator of whether the Town's financial condition is improving or deteriorating. Other nonfinancial factors will also need to be considered, such as changes in the Town's property tax base and the condition of Town facilities.

Statement of Activities: presents information using the accrual basis accounting method and shows how the Town's net position changed during the fiscal year. All of the current year's revenues and expenses are shown in the Statement of Activities, regardless of when cash is received or paid.

The government-wide financial statements distinguish governmental activities from business-type activities identified as the primary government. The governmental activities of the Town include general government administration, public safety, public works, parks, recreation and cultural, and community development. Public utilities represent the business-type activities.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Town uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the Town's most significant funds rather than the Town as a whole. Major funds are separately reported while all others are combined into a single aggregated presentation.

The Town has three types of funds:

Governmental Funds – Most of the Town's basic services are included in Governmental Funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances remaining at year end that are available for spending. The Governmental Funds financial statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. Because this information does not encompass the long-term focus of the government-wide statements, additional information is provided with the fund's financial statements to explain the relationship (or differences). The Town maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Food Hub Fund, Street Planning Fund, and Cemetery Fund, all of which are considered to be major funds.

Proprietary Funds – The Town uses an Enterprise Fund which operates in a manner similar to private business enterprises. Costs are recovered primarily through user charges. Proprietary Fund financial statements provide both long and short-term financial information.

Fiduciary Funds – The Town is the trustee, or fiduciary, for the Town's custodial funds. Custodial funds utilize the accrual basis of accounting described in the Governmental Fund presentation. Since by definition, these assets are being held for the benefit of a third party and cannot be used to support activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

Notes to the Basic Financial Statements

The accompanying notes to the basic financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

Other

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information such as budgetary comparison schedules.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

Summary of Net Position

As of June 30, 2021 and 2020

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Assets						
Current and other assets	\$ 24,586,104	\$ 22,901,295	\$ 5,981,730	\$ 4,048,431	\$ 30,567,834	\$ 26,949,726
Capital assets (net)	<u>12,922,864</u>	<u>12,777,566</u>	<u>13,325,793</u>	<u>12,662,457</u>	<u>26,248,657</u>	<u>25,440,023</u>
Total Assets	37,508,968	35,678,861	19,307,523	16,710,888	56,816,491	52,389,749
Deferred Outflows of Resources	<u>1,671,167</u>	<u>1,379,151</u>	<u>212,680</u>	<u>170,311</u>	<u>1,883,847</u>	<u>1,549,462</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 39,180,135</u>	<u>\$ 37,058,012</u>	<u>\$ 19,520,203</u>	<u>\$ 16,881,199</u>	<u>\$ 58,700,338</u>	<u>\$ 53,939,211</u>
Liabilities						
Other liabilities	\$ 397,129	\$ 729,015	\$ 213,200	\$ 259,481	\$ 610,329	\$ 988,496
Long-term liabilities	<u>5,362,064</u>	<u>4,561,464</u>	<u>4,111,312</u>	<u>1,817,126</u>	<u>9,473,376</u>	<u>6,378,590</u>
Total Liabilities	5,759,193	5,290,479	4,324,512	2,076,607	10,083,705	7,367,086
Deferred Inflows of Resources	-	250,417	-	30,924	-	281,341
Net Position						
Net investment in capital assets	12,922,864	12,777,566	12,145,445	11,378,737	25,068,309	24,156,303
Restricted	13,860	10,003	-	-	13,860	10,003
Unassigned	<u>20,484,218</u>	<u>18,729,547</u>	<u>3,050,246</u>	<u>3,394,931</u>	<u>23,534,464</u>	<u>22,124,478</u>
Total Net Position	<u>33,420,942</u>	<u>31,517,116</u>	<u>15,195,691</u>	<u>14,773,668</u>	<u>48,616,633</u>	<u>46,290,784</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 39,180,135</u>	<u>\$ 37,058,012</u>	<u>\$ 19,520,203</u>	<u>\$ 16,881,199</u>	<u>\$ 58,700,338</u>	<u>\$ 53,939,211</u>

Statement of Activities

The following table summarizes revenues and expenses for the primary government:

Summary of Changes in Net Position

For the Fiscal Years Ended June 30, 2021 and 2020

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Revenues						
Program Revenues						
Charges for services	\$ 821,012	\$ 938,665	\$ 3,545,646	\$ 3,502,400	\$ 4,366,658	\$ 4,441,065
Operating grants and contributions	2,306,615	3,169,190	-	-	2,306,615	3,169,190
General Revenues						
General property taxes, real and personal	2,428,389	2,321,647	-	-	2,428,389	2,321,647
Other taxes	4,817,308	4,656,648	-	-	4,817,308	4,656,648
Grants and contributions not restricted to specific programs	307,510	345,711	-	-	307,510	345,711
Unrestricted revenues from use of property	55,613	55,724	-	-	55,613	55,724
Investment earnings	72,442	257,456	9,976	21,918	82,418	279,374
Miscellaneous	430,057	298,117	-	-	430,057	298,117
Total Revenues	11,238,946	12,043,158	3,555,622	3,524,318	14,794,568	15,567,476
Expenses						
General government administration	1,735,365	1,472,583	-	-	1,735,365	1,472,583
Public safety	3,144,781	3,058,407	-	-	3,144,781	3,058,407
Public works	3,098,442	3,388,184	-	-	3,098,442	3,388,184
Parks, recreation, and cultural	602,653	531,450	-	-	602,653	531,450
Community development	882,947	1,082,551	-	-	882,947	1,082,551
Water and sewer activities	-	-	3,004,531	3,141,870	3,004,531	3,141,870
Total Expenses	9,464,188	9,533,175	3,004,531	3,141,870	12,468,719	12,675,045
Increase in Net Position Before Transfers	1,774,758	2,509,983	551,091	382,448	2,325,849	2,892,431
Beginning Net Position	31,517,116	28,929,114	14,773,668	14,469,239	46,290,784	43,398,353
Transfers	129,068	78,019	(129,068)	(78,019)	-	-
Change in Net Position	1,903,826	2,588,002	422,023	304,429	2,325,849	2,892,431
Ending Net Position	\$ 33,420,942	\$ 31,517,116	\$ 15,195,691	\$ 14,773,668	\$ 48,616,633	\$ 46,290,784

Governmental activities increased the Town's net position before transfers by \$1,774,758 for fiscal year 2021. Revenues from governmental activities totaled \$11,238,946. Other taxes comprise the largest source of these revenues, totaling \$4,817,308 or 42.86% of all governmental activities revenue. Business-type activities increased the Town's net position before transfers by \$551,091 with revenues reported of \$3,555,622.

The total cost of all governmental activities for this fiscal year was \$9,464,188. Public safety was the Town's largest program with expenses totaling \$3,144,781. Public works, which totals \$3,098,442, represents the second largest expense. Business-type activities reported expenses of \$3,004,531.

For the Town's governmental activities, the net expense (total cost less fees generated by the activities and program-specific governmental aid) is illustrated in the following table:

Net Cost of Governmental Activities

For the Fiscal Years Ended June 30, 2021 and 2020

	<u>2021</u>		<u>2020</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
General government administration	\$ 1,735,365	\$ (1,095,733)	\$ 1,472,583	\$ (1,425,690)
Public safety	3,144,781	(2,915,343)	3,058,407	(2,776,288)
Public works	3,098,442	(869,985)	3,388,184	303,133
Parks, recreation, and cultural	602,653	(598,153)	531,450	(526,950)
Community development	<u>882,947</u>	<u>(857,347)</u>	<u>1,082,551</u>	<u>(999,525)</u>
Total	<u>\$ 9,464,188</u>	<u>\$ (6,336,561)</u>	<u>\$ 9,533,175</u>	<u>\$ (5,425,320)</u>

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. Unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year. The Town's governmental funds reported combined ending fund balances of \$24,029,386. The combined governmental fund balance increased \$1,923,267 from the prior year.

The General Fund is the main operating fund of the Town. At the end of the current fiscal year, the General Fund had an unassigned fund balance of \$24,015,526. The General Fund's liquidity can be measured by comparing unassigned fund balance to total fund expenditures. Unassigned fund balance represents 257.02% of total fund expenditures.

BUDGETARY HIGHLIGHTS

General Fund

The following table provides a comparison of original budget, final budget, and actual revenues and expenditures in the General Fund:

Budgetary Comparison						
General Fund						
For the Fiscal Years Ended June 30, 2021 and 2020						
	<u>2021</u>			<u>2020</u>		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Revenues						
Taxes, real and personal property	\$ 2,250,000	\$ 2,250,000	\$ 2,334,959	\$ 2,228,200	\$ 2,228,200	\$ 2,293,854
Other local taxes	4,372,100	4,372,100	4,817,310	4,173,500	4,173,500	4,656,647
Other revenues	1,128,700	1,132,700	1,384,366	2,628,600	2,735,175	1,505,879
Intergovernmental	<u>1,895,263</u>	<u>2,339,851</u>	<u>2,588,564</u>	<u>3,169,995</u>	<u>3,186,931</u>	<u>3,514,902</u>
Total	<u>9,646,063</u>	<u>10,094,651</u>	<u>11,125,199</u>	<u>12,200,295</u>	<u>12,323,806</u>	<u>11,971,282</u>
Expenditures	<u>10,670,455</u>	<u>11,254,156</u>	<u>9,343,868</u>	<u>12,320,295</u>	<u>13,591,414</u>	<u>11,699,170</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,024,392)</u>	<u>(1,159,505)</u>	<u>1,781,331</u>	<u>(120,000)</u>	<u>(1,267,608)</u>	<u>272,112</u>
Other Financing Sources (Uses)						
Transfers in	125,000	125,000	129,068	120,000	120,000	127,056
Prior year surplus	<u>899,392</u>	<u>1,034,505</u>	<u>-</u>	<u>-</u>	<u>1,147,608</u>	<u>-</u>
Total	<u>1,024,392</u>	<u>1,159,505</u>	<u>129,068</u>	<u>120,000</u>	<u>1,267,608</u>	<u>127,056</u>
Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,910,399</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 399,168</u>

Final amended budget revenues were more than the original budget by \$448,588.

The amended budget appropriations for expenditures exceeded the original appropriation by \$583,701.

Actual revenues were more than final budget amounts by \$1,030,548, or 10.21%, while actual expenditures were \$1,910,288, or 16.97% less than final budget amounts.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

As of June 30, 2021, the Town's governmental activities net capital assets total \$12,922,864, which represents a net increase of \$145,298 or 1.14% over the previous fiscal year-end balance. The business-type activities net capital assets total \$13,325,793, an increase of \$663,336 or 5.24% over the previous fiscal year.

Change in Capital Assets

	<u>Balance July 1, 2020</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2021</u>
Governmental Activities			
Land and easements	\$ 1,293,613	\$ 800	\$ 1,294,413
Buildings and improvements	9,047,803	140,172	9,187,975
Land improvements	499,102	-	499,102
Streets and related infrastructure	11,203,803	19,717	11,223,520
Machinery, equipment, and vehicles	8,139,703	590,510	8,730,213
Total Capital Assets	30,184,024	751,199	30,935,223
Less: Accumulated depreciation	(17,406,458)	(605,901)	(18,012,359)
Total Capital Assets, Net	12,777,566	145,298	12,922,864
Business-Type Activities			
Land, land improvements, and easements	664,020	-	664,020
Water and sewer infrastructure	25,781,038	553,321	26,334,359
Machinery, equipment, and vehicles	2,824,236	762,036	3,586,272
Total Capital Assets	29,269,294	1,315,357	30,584,651
Less: Accumulated depreciation	(16,606,837)	(652,021)	(17,258,858)
Total Capital Assets, Net	12,662,457	663,336	13,325,793
 Total Reporting Entity	 \$ 25,440,023	 \$ 808,634	 \$ 26,248,657

Long-Term Debt

As of June 30, 2021, the Town's long-term obligations total \$1,493,184.

Change in Long-Term Debt

	<u>Balance July 1, 2020</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2021</u>	<u>Due Within One Year</u>
Governmental Activities				
Landfill obligation	\$ 157,495	\$ (157,495)	\$ -	\$ -
Compensated absences	283,314	29,522	312,836	31,284
Total Governmental Activities	440,809	(127,973)	312,836	31,284
Business-Type Activities				
Virginia Resources Authority	1,283,720	(103,372)	1,180,348	108,372
Total Business-Type Activities	1,283,720	(103,372)	1,180,348	108,372
Total Reporting Entity	\$ 1,724,529	\$ (231,345)	\$ 1,493,184	\$ 139,656

More detailed information on the Town's long-term obligations is presented in Note 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Town's elected and appointed officials considered many factors when setting the fiscal-year 2022 budget.

The average unemployment rate for the Town of South Hill, Virginia in June 2021, which uses Mecklenburg County's rate, was 5.1%. This compares unfavorably to the state's rate of 4.5% and favorably to the national rate of 6.1%.

The estimate in April 2020 by the University of Virginia Weldon Cooper Center is a population of 4,690.

These rates along with other indicators were taken into account when adopting the General Fund budget for 2022, which accounts for most of the Town's operational costs. The fiscal year 2022 adopted budget anticipates General Fund revenues and expenditures to be \$12,231,522, a 14.63% increase over the fiscal year 2021 final budget. The fiscal year 2022 adopted budget anticipates water and sewer revenue to be \$12,742,634, a 26.38% increase over the fiscal year 2021 budget.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. Questions concerning this report or requests for additional information should be directed to Kim Callis, Town Manager, or the Director of Finance, Town of South Hill, Virginia, 211 South Mecklenburg Avenue, South Hill, Virginia 23970, telephone 434-447-3191, or visit the Town's website at www.southhillva.org.

BASIC FINANCIAL STATEMENTS



Town of South Hill, Virginia

Statement of Net Position

At June 30, 2021

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 23,590,859	\$ 5,525,964	\$ 29,116,823
Property taxes receivable, net	180,713	-	180,713
Receivables	528,787	455,766	984,553
Due from other governments	285,745	-	285,745
Capital Assets			
Land and easements	1,294,413	664,020	1,958,433
Buildings and improvements	9,187,975	-	9,187,975
Land improvements	499,102	-	499,102
Infrastructure	11,223,520	26,334,359	37,557,879
Machinery, equipment, and vehicles	8,730,213	3,586,272	12,316,485
Less: Accumulated depreciation	(18,012,359)	(17,258,858)	(35,271,217)
Capital Assets, Net	<u>12,922,864</u>	<u>13,325,793</u>	<u>26,248,657</u>
Total Assets	37,508,968	19,307,523	56,816,491
Deferred Outflows of Resources			
Pension	1,656,030	210,755	1,866,785
OPEB	<u>15,137</u>	<u>1,925</u>	<u>17,062</u>
Total Deferred Outflows of Resources	<u>1,671,167</u>	<u>212,680</u>	<u>1,883,847</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 39,180,135</u>	<u>\$ 19,520,203</u>	<u>\$ 58,700,338</u>
Liabilities			
Accounts payable and accrued expenses	\$ 397,129	\$ 34,138	\$ 431,267
Customer deposits	-	179,062	179,062
Long-Term Liabilities			
<i>Due within one year</i>			
Bonds and notes payable	-	108,372	108,372
Compensated absences	31,284	-	31,284
<i>Due in more than one year</i>			
Bonds and notes payable	-	1,071,976	1,071,976
Compensated absences	281,552	-	281,552
Net pension liability	5,049,228	648,174	5,697,402
Unearned grant	<u>-</u>	<u>2,282,790</u>	<u>2,282,790</u>
Total Liabilities	5,759,193	4,324,512	10,083,705
Deferred Inflows of Resources			
Pension	-	-	-
OPEB	-	-	-
Net Position			
Net investment in capital assets	12,922,864	12,145,445	25,068,309
Restricted	13,860	-	13,860
Unrestricted	<u>20,484,218</u>	<u>3,050,246</u>	<u>23,534,464</u>
Total Net Position	<u>33,420,942</u>	<u>15,195,691</u>	<u>48,616,633</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 39,180,135</u>	<u>\$ 19,520,203</u>	<u>\$ 58,700,338</u>

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

Town of South Hill, Virginia

Statement of Activities

For the Year Ended June 30, 2021

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	
Primary Government						
Governmental Activities						
General government administration	\$ 1,735,365	\$ -	\$ 639,632	\$ (1,095,733)		\$ (1,095,733)
Public safety	3,144,781	76,932	152,506	(2,915,343)		(2,915,343)
Public works	3,098,442	744,080	1,484,377	(869,985)		(869,985)
Parks, recreation, and cultural	602,653	-	4,500	(598,153)		(598,153)
Community development	882,947	-	25,600	(857,347)		(857,347)
Total Governmental Activities	9,464,188	821,012	2,306,615	(6,336,561)		(6,336,561)
Business-Type Activities						
Water and sewer fund	3,004,531	3,545,646	-	-	\$ 541,115	541,115
Total Primary Government	\$ 12,468,719	\$ 4,366,658	\$ 2,306,615	(6,336,561)	541,115	(5,795,446)
General Revenues						
Taxes						
General property taxes, real and personal				2,428,389	-	2,428,389
Other local taxes				4,817,308	-	4,817,308
Grants and contributions not restricted to specific programs				307,510	-	307,510
Unrestricted revenues from use of property				55,613	-	55,613
Investment earnings				72,442	9,976	82,418
Miscellaneous				430,057	-	430,057
Transfers				129,068	(129,068)	-
Total General Revenues and Transfers				8,240,387	(119,092)	8,121,295
Change in Net Position				1,903,826	422,023	2,325,849
Net Position - Beginning of Year				31,517,116	14,773,668	46,290,784
Net Position - End of Year				\$ 33,420,942	\$ 15,195,691	\$ 48,616,633

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

Town of South Hill, Virginia

Balance Sheet

Governmental Funds

At June 30, 2021

	<u>General Fund</u>	<u>Food Hub Fund</u>	<u>Street Planning Fund</u>	<u>Cemetery Fund</u>	<u>Total Governmental Funds</u>
Assets					
Cash and investments	\$23,603,260	\$ -	\$ -	\$ 13,160	\$ 23,616,420
Property taxes receivable, net	180,013	-	-	-	180,013
Accounts receivable, net	528,787	-	-	700	529,487
Due from other funds	39	-	-	-	39
Due from other governments	<u>260,145</u>	<u>-</u>	<u>25,600</u>	<u>-</u>	<u>285,745</u>
Total Assets	<u>\$24,572,244</u>	<u>\$ -</u>	<u>\$ 25,600</u>	<u>\$ 13,860</u>	<u>\$ 24,611,704</u>
Liabilities					
Pooled cash deficit	\$ -	\$ -	\$ 25,561	\$ -	\$ 25,561
Accounts payable and accrued liabilities	397,126	-	-	-	397,126
Due to other funds	<u>-</u>	<u>-</u>	<u>39</u>	<u>-</u>	<u>39</u>
Total Liabilities	397,126	-	25,600	-	422,726
Deferred Inflows of Resources					
Unavailable revenue - property taxes	<u>159,592</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>159,592</u>
Total Deferred Inflows of Resources	159,592	-	-	-	159,592
Fund Balance					
Restricted	-	-	-	13,860	13,860
Unassigned	<u>24,015,526</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,015,526</u>
Total Fund Balance	<u>24,015,526</u>	<u>-</u>	<u>-</u>	<u>13,860</u>	<u>24,029,386</u>
Total Liabilities, Deferred Inflows of of Resources, and Fund Balance	<u>\$24,572,244</u>	<u>\$ -</u>	<u>\$ 25,600</u>	<u>\$ 13,860</u>	<u>\$ 24,611,704</u>

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

Town of South Hill, Virginia

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

At June 30, 2021

Total Fund Balances for Governmental Funds		\$ 24,029,386
Total net position reported for governmental activities in the Statement of Net Position is different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land, land improvements, and easements	\$ 1,730,339	
Buildings and improvements, net of accumulated depreciation	5,386,744	
Streets and related infrastructure, net of accumulated depreciation	3,110,350	
Machinery, equipment, and vehicles, net of accumulated depreciation	<u>2,695,431</u>	
Total Capital Assets		12,922,864
Other Assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds statement.		
Unavailable revenue - property taxes		159,589
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources related to OPEB	15,137	
Deferred outflows of resources related to pensions	<u>1,656,030</u>	
Total Deferred Outflows and Inflows of Resources		1,671,167
Liabilities applicable to the Town's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities.		
Balances of long-term liabilities affecting net position are as follows:		
Net pension liability	(5,049,228)	
Compensated absences	<u>(312,836)</u>	
Total		<u>(5,362,064)</u>
Total Net Position of Governmental Activities		<u>\$ 33,420,942</u>

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

Town of South Hill, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2021

	<u>General Fund</u>	<u>Food Hub Fund</u>	<u>Street Planning Fund</u>	<u>Cemetery Fund</u>	<u>Total Governmental Funds</u>
Revenues					
Property taxes	\$ 2,334,959	\$ -	\$ -	\$ -	\$ 2,334,959
Other local taxes	4,817,310	-	-	-	4,817,310
Permits, privilege fees, and regulatory licenses	31,251	-	-	-	31,251
Fines and forfeitures	45,682	-	-	-	45,682
Use of money and property	128,056	-	-	-	128,056
Charges for services	744,080	-	-	-	744,080
Miscellaneous	435,297	9,011	-	4,040	448,348
<i>Intergovernmental</i>					
Revenue from the Commonwealth of Virginia	2,001,899	-	-	-	2,001,899
Revenue from the Federal Government	586,665	-	25,600	-	612,265
Total Revenues	11,125,199	9,011	25,600	4,040	11,163,850
Expenditures					
Current					
General government administration	1,602,266	-	-	-	1,602,266
Public safety	3,083,407	-	-	-	3,083,407
Public works	3,309,981	-	-	-	3,309,981
Parks, recreation, and cultural	490,828	-	-	-	490,828
Community development	857,386	-	25,600	183	883,169
Total Expenditures	9,343,868	-	25,600	183	9,369,651
Excess (Deficiency) of Revenues Over Expenditures	1,781,331	9,011	-	3,857	1,794,199
Other Financing Sources (Uses)					
Transfers in (out)	129,068	-	-	-	129,068
Total Other Financing Sources (Uses)	129,068	-	-	-	129,068
Net Change in Fund Balance	1,910,399	9,011	-	3,857	1,923,267
Fund Balance (Deficit) - Beginning of Year	22,105,127	(9,011)	-	10,003	22,106,119
Fund Balance - End of Year	\$ 24,015,526	\$ -	\$ -	\$ 13,860	\$ 24,029,386

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

Town of South Hill, Virginia

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities

Year Ended June 30, 2021

Net Change in Fund Balances - Total Governmental Funds \$ 1,923,267

**Amounts reported for governmental activities in the Statement of Activities
are different because:**

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 as depreciation expense.

Capitalized assets	\$ 751,199	
Depreciation	<u>(605,901)</u>	
		145,298

Revenues in the Statement of Activities that do not provide current financial resources are deferred in the fund statements. This amount represents the difference in the amounts deferred in the fund financial statements, but recognized in the Statement of Activities.

93,430

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

Pension contributions	277,079	
Cost of benefits earned net of employee contributions	(678,357)	
Net OPEB group life insurance	<u>15,137</u>	
		(386,141)

Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following:

Landfill obligation	157,495	
Compensated absences	<u>(29,523)</u>	
Net Adjustment		<u>127,972</u>

Change in Net Position of Governmental Activities \$ 1,903,826

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

Town of South Hill, Virginia

Statement of Net Position

Proprietary Fund

At June 30, 2021

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

Assets**Current Assets**

Cash	\$ 5,525,964
Accounts receivable	455,766

Total Current Assets 5,981,730

Capital Assets

Land, land improvements, and easements	664,020
Infrastructure	26,697,867
Machinery, equipment, and vehicles	3,222,765
Less: Accumulated depreciation	(17,258,859)

Capital Assets, Net 13,325,793

Deferred Outflows of Resources

Pension	210,755
OPEB	1,925

Total Deferred Outflows of Resources 212,680

Total Assets and Deferred Outflows of Resources \$ 19,520,203

Liabilities**Current Liabilities**

Accounts payable and accrued liabilities	\$ 34,138
Current portion of general obligation bonds	108,372

Total Current Liabilities 142,510

Noncurrent Liabilities

Customer deposits	179,062
Net pension liability	648,174
General obligation bonds (net of current portion)	1,071,976
Unearned grant	2,282,790

Total Noncurrent Liabilities 4,182,002

Total Liabilities 4,324,512

Deferred Inflows of Resources

Pension	-
OPEB	-

Total Deferred Inflows of Resources -

Net Position

Net investment in capital assets	12,145,445
Unrestricted	3,050,246

Total Net Position 15,195,691

Total Liabilities, Deferred Inflows of Resources, and Net Position \$ 19,520,203

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

Town of South Hill, Virginia

Statement of Revenues, Expenses, and Changes in Fund Net Position

Proprietary Fund

Year Ended June 30, 2021

	<u>Business-Type Activities - Enterprise Fund Water and Sewer Fund</u>
Operating Revenues	
Charges for services	\$ 3,140,590
Miscellaneous	17,307
Connection and cut-on fees	38,260
Federal grants	<u>349,489</u>
Total Operating Revenues	3,545,646
Operating Expenses	
Water purchases	1,128,845
Salaries and wages	396,299
Fringe benefits	193,104
Contractual services	30,133
Professional services	25,853
Chemicals	9,936
Vehicle and power equipment	12,632
Repairs and maintenance	183,076
Insurance	21,574
Other charges	124,626
Depreciation	659,727
Utilities	<u>157,471</u>
Total Operating Expenses	<u>2,943,276</u>
Operating Income	602,370
Nonoperating Revenues (Expenses)	
Investment and interest income	9,976
Interest expense on bonds	(55,161)
Gain/loss on asset	<u>(6,094)</u>
Total Nonoperating Revenues (Expenses)	<u>(51,279)</u>
Income Before Operating Transfers	551,091
Operating Transfers In (Out)	<u>(129,068)</u>
Change in Net Position	422,023
Total Net Position - Beginning of Year	<u>14,773,668</u>
Total Net Position - End of Year	<u>\$ 15,195,691</u>

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

Town of South Hill, Virginia

Statement of Cash Flows

Proprietary Fund

Year Ended June 30, 2021

	Business-Type Activities - Enterprise Fund Water and Sewer Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 3,424,587
Operating grants	2,282,790
Payments to personnel and related costs	(589,403)
Payments to suppliers	<u>(1,662,676)</u>
Net Cash Provided by Operating Activities	3,455,298
Cash Flows from Noncapital Financing Activities	
Funds from (paid to) other funds	<u>(129,068)</u>
Net Cash Used in Noncapital Financing Activities	(129,068)
Cash Flows from Financing Capital and Related Activities	
Purchase of capital assets	(1,329,158)
Gain/loss on asset	6,094
Principal paid on long-term debt	(103,372)
Interest paid on long-term debt	<u>(55,161)</u>
Net Cash Used in Financing Capital and Related Activities	(1,481,597)
Cash Flows from Investing Activities	
Investment and interest income	<u>9,976</u>
Net Cash Provided by Investing Activities	<u>9,976</u>
Net Increase in Cash	1,854,609
Cash - Beginning of Year	<u>3,671,355</u>
Cash - End of Year	<u><u>\$ 5,525,964</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 602,370
<i>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</i>	
Depreciation expense	659,727
<i>Changes in assets and liabilities</i>	
Receivables	(78,690)
Accounts payable and accrued expenses	(62,350)
Customer deposits	9,976
Unearned grants	2,282,790
Deferred outflows - pension	(40,444)
Deferred outflows - OPEB	(1,925)
Net pension liability	114,768
Deferred inflows - pension	<u>(30,924)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 3,455,298</u></u>

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

Town of South Hill Virginia

Notes to the Financial Statements

Year Ended June 30, 2021

1 Summary of Significant Accounting Policies

Narrative Profile

The Town of South Hill, Virginia (the "Town"), which was incorporated in 1901, has a population of approximately 4,690 living within an area of 9.3 square miles. The Town is located in eastern Mecklenburg County, Virginia at the intersection of Interstate Highway 85 and U. S. Highway 58. The Town is governed by a Mayor, Town Manager, and an eight-member Town Council with each serving administrative and legislative functions.

The Town engages in a comprehensive range of municipal services, including general government administration, public safety, public works, parks, recreation, and cultural, and community development.

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

1-A. Financial Reporting Entity

The basic criterion for determining whether a governmental department, agency, institution, commission, public authority, or other governmental organization should be included in a primary governmental unit's reporting entity for the basic financial statements is financial accountability. Financial accountability includes the appointment of a voting majority of the organization's governing body and the ability of the primary government to impose its will on the organization or if there is a financial benefit/burden relationship. In addition, an organization which is fiscally dependent on the primary government should be included in its reporting entity. These financial statements present the Town of South Hill, Virginia (the primary government).

Exclusions from the Reporting Entity

Jointly Governed Organizations

Jointly governed organizations are regional governments or other multi-governmental arrangements that are governed by representation from each of the governments that create the organizations, and the participants do not retain an ongoing financial interest or responsibility in the organization.

The financial activities of the following organizations are excluded from the accompanying financial statements for the reasons indicated:

Related Organization

Industrial Development Authority of the Town of South Hill, Virginia

The Authority is a separate and distinct entity from the Town of South Hill, Virginia and is, in accordance with the Act, a political subdivision of the Commonwealth of Virginia and not subject to income taxation.

The Authority is governed by a seven-member Board of Directors appointed by the Town Council of the Town of South Hill, Virginia to serve staggered terms of four years.

1-B. Financial Reporting Model

The Town's Comprehensive Annual Financial Report includes management's discussion and analysis, the basic financial statements, and required supplementary information, described as follows:

Management's Discussion and Analysis – The basic financial statements are accompanied by a narrative introduction as well as an analytical overview of the Town's financial activities.

Government-wide Financial Statements – The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements report financial information for the Town as a whole. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and grants and the Town's general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. The fiduciary funds of the primary government are not included in the government-wide financial statements.

The Statement of Net Position presents the financial position of the governmental and business-type activities of the Town at year end.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities and for each identifiable activity of the business-type activities of the Town. Direct expenses are those that are specifically associated with a function and, therefore, clearly identifiable to that particular function. The Town does not allocate indirect expenses to functions in the Statement of Activities.

The Statement of Activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees and other charges to users of the Town's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. For identifying to which function program revenue pertains, the determining factor for *charges for services* is which function *generates* the revenue. For *grants and contributions*, the determining factor is to which function the revenues are *restricted*.

Other revenue sources not considered to be program revenues are reported as general revenues of the Town. The comparison of direct expenses with program revenues identifies the extent to which each governmental function and each identifiable business activity is self-financing or draws from the general revenues of the Town.

Fund Financial Statements – During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at this more detailed level. Fund financial statements are provided for governmental, proprietary, and fiduciary funds.

Major individual governmental and proprietary funds are reported in separate columns.

Reconciliation of Government-wide and Fund Financial Statements – Since the governmental funds financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements, a summary reconciliation of the difference between total fund balances as reflected on the governmental funds Balance Sheet and total governmental activities Net Position as shown on the government-wide Statement of Net Position is presented. In addition, a summary reconciliation of the difference between the total net change in fund balances as reflected on the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances, and the change in Net Position of governmental activities as shown on the government-wide Statement of Activities is presented.

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

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

1-C. Financial Statement Presentation

In the fund financial statements, financial transactions and accounts of the Town are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The following is a brief description of the funds reported by the Town in each of its fund types in the financial statements:

- **Governmental Funds** – Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The Town reports the difference between its governmental fund assets and deferred outflows of resources and its liabilities and deferred inflows of resources as fund balance. The following are the Town's major governmental funds:
 - *General Fund* – The General Fund is the primary operating fund of the Town and accounts for all revenues and expenditures applicable to the general operations of the Town which are not accounted for in other funds. Revenues are derived primarily from property and other local taxes, licenses, permits, charges for services, use of money and property, and intergovernmental grants.
 - *Special Revenue Funds* – Special Revenue Funds account for the proceeds of specific revenue sources (other than those derived from special assessments, expendable trusts, or dedicated for major capital projects) requiring separate accounting due to legal or regulatory provisions or administrative action. Special Revenue Funds include the following:
 - Cemetery Fund – This fund accounts for Town revenues collected and disbursed for maintenance of the Cemetery Fund controlled by the Town.
 - Food Hub Fund – This fund accounts for revenues collected and disbursed for the building and erection of the Food Hub, which is controlled by the Town.
 - Street Planning Fund – This fund accounts for revenues collected and disbursed for planning rehabilitation of 2nd and 3rd street infrastructure, which is controlled by the Town.
 - *Capital Projects Funds* – Capital Projects Funds account for financial resources to be used for rehabilitation projects, other than those financed by proprietary funds. There are no Capital Projects Funds.
- **Proprietary Funds** – Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The Town has one enterprise fund, the Water and Sewer Fund, which accounts for operations that are financed and operated in a manner similar to private business enterprises. The intent of the Town is that the cost of providing services to the general public be financed or recovered through user charges.

- ***Fiduciary Funds (Custodial Funds)*** – Fiduciary funds account for assets held by the Town in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds. Custodial funds utilize the accrual basis of accounting. Since by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements. The Town has no Fiduciary Funds at this time.

1-D. Measurement Focus and Basis of Accounting

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) which are otherwise being supported by general government revenues, (property taxes, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Town's fiduciary funds are presented in the fund financial statements by type. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year end are reflected as deferred revenues.

Sales and utility taxes, which are collected by the state or utilities and, subsequently, remitted to the Town, are recognized as revenues and receivables upon collection by the state or utility, which is generally within two months preceding receipt by the Town.

Licenses, permits, fines, and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state, and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditures. Revenues from general purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

1-E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity

1-E-1 Cash and Cash Equivalents

The Town operates a cash and investment pool which all funds utilize. The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

The Town allocates investment earnings of the cash and investment pool to each participating fund on a monthly basis in accordance with that fund's average equity balance in the pool for that month.

1-E-2 Investments

Investments are stated at fair value which approximates market; no investments are valued at cost. Certificates of deposit and short-term repurchase agreements are reported in the accompanying financial statements as cash and cash equivalents.

State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, the State Treasurer's Local Government Investment Pool (LGIP), the State Non-Arbitrage Program (SNAP), and Virginia Qualified Investment Pools.

1-E-3 Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portions of the interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statement as internal balances.

All trade and property tax receivables are shown net of an allowance for uncollectibles. The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance is composed of the following:

	<u>General</u>
General Fund - Property Taxes	\$ 58,476
	<u>\$ 58,476</u>

Real and Personal Property Tax Data

The tax calendars for real and personal property taxes are summarized below:

Real Property Personal Property

Levy	July 1	July 1
Due Date	January 5	January 5
Lien Date	July 1	July 1

The Town bills and collects its own property taxes.

A 10% penalty or \$10 minimum is levied on all taxes not collected on or before their due date. An interest charge of ten percent per annum is also levied on such taxes beginning on January 6.

1-E-4 Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30 are recorded as prepaid items using the consumption method by recording an asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed. At the fund reporting level, an equal amount of fund balance is reported as nonspendable as this amount is not available for general appropriation.

1-E-5 Capital Assets

General capital assets are those capital assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in governmental funds. The Town reports these assets in the governmental activities column of the government-wide Statement of Net Position but does not report these assets in the governmental fund financial statements. Capital assets utilized by enterprise funds are reported both in the business-type activities column of the government-wide Statement of Net Position and in the enterprise funds' Statement of Net Position.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Town maintains a capitalization threshold of \$5,000. The Town's infrastructure consists primarily of roads and bridges. Improvements to capital assets are capitalized; however, the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Capital assets of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Description</u>	<u>Estimated Lives</u>
Buildings and improvements	10 to 40 years
Infrastructure	40 years
Land improvements	30 to 40 years
Furniture and other equipment	3 to 20 years

1-E-6 *Deferred Outflows/Inflows of Resources*

The Statement of Financial Position includes a separate section for deferred outflows of resources. This represents the usage of net position applicable to future periods and will be recognized as expenditures in the future period to which it applies. This category also includes amounts related to pensions for certain actuarially determined differences projected and actual investment earnings.

The Statement of Financial Position also includes a separate section for deferred inflows of resources. This represents an acquisition of net position applicable to future periods and will not be recognized as revenue in the future period to which it applies. Currently, this category includes revenue received in advance, and amounts related to pensions for certain actuarially determined differences between projected and actual experience.

Deferred inflows of resources in the governmental funds balance sheet include unavailable revenue. Unavailable revenue consists primarily of special assessment, loans and notes receivable. The Town considers revenues available if they are collected within 45 days of the end of the fiscal year.

1-E-7 *Compensated Absences*

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Town will compensate the employees for the benefits through paid time off or some other means.

All compensated absence liabilities include salary-related payments, where applicable.

The total compensated absence liability is reported on the government-wide financial statements. Proprietary funds report the total compensated absence liability in each individual fund at the fund reporting level. Governmental funds report the compensated absence liability at the fund reporting level when paid.

1-E-8 *Pensions*

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

1-E-9 *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 VRS Group Life Insurance program OPEB and the additions to/deductions from the VRS Group Life Insurance Program OPEB's fiduciary net 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.

1-E-10 Fund Equity

Fund equity at the governmental fund financial reporting level is classified as fund balance. Fund equity for all other reporting is classified as net position.

Governmental Fund Balances – Generally, governmental fund balances represent the difference between the current assets and deferred outflows of resources, and current liabilities and deferred inflows of resources. Governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which resources can be spent. Fund balances are classified as follows:

Nonspendable – amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level of action to remove or change the constraint.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes.

Unassigned – all amounts not classified as nonspendable, restricted, committed, or assigned.

Net Position – Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of cost of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. This net investment in capital assets amount also is adjusted by any bond issuance deferral amounts. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net position is reported as unrestricted.

1-E-11 Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Town, these revenues are charges for services for water and sewer. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All other items that do not directly relate to the principal and usual activity of the fund are recorded as nonoperating revenues and expenses. These items include investment earnings and gains or losses on the disposition of capital assets.

1-E-12 Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after the non-operating revenues/expenses section in proprietary funds.

1-E-13 Long-Term Obligations

The Town reports long-term debt of Governmental Funds at face value in the general long-term debt account group. The face value of the debt is believed to approximate fair value. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group. Long-term debt and other obligations financed by Proprietary Funds are reported as liabilities in the appropriate funds.

1-E-14 Adoption of New GASB Statements

The Town did not adopt any new GASB statements during the fiscal year ended June 30, 2021.

1-F. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

2 Stewardship, Compliance, and Accountability

Budgets and Budgetary Accounting

The Town Council annually adopts budgets for the various funds of the primary government. All appropriations are legally controlled at the department level for the primary Government Funds. Unexpended appropriations lapse at the end of each fiscal year.

Budgetary Data

The following procedures are used by the Town in establishing the budgetary data reflected in the financial statements:

1. Prior to April 1, the Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing July 1. The operating budget and capital budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the fund, function, and departmental level. These appropriations for each fund, function, and department can be revised only by the Town Council.
5. Formal budgetary integration is employed as a management control device during the year and budgets are legally adopted for all major funds.

6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Expenditures in Excess of Appropriations

Expenditures exceeded appropriations in the Street Planning Fund at June 30, 2021.

Fund Deficits

No funds had fund deficits.

3 Cash and Cash Equivalents

Deposits

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

The following is a summary and reconciliation of the pooled cash and certificates of deposit at June 30, 2021:

<u>Asset Type</u>	<u>Balance June 30, 2021</u>
Petty cash	\$ 950
Deposit accounts	<u>29,115,873</u>
Total Cash and Cash Equivalents	<u>\$ 29,116,823</u>

4 Net Receivables

Receivables at June 30, 2021 consist of the following:

Primary Government

	<u>Governmental Activities</u>			<u>Business-Type Activities</u>	
	<u>General</u>	<u>Cemetery</u>	<u>Total Governmental</u>		<u>Total</u>
Property taxes	\$ 238,489	\$ -	\$ 238,489	\$ -	\$ 238,489
Sales taxes	99,742	-	99,742	-	99,742
Utility taxes	16,409	-	16,409	-	16,409
Garbage, water and sewer	103,079	-	103,079	455,766	558,845
Meals tax	212,390	-	212,390	-	212,390
Lodging tax	71,994	-	71,994	-	71,994
Motor vehicle license fees	4,307	-	4,307	-	4,307
Fines	3,879	-	3,879	-	3,879
Mecklenburg tipping fees	13,788	-	13,788	-	13,788
Miscellaneous	<u>3,199</u>	<u>700</u>	<u>3,899</u>	<u>-</u>	<u>3,899</u>
Total	767,276	700	767,976	455,766	1,223,742
Allowance for uncollectibles	<u>(58,476)</u>	<u>-</u>	<u>(58,476)</u>	<u>-</u>	<u>(58,476)</u>
Net Receivables	<u>\$ 708,800</u>	<u>\$ 700</u>	<u>\$ 709,500</u>	<u>\$ 455,766</u>	<u>\$ 1,165,266</u>

5 Interfund Transfers and Balances

Interfund transfers for the year ended June 30, 2021 consisted of the following:

Primary Government

	<u>Transfer To</u>	<u>Transfer From</u>
General Fund		
From Water and Sewer Fund for administrative fees	\$ -	\$ 129,068
Total General Fund	-	129,068
Water and Sewer Fund		
To General Fund for administrative fees	129,068	-
Total Water and Sewer Fund	129,068	-
 Total Transfers	<u>\$ 129,068</u>	<u>\$ 129,068</u>

Interfund balances for the year ended June 30, 2021 consisted of the following amounts:

	<u>Due From</u>	<u>Due To</u>
General Fund		
Due from Street Planning Fund	\$ 39	\$ -
Street Planning Fund		
Due to General Fund	-	39
 Total Due To/From Other Funds	<u>\$ 39</u>	<u>\$ 39</u>

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6 Capital Assets

The following is a summary of changes in capital assets:

Governmental Activities

	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021
Capital Assets Not Being Depreciated				
Land and easements	\$ 1,293,613	\$ 800	\$ -	\$ 1,294,413
Total Capital Assets Not Being Depreciated	1,293,613	800	-	1,294,413
Other Capital Assets				
Buildings and improvements	9,047,803	140,172	-	9,187,975
Land improvements	499,102	-	-	499,102
Streets and related infrastructure	11,203,803	19,717	-	11,223,520
Machinery, equipment, and vehicles	8,139,703	754,191	163,681	8,730,213
Total Other Capital Assets	28,890,411	914,080	163,681	29,640,810
Less: Accumulated depreciation for				
Buildings and improvements	3,565,025	236,206	-	3,801,231
Land improvements	58,592	4,584	-	63,176
Streets and related infrastructure	8,023,190	89,980	-	8,113,170
Machinery, equipment, and vehicles	5,759,651	420,721	145,590	6,034,782
Total Accumulated Depreciation	17,406,458	751,491	145,590	18,012,359
Other Capital Assets, Net	11,483,953	162,589	18,091	11,628,451
Net Capital Assets	\$ 12,777,566	\$ 163,389	\$ 18,091	\$ 12,922,864

Depreciation expense was allocated as follows:

General government administration	\$ 92,755
Public safety	110,940
Public works	425,612
Parks, recreation, and cultural	122,184
Total Depreciation Expense	\$ 751,491

Business-Type Activities

	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021
Capital Assets Not Being Depreciated				
Land, land improvements, and easements	\$ 664,020	\$ -	\$ -	\$ 664,020
Total Capital Assets Not Being Depreciated	664,020	-	-	664,020
Other Capital Assets				
Water and sewer infrastructure	25,781,038	553,321	-	26,334,359
Machinery, equipment, and vehicles	2,824,236	775,836	13,800	3,586,272
Total Other Capital Assets	28,605,274	1,329,157	13,800	29,920,631
Less: Accumulated depreciation for				
Water and sewer infrastructure	15,307,930	178,997	-	15,486,927
Machinery, equipment, and vehicles	1,298,907	480,730	7,706	1,771,931
Total Accumulated Depreciation	16,606,837	659,727	7,706	17,258,858
Other Capital Assets, Net	11,998,437	669,430	6,094	12,661,773
Net Capital Assets	\$ 12,662,457	\$ 669,430	\$ 6,094	\$ 13,325,793
Depreciation expense was allocated as follows:				
Water and sewer activities	\$ 659,727			
Total Depreciation Expense	\$ 659,727			

7 Compensated Absences

Town employees can accumulate up to 360 hours of compensated leave. Upon termination, employees are paid accumulated vacation leave. The Town has outstanding compensated absences totaling \$312,836 for the governmental activities.

8 Long-Term Debt

PRIMARY GOVERNMENT

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

Year(s) Ended June 30,	Governmental Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ -	\$ -	\$ 108,372	\$ 51,335	\$ 108,372	\$ 51,335
2023	-	-	113,372	46,896	113,372	46,896
2024	-	-	163,372	41,810	163,372	41,810
2025	-	-	123,372	36,421	123,372	36,421
2026	-	-	120,000	30,858	120,000	30,858
2027-2031	-	-	551,860	58,719	551,860	58,719
Compensated absences	312,836	-	-	-	312,836	-
Total	\$ 312,836	\$ -	\$ 1,180,348	\$ 266,039	\$ 1,493,184	\$ 266,039

Changes in Long-Term Debt

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

	Balance July 1, 2020	Increase	Decrease	Balance June 30, 2021	Due Within One Year
Governmental Activities					
Landfill obligation	\$ 157,495	\$ -	\$ 157,495	\$ -	\$ -
Compensated absences	283,314	29,522	-	312,836	31,284
Total Governmental Activities	440,809	29,522	157,495	312,836	31,284
Business-Type Activities					
Virginia Resources Authority - Series 2010A	1,200,000	-	95,000	1,105,000	100,000
Subtotal	1,200,000	-	95,000	1,105,000	100,000
ADD					
Unamortized Premium on Bond Series 2010A	83,720	-	8,372	75,348	8,372
Total Business-Type Activities	1,283,720	-	103,372	1,180,348	108,372
Grand Total - All Debt	\$ 1,724,529	\$ 29,522	\$ 260,867	\$ 1,493,184	\$ 139,656

Bonds and notes payable at June 30, 2021 are comprised of the following:

Business-Type Activities

\$1,995,000 Virginia Resources Authority, Pooled Bond Loan Program, Wastewater and Storm Facilities GOB Series 2010A, semiannual interest payments at varying rates from 2.88 percent to 5.20 percent and annual principal payments ranging from \$80,000 per year to \$150,000 per year for a 20-year period.	\$ 1,105,000
Unamortized Premiums on Bond Series 2010A	<u>75,348</u>
Total Business-Type Activities	<u>\$ 1,180,348</u>

9 Net Investment in Capital Assets

The “net investment in capital assets” amount reported on the government-wide Statement of Net Position as of June 30, 2021 is determined as follows:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>
Net Investment in Capital Assets		
Cost of capital assets	\$ 30,935,223	\$ 30,584,651
Less: Accumulated depreciation	<u>(18,012,359)</u>	<u>(17,258,858)</u>
Book value	12,922,864	13,325,793
Less: Capital related debt	-	(1,105,000)
Less: Unamortized premium	<u>-</u>	<u>(75,348)</u>
Net Investment in Capital Assets	<u>\$ 12,922,864</u>	<u>\$ 12,145,445</u>

10 Deferred Inflows of Resources

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

Primary Government General Fund

Unavailable revenue - property taxes	\$ 180,013
Taxes not collected within 60 days	<u>(20,421)</u>
Total Deferred Inflows of Resources - Governmental Funds	<u>\$ 159,592</u>

11 Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town joined together with other local governments in Virginia to form the Virginia Risk Sharing Association, a public entity risk pool currently operating as a common risk management and insurance program for participating local governments. The Town pays an annual premium to the pool for substantially all of its insurance coverage. In the event of a loss deficit and depletion of all available excess insurance, the pool may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

The Town continues to carry commercial insurance for all other risks of loss, including notary public errors and omissions, additional insurance for volunteer firefighters and employee health and life insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Crime coverage is as follows:

<u>Bond Type</u>	<u>Limit</u>
Forgery or alteration coverage	\$ 200,000
Theft, disappearance, and destruction coverage	200,000
Computer fraud	25,000
Money and counterfeit papers	200,000
Public employees dishonesty coverage	200,000

12 Commitments and Contingencies

Federal programs in which the Town participates were audited in accordance with the requirements by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Pursuant to the Uniform Guidance, all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by the audit, the Federal Government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowance of current grant program expenditures, if any, would be immaterial.

13 Litigation

At June 30, 2021, there were no matters of litigation involving the Town which would materially affect the Town's financial position should any court decisions or pending matters not be favorable to such entities.

14 Legal Compliance

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

Computation of Legal Debt Margin

Total Assessed Value of Taxed Real Estate	<u>\$ 436,788,700</u>
Debt Limit per Constitution of Virginia -10% Assessed Value	\$ 43,678,870
Amount of Debt Applicable to Debt Limit	
Gross Debt	<u>1,105,000</u>
Legal Debt Margin - June 30, 2021	<u>\$ 42,573,870</u>

Note: Includes all long-term general obligation bonded debt. Excludes capital leases, landfill closure, and compensated absences.

15 Landfill Obligation

State and Federal laws and regulations require the Town to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for ten years after closure.

Per a letter from the Department of Environmental Quality, post closure costs were terminated on January 11, 2019 and, therefore, financial assurance is no longer required to be demonstrated by the Town.

16 Pension Plan

Plan Description

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

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

RETIREMENT PLAN PROVISIONS

PLAN 1

About Plan 1

Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, service credit, and average final compensation at retirement using a formula.

Eligible Members

Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.

Hybrid Opt-In Election

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

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

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

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

PLAN 2

About Plan 2

Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, service credit, and average final compensation at retirement using a formula.

Eligible Members

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

Hybrid Opt-In Election

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

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

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

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

HYBRID RETIREMENT PLAN

About the Hybrid Retirement Plan

The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.

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

Eligible Members

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

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

**Non-Eligible Members*

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

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

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

PLAN 1

Retirement Contributions

Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. 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.

Service Credit

Service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Vesting

Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of service credit. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.

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

PLAN 2

Retirement Contributions

Same as Plan 1.

Service Credit

Same as Plan 1.

Vesting

Same as Plan 1.

HYBRID RETIREMENT PLAN

Retirement Contributions

A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Service Credit

Defined Benefit Component:

Under the defined benefit component of the plan, service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Defined Contributions Component:

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

Vesting

Defined Benefit Component:

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

Defined Contributions Component:

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

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

PLAN 1

Calculating the Benefit

The Basic Benefit is determined using the average final compensation, service credit, and plan multiplier. An early retirement reduction is applied to this amount if the member is retiring with a reduced benefit. In cases where the member has elected an optional form of retirement payment, an option factor specific to the option chosen is then applied.

An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

Average Final Compensation

A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

Service Retirement Multiplier

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

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

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

PLAN 2

Calculating the Benefit

See definition under Plan 1.

Average Final Compensation

A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.

Service Retirement Multiplier

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

Sheriffs and regional jail superintendents: Same as Plan 1.

Political subdivision hazardous duty employees: Same as Plan 1.

HYBRID RETIREMENT PLAN

Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

- After two years, a member is 50% vested and may withdraw 50% of employer contributions.
- After three years, a member is 75% vested and may withdraw 75% of employer contributions.
- After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

Distribution not required, except as governed by law.

Calculating the Benefit

Defined Benefit Component:

See definition under Plan 1.

Defined Contribution Component:

The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

Average Final Compensation

Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

Service Retirement Multiplier

Defined Benefit Component:

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

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

Sheriffs and regional jail superintendents: Not applicable.

Political subdivision hazardous duty employees: Not applicable.

Defined Contribution Component

Not applicable.

PLAN 1
Normal Retirement Age

VRS: Age 65.

Political subdivisions hazardous duty employees:
Age 60.

Earliest Unreduced Retirement Eligibility

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

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

Earliest Reduced Retirement Eligibility

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

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

Cost-of-Living Adjustment (COLA) in Retirement

The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.

Eligibility:

For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of service credit, the COLA will go into effect on July 1 after one full calendar year from the retirement date.

For members who retire with a reduced benefit and who have less than 20 years of service credit, the COLA will go into effect on July 1 after one calendar year following the

PLAN 2
Normal Retirement Age

VRS: Normal Social Security retirement age.

Political subdivisions hazardous duty employees:
Same as Plan 1.

Earliest Unreduced Retirement Eligibility

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

Political subdivisions hazardous duty employees:
Same as Plan 1.

Earliest Reduced Retirement Eligibility

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

Political subdivisions hazardous duty employees:
Same as Plan 1.

Cost-of-Living Adjustment (COLA) in Retirement

The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.

Eligibility:

Same as Plan 1

**HYBRID
RETIREMENT PLAN**
Normal Retirement Age

Defined Benefit Component:
VRS: Same as Plan 2.

Political subdivisions hazardous duty employees:
Not applicable.

Defined Contribution Component:

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

Earliest Unreduced Retirement Eligibility

Defined Benefit Component:

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

Political subdivisions hazardous duty employees:
Not applicable.

Defined Contribution Component:

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

Earliest Reduced Retirement Eligibility

Defined Benefit Component:

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

Political subdivisions hazardous duty employees:
Not applicable.

Defined Contribution Component:

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

Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component:

Same as Plan 2

Defined Contribution Component:

Not applicable

Eligibility:

Same as Plan 1 and Plan 2

PLAN 1

Exceptions to COLA Effective Dates:

The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability.
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

Disability Coverage

Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted.

Purchase of Prior Service

Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as service credit in their plan. Prior service credit counts towards vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service.

Members also may be eligible to purchase periods of leave without pay.

PLAN 2

Exceptions to COLA Effective Dates:

Same as Plan 1

Disability Coverage

Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased, or granted.

Purchase of Prior Service

Same as Plan 1

HYBRID RETIREMENT PLAN

Exceptions to COLA Effective Dates:

Same as Plan 1 and Plan 2

Disability Coverage

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

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

Purchase of Prior Service

Defined Benefit Component:

Same as Plan 1, with the following exceptions:

- Hybrid Retirement Plan members are ineligible for ported service.

Defined Contribution Component:

Not applicable

Employees Covered by Benefit Terms

As of the June 30, 2019 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	30
Inactive members:	
Vested inactive members	9
Non-vested inactive members	19
LTD	0
Inactive members active elsewhere in VRS	<u>28</u>
Total inactive members	56
Active members	<u>63</u>
Total covered employees	<u>149</u>

Contributions

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

If the employer used the certified rate: The Town of South Hill, Virginia's contractually required contribution rate for the year ended June 30, 2021 was 16.96% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town of South Hill, Virginia were \$602,495 and \$475,054 for the years ended June 30, 2021 and June 30, 2020, respectively.

Net Pension Liability

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For Town of South Hill, Virginia, the net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2019 rolled forward to the measurement date of June 30, 2020.

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, 2019, 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, 2020.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.35%
Investment rate of return	6.75%, net of pension 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of pension liabilities.

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

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

Actuarial Assumptions – Public Safety Employees

The total pension liability for Public Safety employees in the Political Subdivision Retirement Plan was based on an actuarial valuation as of June 30, 2019, 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, 2020.

Inflation	2.50%
Salary increases, including inflation	3.50% - 4.75%
Investment rate of return	6.75%, net of pension 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of pension liabilities.

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

All Others (Non 10 Largest) – Hazardous Duty:

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

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Long-Term Target Asset Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	34.00%	4.65%	1.58%
Fixed Income	15.00%	0.46%	0.07%
Credit Strategies	14.00%	5.38%	0.75%
Real Assets	14.00%	5.01%	0.70%
Private Equity	14.00%	8.34%	1.17%
MAPS - Multi-Asset Public Strategies	6.00%	3.04%	0.18%
PIP - Private Investment Partnership	<u>3.00%</u>	6.49%	<u>0.19%</u>
Total	<u>100.00%</u>		<u>4.64%</u>
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.14%</u>

**The above allocation provides a one-year return of 7.14%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY2020 actuarial valuations, provide a median return of 6.81%.*

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2020, the alternate rate was the employer contribution rate used in FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017, actuarial valuations, whichever was greater. From July 1, 2020 on, participating employers are assumed to continue 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

	Total Pension Liability (a)	<u>Increase (Decrease)</u> Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2019	\$ 14,715,644	\$ 10,061,583	\$ 4,654,061
Changes for the Year			
Service cost	390,884	-	390,884
Interest	973,907	-	973,907
Benefit changes	-	-	-
Assumption changes	-	-	-
Differences between expected and actual experience	480,993	-	480,993
Contributions - employer	-	467,249	(467,249)
Contributions - employee	-	148,299	(148,299)
Net investment income	-	193,551	(193,551)
Benefit payments, including refunds	(574,772)	(574,772)	-
Refunds of employee contributions	-	-	-
Administrative expenses	-	(6,424)	6,424
Other changes	-	(232)	232
Net Changes	1,271,012	227,671	1,043,341
Balances at June 30, 2020	<u>\$ 15,986,656</u>	<u>\$ 10,289,254</u>	<u>\$ 5,697,402</u>

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

The following presents the net pension liability of the Town of South Hill, Virginia using the discount rate of 6.75%, as well as what the Town of South Hill, Virginia's net pension liability would be if it were calculated using a discount rate that is one percentage point lower 5.75% or one percentage point higher 7.75% than the current rate:

	<u>1.00% Decrease</u> <u>5.75%</u>	<u>Current Discount</u> <u>Rate 6.75%</u>	<u>1.00% Increase</u> <u>7.75%</u>
Political subdivision's Net Pension Liability	\$ 7,806,398	\$ 5,697,402	\$ 3,949,823

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

For the year ended June 30, 2021, the Town of South Hill, Virginia recognized pension expense of \$1,039,067. At June 30, 2021, the Town of South Hill, Virginia reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 759,675	\$ -
Change in assumptions	202,314	-
Net difference between projected and actual earnings on pension plan investments	302,301	-
Employer contributions subsequent to the measurement date	<u>602,495</u>	<u>-</u>
Total	<u>\$ 1,866,785</u>	<u>\$ -</u>

\$602,495 reported as deferred outflows of resources related to pensions resulting from the Town of South Hill, Virginia's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2022. 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,**

2022	\$ 531,008
2023	441,547
2024	194,385
2025	97,350
2026	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2020 *Comprehensive Annual Financial Report* (Annual Report). A copy of the 2020 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2020-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

17 Other Post-Employment Benefits - 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 OPEB 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 in the table below:

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS
<p>Eligible Employees</p> <p>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:</p> <ul style="list-style-type: none"> • City of Richmond • City of Portsmouth • City of Roanoke • City of Norfolk • Roanoke City Schools Board <p>Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.</p>
<p>Benefit Amounts</p> <p>The benefits payable under the Group Life Insurance Program have several components.</p> <ul style="list-style-type: none"> • <i>Natural Death Benefit:</i> The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. • <i>Accidental Death Benefit:</i> The accidental death benefit is double the natural death benefit. • <i>Other Benefit Provisions:</i> In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include: <ul style="list-style-type: none"> Accidental dismemberment benefit Safety belt benefit Repatriation benefit Felonious assault benefit Accelerated death benefit option
<p>Reduction in Benefit Amounts</p> <p>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.</p>
<p>Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)</p> <p>For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$8,616 as of June 30, 2021.</p>

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 1.34% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.80% (1.34% X 60%) and the employer component was 0.54% (1.34% 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, 2021 was 0.54% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. 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 \$17,062 and \$0- for the years ended June 30, 2021 and June 30, 2020, respectively.

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, 2021, the entities reported a liability of \$-0- for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2020 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2019, and rolled forward to the measurement date of June 30, 2020. 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, 2020 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2020, the participating employer's proportion was .5668% as compared to .0000% at June 30, 2019.

For the year ended June 30, 2021, the participating employer recognized GLI OPEB expense of \$-0-. 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, 2021, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual earnings on GLI OPEB program investments	-	-
Change in assumptions	-	-
Changes in proportionate share	-	-
Employer contributions subsequent to the measurement date	<u>17,062</u>	<u>-</u>
Total	<u>\$ 17,062</u>	<u>\$ -</u>

\$17,062 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, 2022. 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,**

2022	\$ -
2023	-
2024	-
2025	-
2026	-
Thereafter	-

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2019, 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, 2020.

Inflation	2.50%
Salary increases, including inflation -	
General state employees	3.50% - 5.35%
Teachers	3.50% - 5.95%
SPORS employees	3.50% - 4.75%
VaLORS employees	3.50% - 4.75%
JRS employees	4.50%
Locality - General employees	3.50% - 5.35%
Locality - Hazardous Duty employees	3.50% - 4.75%
Investment rate of return	6.75%, net of investment expenses, including inflation*

** Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of the OPEB liabilities.*

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70-75
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	Increase rate from 14% to 25%
Discount Rate	Decrease rate from 7.00% to 6.75%

Mortality rates – Teachers

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Health Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with Scale BB to 2020; 115% of rates for males and females.

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70-75
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
Discount Rate	Decrease rate from 7.00% to 6.75%

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%
Discount Rate	Decrease rate from 7.00% to 6.75%

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%
Discount Rate	Decrease rate from 7.00% to 6.75%

Mortality rates – JRS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

RP-2014 Disability Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates.

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change
Discount Rate	Decrease rate from 7.00% to 6.75%

Mortality rates – Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates 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, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update 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%
Discount Rate	Decrease rate from 7.00% to 6.75%

Mortality rates – Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update 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%
Discount Rate	Decrease rate from 7.00% to 6.75%

Mortality rates – Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

Mortality rates – Non-Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

Net GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2020, NOL amounts for the Group Life Insurance Program are as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program
Total GLI OPEB Liability	\$ 3,523,937
Plan Fiduciary Net Position	<u>1,855,102</u>
GLI Net OPEB Liability (Asset)	<u>\$ 1,668,835</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	52.64%

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 lognormal 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:

<u>Asset Class (Strategy)</u>	<u>Long-Term Target Asset Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	34.00%	4.65%	1.58%
Fixed Income	15.00%	0.46%	0.07%
Credit Strategies	14.00%	5.38%	0.75%
Real Assets	14.00%	5.01%	0.70%
Private Equity	14.00%	8.34%	1.17%
MAPS - Multi-Asset Public Strategies	6.00%	3.04%	0.18%
PIP - Private Investment Partnership	<u>3.00%</u>	6.49%	<u>0.19%</u>
Total	<u>100.00%</u>		4.64%
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.14%</u>

** The above allocation provides a one-year return of 7.14%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY2020 actuarial valuations, provide for a median return of 6.81%.*

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2020, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2020 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

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

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

	1.00% Decrease (5.75%)	Current Discount Rate 6.75%	1.00% Increase (7.75%)
State Agency's Proportionate Share of the Group Life Insurance Plan Net OPEB Liability	\$ -	\$ -	\$ -

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 2020 *Comprehensive Annual Financial Report* (Annual Report). A copy of the 2020 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2020-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

18 Fund Balances – Governmental Funds

As of June 30, 2021, fund balances are composed of the following:

	Primary Government
Restricted	
Cemetery Fund - Subsequent years' appropriations	\$ 13,860
Total Restricted	\$ 13,860

19 Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to June 30, 2021 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2021. Management has performed their analysis through December 8, 2021.

REQUIRED SUPPLEMENTARY INFORMATION



Town of South Hill, Virginia

Budgetary Comparison Schedule

Year Ended June 30, 2021

General Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
General Property Taxes				
Real property taxes	\$ 1,450,000	\$ 1,450,000	\$ 1,379,024	\$ (70,976)
Public service corporation property taxes	65,000	65,000	67,861	2,861
Personal property taxes	720,000	720,000	847,056	127,056
Delinquent taxes	5,000	5,000	9,874	4,874
Interest on taxes	5,000	5,000	17,779	12,779
Penalties on taxes	5,000	5,000	13,365	8,365
Total General Property Taxes	2,250,000	2,250,000	2,334,959	84,959
Other Local Taxes				
Local sales and use taxes	450,000	450,000	593,831	143,831
Consumers' utility taxes	193,000	193,000	197,742	4,742
Business licenses	808,100	808,100	887,193	79,093
Motor vehicle licenses	36,000	36,000	45,398	9,398
Bank stock taxes	185,000	185,000	237,512	52,512
Lodging taxes	500,000	500,000	579,766	79,766
Meals taxes	1,900,000	1,900,000	2,056,632	156,632
Cigarette taxes	300,000	300,000	212,278	(87,722)
Penalties & interest other local taxes	-	-	6,958	6,958
Total Other Local Taxes	4,372,100	4,372,100	4,817,310	445,210
Permits, Privilege Fees, and Regulatory Licenses				
Miscellaneous permits	500	500	400	(100)
Building permits	25,000	25,000	30,851	5,851
Total Permits, Privilege Fees, and Regulatory Licenses	25,500	25,500	31,251	5,751
Fines and Forfeitures				
Court fines	100,000	100,000	45,657	(54,343)
Parking fines	200	200	25	(175)
Total Fines and Forfeitures	100,200	100,200	45,682	(54,518)
Revenue from Use of Money and Property				
Revenue from use of money	130,000	130,000	72,443	(57,557)
Revenue from use of property	50,500	50,500	54,893	4,393
Revenue from sale of property	-	-	720	720
Total Revenue from Use of Money and Property	180,500	180,500	128,056	(52,444)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Charges for Services				
Sanitation and waste removal	500,000	500,000	523,606	23,606
Other collection fees	-	-	2,211	2,211
Landfill tipping fees	<u>200,000</u>	<u>200,000</u>	<u>218,263</u>	<u>18,263</u>
Total Charges for Services	700,000	700,000	744,080	44,080
Miscellaneous	122,500	126,500	435,297	308,797
Intergovernmental				
<i>Revenue from the Commonwealth of Virginia</i>				
<i>Noncategorical Aid</i>				
Personal Property Tax Relief Act	113,068	113,068	113,068	-
Communication Sales and Use Tax	145,000	145,000	130,624	(14,376)
State Aid Asset Forfeiture	-	-	608	608
Rolling Stock Tax	100	100	154	54
Mobile Home Tax	500	500	75	(425)
Rental Vehicle Tax	40,000	40,000	60,092	20,092
Fema State Funds	-	-	50,750	50,750
Cares Act State Funds	10,000	10,000	1,250	(8,750)
E Summons	<u>-</u>	<u>-</u>	<u>2,928</u>	<u>2,928</u>
Total Noncategorical Aid	308,668	308,668	359,549	50,881
<i>Categorical Aid</i>				
Street and highway revenues	1,445,000	1,445,000	1,484,377	39,377
Police Law Enforcement Grant	121,000	121,000	134,784	13,784
Fire Department Grant	16,095	16,095	17,722	1,627
Cultural and Arts Grants	<u>4,500</u>	<u>4,500</u>	<u>4,500</u>	<u>-</u>
Total Categorical Aid	<u>1,586,595</u>	<u>1,586,595</u>	<u>1,641,383</u>	<u>54,788</u>
Total Revenue from the Commonwealth of Virginia	1,895,263	1,895,263	2,000,932	105,669
Revenue from the Federal Government				
Fema Disaster Funds	-	-	162,163	162,163
State and Community Highway Safety	-	-	967	967
Federal Cares Act Funds	<u>-</u>	<u>444,588</u>	<u>424,502</u>	<u>(20,086)</u>
Total Revenue from the Federal Government	<u>-</u>	<u>444,588</u>	<u>587,632</u>	<u>143,044</u>
Total Intergovernmental Revenues	<u>1,895,263</u>	<u>2,339,851</u>	<u>2,588,564</u>	<u>248,713</u>
Total Revenues	9,646,063	10,094,651	11,125,199	1,030,548

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures				
Current				
<i>General Government Administration</i>				
Town Council	790,326	790,326	755,773	34,553
Other general administration	375,920	724,975	424,094	300,881
Town Manager	287,120	287,120	277,017	10,103
Municipal Services	151,415	151,415	145,382	6,033
Total General Government Administration	1,604,781	1,953,836	1,602,266	351,570
<i>Public Safety</i>				
Police Department	2,508,091	2,520,561	2,263,189	257,372
Fire Department	570,685	643,777	578,120	65,657
Building Inspector	272,322	272,322	242,098	30,224
Total Public Safety	3,351,098	3,436,660	3,083,407	353,253
<i>Public Works</i>				
Sanitation	1,043,611	1,043,611	1,002,330	41,281
Street maintenance	1,953,492	1,968,948	1,754,256	214,692
Town shop maintenance	301,267	302,617	269,096	33,521
Building and grounds maintenance	270,720	299,078	284,299	14,779
Total Public Works	3,569,090	3,614,254	3,309,981	304,273
<i>Parks, Recreation, and Cultural</i>				
Library	22,000	22,000	16,345	5,655
Parks and recreation	596,784	596,784	474,483	122,301
Total Parks, Recreation, and Cultural	618,784	618,784	490,828	127,956
<i>Community Development</i>				
South Hill Community Development Association	596,578	596,578	596,578	-
Other planning and community development	930,124	1,034,044	260,808	773,236
Total Community Development	1,526,702	1,630,622	857,386	773,236
<i>Debt Service</i>	-	-	-	-
Total Expenditures	10,670,455	11,254,156	9,343,868	1,910,288
Excess (Deficiency) of Revenues Over Expenditures	(1,024,392)	(1,159,505)	1,781,331	2,940,836
Other Financing Sources (Uses)				
Prior year surplus	899,392	1,034,505	-	(1,034,505)
Transfers in	125,000	125,000	129,068	4,068
Transfers (out)	-	-	-	-
Total Other Financing Sources (Uses)	1,024,392	1,159,505	129,068	(1,030,437)
Net Change in Fund Balance	\$ -	\$ -	1,910,399	\$ 1,910,399
Fund Balance - Beginning of Year			22,105,127	
Fund Balance - End of Year			\$ 24,015,526	

Cemetery Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Miscellaneous revenue	\$ -	\$ -	\$ 4,040	\$ 4,040
Total Revenues	-	-	4,040	4,040
Expenditures				
Parks, recreation, and cultural	<u>1,000</u>	<u>1,000</u>	<u>183</u>	<u>817</u>
Total Expenditures	<u>1,000</u>	<u>1,000</u>	<u>183</u>	<u>817</u>
Excess (Deficiency) of Revenues Over Expenditures	(1,000)	(1,000)	3,857	4,857
Other Financing Sources (Uses)				
Transfers in (out)	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>(1,000)</u>
Total Other Financing Sources (Uses)	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>(1,000)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	3,857	<u>\$ 3,857</u>
Fund Balance - Beginning of Year			<u>10,003</u>	
Fund Balance - End of Year			<u>\$ 13,860</u>	

Food Hub Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Miscellaneous revenue	\$ -	\$ -	\$ 9,011	\$ 9,011
Total Revenues	-	-	9,011	9,011
Expenditures				
Community Development	-	-	-	-
Total Expenditures	-	-	-	-
Excess (Deficiency) of Revenues Over Expenditures	-	-	9,011	9,011
Other Financing Sources (Uses)				
Transfers in (out)	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	9,011	<u>\$ 9,011</u>
Fund Balance (Deficit) - Beginning of Year			(9,011)	
Fund Balance - End of Year			<u>\$ -</u>	

Street Planning Fund

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Intergovernmental				
<i>Revenue from the Federal Government</i>				
Street Planning Grant	\$ -	\$ -	\$ 25,600	\$ 25,600
Total Revenues	-	-	25,600	25,600
Expenditures				
Community Development	-	-	25,600	(25,600)
Total Expenditures	-	-	25,600	(25,600)
Excess (Deficiency) of Revenues Over Expenditures	-	-	-	-
Other Financing Sources (Uses)				
Transfers in (out)	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balance - Beginning of Year			-	
Fund Balance - End of Year			<u>\$ -</u>	

Town of South Hill, Virginia

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

For the Plan Years Ended June 30

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability							
Service cost	\$ 390,884	\$ 350,124	\$ 306,319	\$ 218,018	\$ 219,206	\$ 221,445	\$ 219,741
Interest	973,907	882,588	709,193	736,579	717,940	683,450	639,859
Changes in benefit terms	-	-	1,600,914	-	-	-	-
Difference between expected and actual experience	480,993	728,192	514,952	(427,735)	(280,545)	(141,590)	-
Changes of assumptions	-	441,738	-	(313,046)	-	-	-
Benefit payments	<u>(574,772)</u>	<u>(590,784)</u>	<u>(717,842)</u>	<u>(492,253)</u>	<u>(288,387)</u>	<u>(252,810)</u>	<u>(220,917)</u>
Net change in total pension liability	1,271,012	1,811,858	2,413,536	(278,437)	368,214	510,495	638,683
Total pension liability - beginning	<u>14,715,644</u>	<u>12,903,786</u>	<u>10,490,250</u>	<u>10,768,687</u>	<u>10,400,473</u>	<u>9,889,978</u>	<u>9,251,295</u>
Total pension liability - ending (a)	<u>\$ 15,986,656</u>	<u>\$ 14,715,644</u>	<u>\$ 12,903,786</u>	<u>\$ 10,490,250</u>	<u>\$ 10,768,687</u>	<u>\$ 10,400,473</u>	<u>\$ 9,889,978</u>
 Plan fiduciary net position							
Contributions - employer	\$ 467,249	\$ 456,672	\$ 418,464	\$ 233,865	\$ 293,643	\$ 284,506	\$ 284,688
Contributions - employee	148,299	144,968	139,669	131,362	133,865	130,070	127,161
Net investment income	193,551	634,807	664,863	979,037	143,332	341,779	985,156
Benefit payments	(574,772)	(590,784)	(717,842)	(492,253)	(288,387)	(252,810)	(220,917)
Administrator charges	(6,424)	(6,123)	(5,780)	(5,657)	(4,754)	(4,445)	(5,106)
Other	<u>(232)</u>	<u>(402)</u>	<u>(585)</u>	<u>(872)</u>	<u>(59)</u>	<u>(72)</u>	<u>52</u>
Net change in plan fiduciary net position	227,671	639,138	498,789	845,482	277,640	499,028	1,171,034
Plan fiduciary net position - beginning	<u>10,061,583</u>	<u>9,422,445</u>	<u>8,923,656</u>	<u>8,078,174</u>	<u>7,800,534</u>	<u>7,301,506</u>	<u>6,130,472</u>
Plan fiduciary net position - ending (b)	<u>\$ 10,289,254</u>	<u>\$ 10,061,583</u>	<u>\$ 9,422,445</u>	<u>\$ 8,923,656</u>	<u>\$ 8,078,174</u>	<u>\$ 7,800,534</u>	<u>\$ 7,301,506</u>
 Political subdivision's net pension liability - ending (a) - (b)	<u>\$ 5,697,402</u>	<u>\$ 4,654,061</u>	<u>\$ 3,481,341</u>	<u>\$ 1,566,594</u>	<u>\$ 2,690,513</u>	<u>\$ 2,599,939</u>	<u>\$ 2,588,472</u>
 Plan fiduciary net position as a percentage of the total Pension liability	64.36%	68.37%	73.02%	85.07%	75.02%	75.00%	73.83%
 Covered payroll	\$ 3,058,943	\$ 3,244,564	\$ 3,123,768	\$ 2,966,627	\$ 3,079,442	\$ 2,862,798	\$ 2,469,837
 Political subdivision's net pension liability as a percentage of covered payroll	186.25%	143.44%	111.45%	52.81%	87.37%	90.82%	90.42%

Town of South Hill, Virginia

Schedule of Employer Contributions

Political Subdivisions Retirement Plan

For the Years Ended June 30, 2012 through 2021

Date	Contractually Required Contribution (1)	Contribution in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2021	\$ 602,495	\$ 602,495	\$ -	\$ 3,552,543	16.96%
2020	475,054	475,054	-	3,058,943	15.53%
2019	458,212	458,212	-	3,244,564	14.12%
2018	398,255	398,255	-	3,123,768	12.75%
2017	235,820	235,820	-	2,966,627	7.95%
2016	291,352	291,352	-	3,079,442	9.46%
2015	287,012	287,012	-	2,862,798	10.03%
2014	287,776	287,776	-	2,469,837	11.65%
2013	305,339	305,339	-	2,469,837	12.36%
2012	400,660	400,660	-	2,303,891	17.39%

For Reference Only:

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

Column 2 – Employer contributions as referenced in Covered Payroll & Contributions report on VRS website

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

Town of South Hill, Virginia

Notes to Required Supplementary Information

For the Year Ended June 30, 2021

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

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

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

All Others (Non 10 Largest) – Hazardous Duty:

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

Town of South Hill, Virginia

Schedule of Employer's Share of Net OPEB Liability
Group Life Insurance Plan (GLI)
For the Measurement Dates of June 30, 2020, 2019, 2018 and 2017

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Employer's Proportion of the Net GLI OPEB Liability (Asset)	0.00567%	0.00000%	0.00000%	0.00000%
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset)	\$ -	\$ -	\$ -	\$ -
Employer's Covered Payroll	\$ -	\$ -	\$ -	\$ -
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered Payroll	0.00%	0.00%	0.00%	0.00%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	52.64%	52.00%	51.22%	48.86%

*Schedule is intended to show information for 10 years.
Since 2020 is the fourth year of presentation, only four years of data is available. However, additional years will be included as they become available.*

Reference Only:

The Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability for the VRS Group Life Insurance Program for each year is presented on page 128 of the VRS 2020 Annual Report.

Town of South Hill, Virginia

Schedule of Employer Contributions Group Life Insurance OPEB Plan

For the Years Ended June 30, 2012 through 2021

Fiscal Year Ending June 30	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
2021	\$ 17,062	\$ 17,062	\$ -	\$ 3,157,797	0.54%
2020	n/a	n/a	n/a	n/a	n/a
2019	n/a	n/a	n/a	n/a	n/a
2018	n/a	n/a	n/a	n/a	n/a
2017	n/a	n/a	n/a	n/a	n/a
2016	n/a	n/a	n/a	n/a	n/a
2015	n/a	n/a	n/a	n/a	n/a
2014	n/a	n/a	n/a	n/a	n/a
2013	n/a	n/a	n/a	n/a	n/a
2012	n/a	n/a	n/a	n/a	n/a

Note: This is the first year

For Reference Only:

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

Column 2 – Employer contributions as referenced in Covered Payroll & Contributions report on VRS website

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

Town of South Hill, Virginia

Notes to Required Supplementary Information – OPEB Group Life Insurance Plan

For the Year Ended June 30, 2021

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

General State 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 rates at older ages and changed final retirement from 70-75
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	Increase rate from 14% to 25%
Discount Rate	Decrease rate from 7.00% to 6.75%

Teachers

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 70-75
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
Discount Rate	Decrease rate from 7.00% to 6.75%

SPORS Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%
Discount Rate	Decrease rate from 7.00% to 6.75%

VaLORS Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%
Discount Rate	Decrease rate from 7.00% to 6.75%

JRS Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change
Discount Rate	Decrease rate from 7.00% to 6.75%

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%
Discount Rate	Decrease rate from 7.00% to 6.75%

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%
Discount Rate	Decrease rate from 7.00% to 6.75%

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%
Discount Rate	Decrease rate from 7.00% to 6.75%

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%
Discount Rate	Decrease rate from 7.00% to 6.75%

OTHER INFORMATION



Town of South Hill, Virginia

Water and Sewer Revenue Bond Debt Service Coverage

Last Ten Fiscal Years

Fiscal Years Ended June 30	Gross Revenues	Direct Operating Expenses**	Net Available	Principal***	Interest	Total Debt	Coverage
2021	\$ 3,555,622	\$ 2,418,711	\$ 1,136,911	\$ 103,372	\$ 55,161	\$ 158,533	7.17
2020	3,524,318	2,447,761	1,076,557	103,372	59,270	162,642	6.62
2019	3,713,406	2,495,502	1,217,904	389,091	67,463	456,554	2.67
2018	3,860,972	2,139,496	1,721,476	616,145	76,006	692,151	2.49
2017	3,965,706	2,228,192	1,737,514	597,145	40,768	637,913	2.72
2016	4,146,172	2,204,964	1,941,208	578,424	120,463	698,887	2.78
2015	3,629,120	2,193,236	1,435,884	571,145	123,249	694,394	2.07
2014	3,410,646	1,975,392	1,435,254	473,796	168,375	642,171	2.24
2013	3,068,791	1,985,092	1,083,699	511,599	187,821	699,420	1.55
2012	2,969,308	2,026,245	943,063	518,033	203,536	721,569	1.31

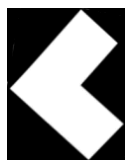
**Excluding depreciation, interest, and amortization.

***Excludes debt refinancing payoffs.

COMPLIANCE SECTION



You'll like the view from
South Hill



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

To the Town Council
Town of South Hill, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of South Hill, Virginia, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town of South Hill, Virginia's basic financial statements and have issued our report thereon dated December 8, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of South Hill, Virginia's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of South Hill, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of South Hill, Virginia's internal control.

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

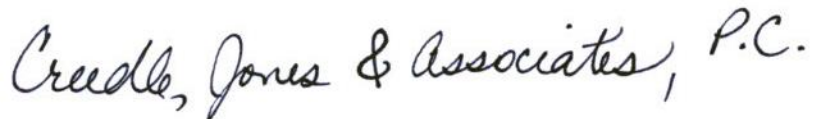
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of South Hill, Virginia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Creedle, Jones & Associates, P.C.".

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

South Hill, Virginia
December 8, 2021



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Town Council
Town of South Hill, Virginia

Report on Compliance for Each Major Federal Program

We have audited the Town of South Hill, Virginia's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Town of South Hill, Virginia's major federal programs for the year ended June 30, 2021. Town of South Hill, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of South Hill, Virginia's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards, the Uniform Guidance, and specifications require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of South Hill, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town of South Hill, Virginia's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of South Hill, Virginia, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

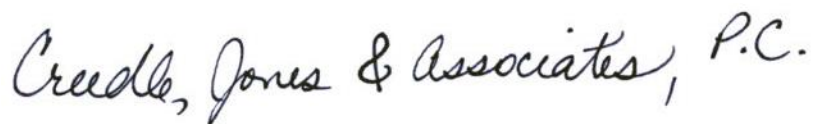
Report on Internal Control over Compliance

Management of the Town of South Hill, Virginia, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of South Hill, Virginia's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of South Hill, Virginia's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



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

South Hill, Virginia
December 8, 2021



REPORT ON COMPLIANCE WITH COMMONWEALTH OF VIRGINIA'S LAWS, REGULATIONS, CONTRACTS, AND GRANTS

To the Town Council
Town of South Hill, Virginia

We have audited the financial statements of the Town of South Hill, Virginia, as of and for the year ended June 30, 2021, and have issued our report thereon dated December 8, 2021.

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

Compliance with Commonwealth of Virginia's laws, regulations, contracts, and grants applicable to the Town of South Hill, Virginia, is the responsibility of the Town of South Hill, Virginia's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Town of South Hill, Virginia's compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts, and grants. However, the objective of our audit of the basic financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The following is a summary of the Commonwealth of Virginia's laws, regulations, contracts, and grants for which we performed tests of compliance:

Code of Virginia

- Budget and Appropriation Laws
- Cash and Investments
- Conflicts of Interest
- Retirement Systems
- Debt Provisions
- Procurement
- Unclaimed Property
- Personal Property Tax Relief Act

The results of our tests disclosed no instances of noncompliance with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Town of South Hill, Virginia had not complied, in all material respects, with those provisions.

This report is intended solely for the information of the Town Council, Town of South Hill, Virginia's management, Auditor of Public Accounts of the Commonwealth of Virginia, and applicable state agencies, and is not intended to be, and should not be, used by anyone other than these specified parties.

Creedle, Jones & Associates, P.C.

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

South Hill, Virginia
December 8, 2021

Town of South Hill, Virginia

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2021

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal Catalog Number	State Agency Number	Expenditures
U. S. Department of Housing and Community Development			
Pass-Through Payments			
<i>Department of Housing and Community Development</i>			
Community Development Block Grants	14.228	165	\$ 25,600
U. S. Department of Homeland Security			
Pass-Through Payments			
<i>Department of Emergency Management</i>			
Disaster Grants - Public Assistance (Presidential Declared Disaster)	97.036	127	162,163
U. S. Department of Treasury			
Pass-Through Payments			
<i>Department of Accounts</i>			
Coronavirus Relief Fund	21.019	151	773,991
U. S. Department of Transportation			
Pass-Through Payments			
<i>Department of Motor Vehicles</i>			
State and Community Highway Safety	20.600	501	<u>967</u>
 Grand Totals			 <u>\$ 962,721</u>

See accompanying notes to schedule of expenditures of federal awards.

Town of South Hill, Virginia

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2021

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Town of South Hill, Virginia under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Town of South Hill, Virginia, it is not intended to and does not present the financial position, changes in net position, or cash flows of Town of South Hill, Virginia.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

Town of South Hill, Virginia has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

4. Subrecipients

No awards passed through to subrecipients.

Town of South Hill, Virginia

Schedule of Findings and Questioned Costs

Year Ended June 30, 2021

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None Reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None Reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? No

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
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21.019	Coronavirus Relief Fund
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Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? No

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters reported

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters reported