Town of Hillsville, Virginia

Financial Statements

Year Ended June 30, 2019

Town Council

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

Town Manager

Retta N. Jackson

Town Attorney

Cassell & Crewe

Treasurer

LeAnna Surratt

Independent Auditors

Hicok, Brown & Company

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Hillsville, Virginia, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town of Hillsville, Virginia's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Hillsville, Virginia, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2019, the County adopted new accounting guidance, GASB Statement No. 88 *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension and OPEB funding on pages 6–12 and 58–65 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. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Hillsville, Virginia's basic financial statements. The statistical section is presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2020, on our consideration of the Town of Hillsville, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Hillsville, Virginia's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Hillsville, Virginia's internal control over financial reporting and compliance.

Hicok, Brown & Company

Hicok, Brown & Company
Abingdon, Virginia

January 16, 2020

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hillsville, Virginia, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town of Hillsville, Virginia's basic financial statements, and have issued our report thereon dated January 16, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Hicok, Brown & Company

Hicok, Brown & Company
Abingdon, Virginia

January 16, 2020

Town of Hillsville

Management's Discussion and Analysis

As of June 30, 2019

As management of the Town of Hillsville ("the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2019. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

- The Town of Hillsville's net position was $7.3 million at the end of the current fiscal year.
- Total investment in capital assets, net of related debt was $3.0 million.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of $4.5 million, an increase of $643 thousand in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was $3.8 million.

Overview of the Financial Statements

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

Basic Financial Statements

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

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

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

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

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

Notes to Financial Statements

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

Required Supplemental Information

In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees and information about expenditures of Federal awards. Required supplementary information can be found beginning on page 58 of this report.

Town of Hillsville's Net Position

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The Town's net position was $7.3 million as of June 30, 2019, an increase of $611 thousand compared to the prior year-end. A significant portion of net position (40%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment) and economic development, less any related debt still outstanding that was issued to acquire those items. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. The Town's financial position as of June 30, 2019 and 2018 is shown in Figure 1.

Assets, Liabilities, and Net Position

Figure 1

	Governmental Activities		Business-type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Current and other assets	$ 5,384,490	$ 4,751,915	$ 1,614,322	$ 1,304,542	$ 6,998,812	$ 6,056,457
Capital assets	1,958,236	2,058,054	8,539,199	8,799,748	10,497,435	10,857,802
Total assets	7,342,726	6,809,969	10,153,521	10,104,290	17,496,247	16,914,259
Total deferred outflows of resources	190,019	121,758	71,281	43,490	261,300	165,248
Long-term liabilities	1,715,292	1,630,925	6,941,743	7,033,488	8,657,035	8,664,413
Other liabilities	235,716	230,160	812,082	559,267	1,047,798	789,427
Total liabilities	1,951,008	1,861,085	7,753,825	7,592,755	9,704,833	9,453,840
Total deferred inflows of resources	729,412	873,200	6,100	46,170	735,512	919,370
Net position:						
Invested in capital assets, net of related debt	1,330,795	1,382,754	1,629,437	1,837,684	2,960,232	3,220,438
Restricted	79,021	74,520	-	-	79,021	74,520
Unrestricted	3,442,509	2,740,168	835,440	671,171	4,277,949	3,411,339
Total net position	$ 4,852,325	$ 4,197,442	$ 2,464,877	$ 2,508,855	$ 7,317,202	$ 6,706,297

Governmental activities. Governmental activities increased the Town's net position by $655 thousand for the year ended June 30, 2019 which compares to an increase of $967 thousand in the prior year. Tax revenue and fines and forfeitures decreased during the year while expenses stayed relatively the same. Property taxes were decreased by $48 thousand from multiple-year reassessments and grant revenues of $21 thousand were returned that had been recognized in prior years.

Business-type activities: Business-type activities decreased the Town's net position by $44 thousand for the year ended June 30, 2019 compared to $105 thousand for the year ended June 30, 2018.

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

Changes in Net Position
Figure 2

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenue						
Program revenues:						
Charges for services	$ 476,660	$ 596,442	$ 1,556,331	$ 1,465,160	$ 2,032,991	$ 2,061,602
Operating grants and contributions	81,422	78,869	-	1,614	81,422	80,483
Capital grants and contributions	65,655	73,364	-	125,000	65,655	198,364
General revenues:						
Property taxes	686,441	742,652	-	-	686,441	742,652
Other taxes	2,140,450	2,130,126	-	-	2,140,450	2,130,126
Interest and investment, earnings	47,511	35,988	25,199	8,595	72,710	44,583
Other	31,100	51,982	20,520	21,238	51,620	73,220
Total revenue	3,529,239	3,709,423	1,602,050	1,621,607	5,131,289	5,331,030
Expenses						
General government	540,815	508,331	-	-	540,815	508,331
Public safety	1,318,334	1,358,018	-	-	1,318,334	1,358,018
Public works	760,240	783,175	-	-	760,240	783,175
Community development	147,493	168,817	-	-	147,493	168,817
Other activities	69,130	9,295	-	-	69,130	9,295
Interest on long-term debt	22,594	20,120	-	-	22,594	20,120
Water	-	-	634,337	627,324	634,337	627,324
Sewer	-	-	1,027,441	994,319	1,027,441	994,319
Total expenses	2,858,606	2,847,756	1,661,778	1,621,643	4,520,384	4,469,399
Increase (decrease) in net position before transfers	670,633	861,667	(59,728)	(36)	610,905	861,631
Transfers	(15,750)	105,234	15,750	(105,234)	-	-
Increase(decrease) in net position	654,883	966,901	(43,978)	(105,270)	610,905	861,631
Net position, beginning	4,197,442	3,326,922	2,508,855	2,650,773	6,706,297	5,977,695
Prior period adjustments	-	(96,381)	-	(36,648)	-	(133,029)
Net position, ending	$ 4,852,325	$ 4,197,442	$ 2,464,877	$ 2,508,855	$ 7,317,202	$ 6,706,297

Financial Analysis of the Town's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, the unreserved fund balance of the General Fund consisted of assigned funds of $631 thousand and unassigned funds of $3.8 million.

At June 30, 2019, the governmental funds of the Town reported a combined fund balance of $4.5 million.

Proprietary Funds. The Town's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Net position of the Water and Sewer Fund at the end of the fiscal year amounted to $2.5 million.

General Fund Budgetary Highlights

Local sales and use taxes exceeded budget by $63 thousand, business license and vendor taxes exceeded budget by $71 thousand, bank stock taxes exceeded budget by $100 thousand, and restaurant food taxes exceeded budget by $73 thousand. Machinery and tool taxes were $71 thousand under budget due to a reassessment for one customer.

Public safety and public works expenses exceeded budget by $89 thousand and $70 thousand, respectively.

Capital Assets and Long-term Debt

Capital Assets. The Town's investment in capital assets for its governmental and business–type activities as of June 30, 2019, totals $10.5 million (net of accumulated depreciation). These assets include land, land improvements, buildings and improvements, vehicles, and equipment.

Capital Assets
(net of depreciation)
Figure 3

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	$ 100,248	$ 100,248	$ 44,168	$ 44,168	$ 144,416	$ 144,416
Land improvements	480,261	493,695	-	-	480,261	493,695
Buildings and improvements	548,825	573,712	8,172,423	8,628,799	8,721,248	9,202,511
Vehicles	-	-	90,062	26,200	90,062	26,200
Equipment	828,902	890,399	232,546	100,581	1,061,448	990,980
Total	$ 1,958,236	$ 2,058,054	$ 8,539,199	$ 8,799,748	$ 10,497,435	$ 10,857,802

Major capital asset transactions include the following additions and disposals including reclassifications between funds:

Changes in Capital Assets
Figure 4

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	$ -	$ -	$ -	$ -	$ -	$ -
Land improvements	34,270	11,175	-	-	34,270	11,175
Buildings and improvements	4,275	-	45,254	254,878	49,529	254,878
Vehicles	-	-	71,365	25,458	71,365	25,458
Equipment	174,819	215,842	151,959	31,956	326,778	247,798
Total additions	$ 213,364	$ 227,017	$ 268,578	$ 312,292	$ 481,942	$ 539,309
Land	$ -	$ -	$ -	$ -	$ -	$ -
Land improvements	-	30,981	-	-	-	30,981
Buildings and improvements	-	74,482	-	602,152	-	676,634
Vehicles	-	-	-	23,462	-	23,462
Equipment	4,325	380,610	82,747	144,578	87,072	525,188
Total disposals	$ 4,325	$ 486,073	$ 82,747	$ 770,192	$ 87,072	$ 1,256,265

During the year ended June 30, 2019, the Town removed obsolete assets from its capital assets schedules. Primarily all of these assets had been fully depreciated. Additional information on the Town's capital assets can be found in note 6 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2019, the Town had total bonded debt outstanding of $7.5 million. All debt is backed by the full faith and credit of the Town.

Outstanding Debt
Installment Notes and General Obligation Bonds
Figure 5

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Installment notes payable	$ 360,260	$ 383,421	$ -	$ 174,500	$ 360,260	$ 557,921
General obligation bonds	237,812	233,575	6,909,762	6,787,564	7,147,574	7,021,139
Total	$ 598,072	$ 616,996	$ 6,909,762	$ 6,962,064	$ 7,507,834	$ 7,579,060

The Town's total debt decreased by $71 thousand during the past fiscal year.

Virginia General Statutes limit the amount of general obligation debt that a unit of government can issue to 10% of the total assessed value of taxable real property located within that government's boundaries. The debt limit for the Town was approximately $21.4 million as of June 30, 2019.

Additional information regarding the Town's long-term debt can be found in note 10 and schedules 12 and 13.

Budget Highlights for the Fiscal Year Ending June 30, 2020

Governmental Activities: General fund revenues are budgeted to remain stable at $3.1 million for the fiscal year ending June 30, 2020. Grants to fund the local Farmers' Market are expected to increase and those funds will be used for infrastructure for the program. The Town uses revenues to finance programs currently in place.

Requests for Information

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

Town of Hillsville, Virginia

Exhibit A

Statement of Net Position

June 30, 2019

	Governmental Activities	Business-type Activities	Total Primary Government
Assets			
Cash and cash equivalents	$ 4,265,477	$ 1,123,861	$ 5,389,338
Investments	164,521	286,188	450,709
Receivables (net of allowances for uncollectibles):			
Taxes, including penalties	682,025	-	682,025
Accounts	217,614	133,324	350,938
Accrued charges for services	-	70,949	70,949
Loans	6,376	-	6,376
Note receivable	19,000	-	19,000
Due from other funds	-	-	-
Due from other governmental units	29,477	-	29,477
Capital assets, net	1,958,236	8,539,199	10,497,435
Total assets	7,342,726	10,153,521	17,496,247
Deferred Outflows of Resources	190,019	71,281	261,300
Liabilities			
Accounts payable	140,283	193,078	333,361
Deposits	2,975	91,482	94,457
Due to other funds	-	-	-
Accrued bond interest	4,874	162,415	167,289
Bonds and notes payable due within one year	58,215	365,107	423,322
Bonds and notes payable due in more than one year	539,857	6,544,655	7,084,512
Capital lease obligations due within one year	29,369	-	29,369
Capital lease obligations due in more than one year	-	-	-
Compensated absences	97,762	36,643	134,405
Net pension liability	648,440	208,207	856,647
Other post-employment benefits obligation	429,233	152,238	581,471
Total liabilities	1,951,008	7,753,825	9,704,833
Deferred Inflows of Resources	729,412	6,100	735,512
Net Position			
Invested in capital assets, net of related debt	1,330,795	1,629,437	2,960,232
Restricted	79,021	-	79,021
Unrestricted	3,442,509	835,440	4,277,949
Total net position	$ 4,852,325	$ 2,464,877	$ 7,317,202

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

Town of Hillsville, Virginia

Exhibit B

Statement of Activities

For the Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Primary Government: Business-type Activities	Net (Expense) Revenue and Changes in Net Position: Primary Government: Total
Primary Government:							
Government Activities:							
General government	$ (540,815)	$ -	$ -	$ -	$ (540,815)	$ -	$ (540,815)
Public safety	(1,318,334)	476,660	79,884	63,935	(697,855)	-	(697,855)
Public works	(760,240)	-	1,538	20,800	(737,902)	-	(737,902)
Community development	(147,493)	-	-	(19,080)	(166,573)	-	(166,573)
Other activities	(69,130)	-	-	-	(69,130)	-	(69,130)
Interest on long – term debt	(22,594)	-	-	-	(22,594)	-	(22,594)
Total government activities	(2,858,606)	476,660	81,422	65,655	(2,234,869)	-	(2,234,869)
Business – type activities:							
Water	(634,337)	676,816	-	-	-	42,479	42,479
Sewer	(1,027,441)	879,515	-	-	-	(147,926)	(147,926)
Total business – type activities	(1,661,778)	1,556,331	-	-	-	(105,447)	(105,447)
Total primary government	$ (4,520,384)	$ 2,032,991	$ 81,422	$ 65,655			(2,340,316)
General Revenues:							
General property					686,441	-	686,441
Sales tax					157,621	-	157,621
Utility tax					94,872	-	94,872
Business license					325,851	-	325,851
Franchise tax					15,769	-	15,769
Motor vehicle license					45,503	-	45,503
Bank stock tax					200,087	-	200,087
Meals tax					1,007,990	-	1,007,990
Lodgings tax					289,463	-	289,463
Other taxes					735	-	735
Licenses and permits					2,559	-	2,559
Grants and contributions not restricted to specific programs					-	-	-
Use of money and property					47,511	25,199	72,710
Miscellaneous					26,103	20,520	46,623
Gain (loss) on sale/retirement of capital assets					4,997	-	4,997
Transfers					(15,750)	15,750	-
Total general revenues and transfers					2,889,752	61,469	2,951,221
Change in net position					654,883	(43,978)	610,905
Net position, beginning					4,197,442	2,508,855	6,706,297
Net position, ending					$ 4,852,325	$ 2,464,877	$ 7,317,202

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

Town of Hillsville, Virginia

Exhibit C
Page 1

Balance Sheet
Governmental Funds
June 30, 2019

	General Fund	CDBG Fund	Total
Assets			
Cash and cash equivalents	$ 4,186,296	$ 79,181	$ 4,265,477
Investments	164,521	-	164,521
Receivables (net of allowances for uncollectibles):			
Taxes, including penalties	682,025	-	682,025
Accounts	217,614	-	217,614
Loans	-	6,376	6,376
Due from other funds	160	-	160
Due from other governmental units	29,477	-	29,477
Total assets	5,280,093	85,557	5,365,650
Liabilities			
Accounts payable	140,283	-	140,283
Deposits	2,975	-	2,975
Due to other funds	-	160	160
Total liabilities	143,258	160	143,418
Deferred Inflows of Resources			
Deferred revenue	709,320	6,376	715,696
Fund Balances			
Nonspendable	-	-	-
Restricted:			
Community development	-	79,021	79,021
Committed	-	-	-
Assigned:			
Capital projects	631,100	-	631,100
Unassigned	3,796,415	-	3,796,415
Total fund balances	$ 4,427,515	$ 79,021	$ 4,506,536

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

Town of Hillsville, Virginia

Balance Sheet
Governmental Funds
June 30, 2019

	Total
Total fund balances per Balance Sheet for Governmental Funds	$ 4,506,536
Amounts reported for governmental activities in the Statement of Net Position (Exhibit A) are different because:	
Capital assets in government activities are not financial resources and therefore are not reported as fund assets. The Statement of Net Position, however, includes these assets, net of accumulated depreciation/amortization.	
Capital assets, net	1,958,236
Some receivables are not available to pay for current period expenditures and therefore are deferred in the fund financial statements.	
Property taxes	2,985
Pension expense	(7,416)
Other post-employment benefit plans	(9,285)
Some receivables are not due and payable in the current period and therefore are not reported as fund assets. All receivables are included in the Statement of Net Assets.	
Note receivable net of principle payments	19,000
Pension contributions and other post-employment benefits subsequent to the measurement date of the net liability are considered to be deferred outflows of resources	190,019
Some liabilities, including general governmental bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities are included in the Statement of Net Position.	
Accrued bond interest	(4,874)
Bonds and notes payable	(598,072)
Capital lease obligations	(29,369)
Compensated absences	(97,762)
Net pension liability	(648,440)
Other post-employment benefits obligation	(429,233)
Net position of governmental activities	$ 4,852,325

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

Town of Hillsville, Virginia

Exhibit D
Page 1

Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2019

	General Fund	CDBG Fund	Total Governmental Activities
Revenues:			
General property taxes	$ 685,567	$ -	$ 685,567
Other local taxes	2,137,891	-	2,137,891
Permits, privilege fees and regulatory licenses	2,559	-	2,559
Fines and forfeitures	476,660	-	476,660
Payment in lieu of taxes	-	-	-
Revenue from use of money and property	47,258	252	47,510
Charges for services	-	-	-
Gain on sale of capital assets	4,997	-	4,997
Miscellaneous	27,854	4,249	32,103
Intergovernmental:			
Federal	65,655	-	65,655
State	81,422	-	81,422
Total revenues	3,529,863	4,501	3,534,364
Expenditures:			
Current:			
General government administration	524,564	-	524,564
Public safety	1,223,174	-	1,223,174
Public works	871,824	-	871,824
Community development	109,209	-	109,209
Non-departmental	47,523	-	47,523
Capital projects	32,199	-	32,199
Annexation expenses	-	-	-
Debt service:			
Principal retirement	85,310	-	85,310
Interest and finance charges	20,356	-	20,356
Total expenditures	2,914,159	-	2,914,159
Excess (loss) of revenues over expenditures	615,704	4,501	620,205
Other financing sources and uses:			
Proceeds from debt	38,700	-	38,700
Operating transfers in	-	-	-
Operating transfers out	(15,750)	-	(15,750)
Total other financing sources and uses	22,950	-	22,950
Excess (loss) of revenues and other sources over expenditures and other uses	638,654	4,501	643,155
Fund balance, beginning	3,788,861	74,520	3,863,381
Fund balance, ending	$ 4,427,515	$ 79,021	$ 4,506,536

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

Town of Hillsville, Virginia

Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2019

	Total Governmental Activities
Net change in fund balances – total governmental funds	$ 643,155
Amounts reported for governmental activities in the Statement of Activities (Exhibit B) are different because:	
Governmental funds report the cost of equipment and facilities acquired as current expenditures while the governmental Statement of Activities reports depreciation expense to allocate those expenditures over the life of the assets.	
Capital assets additions	213,364
Depreciation expense	(313,182)
Difference between accumulated depreciation and cost of disposed assets	-
Certain income receivables from the sale of assets are not due in the current period and therefore not reported as fund assets. All receivables are included in the statement of activities.	19,000
Debt proceeds provide current financial resources to governmental funds, but debt issues increase long – term liabilities in the Statement of Net Position. Principal repayments are expenditures in governmental funds, but reduce long – term liabilities in the Statement of Net Position.	
New debt issued	(38,700)
Principal payments	86,559
Interest accrued	(3,488)
Certain revenues in the government-wide statement of activities do not provide current financial resources and are not reported as revenue in the fund financial statements.	
General property taxes	874
Pension	127,026
Other postretirement benefit plans	62,153
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in post-employment benefits	(71,066)
Change in compensated absences	(7,331)
Change in pension plan benefits	(63,481)
Change in net position of governmental activities	$ 654,883

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

Town of Hillsville, Virginia

Exhibit E

Statement of Net Position
Proprietary Funds
June 30, 2019

	Water Fund	Sewer Fund	Total
Assets			
Current assets:			
Cash and equivalents	$ 606,948	$ 516,913	$ 1,123,861
Investments	143,094	143,094	286,188
Accounts receivable (net of allowance for uncollectibles)	65,921	67,403	133,324
Accrued charges for services	37,871	33,078	70,949
Total current assets	853,834	760,488	1,614,322
Capital assets			
Buildings	5,172,356	11,317,811	16,490,167
Land	31,468	12,700	44,168
Machinery and equipment	167,429	288,017	455,446
Total capital assets	5,371,253	11,618,528	16,989,781
Less accumulated depreciation	(2,608,008)	(5,842,574)	(8,450,582)
Net capital assets	2,763,245	5,775,954	8,539,199
Total assets	3,617,079	6,536,442	10,153,521
Deferred Outflows of Resources	34,804	36,477	71,281
Liabilities			
Liabilities:			
Current liabilities (payable from current assets):			
Accounts payable	171,827	21,251	193,078
Deposits	45,741	45,741	91,482
Accrued bond interest	20,489	141,926	162,415
Current portion of bonds	87,153	277,954	365,107
Total current liabilities (payable from current assets)	325,210	486,872	812,082
Long-term liabilities:			
Bonds (net of current portion)	1,933,056	4,611,599	6,544,655
Compensated absences	19,125	17,518	36,643
Net pension liability	107,435	100,772	208,207
Other post-employment benefits obligation	75,859	76,379	152,238
Total long-term liabilities	2,135,475	4,806,268	6,941,743
Total liabilities	2,460,685	5,293,140	7,753,825
Deferred Inflows of Resources	3,008	3,092	6,100
Net Position			
Net Position:			
Invested in capital assets, net of related debt	743,036	886,401	1,629,437
Unrestricted	445,154	390,286	835,440
Total net position	$ 1,188,190	$ 1,276,687	$ 2,464,877

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

Town of Hillsville, Virginia

Exhibit F

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended June 30, 2019

	Water Fund	Sewer Fund	Total
Operating revenues:			
Charges for services	$ 676,326	$ 878,668	$ 1,554,994
Miscellaneous	490	847	1,337
Total operating revenues	676,816	879,515	1,556,331
Operating expenses:			
Personnel services	217,707	232,765	450,472
Fringe benefits	76,988	69,079	146,067
Contractual services	3,685	4,299	7,984
Payment in lieu of taxes	-	-	-
Depreciation and amortization	169,524	359,603	529,127
Other	130,797	190,292	321,089
Total operating expenses	598,701	856,038	1,454,739
Operating income	78,115	23,477	101,592
Nonoperating revenues (expenses):			
Connection fees	1,740	1,657	3,397
Interest	12,630	12,569	25,199
Other nonoperating revenues	8,639	8,484	17,123
Interest and fiscal charges	(35,636)	(171,403)	(207,039)
Total nonoperating revenues (expenses)	(12,627)	(148,693)	(161,320)
Loss before contributions and transfers	65,488	(125,216)	(59,728)
Capital grants and contributions	-	-	-
Operating transfers in	14,321	1,473	15,794
Operating transfers out	-	(44)	(44)
Changes in net position	79,809	(123,787)	(43,978)
Net position, beginning	1,108,381	1,400,474	2,508,855
Net position, ending	$ 1,188,190	$ 1,276,687	$ 2,464,877

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

Town of Hillsville, Virginia

Exhibit G

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2019

	Water Fund	Sewer Fund	Total
Cash flows from operating activities:			
Cash received from customers	$ 678,815	$ 889,122	$ 1,567,937
Cash payments to suppliers for goods and services	(102,643)	(193,186)	(295,829)
Cash payments to employees for services	(313,349)	(313,420)	(626,769)
Payment in lieu of taxes	-	-	-
Net cash (used by) provided by operating activities	262,823	382,516	645,339
Cash flows from noncapital financing activities:			
Operating transfers from (to) other funds	14,321	1,429	15,750
Net cash provided (used) by noncapital financing activities	14,321	1,429	15,750
Cash flows from capital and related financing activities:			
Capital grants	-	-	-
Acquisition, construction and disposal of capital assets	(69,198)	(199,380)	(268,578)
Issuance of bonds	-	940,000	940,000
Principal paid on bonds	(66,482)	(925,820)	(992,302)
Interest paid on bonds	(30,475)	(35,407)	(65,882)
Net cash provided by (used by) capital and related financing activities	(166,155)	(220,607)	(386,762)
Cash flows from investing activities:			
Cash payments to purchase investments	(6,472)	(6,472)	(12,944)
Interest on temporary investments	12,630	12,569	25,199
Net cash provided by investing activities	6,158	6,097	12,255
Net decrease in cash and cash equivalents	117,147	169,435	286,582
Cash and cash equivalents at beginning of year	489,801	347,478	837,279
Cash and cash equivalents at end of year	$ 606,948	$ 516,913	$ 1,123,861
Reconciliation of operating loss to net cash provided by operating activities:			
Operating income	$ 78,115	$ 23,477	$ 101,592
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation and amortization	169,524	359,603	529,127
Receivables and accrued charges for services	(9,050)	(1,204)	(10,254)
Accounts payable and deferred revenue	31,839	1,405	33,244
Connection fees and other income	10,379	10,141	20,520
Other accrued expenses	(18,654)	(11,576)	(30,230)
Deposits	670	670	1,340
Total adjustments	184,708	359,039	543,747
Net cash provided by operating activities	$ 262,823	$ 382,516	$ 645,339

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

1. Summary of Significant Accounting Policies

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

The following is a summary of the more significant policies:

A. The Financial Reporting Entity

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

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

B. Government-wide and Fund Financial Statements

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

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

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

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

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

1. Summary of Significant Accounting Policies, continued

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as deferred revenues. Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the Town.

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

The Town reports the following major governmental funds:

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

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

The Town reports the following major proprietary funds:

Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the Town is that the cost of providing services to the general public be financed or recovered through user charges. Enterprise Funds consist of the Water and Sewer Funds.

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

1. Summary of Significant Accounting Policies, continued

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

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

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

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

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

D. Stewardship, Compliance and Accountability

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

1. Prior to March 30, the Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them.

2. Public hearings are conducted to obtain citizen comments.

3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.

4. The Appropriations Resolution places legal restrictions on expenditures at the department level or category level. The appropriation for each department or category can be revised only by the Town Council. The Town Manager is authorized to transfer budgeted amounts within general government departments.

5. Formal budgetary integration is employed as a management control device during the year for the General Fund.

6. All budgets are adopted and maintained on a basis consistent with GAAP. The original budget and budget revisions during the fiscal year are authorized at the departmental level by Town council.

7. Appropriations lapse on June 30 for all Town units.

1. Summary of Significant Accounting Policies, continued

E. Cash and Cash Equivalents

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

F. Receivable and Payables

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

G. Investments

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

H. Property, Plant, and Equipment

All purchased property, plant and equipment are valued at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value at the date of donation.

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

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

Interest is capitalized on fixed assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of borrowing until completion of the project with interest earned on invested proceeds over the same period. No interest was capitalized during the current year.

I. Property Taxes

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

1. Summary of Significant Accounting Policies, continued

J. Compensated Absences

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

K. Long-Term Obligation

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

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

L. Net Position

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

M. Net Position Flow Assumption

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

1. Summary of Significant Accounting Policies, continued

N. Fund Balances

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

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

O. Deferred Outflows/Inflows of Resources

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

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

The components of the deferred outflows of resources and deferred inflows of resources at June 30, 2019 are as follows:

	Governmental Activities	Business-Type Activities	Total Government
Deferred outflows of resources:			
Pension activities	$ 129,349	$ 48,522	$ 177,871
Group life insurance	5,633	2,113	7,746
Other post-employment benefits	55,037	20,646	75,683
Total deferred outflows of resources	$ 190,019	$ 71,281	$ 261,300
Deferred inflows of resources:			
General property taxes	$ 706,335	$ -	$ 706,335
Loan revenue	6,376	-	6,376
Pension activities	7,416	2,781	10,197
Group life insurance	3,636	1,364	5,000
Other post-employment benefits	5,649	1,955	7,604
Total deferred inflows of resources	$ 729,412	$ 6,100	$ 735,512

1. Summary of Significant Accounting Policies, continued

P. Pensions

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

Q. Group Life Insurance

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

R. Recently Adopted Accounting Standards

In March 2019, GASB issued Statement No. 88, "Certain Disclosures Related to Debt including Direct Borrowings and Direct Placements," which defines debt for purposes of disclosure in notes to financial statements. The primary objective of this Statement is to improve the information that is disclosed in the notes to the government financial statements related to debt, including direct borrowings and direct placements. The statement was effective July 1, 2019 and had no significant impact on the Town's financial statements.

The following pronouncements have been issued, but are not effective as of June 30, 2019:

Statement No. 90, "Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61," was issued in August 2018. The Statement establishes reporting requirements for governments that hold a majority equity interest in a legally separate organization. This statement was effective on July 1, 2019 and had no impact on the Town's financial statements

GASB Statement No. 84, "Fiduciary Activities," was issued January 2017 to establish criteria for identifying fiduciary activities of all state and local governments and will be effective for the Town's fiscal year ending June 30, 2020.

GASB Statement No. 87, "Leases," was issued June 2017 to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. and to increase the usefulness of governments' financial statements. The Statement will be effective for fiscal year ending June 30, 2021.

GASB Statement No. 89, "Accounting for Interest Costs Incurred Before the End of a Construction Period," was issued June 2018, and establishes accounting requirements for interest cost incurred before the end of a construction period. The Statement will be effective for fiscal year ending June 30, 2021.

GASB Statement No. 91, "Conduit Debt Obligations," was issued May 2019, and establishes accounting requirements for conduit debt obligations by issuers. The Statement will be effective for fiscal year ending June 30, 2022.

1. Summary of Significant Accounting Policies, continued

S. Use of Estimates

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

T. Subsequent Events

These financial statements have not been updated for subsequent events occurring after January __, 2020, which is the date the financial statements were available to be issued.

2. Deposits and Investments

Deposits: At year-end the carrying value of the Town's deposits with banks and savings institutions was $5,388,688 and the bank balance was $5,557,172. All of the bank balance was covered by Federal depository insurance or collateral held under the provisions of the Virginia Security for Public Deposits Act. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC Bank Insurance Fund must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC Savings Association Insurance Fund limits. The State Treasury board is responsible for monitoring compliance with the collateralization and reporting requirements for the Act and for notifying local governments of compliance by banks and savings and loans.

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

	Fair Quality Ratings		Fair
	AAAm	Unrated	Value
Alliance U.S. Government Bond Fund	$ -	$ 147,947	$ 147,947
Investment in Local Government Investment Pool (LGIP)	302,762	-	302,762
Total	$ 302,762	$ 147,947	$ 450,709

Concentration of Credit Risk: The Town's investments in the Alliance Bond Fund and the LGIP represented 32.8% and 67.2%, respectively, of the portfolio at June 30, 2019.

3. Note Receivable

On January 14, 2019 the Town issued a note receivable in the amount of $25,000. The Town will receive annual payments of principal of $4,167 over six years. At June 30, 2019, the note receivable balance was $19,000.

4. Allowance for Uncollectible Accounts

The Town of Hillsville calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance at June 30, 2019 is composed of the following:

General Fund, Allowance for Uncollectible Taxes	$ 23,689
Water and Sewer Funds, Allowance for Uncollectible Accounts	28,359
	$ 52,048

5. Due from Other Governmental Units

Amounts due from other governmental units at June 30, 2019 are summarized as follows:

Carroll County, Virginia	
Court fines and forfeitures	$ 29,477

6. Capital Assets

A summary of changes in capital assets follows:

Governmental Activities

	Balance July 1, 2018	Additions	Disposals	Balance June 30, 2019
Land (not depreciated)	$ 100,248	$ -	$ -	$ 100,248
Land improvements	701,216	34,270	-	735,486
Buildings and improvements	1,034,239	4,275	-	1,038,514
Equipment	2,091,720	174,819	(4,325)	2,262,214
Total	3,927,423	213,364	(4,325)	4,136,462
Less accumulated depreciation	(1,869,369)	(313,182)	4,325	(2,178,226)
Government activities capital assets, net	$ 2,058,054	$ (99,188)	$ -	$ 1,958,236

Business-type Activities

	Balance July 1, 2018	Additions	Disposals	Balance June 30, 2019
Water Fund:				
Land (not depreciated)	$ 31,468	$ -	$ -	$ 31,468
Buildings and improvements	5,144,852	27,504	-	5,172,356
Vehicles	57,482	24,905	-	82,387
Equipment	68,253	16,789	-	85,042
Total	5,302,055	69,198	-	5,371,253
Less accumulated depreciation	(2,438,484)	(169,524)	-	(2,608,008)
Water Fund capital assets, net	$ 2,863,571	$ (100,326)	$ -	$ 2,763,245
Sewer Fund:				
Land (not depreciated)	$ 12,700	$ -	$ -	$ 12,700
Buildings and improvements	11,300,061	17,750	-	11,317,811
Vehicles	30,050	46,460	-	76,510
Equipment	159,084	135,170	(82,747)	211,507
Total	11,501,895	199,380	(82,747)	11,618,528
Less accumulated depreciation	(5,565,718)	(359,603)	82,747	(5,842,574)
Sewer Fund capital assets, net	$ 5,936,177	$ (160,223)	$ -	$ 5,775,954

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General government	$ 28,326
Public safety	188,392
Public works	55,630
Community development	40,834
	$ 313,182
Business-type Activities	
Water	$ 169,524
Sewer	359,603
	$ 529,127

7. Benefits

VRS Retirement Plan

A. Plan Description

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

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

RETIREMENT PLAN PROVISIONS			
	PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Summary	Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

7. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

	PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Eligible Members	Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund. **Hybrid Opt-In Election** VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. **Hybrid Opt-In Election** Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 ***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.

7. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

	PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Creditable Service, continued			**Defined Contribution Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
Vesting	Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	Same as Plan 1.	**Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

7. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

	PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting, continued			**Defined Contribution Component:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.

7. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

	PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Calculating the Benefit	The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	See definition under Plan 1.	**Defined Benefit Component:** See definition under Plan 1 **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation	A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

7. **Benefits, continued**

VRS Retirement Plan, continued

A. Plan Description, continued

	PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Service Retirement Multiplier	The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. **Sheriffs and regional jail superintendents:** The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. **Political subdivision hazardous duty employees:** The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	Same as Plan1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. **Sheriffs and regional jail superintendents:** Same as Plan 1. **Political subdivision hazardous duty employees:** Same as Plan 1.	**Defined Benefit Component:** The retirement multiplier for the defined benefit component is 1.00%. For members that opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **Sheriffs and regional jail superintendents:** Not applicable. **Political subdivision hazardous duty employees:** Not applicable. **Defined Contribution Component:** Not applicable.
Normal Retirement Age	Age 65. **Political subdivisions hazardous duty employees:** Age 60.	Normal Social Security retirement age. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Defined Benefit Component:** Same as Plan 2. **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

7. **Benefits, continued**

VRS Retirement Plan, continued

A. Plan Description, continued

	PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Earliest Unreduced Retirement Eligibility	Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. **Political subdivisions hazardous duty employees:** Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Defined Benefit Component:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility	Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. **Political subdivisions hazardous duty employees:** Age 50 with at least five years of creditable service.	Age 60 with at least five years (60 months) of creditable service. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Defined Benefit Component:** Age 60 with at least five years (60 months) of creditable service. **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement	The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.	The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.	**Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable.

7. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

	PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement, continued	**Eligibility:** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date. **Exceptions to COLA Effective Dates:** The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct & is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.	**Eligibility:** Same as Plan 1. **Exceptions to COLA Effective Dates:** Same as Plan 1.	**Eligibility:** Same as Plan 1 and Plan 2. **Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.

7. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

	PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement, continued	• The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.		
Disability Coverage	Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased or granted.	Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.	Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

7. **Benefits, continued**

VRS Retirement Plan, continued

A. Plan Description, continued

	PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Purchase of Prior Service	Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.	Same as Plan 1.	**Defined Benefit Component:** Same as Plan 1 with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. **Defined Contribution Component:** Not applicable.

B. Employees Covered by Benefit Terms

As of the June 30, 2017 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number of Employees
Inactive members or their beneficiaries currently receiving benefits	28
Inactive members:	
Vested	4
Non-vested	5
Active elsewhere in the VRS	22
Total inactive members	31
Active members	40
Total covered employees	99

7. Benefits, continued

VRS Retirement Plan, continued

C. Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5% of their compensation toward their retirement.

The Town's contractually required contribution rate for the year ended June 30, 2019 was 11.97% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were $177,871 and $157,469 for the years ended June 30, 2019 and 2018, respectively.

D. Net Pension Liability

The Town's net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. The Town's NPL was measured as of June 30, 2018. The total pension liability used to calculate the NPL was determined by an actuarial valuation performed as of June 30, 2017, rolled forward to the measurement date of June 30, 2018.

E. Actuarial Assumptions

General Employees

The total pension liability for General Employees in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.35%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

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

7. Benefits, continued

VRS Retirement Plan, continued

E. Actuarial Assumptions, continued

Mortality rates:
Non-Hazardous Duty: 15% of deaths are assumed to be service related
Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

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

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Non-Hazardous Duty:

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

Public Safety Employees with Hazardous Duty Benefits

The total pension liability for Public Safety Employees with Hazardous Duty Benefits in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

Inflation	2.50%
Salary increases, including inflation	3.50% - 4.75%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

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

7. Benefits, continued

VRS Retirement Plan, continued

E. Actuarial Assumptions, continued

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Hazardous Duty:

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

7. Benefits, continued

VRS Retirement Plan, continued

F. Long-Term Expected Rate of Return

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

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

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

G. Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2018, the alternate rate was the employer contribution rate used in FY 2012 or 90% of the actuarially determined employer contribution rate from the June 30, 2015, actuarial valuations, whichever was greater. From July 1, 2018 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the Long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

7. **Benefits, continued**

VRS Retirement Plan, continued

H. Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2018	$ 6,691,713	$ 5,917,300	$ 774,413
Changes for the year:			
Service cost	180,269	-	180,269
Interest	454,058	-	454,058
Changes of assumptions	-	-	-
Differences between expected and actual experience	95,792	-	95,792
Contributions – employer	-	149,557	(149,557)
Contributions – employee	-	71,478	(71,478)
Net investment income	-	431,037	(431,037)
Benefit payments, including refunds of employee contributions	(410,352)	(410,352)	-
Administrative expense	-	(3,802)	3,802
Other changes	-	(385)	385
Net changes	319,767	237,533	82,234
Balances at June 30, 2019	$ 7,011,480	$ 6,154,833	$ 856,647

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

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

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net Pension Liability	$ 1,803,522	$ 856,647	$ 74,433

7. Benefits, continued

VRS Retirement Plan, continued

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

For the year ended June 30, 2019, the Town recognized pension expense of $80,492. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ (64,221)
Changes of assumptions	-	22,623
Net difference between projected and actual earnings on plan investments	-	51,795
Employer contributions subsequent to the Measurement Date*	177,871	-
Total	$ 177,871	$ 10,197

* $177,871 reported as deferred outflows of resources related to pensions resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2020	$ 20,768
2021	19,262
2022	(45,509)
2023	(4,718)
2024	-
Thereafter	-

K. Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at https://www.varetire.org/pdf/publications/2018-annual-report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

7. Benefits, continued

VRS Group Life Insurance Plan

A. Plan Description

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

In addition to the Basic Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse of dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is included as part of the Group Life Insurance Program OPEB.

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

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS
Eligible Employees The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program. Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.
Benefit Amounts The benefits payable under the Group Life Insurance Program have several components. • **Natural Death Benefit** – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. • **Accidental Death Benefit** – The accidental death benefit is double the natural death benefit. • **Other Benefit Provisions** – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include: o Accidental dismemberment benefit o Safety belt benefit o Repatriation benefit o Felonious assault benefit o Accelerated death benefit option
Reduction in Benefit Amounts The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.
Minimum Benefit Amount and Cost-of-Living Adjustment (COLA) For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at $8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently $8,279 effective July 1, 2018.

7. Benefits, continued

VRS Group Life Insurance Plan, continued

B. Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia,* as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2019 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the Group Life Insurance Program from the Town was $7,746 and $7,779 for the years ended June 30, 2019 and June 30, 2018, respectively.

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

At June 30, 2019, the Town reported a liability of $119,491 for its proportionate share of the Net GLI OPEB liability. The Net GLI OPEB liability was measured as of June 30, 2018 and the total GLI OPEB liability used to calculate the Net GLI OPEB liability was determined by an actuarial valuation as of that date. The Town's proportion of the Net GLI OPEB liability was based on the Town's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. The Town's proportion was 0.01% for both June 30, 2019 and 2018.

For the year ended June 30, 2019, the Town recognized GLI OPEB expense of $2,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts form changes in proportion.

At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Investment experience	$ -	$ 4,000
Differences between expected and actual experience	-	(4,000)
Changes of assumptions	-	5,000
Employer contributions subsequent to the Measurement Date*	7,746	-
Total	$ 7,746	$ 5,000

*$7,746 reported as deferred outflows of resources related to the GLI OPEB resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB liability in the Fiscal Year ending June 30, 2020.

7. Benefits, continued

VRS Group Life Insurance Plan, continued

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

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

2020	$	(2,000)
2021		(2,000)
2022		(1,000)
2023		-
2024		-
Thereafter		-

D. Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

Inflation	2.50%
Salary increases, including inflation	
General employees	3.50% - 5.35%
Hazardous Duty employees	3.50% - 4.75%
Investment rate of return	7.00%, net of investment expense, including inflation*

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

Mortality rates:

General Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

7. Benefits, continued

VRS Group Life Insurance Plan, continued

D. Actuarial Assumptions, continued

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees:

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

Mortality rates:

Hazardous Duty:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Hazardous Duty:

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

7. Benefits, continued

VRS Group Life Insurance Plan, continued

E. Net GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2018, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program
Total GLI OPEB Liability	$ 3,113,508
Plan Fiduciary Net Position	(1,594,773)
Net GLI OPEB Liability (Asset)	$ 1,518,735
Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability	51.22%

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

F. Long-Term Expected Rate of Return

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

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

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

7. Benefits, continued

VRS Group Life Insurance Plan, continued

G. Discount Rate

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

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

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

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Town's proportionate share of the Group Life Insurance Program Net OPEB liability	$ 156,000	$ 119,491	$ 89,000

I. Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Pulications/2018-annual-report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

7. Benefits, continued

Other Post-Employment Benefits

A. Plan Description

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

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

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

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

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

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

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

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

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

B. Contributions

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

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

At June 30, 2019, the Town reported a liability of $461,980 for its OPEB liability. The OPEB liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below, and was then projected forward to the measurement date. Any significant changes during this period have been reflected as prescribed by GASB 75.

7. Benefits, continued

Other Post-Employment Benefits, continued

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

For the year ended June 30, 2019, the Town recognized OPEB expense of $43,581.

At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to the OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 17,732	$ -
Changes in assumptions	57,951	7,604
Total	$ 75,683	$ 7,604

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

2020	$ 9,777
2021	9,777
2022	9,777
2023	9,777
2024	10,623
Thereafter	18,348

D. Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of plan assets. Significant methods and assumptions were as follows:

Actuarial valuation date	7/1/2018
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Remaining amortization period	30 years (open)
Actuarial assumptions:	
Inflation	2.50%
Salary increases, including inflation	
General employees	3.50% - 5.35%
Hazardous Duty employees	3.50% - 4.75%
Investment rate of return	3.5% annual returns net of both investment and non-actuarial administrative expenses
Medical cost trend assumption	Getzen Trend Model – 6.10% in 2019, 6.80% in 2020, 5.10% in 2021, graded to 4.10% in 2091
Payroll growth	3.0% per year

7. Benefits, continued

Other Post-Employment Benefits, continued

E. Changes in OPEB Liability

	Increase or (Decrease)
Balance at June 30, 2018	$ 366,483
Changes for the year:	
Service cost	18,599
Interest	15,205
Effect of plan changes	-
Effect of economic/demographic gains or losses	20,420
Effect of assumptions changes or inputs	66,731
Benefit payments	(25,458)
Net changes	95,497
Balance at June 30, 2019	$ 461,980

F. Discount Rate

The discount rate used to measure the total OPEB liability was 3.50%. The discount rate is based on the Bond Buyer 20-Year Bond GO Index as of the measurement date.

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

The following presents the Town's OPEB liability calculated using the discount rate of 3.50%, as well as what the OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.50%) or one percentage point higher (4.50%) than the current rate:

	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
OPEB liability	$ 498,218	$ 461,980	$ 428,861

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

	1% Decrease in Trend Rate	Current Trend Rate	1% Increase in Trend Rate
OPEB liability	$ 417,460	$ 461,980	$ 513,954

8. Compensated Absences

Each Town employee earns vacation leave based on years of service up to 20 days per year after 15 years of service and sick leave at the rate of one day per month. No benefits or pay are received for unused sick leave upon termination. Accumulated vacation is paid upon termination. The Town has outstanding accrued vacation pay totaling $97,762 in Governmental Activities and $36,643 in Business-type Activities at June 30, 2019.

9. Lease Obligations (Capital and Operating)

The Town periodically leases various types of equipment under capital and operating agreements. Lease expenditures under operating lease agreements for the year ended June 30, 2019 amount to $2,252. The Town entered into two capital leases of $58,271 each for equipment during the year ended June 30, 2018. The balance of outstanding leases at June 30, 2019 was $29,369. Annual lease payments are expected to be as follows: $29,369 for the year ended June 30, 2020.

10. Long-Term Debt

The following is a summary of long-term debt transactions of the Town for the year ended June 30, 2019:

	Amounts payable at July 1, 2018	Increases	Decreases	Amounts payable at June 30, 2019	Due within one year
Governmental Activities					
Notes from direct borrowings and direct placements	$ 383,421	$ -	$ (23,161)	$ 360,260	$ 24,499
General obligation bonds	233,575	38,700	(34,463)	237,812	33,716
	$ 616,996	$ 38,700	$ (57,624)	$ 598,072	$ 58,215
Business-type Activities					
General obligation bonds	$ 6,962,064	$ 940,000	$ (992,302)	$ 6,909,762	$ 365,107
Revenue bonds	-	-	-	-	-
	$ 6,962,064	$ 940,000	$ (992,302)	$ 6,909,762	$ 365,107

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

At June 30, 2019, the Town had one direct borrowing note that was secured by a fire truck. The Town has no outstanding lines of credit.

Contractual maturities for long-term debt are as follows:

Year ending June 30,	Governmental Activities Notes Payable and Bonds		Business-type Activities Bonds	
	Principal	Interest	Principal	Interest
2020	$ 58,215	$ 16,527	$ 365,107	$ 164,983
2021	59,989	14,754	344,224	188,166
2022	61,818	12,924	351,613	177,814
2023	60,395	11,044	363,998	167,205
2024	47,582	9,465	376,464	156,164
2025-2029	224,522	25,997	2,413,932	603,283
2030-2034	85,551	2,961	1,881,377	244,962
2035-2039	-	-	455,954	69,215
2040-2044	-	-	253,790	35,347
2045-2049	-	-	103,303	3,927
Total	$ 598,072	$ 93,672	$ 6,909,762	$ 1,811,066

11. Deferred Revenue

Deferred revenue represents a measurable inflow of resources that will be available in a future reporting period. Deferred revenue totaling $715,696 at June 30, 2019 is comprised of the following:

Deferred Property Tax Revenue
Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled $657,982.

Prepaid Property Taxes
Property taxes due subsequent to the current tax levy but paid in advance by taxpayers totaled $51,338.

Deferred Loan Revenue
Deferred loan revenue representing uncollected loans receivable not available to fund current expenditures totaled $6,376.

12. Commitments and Contingencies

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

At June 30, 2019, the Town was involved in various litigation arising out of the normal course of operations, however, in the opinion of management, there were no matters of litigation involving the Town which would materially affect the Town's financial position should any court decision or pending matter not be favorable to the Town.

13. Surety Bond Information

Fidelity and Deposit Company of Maryland:		
Treasurer	$	100,000
All Town employees - blanket bond	$	100,000

14. Accrued Charges for Services

The Town has adopted a bi-monthly billing cycle for most of its water and sewer customers. As a result, most customers have received services for as many as one and one-half months for which they had not been billed. These revenues are subject to accrual, and the asset represents an estimate of such charges based on subsequent bi-monthly billings. This amount is included in proprietary fund operating revenues. At June 30, 2019, Water and Sewer Fund accrued charges for services are $37,871 and $33,078, respectively.

15. Risk of Loss

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

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

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

Town of Hillsville, Virginia

Schedule 1
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Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2019

Revenues	Budget Original	Budget Final	Actual	Variance Favorable (Unfavorable)
Primary government:				
General fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	$ 430,000	$ 430,000	$ 441,457	$ 11,457
Real and personal public service corporation property taxes	20,500	20,500	22,572	2,072
Personal property taxes	178,588	189,333	195,840	6,507
Machinery and tools taxes	50,000	86,140	15,532	(70,608)
DMV stop	-	825	900	75
Penalties and interest	2,500	2,500	9,266	6,766
Bad debt expense	-	-	-	-
Total general property taxes	681,588	729,298	685,567	(43,731)
Other local taxes:				
Local sales and use taxes	95,000	95,000	157,622	62,622
Consumers utility taxes	92,000	92,000	94,872	2,872
Business license taxes and vendor taxes	255,000	255,000	325,850	70,850
Franchise license taxes	17,000	18,250	15,769	(2,481)
Motor vehicle licenses	45,000	45,000	45,503	503
Bank stock taxes	100,000	100,000	200,087	100,087
Hotel and motel room taxes	240,000	240,000	289,463	49,463
Restaurant food taxes	935,000	935,000	1,007,990	72,990
Farmers market vendor fees	-	680	735	55
Total other local taxes	1,779,000	1,780,930	2,137,891	356,961
Permits, privilege fees, and regulatory licenses	1,000	1,000	2,559	1,559
Fines and forfeitures	430,000	482,737	476,660	(6,077)
Payment in lieu of taxes	-	-	-	-
Revenue from use of money and property:				
Revenue from use of money	-	-	14,436	14,436
Revenue from use of property	32,300	30,000	32,822	2,822
Total revenue from use of money and property	32,300	30,000	47,258	17,258
Charges for services:				
Charges for sanitation and waste removal	-	-	-	-
Gain on sale of capital assets	-	-	4,997	4,997
Miscellaneous	15,850	21,042	27,854	6,812
Total revenue from local sources	2,939,738	3,045,007	3,382,786	337,779
Revenue from the Federal Government:				
Byrne Justice Assistance grant	-	49,465	49,465	-
Community facilities grant	-	20,800	20,800	-
Highway safety grants	8,000	8,000	14,470	6,470
Local government challenge grant	1,750	1,750	1,750	-
Preventive health and human services grant	15,000	(5,830)	(20,830)	(15,000)
Total revenue from the Federal Government	24,750	74,185	65,655	(8,530)

Town of Hillsville, Virginia

Schedule 1
Page 2

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2019

	Budget			Variance Favorable
Revenues	Original	Final	Actual	(Unfavorable)
Revenue from the Commonwealth:				
Noncategorical aid:				
Aid to localities with police department	$ 65,000	$ 65,000	$ 69,884	$ 4,884
Total noncategorical aid	65,000	65,000	69,884	4,884
Categorical aid:				
Litter control	1,500	1,500	1,538	38
Fire prevention	9,000	9,000	10,000	1,000
Total categorical aid	10,500	10,500	11,538	1,038
Total revenue from the Commonwealth	75,500	75,500	81,422	5,922
Total general fund	3,039,988	3,194,692	3,529,863	335,171
Special revenue funds:				
CDBG Fund				
Revenue from local sources:				
Revenue from use of property	-	-	252	252
Miscellaneous	4,700	4,700	4,249	(451)
Total revenue CDBG Fund	4,700	4,700	4,501	(199)
Total revenues	3,044,688	3,199,392	3,534,364	334,972
Expenditures				
Primary government:				
General fund:				
General governmental administration:				
Legislative:				
Town council	53,595	53,595	49,141	4,454
Total legislative	53,595	53,595	49,141	4,454
General and financial administration:				
Clerk of council	1,565	1,565	465	1,100
Administration	388,276	402,778	409,019	(6,241)
Legal services	18,130	20,480	15,650	4,830
Independent auditor	18,500	18,500	14,150	4,350
Treasurer	2,000	2,000	1,419	581
Accounting	8,300	8,300	7,159	1,141
Elections	-	-	-	-
Risk management	7,505	7,505	9,484	(1,979)
Data processing	20,300	21,150	18,077	3,073
Total general and financial administration	464,576	482,278	475,423	6,855
Total general government administration	518,171	535,873	524,564	11,309
Public safety:				
Law enforcement and traffic control:				
Police department	1,127,154	1,230,856	1,142,662	88,194
Fire and rescue services:				
Fire department	1,046	1,046	1,316	(270)
Building inspections	80,136	80,136	79,196	940
Total public safety	1,208,336	1,312,038	1,223,174	88,864

Town of Hillsville, Virginia

Schedule 1
Page 3

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

For the Year Ended June 30, 2019

Expenditures	Budget Original	Budget Final	Actual	Variance Favorable (Unfavorable)
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
General engineering/administration	$ 381,135	$ 452,882	$ 433,317	$ 19,565
Highway, street, bridge and sidewalk maintenance	30,600	30,600	30,016	584
Street lights	38,000	38,000	35,612	2,388
Total maintenance of highways, streets, bridges and sidewalks	449,735	521,482	498,945	22,537
Sanitation and waste removal:				
Refuse disposal	399,807	399,807	355,847	43,960
Maintenance of buildings and grounds:				
General properties	22,800	20,150	17,032	3,118
Total public works	872,342	941,439	871,824	69,615
Primary government:				
General fund:				
Community development:				
Planning and community development:				
Community development	95,000	89,200	82,658	6,542
Economic development	6,000	10,052	9,926	126
Farmers market	16,158	17,408	16,625	783
Total community development	117,158	116,660	109,209	7,451
Non-departmental	16,200	47,600	47,523	77
Capital projects	31,000	35,500	32,199	3,301
Annexation expenses	-	-	-	-
Debt service:				
Principal retirement	96,608	84,152	85,310	(1,158)
Interest and fiscal charges	19,810	20,017	20,356	(339)
Total debt service	116,418	104,169	105,666	(1,497)
Total general fund	2,879,625	3,093,279	2,914,159	179,120
Special revenue funds:				
CDBG fund:				
Community development	4,700	4,700	-	4,700
Total expenditures	2,884,325	3,097,979	2,914,159	183,820
Excess revenues over expenditures	160,363	101,413	620,205	518,792
Other financing sources and uses				
Proceeds from debt	-	38,700	38,700	-
Operating transfers in	-	-	-	-
Operating transfers out	(221,641)	(221,641)	(15,750)	205,891
Carryover balances	61,278	81,528	-	(81,528)
Total other financing sources and uses	(160,363)	(101,413)	22,950	124,363
Excess (deficiency) of revenues and other sources over expenditures and other uses	$ -	$ -	643,155	$ 643,155
Fund balance, beginning			3,863,381	
Fund balance, ending			$ 4,506,536	

Town of Hillsville, Virginia

Schedule 2

Schedule of Changes in Net Pension Liability and Related Ratios

Last Five Years[1]

	Fiscal Year				
	2019	2018	2017	2016	2015
Total Pension Liability					
Service cost	$ 180,269	$ 169,502	$ 166,982	$ 160,994	$ 165,156
Interest	454,058	437,003	421,845	407,404	386,331
Changes of assumptions	-	(51,264)	-	-	-
Contributions – employer	-	-	-	-	-
Contributions – employee	-	-	-	-	-
Differences between expected and actual experience	95,792	38,880	(104,689)	(89,216)	-
Net investment income	-	-	-	-	-
Benefit payments, including refunds of employee contributions	(410,352)	(290,604)	(244,587)	(301,198)	(199,669)
Administrative expense	-	-	-	-	-
Other changes	-	-	-	-	-
Net change	319,767	303,517	239,551	177,984	351,818
Total pension liability, beginning	6,691,713	6,388,196	6,148,645	5,970,661	5,618,843
Total pension liability, ending	$ 7,011,480	$ 6,691,713	$ 6,388,196	$ 6,148,645	$ 5,970,661
Plan Fiduciary Net Position					
Service cost	$ -	$ -	$ -	$ -	$ -
Interest	-	-	-	-	-
Changes of assumptions	-	-	-	-	-
Contributions – employer	149,557	145,779	176,973	168,941	183,712
Contributions – employee	71,478	73,074	66,763	64,046	66,294
Net investment income	431,037	650,616	92,953	230,241	694,350
Benefit payments, including refunds of employee contributions	(410,352)	(290,604)	(244,587)	(301,198)	(199,669)
Administrative expense	(3,802)	(3,758)	(3,244)	(3,181)	(3,663)
Other changes	(385)	(580)	(37)	(49)	36
Net change	237,533	574,527	88,821	158,800	741,060
Plan fiduciary net position, beginning	5,917,300	5,342,773	5,253,952	5,095,152	4,354,092
Plan fiduciary position, ending	$ 6,154,833	$ 5,917,300	$ 5,342,773	$ 5,253,952	$ 5,095,152
Net Pension Liability	$ 856,647	$ 774,413	$ 1,045,423	$ 894,693	$ 875,509
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.78%	88.43%	83.64%	85.45%	85.34%
Covered-employee Payroll	$ 1,471,417	$ 1,458,625	$ 1,423,882	$ 1,381,354	$ 1,305,996
Net Pension Liability as a Percentage of Covered-Employee Payroll	58.22%	53.09%	73.42%	64.77%	67.04%

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

Town of Hillsville, Virginia

Schedule 3

Schedule of Employer Pension Contributions
June 30, 2019

Fiscal Year[2]	Recommended Contribution Rate *(Information Only)*	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (1) – (2)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
2014	13.84%	$ 180,750	$ 176,200	$ 4,550	$ 1,305,996	13.49%
2015	13.03	179,990	151,938	28,052	1,381,354	11.00
2017	11.79	167,876	180,076	(12,200)	1,423,882	12.65
2018	10.52	153,447	151,824	1,623	1,458,625	10.41
2019	11.97	176,129	157,469	18,660	1,471,417	10.70

[1] Data is not readily available for years prior to the adoption of SGAS No. 68.
[2] Date of actuarial valuation.

Notes to Required Supplementary Information - Pension
For the Year Ended June 30, 2019

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

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

Non-Hazardous Duty Employees:

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

Hazardous Duty Employees:

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

Town of Hillsville, Virginia

Schedule 4

Schedule of Employer's Share of Net Group Life Insurance Liability

*Last Two Years**

	Fiscal Year	
	2019	2018
Employer's Proportion of the Net GLI OPEB Liability (Asset)	0.00787%	0.00783%
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset)	$ 119,491	$ 117,491
Covered-employee Payroll	$ 1,489,508	$ 1,496,002
Employer's Proportionate Share of the Net GLI OPEM Liability (Asset) as a Percentage of its Covered Payroll	8.02%	7.85%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	51.22%	48.86%

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

Town of Hillsville, Virginia

Schedule 5

Schedule of Group Life Insurance Employer Contributions
Last Two Years[1]

Fiscal Year[2]	Recommended Contribution Rate *(Information Only)*	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (1) – (2)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
2018	0.52%	$ 7,779	$ 7,779	$ -	$ 1,496,002	0.52%
2019	0.52	7,746	7,746	-	1,489,508	0.52

[1] Data is not readily available for years prior to the adoption of SGAS No. 75.
[2] Date of actuarial valuation.

Notes to Required Supplementary Information – Group Life Insurance
For the Year Ended June 30, 2019

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

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

General Employees:

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

Hazardous Duty Employees:

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

Town of Hillsville, Virginia

Schedule 6

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

Last Two Years[1]

	2019	2018
Total Other Post-Employment Benefit Liability		
Service cost	$ 18,599	$ 20,589
Interest	15,205	12,975
Changes of benefit terms	-	-
Effect of economic/demographic gains (losses)	20,420	-
Effect of assumption changes or inputs	66,731	(10,984)
Benefit payments	(25,458)	(12,335)
Net change	95,497	10,245
Total other post-employment liability, beginning	366,483	356,238
Total other post-employment liability, ending	$ 461,980	$ 366,483
Covered-employee Payroll	$ 1,541,571	$ 1,450,100
Net Other Post-Benefit Liability as a Percentage of Covered-Employee Payroll	29.97%	25.27%

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

Town of Hillsville, Virginia

Schedule 7

Changes in Net Position

Last Ten Fiscal Years

	Fiscal Year									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Governmental Activities										
Net position, beginning	$ 4,197,442	$ 3,326,922	$ 2,705,844	$ 2,186,091	$ 2,516,277	$ 2,131,102	$ 1,920,987	$ 1,659,801	$ 1,840,322	$ 1,920,821
Revenues	3,513,489	3,814,657	3,369,045	3,018,697	2,782,115	2,800,192	2,577,983	2,656,268	2,058,454	2,150,642
Expenses	(2,858,606)	(2,847,756)	(2,747,967)	(2,498,944)	(2,297,738)	(2,415,017)	(2,367,868)	(2,395,082)	(2,127,242)	(2,231,141)
Prior period adjustment	-	(96,381)	-	-	(814,563)	-	-	-	(111,733)	-
Net position, ending	$ 4,852,325	$ 4,197,442	$ 3,326,922	$ 2,705,844	$ 2,186,091	$ 2,516,277	$ 2,131,102	$ 1,920,987	$ 1,659,801	$ 1,840,322
Business-type Activities										
Net position, beginning	$ 2,508,855	$ 2,650,773	$ 2,687,375	$ 2,565,819	$ 3,119,792	$ 3,606,230	$ 4,059,354	$ 4,495,735	$ 4,600,876	$ 4,756,512
Revenues	1,617,800	1,516,373	1,558,278	1,670,527	1,222,744	1,159,878	1,101,100	1,121,094	1,579,275	1,562,805
Expenses	(1,661,778)	(1,621,643)	(1,594,880)	(1,548,971)	(1,510,241)	(1,568,240)	(1,554,224)	(1,557,475)	(1,645,749)	(1,718,441)
Prior period adjustment	-	(36,648)	-	-	(266,476)	(78,076)	-	-	(38,667)	-
Net position, ending	$ 2,464,877	$ 2,508,855	$ 2,650,773	$ 2,687,375	$ 2,565,819	$ 3,119,792	$ 3,606,230	$ 4,059,354	$ 4,495,735	$ 4,600,876
Primary Government										
Net position, beginning	$ 6,706,297	$ 5,977,695	$ 5,393,219	$ 4,751,910	$ 5,636,069	$ 5,737,332	$ 5,980,341	$ 6,155,536	$ 6,441,198	$ 6,677,333
Revenues	5,131,289	5,331,030	4,927,323	4,689,224	4,004,859	3,960,070	3,679,083	3,777,362	3,637,729	3,714,597
Expenses	(4,520,384)	(4,469,399)	(4,342,847)	(4,047,915)	(3,807,979)	(3,983,257)	(3,922,092)	(3,952,557)	(3,772,991)	(3,950,732)
Prior period adjustment	-	(133,029)	-	-	(1,081,039)	(78,076)	-	-	(150,400)	-
Net position, ending	$ 7,317,202	$ 6,706,297	$ 5,977,695	$ 5,393,219	$ 4,751,910	$ 5,636,069	$ 5,737,332	$ 5,980,341	$ 6,155,536	$ 6,441,198

Town of Hillsville, Virginia

Schedule 8

Revenues by Function

Last Ten Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Governmental Activities										
Public Safety										
Charges for services	$ 476,660	$ 596,407	$ 431,075	$ 143,956	$ 44,870	$ 33,202	$ 56,175	$ 38,982	$ 26,949	$ 48,537
Operating grants and contributions	79,884	77,392	77,392	74,288	76,288	75,288	73,288	93,328	104,241	98,742
Capital grants and contributions	63,935	18,514	22,640	20,255	14,272	11,920	15,732	30,000	-	-
Public Works										
Charges for services	-	35	-	2,206	2,820	1,150	1,012	333	495	148
Operating grants and contributions	1,538	1,477	1,515	3,572	1,555	1,558	1,766	1,223	1,461	1,267
Capital grants and contributions	20,800	23,100	45,500	66,625	-	4,801	3,131	-	-	-
Community Development										
Charges for services	-	-	-	-	-	-	-	-	-	-
Operating grants and contributions	-	-	2,500	-	-	-	-	-	1,000	-
Capital grants and contributions	(19,080)	31,750	36,750	-	3,500	42,670	251,728	94,728	-	-
General Revenues										
General property taxes	686,441	742,652	765,251	717,694	725,502	715,007	671,824	589,502	620,904	624,193
Meals tax	1,007,990	1,023,175	980,621	1,028,626	910,071	871,089	548,910	597,745	460,031	489,913
Lodgings tax	289,463	289,508	332,358	265,443	231,173	221,152	137,660	188,078	117,868	161,549
Other local taxes	840,438	816,358	762,044	744,833	663,933	729,896	635,190	683,167	661,426	633,333
Licenses and permits	2,559	1,085	5,941	1,602	1,648	6,040	1,249	1,561	1,234	1,442
Use of money and property	47,511	35,988	43,318	34,316	37,676	38,536	34,805	26,542	34,511	39,176
Miscellaneous	26,103	29,304	73,818	38,902	68,807	47,883	110,288	258,861	78,334	53,492
Gain (loss) on sale of capital assets	4,997	22,678	5,851	27,121	-	-	35,225	2,218	-	-
Transfers	(15,750)	105,234	(217,529)	(150,742)	-	-	-	50,000	(50,000)	(1,150)
Total governmental activities revenues	$ 3,513,489	$ 3,814,657	$ 3,369,045	$ 3,018,697	$ 2,782,115	$ 2,800,192	$ 2,577,983	$ 2,656,268	$ 2,058,454	$ 2,150,642
Business-type Activities										
Water										
Charges for services	$ 676,816	$ 604,984	$ 521,569	$ 478,425	$ 416,835	$ 420,933	$ 434,064	$ 442,525	$ 492,129	$ 456,253
Capital grants and contributions	-	-	79,213	293,565	98,504	75,256	3,589	511	-	-
Sewer										
Charges for services	879,515	860,176	702,257	697,651	675,666	614,590	627,851	661,214	659,169	828,198
Operating grants and contributions	-	1,614	1,821	-	-	-	-	-	-	-
Capital grants and contributions	-	125,000	-	14,247	-	17,788	636	-	246,871	220,475
General Business-type Revenues										
Use of money and property	25,199	8,595	7,899	9,308	4,854	10,441	4,840	13,557	20,590	41,550
Miscellaneous	20,520	21,238	27,990	26,589	26,885	19,300	29,543	53,153	110,516	19,369
Gain (loss) on sale of capital assets		-	-	-	-	1,570	577	134	-	(4,190)
Transfers	15,750	(105,234)	217,529	150,742	-	-	-	(50,000)	50,000	1,150
Total business-type activities revenues	$ 1,617,800	$ 1,516,373	$ 1,558,278	$ 1,670,527	$ 1,222,744	$ 1,159,878	$ 1,101,100	$ 1,121,094	$ 1,579,275	$ 1,562,805

Town of Hillsville, Virginia

Schedule 9

Expenses by Function
Last Ten Fiscal Years

Governmental Activities

Fiscal Year	General Government	Public Safety	Public Works	Community Development	Interest on Long-term Debt	Other	Total
2010	$ 403,329	$ 924,227	$ 704,297	$ 148,363	$ 24,347	$ 26,578	$ 2,231,141
2011	383,544	891,421	666,183	133,299	19,834	32,961	2,127,242
2012	498,977	1,053,610	660,234	105,485	23,316	53,460	2,395,082
2013	379,778	1,051,032	713,735	124,637	27,952	70,734	2,367,868
2014	414,681	1,082,316	721,765	114,859	25,218	56,178	2,415,017
2015	407,310	1,032,841	677,929	119,061	22,713	37,884	2,297,738
2016	449,575	1,142,534	730,797	143,829	21,524	10,685	2,498,944
2017	476,609	1,225,899	743,716	240,931	19,538	41,274	2,747,967
2018	508,331	1,358,018	783,175	168,817	20,120	9,295	2,847,756
2019	540,815	1,318,334	760,240	147,493	22,594	69,130	2,858,606

Business-type Activities

Fiscal Year	Water	Sewer	Total
2010	$ 706,820	$ 1,011,621	$ 1,718,441
2011	640,918	1,004,831	1,645,749
2012	571,629	985,846	1,557,475
2013	559,511	994,713	1,554,224
2014	577,820	990,420	1,568,240
2015	539,405	970,836	1,510,241
2016	591,332	957,639	1,548,971
2017	609,854	985,026	1,594,880
2018	627,324	994,319	1,621,643
2019	634,337	1,027,441	1,661,778

Town of Hillsville, Virginia

Schedule 10

Assessed Valuation of Taxable Property and Property Tax Rates

Last Ten Fiscal Years

Assessed Valuation

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Public Utility Real Estate	Public Utility Personal Property	Supplements/ Abatements/ Exemptions	Total
2010	$ 180,090,666	$ 27,993,675	$ 10,291,190	$ 10,325,571	$ -	$ (733,629)	$ 227,967,473
2011	180,566,500	26,956,320	9,317,500	9,529,213	-	(625,413)	225,744,120
2012	181,942,500	23,827,370	10,251,670	14,449,401	-	(1,158,789)	229,312,152
2013	225,995,700	25,949,900	9,309,765	10,552,720	24,836	(1,578,631)	270,254,290
2014	199,185,900	26,094,190	9,397,920	9,666,860	87,886	(2,179,421)	242,253,335
2015	200,170,800	26,286,600	10,443,835	10,187,225	65,246	(4,329,577)	242,824,129
2016	200,585,742	25,441,920	10,703,335	10,001,006	79,618	(4,228,615)	242,583,006
2017	200,763,800	26,070,880	12,201,370	10,412,411	84,914	(3,715,054)	245,818,321
2018	202,400,300	27,170,265	9,399,100	10,046,787	133,984	(4,413,723)	244,736,713
2019	203,068,100	28,051,420	8,795,625	10,597,513	103,131	(4,794,468)	245,821,321

Source: Carroll County, Virginia Commissioner of Revenue

Property Tax Rates (per $100 assessed value)

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Public Utility Real Estate	Public Utility Personal Property
2010	$ .18	$ .72	$ .72	$ .18	$ .72
2011	.18	.72	.72	.18	.72
2012	.18	.72	.72	.18	.72
2013	.18	.72	.72	.18	.72
2014	.22	.72	.72	.22	.72
2015	.22	.72	.72	.22	.72
2016	.22	.72	.72	.22	.72
2017	.22	.72	.72	.22	.72
2018	.22	.72	.72	.22	.72
2019	.22	.72	.72	.22	.72

Town of Hillsville, Virginia

Schedule 11

Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Taxes Levied for the Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount [1]	Percent of Levy		Amount [1]	Percent of Levy
2010	$ 614,436	$ 599,261	97.53%	$ 14,306	$ 613,567	99.86%
2011	600,035	582,719	97.11	14,253	596,972	99.49
2012	594,107	579,967	97.62	13,363	593,330	99.87
2013	674,452	653,541	96.90	20,054	673,595	99.87
2014	705,784	676,677	95.88	27,860	704,537	99.82
2015	712,737	676,455	94.91	34,239	710,694	99.71
2016	713,803	691,647	96.90	19,364	711,011	99.61
2017	732,819	718,504	98.05	10,751	729,255	99.51
2018	721,288	707,826	98.13	6,693	714,519	99.06
2019	711,878	694,350	97.54	n/a	694,350	97.54

[1] Exclusive of penalties and interest.

Town of Hillsville, Virginia

Schedule 12

Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	General Bonded Debt: General Obligation Bonds	General Bonded Debt: Installment Notes	General Bonded Debt: Total	Percentage of Actual Property Value
2010	$ 281,578	$ 244,084	$ 525,662	0.23%
2011	249,527	215,646	465,173	0.21
2012	163,851	807,277	971,128	0.42
2013	156,219	729,897	886,116	0.33
2014	148,278	649,747	798,025	0.33
2015	140,017	567,848	707,865	0.29
2016	131,422	483,046	614,468	0.25
2017	209,943	424,694	634,637	0.26
2018	233,575	383,421	616,996	0.25
2019	237,812	360,260	598,072	0.24

Fiscal Year	Business-type Activities: Water Bonds	Business-type Activities: Sewer Bonds	Business-type Activities: Total	Total Primary Government
2010	$ 1,449,610	$ 5,611,291	$ 7,060,901	$ 7,586,563
2011	1,381,943	5,429,569	6,811,512	7,276,685
2012	1,352,925	5,500,212	6,853,137	7,824,265
2013	1,310,404	5,478,562	6,788,966	7,675,082
2014	1,267,883	5,455,190	6,723,073	7,521,098
2015	1,404,403	5,528,919	6,933,322	7,641,187
2016	2,103,897	5,144,807	7,248,704	7,863,172
2017	2,172,455	5,030,528	7,202,983	7,837,620
2018	2,086,691	4,875,373	6,962,064	7,579,060
2019	2,020,209	4,889,553	6,909,762	7,507,834

Town of Hillsville, Virginia

Schedule 13

Computation of Legal Debt Margin

Last Ten Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Debt limit [1]	$ 21,366,561	$ 21,244,709	$ 21,117,621	$ 21,058,675	$ 20,995,262	$ 20,885,276	$ 23,654,842	$ 19,639,190	$ 19,009,571	$ 19,041,624
Amount of debt applicable to limit	7,507,834	7,579,060	7,837,620	7,863,172	7,641,187	7,521,098	7,675,082	7,824,265	7,276,685	7,586,563
Legal debt margin	$ 13,858,727	$ 13,665,649	$ 13,280,001	$ 13,195,503	$ 13,354,075	$ 13,364,178	$ 15,979,760	$ 11,814,925	$ 11,732,886	$ 11,455,061
Total net debt applicable to limit as a percentage of debt limit	35%	36%	37%	37%	36%	36%	32%	40%	38%	40%

1 10% of real estate assessed value.

Town of Hillsville, Virginia

Schedule 15

Principal Employers
Current Year

Rank	Employer
1	Carroll County School Board
2	Parkdale Mills Inc.
3	County of Carroll
4	Aerial Machine and Tool Corporation
5	Mohawk Esv Incorporated
6	Lowes' Home Centers, Inc.
7	Virginia Produce Co LLC
8	Barker Microfarads
9	Mt. Rog. Com. Men. Hlh. Ret. Svc. Bd.
10	Vanguard Furniture Company

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

Town of Hillsville, Virginia

Schedule 16

Full-time Equivalent Government Employees by Function

Last Ten Years

	Full-time Equivalent Employees as of June 30,									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Community development										
Farmers' market	1	1	1	-	-	-	-	-	-	-
General government										
Management	1	1	1	1	1	1	1	1	1	1
Finance	5	5	5	5	5	4	4	4	4	4
Building	1	1	1	1	1	1	1	1	1	1
Police										
Officers	16	15	18	14.5	14.5	13	12	12	11	11
Civilians	1	1	1	1	1	1	1	1	1	1
Refuse collection	4	4	4	4	4	4	4	4	4	4
Other public works	7	6	6	6	5	5	5	5	5	5
Water	5.5	5.5	5.5	5	4.5	4.5	4.5	4.5	5	5
Wastewater	5.5	5.5	5.5	5	4.5	4.5	4.5	4.5	4	4