



TOWN OF SOUTH HILL, VIRGINIA

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2025

TOWN OF SOUTH HILL, VIRGINIA

TOWN COUNCIL

Lillie Feggins-Boone
Ashley C. Hardee
Gavin Honeycutt
Carl L. Sasser, Jr.

Mike Moody, Mayor

Delores Luster
Randy Crocker
Michael Smith
Jennifer Freeman-Hite

OTHER OFFICIALS

Town Manager
Finance Director
Chief of Police
Deputy Police Chief
Fire Chief
Municipal Services Director
Code Compliance Official
Human Resources Manager
Town Attorney

Keli Reekes
Dahlis Morrow
Greg Geist
Ryan Durham
Michael Vaughan
C. J. Dean
David Hash
Kristine Martin
F. Jesse Bausch

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Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit and each major fund of Town of South Hill, Virginia, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities and each major fund of Town of South Hill, Virginia, as of June 30, 2025, and the changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statement of the South Hill Industrial Development Authority, which represents 100 percent, 100 percent, and 100 percent, respectively, of the assets, net position, and revenues of the component unit as of June 30, 2025. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it related to amounts included for South Hill Industrial Development Authority, is based solely on the report of the other auditors.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Our responsibilities under those standards and specifications are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town of South Hill, Virginia and to meet our other ethical responsibilities, in accordance with the relevant ethical requirement relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Changes in Accounting Principles

As described in Note 16 to the financial statements, in 2025, the Town adopted new accounting guidance, GASB Statement No. 101, *Compensated Absences*. Our opinions are not modified with respect to this matter.

Restatement of Beginning Balances

As described in Note 17 to the financial statements, in 2025, the Town restated beginning balances to reflect the requirements of GASB Statement No. 101. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Town of South Hill, Virginia's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Town of South Hill, Virginia's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension and OPEB funding as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2026, on our consideration of 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 Town of South Hill, Virginia's internal control over financial reporting and compliance.

Robinson, Fennor, Cox Associates

Richmond, Virginia
February 9, 2026

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, 2025. 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 \$45,667,235. Of this amount, \$30,538,127 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 \$17,328,311 with an unrestricted balance of \$3,212,739.
- The Town's total net position increased by \$2,618,127 during the current fiscal year. Of this amount, an increase of \$2,681,993 is related to governmental activities and a decrease of \$63,866 is attributed to business-type activities.
- As of June 30, 2025, the Town's Governmental Funds reported combined ending fund balances of \$34,250,334, an increase of \$1,319,226 in comparison with the prior year. Approximately 97% of this amount is available for spending at the Town's discretion (unassigned fund balance).
- At the end of fiscal year 2025, the general fund unassigned fund balance was \$33,136,977, or approximately 205% 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 two 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 three 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, Business District Revitalization Fund, Nick's Lane, 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.

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:

Town of South Hill, Virginia's Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2025	2024	2025	2024	2025	2024
Current and other assets	\$ 36,183,641	\$ 33,703,863	\$ 4,491,475	\$ 6,819,575	\$ 40,675,116	\$ 40,523,438
Capital assets	<u>16,121,051</u>	<u>15,115,174</u>	<u>20,347,464</u>	<u>18,846,562</u>	<u>36,468,515</u>	<u>33,961,736</u>
Total assets	<u>\$ 52,304,692</u>	<u>\$ 48,819,037</u>	<u>\$ 24,838,939</u>	<u>\$ 25,666,137</u>	<u>\$ 77,143,631</u>	<u>\$ 74,485,174</u>
Deferred outflows of resources	<u>\$ 1,399,843</u>	<u>\$ 1,185,657</u>	<u>\$ 98,949</u>	<u>\$ 83,960</u>	<u>\$ 1,498,792</u>	<u>\$ 1,269,617</u>
Current liabilities	\$ 1,525,606	\$ 491,586	\$ 1,861,474	\$ 589,491	\$ 3,387,080	\$ 1,081,077
Long-term liabilities outstanding	<u>5,941,187</u>	<u>5,693,409</u>	<u>5,677,685</u>	<u>7,508,393</u>	<u>11,618,872</u>	<u>13,201,802</u>
Total liabilities	<u>\$ 7,466,793</u>	<u>\$ 6,184,995</u>	<u>\$ 7,539,159</u>	<u>\$ 8,097,884</u>	<u>\$ 15,005,952</u>	<u>\$ 14,282,879</u>
Deferred inflows of resources	<u>\$ 570,507</u>	<u>\$ 544,441</u>	<u>\$ 70,418</u>	<u>\$ 211,825</u>	<u>\$ 640,925</u>	<u>\$ 756,266</u>
Net position:						
Net investment in capital assets	\$ 15,129,108	\$ 13,969,711	\$ 14,115,572	\$ 11,679,203	\$ 29,244,680	\$ 25,648,914
Unrestricted	<u>30,538,127</u>	<u>29,305,547</u>	<u>3,212,739</u>	<u>5,761,185</u>	<u>33,750,866</u>	<u>35,066,732</u>
Total net position	<u>\$ 45,667,235</u>	<u>\$ 43,275,258</u>	<u>\$ 17,328,311</u>	<u>\$ 17,440,388</u>	<u>\$ 62,995,546</u>	<u>\$ 60,715,646</u>

Statement of Activities

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

Town of South Hill, Virginia's Summary of Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2025	2024	2025	2024	2025	2024
Charges for services	\$ 747,083	\$ 1,611,656	\$ 3,761,392	\$ 3,808,089	\$ 4,508,475	\$ 5,419,745
Operating grants and contributions	2,584,155	3,449,024	-	-	2,584,155	3,449,024
Capital grants and contributions	-	-	189,128	1,561,842	189,128	1,561,842
General property taxes	3,993,001	3,006,954	-	-	3,993,001	3,006,954
Other taxes	7,592,687	7,032,408	-	-	7,592,687	7,032,408
Grants and other contributions not restricted	293,568	291,345	-	-	293,568	291,345
Investment earnings (loss) on investments	1,407,145	1,201,181	137,582	239,445	1,544,727	1,440,626
Miscellaneous	1,128,609	375,943	187,101	127,538	1,315,710	503,481
Total revenues	\$ 17,746,248	\$ 16,968,511	\$ 4,275,203	\$ 5,736,914	\$ 22,021,451	\$ 22,705,425
General government administration	\$ 2,533,755	\$ 2,026,671	\$ -	\$ -	\$ 2,533,755	\$ 2,026,671
Public safety	3,652,654	3,971,384	-	-	3,652,654	3,971,384
Public works	6,137,507	3,783,537	-	-	6,137,507	3,783,537
Parks, recreation, and cultural	855,320	697,600	-	-	855,320	697,600
Community development	1,855,154	394,583	-	-	1,855,154	394,583
Interest on long-term debt	29,865	20,990	-	-	29,865	20,990
Water and sewer activities	-	-	4,339,069	4,243,358	4,339,069	4,243,358
Total expenses	\$ 15,064,255	\$ 10,894,765	\$ 4,339,069	\$ 4,243,358	\$ 19,403,324	\$ 15,138,123
Change in net position	\$ 2,681,993	\$ 6,073,746	\$ (63,866)	\$ 1,493,556	\$ 2,618,127	\$ 7,567,302
Net position - beginning - as previously stated	43,275,258	37,201,512	17,440,388	15,946,832	60,715,646	53,148,344
Restatement	(290,016)	-	(48,211)	-	(338,227)	-
Net position - beginning - as restated	42,985,242	37,201,512	17,392,177	15,946,832	60,377,419	53,148,344
Net position, end of year	\$ 45,667,235	\$ 43,275,258	\$ 17,328,311	\$ 17,440,388	\$ 62,995,546	\$ 60,715,646

Governmental activities increased the Town's net position by \$2,681,993 for fiscal year 2025. Revenues from governmental activities totaled \$17,746,248. Other taxes comprise the largest source of these revenues, totaling \$7,592,687 or 43% of all governmental activities revenue. Business-type activities decreased the Town's net position before transfers by \$68,325 with revenues reported of \$4,275,203.

The total cost of all governmental activities for this fiscal year was \$15,064,255. Public works was the Town's largest program with expenses totaling \$6,137,507. Public safety, which totals \$3,652,654, represents the second largest expense. Business-type activities reported expenses of \$4,343,528.

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:

Town of South Hill, Virginia's Net Cost of Governmental Activities

	<u>2025</u>		<u>2024</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	\$ 2,533,755	\$ (2,457,065)	\$ 2,026,671	\$ (1,946,313)
Public safety	3,652,654	(3,209,740)	3,971,384	(3,090,840)
Public works	6,137,507	(3,469,103)	3,783,537	248,941
Parks, recreation, and cultural	855,320	(853,720)	697,600	(680,300)
Community development	1,855,154	(1,713,524)	394,583	(344,583)
Interest in long-term debt	29,865	(29,865)	20,990	(20,990)
Total	<u>\$ 15,064,255</u>	<u>\$ (11,733,017)</u>	<u>\$ 10,894,765</u>	<u>\$ (5,834,085)</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 \$34,250,334. The combined governmental fund balance increased \$1,319,226 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 \$33,136,977. The General Fund’s liquidity can be measured by comparing unassigned fund balance to total fund expenditures. Unassigned fund balance represents 205% of total fund expenditures.

BUDGETARY HIGHLIGHTS

General Fund

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

Town of South Hill, Virginia's Budgetary Comparison						
	2025			2024		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenues						
Taxes, real and personal property	\$ 3,000,900	\$ 3,300,900	3,841,778	\$ 2,699,900	\$ 2,699,900	2,947,657
Other local taxes	5,859,100	5,859,100	7,592,687	5,755,100	5,755,100	7,032,408
Other revenues	1,638,550	1,638,550	3,369,511	1,321,350	1,321,350	3,467,084
Intergovernmental	2,071,316	2,071,316	2,736,093	2,189,725	2,404,725	3,690,369
Total revenues	<u>\$ 12,569,866</u>	<u>\$ 12,869,866</u>	<u>17,540,069</u>	<u>\$ 11,966,075</u>	<u>\$ 12,181,075</u>	<u>17,137,518</u>
Expenditures	<u>\$ 16,305,762</u>	<u>\$ 18,035,921</u>	<u>\$ 16,146,964</u>	<u>\$ 17,072,234</u>	<u>\$ 17,357,714</u>	<u>\$ 13,349,814</u>
Net change in fund balance before transfer from surplus funds	<u>\$ (3,735,896)</u>	<u>\$ (5,166,055)</u>	<u>\$ 1,393,105</u>	<u>\$ (5,106,159)</u>	<u>\$ (5,176,639)</u>	<u>\$ 3,787,704</u>
Transfer from surplus funds	<u>3,735,896</u>	<u>5,166,055</u>	<u>-</u>	<u>5,106,159</u>	<u>5,176,639</u>	<u>-</u>
Change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,393,105</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,787,704</u>

Final amended budget revenues were more than the original budget by \$300,000.

The amended budget appropriations for expenditures exceeded the original appropriation by \$1,730,159.

Actual revenues were more than final budget amounts by \$4,670,203, or 36%, while actual expenditures were \$1,888,957, or 10% less than final budget amounts.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

As of June 30, 2025, the Town's governmental activities net capital assets totaled \$16,121,051, which represents a net increase of \$1,005,877 or 7% over the previous fiscal year-end balance. The business-type activities net capital assets totaled \$20,347,464, an increase of \$1,500,902 or 8% over the previous fiscal year.

Town of South Hill, Virginia's Summary of Change in Capital Assets

	Balance July 1, 2024	Net Additions and Deletions	Balance June 30, 2025
Governmental Activities			
Land	\$ 1,179,679	\$ -	\$ 1,179,679
Construction in progress	-	-	-
Buildings and improvements	25,164,977	1,410,734	26,575,711
Streets and related infrastructure	6,446	-	6,446
Machinery, equipment, and vehicles	7,415,051	200,161	7,615,212
Total capital assets	\$ 33,766,153	\$ 1,610,895	\$ 35,377,048
Less: accumulated depreciation	(18,664,451)	(598,645)	(19,263,096)
Total capital assets, net	\$ 15,101,702	\$ 1,012,250	\$ 16,113,952
Lease assets	\$ 27,245	\$ -	\$ 27,245
Less: accumulated amortization	(13,773)	(6,373)	(20,146)
Lease assets, net	\$ 13,472	\$ (6,373)	\$ 7,099
Total Governmental Activities	\$ 15,115,174	\$ 1,005,877	\$ 16,121,051
Business-Type Activities			
Land, land improvements and easements	\$ 164,906	\$ -	\$ 164,906
Water and sewer infrastructure	29,634,303	2,590,523	32,224,826
Machinery, equipment and vehicles	4,752,569	60,997	4,813,566
Total capital assets	\$ 34,551,778	\$ 2,651,520	\$ 37,203,298
Less: accumulated depreciation	(15,705,216)	(1,150,618)	(16,855,834)
Total capital assets, net	\$ 18,846,562	\$ 1,500,902	\$ 20,347,464

Long-Term Debt

As of June 30, 2025, the Town's long-term obligations totaled \$7,833,993.

Town of South Hill, Virginia's Change in Long-Term Debt

	Balance July 1, 2024	GASB 101 Adjustments	Net Additions and Deletions	Balance June 30, 2025
Governmental Activities				
General obligation bond	\$ 1,131,767	\$ -	\$ (147,045)	\$ 984,722
Compensated absences	206,925	290,016	34,831	531,772
Total Governmental Activities	<u>\$ 1,338,692</u>	<u>\$ 1,338,692</u>	<u>\$ (112,214)</u>	<u>\$ 1,516,494</u>
Business-Type Activities				
General obligation bond	\$ 7,129,298	\$ -	\$ (926,276)	\$ 6,203,022
Compensated absences	66,131	48,211	135	114,477
Total Business-Type Activities	<u>\$ 7,195,429</u>	<u>\$ 7,195,429</u>	<u>\$ (926,276)</u>	<u>\$ 6,317,499</u>
Total Reporting Entity	<u><u>\$ 8,534,121</u></u>	<u><u>\$ 8,534,121</u></u>	<u><u>\$ (1,038,490)</u></u>	<u><u>\$ 7,833,993</u></u>

More detailed information on the Town's long-term obligations is presented in Note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Town's elected and appointed officials considered many factors when setting the fiscal-year 2026 budget.

The average unemployment rate for the Town of South Hill, Virginia in June 2025, which uses Mecklenburg County's rate, was 4.2%. This compares unfavorably to the state's rate of 3.6% and favorably to the national rate of 4.3%.

The estimate in June 2025 by the University of Virginia Weldon Cooper Center is a population of 4,920.

These rates along with other indicators were taken into account when adopting the General Fund budget for 2026, which accounts for most of the Town's operational costs. The fiscal year 2026 adopted budget anticipates General Fund revenues and expenditures to be \$22,314,150, a 37% increase over the fiscal year 2025 final budget. Most of this increase is attributable to street maintenance expenditures.

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 Town Manager or the Director of Finance, Town of South Hill, Virginia, 211 South Mecklenburg Avenue, South Hill, Virginia 23970, telephone 434-447-3191, or visit the Town's website at www.southhillva.org.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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Town of South Hill, Virginia
Statement of Net Position
June 30, 2025

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit IDA
ASSETS				
Cash and cash equivalents	\$ 21,339,448	\$ 4,126,766	\$ 25,466,214	\$ 2,608,595
Investments	13,517,260	-	13,517,260	-
Taxes receivable	398,071	-	398,071	-
Accounts receivable	509,328	364,709	874,037	-
Note receivable	197,500	-	197,500	-
Due from other governmental units	222,034	-	222,034	-
Capital assets (net of accumulated depreciation):				
Land	1,179,679	164,906	1,344,585	-
Buildings and improvements	12,761,979	-	12,761,979	-
Water and sewer infrastructure	-	17,955,864	17,955,864	-
Machinery, equipment, and vehicles	2,172,294	2,226,694	4,398,988	-
Lease equipment	7,099	-	7,099	-
Total assets	<u>\$ 52,304,692</u>	<u>\$ 24,838,939</u>	<u>\$ 77,143,631</u>	<u>\$ 2,608,595</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension related items	\$ 1,277,276	\$ 90,316	\$ 1,367,592	\$ -
OPEB related items	122,567	8,633	131,200	-
Total deferred outflows of resources	<u>\$ 1,399,843</u>	<u>\$ 98,949</u>	<u>\$ 1,498,792</u>	<u>\$ -</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 1,519,657	\$ 661,187	\$ 2,180,844	\$ 1,100
Accrued interest payable	5,949	37,477	43,426	-
Customer deposits	-	207,714	207,714	-
Customer overpayments	-	4,140	4,140	-
Long-term liabilities:				
Due within one year	207,581	950,956	1,158,537	-
Due in more than one year	5,733,606	5,677,685	11,411,291	-
Total liabilities	<u>\$ 7,466,793</u>	<u>\$ 7,539,159</u>	<u>\$ 15,005,952</u>	<u>\$ 1,100</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred revenue - property taxes	\$ 15,579	\$ -	\$ 15,579	\$ -
Pension related items	523,103	39,306	562,409	-
OPEB related items	31,825	2,242	34,067	-
Deferred gain on refunding	-	28,870	28,870	-
Total deferred inflows of resources	<u>\$ 570,507</u>	<u>\$ 70,418</u>	<u>\$ 640,925</u>	<u>\$ -</u>
NET POSITION				
Net investment in capital assets	\$ 15,129,108	\$ 14,115,572	\$ 29,244,680	\$ -
Unrestricted	30,538,127	3,212,739	33,750,866	2,607,495
Total net position	<u>\$ 45,667,235</u>	<u>\$ 17,328,311</u>	<u>\$ 62,995,546</u>	<u>\$ 2,607,495</u>

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

Town of South Hill, Virginia
Statement of Activities
For the Year Ended June 30, 2025

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit IDA
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
PRIMARY GOVERNMENT:								
Governmental activities:								
General government administration	\$ 2,533,755	\$ 76,690	\$ -	\$ -	\$ (2,457,065)		\$ (2,457,065)	
Public safety	3,652,654	117,718	325,196	-	(3,209,740)		(3,209,740)	
Public works	6,137,507	551,075	2,117,329	-	(3,469,103)		(3,469,103)	
Parks, recreation, and cultural	855,320	1,600	-	-	(853,720)		(853,720)	
Community development	1,855,154	-	141,630	-	(1,713,524)		(1,713,524)	
Interest on long-term debt	29,865	-	-	-	(29,865)		(29,865)	
Total governmental activities	\$ 15,064,255	\$ 747,083	\$ 2,584,155	\$ -	\$ (11,733,017)		\$ (11,733,017)	
Business-type activities:								
Water and Sewer Fund	\$ 4,339,069	\$ 3,761,392	\$ -	\$ 189,128	\$ -	\$ (388,549)	\$ (388,549)	
Total primary government	\$ 19,403,324	\$ 4,508,475	\$ 2,584,155	\$ 189,128	\$ (11,733,017)	\$ (388,549)	\$ (12,121,566)	
COMPONENT UNIT:								
Industrial Development Authority	\$ 1,008,982	\$ -	\$ -	\$ -				\$ (1,008,982)
General revenues:								
General property taxes, real and personal					\$ 3,993,001	\$ -	\$ 3,993,001	\$ -
Local sales and use taxes					1,121,014	-	1,121,014	-
Restaurant food taxes					2,916,581	-	2,916,581	-
Business license taxes					1,705,726	-	1,705,726	-
Hotel and motel room taxes					1,078,775	-	1,078,775	-
Other local taxes					770,591	-	770,591	-
Grants and contributions not restricted to specific programs					293,568	-	293,568	-
Unrestricted revenues from use of money					1,407,145	137,582	1,544,727	147,515
Miscellaneous					1,128,609	187,101	1,315,710	999,675
Total general revenues					\$ 14,415,010	\$ 324,683	\$ 14,739,693	\$ 1,147,190
Change in net position					\$ 2,681,993	\$ (63,866)	\$ 2,618,127	\$ 138,208
Net position - beginning - as previously stated					43,275,258	17,440,388	60,715,646	2,469,287
Restatement					(290,016)	(48,211)	(338,227)	-
Net position - beginning - as restated					42,985,242	17,392,177	60,377,419	2,469,287
Net position - ending					\$ 45,667,235	\$ 17,328,311	\$ 62,995,546	\$ 2,607,495

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

FUND FINANCIAL STATEMENTS

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Town of South Hill, Virginia
Balance Sheet
Governmental Funds
June 30, 2025

	<u>General</u>	<u>Cemetery Fund</u>	<u>Nick's Lane</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 21,393,173	\$ 21,411	\$ -	\$ 21,414,584
Investments	13,517,260	-	-	13,517,260
Receivables (net of allowance for uncollectibles):				
Property taxes receivable, net	398,071	-	-	398,071
Accounts receivable	509,328	-	-	509,328
Due from other governments	222,034	-	-	222,034
Note receivable	197,500	-	-	197,500
Total assets	<u>\$ 36,237,366</u>	<u>\$ 21,411</u>	<u>\$ -</u>	<u>\$ 36,258,777</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 1,519,274	\$ -	\$ 383	\$ 1,519,657
Reconciled overdraft	-	-	75,136	75,136
Total liabilities	<u>\$ 1,519,274</u>	<u>\$ -</u>	<u>\$ 75,519</u>	<u>\$ 1,594,793</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	\$ 413,650	\$ -	\$ -	\$ 413,650
Total deferred inflows of resources	<u>\$ 413,650</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 413,650</u>
FUND BALANCES				
Nonspendable - note receivable	\$ 197,500	\$ -	\$ -	\$ 197,500
Restricted	-	21,411	-	21,411
Committed - See Note 1	969,965	-	-	969,965
Unassigned	33,136,977	-	(75,519)	33,061,458
Total fund balances (deficits)	<u>\$ 34,304,442</u>	<u>\$ 21,411</u>	<u>\$ (75,519)</u>	<u>\$ 34,250,334</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 36,237,366</u>	<u>\$ 21,411</u>	<u>\$ -</u>	<u>\$ 36,258,777</u>

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

Town of South Hill, Virginia
 Reconciliation of the Balance Sheet of Governmental Funds
 to the Statement of Net Position
 June 30, 2025

Amounts reported for governmental activities in the Statement of Net Position are different because:

Total fund balances (deficits) per Exhibit 3 - Balance Sheet - Governmental Funds	\$	34,250,334
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets, cost	\$	35,404,293
Accumulated depreciation	(19,283,242)	16,121,051
Other assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds statement.		
Unavailable revenue - property taxes		398,071
Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds.		
Pension related items	\$	1,277,276
OPEB related items	122,567	1,399,843
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
Net pension liability	\$	(4,252,549)
Accrued interest payable	(5,949)	
General obligation bond	(984,722)	
Lease liability	(7,221)	
Net OPEB liability	(164,923)	
Compensated absences	(531,772)	(5,947,136)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.		
Pension related items	\$	(523,103)
OPEB related items	(31,825)	(554,928)
Net position of governmental activities	\$	<u>45,667,235</u>

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

Town of South Hill, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2025

	<u>General</u>	<u>Cemetery Fund</u>	<u>Nick's Lane</u>	<u>Total</u>
REVENUES				
General property taxes	\$ 3,841,778	\$ -	\$ -	\$ 3,841,778
Other local taxes	7,592,687	-	-	7,592,687
Permits, privilege fees, and regulatory licenses	117,718	-	-	117,718
Fines and forfeitures	76,690	-	-	76,690
Use of money and property	1,407,145	-	-	1,407,145
Charges for services	551,075	1,600	-	552,675
Miscellaneous	1,128,569	40	-	1,128,609
Recovered costs	88,314	-	-	88,314
Intergovernmental:				
Commonwealth	2,581,437	-	-	2,581,437
Federal	154,656	-	141,630	296,286
Total revenues	<u>\$ 17,540,069</u>	<u>\$ 1,640</u>	<u>\$ 141,630</u>	<u>\$ 17,683,339</u>
EXPENDITURES				
Current:				
General government administration	\$ 2,898,050	\$ -	\$ -	\$ 2,898,050
Public safety	3,878,411	-	-	3,878,411
Public works	5,894,028	-	-	5,894,028
Parks, recreation, and cultural	1,693,209	-	-	1,693,209
Community development	1,604,462	-	-	1,604,462
Capital Projects	-	-	217,149	217,149
Debt service:				
Principal retirement	153,520	-	-	153,520
Interest and other fiscal charges	25,284	-	-	25,284
Total expenditures	<u>\$ 16,146,964</u>	<u>\$ -</u>	<u>\$ 217,149</u>	<u>\$ 16,364,113</u>
Net change in fund balances	<u>\$ 1,393,105</u>	<u>\$ 1,640</u>	<u>\$ (75,519)</u>	<u>\$ 1,319,226</u>
Fund balance - beginning of year	\$ 32,911,337	\$ 19,771	\$ -	\$ 32,931,108
Fund balance - end of year	<u>\$ 34,304,442</u>	<u>\$ 21,411</u>	<u>\$ (75,519)</u>	<u>\$ 34,250,334</u>

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

Town of South Hill, Virginia
 Reconciliation of the Statement of Revenues,
 Expenditures, and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Year Ended June 30, 2025

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

Net change in fund balances (deficits) - total governmental funds	\$	1,319,226
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The following is a summary of items supporting this adjustment:</p>		
Capital asset additions	\$	2,275,392
Depreciation expense		(951,012)
		1,324,380
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position.		(318,503)
<p>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.</p>		
Increase (decrease) in property taxes		151,223
<p>The issuance of long-term obligations (e.g. bonds, loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term obligations and related items.</p>		
Principal retired on bonds	\$	147,045
Principal retired on lease liabilities		6,475
		153,520
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.</p>		
Decrease (increase) in compensated absences	\$	(34,831)
Pension expense		117,114
OPEB expense		(25,555)
Decrease (increase) in accrued interest payable		(4,581)
		52,147
Change in net position of governmental activities		\$ 2,681,993

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

Town of South Hill, Virginia
Statement of Net Position
Proprietary Fund
June 30, 2025

	<u>Water and Sewer</u>
ASSETS	
Current assets:	
Cash	\$ 4,126,766
Accounts receivable	364,709
Total current assets	\$ 4,491,475
Noncurrent assets:	
Capital assets	
Land	\$ 164,906
Water and sewer infrastructure	32,224,826
Machinery, equipment, and vehicles	4,813,566
Less: accumulated depreciation	(16,855,834)
Total capital assets	\$ 20,347,464
Total assets	\$ 24,838,939
DEFERRED OUTFLOWS OF RESOURCES	
Pension related items	\$ 90,316
OPEB related items	8,633
Total deferred outflows of resources	\$ 98,949
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 661,187
Customer deposits	207,714
Customer overpayments	4,140
Accrued interest	37,477
Compensated absences - current portion	11,448
Bonds payable - current portion	939,508
Total current liabilities	\$ 1,861,474
Noncurrent liabilities:	
Net pension liability	\$ 299,526
Net OPEB liability	11,616
Compensated absences - net of current portion	103,029
Bonds payable - net of current portion	5,263,514
Total noncurrent liabilities	\$ 5,677,685
Total liabilities	\$ 7,539,159
DEFERRED INFLOWS OF RESOURCES	
Pension related items	\$ 39,306
OPEB related items	2,242
Deferred gain on refunding	28,870
Total deferred inflows of resources	\$ 70,418
NET POSITION	
Net investment in capital assets	\$ 14,115,572
Unrestricted	3,212,739
Total net position	\$ 17,328,311

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

Town of South Hill, Virginia
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2025

	<u>Water and Sewer</u>
OPERATING REVENUES	
Charges for services	\$ 3,761,392
Miscellaneous	106,672
Connection and cut-on fees	80,429
Total operating revenues	\$ 3,948,493
OPERATING EXPENSES	
Salaries and wages	\$ 575,960
Fringe benefits	152,721
Contractual services	506,953
Water purchases	1,183,992
Other supplies and expenses	654,465
Depreciation	1,150,618
Total operating expenses	\$ 4,224,709
Operating income (loss)	\$ (276,216)
NONOPERATING REVENUES (EXPENSES)	
Investment and interest income	\$ 137,582
Interest expense on bonds	(114,360)
Total nonoperating revenues (expenses)	\$ 23,222
Income (loss) before capital contributions and transfers	\$ (252,994)
Capital contributions:	
State grants	\$ 140,447
Federal grants	48,681
Total capital contributions	189,128
Change in net position	\$ (63,866)
Total net position - beginning - as previously stated	17,440,388
Restatement	(48,211)
Total net position - beginning - as restated	17,392,177
Total net position - ending	\$ 17,328,311

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

Town of South Hill, Virginia
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2025

	<u>Water and Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 3,934,589
Payments to personnel and related costs	(877,708)
Payments to suppliers	(2,074,381)
Net cash provided by (used for) operating activities	\$ 982,500
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	\$ (2,651,520)
Capital contributions	189,128
Principal paid on long-term debt	(926,276)
Interest paid on long-term debt	(94,689)
Net cash provided by (used for) capital and related financing activities	\$ (3,483,357)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment and interest income	\$ 137,582
Net increase (decrease) in cash and cash equivalents	\$ (2,363,275)
Cash and cash equivalents - beginning	6,490,041
Cash and cash equivalents - ending	\$ 4,126,766
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ (276,216)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation expense	1,150,618
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(35,175)
(Increase) decrease in deferred outflows - pension	(22,558)
(Increase) decrease in deferred outflows - OPEB	7,569
Increase (decrease) in accounts payable and accrued expenses	271,029
Increase (decrease) in customer deposits	16,996
Increase (decrease) in customer overpayments	4,140
Increase (decrease) in compensated absences	135
Increase (decrease) in net pension liability	6,243
Increase (decrease) in net OPEB liability	(8,065)
Increase (decrease) in deferred inflows - OPEB	(516)
Increase (decrease) in deferred inflows - pension	(131,700)
Total adjustments	\$ 1,258,716
Net cash provided by (used for) operating activities	\$ 982,500
Schedule of noncash capital and related financing activities	
State and federal grants released from unearned revenue	\$ 189,128

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

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TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2025

Note 1—Summary of Significant Accounting Policies:

The Town of South Hill, Virginia (the “Town”), which was incorporated in 1901, has a population of approximately 4,752 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.

Financial Statement Presentation

Government-wide and Fund Financial Statements

Government-wide financial statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government’s activities. This approach includes not just current assets and liabilities but also capital assets and long-term liabilities (such as buildings and general obligation debt).

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Statement of Net Position - The Statement of Net Position is designed to display the financial position of the primary government (governmental and business-type activities) and its discretely presented component units. Governments will report all capital assets in the government-wide Statement of Net Position and will report depreciation expense - the cost of “using up” capital assets - in the Statement of Activities. The net position of a government will be broken down into three categories - 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

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TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 1—Summary of Significant Accounting Policies: (Continued)

Government-wide and Fund Financial Statements (Continued)

Statement of Activities - The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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 one way or another 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. Many governments revise their original budgets over the course of the year for a variety of reasons. The budgetary comparison schedules present the original budget, the final budget, and the actual activity of the major governmental funds.

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 Town of South Hill (the primary government) and its component units. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the government-wide financial statements to emphasize that it is both legally and substantively separate from the government.

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 1—Summary of Significant Accounting Policies: (Continued)

B. Individual Component Unit Disclosures

Blended Component Units. The Town has no blended component units at June 30, 2025.

Discretely Presented Component Units. The Industrial Development Authority of the Town of South Hill, Virginia 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. A separately issued financial report may be obtained by contacting Creedle, Jones & Associates, P.C. at 828 North Mecklenburg Avenue P. O. Box 487 South Hill, VA 23970.

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

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 accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of recognition in the financial statements of various kinds of transactions or events.

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

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, 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.

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 1—Summary of Significant Accounting Policies: (Continued)

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Revenues are recognized when they have been earned and 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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service principal and interest expenditures on general long-term debt, including lease and subscription liabilities, as well as expenditures related to compensated absences, claims and judgments, postemployment benefits, and environmental obligations are recognized later based on specific accounting rules applicable to each, generally when payment is due. General capital asset acquisitions, including entering into contracts giving the government the right to use lease and subscription assets, are reported as expenditures in the governmental funds. Issuance of long-term debt and financing through leases and subscriptions are reported as other financing sources.

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.

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.

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 1—Summary of Significant Accounting Policies: (Continued)

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

1. Governmental Funds

Governmental Funds are those through which most governmental functions typically are financed. The Town reports the following governmental funds.

a. General Fund

The General Fund is the primary operating fund of the Town. This fund is used to account for and report all financial resources except those required to be accounted for and reported in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for service, and interest income. The General Fund is considered a major fund for reporting purposes.

b. Special Revenue Funds

The Special Revenue Funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The operations of the cemetery fund are reported in the Special Revenue Fund. The Special Revenue Fund is considered a major fund.

c. Capital Projects Fund

The Capital Projects Fund accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for capital outlays, except for those financed by proprietary funds or for assets held in trust for individuals, private organizations, or other governments. The Capital Projects Fund is considered a major fund. The operations of Nick's Lane are reported in the Capital Projects Fund.

2. Proprietary Funds

Proprietary Funds account for operations that are financed in a manner similar to those found in private business enterprises. The measurement focus is upon determination of net income, financial position, and changes in financial position. Proprietary Funds consist of Enterprise Funds.

a. Enterprise Funds

Enterprise Funds account for the financing of services to the general public where all or most of the operating expenses involved are recorded in the form of charges to users of such services. Enterprise Funds consist of the Water and Sewer Fund.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues consist of charges to customers for sales and services. Operating expenses include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 1—Summary of Significant Accounting Policies: (Continued)

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

3. Fiduciary Funds

Fiduciary Funds (Trust and Custodial Funds) account for assets held by the Town in a trustee capacity or as custodian for individuals, private organizations, other governmental units, or other funds. The Town does not have any fiduciary funds.

D. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the government. For purposes of the statement of cash flows, the government’s proprietary funds consider their demand deposits and all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

E. Investments

State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements.

Investments with a maturity of less than one year when purchased, non-negotiable certificates of deposit, other nonparticipating investments, and external investment pools are stated at cost or amortized cost. Investments with a maturity greater than one year when purchased are stated at fair value. Fair value is the price that would be received to sell an investment in an orderly transaction at year end.

F. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “due to/from other funds” (i.e. the current portions of the interfund loans). All other outstanding balances between funds are reported as “advances to/from other funds” (i.e. the noncurrent portion of interfund loans).

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 amounted to \$110,252 at June 30, 2025 and is comprised of property taxes of \$34,348, garbage charges of \$22,322, and water and sewer charges of \$53,582.

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

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 1—Summary of Significant Accounting Policies: (Continued)

F. Receivables and Payables (Continued)

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.

G. Prepaid Items

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

H. Capital Assets

Capital assets are tangible and intangible assets, which include property, plant, equipment, lease, subscription, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

As the Town constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost (except for intangible right-to-use lease and subscription assets, the measurement of which is discussed in more detail below). The reported value excludes normal maintenance and repairs, which are amounts spent in relation to capital assets that do not increase the asset's capacity or efficiency or increases its estimated useful life. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential on the date of the donation. Intangible assets follow the same capitalization policies as tangible capital assets and are reported with tangible assets in the appropriate capital asset class.

Land and construction in progress are not depreciated. The other tangible and intangible property, plant equipment, lease assets, subscription assets, and infrastructure of Town are depreciated/amortized using the straight-line method over the following estimated useful lives (or life of the associated contract for lease assets):

Assets	Years
Buildings and Improvements	10-40
Machinery and Equipment	3-20
Lease equipment	3-5
Vehicles	5
Infrastructure	40

Note 1—Summary of Significant Accounting Policies: (Continued)

I. Leases

The Town has various lease assets requiring recognition. A lease is a contract that conveys control of the right to use another entity's nonfinancial asset. Lease recognition does not apply to short-term leases, contracts that transfer ownership, leases of assets that are investments, or certain regulated leases.

Lessee

The Town recognizes lease liabilities and intangible right-to-use lease assets (leased equipment) with an initial value of \$5,000, individually or in the aggregate in the government-wide financial statements. At the commencement of the lease, the lease liability is measured at the present value of payments expected to be made during the lease term (less any lease incentives). Subsequently, the lease liability is reduced by the principal portion of lease payments made. The leased equipment is measured at the initial amount of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. Subsequently, the lease asset is amortized over the shorter of the lease term or the useful life of the underlying asset.

Lessor

The Town recognizes leases receivable and deferred inflows of resources in the government-wide fund financial statements. At commencement of the lease, the lease receivable is measured at the present value of lease payments expected to be received during the lease term, reduced by the principal portion of lease payments received. The deferred inflow of resources is measured at the initial amount of the lease receivable, less lease payments received from the lessee at or before the commencement of the lease term (less any lease incentives). Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key Estimates and Judgments

Lease accounting includes estimates and judgments for determining the (1) rate used to discount the expected lease to present value, (2) lease term, and (3) lease payments.

- The Town uses the interest rate stated in lease contracts. When the interest rate is not provided or the implicit rate cannot be readily determined, the Town uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease terms include the noncancellable period of the lease and certain periods covered by options to extend to reflect how long the lease is expected to be in effect, with terms and conditions varying by the type of underlying asset.
- Fixed and certain variable payments as well as lease incentives and certain other payments are included in the measurement of the lease receivable (lessor) or lease liability (lessee).

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 1—Summary of Significant Accounting Policies: (Continued)

I. Leases (Continued)

The Town monitors changes in circumstances that would require a remeasurement or modification of its leases. The Town will remeasure the lease receivable and deferred inflows of resources (lessor) or the lease asset and liability (lessee) if certain changes occur that are expected to significantly affect the amount of the lease receivable or lease liability.

J. Compensated Absences

The Town recognizes a liability for compensated absences for leave time that (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled (for example paid in cash to the employee or payment to an employee flex spending account) during or upon separation from employment. Based on the criteria listed, two types of leave qualify for liability recognition for compensated absences - vacation and sick leave. The liability for compensated absences is reported as incurred in the government-wide and proprietary fund financial statements. A liability for compensated absences is recorded in the governmental funds only if the liability has matured because of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

Vacation

The Town's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment at the employee's current pay rate upon separation from employment.

Sick Leave

The Town's policy permits employees to accumulate earned but unused sick leave. All sick leave lapses when employees leave the employ of the Town and, upon separation from service, no monetary obligation exists. However, a liability for estimated value of sick leave that will be used by employees as time off is included in the liability for compensated absences.

K. Use of Estimates

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

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 1—Summary of Significant Accounting Policies: (Continued)

L. Net Position

For government-wide reporting as well as in proprietary funds, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

- Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances of bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.
- Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.
- Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

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

M. Long-term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities. Bonds payable are reported net of the applicable bond premium or discount.

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

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 1—Summary of Significant Accounting Policies: (Continued)

N. Fund Balance

In governmental fund types, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called “fund balance”. The Town’s governmental funds report the following categories of fund balance, based on the nature of any limitations requiring the use of resources for specific purposes:

- Nonspendable fund balance - amounts that are either not in spendable form (such as inventory and prepaids) or are legally or contractually required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance - amounts that can be spent only for the specific purposes stipulated by external resource providers such as grantors or enabling federal, state, or local legislation. Restrictions may be changed or lifted only with the consent of the resource providers;
- Committed fund balance - amounts that can be used only for the specific purposes determined by the adoption of an ordinance committing fund balance for a specified purpose by the Town Council prior to the end of the fiscal year. Once adopted, the limitation imposed by the ordinance remains in place until the resources have been spent for the specified purpose or the Council adopts another ordinance to remove or revise the limitation;
- Assigned fund balance - amounts a government intends to use for a specific purpose but do not meet the criteria to be classified as committed; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund. Additionally, any deficit fund balance within the other governmental fund types is reported as unassigned.

When fund balance resources are available for a specific purpose in more than one classification, it is the Town’s policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

Town Council establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment, which does not lapse at year end, is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by Town Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 1—Summary of Significant Accounting Policies: (Continued)

N. Fund Balance

The details of governmental fund balances, as presented in aggregate on Exhibit 3, are as follows:

	<u>General</u>	<u>Cemetery</u>	<u>Nick's Lane</u>	<u>Total</u>
Fund balances:				
Nonspendable:				
Note receivable	\$ 197,500	\$ -	\$ -	\$ 197,500
Total nonspendable fund balance	<u>\$ 197,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 197,500</u>
Restricted:				
Cemetery	\$ -	\$ 21,411	\$ -	\$ 21,411
Total restricted fund balance	<u>\$ -</u>	<u>\$ 21,411</u>	<u>\$ -</u>	<u>\$ 21,411</u>
Committed:				
Streets maintenance	\$ 121,465	\$ -	\$ -	\$ 121,465
General government	68,000	-	-	68,000
Community development	380,500	-	-	380,500
Facilities maintenance	400,000	-	-	400,000
Total committed fund balance	<u>\$ 969,965</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 969,965</u>
Unassigned (deficit)	<u>\$ 33,136,977</u>	<u>\$ -</u>	<u>\$ (75,519)</u>	<u>\$ 33,061,458</u>
Total fund balances (deficits)	<u>\$ 34,304,442</u>	<u>\$ 21,411</u>	<u>\$ (75,519)</u>	<u>\$ 34,250,334</u>

O. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has multiple items that qualify for reporting in this category. This item is comprised of certain items related to pension and OPEB. For more detailed information on these items, reference the related notes.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has multiple items that qualify for reporting in this category. One item is the deferred charge on refunding reported in this category. A deferred charge on refunding resulted from the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30 and amounts prepaid and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis amounts prepaid are reported as deferred inflows of resources. In addition, certain items related to pension and OPEB are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 1—Summary of Significant Accounting Policies: (Continued)

P. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Town's Retirement Plan and the additions to/deductions from the Town's Retirement Plan's fiduciary net 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.

Q. Other Postemployment Benefits

For purposes of measuring the net VRS GLI OPEB liability, deferred outflows of resources and deferred inflows of resources related to the OPEB, and OPEB expense, information about the fiduciary net position of the VRS GLI OPEB Plan and the additions to/deductions from the VRS OPEB Plan's fiduciary net position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

R. Deficit Fund Equity

A deficit fund balance of \$75,519 exists in the Nick's Lane Capital Projects fund. The deficit results from the expenditure of funds without accruing intergovernmental revenues for reimbursement of expenditures. The Town accrues intergovernmental revenues only when all eligibility requirements have been met, including that allowable costs have actually incurred. The Town received a reimbursement of \$75,519 on August 27, 2025.

Note 2—Stewardship, Compliance, and Accounting:

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

1. Prior to June 1, the Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating 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 level. The appropriation for fund can be revised only by the Town Council. The Town Manager is authorized to transfer budgeted amounts within general government departments.

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2025

Note 2—Stewardship, Compliance, and Accounting: (Continued)

5. Formal budgetary integration is employed as a management control device during the year and budgets are legally adopted for the General Fund, Capital Projects, and Special Revenue Funds of the primary government.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30 every year.
8. All budgetary data presented in the accompanying financial statements is from the revised budget as of June 30, 2025, as adopted, appropriated and legally amended.

Expenditures and Appropriations

Expenditures did not exceed appropriations in any fund at June 30, 2025.

Note 3—Deposits and Investments:

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.

Investments

Statutes authorize the Town to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper that has received at least two of the following ratings: P-1 by Moody’s Investors Service, Inc.; A-1 by Standard & Poor’s; or F1 by Fitch Ratings, Inc. (Section 2.2-4502), banker’s acceptances, repurchase agreements and the State Treasurer’s Local Government Investment Pool (LGIP).

Credit Risk of Debt Securities

State statutes require that commercial paper have a short-term debt rating of no less than “A-1” (or its equivalent) from at least two of the following: Moody’s Investors Service, Standard & Poor’s and Fitch Investor’s Service. Corporate notes, negotiable Certificates of Deposit and bank deposit notes maturing in less than one year must have a short-term debt rating of at least “A-1” by Standard & Poor’s and “P-1” by Moody’s Investor Service. Notes having a maturity of greater than one year must be rated “AA” by Standard & Poor’s and “Aa” by Moody’s Investor Service. The Town’s rated debt investments as of June 30, 2025 were rated by Standard & Poor’s and/or an equivalent national rating organization and the ratings are presented below using the Standard & Poor’s rating scale.

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 3—Deposits and Investments: (Continued)

Town's Rated Debt Investments' Values			
Rated Debt Investments	Fair Quality Ratings		
	AAAm	AA+f	AA+
Virginia Investment Pool	\$ 8,291,950	\$ 10,804,249	\$ -
Local Government Investment Pool	3,051,605	-	-
U.S. Treasury Securities Fixed Income Funds	-	-	7,374,857
U.S. Treasury Securities Money Market Fund	-	1,510,074	-
Total	\$ 11,343,555	\$ 12,314,323	\$ 7,374,857

Fair Value Measurements

The Town has the following recurring fair value measurements as of June 30, 2025:

Investment type	Balance June 30, 2025	Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1)	
U.S. Treasury Securities Fixed Income Funds	\$ 7,374,857	\$	7,374,857
U.S. Treasury Securities Money Market Fund	1,510,074		1,510,074
	\$ 8,884,931	\$	8,884,931

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 3—Deposits and Investments: (Continued)

Interest Rate Risk

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment.

Investment Maturities (in years)			
Investment Type	Fair Value	Less Than 1 Year	1-5 Years
U.S. Treasury Securities Fixed Income Funds	\$ 8,884,931	\$ 6,171,920	\$ 2,713,011
Local Government Investment Pool	3,051,605	3,051,605	-
Virginia Investment Pool	19,096,199	8,291,950	10,804,249
Total	<u>\$31,032,735</u>	<u>\$17,515,475</u>	<u>\$13,517,260</u>

External Investment Pools

The value of the positions in the external investment pool (Local Government Investment Pool) is the same as the value of pool shares. As LGIP is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. LGIP is an amortized cost basis portfolio. There are no withdrawal limitations or restrictions imposed on participants.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Town has measured fair value of the above Virginia Investment Pool Investment at the net asset value (NAV). The VaCO/VML Virginia Investment Pool allows the Town to have the option to have access to withdraw funds twice a month, with a five-day period notice. Additionally, funds are available to meet unexpected needs such as fluctuations in revenue sources with one-time outlays (disasters, immediate capital needs, state budget cuts, etc.).

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 4—Receivables:

At June 30, 2025, the Town had receivables from other governments as follows:

	<u>Primary Government</u>
Commonwealth of Virginia:	
Local sales tax	\$ 170,257
Rolling stock tax	156
Fire programs	12,563
Mobile home titling tax	150
Auto rental	10,420
Communications tax	18,371
Federal Government:	
Transportation safety	<u>10,117</u>
Total due from other governments	<u>\$ 222,034</u>

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TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 5—Capital Assets:

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2025:

	Balance July 1, 2024	Additions	Deletions	Balance June 30, 2025
<i>Governmental activities:</i>				
Capital assets not subject to depreciation:				
Land	\$ 1,179,679	\$ -	\$ -	\$ 1,179,679
Total capital assets not subject to depreciation	\$ 1,179,679	\$ -	\$ -	\$ 1,179,679
Capital assets subject to depreciation:				
Buildings and improvements	\$ 25,164,977	\$ 1,410,734	\$ -	\$ 26,575,711
Street and related infrastructure	6,446	-	-	6,446
Machinery, equipment and vehicles	7,415,051	864,658	664,497	7,615,212
Lease equipment	27,245	-	-	27,245
Total capital assets subject to depreciation	\$ 32,613,719	\$ 2,275,392	\$ 664,497	\$ 34,224,614
Accumulated depreciation:				
Buildings and improvements	\$ 13,277,672	\$ 536,060	\$ -	\$ 13,813,732
Streets and related infrastructure	6,446	-	-	6,446
Machinery, equipment and vehicles	5,380,333	408,579	345,994	5,442,918
Lease equipment	13,773	6,373	-	20,146
Total accumulated depreciation	\$ 18,678,224	\$ 951,012	\$ 345,994	\$ 19,283,242
Total capital assets subject to depreciation, net	\$ 13,935,495	\$ 1,324,380	\$ 318,503	\$ 14,941,372
Governmental activities capital assets, net	\$ 15,115,174	\$ 1,324,380	\$ 318,503	\$ 16,121,051

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TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 5—Capital Assets: (Continued)

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2025:

	Balance July 1, 2024	Additions	Deletions	Balance June 30, 2025
<i>Business-type Activities:</i>				
Capital assets not subject to depreciation:				
Land	\$ 164,906	\$ -	\$ -	\$ 164,906
Total capital assets not subject to depreciation	\$ 164,906	\$ -	\$ -	\$ 164,906
Capital assets subject to depreciation:				
Water and sewer infrastructure	\$ 29,634,303	\$ 2,590,523	\$ -	\$ 32,224,826
Machinery and equipment	4,752,569	60,997	-	4,813,566
Total capital assets subject to depreciation	\$ 34,386,872	\$ 2,651,520	\$ -	\$ 37,038,392
Accumulated depreciation:				
Water and sewer infrastructure	\$ 13,426,195	\$ 842,767	\$ -	\$ 14,268,962
Machinery and equipment	2,279,021	307,851	-	2,586,872
Total accumulated depreciation	\$ 15,705,216	\$ 1,150,618	\$ -	\$ 16,855,834
Total capital assets subject to depreciation, net	\$ 18,681,656	\$ 1,500,902	\$ -	\$ 20,182,558
Business-type activities capital assets, net	\$ 18,846,562	\$ 1,500,902	\$ -	\$ 20,347,464

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TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 5—Capital Assets: (Continued)

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government administration	\$ 9,293
Public safety	142,660
Public works	571,264
Parks, recreation and cultural	194,252
Community development	33,543
Total depreciation expense - governmental activities	<u>\$ 951,012</u>
Business-type activities:	
Water and Sewer fund	<u>\$ 1,150,618</u>
Total depreciation expense - business-type activities	<u>\$ 1,150,618</u>
Total depreciation expense - primary government	<u><u>\$ 2,101,630</u></u>

Note 6—Long-term Obligations:

The following is a summary of changes in long-term obligations for the fiscal year ended June 30, 2025:

	Balance at July 1, 2024	GASB 101 Adjustments	Restated Balance at July 1, 2024	Increases	Decreases	Balance at June 30, 2025	Amounts Due Within One Year
Governmental Activities:							
Compensated absences*	\$ 206,925	\$ 290,016	\$ 496,941	\$ 34,831	\$ -	\$ 531,772	\$ 53,177
Net OPEB liability	177,126	-	177,126	177,993	190,196	164,923	-
Net pension liability	4,163,895	-	4,163,895	2,365,823	2,277,169	4,252,549	-
General obligation refunding bond	1,131,767	-	1,131,767	-	147,045	984,722	149,145
Lease liabilities	13,696	-	13,696	-	6,475	7,221	5,259
Total Governmental Activities	<u>\$ 5,693,409</u>	<u>\$ 290,016</u>	<u>\$ 5,983,425</u>	<u>\$ 2,578,647</u>	<u>\$ 2,620,885</u>	<u>\$ 5,941,187</u>	<u>\$ 207,581</u>
Business-type Activities:							
Compensated absences*	\$ 66,131	\$ 48,211	\$ 114,342	\$ 135	\$ -	\$ 114,477	\$ 11,448
Net OPEB liability	19,681	-	19,681	12,063	20,128	11,616	-
Net pension liability	293,283	-	293,283	166,636	160,393	299,526	-
General obligation bonds	7,129,298	-	7,129,298	-	926,276	6,203,022	939,508
Total Business-type Activities	<u>\$ 7,508,393</u>	<u>\$ 48,211</u>	<u>\$ 7,556,604</u>	<u>\$ 178,834</u>	<u>\$ 1,106,797</u>	<u>\$ 6,628,641</u>	<u>\$ 950,956</u>
Total Primary Government	<u>\$13,201,802</u>	<u>\$ 338,227</u>	<u>\$13,540,029</u>	<u>\$ 2,757,481</u>	<u>\$ 3,727,682</u>	<u>\$12,569,828</u>	<u>\$ 1,158,537</u>

*The change in compensated absences above is a net change for the year

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 6—Long-term Obligations: (Continued)

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

Year Ending June 30	Governmental Activities			
	Direct Borrowings		Lease Liability	
	General Obligation Bond Principal	Interest	Principal	Interest
2026	\$ 149,145	\$ 14,232	\$ 5,259	\$ 192
2027	151,921	11,996	1,962	30
2028	153,573	9,717	-	-
2029	156,598	7,412	-	-
2030	159,625	5,063	-	-
2031	142,057	2,669	-	-
2032	71,803	537	-	-
Total	\$ 984,722	\$ 51,626	\$ 7,221	\$ 222

Year Ending June 30	Business-type Activities	
	Direct Borrowings	
	General Obligation Bonds Principal	Interest
2026	\$ 939,508	\$ 89,651
2027	956,990	75,566
2028	967,399	61,209
2029	986,453	46,694
2030	1,005,518	31,894
2031	894,856	16,808
2032	452,298	3,381
Total	\$ 6,203,022	\$ 325,203

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 6—Long-term Obligations: (Continued)

Details of Long-term Obligations:

	<u>Total Amount</u>
<u>Governmental Activities:</u>	
<u>General Obligation Bond:</u>	
\$1,500,000 general obligation bond, dated August 13, 2021, due in varying semi-annual installments through August 1, 2031, with 1.45% interest.	\$ 984,722
<u>Lease liabilities:</u>	
\$8,802 copier lease, due in monthly installments of \$245 through 12/25/2025, interest at 4%.	\$ 1,450
\$20,916 office equipment lease, due in quarterly installments of \$996 through 11/11/2026, interest at 4%.	5,771
Total Lease Liabilities	<u>\$ 7,221</u>
Compensated absences	<u>\$ 531,772</u>
Net OPEB liability	<u>\$ 164,923</u>
Net pension liability	<u>\$ 4,252,549</u>
Total Long-term Obligations, Governmental Activities	<u>\$ 5,941,187</u>
<u>Business-type Activities:</u>	
<u>General Obligation Bonds:</u>	
\$9,437,000 general obligation bond, dated August 13, 2021, due in varying semi-annual installments through August 1, 2031, with 1.45% interest.	\$ 6,203,022
Compensated absences	<u>\$ 114,477</u>
Net OPEB liability	<u>\$ 11,616</u>
Net pension liability	<u>\$ 299,526</u>
Total Long-term Obligations, Business-type Activities	<u>\$ 6,628,641</u>
Total Long-term Obligations, Primary Government	<u>\$ 12,569,828</u>

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 7—Deferred/Unavailable Revenue:

Deferred/unavailable revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Under the accrual basis, assessments for future periods are deferred. Deferred/unavailable revenue is comprised of the following:

Unavailable Property Tax Revenue - Unavailable revenue representing uncollected tax billings not available for funding of current expenditures totaled \$398,071 at June 30, 2025.

Prepaid Property Taxes - Property taxes due subsequent to June 30, 2025 but paid in advance by the taxpayers totaled \$15,579 at June 30, 2025.

Note 8—Litigation:

At June 30, 2025, there were no matters of litigation involving the Town which would materially affect the Town's financial position should any court decisions on pending matters not be favorable to the Town.

Note 9—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 participates with other localities in a public entity risk pool for their coverage of worker's compensation and public officials' liability. The Town pays an annual premium to the pools for its general insurance through member premiums. The Town continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 10—Pension Plan:

Plan Description

All full-time, salaried permanent employees of the Town are automatically covered by a VRS Retirement Plan upon employment. This is an agent multiple-employer plan 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.

Benefit Structures

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, as detailed below.

- a. Employees with a membership date before July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of service credit or age 50 with at least 30 years of service credit. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit. Hazardous duty employees (law enforcement officers, firefighters, and sheriffs) are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of service credit.
- b. Employees with a membership date from July 1, 2010 to December 31, 2013, that have not taken a refund or employees with a membership date prior to July 1, 2010 and not vested before January 1, 2013, are covered under Plan 2, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit or when the sum of their age plus service equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit. Hazardous duty employees are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of service credit.
- c. Non-hazardous duty employees with a membership date on or after January 1, 2014 are covered by the Hybrid Plan combining the features of a defined benefit plan and a defined contribution plan. Plan 1 and Plan 2 members also had the option of opting into this plan during the election window held January 1 - April 30, 2014 with an effective date of July 1, 2014. Employees covered by this plan are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit, or when the sum of their age plus service equal 90. Employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit. For the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions.

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 10—Pension Plan: (Continued)

Average Final Compensation and Service Retirement Multiplier

The VRS defined benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the employee's average final compensation multiplied by the employee's total service credit. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.70% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents, and 1.70% or 1.85% for hazardous duty employees as elected by the employer. Under Plan 2, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the retirement multiplier is 1.65% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents, and 1.70% or 1.85% for hazardous duty employees as elected by the employer. Under the Hybrid Plan, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the multiplier 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.

Cost-of-Living Adjustment (COLA) in Retirement and Death and Disability Benefits

Retirees with an unreduced benefit or with a reduced benefit with at least 20 years of service credit are eligible for an annual COLA beginning July 1 after one full calendar year from the retirement date. Retirees with a reduced benefit and who have less than 20 years of service credit are eligible for an annual COLA beginning on July 1 after one calendar year following the unreduced retirement eligibility date. Under Plan 1, the COLA cannot exceed 5.00%. Under Plan 2 and the Hybrid Plan, the COLA cannot exceed 3.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia, as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

Employees Covered by Benefit Terms

As of the June 30, 2023 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 10—Pension Plan: (Continued)

	<u>Primary Government</u>
Inactive members or their beneficiaries currently receiving benefits	35
Inactive members:	
Vested inactive members	14
Non-vested inactive members	33
Inactive members active elsewhere in VRS	<u>27</u>
Total inactive members	74
Active members	<u>64</u>
Total covered employees	<u><u>173</u></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.

The Town’s contractually required employer contribution rate for the year ended June 30, 2025 was 21.31% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2023.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$858,993 and \$860,237 for the years ended June 30, 2025 and June 30, 2024, respectively.

The defined contributions component of the Hybrid plan includes member and employer mandatory and voluntary contributions. The Hybrid plan member must contribute a mandatory rate of 1% of their covered payroll. The employer must also contribute a mandatory rate of 1% of this covered payroll, which totaled \$13,026 for the year ended June 30, 2025. Hybrid plan members may also elect to contribute an additional voluntary rate of up to 4% of their covered payroll; which would require the employer a mandatory additional contribution rate of up to 2.5%. This additional employer mandatory contribution totaled \$18,308 for the year ended June 30, 2025. The total Hybrid plan participant covered payroll totaled \$1,335,607 for the year ended June 30, 2025.

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 10—Pension Plan: (Continued)

Net Pension Liability

The net pension liability is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For the Town, the net pension liability was measured as of June 30, 2024. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2023, rolled forward to the measurement date of June 30, 2024.

Actuarial Assumptions - General Employees

The total pension liability for General Employees in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2023, 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, 2024.

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

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TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 10—Pension Plan: (Continued)

Actuarial Assumptions - General Employees (Continued)

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

Beneficiaries and Survivors:

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

Mortality Improvement:

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

The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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

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

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 10—Pension Plan: (Continued)

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the Town’s Retirement Plan was based on an actuarial valuation as of June 30, 2023, 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, 2024.

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

Mortality rates:

All Others (Non-10 Largest) - Hazardous Duty: 45% of deaths are assumed to be service related

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

Beneficiaries and Survivors:

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

Mortality Improvement:

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

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TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 10—Pension Plan: (Continued)

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits (Continued)

The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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

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

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TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 10—Pension Plan: (Continued)

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Long-Term Target Asset Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return*
Public Equity	32.00%	6.70%	2.14%
Fixed Income	16.00%	5.40%	0.86%
Credit Strategies	16.00%	8.10%	1.30%
Real Assets	15.00%	7.20%	1.08%
Private Equity	15.00%	8.70%	1.31%
PIP - Private Investment Partnerships	1.00%	8.00%	0.08%
Diversifying Strategies	6.00%	5.80%	0.35%
Cash	2.00%	3.00%	0.06%
Leverage	-3.00%	3.50%	-0.11%
Total	100.00%		7.07%

*The above allocation provides a one-year expected return of 7.07% (includes 2.50% inflation assumption). 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. These results provide a range of returns over various time periods that ultimately provide a median return of 7.10%, including expected inflation of 2.50%.

**On June 15, 2023, the VRS Board elected a long-term rate of return of 6.75% which was roughly at the 45th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including expected inflation of 2.50%.

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 10—Pension Plan: (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. For the year ended June 30, 2024, the employer contribution rate was 100% of the actuarially determined employer contribution rate from the June 30, 2023 actuarial valuations. From July 1, 2024 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset)

	Primary Government		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2023	\$ 18,758,841	\$ 14,301,663	\$ 4,457,178
Changes for the year:			
Service cost	\$ 530,400	\$ -	\$ 530,400
Interest	1,270,793	-	1,270,793
Differences between expected and actual experience	722,728	-	722,728
Contributions - employer	-	852,951	(852,951)
Contributions - employee	-	190,075	(190,075)
Net investment income	-	1,394,219	(1,394,219)
Benefit payments, including refunds	(925,358)	(925,358)	-
Administrative expenses	-	(8,537)	8,537
Other changes	-	316	(316)
Net changes	\$ 1,598,563	\$ 1,503,666	\$ 94,897
Balances at June 30, 2024	\$ 20,357,404	\$ 15,805,329	\$ 4,552,075

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 10—Pension Plan: (Continued)

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

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

	Rate		
	<u>1% Decrease</u> <u>(5.75%)</u>	<u>Current Discount</u> <u>(6.75%)</u>	<u>1% Increase</u> <u>(7.75%)</u>
Town's Net Pension Liability	\$ 7,196,302	\$ 4,552,075	\$ 2,401,075

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

For the year ended June 30, 2025, the Town recognized pension expense of \$586,578. At June 30, 2025, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Primary Government	
	<u>Deferred</u> <u>Outflows of</u> <u>Resources</u>	<u>Deferred</u> <u>Inflows of</u> <u>Resources</u>
Differences between expected and actual experience	\$ 508,599	\$ 172,094
Net difference between projected and actual earnings on pension plan investments	-	390,315
Employer contributions subsequent to the measurement date	<u>858,993</u>	<u>-</u>
Total	<u>\$ 1,367,592</u>	<u>\$ 562,409</u>

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 10—Pension Plans: (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

\$858,993 reported as deferred outflows of resources related to pensions resulting from the Town’s contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2026. 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>	<u>Primary Government</u>
2026	\$ (237,049)
2027	296,157
2028	(27,887)
2029	(85,031)
2030	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2024 Annual Comprehensive Financial Report (Annual Report). A copy of the 2024 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2024-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Note 11—Group Life Insurance (GLI) Plan (OPEB Plan):

Plan Description

The Group Life Insurance (GLI) Plan was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS GLI Plan upon employment. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic GLI benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional GLI Plan. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members’ paychecks and pay the premiums to the insurer. Since this is a separate and fully insured plan, it is not included as part of the GLI Plan OPEB.

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 11—Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Plan Description (Continued)

The specific information for GLI OPEB, including eligibility, coverage and benefits is described below:

Eligible Employees

The GLI Plan was established July 1, 1960, for state employees, teachers, and employees of political subdivisions that elect the plan. Basic GLI coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.

Benefit Amounts

The GLI Plan is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, seatbelt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value. For covered members with at least 30 years of service credit, the minimum benefit payable was set at \$8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$9,532 as of June 30, 2025.

Contributions

The contribution requirements for the GLI Plan are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Plan was 1.18% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.71% (1.18% x 60%) and the employer component was 0.47% (1.18% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2025 was 0.47% of covered employee compensation. This rate was the final approved General Assembly rate, which was based on an actuarially determined rate from an actuarial valuation as of June 30, 2023. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Program from the entity were \$18,945 and \$21,928 for the years ended June 30, 2025 and June 30, 2024, respectively.

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 11—Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Plan OPEB

At June 30, 2025, the entity reported a liability of \$176,539 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2024 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2023, and rolled forward to the measurement date of June 30, 2024. The covered employer’s proportion of the Net GLI OPEB Liability was based on the covered employer’s actuarially determined employer contributions to the GLI Plan for the year ended June 30, 2024 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2024, the participating employer’s proportion was 0.01582% as compared to 0.01641% at June 30, 2023.

For the year ended June 30, 2025, the participating employer recognized GLI OPEB expense of \$43,488. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2025, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 27,844	\$ 4,312
Net difference between projected and actual earnings on GLI OPEB plan investments	-	14,880
Change in assumptions	1,006	8,749
Changes in proportionate share	83,405	6,126
Employer contributions subsequent to the measurement date	<u>18,945</u>	<u>-</u>
Total	<u>\$ 131,200</u>	<u>\$ 34,067</u>

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 11—Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Plan OPEB (Continued)

\$18,945 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer’s contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>		
2026	\$	31,405
2027		42,011
2028		1,812
2029		1,287
2030		1,673
Thereafter		-

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2023, 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, 2024. The assumptions include several employer groups. Salary increases and mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS Annual Report.

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

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 11—Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally

Mortality Improvement Scale:

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

The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 11—Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - Hazardous Duty Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

Beneficiaries and Survivors:

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

Mortality Improvement Scale:

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

The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 11—Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

NET GLI OPEB Liability

The net OPEB liability (NOL) for the GLI Plan represents the plan’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2024, NOL amounts for the GLI Plan are as follows (amounts expressed in thousands):

	GLI OPEB Plan
Total GLI OPEB Liability	\$ 4,196,055
Plan Fiduciary Net Position	3,080,133
GLI Net OPEB Liability	<u>\$ 1,115,922</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	73.41%

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

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TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 11—Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Long-Term Target Asset Allocation</u>	<u>Arithmetic Long-term Expected Rate of Return</u>	<u>Weighted Average Long-term Expected Rate of Return*</u>
Public Equity	32.00%	6.70%	2.14%
Fixed Income	16.00%	5.40%	0.86%
Credit Strategies	16.00%	8.10%	1.30%
Real Assets	15.00%	7.20%	1.08%
Private Equity	15.00%	8.70%	1.31%
PIP - Private Investment Partnerships	1.00%	8.00%	0.08%
Diversifying Strategies	6.00%	5.80%	0.35%
Cash	2.00%	3.00%	0.06%
Leverage	-3.00%	3.50%	-0.11%
Total	<u>100.00%</u>		<u>7.07%</u>

*The above allocation provides a one-year expected return of 7.07% (includes 2.50% inflation assumption). 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. These results provide a range of returns over various time periods that ultimately provide a median return of 7.10%, including expected inflation of 2.50%.

** On June 15, 2023, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 45th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including expected inflation of 2.50%.

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 11—Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ended June 30, 2024, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 113% of the actuarially determined contribution rate. From July 1, 2024 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB’s fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

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

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

	Rate		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
Town’s proportionate share of the GLI Plan Net OPEB Liability	\$ 274,541	\$ 176,539	\$ 97,366

GLI Plan Fiduciary Net Position

Detailed information about the GLI Plan’s Fiduciary Net Position is available in the separately issued VRS 2024 Annual Comprehensive Financial Report (Annual Report). A copy of the 2024 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2024-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 12 - Line of Duty Act (LODA) (OPEB Benefits):

The Line of Duty Act (LODA) provides death and healthcare benefits to certain law enforcement and rescue personnel, and their beneficiaries, who were disabled or killed in the line of duty. Benefit provisions and eligibility requirements are established by title 9.1 Chapter 4 of the Code of Virginia. Funding of LODA benefits is provided by employers in one of two ways: (a) participation in the Line of Duty and Health Benefits Trust Fund (LODA Fund), administered by the Virginia Retirement System (VRS) or (b) self-funding by the employer or through an insurance company.

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 12 - Line of Duty Act (LODA) (OPEB Benefits): (Continued)

The Town has elected to provide LODA benefits through an insurance company. The obligation for the payment of benefits has been effectively transferred from the Town to VRSA. VRSA assumes all liability for the Town's LODA claims that are approved by VRS. The pool purchases reinsurance to protect the pool from extreme claims costs.

The current-year OPEB expense/expenditure for the insured benefits is defined as the amount of premiums or other payments required for the insured benefits for the reporting period in accordance with the agreement with the insurance company for LODA and a change in liability to the insurer equal to the difference between amounts recognized as OPEB expense and amounts paid by the employer to the insurer. The Town's LODA coverage is fully covered or "insured" through VRSA. This is built into the LODA coverage cost presented in the annual renewals. The Town's LODA premium for the year ended June 30, 2025 was \$17,039.

Note 13—Contingent Liabilities:

Federal programs in which the Town participates were audited in accordance with the provisions of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Pursuant to the provisions of 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.

Note 14—Note Receivable:

On December 14, 2018, the Town entered into an agreement with an LLC for a note receivable in the amount of \$197,500. The entire note is due in full to the Town on January 8, 2036, no interest.

Note 15—Tax Abatement Programs:

Microsoft Corporation

A tax abatement consists of "a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of these governments."

Town of South Hill has two agreements with Microsoft for the purposes of economic development which conform to that definition. Per the agreements, the Town of South Hill remits any taxes collected from Microsoft to the Industrial Development Authority of Town of South Hill, Virginia, which then refunds the amount to Microsoft as an economic incentive grant.

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 16—Change in Accounting Principle:

During the year ended June 30, 2025, the Town implemented GASB Statement No. 101, *Compensated Absences*. This Statement establishes recognition and measurement guidance for compensated absences that are attributable to services already rendered and that are expected to be paid or settled. Implementation of this Statement required the recognition of a liability for certain leave benefits previously unrecorded or measured differently under prior standards.

The adoption of GASB 101 resulted in a restatement of beginning net position as shown in Note 17 below.

Note 17—Restatement of Beginning Balances:

The Town had the following restatements to ending net position and fund balance at July 1, 2024:

	Net Position	
	Governmental	Business-type
	Activities	Activities Water and Sewer
Balance, July 1, 2024, as previously stated	\$ 43,275,258	17,440,388
GASB 101 compensated absences implementation	(290,016)	(48,211)
Balance, July 1, 2024, as restated	\$ 42,985,242	\$ 17,392,177

Note 18—Upcoming Pronouncements:

Statement No. 103, *Financial Reporting Model Improvements*, improves key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government’s accountability. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025.

Statement No. 104, *Disclosure of Certain Capital Assets*, requires certain types of assets (lease assets, subscription assets, intangible right-to-use assets, and other intangible assets) to be disclosed separately in the capital asset note disclosures by major class of underlying asset. It also requires additional disclosures for capital assets held for sale. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025.

Implementation Guide No. 2025-1, *Implementation Guidance Update—2025*, effective for fiscal years beginning after June 15, 2025.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

TOWN OF SOUTH HILL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 19—Subsequent Events:

On August 11, 2025, the Town awarded a contract in the amount of \$849,300 for street drainage improvements.

On September 8, 2025, the Town awarded a contract in the amount of \$2,277,700 for a water line project.

On October 14, 2025, the Town awarded a contract in the amount of \$1,700,000 for a water and sewer line extension project.

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REQUIRED SUPPLEMENTARY INFORMATION

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Town of South Hill, Virginia
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2025

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 3,000,900	\$ 3,300,900	\$ 3,841,778	\$ 540,878
Other local taxes	5,859,100	5,859,100	7,592,687	1,733,587
Permits, Privilege Fees, and Regulatory Licenses	175,500	175,500	117,718	(57,782)
Fines and forfeitures	45,150	45,150	76,690	31,540
Revenue from the use of money and property	210,900	210,900	1,407,145	1,196,245
Charges for services	656,000	656,000	551,075	(104,925)
Miscellaneous	346,500	346,500	1,128,569	782,069
Recovered costs	204,500	204,500	88,314	(116,186)
Intergovernmental:				
Commonwealth	2,071,316	2,071,316	2,581,437	510,121
Federal	-	-	154,656	154,656
Total revenues	\$ 12,569,866	\$ 12,869,866	\$ 17,540,069	\$ 4,670,203
EXPENDITURES				
General Government Administration	\$ 2,379,878	\$ 3,282,199	\$ 2,898,050	\$ 384,149
Public safety	4,474,239	4,506,756	3,878,411	628,345
Public works	5,357,369	6,532,647	5,894,028	638,619
Parks, recreation, and cultural	1,738,376	1,855,659	1,693,209	162,450
Community development	2,192,616	1,695,376	1,604,462	90,914
Debt service:				
Principal	163,284	163,284	153,520	9,764
Interest and other fiscal charges	-	-	25,284	(25,284)
Total expenditures	\$ 16,305,762	\$ 18,035,921	\$ 16,146,964	\$ 1,888,957
Net change in fund balance	\$ (3,735,896)	\$ (5,166,055)	\$ 1,393,105	\$ 6,559,160
Fund balance - beginning of year	\$ 3,735,896	\$ 5,166,055	\$ 32,911,337	\$ 27,745,282
Fund balance - end of year	\$ -	\$ -	\$ 34,304,442	\$ 34,304,442

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Town of South Hill, Virginia
Cemetery Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2025

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ 4,000	\$ 4,000	\$ 1,600	\$ (2,400)
Miscellaneous	-	-	40	40
Total Revenues	\$ 4,000	\$ 4,000	\$ 1,640	\$ (2,360)
EXPENDITURES				
Community development	\$ 4,000	\$ 4,000	\$ -	\$ 4,000
Total expenditures	\$ 4,000	\$ 4,000	\$ -	\$ 4,000
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ 1,640	\$ 1,640
Net change in fund balance	\$ -	\$ -	\$ 1,640	\$ 1,640
Fund balance - beginning of year	-	-	19,771	19,771
Fund balance - end of year	\$ -	\$ -	\$ 21,411	\$ 21,411

Town of South Hill, Virginia
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
For the Measurement Dates of June 30, 2015 through June 30, 2024

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Total pension liability			
Service cost	\$ 530,400	\$ 538,466	\$ 485,540
Interest	1,270,793	1,238,935	1,161,837
Changes in benefit terms			-
Changes of assumptions			-
Differences between expected and actual experience	722,728	(456,548)	179,474
Benefit payments	(925,358)	(756,277)	(718,900)
Net change in total pension liability	<u>\$ 1,598,563</u>	<u>\$ 564,576</u>	<u>\$ 1,107,951</u>
Total pension liability - beginning	18,758,841	18,194,265	17,086,314
Total pension liability - ending (a)	<u><u>\$ 20,357,404</u></u>	<u><u>\$ 18,758,841</u></u>	<u><u>\$ 18,194,265</u></u>
Plan fiduciary net position			
Contributions - employer	\$ 852,951	\$ 820,685	\$ 652,021
Contributions - employee	190,075	183,378	166,972
Net investment income	1,394,219	870,111	(19,474)
Benefit payments	(925,358)	(756,277)	(718,900)
Administrator charges	(8,537)	(8,243)	(8,062)
Other	316	354	1,133
Net change in plan fiduciary net position	<u>\$ 1,503,666</u>	<u>\$ 1,110,008</u>	<u>\$ 73,690</u>
Plan fiduciary net position - beginning	14,301,663	13,191,655	13,117,965
Plan fiduciary net position - ending (b)	<u><u>\$ 15,805,329</u></u>	<u><u>\$ 14,301,663</u></u>	<u><u>\$ 13,191,655</u></u>
Town's net pension liability (asset) - ending (a) - (b)	\$ 4,552,075	\$ 4,457,178	\$ 5,002,610
Plan fiduciary net position as a percentage of the total pension liability	77.64%	76.24%	72.50%
Covered payroll	\$ 4,060,788	\$ 3,848,060	\$ 3,510,062
Town's net pension liability (asset) as a percentage of covered payroll	112.10%	115.83%	142.52%

2021	2020	2019	2018	2017	2016	2015
\$ 401,021	\$ 390,884	\$ 350,124	\$ 306,319	\$ 218,018	\$ 219,206	\$ 221,445
1,053,894	973,907	882,588	709,193	736,579	717,940	683,450
-	-	-	1,600,914	-	-	-
611,507	-	441,738	-	(313,046)	-	-
(219,941)	480,993	728,192	514,952	(427,735)	(280,545)	(141,590)
(746,823)	(574,772)	(590,784)	(717,842)	(492,253)	(288,387)	(252,810)
\$ 1,099,658	\$ 1,271,012	\$ 1,811,858	\$ 2,413,536	\$ (278,437)	\$ 368,214	\$ 510,495
15,986,656	14,715,644	12,903,786	10,490,250	10,768,687	10,400,473	9,889,978
\$ 17,086,314	\$ 15,986,656	\$ 14,715,644	\$ 12,903,786	\$ 10,490,250	\$ 10,768,687	\$ 10,400,473
\$ 591,291	\$ 467,249	\$ 456,672	\$ 418,464	\$ 233,865	\$ 293,643	\$ 284,506
151,903	148,299	144,968	139,669	131,362	133,865	130,070
2,846,287	193,551	634,807	664,863	979,037	143,332	341,779
(746,823)	(574,772)	(590,784)	(717,842)	(492,253)	(288,387)	(252,810)
(6,906)	(6,424)	(6,123)	(5,780)	(5,657)	(4,754)	(4,445)
(7,041)	(232)	(402)	(585)	(872)	(59)	(72)
\$ 2,828,711	\$ 227,671	\$ 639,138	\$ 498,789	\$ 845,482	\$ 277,640	\$ 499,028
10,289,254	10,061,583	9,422,445	8,923,656	8,078,174	7,800,534	7,301,506
\$ 13,117,965	\$ 10,289,254	\$ 10,061,583	\$ 9,422,445	\$ 8,923,656	\$ 8,078,174	\$ 7,800,534
\$ 3,968,349	\$ 5,697,402	\$ 4,654,061	\$ 3,481,341	\$ 1,566,594	\$ 2,690,513	\$ 2,599,939
76.77%	64.36%	68.37%	73.02%	85.07%	75.02%	75.00%
\$ 3,552,543	\$ 3,058,943	\$ 3,244,564	\$ 3,123,768	\$ 2,966,627	\$ 3,079,442	\$ 2,862,798
111.70%	186.25%	143.44%	111.45%	52.81%	87.37%	90.82%

Town of South Hill, Virginia
Schedule of Employer Contributions - Pension Plan
For the Years Ended June 30, 2016 through June 30, 2025

<u>Date</u>	<u>Contractually Required Contribution*</u> (1)	<u>Contributions in Relation to Contractually Required Contribution*</u> (2)	<u>Contribution Deficiency (Excess)</u> (3)	<u>Employer's Covered Payroll</u> (4)	<u>Contributions as a % of Covered Payroll</u> (5)
Primary Government					
2025	\$ 858,993	\$ 858,993	\$ -	\$ 4,030,938	21.31%
2024	860,237	860,237	-	4,060,788	21.18%
2023	839,262	839,262	-	3,848,060	21.81%
2022	665,067	665,067	-	3,510,062	18.95%
2021	602,495	602,495	-	3,552,543	16.96%
2020	475,054	475,054	-	3,058,943	15.53%
2019	458,212	458,212	-	3,244,564	14.12%
2018	398,255	398,255	-	3,123,768	12.75%
2017	235,820	235,820	-	2,966,627	7.95%
2016	291,352	291,352	-	3,079,442	9.46%

*Excludes contributions (mandatory and match on voluntary) to the defined contribution portion of the Hybrid plan.

Town of South Hill, Virginia
Notes to Required Supplementary Information - Pension Plan
For the Year Ended June 30, 2025

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

Changes of assumptions - The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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

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

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

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

Town of South Hill, Virginia
 Schedule of Town's Share of Net OPEB Liability
 Group Life Insurance (GLI) Plan
 For the Measurement Dates of June 30, 2021 through June 30, 2024

Date (1)	Employer's Proportion of the Net GLI OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6)
2024	0.01582%	\$ 176,539	\$ 4,060,788	4.35%	73.41%
2023	0.01641%	196,807	3,864,191	5.09%	69.30%
2022	0.01614%	194,341	3,510,062	5.54%	67.21%
2021	0.01529%	178,017	3,157,797	5.64%	67.45%

The Town began participation in the Group Life Insurance Plan in fiscal year 2021.

Town of South Hill, Virginia
 Schedule of Employer Contributions
 Group Life Insurance (GLI) Plan
 For the Years Ended June 30, 2021 through June 30, 2025

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)
2025	\$ 18,945	\$ 18,945	\$ -	\$ 4,030,938	0.47%
2024	21,928	21,928	-	4,060,788	0.54%
2023	20,867	20,867	-	3,864,191	0.54%
2022	18,954	18,954	-	3,510,062	0.54%
2021	17,062	17,062	-	3,157,797	0.54%

The Town began participation in the Group Life Insurance Plan in fiscal year 2021.

**Town of South Hill, Virginia
Notes to Required Supplementary Information
Group Life Insurance (GLI) Plan
For the Year Ended June 30, 2025**

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

Changes of assumptions - The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Non-Largest Ten Locality Employers - General Employees

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

Non-Largest Ten Locality Employers - Hazardous Duty Employees

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

OTHER SUPPLEMENTARY INFORMATION

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Town of South Hill, Virginia
 Nick's Lane Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 For the Year Ended June 30, 2025

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental:				
Federal	\$ 919,050	\$ 919,050	\$ 141,630	\$ (777,420)
EXPENDITURES				
Capital Projects	\$ 919,050	\$ 919,050	\$ 217,149	\$ 701,901
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ (75,519)	\$ (75,519)
Net change in fund balance	\$ -	\$ -	\$ (75,519)	\$ (75,519)
Fund balance - beginning of year	-	-	-	-
Fund balance - end of year	\$ -	\$ -	\$ (75,519)	\$ (75,519)

Town of South Hill, Virginia
Statement of Net Position
Discretely Presented Component Unit - Industrial Development Authority
June 30, 2025

ASSETS

Cash and cash equivalents	\$ 2,608,595
Total assets	<u>\$ 2,608,595</u>

LIABILITIES

Accounts payable	\$ 1,100
Total liabilities	<u>\$ 1,100</u>

NET POSITION

Unrestricted	<u>\$ 2,607,495</u>
Total net position	<u><u>\$ 2,607,495</u></u>

Town of South Hill, Virginia
Statement of Revenues, Expenses, and Changes in Net Position
Discretely Presented Component Unit - Industrial Development Authority
For the Year Ended June 30, 2025

OPERATING EXPENSES

Contractual services	\$ 3,863
Other supplies and expenses	5,444
Total operating expenses	<u>\$ 9,307</u>
Operating income (loss)	<u>\$ (9,307)</u>

NONOPERATING REVENUES (EXPENSES)

Interest income	\$ 147,515
Economic incentive grant income	999,675
Economic incentive grant expense	(999,675)
Total nonoperating revenues (expenses)	<u>\$ 147,515</u>
Change in net position	\$ 138,208
Total net position - beginning	<u>2,469,287</u>
Total net position - ending	<u><u>\$ 2,607,495</u></u>

Town of South Hill, Virginia
Statement of Cash Flows
Discretely Presented Component Unit - Industrial Development Authority
For the Year Ended June 30, 2025

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers and users	
Operating grants	
Payments to personnel and related costs	
Payments to suppliers	\$ (9,182)
Net cash provided by (used for) operating activities	<u>\$ (9,182)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Proceeds from economic incentive grant	\$ 999,675
Payments to recipients of economic incentive grant	(999,675)
Net cash provided by (used for) noncapital financing activities	<u>\$ -</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	<u>\$ 147,515</u>
-----------------	-------------------

Net increase (decrease) in cash and cash equivalents	\$ 138,333
--	------------

Cash and cash equivalents - beginning	2,470,262
Cash and cash equivalents - ending	<u><u>\$ 2,608,595</u></u>

Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:

Operating income (loss)	\$ (9,307)
Changes in assets and liabilities:	
Increase (decrease) in accounts payable and accrued expenses	125
Total adjustments	<u>\$ 125</u>
Net cash provided by (used for) operating activities	<u><u>\$ (9,182)</u></u>

SUPPORTING SCHEDULES

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Town of South Hill, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2025

Schedule 1
Page 1 of 3

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 2,010,000	\$ 2,010,000	\$ 2,318,384	\$ 308,384
Real and personal public service corporation taxes	65,900	65,900	65,026	(874)
Personal property taxes	880,000	1,180,000	1,407,526	227,526
Mobile home taxes	-	-	300	300
Penalties	20,000	20,000	19,113	(887)
Interest	25,000	25,000	31,429	6,429
Total general property taxes	<u>\$ 3,000,900</u>	<u>\$ 3,300,900</u>	<u>\$ 3,841,778</u>	<u>\$ 540,878</u>
Other local taxes:				
Local sales and use taxes	\$ 700,000	\$ 700,000	\$ 1,121,014	\$ 421,014
Consumption tax	193,000	193,000	221,469	28,469
Franchise license taxes	-	-	1,420	1,420
Business license taxes	1,110,600	1,110,600	1,705,726	595,126
Motor vehicle licenses	45,000	45,000	49,744	4,744
Bank stock taxes	240,000	240,000	333,399	93,399
Cigarette taxes	200,000	200,000	145,320	(54,680)
Hotel and motel room taxes	860,000	860,000	1,078,775	218,775
Restaurant food taxes	2,500,000	2,500,000	2,916,581	416,581
Penalties and Interest other local taxes	10,500	10,500	19,239	8,739
Total other local taxes	<u>\$ 5,859,100</u>	<u>\$ 5,859,100</u>	<u>\$ 7,592,687</u>	<u>\$ 1,733,587</u>
Permits, privilege fees, and regulatory licenses:				
Permits and other licenses	\$ 175,500	\$ 175,500	\$ 117,718	\$ (57,782)
Fines and forfeitures:				
Court fines and forfeitures	\$ 45,000	\$ 45,000	\$ 76,630	\$ 31,630
Parking fines	150	150	60	(90)
Total fines and forfeitures	<u>\$ 45,150</u>	<u>\$ 45,150</u>	<u>\$ 76,690</u>	<u>\$ 31,540</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 150,000	\$ 150,000	\$ 1,331,976	\$ 1,181,976
Revenue from use of property	60,900	60,900	75,169	14,269
Total revenue from use of money and property	<u>\$ 210,900</u>	<u>\$ 210,900</u>	<u>\$ 1,407,145</u>	<u>\$ 1,196,245</u>
Charges for services:				
Charges for sanitation and waste removal	\$ 541,000	\$ 541,000	\$ 481,017	\$ (59,983)
Charges for landfill tipping fees	115,000	115,000	70,058	(44,942)
Total charges for services	<u>\$ 656,000</u>	<u>\$ 656,000</u>	<u>\$ 551,075</u>	<u>\$ (104,925)</u>
Miscellaneous:				
Miscellaneous	\$ 346,500	\$ 346,500	\$ 1,128,569	\$ 782,069

Town of South Hill, Virginia
 Schedule of Revenues - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2025

Schedule 1
 Page 2 of 3

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Revenue from local sources: (Continued)				
Recovered costs:				
Recovered costs	\$ 18,000	\$ 18,000	\$ 32,518	\$ 14,518
Water and sewer administration	162,500	162,500	-	(162,500)
Insurance refunds	24,000	24,000	55,796	31,796
Total recovered costs	<u>\$ 204,500</u>	<u>\$ 204,500</u>	<u>\$ 88,314</u>	<u>\$ (116,186)</u>
Total revenue from local sources	<u>\$ 10,498,550</u>	<u>\$ 10,798,550</u>	<u>\$ 14,803,976</u>	<u>\$ 4,005,426</u>
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Rolling stock tax	\$ 150	\$ 150	\$ 282	\$ 132
Auto rental tax	55,000	55,000	65,094	10,094
Communications tax	125,000	125,000	115,124	(9,876)
Personal property tax relief funds	113,068	113,068	113,068	-
Total noncategorical aid	<u>\$ 293,218</u>	<u>\$ 293,218</u>	<u>\$ 293,568</u>	<u>\$ 350</u>
Categorical aid:				
Other categorical aid:				
Streets and highway maintenance	\$ 1,724,598	\$ 1,724,598	\$ 2,088,959	\$ 364,361
Grants for law enforcement	-	-	145,335	145,335
Fire programs and grants	21,000	21,000	37,299	16,299
HEAT grant	25,000	25,000	6,000	(19,000)
E-summons	3,000	3,000	5,904	2,904
Arts grant	4,500	4,500	-	(4,500)
Asset forfeiture funds	-	-	4,372	4,372
Total other categorical aid	<u>\$ 1,778,098</u>	<u>\$ 1,778,098</u>	<u>\$ 2,287,869</u>	<u>\$ 509,771</u>
Total categorical aid	<u>\$ 1,778,098</u>	<u>\$ 1,778,098</u>	<u>\$ 2,287,869</u>	<u>\$ 509,771</u>
Total revenue from the Commonwealth	<u>\$ 2,071,316</u>	<u>\$ 2,071,316</u>	<u>\$ 2,581,437</u>	<u>\$ 510,121</u>

Town of South Hill, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2025

Schedule 1
Page 3 of 3

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the federal government:				
Other categorical aid:				
Transportation safety	\$ -	\$ -	\$ 21,991	\$ 21,991
Emergency management grant	-	-	104,295	104,295
ARPA grant	-	-	28,370	28,370
Total other categorical aid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 154,656</u>	<u>\$ 154,656</u>
Total revenue from the federal government	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 154,656</u>	<u>\$ 154,656</u>
Total General Fund	<u>\$ 12,569,866</u>	<u>\$ 12,869,866</u>	<u>\$ 17,540,069</u>	<u>\$ 4,670,203</u>
Special Revenue Funds:				
Cemetery Fund:				
Revenue from local sources:				
Charges for services:				
Cemetery lot sales	<u>\$ 4,000</u>	<u>\$ 4,000</u>	<u>\$ 1,600</u>	<u>\$ (2,400)</u>
Miscellaneous:				
Miscellaneous	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40</u>	<u>\$ 40</u>
Total revenue from local sources	<u>\$ 4,000</u>	<u>\$ 4,000</u>	<u>\$ 1,640</u>	<u>\$ (2,360)</u>
Total Special Revenue Fund	<u>\$ 4,000</u>	<u>\$ 4,000</u>	<u>\$ 1,640</u>	<u>\$ (2,360)</u>
Capital Projects Fund:				
Nick's Lane Fund:				
Intergovernmental:				
Revenue from the federal government:				
Categorical aid:				
Community development block grant	<u>\$ 919,050</u>	<u>\$ 919,050</u>	<u>\$ 141,630</u>	<u>\$ (777,420)</u>
Total Capital Projects Fund	<u>\$ 919,050</u>	<u>\$ 919,050</u>	<u>\$ 141,630</u>	<u>\$ (777,420)</u>
Total Revenues -- Primary Government	<u><u>\$ 13,492,916</u></u>	<u><u>\$ 13,792,916</u></u>	<u><u>\$ 17,683,339</u></u>	<u><u>\$ 3,890,423</u></u>

Town of South Hill, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2025

Schedule 2
Page 1 of 2

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
General government administration:				
Legislative:				
Town Council	\$ 74,528	\$ 74,528	\$ 64,671	\$ 9,857
General and financial administration:				
Town manager	\$ 322,539	\$ 322,539	\$ 261,492	\$ 61,047
Financial administration	537,825	627,825	605,215	22,610
Director of municipal services	188,058	188,058	184,928	3,130
Business development	216,500	313,821	392,262	(78,441)
Other general and financial administration	1,040,428	1,755,428	1,389,482	365,946
Total general and financial administration	<u>\$ 2,305,350</u>	<u>\$ 3,207,671</u>	<u>\$ 2,833,379</u>	<u>\$ 374,292</u>
Total general government administration	<u>\$ 2,379,878</u>	<u>\$ 3,282,199</u>	<u>\$ 2,898,050</u>	<u>\$ 384,149</u>
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 4,098,567	\$ 4,116,954	\$ 3,512,623	\$ 604,331
Fire and rescue services:				
Fire department	\$ -	\$ -	\$ -	\$ -
Inspections:				
Building inspector	\$ 375,672	\$ 389,802	\$ 365,788	\$ 24,014
Total public safety	<u>\$ 4,474,239</u>	<u>\$ 4,506,756</u>	<u>\$ 3,878,411</u>	<u>\$ 628,345</u>
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Street maintenance	\$ 3,837,811	\$ 3,840,280	\$ 3,199,211	\$ 641,069
Sanitation and waste removal:				
Refuse collection	\$ 801,429	\$ 1,038,705	\$ 1,062,277	\$ (23,572)
Maintenance of general buildings and grounds:				
General properties	\$ 336,154	\$ 1,221,154	\$ 1,283,435	\$ (62,281)
Garage department	381,975	432,508	349,105	83,403
Total maintenance of general buildings and grounds	<u>\$ 718,129</u>	<u>\$ 1,653,662</u>	<u>\$ 1,632,540</u>	<u>\$ 21,122</u>
Total public works	<u>\$ 5,357,369</u>	<u>\$ 6,532,647</u>	<u>\$ 5,894,028</u>	<u>\$ 638,619</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Parks and recreation	\$ 1,716,376	\$ 1,806,159	\$ 1,653,810	\$ 152,349
Library:				
Library	\$ 22,000	\$ 49,500	\$ 39,399	\$ 10,101
Total parks, recreation, and cultural	<u>\$ 1,738,376</u>	<u>\$ 1,855,659</u>	<u>\$ 1,693,209</u>	<u>\$ 162,450</u>

Town of South Hill, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2025

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Community development:				
Planning and community development:				
Community Development	\$ 2,192,616	\$ 1,695,376	\$ 1,604,462	\$ 90,914
Debt service:				
Principal retirement	\$ 163,284	\$ 163,284	\$ 153,520	\$ 9,764
Interest and other fiscal charges	-	-	25,284	(25,284)
Total debt service	\$ 163,284	\$ 163,284	\$ 178,804	\$ (15,520)
Total General Fund	\$ 16,305,762	\$ 18,035,921	\$ 16,146,964	\$ 1,888,957
Special Revenue Funds:				
Cemetery Fund:				
Community Development:				
Planning and community development:				
Cemetery	\$ 4,000	\$ 4,000	\$ -	\$ 4,000
Total Special Revenue Fund	\$ 4,000	\$ 4,000	\$ -	\$ 4,000
Capital Projects Fund:				
Nick's Lane				
Capital projects:				
CDBG projects	\$ 919,050	\$ 919,050	\$ 217,149	\$ 701,901
Total Capital Projects Fund	\$ 919,050	\$ 919,050	\$ 217,149	\$ 701,901
Total Expenditures -- Primary Government	\$ 17,228,812	\$ 18,958,971	\$ 16,364,113	\$ 2,594,858

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OTHER STATISTICAL INFORMATION

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Table 1

Town of South Hill, Virginia
Water and Sewer Revenue Bond Debt Service Coverage
Last Ten Fiscal Years

Fiscal Year	Gross Revenues*	Direct Operating Expenses**	Net Available	Principal***	Interest	Total Debt	Coverage
2016	\$ 3,555,622	\$ 2,418,711	\$ 1,136,911	\$ 103,372	\$ 55,161	\$ 158,533	7.17
2017	3,524,318	2,447,761	1,076,557	103,372	59,270	162,642	6.62
2018	3,713,406	2,495,502	1,217,904	389,091	67,463	456,554	2.67
2019	3,860,972	2,139,496	1,721,476	616,145	76,006	692,151	2.49
2020	3,965,706	2,228,192	1,737,514	597,145	40,768	637,913	2.72
2021	4,146,172	2,204,964	1,941,208	578,424	120,463	698,887	2.78
2022	3,629,120	2,193,236	1,435,884	571,145	123,249	694,394	2.07
2023	3,410,646	1,975,392	1,435,254	473,796	168,375	642,171	2.24
2024	5,736,914	3,468,415	2,268,499	917,448	117,291	1,034,739	2.19
2025	4,275,203	3,074,091	1,201,112	926,276	114,360	1,040,636	1.15

*Excludes gain on sale of capital assets.

**Excluding depreciation, interest, and amortization.

***Excludes debt refinancing payoffs.

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COMPLIANCE

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**Independent Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of Town of South Hill, Virginia, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise Town of South Hill, Virginia's basic financial statements and have issued our report thereon dated February 9, 2026.

Our report includes a reference to other auditors who audited the Financial Statements of the South Hill Industrial Development Authority, as described in our report on the Town of South Hill, Virginia's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of South Hill, Virginia's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of South Hill, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

Robinson, Farrow, Cox Associates

Richmond, Virginia
February 9, 2026