

Town of Hillsville, Virginia

Financial Statements

Year Ended June 30, 2023



Town Council

Gregory N. Crowder, Mayor
Ed Terry, Vice Mayor
Barry Jessup
Greg Yonce
David Young

Town Manager

Retta N. Jackson

Town Attorney

Cassell & Crewe

Treasurer

LeAnna Surratt

Independent Auditors

HBC CPAs



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INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the Town Council
Town of Hillsville, Virginia

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Hillsville, Virginia, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Town of Hillsville, Virginia's basic financial statements as listed in the table of contents.

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 Hillsville, Virginia, as of June 30, 2023, 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.

Basis for Opinions

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 the Specifications for Audits of Counties, Cities, and Towns, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town of Hillsville, Virginia, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As described in Note 1(R) to the financial statements, in 2023, the Town of Hillsville, Virginia adopted new accounting guidance, GASB Statement No. 96, *Subscription Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Town of Hillsville, Virginia's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Governmental Auditing Standards*, and the *Specifications for Audits of Counties, Cities, and Towns* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the *Specifications for Audits of Counties, Cities, and Towns*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Town of Hillsville, Virginia's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Hillsville, Virginia's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 funding as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Town of Hillsville, Virginia's basic financial statements. The schedule of expenditures of federal awards, 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 statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2024, on our consideration of Town of Hillsville, 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 Hillsville, 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 Town of Hillsville, Virginia's internal control over financial reporting and compliance.



HBC Certified Public Accountants
Abingdon, Virginia

January 22, 2024



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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 Honorable Members of the Town Council
Town of Hillsville, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Hillsville, Virginia, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Town of Hillsville, Virginia's basic financial statements, and have issued our report thereon dated January 22, 2024.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Hillsville, 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express

such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



HBC Certified Public Accountants
Abingdon, Virginia

January 22, 2024

Town of Hillsville, Virginia

Management's Discussion and Analysis

As of June 30, 2023

As management of the Town of Hillsville ("the Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2023. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

- The Town of Hillsville's net position was \$13.6 million at the end of the current fiscal year.
- Total investment in capital assets, net of related debt was \$4.5 million.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$9.4 million, an increase of \$3.0 million in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$9.3 million.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town.

Basic Financial Statements

The first two statements (Exhibits A and B) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town's financial status.

The next statements (Exhibits C through G) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements and 2) the proprietary funds statements.

The next section of the basic financial statements is the **Notes to Financial Statements**. The notes to financial statements explain in detail some of the data contained in those statements. After the notes, **Required Supplemental Information** is provided to show details about the Town's individual funds. Budgetary information required by the Commonwealth of Virginia's General Statutes ("the General Statutes") also can be found in this part of the statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net position and how it has changed. Net position is equal to the Town's total assets and deferred outflows of resources less total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the Town's financial condition.

Town of Hillsville, Virginia

Management's Discussion and Analysis

As of June 30, 2023

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the Town's basic services such as public safety, community development, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town.

The government-wide financial statements are on Exhibits A and B of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like all other governmental entities in Virginia, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements and include the General Fund and the Community Development Block Grant ("CDBG") Fund. Most of the Town's basic services are accounted for in governmental funds. These funds focus on near-term inflows and outflows of spendable resources, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town adopts an annual budget for its General Fund as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Town Council about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Town Council; 2) the final budget as amended by the Town Council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds – The Town has one kind of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water and sewer activity operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Notes to Financial Statements

The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 22 of this report.

Town of Hillsville, Virginia

Management's Discussion and Analysis

As of June 30, 2023

Required Supplemental Information

In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees and information about expenditures of federal awards. Required supplementary information can be found beginning on page 57 of this report.

Town of Hillsville's Net Position

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The Town's net position was \$13.6 million as of June 30, 2023, an increase of \$4.0 million compared to the prior year-end. Funds from the American Rescue Plan were recognized in the current fiscal year. A significant portion of net position (33%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment) and economic development, less any related debt still outstanding that was issued to acquire those items. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. The Town's financial position as of June 30, 2023 and 2022 is shown in Figure 1.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2023	2022	2023	2022	2023	2022
Current and other assets	\$ 10,534,518	\$ 8,880,926	\$ 1,474,340	\$ 1,187,421	\$ 12,008,858	\$ 10,068,347
Capital assets	<u>3,480,769</u>	<u>2,582,040</u>	<u>9,681,723</u>	<u>10,163,498</u>	<u>13,162,492</u>	<u>12,745,538</u>
Total assets	<u>14,015,287</u>	<u>11,462,966</u>	<u>11,156,063</u>	<u>11,350,919</u>	<u>25,171,350</u>	<u>22,813,885</u>
Total deferred outflows of resources	<u>230,487</u>	<u>207,434</u>	<u>107,305</u>	<u>101,655</u>	<u>337,792</u>	<u>309,089</u>
Long-term liabilities	1,515,855	1,436,525	8,193,343	8,300,042	9,709,198	9,736,567
Other liabilities	<u>207,704</u>	<u>344,881</u>	<u>664,423</u>	<u>594,050</u>	<u>872,127</u>	<u>938,531</u>
Total liabilities	<u>1,723,559</u>	<u>1,781,006</u>	<u>8,857,766</u>	<u>8,894,092</u>	<u>10,581,325</u>	<u>10,675,098</u>
Total deferred inflows of resources	<u>1,222,664</u>	<u>2,652,954</u>	<u>141,952</u>	<u>224,172</u>	<u>1,364,616</u>	<u>2,877,126</u>
Net position:						
Invested in capital assets, net of related debt	3,018,111	2,048,548	1,473,017	1,786,339	4,491,128	3,834,887
Restricted	53,656	65,391	-	-	53,656	65,391
Unrestricted	<u>8,227,784</u>	<u>5,122,501</u>	<u>790,633</u>	<u>547,971</u>	<u>9,018,417</u>	<u>5,670,472</u>
Total net position	<u>\$ 11,299,551</u>	<u>\$ 7,236,440</u>	<u>\$ 2,263,650</u>	<u>\$ 2,334,310</u>	<u>\$ 13,563,201</u>	<u>\$ 9,570,750</u>

Town of Hillsville, Virginia
Management's Discussion and Analysis
As of June 30, 2023

Governmental activities. Governmental activities increased the Town's net position by \$4.1 million for the year ended June 30, 2023 which compares to an increase of \$1.2 million in the prior year. Funds from the American Rescue Plan Act of \$2.6 million were recognized in the current fiscal period.

Business-type activities: Business-type activities decreased the Town's net position by \$71 thousand for the year ended June 30, 2023 compared to a \$4 thousand increase for the year ended June 30, 2022, primarily due to grant funding in the prior year that did not occur in the current year.

All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Changes in net position are shown in Figure 2.

Changes in Net Position
Figure 2

	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022	2023	2022
Revenue						
Program revenues:						
Charges for services	\$ 633,214	\$ 443,581	\$ 1,873,288	\$ 1,738,131	\$ 2,506,502	\$ 2,181,712
Operating grants and contributions	2,875,508	126,316	-	-	2,875,508	126,316
Capital grants and contributions	395,806	224,827	5,297	124,752	401,103	349,579
General revenues:						
Property taxes	916,017	812,999	-	-	916,017	812,999
Other taxes	2,548,660	2,497,416	-	-	2,548,660	2,497,416
Interest and investment earnings	218,396	163,294	5,387	(17,053)	223,783	146,241
Other	27,154	93,994	26,354	25,656	53,508	119,650
Total revenue	<u>7,614,755</u>	<u>4,362,427</u>	<u>1,910,326</u>	<u>1,871,486</u>	<u>9,525,081</u>	<u>6,233,913</u>
Expenses						
General government	675,553	606,586	-	-	675,553	606,586
Public safety	1,527,084	1,298,710	-	-	1,527,084	1,298,710
Public works	1,048,602	941,634	-	-	1,048,602	941,634
Community development	245,547	180,619	-	-	245,547	180,619
Other activities	40,267	84,430	-	-	40,267	84,430
Interest on long-term debt	14,591	15,671	-	-	14,591	15,671
Water	-	-	866,515	806,476	866,515	806,476
Sewer	-	-	1,114,471	1,060,594	1,114,471	1,060,594
Total expenses	<u>3,551,644</u>	<u>3,127,650</u>	<u>1,980,986</u>	<u>1,867,070</u>	<u>5,532,630</u>	<u>4,994,720</u>
Increase (decrease) in net position before transfers	4,063,111	1,234,777	(70,660)	4,416	3,992,451	1,239,193
Transfers	-	-	-	-	-	-
Increase(decrease) in net position	4,063,111	1,234,777	(70,660)	4,416	3,992,451	1,239,193
Net position, beginning	7,236,440	6,001,663	2,334,310	2,329,894	9,570,750	8,331,557
Net position, ending	<u>\$ 11,299,551</u>	<u>\$ 7,236,440</u>	<u>\$ 2,263,650</u>	<u>\$ 2,334,310</u>	<u>\$ 13,563,201</u>	<u>\$ 9,570,750</u>

Town of Hillsville, Virginia

Management's Discussion and Analysis

As of June 30, 2023

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.

Governmental Funds. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town's financing requirements. Specifically, the unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, the unreserved fund balance of the General Fund consisted of assigned funds of \$98 thousand and unassigned funds of \$9.3 million.

At June 30, 2023, the governmental funds of the Town reported a combined fund balance of \$9.4 million, \$54 thousand of which were restricted.

Proprietary Funds. The Town's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$2.3 million.

General Fund Budgetary Highlights

Fines and forfeitures exceeded budget by \$249 thousand while hotel and motel taxes and restaurant food taxes exceeded budget by \$101 thousand and \$266 thousand, respectively.

Funds in the American Rescue Plan Act were used to cover several general fund expenditures, such that these expenses are all shown well-under budget in the general fund.

Town of Hillsville, Virginia
Management's Discussion and Analysis
As of June 30, 2023

Capital Assets and Long-term Debt

Capital Assets. The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2023, totals \$13.2 million (net of accumulated depreciation). These assets include land, land improvements, buildings and improvements, vehicles, and equipment.

Capital Assets
(net of depreciation)
Figure 3

	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022	2023	2022
Land	\$ 100,248	\$ 100,248	\$ 44,168	\$ 44,168	\$ 144,416	\$ 144,416
Land improvements	357,793	413,541	-	-	357,793	413,541
Buildings and improvements	778,521	634,411	9,205,580	9,679,575	9,984,101	10,313,986
Vehicles	-	-	47,338	78,042	47,338	78,042
Equipment	895,142	597,577	203,015	207,187	1,098,157	804,764
Construction in Progress	1,349,065	836,263	181,622	154,526	1,530,687	990,789
Total	<u>\$ 3,480,769</u>	<u>\$ 2,582,040</u>	<u>\$ 9,681,723</u>	<u>\$ 10,163,498</u>	<u>\$ 13,162,492</u>	<u>\$ 12,745,538</u>

Major capital asset transactions include the following additions and disposals:

Changes in Capital Assets
Figure 4

	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022	2023	2022
Land	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Land improvements	-	24,275	-	-	-	24,275
Buildings and improvements	189,893	44,410	14,858	55,000	204,751	99,410
Vehicles	-	-	-	-	-	-
Equipment	468,298	245,321	25,980	18,116	494,278	263,437
Construction in Progress	581,969	716,335	27,096	116,038	609,065	832,373
Total additions	<u>\$ 1,240,160</u>	<u>\$ 1,030,341</u>	<u>\$ 67,934</u>	<u>\$ 189,154</u>	<u>\$ 1,308,094</u>	<u>\$ 1,219,495</u>
Land	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Land improvements	-	-	-	-	-	-
Buildings and improvements	40,828	-	2,485,442	-	2,526,270	-
Vehicles	-	-	15,974	30,050	15,974	30,050
Equipment	486,640	-	57,802	-	544,442	-
Construction in Progress	69,167	-	-	-	69,167	-
Total disposals	<u>\$ 596,635</u>	<u>\$ -</u>	<u>\$ 2,559,218</u>	<u>\$ 30,050</u>	<u>\$ 3,155,853</u>	<u>\$ 30,050</u>

During the year ended June 30, 2023, the Town removed obsolete assets from its capital assets schedules. Primarily all of these assets had been fully depreciated. Additional information on the Town's capital assets can be found in note 5 of the Basic Financial Statements.

Town of Hillsville, Virginia
Management's Discussion and Analysis
As of June 30, 2023

Long-term Debt. As of June 30, 2023, the Town had total bonded debt outstanding of \$8.7 million. All debt is backed by the full faith and credit of the Town.

Outstanding Debt
Installment Notes and General Obligation Bonds
 Figure 5

	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022	2023	2022
Installment notes payable	\$ 260,558	\$ 286,651	\$ -	\$ -	\$ 260,558	\$ 286,651
General obligation bonds	202,100	246,841	8,208,706	8,377,159	8,410,806	8,624,000
Total	<u>\$ 462,658</u>	<u>\$ 533,492</u>	<u>\$ 8,208,706</u>	<u>\$ 8,377,159</u>	<u>\$ 8,671,364</u>	<u>\$ 8,910,651</u>

The Town's total debt decreased by \$239 thousand during the year.

Virginia General Statutes limit the amount of general obligation debt that a unit of government can issue to 10% of the total assessed value of taxable real property located within that government's boundaries. The debt limit for the Town was approximately \$23.1 million as of June 30, 2023.

Additional information regarding the Town's long-term debt can be found in note 9 and schedules 12 and 13.

Budget Highlights for the Fiscal Year Ending June 30, 2024

Governmental Activities: With the completion of the Farmers Market project early in the next fiscal year and having exhausted all funds in the American Rescue Plan Act Fund, both revenues and expenses are expected to be lower. The Town uses revenues to finance programs currently in place.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Town Manager, Hillsville, Virginia, P.O. Box 545, Hillsville, Virginia 24343, (276) 728-2128, hillsville@townofhillsville.com.



Town of Hillsville, Virginia
Statement of Net Position
June 30, 2023

Exhibit A

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Assets			
Cash and cash equivalents	\$ 9,014,240	\$ 953,120	\$ 9,967,360
Investments	174,564	286,454	461,018
Receivables (net of allowances for uncollectibles):			
Taxes, including penalties	967,576	-	967,576
Accounts	267,165	149,407	416,572
Accrued charges for services	-	85,359	85,359
Loans	-	-	-
Note receivable	-	-	-
Due from other funds	59,656	-	59,656
Due from other governmental units	51,317	-	51,317
Capital assets, net	<u>3,480,769</u>	<u>9,681,723</u>	<u>13,162,492</u>
Total assets	<u>14,015,287</u>	<u>11,156,063</u>	<u>25,171,350</u>
Deferred Outflows of Resources	<u>230,487</u>	<u>107,305</u>	<u>337,792</u>
Liabilities			
Accounts payable	144,165	24,279	168,444
Deposits	3,525	115,358	118,883
Due to other funds	-	59,656	59,656
Accrued bond interest	2,080	91,741	93,821
Bonds and notes payable due within one year	57,934	373,389	431,323
Bonds and notes payable due in more than one year	404,724	7,835,317	8,240,041
Compensated absences	147,457	56,994	204,451
Net pension liability	598,235	180,908	779,143
Other post-employment benefits obligation	<u>365,439</u>	<u>120,124</u>	<u>485,563</u>
Total liabilities	<u>1,723,559</u>	<u>8,857,766</u>	<u>10,581,325</u>
Deferred Inflows of Resources	<u>1,222,664</u>	<u>141,952</u>	<u>1,364,616</u>
Net Position			
Invested in capital assets, net of related debt	3,018,111	1,473,017	4,491,128
Restricted	53,656	-	53,656
Unrestricted	<u>8,227,784</u>	<u>790,633</u>	<u>9,018,417</u>
Total net position	<u>\$ 11,299,551</u>	<u>\$ 2,263,650</u>	<u>\$ 13,563,201</u>

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

Town of Hillsville, Virginia

Statement of Activities

For the Year Ended June 30, 2023

Exhibit B

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total
Primary Government:							
Government Activities:							
General government	\$ (675,553)	\$ -	\$ 2,760,832	\$ -	\$ 2,085,279	\$ -	\$ 2,085,279
Public safety	(1,527,084)	633,214	96,833	51,086	(745,951)	-	(745,951)
Public works	(1,048,602)	-	2,376	-	(1,046,226)	-	(1,046,226)
Community development	(245,547)	-	15,467	344,720	114,640	-	114,640
Other activities	(40,267)	-	-	-	(40,267)	-	(40,267)
Interest on long-term debt	(14,591)	-	-	-	(14,591)	-	(14,591)
Total government activities	<u>(3,551,644)</u>	<u>633,214</u>	<u>2,875,508</u>	<u>395,806</u>	<u>352,884</u>	<u>-</u>	<u>352,884</u>
Business-type activities:							
Water	(866,515)	779,737	-	-	-	(86,778)	(86,778)
Sewer	(1,114,471)	1,093,551	-	5,297	(15,623)	(15,623)	(15,623)
Total business-type activities	<u>(1,980,986)</u>	<u>1,873,288</u>	<u>-</u>	<u>5,297</u>	<u>(102,401)</u>	<u>-</u>	<u>(102,401)</u>
Total primary government	<u>(5,532,630)</u>	<u>2,506,502</u>	<u>2,875,508</u>	<u>401,103</u>	<u>250,483</u>	<u>-</u>	<u>250,483</u>
General Revenues:							
General property					916,017	-	916,017
Sales tax					258,833	-	258,833
Utility tax					87,134	-	87,134
Business license					302,360	-	302,360
Franchise tax					12,792	-	12,792
Motor vehicle license					47,098	-	47,098
Bank stock tax					205,701	-	205,701
Micals tax					1,275,563	-	1,275,563
Lodgings tax					348,359	-	348,359
Other taxes					9,710	-	9,710
Licenses and permits					1,110	-	1,110
Grants and contributions not restricted to specific programs					-	-	-
Use of money and property					218,396	5,387	223,783
Miscellaneous					27,154	26,354	53,508
Gain (loss) on sale/retirement of capital assets					-	-	-
Transfers					-	-	-
Total general revenues and transfers					<u>3,710,227</u>	<u>31,741</u>	<u>3,741,968</u>
Change in net position					<u>4,063,111</u>	<u>(70,660)</u>	<u>3,992,451</u>
Net position, beginning					<u>7,236,440</u>	<u>2,334,310</u>	<u>9,570,750</u>
Net position, ending					<u>11,299,551</u>	<u>2,263,650</u>	<u>13,563,201</u>

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

Town of Hillsville, Virginia

Balance Sheet
Governmental Funds
June 30, 2023

Exhibit C
Page 1

	<u>General Fund</u>	<u>Recovery Fund</u>	<u>CDBG Fund</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 6,199,592	\$ 2,760,832	\$ 53,816	\$ 9,014,240
Investments	174,564	-	-	174,564
Receivables (net of allowances for uncollectibles):				
Taxes, including penalties	967,576	-	-	967,576
Accounts	267,165	-	-	267,165
Due from other funds	2,820,648	-	-	2,820,648
Due from other governmental units	51,317	-	-	51,317
Total assets	<u>10,480,862</u>	<u>2,760,832</u>	<u>53,816</u>	<u>13,295,510</u>
Liabilities				
Accounts payable	144,165	-	-	144,165
Deposits	3,525	-	-	3,525
Due to other funds	-	2,760,832	160	2,760,992
Total liabilities	<u>147,690</u>	<u>2,760,832</u>	<u>160</u>	<u>2,908,682</u>
Deferred Inflows of Resources				
Deferred revenue	<u>956,099</u>	-	-	<u>956,099</u>
Fund Balances				
Nonspendable	-	-	-	-
Restricted:				
Community development	-	-	53,656	53,656
Committed	-	-	-	-
Assigned:				
Capital projects	98,233	-	-	98,233
Unassigned	9,278,840	-	-	9,278,840
Total fund balances	<u>\$ 9,377,073</u>	<u>\$ -</u>	<u>\$ 53,656</u>	<u>\$ 9,430,729</u>

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

Town of Hillsville, Virginia

Balance Sheet
Governmental Funds
June 30, 2023

Exhibit C
Page 2

	<u>Total</u>
Total fund balances per Balance Sheet for Governmental Funds	\$ 9,430,729
Amounts reported for governmental activities in the Statement of Net Position (Exhibit A) are different because:	
Capital assets in government activities are not financial resources and therefore are not reported as fund assets. The Statement of Net Position, however, includes these assets, net of accumulated depreciation/amortization.	
Capital assets, net	3,480,769
Some receivables are not available to pay for current period expenditures and therefore are deferred in the fund financial statements.	
Property taxes	38,353
Pension expense	(231,933)
Other post-employment benefit plans	(72,985)
Pension contributions and other post-employment benefits subsequent to the measurement date of the net liability are considered to be deferred outflows of resources	230,487
Some liabilities, including general governmental bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities are included in the Statement of Net Position.	
Accrued bond interest	(2,080)
Bonds and notes payable	(462,658)
Compensated absences	(147,457)
Net pension liability	(598,235)
Other post-employment benefits obligation	(365,439)
Net position of governmental activities	<u>\$ 11,299,551</u>

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

Town of Hillsville, Virginia

Exhibit D

Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Funds

Page 1

For the Year Ended June 30, 2023

	General Fund	Recovery Fund	CDBG Fund	Total Governmental Activities
Revenues:				
General property taxes	\$ 900,503	\$ -	\$ -	\$ 900,503
Other local taxes	2,547,550	-	-	2,547,550
Permits, privilege fees and regulatory licenses	1,110	-	-	1,110
Fines and forfeitures	633,214	-	-	633,214
Payment in lieu of taxes	-	-	-	-
Revenue from use of money and property	218,313	-	83	218,396
Charges for services	-	-	-	-
Gain on sale of capital assets	-	-	-	-
Miscellaneous	27,154	-	-	27,154
Intergovernmental:				
Federal	395,806	2,760,832	-	3,156,638
State	114,676	-	-	114,676
Total revenues	<u>4,838,326</u>	<u>2,760,832</u>	<u>83</u>	<u>7,599,241</u>
Expenditures:				
Current:				
General government administration	94,464	540,916	-	635,380
Public safety	551,891	1,234,521	-	1,786,412
Public works	166,926	818,849	-	985,775
Community development	121,676	123,474	11,818	256,968
Non-departmental	-	14,772	-	14,772
Capital projects	766,936	28,300	-	795,236
Annexation expenses	-	-	-	-
Debt service:				
Principal retirement	70,834	-	-	70,834
Interest and finance charges	14,763	-	-	14,763
Total expenditures	<u>1,787,490</u>	<u>2,760,832</u>	<u>11,818</u>	<u>4,560,140</u>
Excess (loss) of revenues over expenditures	<u>3,050,836</u>	<u>-</u>	<u>(11,735)</u>	<u>3,039,101</u>
Other financing sources and uses:				
Proceeds from debt	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (loss) of revenues and other sources over expenditures and other uses	3,050,836	-	(11,735)	3,039,101
Fund balance, beginning	<u>6,326,237</u>	<u>-</u>	<u>65,391</u>	<u>6,391,628</u>
Fund balance, ending	<u>\$ 9,377,073</u>	<u>\$ -</u>	<u>\$ 53,656</u>	<u>\$ 9,430,729</u>

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

Town of Hillsville, Virginia
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2023

Exhibit D
Page 2

	<u>Total Governmental Activities</u>
Net change in fund balances – total governmental funds	\$ 3,039,101
Amounts reported for governmental activities in the Statement of Activities (Exhibit B) are different because:	
Governmental funds report the cost of equipment and facilities acquired as current expenditures while the governmental Statement of Activities reports depreciation expense to allocate those expenditures over the life of the assets.	
Capital assets additions	1,170,993
Depreciation expense	(272,264)
Difference between accumulated depreciation and cost of disposed assets	-
Debt proceeds provide current financial resources to governmental funds, but debt issues increase long – term liabilities in the Statement of Net Position. Principal repayments are expenditures in governmental funds, but reduce long – term liabilities in the Statement of Net Position.	
New debt issued	-
Principal payments	70,834
Interest accrued	172
Certain revenues in the government-wide statement of activities do not provide current financial resources and are not reported as revenue in the fund financial statements.	
General property taxes	15,515
Pension	158,870
Other postretirement benefit plans	17,306
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in post-employment benefits	(16,468)
Change in compensated absences	(25,054)
Change in pension plan benefits	<u>(95,894)</u>
Change in net position of governmental activities	<u>\$ 4,063,111</u>

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

Town of Hillsville, Virginia

Exhibit E

Statement of Net Position

Proprietary Funds

June 30, 2023

	Water Fund	Sewer Fund	Total
Assets			
Current assets:			
Cash and equivalents	\$ 582,932	\$ 370,188	\$ 953,120
Investments	143,227	143,227	286,454
Accounts receivable (net of allowance for uncollectibles)	74,210	75,197	149,407
Due from other funds	-	-	-
Accrued charges for services	42,942	42,417	85,359
Total current assets	<u>843,311</u>	<u>631,029</u>	<u>1,474,340</u>
Capital assets			
Buildings	6,582,076	10,437,115	17,019,191
Land	31,468	12,700	44,168
Machinery and equipment	161,341	327,536	488,877
Construction in progress	15,870	165,752	181,622
Total capital assets	6,790,755	10,943,103	17,733,858
Less accumulated depreciation	(1,834,231)	(6,217,904)	(8,052,135)
Net capital assets	<u>4,956,524</u>	<u>4,725,199</u>	<u>9,681,723</u>
Total assets	<u>5,799,835</u>	<u>5,356,228</u>	<u>11,156,063</u>
Deferred Outflows of Resources			
	<u>52,682</u>	<u>54,623</u>	<u>107,305</u>
Liabilities			
Liabilities:			
Current liabilities (payable from current assets):			
Accounts payable	12,019	12,260	24,279
Deposits	57,679	57,679	115,358
Due to other funds	29,828	29,828	59,656
Accrued bond interest	3,807	87,934	91,741
Current portion of bonds	121,176	252,213	373,389
Total current liabilities (payable from current assets)	<u>224,509</u>	<u>439,914</u>	<u>664,423</u>
Long-term liabilities:			
Bonds (net of current portion)	4,228,335	3,606,982	7,835,317
Compensated absences	28,622	28,372	56,994
Net pension liability	93,621	87,287	180,908
Other post-employment benefits obligation	60,045	60,079	120,124
Total long-term liabilities	<u>4,410,623</u>	<u>3,782,720</u>	<u>8,193,343</u>
Total liabilities	<u>4,635,132</u>	<u>4,222,634</u>	<u>8,857,766</u>
Deferred Inflows of Resources			
	<u>69,693</u>	<u>72,259</u>	<u>141,952</u>
Net Position			
Net Position:			
Invested in capital assets, net of related debt	607,013	866,004	1,473,017
Unrestricted	540,679	249,954	790,633
Total net position	<u>\$ 1,147,692</u>	<u>\$ 1,115,958</u>	<u>\$ 2,263,650</u>

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

Town of Hillsville, Virginia

Exhibit F

Statement of Revenues, Expenses and Changes in Fund Net Position Proprietary Funds For the Year Ended June 30, 2023

	Water Fund	Sewer Fund	Total
Operating revenues:			
Charges for services	\$ 779,302	\$ 1,078,196	\$ 1,857,498
Miscellaneous	435	15,355	15,790
Total operating revenues	<u>779,737</u>	<u>1,093,551</u>	<u>1,873,288</u>
Operating expenses:			
Personnel services	308,453	349,114	657,567
Fringe benefits	106,622	113,447	220,069
Contractual services	17,606	5,069	22,675
Payment in lieu of taxes	-	-	-
Depreciation and amortization	205,363	344,346	549,709
Other	<u>172,343</u>	<u>212,555</u>	<u>384,898</u>
Total operating expenses	<u>810,387</u>	<u>1,024,531</u>	<u>1,834,918</u>
Operating income	<u>(30,650)</u>	<u>69,020</u>	<u>38,370</u>
Nonoperating revenues (expenses):			
Connection fees	1,125	1,658	2,783
Interest	2,726	2,661	5,387
Other nonoperating revenues	13,405	10,166	23,571
Interest and fiscal charges	<u>(56,128)</u>	<u>(89,940)</u>	<u>(146,068)</u>
Total nonoperating revenues (expenses)	<u>(38,872)</u>	<u>(75,455)</u>	<u>(114,327)</u>
Loss before contributions and transfers	<u>(69,522)</u>	<u>(6,435)</u>	<u>(75,957)</u>
Capital grants and contributions	-	5,297	5,297
Operating transfers in	95	(95)	-
Operating transfers out	-	-	-
Changes in net position	<u>(69,427)</u>	<u>(1,233)</u>	<u>(70,660)</u>
Net position, beginning	<u>1,217,119</u>	<u>1,117,191</u>	<u>2,334,310</u>
Net position, ending	<u>\$ 1,147,692</u>	<u>\$ 1,115,958</u>	<u>\$ 2,263,650</u>

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

Town of Hillsville, Virginia

Exhibit G

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2023

	Water Fund	Sewer Fund	Total
Cash flows from operating activities:			
Cash received from customers	\$ 801,391	\$ 1,110,234	\$ 1,911,625
Cash payments to suppliers for goods and services	(188,660)	(220,737)	(409,397)
Cash payments to employees for services	(430,330)	(471,788)	(902,118)
Payment in lieu of taxes	-	-	-
Net cash (used by) provided by operating activities	<u>182,401</u>	<u>417,709</u>	<u>600,110</u>
Cash flows from noncapital financing activities:			
Operating transfers from (to) other funds	95	(95)	-
Net cash provided (used) by noncapital financing activities	<u>95</u>	<u>(95)</u>	<u>-</u>
Cash flows from capital and related financing activities:			
Capital grants	-	5,297	5,297
Acquisition, construction and disposal of capital assets	(24,528)	(43,406)	(67,934)
Issuance of bonds	-	-	-
Principal paid on bonds	(112,793)	(55,660)	(168,453)
Interest paid on bonds	(53,504)	(28,156)	(81,660)
Net cash provided by (used by) capital and related financing activities	<u>(190,825)</u>	<u>(121,925)</u>	<u>(312,750)</u>
Cash flows from investing activities:			
Cash payments to purchase investments	(2,566)	(2,566)	(5,132)
Interest on temporary investments	2,726	2,661	5,387
Net cash provided by investing activities	<u>160</u>	<u>95</u>	<u>255</u>
Net decrease in cash and cash equivalents	(8,169)	295,784	287,615
Cash and cash equivalents at beginning of year	591,101	74,404	665,505
Cash and cash equivalents at end of year	<u>\$ 582,932</u>	<u>\$ 370,188</u>	<u>\$ 953,120</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Operating income	\$ (30,650)	\$ 69,020	\$ 38,370
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation and amortization	205,363	344,346	549,709
Receivables and accrued charges for services	4,046	1,782	5,828
Accounts payable and deferred revenue	1,289	(3,113)	(1,824)
Connection fees and other income	14,530	11,824	26,354
Other accrued expenses	(15,255)	(9,227)	(24,482)
Deposits	3,078	3,077	6,155
Total adjustments	<u>213,051</u>	<u>348,689</u>	<u>561,740</u>
Net cash provided by operating activities	<u>\$ 182,401</u>	<u>\$ 417,709</u>	<u>\$ 600,110</u>

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



Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

1. Summary of Significant Accounting Policies

The basic financial statements of the Town of Hillsville, Virginia (the "Town") have been prepared in accordance with accounting principles generally accepted in the United States applicable to governments established by the Governmental Accounting Standards Board ("GASB").

The following is a summary of the more significant policies:

A. The Financial Reporting Entity

For financial reporting purposes, in conformity with statements of GASB, the Town includes all funds, account groups, agencies, boards, commissions and authorities that are controlled by or dependent on the Council. Control by or dependence on the Town was determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the Town, obligation of the Town to finance any deficits that may occur, or receipt of significant subsidies from the Town. The Town has no component units as defined by GAAP. The Town also has no related organizations or jointly governed organizations.

GASB Statement No. 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A).

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the 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.

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

1. Summary of Significant Accounting Policies, continued

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation, continued

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. 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 Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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.

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 90 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 in the month 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 expenditure. 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 Town.

The Town reports the following major governmental funds:

The *general fund* is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue fund* accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Special revenue funds consist of the CDBG Fund that has been established to account for revenues received and expenditures made under the Community Development Block Grant.

The Town reports the following major proprietary funds:

Enterprise Funds account 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. Enterprise Funds consist of the Water and Sewer Funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

1. Summary of Significant Accounting Policies, continued

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation, continued

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the Town's water and sewer function and various other functions of the Town. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Stewardship, Compliance and Accountability

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

1. Prior to March 30, the Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them.
2. Public hearings are 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 department level or category level. The appropriation for each department or category can be revised only by the Town Council. The Town Manager is authorized to transfer budgeted amounts within general government departments.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund.
6. All budgets are adopted and maintained on a basis consistent with GAAP. The original budget and budget revisions during the fiscal year are authorized at the departmental level by Town council.
7. Appropriations lapse on June 30 for all Town units.

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

1. Summary of Significant Accounting Policies, continued

E. Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents are defined as short-term highly liquid investments that are readily convertible to known amounts of cash.

F. Receivable and Payables

Certain activities between the funds are representative of lending or borrowing arrangements outstanding at the end of the fiscal year. Such outstanding activity is referred to as "due to/from other funds" for the current portion and "advances to/from other funds" for the non-current portion. All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

G. Investments

Certificates of deposits and short-term repurchase agreements are reported in the accompanying financial statements as cash and cash equivalents. Investments in Alliance U.S. Government Bond Fund and Local Government Investment Pool are reported at market values.

H. Capital Assets

Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of \$1,000, and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend lives is not capitalized.

Depreciation for property, plant and equipment is computed over the following useful lives using the straight-line method.

Buildings, improvements and land improvements	10-40 years
Vehicles	5 years
Equipment	5-10 years

I. Property Taxes

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Taxes are payable December 5th. The Town bills and collects its own property taxes.

J. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available resources are reported in the general long-term debt account group. No expenditure is reported for these amounts. In accordance with the provisions of Government Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for non-vesting accumulating rights to receive benefits. The Town accrues salary-related costs associated with the payment of compensated absences.

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

1. Summary of Significant Accounting Policies, continued

K. Long-Term Obligation

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premiums or discounts. Bond issuance costs are reported as deferred charges and amortized over the life of the related bond.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

L. Net Position

Net position is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is classified as net investment in capital assets, restricted or unrestricted. Net investment in capital assets consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets. Restricted net position consists of assets that are restricted by the Town's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors. Unrestricted net position consists of all other net position reported in this category.

M. Net Position Flow Assumption

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g. restricted bond and grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

N. Fund Balances

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the Town Council through approval of resolutions. Assigned fund balances is a limitation imposed by a designee of the Town Council. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed, or assigned to those purposes. Proprietary fund equity is classified the same as in the government-wide statements.

When both restricted and unrestricted fund balances are available for use, it is the Town policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

1. Summary of Significant Accounting Policies, continued

O. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The components of the deferred outflows of resources and deferred inflows of resources at June 30, 2023 are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Government</u>
Deferred outflows of resources:			
Pension activities	\$ 181,814	\$ 84,644	\$ 266,458
Group life insurance	7,214	3,359	10,573
Other post-employment benefits	41,459	19,302	60,761
Total deferred outflows of resources	<u>\$ 230,487</u>	<u>\$ 107,305</u>	<u>\$ 337,792</u>
Deferred inflows of resources:			
General property taxes	\$ 917,746	\$ -	\$ 917,746
Pension activities	231,933	107,974	339,907
Group life insurance	6,209	2,890	9,099
Other post-employment benefits	66,776	31,088	97,864
Total deferred inflows of resources	<u>\$ 1,222,664</u>	<u>\$ 141,952</u>	<u>\$ 1,364,616</u>

P. 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 Town's Retirement Plan and the additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they were reported by the 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.

Q. Group Life Insurance

The VRS Group Life ("GLI") 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 Other Post-Employment Benefit ("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 the VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

1. Summary of Significant Accounting Policies, continued

R. Recently Adopted Accounting Standards

GASB Statement No. 91, "Conduit Debt Obligations," was issued May 2019, and establishes accounting requirements for conduit debt obligations by issuers. The adoption of this statement did not have a material impact on the Town's financial statements.

GASB Statement No. 96, "Subscription Based Information Technology Arrangements," was issued in May 2020 to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. The statement was effective July 1, 2023 and did not have a material impact on the Town's financial statements.

GASB Statement No. 99, "Omnibus 2022," was issued April 2022. The primary objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain provisions of this statement became effective upon issuance. The adoption of this statement did not have a material impact on the Town's financial statements.

The following pronouncements have been issued, but are not effective as of June 30, 2023:

GASB Statement No. 100, "Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62," was issued June 2022 to provide consistent application of accounting changes and error corrections and related accounting and financial reporting requirements. The statement will be effective for the fiscal years ending June 30, 2024.

GASB Statement No. 101, "Compensated Absences," was issued June 2022 to align recognition and measurement guidance for all types of compensated absences under a unified model. The statement will be effective for the fiscal years ending June 30, 2025.

S. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

T. Subsequent Events

Subsequent to June 30, 2023, town council approved a USDA bond issuance in the amount of \$3.3 million.

These financial statements have not been updated for subsequent events occurring after January 22, 2024, which is the date the financial statements were available to be issued.

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

2. Deposits and Investments

Deposits: At year-end the carrying value of the Town's deposits with banks and savings institutions was \$10,311,248 and the bank balance was \$9,967,360. All of the bank balance was covered by Federal depository insurance or collateral held under the provisions of the Virginia Security for Public Deposits Act. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC Bank Insurance Fund must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC Savings Association Insurance Fund limits. The State Treasury board is responsible for monitoring compliance with the collateralization and reporting requirements for the Act and for notifying local governments of compliance by banks and savings and loans.

Investments: Statutes authorize the Town to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP).

	<u>Fair Quality Ratings</u>		<u>Fair Value</u>
	<u>AAAm</u>	<u>Unrated</u>	
Alliance U.S. Government Bond Fund	\$ -	\$ 139,774	\$ 139,774
Investment in Local Government			
Investment Pool (LGIP)	321,244	-	321,244
Total	<u>\$ 321,244</u>	<u>\$ 139,774</u>	<u>\$ 461,018</u>

Concentration of Credit Risk: The Town's investments in the Alliance Bond Fund and the LGIP represented 30.3% and 69.7%, respectively, of the portfolio at June 30, 2023.

3. Allowance for Uncollectible Accounts

The Town of Hillsville calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance at June 30, 2023 is composed of the following:

General Fund, Allowance for Uncollectible Taxes	\$ 30,797
Water and Sewer Funds, Allowance for Uncollectible Accounts	31,584
	<u>\$ 62,381</u>

4. Due from Other Governmental Units

Amounts due from other governmental units at June 30, 2023 are summarized as follows:

Carroll County, Virginia	
Court fines and forfeitures	<u>\$ 51,317</u>

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

5. Capital Assets

A summary of changes in capital assets follows:

Governmental Activities

	Balance July 1, 2022	Additions	Disposals	Balance June 30, 2023
Land (not depreciated)	\$ 100,248	\$ -	\$ -	\$ 100,248
Land improvements	826,975	-	-	826,975
Buildings and improvements	1,215,480	189,893	(40,828)	1,364,545
Equipment	2,698,341	468,298	(486,640)	2,679,999
Construction in progress	836,263	581,969	(69,167)	1,349,065
Total	5,677,307	1,240,160	(596,635)	6,320,832
Less accumulated depreciation	(3,095,267)	(272,264)	527,468	(2,840,063)
Government activities capital assets, net	<u>\$ 2,582,040</u>	<u>\$ 976,896</u>	<u>\$ (69,167)</u>	<u>\$ 3,480,769</u>

Business-type Activities

	Balance July 1, 2022	Additions	Disposals	Balance June 30, 2023
Water Fund:				
Land (not depreciated)	\$ 31,468	\$ -	\$ -	\$ 31,468
Buildings and improvements	8,067,249	5,958	(1,491,131)	6,582,076
Vehicles	83,137	-	(15,974)	67,163
Equipment	106,674	2,700	(15,196)	94,178
Construction in progress	-	15,870	-	15,870
Total	8,288,528	24,528	(1,522,301)	6,790,755
Less accumulated depreciation	(3,151,169)	(205,363)	1,522,301	(1,834,231)
Water Fund capital assets, net	<u>\$ 5,137,359</u>	<u>\$ (180,835)</u>	<u>\$ -</u>	<u>\$ 4,956,524</u>
Sewer Fund:				
Land (not depreciated)	\$ 12,700	\$ -	\$ -	\$ 12,700
Buildings and improvements	11,422,526	8,900	(994,311)	10,437,115
Vehicles	88,478	-	-	88,478
Equipment	258,384	23,280	(42,606)	239,058
Construction in progress	154,526	11,226	-	165,752
Total	11,936,614	43,406	(1,036,917)	10,943,103
Less accumulated depreciation	(6,910,475)	(344,346)	1,036,917	(6,217,904)
Sewer Fund capital assets, net	<u>\$ 5,026,139</u>	<u>\$ (300,940)</u>	<u>\$ -</u>	<u>\$ 4,725,199</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities

General government	\$ 48,895
Public safety	69,403
Public works	96,401
Community development	57,565
	<u>\$ 272,264</u>

Business-type Activities

Water	\$ 205,363
Sewer	344,346
	<u>\$ 549,709</u>

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

6. Benefits

VRS Retirement Plan

A. Plan Description

All full-time, salaried permanent employees of the Town 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:

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About the Plan		
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.	Same as plan 1.	<p>The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</p> <ul style="list-style-type: none"> • 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.

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

6. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Eligible Members		
<p>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.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>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.</p> <p>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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • 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 <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under 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.</p>

Town of Hillsville, Virginia

Notes to Financial Statements
As of June 30, 2023

6. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Retirement Contributions		
<p>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.</p>	<p>Same as Plan 1.</p>	<p>A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>
Service Credit		
<p>Service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Same as Plan 1.</p>	<p>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 creditable service the member was granted. A member's total service credit is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p>Defined Contribution Component: Under the defined contribution component, service credit is used to determine vesting for the employer contribution portion of the plan.</p>

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

6. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

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

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

6. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Calculating the Benefit		
<p>The basic benefit is determined using the average final compensation, service credit and plan multiplier.</p> <p>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.</p>	<p>See definition under Plan 1.</p>	<p>Defined Benefit Component: See definition under Plan 1</p> <p>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.</p>
Average Final Compensation		
<p>A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
Service Retirement Multiplier		
<p>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%.</p> <p>Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p>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.</p>	<p>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.</p> <p>Sheriffs and regional jail superintendents: Same as Plan 1.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Defined Benefit Component: VRS: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>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.</p> <p>Sheriffs and regional jail superintendents: Not applicable.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Not applicable.</p>

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

6. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

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

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

6. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement		
<p>The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p>Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of service credit, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of service credit, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p>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:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability. • 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. 	<p>The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p>Eligibility: Same as Plan 1.</p> <p>Exceptions to COLA Effective Dates: Same as Plan 1.</p>	<p>Defined Benefit Component: Same as Plan 2.</p> <p>Defined Contribution Component: Not applicable.</p> <p>Eligibility: Same as Plan 1 and Plan 2.</p> <p>Exceptions to COLA Effective Dates: Same as Plan 1 and Plan 2.</p>

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

6. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement, continued		
<ul style="list-style-type: none"> • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. • The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 		
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.	Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.	<p>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.</p> <p>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.</p>
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 toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.	Same as Plan 1.	<p><u>Defined Benefit Component:</u> Same as Plan 1 with the following exception:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. <p><u>Defined Contribution Component:</u> Not applicable.</p>

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

6. Benefits, continued

VRS Retirement Plan, continued

B. Employees Covered by Benefit Terms

As of the June 30, 2021 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number of Employees</u>
Inactive members or their beneficiaries currently receiving benefits	<u>39</u>
Inactive members:	
Vested	9
Non-vested	5
Active elsewhere in the VRS	<u>22</u>
Total inactive members	<u>36</u>
Active members	<u>42</u>
Total covered employees	<u><u>117</u></u>

C. 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% of their compensation toward their retirement.

The Town's contractually required contribution rate for the year ended June 30, 2023 was 13.61% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$266,458 and \$236,065 for the years ended June 30, 2023 and 2022, respectively.

D. 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. The Town's NPL was measured as of June 30, 2022. The total pension liability used to calculate the NPL was determined by an actuarial valuation performed as of June 30, 2021, rolled forward to the measurement date of June 30, 2022.

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

6. Benefits, continued

VRS Retirement Plan, continued

Actuarial Assumptions

General Employees

The total pension liability for General Employees in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2021, 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, 2022.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.35%
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Mortality rates:

Non-Hazardous Duty: 15% of deaths are assumed to be service related

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years.

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years.

Post-Disablement:

RP-2010 Amount Weighted Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years.

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years.

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates.

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

6. Benefits, continued

VRS Retirement Plan, continued

E. Actuarial Assumptions, continued

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, 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:

Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to Pub-2010 public sector mortality tables. For future mortality improvements, replaced load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Public Safety Employees with Hazardous Duty Benefits

The total pension liability for Public Safety Employees with Hazardous Duty Benefits in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2021, 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, 2022.

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

Mortality rates:

Hazardous Duty: 45% of deaths are assumed to be service related

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally with a Modified MP-2020 Improvement Scale; 95% of rates for males; 105% rates for females set forward 2 years.

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally with a Modified MP-2020 Improvement Scale; 110% of rates for males; 105% of rates for females set forward 3 years.

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally with a Modified MP-2020 Improvement Scale; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years.

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

6. Benefits, continued

VRS Retirement Plan, continued

E. Actuarial Assumptions, continued

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally with a Modified MP-2020 Improvement Scale; 110% of rates for males and females set forward 2 years

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replaced load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Largest 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

6. Benefits, continued

VRS Retirement Plan, continued

F. 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%	5.71%	1.94%
Fixed Income	15.00%	2.04%	0.31%
Credit Strategies	14.00%	4.78%	0.67%
Real Assets	14.00%	4.47%	0.63%
Private Equity	14.00%	9.73%	1.36%
MAPS – Multi-Asset Public Strategies	6.00%	3.73%	0.22%
PIP – Private Investment Partnership	<u>3.00%</u>	6.55%	<u>0.20%</u>
Total	<u>100.00%</u>		<u>5.33%</u>
	Inflation		<u>2.50%</u>
	Expected arithmetic nominal return**		<u>7.83%</u>

* The above allocation provides a one-year expected return of 7.83%. 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 6.72%, 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 at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

G. 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, 2022, 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, 2021, actuarial valuations, whichever was greater. From July 1, 2022 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.

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

6. Benefits, continued

VRS Retirement Plan, continued

H. Changes in Net Pension Liability

	<u>Increase (Decrease)</u>		
	<u>Total</u>	<u>Plan</u>	<u>Net</u>
	<u>Pension</u>	<u>Fiduciary</u>	<u>Pension</u>
	<u>Liability</u>	<u>Net Position</u>	<u>Liability</u>
	<u>(a)</u>	<u>(b)</u>	<u>(a) – (b)</u>
Balances at June 30, 2021	\$ 8,645,716	\$ 8,015,884	\$ 629,832
Changes for the year:			
Service cost	208,140	-	208,140
Interest	583,616	-	583,616
Changes of assumptions	-	-	-
Differences between expected and actual experience	(358,505)	-	(358,505)
Contributions – employer	-	220,228	(220,228)
Contributions – employee	-	77,163	(77,163)
Net investment income	-	(8,644)	8,644
Benefit payments, including refunds of employee contributions	(415,380)	(415,380)	-
Administrative expense	-	(4,990)	4,990
Other changes	-	183	(183)
Net changes	<u>17,871</u>	<u>(131,440)</u>	<u>149,311</u>
Balances at June 30, 2022	<u>\$ 8,663,587</u>	<u>\$ 7,884,444</u>	<u>\$ 779,143</u>

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

The following presents the net pension liability of the Town using the discount rate of 6.75%, as well as what the Town'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%</u>	<u>Current</u>	<u>1%</u>
	<u>Decrease</u>	<u>Discount</u>	<u>Increase</u>
	<u>(5.75%)</u>	<u>Rate (6.75%)</u>	<u>(7.75%)</u>
Net Pension Liability	<u>\$ 1,938,829</u>	<u>\$ 779,143</u>	<u>\$ (162,402)</u>

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

For the year ended June 30, 2023, the Town recognized pension expense of \$162,240. At June 30, 2023, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred</u>	<u>Deferred</u>
	<u>Outflows</u>	<u>Inflows</u>
	<u>of Resources</u>	<u>of Resources</u>
Differences between expected and actual experience	\$ -	\$ 231,592
Changes of assumptions	-	(120,266)
Net difference between projected and actual earnings on plan investments	-	228,581
Employer contributions subsequent to the Measurement Date*	266,458	-
Total	<u>\$ 266,458</u>	<u>\$ 339,907</u>

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

6. Benefits, continued

VRS Retirement Plan, continued

J. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, continued

* \$266,458 reported as deferred outflows of resources related to pensions resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2024. 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:

2024	\$	(83,024)
2025		(196,480)
2026		(169,520)
2027		109,117
2028		-
Thereafter		-

K. Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2022 Annual Report. A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at www.varetire.org/pdf/publications/2022-annual-report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

VRS Group Life Insurance Plan

A. Plan Description

All full-time, salaried permanent employees of the Town 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:

Town of Hillsville, Virginia

Notes to Financial Statements
As of June 30, 2023

6. Benefits, continued

VRS Group Life Insurance Plan, continued

A. Plan Description, continued

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS
<p>Eligible Employees The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program.</p> <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 The benefits payable under the Group Life Insurance Program have several components.</p> <ul style="list-style-type: none"> • Natural Death Benefit – The natural death benefit is equal to the employee’s covered compensation rounded to the next highest thousand and then doubled. • Accidental Death Benefit – The accidental death benefit is double the natural death benefit. • Other Benefit Provisions – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include: <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 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) For covered members with at least 30 years of service credit, 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 \$8,984 as of June 30, 2023.</p>

B. 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, 2023 was 0.54% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. 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 Town was \$10,573 and \$9,052 for the years ended June 30, 2023 and June 30, 2022, respectively.

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

6. Benefits, continued

VRS Group Life Insurance Plan, continued

B. Contributions, continued

In June 2022, the Commonwealth made a special contribution of approximately \$30.4 million to the Group Life Insurance plan. This special payment was authorized by a Budget Amendment included in Chapter 1 of the 2022 Appropriation Act.

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

At June 30, 2023, the Town reported a liability of \$92,836 for its proportionate share of the Net GLI OPEB liability. The Net GLI OPEB liability was measured as of June 30, 2022 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, 2021, and rolled forward to the measurement date of June 30, 2022. The Town's proportion of the Net GLI OPEB liability was based on the Town's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2022, relative to the total of the actuarially determined employer contributions for all participating employers. The Town's proportion was 0.01% for both June 30, 2023 and 2022.

For the year ended June 30, 2023, the Town recognized GLI OPEB expense of \$2,658. 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, 2023, the Town 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>
Investment experience	\$ -	\$ 5,801
Differences between expected and actual experience	-	(3,627)
Changes of assumptions	-	5,580
Change in proportion	-	1,345
Employer contributions subsequent to the Measurement Date*	<u>10,573</u>	<u>-</u>
Total	<u>\$ 10,573</u>	<u>\$ 9,099</u>

*\$10,573 reported as deferred outflows of resources related to the GLI OPEB resulting from the Town'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, 2024.

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:

2024	\$ (1,934)
2025	(1,890)
2026	(4,604)
2027	696
2028	(1,367)
Thereafter	-

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

6. Benefits, continued

VRS Group Life Insurance Plan, continued

D. Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2021, 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, 2022.

Inflation	2.50%
Salary increases, including inflation	
General employees	3.50% - 5.35%
Hazardous Duty employees	3.50% - 4.75%
Investment rate of return	6.75%, net of investment expense, including inflation

Mortality rates:

General Employees:

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; males set forward 2 years; 105% of rates for females set forward 3 years.

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 95% of rates for males set forward 2 years; 95% of rates for females set forward 1 year.

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 110% of rates for males set forward 3 years; 110% of rates for females set forward 2 years.

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally.

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates.

The actuarial assumptions used in the June 30, 2021, valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

General Employees:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to Pub-2010 public sector mortality tables. For future mortality improvements, replaced load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

6. Benefits, continued

VRS Group Life Insurance Plan, continued

D. Actuarial Assumptions, continued

Mortality rates:

Hazardous Duty:

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years.

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years.

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years.

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years.

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replaced load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed rates based on age and service to rates based on service only to better fit experience and to be more consistent with Local Top 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

6. Benefits, continued

VRS Group Life Insurance Plan, continued

E. 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, 2022, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program
Total GLI OPEB Liability	\$ 3,672,085
Plan Fiduciary Net Position	(2,467,989)
Net GLI OPEB Liability (Asset)	<u>\$ 1,204,096</u>

Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability 67.21%

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.

F. Long-Term Expected Rate of Return

The long-term expected rate of return on the System's investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of the 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%	5.00%	1.94%
Fixed Income	15.00%	2.04%	0.31%
Credit Strategies	14.00%	4.78%	0.67%
Real Assets	14.00%	4.47%	0.63%
Private Equity	14.00%	9.73%	1.36%
MAPS – Multi-Asset Public Strategies	6.00%	3.73%	0.22%
PIP – Private Investment Partnership	3.00%	6.55%	0.20%
Total	<u>100.00%</u>		<u>5.33%</u>
		Inflation	<u>2.50%</u>
		Expected arithmetic nominal return**	<u>7.83%</u>

* The above allocation provides a one-year return of 7.83%. 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 6.72%, 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 at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

6. Benefits, continued

VRS Group Life Insurance Plan, continued

G. 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 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. Through the fiscal year ending June 30, 2022, the rate contributed by the employer for the Town's 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, 2022 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.

H. Sensitivity of the Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The following presents the Town's proportionate share of the net GLI OPEB liability using the discount rate of 6.75%, as well as what the Town'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:

	<u>1% Decrease (5.75%)</u>	<u>Current Discount Rate (6.75%)</u>	<u>1% Increase (7.75%)</u>
Town's proportionate share of the Group Life Insurance Program Net OPEB liability	\$ 135,087	\$ 92,836	\$ 58,691

I. 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 2022 Annual Comprehensive Financial Report (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at www.varetire.org/pdf/publications/2022-annual-report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

6. Benefits, continued

Other Post-Employment Benefits

A. Plan Description

The Town provides post-employment benefits for retirees that meet certain criteria. These benefits include medical, dental, and vision coverage. Participants must meet one of the following criteria to be eligible for health benefits upon retirement: (i) attain age 50 with at least 10 years of service with the Town, or (ii) attain age 55 with at least 5 years of service with the Town.

In addition, employees must meet one of the following requirements to be eligible for retirement through Virginia Retirement System.

General Employees Plan 1: Members vested as of January 1, 2013:

- Attain age 50 with at least 10 years of service with VRS for a reduced pension benefit, or
- Attain age 55 with at least 5 years of service with VRS for a reduced pension benefit, or
- Attain age 65 with at least 5 years of service with VRS for an unreduced pension benefit, or
- Attain age 50 with at least 30 years of service with VRS for an unreduced pension benefit.

General Employees Plan 2 and Hybrid Plan: Members not vested as of January 1, 2013 and members hired on or after July 1, 2010 (Plan 2) and members hired on or after January 1, 2014 or by member election (Hybrid Plan):

- Attain age 60 with at least 5 years of service with VRS for a reduced pension benefit, or
- Attain 90 points (age plus service) with VRS for an unreduced pension benefit, or
- Attain Social Security Normal Retirement Age with at least 5 years of service with VRS for an unreduced pension benefit.

Public Safety Employees: Members hired prior to January 1, 2014 (Plan 1) and members hired on or after January 1, 2014 (Plan 2). (No hybrid plan)

- Attain age 50 with at least 5 years of service with VRS for a reduced pension benefit, or
- Attain age 60 with at least 5 years of service with VRS for an unreduced pension benefit, or
- Attain age 55 with at least 25 years of service with VRS for an unreduced pension benefit.

Retirees may elect to cover a spouse and dependents. Health benefits are offered for the lifetime of the retiree. If the retiree predeceases the spouse, the spouse may continue their coverage until the earlier of death, remarriage, or the obtainment of health coverage not offered by the Town. If the retiree predeceases his or her dependents, then the dependents may continue medical coverage until the earlier of death, attainment of age 26, marriage, ability to be self-supportive, obtaining health coverage not offered by the Town, or loss of eligibility of surviving spouse if covered under surviving spouse.

B. Contributions

The retiree and spouse pay 100% of the premium cost for both retiree and spouse/dependent coverage. The Town has no contribution requirement.

C. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2023, the Town reported a liability of \$392,727 for its OPEB liability. The OPEB liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below, and was then projected forward to the measurement date. Any significant changes during this period have been reflected as prescribed by GASB 74 and 75.

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

6. Benefits, continued

Other Post-Employment Benefits, continued

C. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB, continued

For the year ended June 30, 2023, the Town recognized OPEB expense of \$35,676.

At June 30, 2023, the Town reported deferred outflows of resources and deferred inflows of resources related to the OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ (66,800)	\$ 21,293
Changes in assumptions	(31,064)	39,468
Total	<u>\$ (97,864)</u>	<u>\$ 60,761</u>

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in future reporting periods as follows:

2024	\$ (361)
2025	483
2026	(5,878)
2027	(16,906)
2028	(16,910)
Thereafter	2,469

D. Actuarial Methods and Assumptions

The demographic assumptions used to determine the OPEB liability as of June 30, 2023 were based on the results of an actuarial experience study for the Virginia Retirement System covering the period from July 1, 2016 to June 30, 2020. The demographic assumptions recommended as a result of this study were adopted by the VRS Board of Trustees on April 20, 2021. Significant methods and assumptions were as follows:

Valuation date	7/1/2022
Measurement date	6/30/2023
Actuarial cost method	Entry age normal
Inflation	2.50%
Healthcare trend rates	5.90% to 3.90% over 50 years
Salary increases, including inflation	
General employees	3.50% - 5.35%
Hazardous Duty employees	3.50% - 4.75%

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

6. Benefits, continued

Other Post-Employment Benefits, continued

E. Changes in OPEB Liability

	<u>Increase or (Decrease)</u>
Balance at June 30, 2022	\$ 368,004
Changes for the year:	
Service cost	23,504
Interest	13,379
Effect of plan changes	-
Effect of economic/demographic gains or losses	16,509
Effect of assumptions changes or inputs	(1,315)
Benefit payments	(27,354)
Net changes	<u>24,723</u>
Balance at June 30, 2023	<u>\$ 392,727</u>

F. Discount Rate

The discount rate used to measure the total OPEB liability was 3.65%. The discount rate is based on the Bond Buyer 20-Year Bond GO Index as of the measurement date.

G. Sensitivity of the OPEB Liability to Changes in the Discount and Healthcare Trend Rates

The following presents the Town's OPEB liability calculated using the discount rate of 3.65%, as well as what the OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.65%) or one percentage point higher (4.65%) than the current rate:

	<u>1% Decrease (2.65%)</u>	<u>Current Discount Rate (3.65%)</u>	<u>1% Increase (4.65%)</u>
OPEB liability	\$ 423,283	\$ 392,727	\$ 364,497

The following presents the Town's OPEB liability calculated using the current healthcare trend rates as well as what the OPEB liability would be if it were calculated using the healthcare trend rates that are one percentage point lower or one percentage point higher than the current rates:

	<u>1% Decrease in Trend Rate</u>	<u>Current Trend Rate</u>	<u>1% Increase in Trend Rate</u>
OPEB liability	\$ 351,752	\$ 392,727	\$ 440,561

7. Compensated Absences

Each Town employee earns vacation leave based on years of service up to 20 days per year after 15 years of service and sick leave at the rate of one day per month. No benefits or pay are received for unused sick leave upon termination. Accumulated vacation is paid upon termination. The Town has outstanding accrued vacation pay totaling \$147,457 in Governmental Activities and \$56,994 in Business-type Activities at June 30, 2023.

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

8. Lease Obligations (Capital and Operating)

The Town periodically leases various types of equipment under capital and operating agreements. At June 30, 2023, there were no capital leases outstanding.

9. Long-Term Debt

The following is a summary of long-term debt transactions of the Town for the year ended June 30, 2023:

	Amounts payable at <u>July 1, 2022</u>	<u>Increases</u>	<u>Decreases</u>	Amounts payable at <u>June 30, 2023</u>	<u>Due within one year</u>
<i>Governmental Activities</i>					
Notes from direct borrowings and direct placements	\$ 286,651	\$ -	\$ (26,093)	\$ 260,558	\$ 26,859
General obligation bonds	<u>246,841</u>	<u>-</u>	<u>(44,741)</u>	<u>202,100</u>	<u>31,075</u>
	<u>\$ 533,492</u>	<u>\$ -</u>	<u>\$ (70,834)</u>	<u>\$ 462,658</u>	<u>\$ 57,934</u>
<i>Business-type Activities</i>					
General obligation bonds	\$ 8,377,159	\$ -	\$ (168,453)	\$ 8,208,706	\$ 373,389
Revenue bonds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 8,377,159</u>	<u>\$ -</u>	<u>\$ (168,453)</u>	<u>\$ 8,208,706</u>	<u>\$ 373,389</u>

The Town's outstanding notes from direct borrowings and direct placements related to governmental activities contain a provision that in an event of default, outstanding amounts become immediately due if the Town is unable to make payment.

At June 30, 2023, the Town had one direct borrowing note that was secured by a fire truck. The Town has no outstanding lines of credit.

Contractual maturities for long-term debt are as follows:

Year ending <u>June 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Notes Payable and Bonds</u>		<u>Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 57,934	\$ 12,640	\$ 373,389	\$ 146,157
2025	59,664	10,911	381,121	138,425
2026	61,458	9,116	388,444	131,102
2027	62,461	7,270	395,943	123,603
2028	54,309	5,527	403,490	116,056
2029-2033	166,832	9,091	2,318,562	424,317
2034-2038	-	-	1,543,288	233,378
2039-2043	-	-	523,071	161,163
2044-2048	-	-	496,156	124,896
2049-2053	-	-	535,428	85,624
2054-2058	-	-	577,722	43,330
2059-2063	-	-	<u>272,092</u>	<u>4,818</u>
Total	<u>\$ 462,658</u>	<u>\$ 54,555</u>	<u>\$ 8,208,706</u>	<u>\$ 1,732,869</u>

10. Accrued Charges for Services

The Town has adopted a bi-monthly billing cycle for most of its water and sewer customers. As a result, most customers have received services for as many as one and one-half months for which they had not been billed. These revenues are subject to accrual, and the asset represents an estimate of such charges based on subsequent bi-monthly billings. This amount is included in proprietary fund operating revenues. At June 30, 2023, Water and Sewer Fund accrued charges for services are \$42,942 and \$42,417, respectively.

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2023

11. Deferred Revenue

Deferred revenue represents a measurable inflow of resources that will be available in a future reporting period. Deferred revenue totaling \$956,099 at June 30, 2023 is comprised of the following:

Deferred Property Tax Revenue

Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled \$949,003.

Prepaid Property Taxes

Property taxes due subsequent to the current tax levy but paid in advance by taxpayers totaled \$7,096.

12. Commitments and Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amount, if any, to be immaterial.

At June 30, 2023, the Town was involved in various litigation arising out of the normal course of operations, however, in the opinion of management, there were no matters of litigation involving the Town which would materially affect the Town's financial position should any court decision or pending matter not be favorable to the Town.

13. Surety Bond Information

Fidelity and Deposit Company of Maryland:

Treasurer	\$	100,000
All Town employees - blanket bond	\$	100,000

14. Risk of Loss

The Town is subject to risk of loss from the following events:

- | | |
|---|-------------------------|
| - Torts | - Business interruption |
| - Theft of, damage to, or destruction of assets | - Errors or omissions |
| - Job-related employee illness or injuries | - Acts of God |

The risk of these losses is managed by the purchase of commercial insurance. There have been no significant reductions in coverage over the past year and settlements have not exceeded insurance coverage in any of the past three years.



Town of Hillsville, Virginia

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Governmental Funds

For the Year Ended June 30, 2023

Schedule 1

Page 1

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
General Fund				
Revenues				
Revenue from local sources:				
General property taxes	\$ 808,603	\$ 811,634	\$ 900,503	\$ 88,869
Other local taxes	2,045,500	2,045,500	2,547,550	502,050
Permits, privilege fees, and regulatory licenses	1,000	1,000	1,110	110
Fines and forfeitures	248,450	383,784	633,214	249,430
Payment in lieu of taxes	-	-	-	-
Revenue from use of money and property	108,300	108,300	218,313	110,013
Charges for services	-	-	-	-
Gain on sale of capital assets	-	-	-	-
Miscellaneous	16,832	16,832	27,154	10,322
Total revenue from local sources	<u>3,228,685</u>	<u>3,367,050</u>	<u>4,327,844</u>	<u>960,794</u>
Revenue from the Federal Government:				
Byrne Justice Assistance grant	-	-	18,595	18,595
Body-worn Camera Policy and Implementation Program	-	-	10,504	10,504
Downtown Planning Grant	-	-	8,250	8,250
Community facilities grant	-	-	334,720	334,720
Local law enforcement grants	-	-	2,552	2,552
Highway safety grants	8,000	8,000	19,435	11,435
Local government challenge grant	1,750	1,750	1,750	-
Total revenue from the Federal Government	<u>9,750</u>	<u>9,750</u>	<u>395,806</u>	<u>386,056</u>
Revenue from the Commonwealth:				
Noncategorical aid	65,000	65,000	81,833	16,833
Community development	-	-	14,334	14,334
Farmers Market Fresh Match	-	-	1,133	1,133
Fire prevention	9,000	9,000	15,000	6,000
Litter control	1,796	1,796	2,376	580
Other	-	-	-	-
Total revenue from the Commonwealth	<u>75,796</u>	<u>75,796</u>	<u>114,676</u>	<u>38,880</u>
Total revenues	<u>3,314,231</u>	<u>3,452,596</u>	<u>4,838,326</u>	<u>1,385,730</u>
Expenditures				
Current:				
General governmental administration	670,957	670,957	94,464	576,493
Public safety	1,230,029	1,374,197	551,891	822,306
Public works	1,038,351	1,041,749	166,926	874,823
Community development	173,458	173,458	121,676	51,782
Non-departmental	12,500	12,500	-	12,500
Capital projects	1,018,693	1,018,326	766,936	251,390
Annexation expenses	-	-	-	-
Debt service:				
Principal retirement	81,750	81,750	70,834	10,916
Interest and other fiscal charges	14,699	14,699	14,763	(64)
Total expenditures	<u>4,240,437</u>	<u>4,387,636</u>	<u>1,787,490</u>	<u>2,600,146</u>
Excess revenues over expenditures	<u>(926,206)</u>	<u>(935,040)</u>	<u>3,050,836</u>	<u>3,985,876</u>
Other financing sources and uses				
Proceeds from debt	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	(315,835)	(315,835)	-	315,835
Carryover balances	1,242,041	1,250,875	-	(1,250,875)
Total other financing sources and uses	<u>926,206</u>	<u>935,040</u>	<u>-</u>	<u>(935,040)</u>
Net changes in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>3,050,836</u>	<u>\$ 3,050,836</u>
Fund balance, beginning			6,326,237	
Fund balance, ending			<u>\$ 9,377,073</u>	

Town of Hillsville, Virginia

Schedule 1

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Page 2

Governmental Funds

For the Year Ended June 30, 2023

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
ARP				
Revenue				
Revenues from the Federal Government				
American Recovery Fund	\$ -	\$ -	\$ 2,760,832	\$ 2,760,832
Expenditures				
Current:				
General governmental administration	-	-	540,916	(540,916)
Public safety	-	-	1,234,521	(1,234,521)
Public works	-	-	818,849	(818,849)
Community development	-	-	123,474	(123,474)
Non-departmental	-	-	14,772	(14,772)
Capital projects	-	-	28,300	(28,300)
Total expenditures	-	-	2,760,832	(2,760,832)
Net changes in fund balances	\$ -	\$ -	-	\$ -
Fund balance, beginning			-	
Fund balance, ending			\$ -	
CDBG				
Revenue				
Revenues from local sources				
Revenue from use of money and property	\$ -	\$ -	\$ 83	\$ 83
Expenditures				
Community development	-	-	11,818	(11,818)
Net changes in fund balances	\$ -	\$ -	(11,735)	\$ (11,735)
Fund balance, beginning			65,391	
Fund balance, ending			\$ 53,656	

Town of Hillsville, Virginia

Schedule 2

Schedule of Changes in Net Pension Liability and Related Ratios

Last Nine Years¹

	Fiscal Year								
	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total Pension Liability									
Service cost	\$ 208,140	\$ 193,951	\$ 197,030	\$ 185,776	\$ 180,269	\$ 169,502	\$ 166,982	\$ 160,994	\$ 165,156
Interest	583,616	526,749	493,990	477,382	454,058	437,003	421,845	407,404	386,331
Changes of assumptions	-	336,962	-	223,552	-	(51,264)	-	-	-
Differences between expected and actual experience	(358,505)	(12,429)	196,935	3,069	95,792	38,880	(104,689)	(89,216)	-
Contributions – employer	-	-	-	-	-	-	-	-	-
Contributions – employee	-	-	-	-	-	-	-	-	-
Net investment income	-	-	-	-	-	-	-	-	-
Benefit payments, including refunds of employee contributions	(415,380)	(406,412)	(395,336)	(383,445)	(410,352)	(290,604)	(244,587)	(301,198)	(199,669)
Refund of contribution	-	-	(3,539)	-	-	-	-	-	-
Administrative expense	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-	-
Net change	17,871	638,821	489,080	506,335	319,767	303,517	239,551	177,984	351,818
Total pension liability, beginning	8,645,716	8,006,895	7,517,815	7,011,480	6,691,713	6,388,196	6,148,645	5,970,661	5,618,843
Total pension liability, ending	<u>\$ 8,663,587</u>	<u>\$ 8,645,716</u>	<u>\$ 8,006,895</u>	<u>\$ 7,517,815</u>	<u>\$ 7,011,480</u>	<u>\$ 6,691,713</u>	<u>\$ 6,388,196</u>	<u>\$ 6,148,645</u>	<u>\$ 5,970,661</u>
Plan Fiduciary Net Position									
Service cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	-	-	-	-	-	-	-	-	-
Changes of assumptions	-	-	-	-	-	-	-	-	-
Contributions – employer	220,228	218,901	178,083	169,557	149,557	145,779	176,973	168,941	183,712
Contributions – employee	77,163	76,823	74,489	70,355	71,478	73,074	66,763	64,046	66,294
Net investment income	(8,644)	1,745,824	121,787	406,820	431,037	650,616	92,953	230,241	694,350
Benefit payments, including refunds of employee contributions	(415,380)	(406,412)	(395,336)	(383,445)	(410,352)	(290,604)	(244,587)	(301,198)	(199,669)
Refund of contribution	-	-	(3,539)	-	-	-	-	-	-
Administrative expense	(4,990)	(4,337)	(4,215)	(4,076)	(3,802)	(3,758)	(3,244)	(3,181)	(3,663)
Other changes	183	166	(143)	(251)	(385)	(580)	(37)	(49)	36
Net change	(131,440)	1,630,965	(28,874)	258,960	237,533	574,527	88,821	158,800	741,060
Plan fiduciary net position, beginning	8,015,884	6,384,919	6,413,793	6,154,833	5,917,300	5,342,773	5,253,952	5,095,152	4,334,092
Plan fiduciary position, ending	<u>\$ 7,884,444</u>	<u>\$ 8,015,884</u>	<u>\$ 6,384,919</u>	<u>\$ 6,413,793</u>	<u>\$ 5,917,300</u>	<u>\$ 5,342,773</u>	<u>\$ 5,342,773</u>	<u>\$ 5,253,952</u>	<u>\$ 5,095,152</u>
Net Pension Liability	<u>\$ 779,143</u>	<u>\$ 629,832</u>	<u>\$ 1,621,976</u>	<u>\$ 1,104,022</u>	<u>\$ 856,647</u>	<u>\$ 774,413</u>	<u>\$ 1,045,423</u>	<u>\$ 894,693</u>	<u>\$ 875,509</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	91.01%	92.72%	79.74%	85.31%	87.78%	88.43%	83.64%	85.45%	85.34%
Covered-employee Payroll	\$ 1,957,810	\$ 1,676,163	\$ 1,660,676	\$ 1,578,765	\$ 1,471,417	\$ 1,458,625	\$ 1,423,882	\$ 1,381,354	\$ 1,305,996
Net Pension Liability as a Percentage of Covered-Employee Payroll	39.80%	37.58%	97.67%	69.93%	58.22%	53.09%	73.42%	64.77%	67.04%

¹ Data is not readily available for years prior to the adoption of SCAS No. 68.

Town of Hillsville, Virginia

Schedule 3

Schedule of Employer Pension Contributions

June 30, 2023

Fiscal Year ²	Recommended Contribution Rate <i>(Information Only)</i>	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (1) - (2)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
2014	13.84%	\$ 180,750	\$ 176,200	\$ 4,550	\$ 1,305,996	13.49%
2015	13.03%	\$ 179,990	\$ 151,938	\$ 28,052	\$ 1,381,354	11.00%
2017	11.79	167,876	180,076	(12,200)	1,423,882	12.65
2018	10.52	153,447	151,824	1,623	1,458,625	10.41
2019	11.97	176,129	157,469	18,660	1,471,417	10.70
2020	11.97	188,978	177,871	11,107	1,578,765	11.27
2021	13.27	220,372	190,620	29,752	1,660,676	11.48
2022	13.27	222,427	233,118	(10,691)	1,676,163	13.91
2023	13.61	266,458	236,065	30,393	1,957,810	12.06

¹ Data is not readily available for years prior to the adoption of SGAS No. 68.

² Date of actuarial valuation.

Notes to Required Supplementary Information - Pension

For the Year Ended June 30, 2023

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, 2021, valuation were based on results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020, 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:

Non-Hazardous Duty Employees:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to Pub-2010 public sector mortality tables. For future mortality improvements, replaced load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Hazardous Duty Employees:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replaced load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Top 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Town of Hillsville, Virginia

Schedule 4

Schedule of Employer's Share of Net Group Life Insurance Liability Last Six Years*

	Fiscal Year					
	2023	2022	2021	2020	2019	2018
Employer's Proportion of the Net GLI OPEB Liability (Asset)	0.00771%	0.00800%	0.00774%	0.00760%	0.00787%	0.00783%
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset)	\$ 92,836	\$ 93,142	\$ 129,168	\$ 124,163	\$ 119,491	\$ 117,491
Covered-employee Payroll	\$ 1,957,810	\$ 1,676,163	\$ 1,652,151	\$ 1,592,488	\$ 1,489,308	\$ 1,496,002
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered Payroll	4.74%	5.56%	7.82%	7.80%	8.02%	7.85%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	67.21%	67.45%	52.64%	52.00%	51.22%	48.86%

* Data is not readily available for years prior to the adoption of SGAS No. 75.

Town of Hillsville, Virginia

Schedule 5

Schedule of Group Life Insurance Employer Contributions Last Six Years¹

Fiscal Year ²	Recommended Contribution Rate <i>(Information Only)</i>	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (1) – (2)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
2018	0.52%	\$ 7,779	\$ 7,779	\$ -	\$ 1,496,002	0.52%
2019	0.52	7,746	7,746	-	1,489,508	0.52
2020	0.52	8,281	8,281	-	1,592,488	0.52
2021	0.54	8,922	8,921	-	1,652,151	0.54
2022	0.54	9,052	9,052	-	1,676,163	0.54
2023	0.54	10,573	10,573	-	1,957,810	0.54

¹ Data is not readily available for years prior to the adoption of SGAS No. 75.

² Date of actuarial valuation.

Notes to Required Supplementary Information – Group Life Insurance For the Year Ended June 30, 2023

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, 2021, valuation were based on results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020, except the change in 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 Employees:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to Pub-2010 public sector mortality tables. For future mortality improvements, replaced load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Hazardous Duty Employees:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to Pub-2010 public sector mortality tables. For future mortality improvements, replaced load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Top 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Town of Hillsville, Virginia

Schedule 6

Schedule of Changes in Total Other Post-Employment Benefit Liability and Related Ratios Last Six Years¹

	2023	2022	2021	2020	2019	2018
Total Other Post-Employment Benefit Liability						
Service cost	\$ 23,504	\$ 25,026	\$ 24,070	\$ 23,308	\$ 18,599	\$ 20,589
Interest	13,379	9,021	11,489	16,450	15,205	12,975
Changes of plan changes	16,509	-	(106,880)	-	20,420	-
Effect of economic/demographic gains (losses)	(1,315)	(40,482)	1,036	39,678	66,731	(10,984)
Effect of assumption changes or inputs	(27,354)	(36,127)	(29,755)	(30,810)	(25,458)	(12,335)
Benefit payments	24,723	(42,562)	(100,040)	48,626	95,497	10,245
Net change	368,004	410,566	510,606	461,980	366,483	356,238
Total other post-employment liability, beginning	\$ 392,727	\$ 368,004	\$ 410,566	\$ 510,606	\$ 461,980	\$ 366,483
Total other post-employment liability, ending	\$ 2,000,053	\$ 1,674,566	\$ 1,674,566	\$ 1,541,571	\$ 1,541,571	\$ 1,450,100
Covered-employee Payroll						
Net Other Post-Benefit Liability as a Percentage of Covered-Employee Payroll	19.64%	21.98%	24.52%	33.12%	29.97%	25.27%

¹ Data is not readily available for years prior to the adoption of SGAS No. 75.



Town of Hillsville, Virginia

Changes in Net Position
Last Ten Fiscal Years

Schedule 7

	Fiscal Year									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Governmental Activities										
Net position, beginning	\$ 7,236,440	\$ 6,001,663	\$ 5,145,711	\$ 4,852,325	\$ 4,197,442	\$ 3,326,922	\$ 2,705,844	\$ 2,186,091	\$ 2,516,277	\$ 2,131,102
Revenues	7,614,755	4,362,427	4,288,443	3,307,919	3,513,489	3,814,657	3,369,045	3,018,697	2,782,115	2,800,192
Expenses	(3,551,644)	(3,127,650)	(3,432,491)	(3,014,533)	(2,858,606)	(2,847,756)	(2,747,967)	(2,498,944)	(2,297,738)	(2,415,017)
Prior period adjustment	-	-	-	-	(96,381)	-	-	(814,563)	-	-
Net position, ending	\$ 11,299,551	\$ 7,236,440	\$ 6,001,663	\$ 5,145,711	\$ 4,852,325	\$ 4,197,442	\$ 3,326,922	\$ 2,705,844	\$ 2,186,091	\$ 2,516,277
Business-type Activities										
Net position, beginning	\$ 2,334,310	\$ 2,329,894	\$ 2,516,873	\$ 2,464,877	\$ 2,508,855	\$ 2,650,773	\$ 2,687,375	\$ 2,565,819	\$ 3,119,792	\$ 3,606,230
Revenues	1,910,326	1,871,486	1,757,005	1,834,795	1,617,800	1,516,373	1,558,278	1,670,527	1,222,744	1,159,878
Expenses	(1,980,986)	(1,867,070)	(1,943,984)	(1,782,799)	(1,661,778)	(1,621,643)	(1,594,880)	(1,548,971)	(1,510,241)	(1,568,240)
Prior period adjustment	-	-	-	-	(36,648)	-	-	(266,476)	(78,076)	-
Net position, ending	\$ 2,263,650	\$ 2,334,310	\$ 2,329,894	\$ 2,516,873	\$ 2,464,877	\$ 2,508,855	\$ 2,650,773	\$ 2,687,375	\$ 2,565,819	\$ 3,119,792
Primary Government										
Net position, beginning	\$ 9,570,750	\$ 8,331,557	\$ 7,662,584	\$ 7,317,202	\$ 6,706,297	\$ 5,977,695	\$ 5,393,219	\$ 4,751,910	\$ 5,636,069	\$ 5,737,332
Revenues	9,525,081	6,233,913	6,045,448	5,142,714	5,131,289	5,331,030	4,927,323	4,689,224	4,004,859	3,960,070
Expenses	(5,532,630)	(4,994,720)	(5,376,475)	(4,797,332)	(4,520,384)	(4,469,399)	(4,342,847)	(4,047,915)	(3,807,979)	(3,983,257)
Prior period adjustment	-	-	-	-	-	(133,029)	-	-	(1,081,039)	(78,076)
Net position, ending	\$ 13,563,201	\$ 9,570,750	\$ 8,331,557	\$ 7,662,584	\$ 7,317,202	\$ 6,706,297	\$ 5,977,695	\$ 5,393,219	\$ 4,751,910	\$ 5,636,069

Town of Hillsville, Virginia

Revenues by Function Last Ten Fiscal Years

Schedule 8

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Governmental Activities										
General Government										
Operating grants and contributions \$	2,760,832	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Capital grants and contributions	-	-	463,976	-	-	-	-	-	-	-
Public Safety										
Charges for services	633,214	443,159	526,289	354,633	476,660	596,407	431,075	143,956	44,870	33,202
Operating grants and contributions	96,833	87,618	97,698	82,612	79,884	77,392	77,392	74,288	76,288	75,288
Capital grants and contributions	51,086	20,545	15,915	17,974	63,935	18,514	22,640	20,255	14,272	11,920
Public Works										
Charges for services	-	422	50	72	-	35	-	2,206	2,820	1,150
Operating grants and contributions	2,376	3,932	6,970	1,032	1,538	1,477	1,515	3,572	1,555	1,558
Capital grants and contributions	-	50,000	-	-	20,800	23,100	45,500	66,625	-	4,801
Community Development										
Charges for services	15,467	34,766	92,784	9,168	-	-	2,500	-	-	-
Operating grants and contributions	344,720	154,282	1,750	-	(19,080)	31,750	36,750	-	3,500	42,670
General Revenues										
General property taxes	916,017	812,999	798,476	771,873	686,441	742,652	765,251	717,694	725,502	715,007
Meals tax	1,275,563	1,196,334	1,048,059	976,962	1,007,990	1,023,175	980,621	1,028,626	910,071	871,089
Lodgings tax	348,359	356,643	241,989	230,277	289,463	289,508	332,358	265,443	231,173	221,152
Other local taxes	923,628	939,629	845,751	819,684	840,438	816,358	762,044	744,833	663,933	729,896
Licenses and permits	9,710	4,810	4,548	1,573	2,559	1,085	5,941	1,602	6,040	1,648
Use of money and property	218,396	163,294	120,271	93,477	47,511	35,988	43,318	34,316	37,676	38,536
Miscellaneous	27,154	93,994	23,899	25,445	26,103	29,304	73,818	38,902	68,807	47,883
Gain (loss) on sale of capital assets	-	-	-	(12,015)	4,997	22,678	5,851	27,121	-	-
Transfers	-	-	18	(64,848)	(15,750)	105,234	(217,529)	(150,742)	-	-
Total governmental activities revenues	\$ 7,614,755	\$ 4,362,427	\$ 4,288,443	\$ 3,307,919	\$ 3,513,489	\$ 3,814,657	\$ 3,369,045	\$ 3,018,697	\$ 2,782,115	\$ 2,800,192
Business-type Activities										
Water										
Charges for services	779,737	756,286	735,583	659,982	676,816	604,984	521,569	478,425	416,835	420,933
Capital grants and contributions	-	6,002	-	156,203	-	-	79,213	293,565	98,504	75,256
Sewer										
Charges for services	1,093,551	981,845	961,522	895,996	879,515	860,176	702,257	697,651	675,666	614,590
Operating grants and contributions	-	-	-	-	-	1,614	1,821	-	-	-
Capital grants and contributions	5,297	118,750	11,250	20,000	-	125,000	-	14,247	-	17,788
General Business-type Revenues										
Use of money and property	5,387	(17,053)	18,651	21,692	25,199	8,595	7,899	9,308	4,854	10,441
Miscellaneous	26,354	25,656	30,017	16,074	20,520	21,238	27,990	26,589	26,885	19,300
Gain (loss) on sale of capital assets	-	-	-	-	-	(105,234)	-	-	1,570	577
Transfers	-	-	(18)	64,848	15,750	(150,742)	217,529	150,742	-	-
Total business-type activities revenues	\$ 1,910,326	\$ 1,871,486	\$ 1,757,005	\$ 1,834,795	\$ 1,617,800	\$ 1,516,373	\$ 1,538,278	\$ 1,670,527	\$ 1,222,744	\$ 1,159,878

Town of Hillsville, Virginia

Schedule 9

Expenses by Function Last Ten Fiscal Years

Governmental Activities

<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Community Development</u>	<u>Interest on Long-term Debt</u>	<u>Other</u>	<u>Total</u>
2014	\$ 414,681	\$ 1,082,316	\$ 721,765	\$ 114,859	\$ 25,218	\$ 56,178	\$ 2,415,017
2015	407,310	1,032,841	677,929	119,061	22,713	37,884	2,297,738
2016	449,575	1,142,534	730,797	143,829	21,524	10,685	2,498,944
2017	476,609	1,225,899	743,716	240,931	19,538	41,274	2,747,967
2018	508,331	1,358,018	783,175	168,817	20,120	9,295	2,847,756
2019	540,815	1,318,334	760,240	147,493	22,594	69,130	2,858,606
2020	593,300	1,323,849	887,506	177,084	14,881	17,913	3,014,533
2021	744,392	1,493,234	1,000,734	148,758	29,476	15,897	3,432,491
2022	606,586	1,298,710	941,634	180,619	15,671	84,430	3,127,650
2023	675,553	1,527,084	1,048,602	245,547	14,591	40,267	3,551,644

Business-type Activities

<u>Fiscal Year</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
2014	\$ 577,820	\$ 990,420	\$ 1,568,240
2015	539,405	970,836	1,510,241
2016	591,332	957,639	1,548,971
2017	609,854	985,026	1,594,880
2018	627,324	994,319	1,621,643
2019	634,337	1,027,441	1,661,778
2020	711,898	1,070,901	1,782,799
2021	809,505	1,134,479	1,943,984
2022	806,476	1,060,594	1,867,070
2023	866,515	1,114,471	1,980,986

Town of Hillsville, Virginia

Schedule 10

Assessed Valuation of Taxable Property and Property Tax Rates Last Ten Fiscal Years

Fiscal Year	Assessed Valuation		Machinery and Tools	Public Utility		Supplements/ Abatements/ Exemptions	Total
	Real Estate	Personal Property		Real Estate	Personal Property		
2014	\$ 199,185,900	\$ 26,094,190	\$ 9,397,920	\$ 9,666,860	\$ 87,886	\$ (2,179,421)	\$ 242,253,335
2015	200,170,800	26,286,600	10,443,835	10,187,225	65,246	(4,329,577)	242,824,129
2016	200,585,742	25,441,920	10,703,335	10,001,006	79,618	(4,228,615)	242,583,006
2017	200,763,800	26,070,880	12,201,370	10,412,411	89,914	(3,715,054)	245,818,321
2018	202,400,300	27,170,265	9,399,100	10,046,787	133,984	(4,413,723)	244,736,713
2019	203,068,100	28,051,420	8,795,625	10,597,513	103,131	(4,794,768)	245,821,321
2020	203,941,900	28,893,305	11,755,625	10,805,328	90,607	(4,858,421)	250,628,344
2021	203,951,000	29,592,015	15,576,930	12,807,035	142,235	(5,632,665)	256,436,550
2022	222,501,200	30,304,815	15,346,500	13,749,988	156,533	(7,595,066)	274,463,970
2023	218,813,800	38,173,940	21,115,210	12,434,811	135,515	(10,191,603)	280,481,673

Source: Carroll County, Virginia Commissioner of Revenue

Property Tax Rates (per \$100 assessed value)

Fiscal Year	Real Estate		Machinery and Tools		Public Utility	
	Real Estate	Personal Property	Real Estate	Personal Property	Real Estate	Personal Property
2014	\$.22	.72	\$.72	.72	\$.22	.72
2015	.22	.72	.72	.72	.22	.72
2016	.22	.72	.72	.72	.22	.72
2017	.22	.72	.72	.72	.22	.72
2018	.22	.72	.72	.72	.22	.72
2019	.22	.72	.72	.72	.22	.72
2020	.22	.72	.72	.72	.22	.72
2021	.22	.72	.72	.72	.22	.72
2022	.21	.72	.72	.72	.21	.72
2023	.21	.72	.72	.72	.21	.72

Town of Hillsville, Virginia

Schedule 11

Property Tax Levies and Collections Last Ten Fiscal Years

Fiscal Year	Taxes Levied for the Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount ¹	Percent of Levy		Amount ¹	Percent of Levy
2014	\$ 705,784	\$ 676,677	95.88%	\$ 29,070	\$ 705,747	99.99%
2015	712,737	676,455	94.91	36,076	712,531	99.97
2016	713,803	691,647	96.90	21,792	713,439	99.95
2017	732,819	718,504	98.05	13,039	731,543	99.83
2018	721,288	707,826	98.13	12,001	719,827	99.80
2019	711,878	694,350	97.54	14,873	709,223	99.63
2020	752,364	724,816	96.34	23,482	748,298	99.46
2021	786,236	764,988	97.30	14,277	779,265	99.11
2022	806,868	784,655	97.25	10,262	794,917	98.52
2023	875,998	839,902	95.88	-	839,902	95.88

¹ Exclusive of penalties and interest.

Town of Hillsville, Virginia

Schedule 12

Outstanding Debt by Type Last Ten Fiscal Years

Fiscal Year	General Bonded Debt			Percentage of Actual Property Value
	General Obligation Bonds	Installment Notes	Total	
	2014	\$ 148,278	\$ 649,747	
2015	140,017	567,848	707,865	0.29
2016	131,422	483,046	614,468	0.25
2017	209,943	424,694	634,637	0.26
2018	233,575	383,421	616,996	0.25
2019	237,812	360,260	598,072	0.24
2020	204,328	336,453	540,781	0.22
2021	168,989	311,924	480,913	0.19
2022	246,841	286,651	533,492	0.19
2023	260,558	202,100	462,658	0.16

Fiscal Year	Business-type Activities			Total Primary Government
	Water Bonds	Sewer Bonds	Total	
	2014	\$ 1,267,883	\$ 5,455,190	
2015	1,404,403	5,528,919	6,933,322	7,641,187
2016	2,103,897	5,144,807	7,248,704	7,863,172
2017	2,172,455	5,030,528	7,202,983	7,837,620
2018	2,086,691	4,875,373	7,962,064	7,579,060
2019	2,020,209	4,889,553	6,909,762	7,507,834
2020	3,681,904	4,611,021	8,292,925	8,833,706
2021	4,589,621	4,342,424	8,932,045	9,412,958
2022	4,462,304	3,914,855	8,377,159	8,910,651
2023	4,349,511	3,859,195	8,208,706	8,671,364

Town of Hillsville, Virginia

Schedule 13

Computation of Legal Debt Margin Last Ten Fiscal Years

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Debt limit ¹	\$ 23,124,861	\$ 23,625,119	\$ 21,675,804	\$ 21,474,723	\$ 21,366,561	\$ 21,244,709	\$ 21,117,621	\$ 21,058,675	\$ 20,995,262	\$ 20,885,276
Amount of debt applicable to limit	8,671,364	8,910,651	9,412,958	8,883,706	7,507,834	7,579,060	7,837,620	7,863,172	7,641,187	7,521,098
Legal debt margin	\$ 14,453,497	\$ 14,714,468	\$ 12,262,846	\$ 12,641,017	\$ 13,858,727	\$ 13,665,649	\$ 13,280,001	\$ 13,195,503	\$ 13,354,075	\$ 13,364,178
Total net debt applicable to limit as a percentage of debt limit	37%	38%	43%	41%	35%	36%	37%	37%	36%	36%

¹ 10% of real estate assessed value.

Town of Hillsville, Virginia

Schedule 14

Population, Personal Income and Unemployment Rate *Latest Available Information*

<u>Year</u>	<u>Population</u>	<u>Household Median Income¹</u>	<u>Per Capita Personal Income¹</u>	<u>Unemployment Rate</u>
2007	2,849	\$ 27,148	\$ 16,663	6.6%
2010	2,622	34,240	17,942	10.9%
2011	2,709	30,922	18,070	8.4%
2013	2,714	30,293	20,891	6.4%
2015	2,680	30,584	21,645	4.9%
2017	2,654	31,862	20,146	4.7%
2020	2,762	35,156	20,430	9.5%

¹ Unemployment rate and income is for Carroll County, Virginia which includes the Town of Hillsville, Virginia. The unemployment rate and income for the Town of Hillsville, Virginia was not readily available.

Town of Hillsville, Virginia

Schedule 15

Principal Employers Current Year

<u>Rank</u>	<u>Employer</u>
1	Carroll County School Board
2	County of Carroll
3	Mohawk Esv Incorporated
4	Virginia Produce Co LLC
5	Lowes' Home Centers, Inc
6	Vanguard Furniture Company
7	Barker Microfarads
8	Unicon Inc.
9	Turman Sawmill
10	Aerial Machine and Tool Corporation

¹ Large employers are for Carroll County, Virginia which includes the Town of Hillsville, Virginia. Large employers for the Town of Hillsville, Virginia were not readily available.

Town of Hillsville, Virginia

Schedule 16

Full-time Equivalent Government Employees by Function Last Ten Years

	Full-time Equivalent Employees as of June 30.									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Community development										
Farmers' market	1	1	1	1	1	1	1	-	-	-
General government										
Management	1	1	1	1	1	1	1	1	1	1
Finance	5	5	5	5	5	5	5	5	5	4
Building	1	1	1	1	1	1	1	1	1	1
Police										
Officers	15	14	14	15	16	15	18	14.5	14.5	13
Civilians	1	1	1	1	1	1	1	1	1	1
Refuse collection	4	5	5	4	4	4	4	4	4	4
Other public works	7.5	7	7	7	7	6	6	6	5	5
Water	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5	4.5	4.5
Wastewater	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5	4.5	4.5

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

To the Honorable Members of the Town Council
Town of Hillsville, Virginia

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Town of Hillsville, Virginia's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Town of Hillsville, Virginia's major federal programs for the year ended June 30, 2023. The Town of Hillsville, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Town of Hillsville, 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, 2023.

Basis for Opinion on Each Major Federal Program

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; and 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Town of Hillsville, Virginia and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Town of Hillsville, Virginia's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Town of Hillsville, Virginia's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion

on the Town of Hillsville, Virginia's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Town of Hillsville, Virginia's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Town of Hillsville, Virginia's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Town of Hillsville, Virginia's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Town of Hillsville, Virginia's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Handwritten signature of HBC in black ink.

HBC Certified Public Accountants
Abingdon, Virginia

January 22, 2024



Town of Hillsville, Virginia

Notes to Required Supplementary Information – Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2023

<u>Federal Granting Agency/ Pass Through Agency/ Grant Program</u>	<u>Federal Assistance Listing Number</u>	<u>Passed- Through to Subrecipient</u>	<u>Federal Expenditures</u>
<u>Department of Treasury:</u>			
<u>Pass-through payments:</u>			
<u>Virginia Department of Accounts:</u>			
COVID-19 Coronavirus State and Local Fiscal Recovery Funds*	21.027	n/a	\$ 2,760,832
<u>Department of Justice:</u>			
<u>Pass-through payments:</u>			
<u>Department of Criminal Justice Services</u>			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	n/a	2,552
<u>Department of Transportation:</u>			
<u>Pass-through payments:</u>			
<u>Department of Motor Vehicles</u>			
Highway Safety Grant – Alcohol	20.600	n/a	1,257
Highway Safety Grant – Occupant Protection	20.600	n/a	1,186
Highway Safety Grant - Speed	20.600	n/a	1,186
Highway Safety Grant – Traffic Services	20.600	n/a	16,213
<u>National Endowment for the Arts:</u>			
<u>Pass-through payments:</u>			
<u>Virginia Commission for the Arts</u>			
Local Government Challenge Grant	45.025	n/a	1,750
<u>Department of Housing and Urban Development:</u>			
<u>Pass-through payments:</u>			
<u>Virginia Department of Housing and Community Development</u>			
Community Development Block Grant	14.228	n/a	8,250
<u>Department of Agriculture:</u>			
<u>Pass-through payments:</u>			
<u>United States Department of Agriculture</u>			
Rural Business Development Grant	10.351	n/a	334,720
Total Expenditures of Federal Awards			<u>\$ 3,127,946</u>

* Denotes a major program.

Town of Hillsville, Virginia

Notes to Required Supplementary Information – Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023

Summary of Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of the Town of Hillsville, Virginia, under programs of the federal government for the year ended June 30, 2023. The information in the 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 the Town of Hillsville, Virginia, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town of Hillsville, Virginia.

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the Town's basic financial statements.

Pass-through Entity Identifying Numbers

Pass-through entity identifying numbers are presented where available.

Indirect Cost Rate

The Town did not elect to use the 10 percent de minimis indirect cost rate because they only request direct costs for reimbursement.

Loans and Loan Guarantees

The Town did not have any loans or loan guarantees which are subject to reporting requirements for the current year.

Subrecipients

The Town did not have any subrecipients during the fiscal year.

Relationship to the Financial Statements

Federal expenditures, revenues and capital contributions are reported in the Town's basic financial statements as follows:

Government Activities:

General government	\$	2,760,832
Public safety		22,394
Community development		344,720
Total	\$	<u>3,127,946</u>