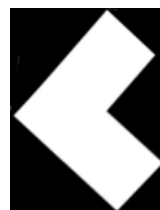


Town of South Hill, Virginia
Comprehensive Annual Financial Report
Year Ended June 30, 2012



***Creedle, Jones
& Alga, P.C.***
Certified Public Accountants

Town of South Hill, Virginia

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FINANCIAL SECTION





**Creedle
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INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the
Town Council
Town of South Hill, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of South Hill, Virginia, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Town of South Hill, Virginia's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of South Hill, Virginia, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2012, on our consideration of the Town of South Hill, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 8 and 38 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of South Hill, Virginia's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Creedle, Jones & Alga, P.C.

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

South Hill, Virginia
October 22, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Town of South Hill, Virginia presents the following discussion and analysis as an overview of the Town of South Hill, Virginia's financial activities for the fiscal year ending June 30, 2012. We encourage readers to read this discussion and analysis in conjunction with the transmittal letter and the Town's financial statements.

Financial Highlights for Fiscal Year 2012

Highlights for Government-Wide Financial Statements

- At the close of the fiscal year, the assets of the Town's governmental activities exceeded its liabilities by \$16,449,906. Of this amount, \$11,130,401 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors. For the enterprise activities, the assets exceeded liabilities by \$9,683,033. Of this amount, \$431,748 is unrestricted and is available for funding water and sewer activities.
- For the fiscal year, general and program revenues of the Town's governmental activities were \$8,689,799 and expenses amounted to \$6,807,343. The Town's total net assets increased \$1,882,456 before transfers. The Town's enterprise revenues amounted to \$2,969,762, the expenses were \$2,770,307, which caused an increase in net assets of \$199,455 before transfers.

Highlights for Fund Financial Statements

- As of June 30, 2012, the Town's Governmental Funds reported combined fund balances of \$11,729,781, an increase of \$1,564,608 in comparison with the prior year. Approximately 99.37 percent of the combined fund balances, \$11,655,751, is available to meet the Town's current and future needs.
- The General Fund reported a fund balance of \$11,655,751, an increase of \$1,554,805 from June 30, 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Comprehensive Annual Financial Report consists of two sections: financial and compliance.

- The **financial section** has three component parts - management's discussion and analysis (this section), the basic financial statements, which include government-wide financial statements and fund financial statements, and required supplementary information.
- The **compliance section** is required under the provisions of *Governmental Auditing Standards* and, in some cases, the Single Audit Act of 1984 and the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Government-Wide Financial Statements

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

The first government-wide statement - the Statement of Net Assets - presents information on all of the Town's assets and liabilities. The difference between assets and liabilities, net assets, can be used as one way to measure the Town's financial health, or financial condition. Over time, increases or decreases in the net assets can be one indicator of whether the Town's financial condition is improving or deteriorating. Other nonfinancial factors will also need to be considered, such as changes in the Town's property tax base and the condition of Town facilities.

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

The government-wide statements are divided into the following two categories:

Governmental Activities: Most of the Town's basic services are reported here, including general government administration; public safety; public works; health and welfare, parks, recreation, and cultural; and community development. These activities are financed primarily by property taxes, other local taxes, and Federal and State grants. Governmental Funds are included in the governmental activities.

Business-Type Activities: Town of South Hill, Virginia has a Proprietary Enterprise Fund that accounts for the water and sewer system for the Town.

Fund Financial Statements

Traditional users of government financial statements will find the fund financial statements more familiar. These statements provide more detailed information about the Town's most significant funds. Funds are used to ensure compliance with finance-related legal requirements and are used to keep track of specific sources of revenue and expenses for particular purposes. The Town has three kinds of funds:

Governmental Funds - Most of the Town's basic services are included in Governmental Funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances remaining at year-end that are available for spending. The Governmental Funds financial statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided with the fund's financial statements to explain the relationship (or differences). The General Fund is the main operating account of the Town and, therefore, the largest of the Governmental Funds. The other Governmental Funds, which include Special Revenue Funds and Capital Projects Funds, are collectively referred to as nonmajor Governmental Funds. The Community Development Fund is considered to be a major governmental fund.

Proprietary Funds - Proprietary Funds, which consist of Enterprise Funds, operate in a manner similar to private business enterprises in which costs are recovered primarily through a user charge. Proprietary Fund financial statements provide both long and short-term financial information. The Town has a Water and Sewer Fund that generates revenue based on consumer charges.

Fiduciary Funds - Fiduciary Funds are used to account for resources held by the Town for the benefit of parties outside the government. Fiduciary Funds are not reflected in the government-wide statements because the funds are not available to support the Town's programs. The Town does not have any fiduciary funds at this time.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets:

Summary of Net Assets

As of June 30, 2012 and 2011

	<u>Governmental Activities</u>		<u>Enterprise Activities</u>		<u>Total Entity</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Assets						
Current and other assets	\$ 11,878,709	\$ 10,398,062	\$ 617,317	\$ 599,392	\$ 12,496,026	\$ 10,997,454
Capital assets (net)	8,315,896	8,169,477	14,375,722	14,805,190	22,691,618	22,974,667
Total Assets	<u>\$ 20,194,605</u>	<u>\$ 18,567,539</u>	<u>\$ 14,993,039</u>	<u>\$ 15,404,582</u>	<u>\$ 35,187,644</u>	<u>\$ 33,972,121</u>
Liabilities						
Other liabilities	\$ 148,928	\$ 232,889	\$ 185,570	\$ 171,221	\$ 334,498	\$ 404,110
Long-term liabilities	3,595,771	3,893,816	5,124,436	5,623,167	8,720,207	9,516,983
Total Liabilities	3,744,699	4,126,705	5,310,006	5,794,388	9,054,705	9,921,093
Net Assets						
Invested in capital assets, net of related debt	5,245,475	4,734,720	9,251,285	9,182,023	14,496,760	13,916,743
Restricted	74,030	66,175	-	-	74,030	66,175
Unassigned	11,130,401	9,639,939	431,748	428,171	11,562,149	10,068,110
Total Net Assets	<u>16,449,906</u>	<u>14,440,834</u>	<u>9,683,033</u>	<u>9,610,194</u>	<u>26,132,939</u>	<u>24,051,028</u>
Total Liabilities and Net Assets	<u>\$ 20,194,605</u>	<u>\$ 18,567,539</u>	<u>\$ 14,993,039</u>	<u>\$ 15,404,582</u>	<u>\$ 35,187,644</u>	<u>\$ 33,972,121</u>

Statement of Activities

The following table summarizes revenues and expenses for the primary government as of June 30, 2012 and 2011:

Summary of Changes in Net Assets

For the Fiscal Years Ended June 30, 2012 and 2011

	<u>Governmental Activities</u>		<u>Enterprise Activities</u>		<u>Total Entity</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues						
Program Revenues						
Charges for services	\$ 1,070,404	\$ 1,698,845	\$ 2,969,308	\$ 3,120,307	\$ 4,039,712	\$ 4,819,152
Operating grants and contributions	1,358,263	1,361,226	-	-	1,358,263	1,361,226
General Revenues						
General property taxes, real and personal	2,094,255	2,098,161	-	-	2,094,255	2,098,161
Other taxes	3,444,973	3,149,367	-	-	3,444,973	3,149,367
Noncategorical aid from the state	140,400	137,546	-	-	140,400	137,546
Use of property	16,433	13,768	-	-	16,433	13,768
Investment earnings	27,666	23,690	454	249	28,120	23,939
Miscellaneous	537,405	121,675	-	-	537,405	121,675
Total Revenues	8,689,799	8,604,278	2,969,762	3,120,556	11,659,561	11,724,834
Expenses						
General government administration	821,184	819,295	-	-	821,184	819,295
Public safety	2,274,723	2,253,980	-	-	2,274,723	2,253,980
Public works	2,036,741	1,859,863	-	-	2,036,741	1,859,863
Parks, recreation, and cultural	434,568	421,733	-	-	434,568	421,733
Community development	990,781	2,088,341	-	-	990,781	2,088,341
Interest on long-term debt	249,346	137,770	-	-	249,346	137,770
Water and sewer activities	-	-	2,770,307	2,851,340	2,770,307	2,851,340
Total Expenses	6,807,343	7,580,982	2,770,307	2,851,340	9,577,650	10,432,322
Increase in Net Assets	1,882,456	1,023,296	199,455	269,216	2,081,911	1,292,512
Beginning Net Assets	14,440,834	13,370,450	9,610,194	9,388,066	24,051,028	22,758,516
Transfers	126,616	47,088	(126,616)	(47,088)	-	-
Ending Net Assets	\$ 16,449,906	\$ 14,440,834	\$ 9,683,033	\$ 9,610,194	\$ 26,132,939	\$ 24,051,028

Governmental activities increased the Town's net assets by \$1,882,456. Revenues from governmental activities totaled \$8,689,799. Real estate, personal property, and other local taxes comprise the largest source of these revenues, totaling \$5,539,228, or 63.75 percent of all governmental activities revenue. Of this amount, real and personal property taxes comprise 37.81 percent of the taxes collected. Enterprise activities increased the Town's net assets by \$199,455 with revenues reported of \$2,969,762.

The total cost of all governmental activities for this fiscal year was \$6,807,343. Public safety was the Town's largest program with expenses totaling \$2,274,723. Public works expenses which total \$2,036,741 represent the second largest expense, followed by community development expenses which total \$990,781. Enterprise activities reported expenses of \$2,770,307.

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

Net Cost of Governmental Activities

For the Fiscal Years Ended June 30, 2012 and 2011

	<u>2012</u>		<u>2011</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
General government administration	\$ 821,184	\$ (821,184)	\$ 819,295	\$ (819,295)
Public safety	2,274,723	(2,001,701)	2,253,980	(1,997,271)
Public works	2,036,741	(142,905)	1,859,863	(48,909)
Parks, recreation, and cultural	434,568	(429,568)	421,733	(416,733)
Community development	990,781	(733,972)	2,088,341	(1,100,933)
Interest on long-term debt	<u>249,346</u>	<u>(249,346)</u>	<u>137,770</u>	<u>(137,770)</u>
Total	<u>\$ 6,807,343</u>	<u>\$ (4,378,676)</u>	<u>\$ 7,580,982</u>	<u>\$ (4,520,911)</u>

Net Cost of Enterprise Activities

For the Fiscal Years Ended June 30, 2012 and 2011

	<u>2012</u>		<u>2011</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Water and sewer activities	\$ 2,770,307	\$ 199,001	\$ 2,851,340	\$ 268,967
Total	<u>\$ 2,770,307</u>	<u>\$ 199,001</u>	<u>\$ 2,851,340</u>	<u>\$ 268,967</u>

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As of June 30, 2012, the Town's Governmental Funds reported a combined ending fund balance of \$11,729,781, an increase of \$1,564,608 in comparison with the prior year. Approximately 99.37 percent, or \$11,655,751, is available for spending at the government's discretion (unassigned fund balance).

The General Fund is the main operating fund of the Town. At the end of the current fiscal year, the General Fund had an unassigned fund balance of \$11,655,751. The General Fund's liquidity can be measured by comparing both unassigned fund balance to total fund expenditures. Unassigned fund balance represents 169.70 percent of total fund expenditures. There were no reserved fund balances in the General Fund at year end.

BUDGETARY HIGHLIGHTS

General Fund

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

Budgetary Comparison

General Fund

For the Fiscal Years Ended June 30, 2012 and 2011

	<u>2012</u>			<u>2011</u>		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Revenues						
Taxes, real and personal property	\$ 1,979,800	\$ 1,979,800	\$ 2,094,255	\$ 1,933,700	\$ 1,933,700	\$ 2,098,161
Other local taxes	2,922,000	2,922,000	3,444,973	2,842,000	2,842,000	3,149,367
Other revenues	776,846	776,846	1,210,736	762,800	762,800	918,608
Intergovernmental	<u>1,117,170</u>	<u>1,117,170</u>	<u>1,498,663</u>	<u>1,111,068</u>	<u>1,111,068</u>	<u>1,498,772</u>
Total	6,795,816	6,795,816	8,248,627	6,649,568	6,649,568	7,664,908
Expenditures	<u>6,952,700</u>	<u>6,952,700</u>	<u>6,868,788</u>	<u>6,404,615</u>	<u>6,404,615</u>	<u>6,877,099</u>
Excess (Deficiency) of Revenues Over Expenditures	(156,884)	(156,884)	1,379,839	244,953	244,953	787,809
Other Financing Sources (Uses)						
Transfers in	120,000	120,000	126,966	120,000	120,000	122,088
Transfers out	(253,116)	(253,116)	-	(364,953)	(364,953)	(75,000)
Proceeds from loans	<u>290,000</u>	<u>290,000</u>	<u>48,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>156,884</u>	<u>156,884</u>	<u>174,966</u>	<u>(244,953)</u>	<u>(244,953)</u>	<u>47,088</u>
Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,554,805</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 834,897</u>

Actual revenues exceeded final budget amounts by \$1,452,811, or 21.38 percent, while actual expenditures were \$83,912, or 1.21 percent less than final budget amounts.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

As of June 30, 2012, the Town's investment in capital assets totals \$14,468,137 which is net capital assets less related debt. The governmental portion is \$5,216,851 and the enterprise portion is \$9,251,286.

During fiscal year 2012, the Town's governmental net capital assets (including additions, decreases, and depreciation) increased \$146,419, or 1.80 percent. The Town's enterprise net capital assets decreased by \$429,468, or 2.90 percent, as summarized on the following page:

Change in Capital Assets

	<u>Balance June 30, 2011</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2012</u>
Governmental Activities			
Land, land improvements, and easements	\$ 1,658,844	\$ -	\$ 1,658,844
Buildings and improvements	6,578,202	39,447	6,617,649
Streets and related infrastructure	8,587,418	-	8,587,418
Machinery, equipment, and vehicles	4,438,575	570,868	5,009,443
Total Capital Assets	21,263,039	610,315	21,873,354
Less: Accumulated depreciation and amortization	<u>(13,093,562)</u>	<u>(463,896)</u>	<u>(13,557,458)</u>
Total Capital Assets, Net	8,169,477	146,419	8,315,896
Enterprise Activities			
Land, land improvements, and easements	664,020	-	664,020
Water and sewer infrastructure	24,665,557	78,934	24,744,491
Machinery, equipment, and vehicles	1,170,845	32,124	1,202,969
Total Capital Assets	26,500,422	111,058	26,611,480
Less: Accumulated depreciation and amortization	<u>(11,695,232)</u>	<u>(540,526)</u>	<u>(12,235,758)</u>
Total Capital Assets, Net	14,805,190	(429,468)	14,375,722
 Total Reporting Entity	 <u>\$ 22,974,667</u>	 <u>\$ (283,049)</u>	 <u>\$ 22,691,618</u>

Long-Term Debt

As of June 30, 2012, the Town's long-term obligations total \$8,720,207. A summary of long-term debt is shown below:

Change in Long-Term Debt

	<u>Balance June 30, 2011</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2012</u>	<u>Due Within One Year</u>
Governmental Activities				
General obligation bonds	\$ 1,706,391	\$ (158,319)	\$ 1,548,072	\$ 217,349
General obligation bonds	1,728,366	(225,393)	1,502,973	311,165
Note payable - Edmonds & Associates	-	48,000	48,000	16,000
Landfill obligation	139,545	5,064	144,609	-
Compensated absences	319,514	32,603	352,117	-
Total Outstanding Debt	3,893,816	(298,045)	3,595,771	544,514
Business-Type Activities				
Virginia Resources Authority	3,542,473	(268,145)	3,274,328	273,145
Community National Bank	2,080,694	(230,586)	1,850,108	238,455
Total Outstanding Debt	5,623,167	(498,731)	5,124,436	511,600
 Total Reporting Entity	 <u>\$ 9,516,983</u>	 <u>\$ (796,776)</u>	 <u>\$ 8,720,207</u>	 <u>\$1,056,114</u>

More detailed information on the Town's long-term obligations is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The average unemployment rate for the Town of South Hill, Virginia in June 2012, which uses Mecklenburg County's rate, was 9.9 percent. This compares unfavorably to the state's rate of 6.0 percent and the national rate of 8.2 percent.
- According to the 2000 U.S. Census, the population in the Town of South Hill, Virginia was 4,531, an increase of 7 percent, since the 1990 U.S. Census.
- The per capita income in the Town of South Hill, Virginia was \$22,915, compared to \$23,975 for the state, according to the 2000 U.S. Census data.

The fiscal year 2013 adopted budget anticipates General Fund revenues and expenditures to be \$7,114,014, a 1.28 percent decrease over the fiscal year 2012 budget.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS



Town of South Hill, Virginia

Statement of Net Assets

At June 30, 2012

Primary Government

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 11,445,980	\$ 262,964	\$ 11,708,944
Property taxes receivable, net	78,073	-	78,073
Receivables, net	334,022	354,353	688,375
Due from other governments	20,634	-	20,634
Capital Assets			
Land, land improvements, and easements	1,658,844	664,020	2,322,864
Buildings and improvements	6,617,649	-	6,617,649
Infrastructure	8,577,710	24,744,491	33,322,201
Machinery, equipment, and vehicles	5,019,151	1,202,969	6,222,120
Less: Accumulated depreciation	<u>(13,557,458)</u>	<u>(12,235,758)</u>	<u>(25,793,216)</u>
Capital Assets, Net	<u>8,315,896</u>	<u>14,375,722</u>	<u>22,691,618</u>
 Total Assets	 <u>\$ 20,194,605</u>	 <u>\$ 14,993,039</u>	 <u>\$ 35,187,644</u>
Liabilities			
Accounts payable and accrued expenses	\$ 77,121	\$ 108,722	\$ 185,843
Customer deposits	-	76,848	76,848
Deferred revenue	71,807	-	71,807
Long-Term Liabilities			
<i>Due within one year</i>			
Bonds and notes payable	544,514	511,600	1,056,114
<i>Due in more than one year</i>			
Compensated absences	352,117	-	352,117
Landfill obligation	144,609	-	144,609
Bonds and notes payable	<u>2,554,531</u>	<u>4,612,836</u>	<u>7,167,367</u>
 Total Liabilities	 3,744,699	 5,310,006	 9,054,705
Net Assets			
Invested in capital assets, net of related debt	5,245,475	9,251,285	14,496,760
Restricted	74,030	-	74,030
Unrestricted	<u>11,130,401</u>	<u>431,748</u>	<u>11,562,149</u>
 Total Net Assets	 <u>16,449,906</u>	 <u>9,683,033</u>	 <u>26,132,939</u>
 Total Net Assets and Liabilities	 <u>\$ 20,194,605</u>	 <u>\$ 14,993,039</u>	 <u>\$ 35,187,644</u>

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

Town of South Hill, Virginia

Statement of Activities

For the Year Ended June 30, 2012

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Primary Government						
Governmental Activities						
General government administration	\$ 821,184	\$ -	\$ -	\$ (821,184)	\$ -	\$ (821,184)
Public safety	2,274,723	140,705	132,317	(2,001,701)	-	(2,001,701)
Public works	2,036,741	693,875	1,199,961	(142,905)	-	(142,905)
Parks, recreation, and cultural	434,568	-	5,000	(429,568)	-	(429,568)
Community development	990,781	235,824	20,985	(733,972)	-	(733,972)
Interest on long-term debt	249,346	-	-	(249,346)	-	(249,346)
Total Governmental Activities	6,807,343	1,070,404	1,358,263	(4,378,676)	-	(4,378,676)
Business-Type Activities						
Water and sewer fund	2,770,307	2,969,308	-	-	199,001	199,001
Total Primary Government	\$ 9,577,650	\$ 4,039,712	\$ 1,358,263	(4,378,676)	199,001	(4,179,675)
General Revenues						
Taxes						
General property taxes, real and personal				2,094,255	-	2,094,255
Other local taxes				3,444,973	-	3,444,973
Noncategorical aid from state				140,400	-	140,400
Use of property				16,433	-	16,433
Investment earnings				27,666	454	28,120
Miscellaneous				537,405	-	537,405
Transfers				126,616	(126,616)	-
Total General Revenues				6,387,748	(126,162)	6,261,586
Change in Net Assets				2,009,072	72,839	2,081,911
Net Assets - Beginning of Year				14,440,834	9,610,194	24,051,028
Net Assets - End of Year				\$ 16,449,906	\$ 9,683,033	\$ 26,132,939

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

Town of South Hill, Virginia

Balance Sheet

Governmental Funds

At June 30, 2012

	<u>General Fund</u>	<u>Twin Oaks Community Development Fund</u>	<u>Meadow Street Community Development Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and investments	\$ 11,393,934	\$ -	\$ (20,634)	\$ 72,680	\$ 11,445,980
Property taxes receivable, net	78,073	-	-	-	78,073
Due from CDBG	-	-	20,634	-	20,634
Accounts receivable, net	<u>332,672</u>	<u>-</u>	<u>-</u>	<u>1,350</u>	<u>334,022</u>
Total Assets	<u>\$ 11,804,679</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,030</u>	<u>\$ 11,878,709</u>
Liabilities					
Accounts payable and accrued liabilities	\$ 77,121	\$ -	\$ -	\$ -	\$ 77,121
Deferred revenue - property taxes	<u>71,807</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>71,807</u>
Total Liabilities	148,928	-	-	-	148,928
Fund Balance					
Restricted	-	-	-	74,030	74,030
Unassigned	<u>11,655,751</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,655,751</u>
Total Fund Balance	<u>11,655,751</u>	<u>-</u>	<u>-</u>	<u>74,030</u>	<u>11,729,781</u>
Total Liabilities and Fund Balance	<u>\$ 11,804,679</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,030</u>	<u>\$ 11,878,709</u>

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

Town of South Hill, Virginia

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

At June 30, 2012

Total Fund Balances for Governmental Funds \$ 11,729,781

Total net assets reported for governmental activities in the Statement of Net Assets is different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

Land, land improvements, and easements	\$ 1,658,844
Buildings and improvements, net of accumulated depreciation	4,773,892
Streets and related infrastructure, net of accumulated depreciation	761,578
Machinery, equipment, and vehicles, net of accumulated depreciation	<u>1,121,582</u>

Total Capital Assets 8,315,896

Liabilities applicable to the Town's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities.

Balances of long-term liabilities affecting net assets are as follows:

Bonds and notes payable	(3,099,045)
Landfill obligation	(144,609)
Compensated absences	<u>(352,117)</u>

Total (3,595,771)

Total Net Assets of Governmental Activities \$ 16,449,906

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

Town of South Hill, Virginia

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2012

	<u>General Fund</u>	<u>Twin Oaks Development Fund</u>	<u>Meadow Street Community Development Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Property taxes	\$ 2,094,255	\$ -	\$ -	\$ -	\$ 2,094,255
Other local taxes	3,444,973	-	-	-	3,444,973
Permits, privilege fees, and regulatory licenses	38,475	-	-	-	38,475
Fines and forfeitures	140,705	-	-	-	140,705
Use of money and property	44,099	-	-	-	44,099
Charges for services	655,401	-	-	-	655,401
Miscellaneous	332,056	-	-	205,349	537,405
<i>Intergovernmental</i>					
Revenue from the Commonwealth of Virginia	1,487,570	-	-	-	1,487,570
Revenue from the Federal Government	11,093	2,350	233,474	-	246,917
Total Revenues	8,248,627	2,350	233,474	205,349	8,689,800
Expenditures					
Current					
General government administration	809,985	-	-	-	809,985
Public safety	2,182,351	-	-	-	2,182,351
Public works	2,257,118	-	-	-	2,257,118
Parks, recreation, and cultural	426,515	-	-	-	426,515
Community development	559,761	2,350	231,526	197,144	990,781
Debt service	633,058	-	-	-	633,058
Total Expenditures	6,868,788	2,350	231,526	197,144	7,299,808
Excess (Deficiency) of Revenues Over Expenditures	1,379,839	-	1,948	8,205	1,389,992
Other Financing Sources (Uses)					
Transfers in	126,966	-	-	-	126,966
Transfers out	-	-	-	(350)	(350)
Proceeds from loans	48,000	-	-	-	48,000
Total Other Financing Sources (Uses)	174,966	-	-	(350)	174,616
Net Change in Fund Balance	1,554,805	-	1,948	7,855	1,564,608
Fund Balance - Beginning of Year	10,100,946	-	(1,948)	66,175	10,165,173
Fund Balance - End of Year	<u>\$ 11,655,751</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,030</u>	<u>\$ 11,729,781</u>

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

Town of South Hill, Virginia

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

Year Ended June 30, 2012

Net Change in Fund Balances - Total Governmental Funds	\$ 1,564,608
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Governmental Funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

146,419

Bond and capital lease proceeds are reported as financing sources in Governmental Funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases the long-term liabilities and does not affect the statement of activities. Similarly, the repayment of principal is an expenditure in the Governmental Funds but reduces the liability in the statement of net assets.

General long-term debt	\$ 335,712	
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Net Adjustment		335,712
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Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following:

Compensated absences	(5,064)	
Landfill obligation	(32,603)	

Net Adjustment		(37,667)
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Change in Net Assets of Governmental Activities	\$ <u>2,009,072</u>
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The accompanying notes to financial statements are an integral part of this statement.

Town of South Hill, Virginia

Statement of Net Assets

Proprietary Fund

At June 30, 2012

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

Assets

Current Assets

Cash	\$ 262,964
Accounts receivable (net of allowance for bad debts)	<u>354,353</u>
Total Current Assets	617,317

Capital Assets

Fixed assets	26,611,480
Less: Accumulated depreciation	<u>(12,235,758)</u>
Total Capital Assets	<u>14,375,722</u>
Total Assets	<u><u>\$ 14,993,039</u></u>

Liabilities and Net Assets

Liabilities

Current Liabilities

Accounts payable and accrued liabilities	\$ 108,722
Current portion of general obligation bonds	<u>511,600</u>
Total Current Liabilities	620,322

Noncurrent Liabilities

Customer deposits	76,848
General obligation bonds (net of current portion)	<u>4,612,836</u>
Total Noncurrent Liabilities	<u>4,689,684</u>
Total Liabilities	5,310,006

Net Assets

Invested in capital assets, net of related debt	9,251,285
Unrestricted	<u>431,748</u>
Total Net Assets	<u>9,683,033</u>
Total Liabilities and Net Assets	<u><u>\$ 14,993,039</u></u>

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

Town of South Hill, Virginia

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

Proprietary Fund

Year Ended June 30, 2012

	<u>Business-Type Activities - Enterprise Fund Water and Sewer Fund</u>
Operating Revenues	
Charges for services	\$ 2,876,890
Miscellaneous	29,408
Connection and cut-on fees	<u>63,010</u>
Total Operating Revenues	2,969,308
Operating Expenses	
Water purchases	1,098,872
Salaries and wages	262,607
Fringe benefits	97,403
Contractual services	50,859
Chemicals	17,279
Vehicle and power equipment	4,336
Repairs and maintenance	252,694
Other charges	109,531
Depreciation	540,526
Utilities	122,782
Insurance	<u>9,882</u>
Total Operating Expenses	<u>2,566,771</u>
Operating Income	402,537
Nonoperating Revenues (Expenses)	
Investment and interest income	454
Interest expense on bonds	<u>(203,536)</u>
Total Nonoperating Revenues (Expenses)	<u>(203,082)</u>
Income Before Operating Transfers	199,455
Operating Transfers In (Out)	<u>(126,616)</u>
Change in Net Assets	72,839
Total Net Assets - Beginning of Year	<u>9,610,194</u>
Total Net Assets - End of Year	<u><u>\$ 9,683,033</u></u>

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

Town of South Hill, Virginia

Statement of Cash Flows

Proprietary Fund

Year Ended June 30, 2012

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

Cash Flows from Operating Activities

Receipts from customers	\$ 3,012,750
Payments to personnel and related costs	(360,010)
Payments to suppliers	<u>(1,680,584)</u>

Net Cash Provided by Operating Activities 972,156

Cash Flows from Noncapital Financing Activities

Funds from (paid to) other funds	<u>(126,616)</u>
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Net Cash Used in Noncapital Financing Activities (126,616)

Cash Flows from Financing Capital and Related Activities

Purchase of capital assets	(111,058)
Principal paid on long-term debt	(518,033)
Proceeds from loans	48,000
Interest paid on capital debt	<u>(203,536)</u>

Net Cash Used in Financing Capital and
Related Activities (784,627)

Cash Flows from Investing Activities

Investment and interest income	<u>454</u>
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Net Cash Provided by Investing Activities 454

Net Increase in Cash 61,367

Cash - Beginning of Year 201,597

Cash - End of Year \$ 262,964

Reconciliation of Operating Income (Loss) to Net

Cash Provided by (Used in) Operating Activities

Operating income	\$ 402,537
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Adjustments to Reconcile Operating Income
to Net Cash Provided by (Used in) Operating Activities

Depreciation expense	540,526
Changes in assets and liabilities	
Receivables, net	43,442
Accounts payable and accrued expenses	(3,888)
Customer deposits	<u>(10,461)</u>

Net Cash Provided by Operating Activities \$ 972,156

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

Town of South Hill, Virginia

Notes to Financial Statements

Year Ended June 30, 2012

1 Summary of Significant Accounting Policies

Narrative Profile

The Town of South Hill, Virginia (the “Town”), which was incorporated in 1901, has a population of approximately 4,500 living within an area of 9.3 square miles. The Town is located in eastern Mecklenburg County, Virginia at the intersection of Interstate Highway 85 and U. S. Highway 58. The Town is governed by a Mayor, Town Manager, and an eight-member Town Council with each serving administrative and legislative functions.

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

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

A. The Financial Reporting Entity

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This statement, known as the “Reporting Model” statement, affects the way the Town prepares and presents financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private sector financial reports.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

- Management’s Discussion and Analysis: GASB Statement No. 34 requires that 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). This analysis is similar to analysis the private sector provides in their annual reports.
- Government-wide Financial Statements: The reporting model includes financial statements prepared using full accrual accounting for all of the government’s activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter.

- Statement of Net Assets: The Statement of Net Assets is designed to display the financial position of the primary government (government and business-type activities). Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense – the cost of “using up” capital assets – in the Statement of Activities. The net assets of a government will be broken down into three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.
- Statement of Program Activities: The government-wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the government’s functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).
- Budgetary Comparison Schedules: Demonstrating compliance with the adopted budget is an important component of a government’s accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments and have a keen interest in following the actual financial progress of their governments over the course of the year. The Town and many other governments revise their original budgets over the course of the year for a variety of reasons.

As required by the accounting principles generally accepted in the United States, these financial statements present the primary government, entities for which the government is considered to be financially accountable. The Town only reports activities for itself. It has no component units.

Exclusions from the Reporting Entity

Related Organization – Joint Activity

Southside Regional Library

The Southside Regional Library provides library services to the Counties of Mecklenburg and Lunenburg and towns within the counties. The participating localities, including the Town of South Hill, Virginia, provide annual contributions for operations based on book circulation. No one locality contributes more than 50 percent of the Library’s funding nor can impose its will on the organization, and there is no financial benefit/burden relationship. The Town appropriated to the Library \$45,583 in operating funds in fiscal year 2012. The Town owns the R. T. Arnold Library building that operates in the Town of South Hill, Virginia.

Other Related Organization

Industrial Development Authority of the Town of South Hill, Virginia

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

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

B. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the Town as a whole) and fund financial statements. While the previous reporting model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on either the Town as a whole or major individual funds (within the fund financial statements). The focus is on both the Town as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the government-wide Statement of Net Assets, the governmental activities columns (a) are presented on a consolidated basis, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information. The Town generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The Town may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) that are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity. 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, and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The Town does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

Proprietary Fund operating revenues consist of charges for services and related revenues. Nonoperating revenues consist of contributions, grants, investment earnings, and other revenues not directly derived from the providing of services.

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

This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustment necessary to reconcile the fund financial statements to the governmental column of the government-wide financial statements.

The Town applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.

The Town's Fiduciary Funds are presented in the fund financial statements by type (agency). Since by definition, these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The Town has no fiduciary funds at this time. The following is a brief description of the specific funds used by the Town in fiscal year 2012:

1. *Governmental Funds*

Governmental Funds account for the expendable financial resources, other than those accounted for in Proprietary Funds. The Governmental Funds utilize the modified accrual basis of accounting where the measurement focus is upon determination of financial position and changes in financial position, rather than upon net income determination as would apply to a commercial enterprise. The individual Governmental Funds are:

- a. General Fund – The General Fund is the primary operating fund of the Town and accounts for all revenues and expenditures applicable to the general operations of the Town which are not accounted for in other funds. Revenues are derived primarily from property and other local taxes, licenses, permits, charges for services, use of money and property, and intergovernmental grants. The General Fund is considered a major fund for financial reporting purposes.
- b. Special Revenue Funds – Special Revenue Funds account for the proceeds of specific revenue sources (other than those derived from special assessments, expendable trusts, or dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. Special Revenue Funds include the following fund:

Cemetery Fund – This fund accounts for Town revenues collected and disbursed for maintenance of the Cemetery Fund controlled by the Town. This is a nonmajor fund.

Comprehensive Roadside Fund – This fund accounts for revenues collected and disbursed for maintenance of Exit 15 - South Hill, Virginia. This is a nonmajor fund.

- c. Debt Service Funds – The Town does not account for its debt service in a separate fund. The debt is paid from the General Fund.
- d. Capital Projects Funds – Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by Proprietary Funds. The Town has no Capital Project Funds at this time.
- e. Community Development Fund – The Twin Oaks and Meadow Street Projects are funded by Community Development Block Grants. It is for the improvement and rehabilitation of local communities. This is considered to be a major fund.

2. *Proprietary Funds*

Proprietary Funds account for operations that are financed in a manner similar to private business enterprises. The Proprietary Funds utilize the accrual basis of accounting where the measurement focus is upon determination of net income, financial position, and changes in financial position. Proprietary Funds consist of Enterprise and Internal Service Funds.

- a. Enterprise 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. The Enterprise Fund consists of the Water and Sewer Fund.
- b. Internal Service Funds – Internal Service Funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the Town government, on a cost-reimbursement basis. Internal Service Funds are not used by the Town at this time.

3. *Fiduciary Funds (Trust and Agency Funds)*

Fiduciary Funds (Trust and Agency Funds) account for assets held by a governmental unit in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds. The funds include Private Purpose Trust and Agency Funds. Private Purpose Trust Funds utilize the accrual basis of accounting as described in the Proprietary Funds presentation. Agency Funds utilize the modified accrual basis of accounting described in the Governmental Funds presentation. The Town has no Fiduciary Funds at this time.

C. **Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of the Governmental Funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide Statements of Net Assets and Statements of Activities and the Proprietary Fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these activities are either included on the Statement of Net Assets or on the Statement of Fiduciary Net Assets. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The fund financial statements of the General, Special Revenue, and Capital Projects are maintained and reported on the modified accrual basis of accounting using the current financial resources measurement focus. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenue and other local taxes, the term “available” is limited to collection within forty-five days of the fiscal year-end. Levies made prior to the fiscal year-end but which are not available are deferred. Interest income is recorded as earned. Federal and State reimbursement-type grants are recorded as revenue when related eligible expenditures are incurred. Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

D. Budgets and Budgetary Accounting

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

The budgets are integrated into the accounting system, and the budgetary data, as presented in the financial statements for all major funds with annual budgets, compare the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the Budgetary Comparison Schedule for the major funds presents actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

Budgetary Data

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

1. Prior to April 1, the Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating budget and capital budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments. Work sessions between the Town Council are conducted on the budget.
3. Prior to June 30, the budget is legally enacted through approval and appropriation by Town Council.
4. This appropriation places legal restrictions on expenditures at the fund, function, and departmental level. The appropriation for each fund, function, and department can be revised only by the Town Council. Supplemental appropriations in addition to the appropriated budget were necessary during the year. Supplemental appropriations may not be made without amending the budget.
5. The Town legally adopted budgets for the following funds:

General Fund, Water and Sewer Fund, and Cemetery Fund

The Town may adopt budgets for other funds, such as the Enterprise Funds, for use as a management control device over such funds.

6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. All appropriations lapse on June 30 for all Town funds.
8. All budget data presented in the accompanying financial statements is the original budget as of June 30, 2012, as adopted, appropriated, and legally amended.
9. The expenditure budget is enacted through an annual appropriations ordinance. Appropriations are made at the departmental level for the primary government. State law requires that if budget amendments exceed 1 percent of the original adopted budget, the Town Council may legally amend the budget only by following procedures used in the adoption of the original budget. The Town Council must approve all appropriations and transfers of appropriated amounts.

E. Investments

Investments are reported at fair value.

F. Allowance for Uncollectible Accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$35,075 at June 30, 2012 and is composed of the following:

General Fund - Allowance Account	\$ 35,075
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G. Capital Assets

Capital outlays are recorded as expenditures of the Governmental Funds of the primary government, and as assets in the government-wide financial statements to the extent the Town's capitalization threshold of \$5,000 is met. Depreciation is recorded on general fixed assets on a government-wide basis using the straight-line method and the following estimated useful lives:

Buildings and improvements	10 to 40 years
Infrastructure	40 years
Furniture and other equipment	3 to 20 years

All fixed assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated. The Town does not capitalize historical treasures or works of art.

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

H. Compensated Absences

The Town accrues compensated absences (annual leave benefits) when vested. The current portions of the Governmental Funds' compensated absences liabilities are recorded as other liabilities in the Governmental Funds. The current and noncurrent portions are recorded in the government-wide financial statements.

I. Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

J. Long-Term Obligations

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

2 Cash and Investments

Cash and Cash Equivalents

For purposes of reporting cash flows for proprietary-type funds, cash and cash equivalents include cash on hand, money market funds, certificates of deposit, and investments with maturities of three months or less.

The Town maintains a pool of cash and investments in which each fund participates on a dollar equivalent and daily transaction basis. Interest is distributed monthly based on average monthly balances. The majority of funds in the Town's accounts are invested at all times.

Deposits

All cash of the Town is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et seq. of the Code of Virginia or covered by Federal Depository Insurance.

Investments

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

The Town of South Hill, Virginia invests in Certificates of Deposit at local banks. Therefore, there is no custodial risk, credit risk of debt securities, concentration of credit risk, or foreign currency risk. The only risk of interest rates is that associated with short-term rates at the local banks which are generally invested in Certificates of Deposit held less than one year.

The following is a summary of cash and investments:

Total Deposits	<u>\$ 11,707,994</u>
Total Deposits and Investments - Primary Government	11,707,994
Cash on Hand	<u>950</u>
All Cash and Investments	<u>\$ 11,708,944</u>

Cash and Investments per Government-Wide Financial Statements

Primary Government

Governmental activities	\$ 11,445,980
Enterprise activities	<u>262,964</u>
Total Government-Wide Financial Statements	<u>\$ 11,708,944</u>

3 Property Taxes

Real property taxes are assessed on property values as of July 1 and attached as an enforceable lien on property as of the date levied by the Town Council. Personal property taxes are assessed as of July 1 for the period the property is located in the Town and also attached as an enforceable lien on the property.

Real estate and personal property taxes are due January 5.

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

4 Receivables

Receivables at June 30, 2012 consist of the following:

Primary Government

	<u>Governmental Activities</u>			<u>Enterprise</u>		
	<u>General</u>	<u>Community Development</u>	<u>Special Revenue</u>	<u>Total Governmental</u>	<u>Activities</u>	<u>Total</u>
Utility taxes	\$ 13,393	\$ -	\$ -	\$ 13,393	\$ -	\$ 13,393
Garbage, water and sewer	86,528	-	-	86,528	354,353	440,881
Meals tax	141,884	-	-	141,884	-	141,884
Lodging tax	37,863	-	-	37,863	-	37,863
Sales tax	38,957	-	-	38,957	-	38,957
Fines	13,135	-	-	13,135	-	13,135
Cemetery receivables	1,350	-	-	1,350	-	1,350
Miscellaneous	<u>912</u>	<u>-</u>	<u>-</u>	<u>912</u>	<u>280</u>	<u>1,192</u>
Total Net Receivables	<u>\$ 334,022</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 334,022</u>	<u>\$ 354,633</u>	<u>\$ 688,655</u>

5 Interfund Balances and Activity

Primary Government

Transfers To/From Other Funds

General Fund

	<u>Transfer To</u>	<u>Transfer From</u>
From Water and Sewer Fund for administrative fees	\$ -	\$ 126,616
From the Cemetery Fund	<u>-</u>	<u>350</u>
Total General Fund	-	126,966

Water and Sewer Fund

To General Fund for administrative fees	126,616	-
Transfers from General Fund	<u>-</u>	<u>-</u>
Total Water and Sewer Fund	126,616	-

Cemetery Fund #60

Transfers to General Fund	<u>350</u>	<u>-</u>
Total Transfers	<u>\$ 126,966</u>	<u>\$ 126,966</u>

There are no Due To's or Due From's.

6 Capital Assets

Following is a summary of changes in capital assets for governmental activities:

Governmental Activities

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital Assets Not Being Depreciated				
Land, land improvements, and easements	\$ 1,658,844	\$ -	\$ -	\$ 1,658,844
Total Capital Assets Not Being Depreciated	1,658,844	-	-	1,658,844
Other Capital Assets				
Buildings and improvements	6,578,202	39,447	-	6,617,649
Streets and related infrastructure	8,577,710	-	-	8,577,710
Machinery, equipment, and vehicles	4,448,283	570,868	-	5,019,151
Total Other Capital Assets	19,604,195	610,315	-	20,214,510
Less: Accumulated depreciation for				
Buildings and improvements	1,675,844	167,913	-	1,843,757
Streets and related infrastructure	7,787,508	28,624	-	7,816,132
Machinery, equipment, and vehicles	3,630,210	267,359	-	3,897,569
Total Accumulated Depreciation	13,093,562	463,896	-	13,557,458
Other Capital Assets, Net	6,510,633	146,419	-	6,657,052
Net Capital Assets	\$ 8,169,477	\$ 146,419	\$ -	\$ 8,315,896

Depreciation expense was allocated as follows:

General government administration	\$ 79,626
Public safety	155,076
Public works	132,180
Parks, recreation, and cultural	97,014
Total Depreciation Expense	\$ 463,896

Following is a summary of changes in capital assets for business-type activities:

Business-Type Activities

	<u>Balance July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2012</u>
Capital Assets Not Being Depreciated				
Land, land improvements, and easements	\$ 664,020	\$ -	\$ -	\$ 664,020
Total Capital Assets Not Being Depreciated	664,020	-	-	664,020
Other Capital Assets				
Water and sewer infrastructure	24,665,557	78,934	-	24,744,491
Machinery, equipment, and vehicles	<u>1,170,845</u>	<u>32,124</u>	<u>-</u>	<u>1,202,969</u>
Total Other Capital Assets	25,836,402	111,058	-	25,947,460
Less: Accumulated depreciation for				
Water and sewer infrastructure	11,171,879	457,183	-	11,629,062
Machinery, equipment, and vehicles	<u>523,353</u>	<u>83,343</u>	<u>-</u>	<u>606,696</u>
Total Accumulated Depreciation	<u>11,695,232</u>	<u>540,526</u>	<u>-</u>	<u>12,235,758</u>
Other Capital Assets, Net	<u>14,141,170</u>	<u>(429,468)</u>	<u>-</u>	<u>13,711,702</u>
Net Capital Assets	<u>\$ 14,805,190</u>	<u>\$ (429,468)</u>	<u>\$ -</u>	<u>\$ 14,375,722</u>
Depreciation expense was allocated as follows:				
Water and sewer activities	\$ 540,526			
Total Depreciation Expense	<u>\$ 540,526</u>			

7 Long-Term Debt

Changes in Long-Term Debt

The following is a summary of long-term debt transactions of the Town for the year ended June 30, 2012:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Due Within</u> <u>One Year</u>
General Fund					
First Citizens Bank - GO Bond - Series 2006	\$ 1,706,391	\$ -	\$ 158,319	\$ 1,548,072	\$ 217,349
First Citizens Bank - GO Bond - Series 2008	1,728,366	-	225,393	1,502,973	311,165
Note payable - Edmonds & Associates	-	48,000	-	48,000	16,000
Subtotal	3,434,757	48,000	383,712	3,099,045	544,514
Landfill obligation	139,545	5,064	-	144,609	-
Compensated absences	<u>319,514</u>	<u>32,603</u>	<u>-</u>	<u>352,117</u>	<u>-</u>
Total General Fund	3,893,816	85,667	383,712	3,595,771	544,514
Enterprise Funds - Water and Sewer					
Community National Bank - Refunding Series 2004	2,080,694	-	230,586	1,850,108	238,455
Virginia Resources Authority - Series 2010	1,915,000	-	70,000	1,845,000	70,000
Virginia Resources Authority - Series 2009	<u>1,365,000</u>	<u>-</u>	<u>175,000</u>	<u>1,190,000</u>	<u>180,000</u>
Total Water and Sewer Fund	5,360,694	-	475,586	4,885,108	488,455
ADD:					
Unamortized Premium on Bond Series 2009A and 2010A	<u>262,473</u>	<u>-</u>	<u>23,145</u>	<u>239,328</u>	<u>23,145</u>
Total Enterprise Funds - Water and Sewer	<u>5,623,167</u>	<u>-</u>	<u>498,731</u>	<u>5,124,436</u>	<u>511,600</u>
Grand Total - All Debt	<u>\$ 9,516,983</u>	<u>\$ 85,667</u>	<u>\$ 882,443</u>	<u>\$ 8,720,207</u>	<u>\$ 1,056,114</u>

Bonds and notes payable at June 30, 2012 are comprised of the following:

Governmental Activities

General Obligation Bond Series 2006 with First Citizens Bank for \$3,000,000 payable in quarterly installments of \$91,640 for ten years with a stated interest rate of 3.99 percent. Proceeds used for various Town projects.	\$ 1,548,072
General Obligation Bond Series 2008 with First Citizens Bank for \$2,250,000 payable in quarterly installments of \$66,625 for ten years with a stated interest rate of 3.35 percent. Proceeds used for the South Hill Colonial Theatre Rehabilitation.	1,502,973
Note payable with Edmonds & Associates for new computer system payable in three annual payments of \$16,000. Interest free.	<u>48,000</u>
Subtotal	3,099,045
Landfill obligation	144,609
Compensated absences	<u>352,117</u>
Total Governmental Activities	3,595,771

Water and Sewer Fund - Enterprise Fund Debt

\$3,482,600 Refunding Bond Series with Community National Bank, used to pay off all debt with Rural Development. It is payable in monthly installments of \$24,747 over 15 years at an interest rate of 3.36 percent.	1,850,108
\$1,995,000 Virginia Resources Authority, Pooled Bond Loan Program, Wastewater and Storm Facilities GOB Series 2010A, semiannual interest payments at varying rates from 2.88 percent to 5.20 percent and annual principal payments ranging from \$80,000 per year to \$150,000 per year for a 20-year period.	1,845,000
\$1,705,000 Water and Sewer Revenue Bonds 2009 with Virginia Resources Authority, semiannual interest payments at varying rates from 1.125 percent to 5.125 percent with annual payments to Virginia Resources Authority varying from \$170,000 to \$220,000 annually for a period of 9 years.	1,190,000
Unamortized Premiums on Bond Series 2009A and 2010A	<u>239,328</u>
Total Water and Sewer Fund - Enterprise Fund Debt	<u>5,124,436</u>
Total Long-Term Debt	<u><u>\$ 8,720,207</u></u>

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

<u>Year(s) Ended June 30,</u>	<u>Enterprise Fund</u>		<u>General Fund</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 511,600	\$ 187,822	\$ 544,514	\$ 104,544	\$ 1,056,114	\$ 292,366
2014	529,736	172,386	564,500	84,558	1,094,236	256,944
2015	548,150	154,910	585,247	63,811	1,133,397	218,721
2016	561,852	134,336	590,785	42,273	1,152,637	176,609
2017	585,850	112,271	428,949	20,830	1,014,799	133,101
2018-2022	1,315,275	323,363	385,050	11,295	1,700,325	334,658
2023-2027	626,860	180,904	-	-	626,860	180,904
2028-2032	<u>445,113</u>	<u>33,800</u>	<u>-</u>	<u>-</u>	<u>445,113</u>	<u>33,800</u>
Total	<u>\$ 5,124,436</u>	<u>\$ 1,299,792</u>	<u>\$ 3,099,045</u>	<u>\$ 327,311</u>	8,223,481	<u>\$ 1,627,103</u>
Landfill obligation					144,609	
Compensated absences					<u>352,117</u>	
Total Long-Term Debt					<u>\$ 8,720,207</u>	

8 Claims, Judgments, and Compensated Absences

In accordance with NCGA Statement 4 "Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences," the Town has accrued the liability arising from outstanding claims, judgments, and compensated absences.

Town employees can accumulate up to 360 hours of compensated leave. Upon termination, employees are paid accumulated vacation leave. The Town has outstanding accrued compensated leave totaling \$352,117 in the General Long-Term Obligation Account Group.

9 Deferred Revenue

Deferred revenue represents amounts for which asset recognition criteria have been met but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable but not available. Deferred revenue totaling \$71,807 is comprised of the following:

	<u>Government- Wide Statements Governmental Activities</u>	<u>Balance Sheet Governmental Funds</u>
Primary Government		
Deferred Property Tax Revenue		
Deferred revenue representing uncollected property tax billings for which asset recognition criteria has not been met. The uncollected tax billings are not available for the funding of current expenditures.	\$ 71,807	\$ 71,807
Total Primary Government	<u>\$ 71,807</u>	<u>\$ 71,807</u>

10 Contingent Liabilities (Including Federally Assisted Programs - Compliance Audits)

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 amounts, if any, to be immaterial.

11 Defined Benefit Pension Plan

A. Plan Description

Name of Plan:	Virginia Retirement System (VRS)
Identification of Plan:	Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Administering Entity:	Virginia Retirement System (System)

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs, and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2011-annual-report.pdf> or by writing to the System's Chief Financial Officer at P. O. Box 2500, Richmond, Virginia 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2012 was 11.19% of annual covered payroll.

C. Annual Pension Cost

For fiscal year 2012, the Town's annual pension cost of \$400,660 was equal to the Town's required and actual contributions.

Three-Year Trend Information for Town

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2010	\$ 326,791	100%	\$ -
June 30, 2011	383,155	100%	-
June 30, 2012	400,660	100%	-

The FY 2012 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of **7.50%**, (b) projected salary increases ranging from **3.75% to 5.60%** per year for general government employees and **3.50% to 4.75%** for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of **2.50%** per year. Both the investment rate of return and the projected salary increases include an inflation component of **2.50%**. The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

D. Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was 62.34% funded. The actuarial accrued liability for benefits was \$8,319,433, and the actuarial value of assets was \$5,186,354, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,133,079. The covered payroll (annual payroll of active employees covered by the plan) was \$2,279,610, and ratio of the UAAL to the covered payroll was 137.44%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for Town

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2009	\$ 4,406,401	\$ 7,258,165	\$ 2,851,764	60.71%	\$2,343,262	121.70%
June 30, 2010	4,795,085	7,900,062	3,104,977	60.70%	2,293,815	135.36%
June 30, 2011	5,186,354	8,319,433	3,133,079	62.34%	2,279,610	137.44%

Notes to Required Supplementary Information

This information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	June 30, 2011
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent, Open
Payroll Growth Rate	3.00%
Remaining Amortization Period	20 years
Asset Valuation Method	Five-Year Smoothed Market Value
Actuarial Assumptions	
Investment rate of return ¹	7.50%
Projected salary increases ¹	
NonLaw Enforcement Officer Employees	3.75% to 5.60%
Law Enforcement Officer Employees	3.50% to 4.75%
Cost-of-living adjustments	2.50%

¹Includes inflation of 2.50%

12 Assigned Fund Balances

Fund balances have been assigned for the following purposes:

<u>Fund</u>	<u>Assigned</u>	<u>Amount</u>
Cemetery Fund	Subsequent years' appropriations	\$ <u>74,030</u>

13 Legal Compliance

A. Expenditures in Excess of Appropriations

The General Fund had expenditures exceeding appropriations.

B. Fund Deficits

No funds had fund deficits.

14 Surety Bond Information

The following bonds were in effect as of June 30, 2012:

<u>Name</u>	<u>Title</u>	<u>Amount</u>
Kim Callis	Town Manager	\$ 200,000
Bill Wilson	Public Works Director	50,000
Heidi Porter	Finance Director	400,000
Anna Cratch	Town Clerk	25,000
Karen Lambert	HR Manager	50,000
All Employees	Faithful Performance Blanket Bond	10,000

15 Landfill Obligation

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

The Town will recognize the remaining estimated costs of postclosure care of \$144,609 as the costs to finalize closure of its landfill. These amounts are based on what it would cost to perform all postclosure care as of June 30, 2012. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The Town is paying these costs on an annual pay-as-you-go basis.

16 Computation of Legal Debt Margin

Total Assessed Value of Taxed Real Property	<u>\$ 554,405,707</u>
Debt Limit - 10 Percent of Total Assessed Value	\$ 55,440,571
Deduct General Obligation Debt Payable	<u>3,595,771</u>
Legal Debt Margin	<u>\$ 51,844,800</u>

17 Subsequent Event

The Town is involved in a lawsuit with an inline user. The Town was taking leachate from a landfill in Brunswick County, Virginia and putting it in the manhole at the industrial park where the user owns a building. They claim the odor from the leachate overpowered their building and made employees sick. They have initiated the lawsuit against various parties from the Town to the hauler. The Town has retained an attorney, Daniel, Medley & Kirby, PC to handle the situation. The Town's lawyer feels that it is a frivolous lawsuit, but the Town will still have to bear the cost to defend them.

REQUIRED SUPPLEMENTARY INFORMATION



Town of South Hill, Virginia

Budgetary Comparison Schedule

General Fund

Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
General Property Taxes				
Real property taxes	\$ 1,425,500	\$ 1,425,500	\$ 1,483,254	\$ 57,754
Public service corporation property taxes	50,200	50,200	56,170	5,970
Personal property taxes	495,000	495,000	522,869	27,869
Delinquent taxes	100	100	274	174
Interest on taxes	4,000	4,000	18,517	14,517
Penalties on taxes	5,000	5,000	13,171	8,171
Total General Property Taxes	1,979,800	1,979,800	2,094,255	114,455
Other Local Taxes				
Local sales and use taxes	440,000	440,000	559,340	119,340
Consumers' utility taxes	185,000	185,000	207,269	22,269
Business licenses	450,000	450,000	634,840	184,840
Motor vehicle licenses	36,000	36,000	36,799	799
Bank stock taxes	160,000	160,000	199,631	39,631
Hotel and motel room taxes	285,000	285,000	343,289	58,289
Meals taxes	1,360,000	1,360,000	1,457,805	97,805
Other local taxes	6,000	6,000	6,000	-
Total Other Local Taxes	2,922,000	2,922,000	3,444,973	522,973
Permits, Privilege Fees, and Regulatory Licenses				
Building permits	20,000	20,000	38,475	18,475
Total Permits, Privilege Fees, and Regulatory Licenses	20,000	20,000	38,475	18,475
Fines and Forfeitures				
Court fines	115,000	115,000	136,385	21,385
Parking fines	2,000	2,000	4,320	2,320
Total Fines and Forfeitures	117,000	117,000	140,705	23,705
Revenue from Use of Money and Property				
Revenue from use of money	21,000	21,000	27,666	6,666
Revenue from use of property	546	546	546	-
Revenue from sale of property	12,000	12,000	15,887	3,887
Total Revenue from Use of Money and Property	33,546	33,546	44,099	10,553

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Charges for Services				
Sanitation and waste removal	355,000	355,000	427,124	72,124
Landfill tipping fees	225,400	225,400	228,077	2,677
Other miscellaneous charges	500	500	200	(300)
Total Charges for Services	580,900	580,900	655,401	74,501
Miscellaneous	25,400	25,400	332,056	306,656
Recovered Costs				
Insurance recoveries	-	-	-	-
Total Recovered Costs	-	-	-	-
Intergovernmental				
<i>Revenue from the Commonwealth of Virginia</i>				
<i>Noncategorical Aid</i>				
Personal Property Tax Relief Act	113,068	113,068	113,068	-
Rolling stock tax	-	-	105	105
State asset forfeiture	-	-	601	601
Mobile home tax	-	-	35	35
Auto rental tax	10,000	10,000	23,591	13,591
Total Noncategorical Aid	123,068	123,068	137,400	14,332
<i>Categorical Aid</i>				
Street and highway revenues	865,000	865,000	1,199,961	334,961
Tea 21 - Downtown Revitalization Grant	-	-	20,985	20,985
Police Law Enforcement Grant	109,102	109,102	109,100	(2)
Fire Department Grant	-	-	12,124	12,124
Highway project	-	-	3,000	3,000
Cultural and Arts Grants	5,000	5,000	5,000	-
Total Categorical Aid	979,102	979,102	1,350,170	371,068
Total Revenue from the Commonwealth of Virginia	1,102,170	1,102,170	1,487,570	385,400
Revenue from the Federal Government				
Police Grants	15,000	15,000	11,093	(3,907)
Total Revenue from the Federal Government	15,000	15,000	11,093	(3,907)
Total Intergovernmental Revenues	1,117,170	1,117,170	1,498,663	381,493
Total Revenues	6,795,816	6,795,816	8,248,627	1,452,811

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Expenditures				
Current				
<i>General Government Administration</i>				
Town Council	69,710	69,710	71,477	(1,767)
Other general administration	42,500	42,500	30,324	12,176
Finance Director	380,270	380,270	426,600	(46,330)
Town Manager	179,820	179,820	179,209	611
Municipal Services	103,730	103,730	102,375	1,355
Total General Government Administration	776,030	776,030	809,985	(33,955)
<i>Public Safety</i>				
Police Department	1,660,610	1,660,610	1,688,560	(27,950)
Fire Department	298,140	298,140	382,290	(84,150)
Building Inspector	133,920	133,920	111,501	22,419
Total Public Safety	2,092,670	2,092,670	2,182,351	(89,681)
<i>Public Works</i>				
Sanitation	922,425	922,425	942,390	(19,965)
Maintenance of highways and streets	1,144,970	1,144,970	956,932	188,038
Town shop maintenance	249,930	249,930	251,795	(1,865)
Building and grounds maintenance	104,760	104,760	106,001	(1,241)
Total Public Works	2,422,085	2,422,085	2,257,118	164,967
<i>Parks, Recreation, and Cultural</i>				
Library	46,200	46,200	45,583	617
Parks and recreation	291,560	291,560	380,932	(89,372)
Total Parks, Recreation, and Cultural	337,760	337,760	426,515	(88,755)
<i>Community Development</i>				
South Hill Community Development Association	248,610	248,610	250,143	(1,533)
Other planning and community development	340,485	340,485	309,618	30,867
Total Community Development	589,095	589,095	559,761	29,334
<i>Debt Service</i>	735,060	735,060	633,058	102,002
Total Expenditures	6,952,700	6,952,700	6,868,788	83,912
Excess (Deficiency) of Revenues Over Expenditures	(156,884)	(156,884)	1,379,839	1,536,723
Other Financing Sources (Uses)				
Transfers in	120,000	120,000	126,966	6,966
Transfers out	(253,116)	(253,116)	-	253,116
Proceeds from loans	290,000	290,000	48,000	(242,000)
Total Other Financing Sources (Uses)	156,884	156,884	174,966	18,082
Net Change in Fund Balance	\$ -	\$ -	1,554,805	\$ 1,554,805
Fund Balance - Beginning of Year			10,100,946	
Fund Balance - End of Year			\$ 11,655,751	

Twin Oaks Community Development Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Intergovernmental				
<i>Revenue from the Federal Government</i>				
Department of Housing and Community Development				
Community Development Block Grant	\$ -	\$ -	\$ 2,350	\$ 2,350
Total Revenues	-	-	2,350	2,350
Expenditures				
Community Improvement Project				
Administration	-	-	-	-
Interim assistance	-	-	-	-
Owner occupied rehabilitation	-	-	-	-
Investor owned rehabilitation	-	-	-	-
Substantial reconstruction	-	-	-	-
Sewer improvements	-	-	2,350	(2,350)
In-Kind Match - labor/equipment/materials	-	-	-	-
Total Expenditures	-	-	2,350	(2,350)
Excess (Deficiency) of Revenues Over Expenditures	-	-	-	-
Other Financing Sources (Uses)				
Transfers in (out)	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balance - Beginning of Year			-	
Fund Balance - End of Year			<u>\$ -</u>	

Meadow Street Community Development Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Intergovernmental				
<i>Revenue from the Federal Government</i>				
Department of Housing and Community Development				
Community Development Block Grant	\$ -	\$ -	\$ 233,474	\$ 233,474
Total Revenues	-	-	233,474	233,474
Expenditures				
Community Improvement Project				
Administration	-	-	52,926	(52,926)
Interim assistance	-	-	78,963	(78,963)
Owner occupied rehabilitation	-	-	99,637	(99,637)
Storm drainage improvements	-	-	-	-
Water improvements	-	-	-	-
Sewer improvements	-	-	-	-
Total Expenditures	-	-	231,526	(231,526)
Excess (Deficiency) of Revenues Over Expenditures	-	-	1,948	1,948
Other Financing Sources (Uses)				
Transfers in (out)	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	1,948	<u>\$ 1,948</u>
Fund Balance - Beginning of Year			<u>(1,948)</u>	
Fund Balance - End of Year			<u>\$ -</u>	

OTHER SUPPLEMENTARY INFORMATION



Town of South Hill, Virginia

Combining Balance Sheet

Nonmajor Governmental Funds

At June 30, 2012

	Cemetery Fund	Comprehensive Roadside Fund	Total
Assets			
Cash and investments	\$ 65,875	\$ 6,805	\$ 72,680
Accounts receivable	<u>1,350</u>	<u>-</u>	<u>1,350</u>
Total Assets	<u>\$ 67,225</u>	<u>\$ 6,805</u>	<u>\$ 74,030</u>
Liabilities			
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Liabilities	-	-	-
Fund Balance			
Assigned			
Subsequent years' expenditures	<u>67,225</u>	<u>6,805</u>	<u>74,030</u>
Total Fund Balance	<u>67,225</u>	<u>6,805</u>	<u>74,030</u>
Total Liabilities and Fund Balance	<u>\$ 67,225</u>	<u>\$ 6,805</u>	<u>\$ 74,030</u>

Town of South Hill, Virginia

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

At June 30, 2012

	Cemetery Fund	Comprehensive Roadside Fund	Total
Revenues			
Miscellaneous income	\$ 1,400	\$ 203,949	\$ 205,349
Total Revenues	1,400	203,949	205,349
Expenditures	-	197,144	197,144
Total Expenditures	-	197,144	197,144
Excess (Deficiency) of Revenues Over Expenditures	1,400	6,805	8,205
Other Financing Sources (Uses)			
Transfers in (out)	(350)	-	(350)
Other Financing Sources (Uses)	(350)	-	(350)
Net Change in Fund Balance	1,050	6,805	7,855
Fund Balance - Beginning of Year	66,175	-	66,175
Fund Balance - End of Year	<u>\$ 67,225</u>	<u>\$ 6,805</u>	<u>\$ 74,030</u>

COMPLIANCE SECTION



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South Hill



**Creedle
Jones
& Alga**

A Professional Corporation

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

To the Honorable Members of the
Town Council
Town of South Hill, Virginia

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of South Hill, Virginia, as of and for the year ended June 30, 2012, which collectively comprise the Town of South Hill, Virginia's basic financial statements and have issued our report thereon dated October 22, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Town of South Hill, Virginia is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Town of South Hill, Virginia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of South Hill, Virginia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of South Hill, Virginia's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of South Hill, Virginia's financial statements are free of 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*.

This report is intended solely for the information and use of management, Town Council, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.



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

South Hill, Virginia
October 22, 2012