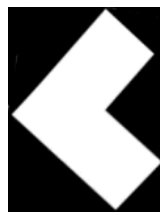


Town of South Hill, Virginia
Comprehensive Annual Financial Report
Year Ended June 30, 2018



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

Town of South Hill, Virginia

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FINANCIAL SECTION



You'll like the view from
South Hill



**Creedle
Jones
& Alga**

A Professional Corporation

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Denise C. Williams, CPA, CSEP
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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of South Hill, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of South Hill, Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town of South Hill, Virginia's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of South Hill, Virginia, as of June 30, 2018, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1-8 and budgetary comparison information, schedule of changes in the political subdivision's net pension liability and related ratios, schedule of employer contributions, and notes to required supplementary information on pages 50-59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2018, on our consideration of the Town of South Hill, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Town of South Hill, Virginia's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of South Hill, Virginia's internal control over financial reporting and compliance.

Creedle, Jones & Alga, P.C.

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

South Hill, Virginia
October 21, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Town of South Hill, Virginia presents the following discussion and analysis as an overview of the Town of South Hill, Virginia's financial activities for the fiscal year ending June 30, 2018. We encourage readers to read this discussion and analysis in conjunction with the Town's basic financial statements.

Financial Highlights

- At the close of the fiscal year, the assets and deferred outflows of resources of the Town's governmental activities exceeded its liabilities and deferred inflows of resources by \$27,211,585. Of this amount, \$17,205,619 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors. For the business-type activities, the assets and deferred outflows of resources exceeded the liabilities and deferred inflows of resources by \$13,868,999 with an unrestricted balance of \$3,024,223.
- The Town's total net position before transfers increased by \$2,753,469 during the current fiscal year. Of this amount, an increase of \$1,685,882 is related to governmental activities and an increase of \$1,067,587 is attributed to business-type activities.
- As of June 30, 2018, the Town's Governmental Funds reported combined ending fund balances of \$19,284,360, a decrease of \$652,995 in comparison with the prior year. Approximately 99.94% of this amount is available for spending at the Town's discretion (unassigned fund balance).
- At the end of fiscal year 2018, the unassigned fund balance was \$19,272,611, or approximately 182.12% of total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

The Town has three types of funds:

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

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

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

Notes to the Basic Financial Statements

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

Other

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

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

Summary of Net Position

As of June 30, 2018 and 2017

	<u>Governmental Activities</u>		<u>Enterprise Activities</u>		<u>Total Entity</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Assets						
Current and other assets	\$ 19,708,618	\$ 20,202,422	\$ 3,430,291	\$ 2,706,737	\$ 23,138,909	\$ 22,909,159
Capital assets (net)	<u>10,111,204</u>	<u>8,692,741</u>	<u>12,620,958</u>	<u>12,903,398</u>	<u>22,732,162</u>	<u>21,596,139</u>
Total Assets	29,819,822	28,895,163	16,051,249	15,610,135	45,871,071	44,505,298
Deferred Outflows of Resources	<u>353,534</u>	<u>207,773</u>	<u>44,721</u>	<u>28,047</u>	<u>398,255</u>	<u>235,820</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 30,173,356</u>	<u>\$ 29,102,936</u>	<u>\$ 16,095,970</u>	<u>\$ 15,638,182</u>	<u>\$ 46,269,326</u>	<u>\$ 44,741,118</u>
Liabilities						
Other liabilities	\$ 271,797	\$ 98,235	\$ 159,682	\$ 138,719	\$ 431,479	\$ 236,954
Long-term liabilities	<u>1,920,620</u>	<u>3,178,637</u>	<u>1,969,967</u>	<u>2,712,321</u>	<u>3,890,587</u>	<u>5,890,958</u>
Total Liabilities	2,192,417	3,276,872	2,129,649	2,851,040	4,322,066	6,127,912
Deferred Inflows of Resources	769,354	252,065	97,322	34,026	866,676	286,091
Net Position						
Net investment in capital assets	9,994,217	8,323,355	10,844,776	10,511,071	20,838,993	18,834,426
Restricted	11,749	9,197	-	-	11,749	9,197
Unassigned	<u>17,205,619</u>	<u>17,241,447</u>	<u>3,024,223</u>	<u>2,242,045</u>	<u>20,229,842</u>	<u>19,483,492</u>
Total Net Position	<u>27,211,585</u>	<u>25,573,999</u>	<u>13,868,999</u>	<u>12,753,116</u>	<u>41,080,584</u>	<u>38,327,115</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 30,173,356</u>	<u>\$ 29,102,936</u>	<u>\$ 16,095,970</u>	<u>\$ 15,638,182</u>	<u>\$ 46,269,326</u>	<u>\$ 44,741,118</u>

Statement of Activities

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

Summary of Changes in Net Position

For the Fiscal Years Ended June 30, 2018 and 2017

	<u>Governmental Activities</u>		<u>Enterprise Activities</u>		<u>Total Entity</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenues						
Program Revenues						
Charges for services	\$ 877,961	\$ 943,851	\$ 3,860,972	\$ 3,965,706	\$ 4,738,933	\$ 4,909,557
Operating grants and contributions	1,710,535	2,101,364	-	-	1,710,535	2,101,364
General Revenues						
General property taxes, real and personal	2,208,816	2,149,344	-	-	2,208,816	2,149,344
Other taxes	4,598,581	4,386,996	-	-	4,598,581	4,386,996
Grants and contributions not restricted to specific programs	380,607	297,006	-	-	380,607	297,006
Unrestricted revenues from use of property	51,252	144,142	-	-	51,252	144,142
Investment earnings	91,236	47,476	13,692	8,176	104,928	55,652
Miscellaneous	421,777	113,229	-	-	421,777	113,229
Total Revenues	10,340,765	10,183,408	3,874,664	3,973,882	14,215,429	14,157,290
Expenses						
General government administration	1,226,141	771,894	-	-	1,226,141	771,894
Public safety	3,475,450	2,674,353	-	-	3,475,450	2,674,353
Public works	2,465,499	2,776,053	-	-	2,465,499	2,776,053
Parks, recreation, and cultural	480,572	562,064	-	-	480,572	562,064
Community development	1,000,495	1,397,165	-	-	1,000,495	1,397,165
Interest on long-term debt	6,726	64,057	-	-	6,726	64,057
Water and sewer activities	-	-	2,807,077	2,855,630	2,807,077	2,855,630
Total Expenses	8,654,883	8,245,586	2,807,077	2,855,630	11,461,960	11,101,216
Increase in Net Position Before Transfers	1,685,882	1,937,822	1,067,587	1,118,252	2,753,469	3,056,074
Beginning Net Position	25,573,999	23,273,779	12,753,116	11,997,262	38,327,115	35,271,041
Transfers	(48,296)	362,398	48,296	(362,398)	-	-
Change in Net Position	1,637,586	2,300,220	1,115,883	755,854	2,753,469	3,056,074
Ending Net Position	\$ 27,211,585	\$ 25,573,999	\$ 13,868,999	\$ 12,753,116	\$ 41,080,584	\$ 38,327,115

Governmental activities increased the Town's net position before transfers by \$1,685,882 for fiscal year 2018. Revenues from governmental activities totaled \$10,340,765. Other taxes comprise the largest source of these revenues, totaling \$4,598,581 or 44.47% of all governmental activities revenue. Enterprise activities increased the Town's net position before transfers by \$1,067,587 with revenues reported of \$3,874,664.

The total cost of all governmental activities for this fiscal year was \$8,654,883. Public safety was the Town's largest program with expenses totaling \$3,475,450. Public works, which totals \$2,465,499, represents the second largest expense. Enterprise activities reported expenses of \$2,807,077.

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

Net Cost of Governmental Activities

For the Fiscal Years Ended June 30, 2018 and 2017

	<u>2018</u>		<u>2017</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
General government administration	\$ 1,226,141	\$ (1,226,141)	\$ 771,894	\$ (771,894)
Public safety	3,475,450	(3,313,276)	2,674,353	(2,457,974)
Public works	2,465,499	(316,071)	2,776,053	(663,498)
Parks, recreation, and cultural	480,572	(480,572)	562,064	154,217
Community development	1,000,495	(723,601)	1,397,165	(1,397,165)
Interest on long-term debt	<u>6,726</u>	<u>(6,726)</u>	<u>64,057</u>	<u>(64,057)</u>
Total	<u>\$ 8,654,883</u>	<u>\$ (6,066,387)</u>	<u>\$ 8,245,586</u>	<u>\$ (5,200,371)</u>

Net Cost of Enterprise Activities

For the Fiscal Years Ended June 30, 2018 and 2017

	<u>2018</u>		<u>2017</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Water and sewer activities	<u>\$ 2,807,077</u>	<u>\$ 1,053,895</u>	<u>\$ 2,855,630</u>	<u>\$ 1,110,076</u>
Total	<u>\$ 2,807,077</u>	<u>\$ 1,053,895</u>	<u>\$ 2,855,630</u>	<u>\$ 1,110,076</u>

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. Unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year. The Town's governmental funds reported combined ending fund balances of \$19,284,360. The combined governmental fund balance decreased \$652,995 from the prior year.

The General Fund is the main operating fund of the Town. At the end of the current fiscal year, the General Fund had an unassigned fund balance of \$19,272,611. The General Fund's liquidity can be measured by comparing unassigned fund balance to total fund expenditures. Unassigned fund balance represents 182.12% of total fund expenditures, while total fund balance represents 100% of that same amount.

BUDGETARY HIGHLIGHTS

General Fund

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

Budgetary Comparison						
General Fund						
For the Fiscal Years Ended June 30, 2018 and 2017						
	<u>2018</u>			<u>2017</u>		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Revenues						
Taxes, real and personal property	\$ 2,218,700	\$ 2,218,700	\$ 2,223,187	\$ 2,037,200	\$ 2,037,200	\$ 2,165,454
Other local taxes	3,668,500	3,668,500	4,434,881	3,378,500	3,378,500	4,218,994
Other revenues	1,344,600	1,344,600	1,339,369	1,176,800	1,176,800	1,190,028
Intergovernmental	<u>3,175,250</u>	<u>3,177,200</u>	<u>1,977,948</u>	<u>3,387,668</u>	<u>3,401,249</u>	<u>1,850,090</u>
Total	10,407,050	10,409,000	9,975,385	9,980,168	9,993,749	9,424,566
Expenditures	<u>14,267,050</u>	<u>14,269,000</u>	<u>10,582,637</u>	<u>11,850,168</u>	<u>11,922,568</u>	<u>7,978,086</u>
Excess (Deficiency) of Revenues Over Expenditures	(3,860,000)	(3,860,000)	(607,252)	(1,870,000)	(1,928,819)	1,446,480
Other Financing Sources (Uses)						
Proceeds from bonds	1,215,000	1,215,000	-	1,750,000	1,750,000	-
Prior year surplus	2,525,000	2,525,000	-	-	58,819	-
Transfers in	<u>120,000</u>	<u>120,000</u>	<u>(48,296)</u>	<u>120,000</u>	<u>120,000</u>	<u>300,781</u>
Total	<u>3,860,000</u>	<u>3,860,000</u>	<u>(48,296)</u>	<u>1,870,000</u>	<u>1,928,819</u>	<u>300,781</u>
Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (655,548)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,747,261</u>

Final amended budget revenues and expenditures were more than the original budget and appropriations .

Actual revenues were less than final budget amounts by \$433,615, or 4.17%, while actual expenditures were \$3,686,363, or 25.84% less than final budget amounts.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

As of June 30, 2018, the Town's governmental activities net capital assets total \$10,111,204 , which represents a net increase of \$1,418,464 or 16.32% over the previous fiscal year-end balance. The business-type activities net capital assets total \$12,620,958 , a decrease of \$282,440 or 2.19% over the previous fiscal year.

Change in Capital Assets

	<u>Balance July 1, 2017</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2018</u>
Governmental Activities			
Land, land improvements, and easements	\$ 1,703,838	\$ -	\$ 1,703,838
Buildings and improvements	7,632,331	1,518,158	9,150,489
Streets and related infrastructure	8,653,823	250,841	8,904,664
Machinery, equipment, and vehicles	<u>6,428,857</u>	<u>189,400</u>	<u>6,618,257</u>
Total Capital Assets	24,418,849	1,958,399	26,377,248
Less: Accumulated depreciation and amortization	<u>(15,726,109)</u>	<u>(539,935)</u>	<u>(16,266,044)</u>
Total Capital Assets, Net	8,692,740	1,418,464	10,111,204
Enterprise Activities			
Land, land improvements, and easements	664,020	-	664,020
Water and sewer infrastructure	25,506,152	172,367	25,678,519
Machinery, equipment, and vehicles	<u>1,729,992</u>	<u>136,768</u>	<u>1,866,760</u>
Total Capital Assets	27,900,164	309,135	28,209,299
Less: Accumulated depreciation and amortization	<u>(14,996,766)</u>	<u>(591,575)</u>	<u>(15,588,341)</u>
Total Capital Assets, Net	<u>12,903,398</u>	<u>(282,440)</u>	<u>12,620,958</u>
 Total Reporting Entity	 <u>\$ 21,596,138</u>	 <u>\$ 1,136,024</u>	 <u>\$ 22,732,162</u>

Long-Term Debt

As of June 30, 2018, the Town's long-term obligations total \$2,323,993.

Change in Long-Term Debt

	<u>Balance July 1, 2017</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2018</u>	<u>Due Within One Year</u>
Governmental Activities				
General obligation bonds	\$ 369,686	\$ (252,999)	\$ 116,687	\$ 116,687
Landfill obligation	154,710	2,785	157,495	-
Compensated absences	<u>283,720</u>	<u>(10,091)</u>	<u>273,629</u>	-
Total Outstanding Debt	808,116	(260,305)	547,811	116,687
Business-Type Activities				
Virginia Resources Authority	1,813,608	(328,146)	1,485,462	90,000
Benchmark Community Bank	<u>578,720</u>	<u>(288,000)</u>	<u>290,720</u>	290,720
Total Outstanding Debt	<u>2,392,328</u>	<u>(616,146)</u>	<u>1,776,182</u>	380,720
Total Reporting Entity	<u>\$ 3,200,444</u>	<u>\$ (876,451)</u>	<u>\$ 2,323,993</u>	<u>\$ 497,407</u>

General obligation indebtedness must be approved by voter referendum prior to issuance.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The average unemployment rate for the Town of South Hill, Virginia in June 2018, which uses Mecklenburg County's rate, was 4.6%. This compares unfavorably to the state's rate of 3.3% and the national rate of 4.2%.
- According to the 2010 U.S. Census, the population in the Town of South Hill, Virginia was 4,650, an increase of 5.61%, since the 2000 U.S. Census.
- The per capita income in the Town of South Hill, Virginia was \$21,646, compared to \$27,705 for the state, according to the 2010 U.S. Census data.

The fiscal year 2019 adopted budget anticipates General Fund revenues and expenditures to be \$12,235,095, a 14.25% decrease over the fiscal year 2018 budget.

The fiscal year 2019 adopted budget anticipates water and sewer revenue to be \$9,047,609, a 2.78% decrease over the fiscal year 2018 budget.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS



You'll like the view from
South Hill

Town of South Hill, Virginia

Statement of Net Position

At June 30, 2018

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 19,077,769	\$ 3,002,560	\$ 22,080,329
Property taxes receivable, net	154,389	-	154,389
Receivables, net	476,460	427,731	904,191
Capital Assets			
Land, land improvements, and easements	1,703,838	664,020	2,367,858
Buildings and improvements	9,150,489	-	9,150,489
Infrastructure	8,904,664	25,678,519	34,583,183
Machinery, equipment, and vehicles	6,618,257	1,866,760	8,485,017
Less: Accumulated depreciation	(16,266,044)	(15,588,341)	(31,854,385)
Capital Assets, Net	<u>10,111,204</u>	<u>12,620,958</u>	<u>22,732,162</u>
Total Assets	29,819,822	16,051,249	45,871,071
Deferred Outflows of Resources			
Deferred outflows - pension	<u>353,534</u>	<u>44,721</u>	<u>398,255</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 30,173,356</u>	<u>\$ 16,095,970</u>	<u>\$ 46,269,326</u>
Liabilities			
Accounts payable and accrued expenses	\$ 246,717	\$ 12,714	\$ 259,431
Pooled cash deficit	25,080	-	25,080
Customer deposits	-	146,968	146,968
Long-Term Liabilities			
<i>Due within one year</i>			
Bonds and notes payable	116,687	380,720	497,407
<i>Due in more than one year</i>			
Bonds and notes payable	-	1,395,462	1,395,462
Compensated absences	273,629	-	273,629
Net pension liability	1,372,809	193,785	1,566,594
Landfill obligation	<u>157,495</u>	<u>-</u>	<u>157,495</u>
Total Liabilities	2,192,417	2,129,649	4,322,066
Deferred Inflows of Resources			
Deferred inflows - pension	769,354	97,322	866,676
Net Position			
Net investment in capital assets	9,994,217	10,844,776	20,838,993
Restricted	11,749	-	11,749
Unrestricted	<u>17,205,619</u>	<u>3,024,223</u>	<u>20,229,842</u>
Total Net Position	<u>27,211,585</u>	<u>13,868,999</u>	<u>41,080,584</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 30,173,356</u>	<u>\$ 16,095,970</u>	<u>\$ 46,269,326</u>

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

Town of South Hill, Virginia

Statement of Activities

For the Year Ended June 30, 2018

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Primary Government Business-Type Activities</u>
Primary Government					
Governmental Activities					
General government administration	\$ 1,226,141	\$ -	\$ -	\$ (1,226,141)	\$ -
Public safety	3,475,450	132,160	30,014	(3,313,276)	-
Public works	2,465,499	745,801	1,403,627	(316,071)	-
Parks, recreation, and cultural	480,572	-	-	(480,572)	-
Community development	1,000,495	-	276,894	(723,601)	-
Interest on long-term debt	6,726	-	-	(6,726)	-
Total Governmental Activities	8,654,883	877,961	1,710,535	(6,066,387)	
Business-Type Activities					
Water and sewer fund	2,807,077	3,860,972	-	-	\$ 1,053,895
Total Primary Government	\$ 11,461,960	\$ 4,738,933	\$ 1,710,535	(6,066,387)	1,053,895
					(5,012,492)
General Revenues					
Taxes					
General property taxes, real and personal				2,208,816	-
Other local taxes				4,598,581	-
Grants and contributions not restricted to specific programs				380,607	-
Unrestricted revenues from use of property				51,252	-
Investment earnings				91,236	13,692
Miscellaneous				421,777	-
Transfers				(48,296)	48,296
Total General Revenues and Transfers				7,703,973	61,988
Change in Net Position				1,637,586	1,115,883
Net Position - Beginning of Year				25,573,999	12,753,116
Net Position - End of Year				\$ 27,211,585	\$ 13,868,999
					\$ 41,080,584

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

Town of South Hill, Virginia

Balance Sheet

Governmental Funds

At June 30, 2018

	General Fund	West Main Street Community Development Fund	Food Hub Fund	Groom School Fund	Cemetery Fund	Total Governmental Funds
Assets						
Cash and investments	\$ 19,066,020	\$ -	\$ -	\$ -	\$ 11,749	\$ 19,077,769
Property taxes receivable, net	154,389	-	-	-	-	154,389
Accounts receivable, net	<u>338,321</u>	<u>18,768</u>	<u>119,371</u>	<u>-</u>	<u>-</u>	<u>476,460</u>
Total Assets	<u>\$ 19,558,730</u>	<u>\$ 18,768</u>	<u>\$ 119,371</u>	<u>\$ -</u>	<u>\$ 11,749</u>	<u>\$ 19,708,618</u>
Liabilities						
Accounts payable and accrued liabilities	\$ 133,658	\$ -	\$ 113,059	\$ -	\$ -	\$ 246,717
Pooled cash deficit	<u>-</u>	<u>18,768</u>	<u>6,312</u>	<u>-</u>	<u>-</u>	<u>25,080</u>
Total Liabilities	133,658	18,768	119,371	-	-	271,797
Deferred Inflows of Resources						
Unavailable revenue - property taxes	<u>152,461</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>152,461</u>
Total Deferred Inflows of Resources	152,461	-	-	-	-	152,461
Fund Balance						
Restricted	-	-	-	-	11,749	11,749
Unassigned	<u>19,272,611</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,272,611</u>
Total Fund Balance	<u>19,272,611</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,749</u>	<u>19,284,360</u>
Total Liabilities, Deferred Inflows of of Resources, and Fund Balance	<u>\$ 19,558,730</u>	<u>\$ 18,768</u>	<u>\$ 119,371</u>	<u>\$ -</u>	<u>\$ 11,749</u>	<u>\$ 19,708,618</u>

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

Town of South Hill, Virginia

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

At June 30, 2018

Total Fund Balances for Governmental Funds \$ 19,284,360

Total net position reported for governmental activities in the Statement of Net Position is different because:

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

Land, land improvements, and easements	\$ 1,703,838
Buildings and improvements, net of accumulated depreciation	6,131,672
Streets and related infrastructure, net of accumulated depreciation	856,661
Machinery, equipment, and vehicles, net of accumulated depreciation	<u>1,419,033</u>

Total Capital Assets 10,111,204

Other Assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds statement.

Unavailable revenue - property taxes 152,461

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Deferred outflows of resources related to pensions	353,534
Deferred inflows of resources related to pensions	<u>(769,354)</u>

Total Deferred Outflows and Inflows of Resources (415,820)

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

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

Bonds and notes payable	(116,687)
Net pension liability	(1,372,809)
Landfill obligation	(157,495)
Compensated absences	<u>(273,629)</u>

Total (1,920,620)

Total Net Position of Governmental Activities \$ 27,211,585

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

Town of South Hill, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2018

	<u>General Fund</u>	<u>West Main Street Community Development Fund</u>	<u>Food Hub Fund</u>	<u>Groom School Fund</u>	<u>Cemetery Fund</u>	<u>Total Governmental Funds</u>
Revenues						
Property taxes	\$ 2,223,187	\$ -	\$ -	\$ -	\$ -	\$ 2,223,187
Other local taxes	4,598,581	-	-	-	-	4,598,581
Permits, privilege fees, and regulatory licenses	37,732	-	-	-	-	37,732
Fines and forfeitures	94,428	-	-	-	-	94,428
Use of money and property	142,488	-	-	-	-	142,488
Charges for services	745,801	-	-	-	-	745,801
Miscellaneous	318,922	-	50,000	50,000	3,400	422,322
<i>Intergovernmental</i>						
Revenue from the Commonwealth of Virginia	1,784,234	-	192,788	-	-	1,977,022
Revenue from the Federal Government	30,014	84,106	-	-	-	114,120
Total Revenues	9,975,387	84,106	242,788	50,000	3,400	10,355,681
Expenditures						
Current						
General government administration	1,221,594	-	-	-	-	1,221,594
Public safety	3,985,379	-	-	-	-	3,985,379
Public works	4,128,251	-	-	-	-	4,128,251
Parks, recreation, and cultural	364,389	-	-	-	848	365,237
Community development	623,601	84,106	242,788	50,000	-	1,000,495
Debt service	259,424	-	-	-	-	259,424
Total Expenditures	10,582,638	84,106	242,788	50,000	848	10,960,380
Excess (Deficiency) of Revenues Over Expenditures	(607,251)	-	-	-	2,552	(604,699)
Other Financing Sources (Uses)						
Transfers in (out)	(48,296)	-	-	-	-	(48,296)
Total Other Financing Sources (Uses)	(48,296)	-	-	-	-	(48,296)
Net Change in Fund Balance	(655,547)	-	-	-	2,552	(652,995)
Fund Balance - Beginning of Year	19,928,158	-	-	-	9,197	19,937,355
Fund Balance - End of Year	\$ 19,272,611	\$ -	\$ -	\$ -	\$ 11,749	\$ 19,284,360

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

Town of South Hill, Virginia

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

Year Ended June 30, 2018

Net Change in Fund Balances - Total Governmental Funds \$ (652,995)

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

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capitalized assets	\$ 1,958,398	
Depreciation	<u>(539,935)</u>	
		1,418,463

Revenues in the Statement of Activities that do not provide current financial resources are deferred in the fund statements. This amount represents the difference in the amounts deferred in the fund financial statements, but recognized in the Statement of Activities. (14,371)

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

General long-term debt	<u>252,699</u>	
Net Adjustment		252,699

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

Pension contributions	353,534	
Cost of benefits earned net of employee contributions	<u>272,950</u>	
		626,484

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

Compensated absences	10,091	
Landfill obligation	<u>(2,785)</u>	
Net Adjustment		<u>7,306</u>

Change in Net Position of Governmental Activities \$ 1,637,586

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

Town of South Hill, Virginia

Statement of Net Position

Proprietary Fund

At June 30, 2018

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

Assets**Current Assets**

Cash	\$ 3,002,560
Accounts receivable (net of allowance for bad debts)	<u>427,731</u>
Total Current Assets	3,430,291

Capital Assets

Land, land improvements, and easements	664,020
Infrastructure	25,678,519
Machinery, equipment, and vehicles	1,866,760
Less: Accumulated depreciation	<u>(15,588,341)</u>
Capital Assets, Net	12,620,958

Deferred Outflows of Resources

Deferred outflows - pension	<u>44,721</u>
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Total Assets and Deferred Outflows of Resources	<u>\$ 16,095,970</u>
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Liabilities**Current Liabilities**

Accounts payable and accrued liabilities	\$ 12,714
Current portion of general obligation bonds	<u>380,720</u>
Total Current Liabilities	393,434

Noncurrent Liabilities

Customer deposits	146,968
Net pension liability	193,785
General obligation bonds (net of current portion)	<u>1,395,462</u>
Total Noncurrent Liabilities	<u>1,736,215</u>

Total Liabilities	2,129,649
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Deferred Inflows of Resources

Deferred inflows - pension	97,322
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Net Position

Net investment in capital assets	10,844,776
Unrestricted	<u>3,024,223</u>
Total Net Position	<u>13,868,999</u>

Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 16,095,970</u>
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The accompanying notes to the financial statements are an integral part of this statement.

Town of South Hill, Virginia

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

Proprietary Fund

Year Ended June 30, 2018

	<u>Business-Type Activities - Enterprise Fund Water and Sewer Fund</u>
Operating Revenues	
Charges for services	\$ 3,779,335
Miscellaneous	26,510
Connection and cut-on fees	<u>55,127</u>
Total Operating Revenues	3,860,972
Operating Expenses	
Water purchases	1,164,517
Salaries and wages	337,667
Fringe benefits	56,572
Contractual services	33,756
Chemicals	18,322
Vehicle and power equipment	11,656
Repairs and maintenance	252,246
Other charges	107,944
Depreciation	591,575
Utilities	142,989
Insurance	<u>13,827</u>
Total Operating Expenses	<u>2,731,071</u>
Operating Income	1,129,901
Nonoperating Revenues (Expenses)	
Investment and interest income	13,692
Interest expense on bonds	<u>(76,006)</u>
Total Nonoperating Revenues (Expenses)	<u>(62,314)</u>
Income Before Operating Transfers	1,067,587
Operating Transfers In (Out)	<u>48,296</u>
Change in Net Position	1,115,883
Total Net Position - Beginning of Year	<u>12,753,116</u>
Total Net Position - End of Year	<u>\$ 13,868,999</u>

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

Town of South Hill, Virginia

Statement of Cash Flows

Proprietary Fund

Year Ended June 30, 2018

	<u>Business-Type Activities - Enterprise Fund Water and Sewer Fund</u>
Cash Flows from Operating Activities	
Receipts from customers	\$ 3,850,806
Payments to personnel and related costs	(337,667)
Payments to suppliers	<u>(1,835,685)</u>
Net Cash Provided by Operating Activities	1,677,454
Cash Flows from Noncapital Financing Activities	
Funds from (paid to) other funds	<u>48,296</u>
Net Cash Provided by Noncapital Financing Activities	48,296
Cash Flows from Financing Capital and Related Activities	
Purchase of capital assets	(309,134)
Principal paid on long-term debt	(616,145)
Interest paid on long-term debt	<u>(76,006)</u>
Net Cash Used in Financing Capital and Related Activities	(1,001,285)
Cash Flows from Investing Activities	
Investment and interest income	<u>13,692</u>
Net Cash Provided by Investing Activities	<u>13,692</u>
Net Increase in Cash	738,157
Cash - Beginning of Year	<u>2,264,403</u>
Cash - End of Year	<u>\$ 3,002,560</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 1,129,901
<i>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</i>	
Depreciation expense	591,575
<i>Changes in assets and liabilities</i>	
Receivables, net	14,600
Accounts payable and accrued expenses	2,326
Customer deposits	18,638
Deferred outflows - pension	63,296
Net pension liability	(126,208)
Deferred inflows - pension	<u>(16,674)</u>
Net Cash Provided by Operating Activities	<u>\$ 1,677,454</u>

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

Town of South Hill Virginia

Notes to the Financial Statements

Year Ended June 30, 2018

1 Summary of Significant Accounting Policies

Narrative Profile

The Town of South Hill, Virginia (the "Town"), which was incorporated in 1901, has a population of approximately 4,650 living within an area of 9.3 square miles. The Town is located in eastern Mecklenburg County, Virginia at the intersection of Interstate Highway 85 and U. S. Highway 58. The Town is governed by a Mayor, Town Manager, and an eight-member Town Council with each serving administrative and legislative functions.

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

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

1-A. Financial Reporting Entity

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

Exclusions from the Reporting Entity

Jointly Governed Organizations

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

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

Related Organization

Industrial Development Authority of the Town of South Hill, Virginia

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

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

1-B. Financial Reporting Model

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

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

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

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

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

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

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

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

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

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

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

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

1-C. Financial Statement Presentation

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

- *Governmental Funds* – Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The Town reports the difference between its governmental fund assets and deferred outflows of resources and its liabilities and deferred inflows of resources as fund balance. The following are the Town's major governmental funds:
 - *General Fund* – The General Fund is the primary operating fund of the Town and accounts for all revenues and expenditures applicable to the general operations of the Town which are not accounted for in other funds. Revenues are derived primarily from property and other local taxes, licenses, permits, charges for services, use of money and property, and intergovernmental grants.
 - *Special Revenue Funds* – Special Revenue Funds account for the proceeds of specific revenue sources (other than those derived from special assessments, expendable trusts, or dedicated for major capital projects) requiring separate accounting due to legal or regulatory provisions or administrative action. Special Revenue Funds include the following:
 - § Cemetery Fund – This fund accounts for Town revenues collected and disbursed for maintenance of the Cemetery Fund controlled by the Town.
 - § Food Hub Fund – This fund accounts for revenues collected and disbursed for the building and erection of the Food Hub, which is controlled by the Town.
 - § Groom School Fund – This fund accounts for revenues collected and disbursed for the rehabilitation of the Groom School, which is controlled by the Town.
 - *Capital Projects Funds* – The Capital Projects Fund consists of the West Main Street Community Development Fund which accounts for financial resources to be used for rehabilitation projects, other than those financed by proprietary funds.
- *Proprietary Funds* – Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The Town has one enterprise fund, the Water and Sewer Fund, which accounts for operations that are financed and operated in a manner similar to private business enterprises. The intent of the Town is that the cost of providing services to the general public be financed or recovered through user charges.

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

1-D. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

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

1-E-1 Cash and Cash Equivalents

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

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

1-E-2 Investments

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

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

1-E-3 Receivables and Payables

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

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

	<u>General</u>	<u>Water and Sewer</u>	<u>Total</u>
Property Taxes	\$ 168,591	\$ -	\$ 168,591
Less Allowance Account	<u>(14,202)</u>	<u>-</u>	<u>(14,202)</u>
	<u>\$ 154,389</u>	<u>\$ -</u>	<u>\$ 154,389</u>

Real and Personal Property Tax Data

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

	<u>Real Property</u>	<u>Personal Property</u>
Levy	July 1	July 1
Due Date	January 5	January 5
Lien Date	July 1	July 1

The Town bills and collects its own property taxes.

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

1-E-4 Prepaid Items

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

1-E-5 Capital Assets

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

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

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

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

1-E-6 Deferred Outflows/Inflows of Resources

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

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

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

1-E-7 Compensated Absences

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

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

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

1-E-8 Pensions

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

1-E-9 Fund Equity

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

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

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

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

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

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

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

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

1-E-10 Operating Revenues and Expenses

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

1-E-11 Interfund Activity

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

1-E-12 Long-Term Obligations

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

1-E-13 Adoption of New GASB Statements

During the fiscal year ended June 30, 2018, the Town adopted the following GASB statement:

- Statement No. 75, *“Accounting and Financial Reporting for Postemployment Benefits Other than Pensions”*

The adoption of this statement had no effect on the current financial statements.

1-F. Estimates

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

2 Stewardship, Compliance, and Accountability

Budgets and Budgetary Accounting

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

Budgetary Data

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

1. Prior to April 1, the Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing July 1. The operating budget and capital budget includes proposed expenditures and the means of financing them.
2. 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 fund, function, and departmental level. These appropriations for each fund, function, and department can be revised only by the Town Council.
5. Formal budgetary integration is employed as a management control device during the year and budgets are legally adopted for all major funds.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Expenditures in Excess of Appropriations

The Cemetery fund, Food Hub Fund, and Groom School fund exceeded appropriations. No formal budget adopted.

Fund Deficits

There were no fund deficits at June 30, 2018.

3 Cash and Cash Equivalents

Deposits

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

The following is a summary and reconciliation of the pooled cash and certificates of deposit at June 30, 2018:

<u>Asset Type</u>	<u>Balance June 30, 2018</u>
Petty cash	\$ 950
Deposit accounts	<u>22,079,379</u>
Total Cash and Cash Equivalents	<u>\$ 22,080,329</u>

4 Net Receivables

Receivables at June 30, 2018 consist of the following:

Primary Government

	<u>General</u>	<u>Governmental Activities</u> <u>Community Development</u>	<u>Special Revenue</u>	<u>Total Governmental</u>	<u>Enterprise Activities</u>	<u>Total</u>
Utility taxes	\$ 13,243	\$ -	\$ -	\$ 13,243	\$ -	\$ 13,243
Garbage, water and sewer	91,836	-	-	91,836	427,731	519,567
Meals tax	174,379	-	-	174,379	-	174,379
Lodging tax	46,158	-	-	46,158	-	46,158
Fines	10,961	-	-	10,961	-	10,961
Miscellaneous	<u>1,744</u>	<u>-</u>	<u>138,139</u>	<u>139,883</u>	<u>-</u>	<u>139,883</u>
Total Net Receivables	<u>\$ 338,321</u>	<u>\$ -</u>	<u>\$ 138,139</u>	<u>\$ 476,460</u>	<u>\$ 427,731</u>	<u>\$ 904,191</u>

5 Interfund Transfers

Interfund transfers for the year ended June 30, 2018 consisted of the following:

Primary Government

	<u>Transfer To</u>	<u>Transfer From</u>
General Fund		
To Water and Sewer Fund	\$ 25,815	\$ -
To Water and Sewer Fund	147,306	-
From Water and Sewer Fund for administrative fees	<u>-</u>	<u>124,825</u>
Total General Fund	173,121	124,825
Water and Sewer Fund		
To General Fund for administrative fees	62,413	-
To General Fund for administrative fees	62,412	-
From General Fund	-	25,815
From General Fund	<u>-</u>	<u>147,306</u>
Total Water and Sewer Fund	<u>124,825</u>	<u>173,121</u>
Total Transfers	<u>\$ 297,946</u>	<u>\$ 297,946</u>

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6 Capital Assets

The following is a summary of changes in capital assets:

Governmental Activities

	<u>Balance July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2018</u>
Capital Assets Not Being Depreciated				
Land, land improvements, and easements	\$ 1,703,838	\$ -	\$ -	\$ 1,703,838
Total Capital Assets Not Being Depreciated	1,703,838	-	-	1,703,838
Other Capital Assets				
Buildings and improvements	7,632,331	1,518,158	-	9,150,489
Streets and related infrastructure	8,653,823	250,841	-	8,904,664
Machinery, equipment, and vehicles	<u>6,428,857</u>	<u>189,400</u>	<u>-</u>	<u>6,618,257</u>
Total Other Capital Assets	22,715,011	1,958,399	-	24,673,410
Less: Accumulated depreciation for				
Buildings and improvements	2,902,557	116,260	-	3,018,817
Streets and related infrastructure	7,937,457	110,546	-	8,048,003
Machinery, equipment, and vehicles	<u>4,886,095</u>	<u>313,129</u>	<u>-</u>	<u>5,199,224</u>
Total Accumulated Depreciation	<u>15,726,109</u>	<u>539,935</u>	<u>-</u>	<u>16,266,044</u>
Other Capital Assets, Net	<u>6,988,902</u>	<u>1,418,464</u>	<u>-</u>	<u>8,407,366</u>
Net Capital Assets	<u>\$ 8,692,740</u>	<u>\$ 1,418,464</u>	<u>\$ -</u>	<u>\$ 10,111,204</u>

Depreciation expense was allocated as follows:

General government administration	\$ 95,575
Public safety	115,261
Public works	202,784
Parks, recreation, and cultural	<u>126,315</u>
Total Depreciation Expense	<u>\$ 539,935</u>

Business-Type Activities

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital Assets Not Being Depreciated				
Land, land improvements, and easements	\$ 664,020	\$ -	\$ -	\$ 664,020
Total Capital Assets Not Being Depreciated	664,020	-	-	664,020
Other Capital Assets				
Water and sewer infrastructure	25,506,152	172,367	-	25,678,519
Machinery, equipment, and vehicles	1,729,992	136,768	-	1,866,760
Total Other Capital Assets	27,236,144	309,135	-	27,545,279
Less: Accumulated depreciation for				
Water and sewer infrastructure	13,677,451	468,326	-	14,145,777
Machinery, equipment, and vehicles	1,319,315	123,249	-	1,442,564
Total Accumulated Depreciation	14,996,766	591,575	-	15,588,341
Other Capital Assets, Net	12,239,378	(282,440)	-	11,956,938
Net Capital Assets	\$ 12,903,398	\$ (282,440)	\$ -	\$ 12,620,958
Depreciation expense was allocated as follows:				
Water and sewer activities	\$ 591,575			
Total Depreciation Expense	\$ 591,575			

7 Compensated Absences

Town employees can accumulate up to 360 hours of compensated leave. Upon termination, employees are paid accumulated vacation leave. The Town has outstanding compensated absences totaling \$273,629 for the governmental activities.

8 Long-Term Debt

PRIMARY GOVERNMENT

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

Year(s) Ended June 30,	General Fund		Enterprise Fund		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 116,687	\$ 1,599	\$ 380,720	\$ 67,463	\$ 497,407	\$ 69,062
2020	-	-	103,372	59,270	103,372	59,270
2021	-	-	103,372	55,161	103,372	55,161
2022	-	-	108,372	51,335	108,372	51,335
2023	-	-	113,372	46,896	113,372	46,896
2024-2028	-	-	791,860	152,469	791,860	152,469
2029 - 2033	-	-	175,114	15,339	175,114	15,339
Total	<u>\$ 116,687</u>	<u>\$ 1,599</u>	<u>\$ 1,776,182</u>	<u>\$ 447,933</u>	1,892,869	<u>\$ 449,532</u>
Landfill obligation					157,495	
Compensated absences					<u>273,629</u>	
Total Long-Term Debt					<u>\$ 2,323,993</u>	

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Changes in Long-Term Debt

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

	<u>Balance</u> <u>July 1, 2017</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2018</u>	<u>Due Within</u> <u>One Year</u>
General Fund					
Benchmark Community Bank - Bond Series 2014C	\$ 369,686	\$ -	\$ 252,999	\$ 116,687	\$ 116,687
Subtotal	369,686	-	252,999	116,687	116,687
Landfill obligation	154,710	2,785	-	157,495	-
Compensated absences	<u>283,720</u>	<u>-</u>	<u>10,091</u>	<u>273,629</u>	<u>-</u>
Total General Fund	808,116	2,785	263,090	547,811	116,687
Enterprise Funds - Water and Sewer					
Benchmark Community Bank - Bond Series 2014A	578,720	-	288,000	290,720	290,720
Virginia Resources Authority - Series 2010A	1,470,000	-	85,000	1,385,000	90,000
Virginia Resources Authority - Series 2009A	<u>220,000</u>	<u>-</u>	<u>220,000</u>	<u>-</u>	<u>-</u>
Total Water and Sewer Fund	2,268,720	-	593,000	1,675,720	380,720
ADD					
Unamortized Premium on Bond Series 2009A and 2010A	<u>123,608</u>	<u>-</u>	<u>23,146</u>	<u>100,462</u>	<u>8,372</u>
Total Enterprise Funds - Water and Sewer	<u>2,392,328</u>	<u>-</u>	<u>616,146</u>	<u>1,776,182</u>	<u>389,092</u>
Grand Total - All Debt	<u>\$ 3,200,444</u>	<u>\$ 2,785</u>	<u>\$ 879,236</u>	<u>\$ 2,323,993</u>	<u>\$ 505,779</u>

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Bonds and notes payable at June 30, 2018 are comprised of the following:

Governmental Activities

General Obligation Bond Series 2014 with Benchmark Community Bank for \$1,118,000 payable in annual installments ranging from \$123,000 to \$245,000 for five years with a stated interest rate of 1.300 percent. Proceeds used to pay off prior bond series.	\$ 116,687
Subtotal	116,687
Landfill obligation	157,495
Compensated absences	<u>273,629</u>
Total Governmental Activities	547,811

Enterprise Fund - Water and Sewer Fund

General Obligation Bond Series 2014 with Benchmark Community Bank for \$1,421,000 payable in annual installments ranging from \$278,000 to \$291,000 for five years with a stated interest rate of 1.300 percent. Proceeds used to pay off prior bond series.	290,720
\$1,995,000 Virginia Resources Authority, Pooled Bond Loan Program, Wastewater and Storm Facilities GOB Series 2010A, semiannual interest payments at varying rates from 2.88 percent to 5.20 percent and annual principal payments ranging from \$80,000 per year to \$150,000 per year for a 20-year period.	1,385,000
Unamortized Premiums on Bond Series 2010A	<u>100,462</u>
Total Enterprise Fund - Water and Sewer Fund	<u>1,776,182</u>
Total Long-Term Debt	<u>\$ 2,323,993</u>

9 Net Investment in Capital Assets

The "net investment in capital assets" amount reported on the government-wide Statement of Net Position as of June 30, 2018 is determined as follows:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>
Net Investment in Capital Assets		
Cost of capital assets	\$ 26,377,248	\$ 28,209,299
Less: Accumulated depreciation	<u>(16,266,044)</u>	<u>(15,588,341)</u>
Book value	10,111,204	12,620,958
Less: Capital related debt	(116,987)	(1,675,720)
Less: Unamortized premium	<u>-</u>	<u>(100,462)</u>
Net Investment in Capital Assets	<u>\$ 9,994,217</u>	<u>\$ 10,844,776</u>

10 Deferred Inflows of Resources

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

Primary Government

General Fund

Unavailable revenue - property taxes	\$ 152,461
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Total Deferred Inflows of Resources - Governmental Funds	\$ 152,461
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11 Risk Management

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

The Town continues to carry commercial insurance for all other risks of loss, including employee dishonesty and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Surety bond coverage is as follows:

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

12 Commitments and Contingencies

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

13 Litigation

At June 30, 2018, there were no matters of litigation involving the Town which would materially affect the Town's financial position should any court decisions or pending matters not be favorable to such entities.

14 Legal Compliance

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

Computation of Legal Debt Margin

Total Assessed Value of Taxed Real Estate	<u>\$ 419,900,700</u>
Debt Limit per Constitution of Virginia -10% Assessed Value	\$ 41,990,070
Amount of Debt Applicable to Debt Limit Gross Debt	<u>1,792,407</u>
Legal Debt Margin	<u>\$ 40,197,663</u>

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

15 Landfill Obligation

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

The Town will recognize the remaining estimated costs of post-closure care of \$157,495 as the costs to finalize closure of its landfill. These amounts are based on what it would cost to perform all post-closure care as of June 30, 2018. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The Town is paying these costs on an annual pay-as-you-go basis.

16 Pension Plan

Plan Description

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

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

RETIREMENT PLAN PROVISIONS

PLAN 1

About Plan 1

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

Eligible Members

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

Hybrid Opt-In Election

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

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

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

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

PLAN 2

About Plan 2

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

Eligible Members

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

Hybrid Opt-In Election

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

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

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

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

HYBRID RETIREMENT PLAN

About the Hybrid Retirement Plan

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

- The defined benefit is based on a member's age, 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.

Eligible Members

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

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

**Non-Eligible Members*

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

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

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

PLAN 1

Retirement Contributions

Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

Creditable Service

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

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.

PLAN 2

Retirement Contributions

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

Creditable Service

Same as Plan 1.

Vesting

Same as Plan 1.

HYBRID

RETIREMENT PLAN

Retirement Contributions

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

Creditable Service

Defined Benefit Component:

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

Defined Contributions Component:

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

Vesting

Defined Benefit Component:

Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of 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.

Defined Contributions Component:

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

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

PLAN 1

Calculating the Benefit

The Basic Benefit is 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.

Average Final Compensation

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

Service Retirement Multiplier

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

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

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

PLAN 2

Calculating the Benefit

See definition under Plan 1.

Average Final Compensation

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

Service Retirement Multiplier

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

HYBRID RETIREMENT PLAN

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

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

Distribution is not required by law until age 70 1/2.

Calculating the Benefit

Defined Benefit Component:

See definition under Plan 1.

Defined Contribution Component:

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

Average Final Compensation

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

Service Retirement Multiplier

Defined Benefit Component:

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

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

Sheriffs and regional jail superintendents: Not applicable.

Political subdivision hazardous duty employees: Not applicable.

Defined Contribution Component

Not applicable.

PLAN 1*Normal Retirement Age*

VRS: Age 65.

Political subdivisions hazardous duty employees:
Age 60.

Earliest Unreduced Retirement Eligibility

VRS: Age 65 with at least five years (60 months) of 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.

Earliest Reduced Retirement Eligibility

VRS: 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.

Cost-of-Living Adjustment (COLA) in Retirement

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

Eligibility:

For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of 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.

PLAN 2*Normal Retirement Age*

VRS: Normal Social Security retirement age.

Political subdivisions hazardous duty employees:
Same as Plan 1.

Earliest Unreduced Retirement Eligibility

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

Political subdivisions hazardous duty employees:
Same as Plan 1.

Earliest Reduced Retirement Eligibility

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

Political subdivisions hazardous duty employees:
Same as Plan 1.

Cost-of-Living Adjustment (COLA) in Retirement

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

Eligibility:

Same as Plan 1

**HYBRID
RETIREMENT PLAN***Normal Retirement Age*

Defined Benefit Component:

VRS: Same as Plan 2.

Political subdivisions hazardous duty employees:
Not applicable.

Defined Contribution Component:

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

Earliest Unreduced Retirement Eligibility

Defined Benefit Component:

VRS: Normal Social Security retirement age and have at least five years (60 months) of 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

Defined Benefit Component:

VRS: 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

Defined Benefit Component:

Same as Plan 2

Defined Contribution Component:

Not applicable

Eligibility:

Same as Plan 1 and Plan 2

PLAN 1

Exceptions to COLA Effective Dates:

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

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

Disability Coverage

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

Purchase of Prior Service

Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts towards vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.

PLAN 2

Exceptions to COLA Effective Dates:

Same as Plan 1

Disability Coverage

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

Purchase of Prior Service

Same as Plan 1

HYBRID RETIREMENT PLAN

Exceptions to COLA Effective Dates:

Same as Plan 1 and Plan 2

Disability Coverage

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

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

Purchase of Prior Service

Defined Benefit Component:

Same as Plan 1, with the following exceptions:

- Hybrid Retirement Plan members are ineligible for ported service.

Defined Contribution Component:

Not applicable

Employees Covered by Benefit Terms

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

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	23
Inactive members:	
Vested inactive members	10
Non-vested inactive members	19
Inactive members active elsewhere in VRS	<u>20</u>
Total inactive members	49
Active members	<u>60</u>
Total covered employees	<u>132</u>

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00%-member contribution may have been assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5.00%-member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00%-member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

If the employer used the certified rate: The political subdivision's contractually required contribution rate for the year ended June 30, 2018 was 12.75% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$398,255 and \$235,820 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability

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

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent - 5.35 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% 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.

Mortality rates:

Largest 10 – Non-Hazardous Duty: 20% 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 70-90.

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.

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest 10 – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70-75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 20%

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

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

Actuarial Assumptions – Public Safety Employees

The total pension liability for Public Safety employees in the Political Subdivision Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent - 4.75 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% 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.

Mortality rates:

Largest 10 – Hazardous Duty: 70% 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 a 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.

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest 10 – Hazardous Duty:

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

All Others (Non 10 Largest) – Hazardous Duty:

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

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
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	<u>15.00%</u>	9.53%	<u>1.43%</u>
Total	<u>100.00%</u>		<u>4.80%</u>
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.30%</u>

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

Discount Rate

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

Changes in Net Pension Liability

	Total Pension Liability (a)	<u>Increase (Decrease)</u> Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2016	\$ 10,768,687	\$ 8,078,174	\$ 2,690,513
Changes for the Year			
Service cost	218,018	-	218,018
Interest	736,579	-	736,579
Benefit changes	-	-	-
Change in assumptions	(313,046)	-	(313,046)
Differences between expected and actual experience	(427,735)	-	(427,735)
Contributions - employer	-	233,865	(233,865)
Contributions - employee	-	131,362	(131,362)
Net investment income	-	979,037	(979,037)
Benefit payments, including refunds	(492,253)	(492,253)	-
Refunds of employee contributions	-	-	-
Administrative expenses	-	(5,657)	5,657
Other changes	-	(872)	872
Net Changes	<u>(278,437)</u>	<u>845,482</u>	<u>(1,123,919)</u>
Balances at June 30, 2017	<u>\$ 10,490,250</u>	<u>\$ 8,923,656</u>	<u>\$ 1,566,594</u>

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

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

	<u>1.00% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1.00% Increase (8.00%)</u>
Political subdivision's			
Net Pension Liability	\$ 3,075,153	\$ 1,566,594	\$ 321,362

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

For the year ended June 30, 2018, the political subdivision recognized pension expense of \$162,559. At June 30, 2018, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 503,369
Change in assumptions	-	233,187
Net difference between projected and actual earnings on pension plan investments	-	130,120
Employer contributions subsequent to the measurement date	<u>398,255</u>	<u>-</u>
Total	<u>\$ 398,255</u>	<u>\$ 866,676</u>

\$398,255 reported as deferred outflows of resources related to pensions resulting from the political subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year Ended June 30,</u>	
2019	\$ (367,422)
2020	(225,592)
2021	(190,015)
2022	(83,647)
2023	-
Thereafter	-

Pension Plan Data

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

17 Fund Balances – Governmental Funds

As of June 30, 2018, fund balances are composed of the following:

<u>Restricted</u>	<u>Primary Government</u>
Cemetery Fund - Subsequent years' appropriations	<u>\$ 11,749</u>
Total Restricted	<u>\$ 11,749</u>

18 Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to June 30, 2018 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2018. Management has performed their analysis through October 21, 2018.

REQUIRED SUPPLEMENTARY INFORMATION



You'll like the view from
South Hill

Town of South Hill, Virginia

Budgetary Comparison Schedule

Year Ended June 30, 2018

General Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
General Property Taxes				
Real property taxes	\$ 1,450,000	\$ 1,450,000	\$ 1,430,594	\$ (19,406)
Public service corporation property taxes	60,200	60,200	68,447	8,247
Personal property taxes	700,000	700,000	677,732	(22,268)
Delinquent taxes	500	500	25,017	24,517
Interest on taxes	4,000	4,000	9,120	5,120
Penalties on taxes	4,000	4,000	12,277	8,277
Total General Property Taxes	2,218,700	2,218,700	2,223,187	4,487
Other Local Taxes				
Local sales and use taxes	275,000	275,000	352,543	77,543
Consumers' utility taxes	190,000	190,000	195,998	5,998
Business licenses	776,500	776,500	917,506	141,006
Motor vehicle licenses	36,000	36,000	36,968	968
Bank stock taxes	185,000	185,000	174,031	(10,969)
Lodging taxes	400,000	400,000	642,605	242,605
Meals taxes	1,750,000	1,750,000	1,754,960	4,960
Other local taxes	56,000	56,000	360,270	304,270
Total Other Local Taxes	3,668,500	3,668,500	4,434,881	766,381
Permits, Privilege Fees, and Regulatory Licenses				
Zoning and subdivision fees	600	600	1,600	1,000
Building permits	50,000	50,000	36,132	(13,868)
Total Permits, Privilege Fees, and Regulatory Licenses	50,600	50,600	37,732	(12,868)
Fines and Forfeitures				
Court fines	135,000	135,000	94,047	(40,953)
Parking fines	1,000	1,000	380	(620)
Total Fines and Forfeitures	136,000	136,000	94,427	(41,573)
Revenue from Use of Money and Property				
Revenue from use of money	70,000	70,000	91,236	21,236
Revenue from use of property	50,500	50,500	50,952	452
Revenue from sale of property	1,000	1,000	300	(700)
Total Revenue from Use of Money and Property	121,500	121,500	142,488	20,988

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Charges for Services				
Sanitation and waste removal	475,000	475,000	507,778	32,778
Landfill tipping fees	200,000	200,000	223,948	23,948
Other miscellaneous charges	-	-	14,074	14,074
Total Charges for Services	675,000	675,000	745,800	70,800
Miscellaneous	361,500	361,500	318,922	(42,578)
Intergovernmental				
<i>Revenue from the Commonwealth of Virginia</i>				
<i>Noncategorical Aid</i>				
Personal Property Tax Relief Act	113,069	113,069	113,068	(1)
Communication sales and use tax	175,000	175,000	163,700	(11,300)
State Aid Asset Forfeiture	-	-	1,997	1,997
Rolling Stock Tax	-	-	123	123
Mobile Home Tax	-	-	120	120
Rental Vehicle Tax	25,000	25,000	41,088	16,088
VDOT Revenue Sharing	1,060,000	1,060,000	-	(1,060,000)
E Summons	-	-	13,849	13,849
Total Noncategorical Aid	1,373,069	1,373,069	333,945	(1,039,124)
<i>Categorical Aid</i>				
Street and highway revenues	1,200,000	1,200,000	1,403,627	203,627
Police Law Enforcement Grant	112,600	112,600	112,616	16
Fire Department Grant	13,581	15,531	15,546	15
Other project grants	175,000	175,000	77,700	(97,300)
Cultural and Arts Grants	5,000	5,000	4,500	(500)
Total Categorical Aid	1,506,181	1,508,131	1,613,989	105,858
Total Revenue from the Commonwealth of Virginia	2,879,250	2,881,200	1,947,934	(933,266)
Revenue from the Federal Government				
Police Grants	296,000	296,000	30,014	(265,986)
Total Revenue from the Federal Government	296,000	296,000	30,014	(265,986)
Total Intergovernmental Revenues	3,175,250	3,177,200	1,977,948	(1,199,252)
Total Revenues	10,407,050	10,409,000	9,975,385	(433,615)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Expenditures				
Current				
<i>General Government Administration</i>				
Town Council	692,426	692,426	666,110	26,316
Other general administration	133,750	133,750	142,960	(9,210)
Town Manager	310,280	310,280	287,534	22,746
Municipal Services	<u>125,545</u>	<u>125,545</u>	<u>124,990</u>	<u>555</u>
Total General Government Administration	1,262,001	1,262,001	1,221,594	40,407
<i>Public Safety</i>				
Police Department	2,516,422	2,516,422	2,165,561	350,861
Fire Department	1,673,604	1,675,554	1,675,303	251
Building Inspector	<u>146,750</u>	<u>146,750</u>	<u>144,515</u>	<u>2,235</u>
Total Public Safety	4,336,776	4,338,726	3,985,379	353,347
<i>Public Works</i>				
Sanitation	716,870	716,870	736,359	(19,489)
Street maintenance	3,984,805	3,984,805	1,440,962	2,543,843
Town shop maintenance	260,310	260,310	238,967	21,343
Building and grounds maintenance	<u>1,973,280</u>	<u>1,973,280</u>	<u>1,711,963</u>	<u>261,317</u>
Total Public Works	6,935,265	6,935,265	4,128,251	2,807,014
<i>Parks, Recreation, and Cultural</i>				
Library	22,625	22,625	22,246	379
Parks and recreation	<u>596,000</u>	<u>596,000</u>	<u>342,143</u>	<u>253,857</u>
Total Parks, Recreation, and Cultural	618,625	618,625	364,389	254,236
<i>Community Development</i>				
South Hill Community Development Association	365,000	365,000	364,452	548
Other planning and community development	<u>595,411</u>	<u>595,411</u>	<u>259,148</u>	<u>336,263</u>
Total Community Development	960,411	960,411	623,600	336,811
<i>Debt Service</i>	<u>153,972</u>	<u>153,972</u>	<u>259,424</u>	<u>(105,452)</u>
Total Expenditures	<u>14,267,050</u>	<u>14,269,000</u>	<u>10,582,637</u>	<u>3,686,363</u>
Excess (Deficiency) of Revenues Over Expenditures	(3,860,000)	(3,860,000)	(607,252)	3,252,748
Other Financing Sources (Uses)				
Proceeds from bonds	1,215,000	1,215,000	-	(1,215,000)
Prior year surplus	2,525,000	2,525,000	-	(2,525,000)
Transfers in	<u>120,000</u>	<u>120,000</u>	<u>(48,296)</u>	<u>(168,296)</u>
Total Other Financing Sources (Uses)	<u>3,860,000</u>	<u>3,860,000</u>	<u>(48,296)</u>	<u>(3,908,296)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	(655,548)	<u>\$ (655,548)</u>
Fund Balance - Beginning of Year			<u>19,928,159</u>	
Fund Balance - End of Year			<u>\$ 19,272,611</u>	

Cemetery Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Miscellaneous revenue	\$ -	\$ -	\$ 3,400	\$ 3,400
Total Revenues	-	-	3,400	3,400
Expenditures				
Parks, recreation, and cultural	-	-	848	(848)
Total Expenditures	-	-	848	(848)
Excess (Deficiency) of Revenues Over Expenditures	-	-	2,552	2,552
Other Financing Sources (Uses)				
Transfers in (out)	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	\$ -	\$ -	2,552	\$ 2,552
Fund Balance - Beginning of Year			9,197	
Fund Balance - End of Year			\$ 11,749	

Food Hub Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Revenues from Commonwealth of Virginia	\$ -	\$ -	\$ 192,788	\$ 192,788
Miscellaneous revenue	-	-	50,000	50,000
Total Revenues	-	-	242,788	242,788
Expenditures				
Community Development	-	-	242,788	(242,788)
Total Expenditures	-	-	242,788	(242,788)
Excess (Deficiency) of Revenues Over Expenditures	-	-	-	-
Other Financing Sources (Uses)				
Transfers in (out)	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	\$ -	\$ -	-	\$ -
Fund Balance - Beginning of Year			-	
Fund Balance - End of Year			\$ -	

Groom School Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Miscellaneous revenue	\$ -	\$ -	\$ 50,000	\$ 50,000
Total Revenues	-	-	50,000	50,000
Expenditures				
Community Development	-	-	50,000	(50,000)
Total Expenditures	-	-	50,000	(50,000)
Excess (Deficiency) of Revenues Over Expenditures	-	-	-	-
Other Financing Sources (Uses)				
Transfers in (out)	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	\$ -	\$ -	-	\$ -
Fund Balance - Beginning of Year			-	
Fund Balance - End of Year			\$ -	

Town of South Hill, Virginia

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability				
Service cost	\$ 218,018	\$ 219,206	\$ 221,445	\$ 219,741
Interest	736,579	717,940	683,450	639,859
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	(427,735)	(280,545)	(141,590)	-
Changes in assumptions	(313,046)	-	-	-
Benefit Payments, including refunds of employee contributions	<u>(492,253)</u>	<u>(288,387)</u>	<u>(252,810)</u>	<u>(220,917)</u>
Net change in total pension liability	(278,437)	368,214	510,495	638,683
Total pension liability - beginning	<u>10,768,687</u>	<u>10,400,473</u>	<u>9,889,978</u>	<u>9,251,295</u>
Total pension liability - ending (a)	<u>\$ 10,490,250</u>	<u>\$ 10,768,687</u>	<u>\$ 10,400,473</u>	<u>\$ 9,889,978</u>
 Plan fiduciary net position				
Contributions - employer	\$ 233,865	\$ 293,643	\$ 284,506	\$ 284,688
Contributions - employee	131,362	133,865	130,070	127,161
Net investment income	979,037	143,332	341,779	985,156
Benefit Payments, including refunds of employee contributions	(492,253)	(288,387)	(252,810)	(220,917)
Administrative expense	(5,657)	(4,754)	(4,445)	(5,106)
Other	<u>(872)</u>	<u>(59)</u>	<u>(72)</u>	<u>52</u>
Net change in plan fiduciary net position	845,482	277,640	499,028	1,171,034
Plan fiduciary net position - beginning	<u>8,078,174</u>	<u>7,800,534</u>	<u>7,301,506</u>	<u>6,130,472</u>
Plan fiduciary net position - ending (b)	<u>\$ 8,923,656</u>	<u>\$ 8,078,174</u>	<u>\$ 7,800,534</u>	<u>\$ 7,301,506</u>
 Political subdivision's net pension liability - ending (a) - (b)	<u>\$ 1,566,594</u>	<u>\$ 2,690,513</u>	<u>\$ 2,599,939</u>	<u>\$ 2,588,472</u>
 Plan fiduciary net position as a percentage of the total Pension liability	85.07%	75.02%	75.00%	73.83%
 Covered payroll	\$ 2,966,627	\$ 3,079,442	\$ 2,862,798	\$ 2,469,837
 Political subdivision's net pension liability as a percentage of covered payroll	52.81%	87.37%	90.82%	90.42%

Town of South Hill, Virginia

Schedule of Employer Contributions

For the Years Ended June 30, 2009 through 2018

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2018	\$ 398,255	\$ 398,255	\$ -	\$ 3,123,768	12.75%
2017	235,820	235,820	-	2,966,627	7.95%
2016	291,352	291,352	-	3,079,442	9.46%
2015	287,012	287,012	-	2,862,798	10.03%
2014	287,776	287,776	-	2,469,837	11.65%
2013	305,339	305,339	-	2,469,837	12.36%
2012	400,660	400,660	-	2,303,891	17.39%
2011	383,155	383,155	-	2,279,610	16.81%
2010	326,791	326,791	-	2,293,815	14.25%
2009	331,920	331,920	-	2,343,262	14.16%

For Reference Only:

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

Column 2 – Actual employer contribution remitted to VRS

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

Town of South Hill, Virginia

Notes to Required Supplementary Information

For the Year Ended June 30, 2018

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 is not material.

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

Largest 10 – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70-75
Withdrawal Rates	Adjusted rates to better fit experience at each age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 20%

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

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

Largest 10 – Hazardous Duty:

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

All Others (Non 10 Largest) – Hazardous Duty:

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

COMPLIANCE SECTION



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**Creedle
Jones
& Alga**

A Professional Corporation

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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 Town Council
Town of South Hill, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of South Hill, Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town of South Hill, Virginia's basic financial statements and have issued our report thereon dated October 21, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of South Hill, Virginia's internal control over financial reporting (internal control) 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 South Hill, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of South Hill, Virginia's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of South Hill, Virginia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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.

Creedle, Jones & Alga, P.C.

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

South Hill, Virginia
October 21, 2018