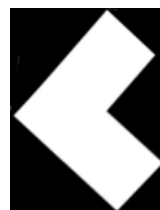


Town of South Hill, Virginia
Comprehensive Annual Financial Report
Year Ended June 30, 2020



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

Town of South Hill, Virginia

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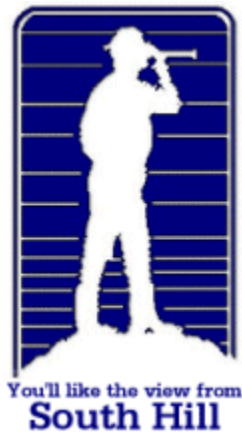
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FINANCIAL SECTION





**Creedle
Jones
& Associates**

A Professional Corporation

*Robin B. Jones, CPA, CFP
Denise C. Williams, CPA, CSEP
Kimberly W. Jackson, CPA*

Nadine L. Chase, CPA

Sherwood H. Creedle, Emeritus

*Members of
American Institute of Certified Public Accountants
Virginia Society of Certified Public Accountants*

INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of South Hill, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of South Hill, Virginia, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town of South Hill, Virginia's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of South Hill, Virginia, as of June 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension and OPEB funding on pages 1-8, 48-53, and 54-56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of South Hill, Virginia's basic financial statements. The statistical section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2020, on our consideration of the Town of South Hill, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Town of South Hill, Virginia's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of South Hill, Virginia's internal control over financial reporting and compliance.

Creedle, Jones & Associates, P.C.

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

South Hill, Virginia
December 11, 2020

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, 2020. 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 \$31,517,116. Of this amount, \$18,729,547 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 \$14,773,668 with an unrestricted balance of \$3,394,931.
- The Town's total net position before transfers increased by \$2,892,431 during the current fiscal year. Of this amount, an increase of \$2,509,983 is related to governmental activities and an increase of \$382,448 is attributed to business-type activities.
- As of June 30, 2020, the Town's Governmental Funds reported combined ending fund balances of \$22,106,119, an increase of \$191,897 in comparison with the prior year. Approximately 99.96% of this amount is available for spending at the Town's discretion (unassigned fund balance).
- At the end of fiscal year 2020, the general fund unassigned fund balance was \$22,105,127, or approximately 189.83% of total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

The Town has three types of funds:

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

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

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

Notes to the Basic Financial Statements

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

Other

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

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

Summary of Net Position

As of June 30, 2020 and 2019

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Assets						
Current and other assets	\$ 22,901,295	\$ 22,102,263	\$ 4,048,431	\$ 4,171,932	\$ 26,949,726	\$ 26,274,195
Capital assets (net)	<u>12,777,566</u>	<u>10,236,290</u>	<u>12,662,457</u>	<u>12,281,775</u>	<u>25,440,023</u>	<u>22,518,065</u>
Total Assets	35,678,861	32,338,553	16,710,888	16,453,707	52,389,749	48,792,260
Deferred Outflows of Resources	<u>1,379,151</u>	<u>737,857</u>	<u>170,311</u>	<u>88,597</u>	<u>1,549,462</u>	<u>826,454</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 37,058,012</u>	<u>\$ 33,076,410</u>	<u>\$ 16,881,199</u>	<u>\$ 16,542,304</u>	<u>\$ 53,939,211</u>	<u>\$ 49,618,714</u>
Liabilities						
Other liabilities	\$ 729,015	\$ 149,672	\$ 259,481	\$ 224,099	\$ 988,496	\$ 373,771
Long-term liabilities	<u>4,561,464</u>	<u>3,519,021</u>	<u>1,817,126</u>	<u>1,791,499</u>	<u>6,378,590</u>	<u>5,310,520</u>
Total Liabilities	5,290,479	3,668,693	2,076,607	2,015,598	7,367,086	5,684,291
Deferred Inflows of Resources	250,417	478,603	30,924	57,467	281,341	536,070
Net Position						
Net investment in capital assets	12,777,566	10,236,290	11,378,737	10,894,683	24,156,303	21,130,973
Restricted	10,003	10,763	-	-	10,003	10,763
Unassigned	<u>18,729,547</u>	<u>18,682,061</u>	<u>3,394,931</u>	<u>3,574,556</u>	<u>22,124,478</u>	<u>22,256,617</u>
Total Net Position	<u>31,517,116</u>	<u>28,929,114</u>	<u>14,773,668</u>	<u>14,469,239</u>	<u>46,290,784</u>	<u>43,398,353</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 37,058,012</u>	<u>\$ 33,076,410</u>	<u>\$ 16,881,199</u>	<u>\$ 16,542,304</u>	<u>\$ 53,939,211</u>	<u>\$ 49,618,714</u>

Statement of Activities

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

Summary of Changes in Net Position

For the Fiscal Years Ended June 30, 2020 and 2019

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Revenues						
Program Revenues						
Charges for services	\$ 938,665	\$ 886,912	\$ 3,502,400	\$ 3,713,406	\$ 4,441,065	\$ 4,600,318
Operating grants and contributions	3,169,190	2,087,999	-	-	3,169,190	2,087,999
General Revenues						
General property taxes, real and personal	2,321,647	2,318,989	-	-	2,321,647	2,318,989
Other taxes	4,656,648	4,857,543	-	-	4,656,648	4,857,543
Grants and contributions not restricted to specific programs	345,711	304,210	-	-	345,711	304,210
Unrestricted revenues from use of property	55,724	183,293	-	-	55,724	183,293
Investment earnings	257,456	52,218	21,918	21,991	279,374	74,209
Miscellaneous	298,117	872,696	-	-	298,117	872,696
Total Revenues	12,043,158	11,563,860	3,524,318	3,735,397	15,567,476	15,299,257
Expenses						
General government administration	1,472,583	1,621,282	-	-	1,472,583	1,621,282
Public safety	3,058,407	3,452,128	-	-	3,058,407	3,452,128
Public works	3,388,184	2,799,980	-	-	3,388,184	2,799,980
Parks, recreation, and cultural	531,450	573,922	-	-	531,450	573,922
Community development	1,082,551	1,385,559	-	-	1,082,551	1,385,559
Water and sewer activities	-	-	3,141,870	3,148,617	3,141,870	3,148,617
Total Expenses	9,533,175	9,832,871	3,141,870	3,148,617	12,675,045	12,981,488
Increase in Net Position Before Transfers	2,509,983	1,730,989	382,448	586,780	2,892,431	2,317,769
Beginning Net Position	28,929,114	27,211,585	14,469,239	13,868,999	43,398,353	41,080,584
Transfers	78,019	(13,460)	(78,019)	13,460	-	-
Change in Net Position	2,588,002	1,717,529	304,429	600,240	2,892,431	2,317,769
Ending Net Position	\$ 31,517,116	\$ 28,929,114	\$ 14,773,668	\$ 14,469,239	\$ 46,290,784	\$ 43,398,353

Governmental activities increased the Town's net position before transfers by \$2,509,983 for fiscal year 2020. Revenues from governmental activities totaled \$12,043,158. Other taxes comprise the largest source of these revenues, totaling \$4,656,648 or 38.67% of all governmental activities revenue. Business-type activities increased the Town's net position before transfers by \$382,448 with revenues reported of \$3,524,318.

The total cost of all governmental activities for this fiscal year was \$9,533,175. Public works was the Town's largest program with expenses totaling \$3,388,184. Public safety, which totals \$3,058,407, represents the second largest expense. Business-type activities reported expenses of \$3,141,870.

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

Net Cost of Governmental Activities

For the Fiscal Years Ended June 30, 2020 and 2019

	<u>2020</u>		<u>2019</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
General government administration	\$ 1,472,583	\$ (1,425,690)	\$ 1,621,282	\$ (1,621,282)
Public safety	3,058,407	(2,776,288)	3,452,128	(3,285,524)
Public works	3,388,184	303,133	2,799,980	(622,281)
Parks, recreation, and cultural	531,450	(526,950)	573,922	(569,422)
Community development	<u>1,082,551</u>	<u>(999,525)</u>	<u>1,385,559</u>	<u>(759,451)</u>
Total	<u>\$ 9,533,175</u>	<u>\$ (5,425,320)</u>	<u>\$ 9,832,871</u>	<u>\$ (6,857,960)</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 \$22,106,119. The combined governmental fund balance increased \$191,897 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 \$22,105,127. The General Fund's liquidity can be measured by comparing unassigned fund balance to total fund expenditures. Unassigned fund balance represents 189.83% 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:

Budgetary Comparison						
General Fund						
For the Fiscal Years Ended June 30, 2020 and 2019						
	<u>2020</u>			<u>2019</u>		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Revenues						
Taxes, real and personal property	\$ 2,228,200	\$ 2,228,200	\$ 2,293,854	\$ 2,193,700	\$ 2,193,700	\$ 2,433,081
Other local taxes	4,173,500	4,173,500	4,656,647	4,168,500	4,168,500	4,688,760
Other revenues	2,628,600	2,735,175	1,505,879	2,583,600	2,583,600	1,707,641
Intergovernmental	<u>3,169,995</u>	<u>3,186,931</u>	<u>3,514,902</u>	<u>3,169,295</u>	<u>3,169,295</u>	<u>2,157,359</u>
Total	12,200,295	12,323,806	11,971,282	12,115,095	12,115,095	10,986,841
Expenditures	<u>12,320,295</u>	<u>13,591,414</u>	<u>11,699,170</u>	<u>12,235,095</u>	<u>12,235,095</u>	<u>8,540,033</u>
Excess (Deficiency) of Revenues Over Expenditures	(120,000)	(1,267,608)	272,112	(120,000)	(120,000)	2,446,808
Other Financing Sources (Uses)						
Transfers in	120,000	120,000	127,056	120,000	120,000	125,980
Prior year surplus	<u>-</u>	<u>1,147,608</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(139,440)</u>
Total	<u>120,000</u>	<u>1,267,608</u>	<u>127,056</u>	<u>120,000</u>	<u>120,000</u>	<u>(13,460)</u>
Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 399,168</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,433,348</u>

Final amended budget revenues were more than the original budget by \$123,511.

The amended budget appropriations for expenditures exceeded the original appropriation by \$1,271,119.

Actual revenues were less than final budget amounts by \$352,524, or 2.86%, while actual expenditures were \$1,892,244, or 13.93% less than final budget amounts.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

As of June 30, 2020, the Town's governmental activities net capital assets total \$12,777,566, which represents a net increase of \$2,541,276 or 24.83% over the previous fiscal year-end balance. The business-type activities net capital assets total \$12,662,457, an increase of \$380,682 or 3.10% over the previous fiscal year.

Change in Capital Assets

	<u>Balance July 1, 2019</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2020</u>
Governmental Activities			
Land, land improvements, and easements	\$ 1,293,613	\$ -	\$ 1,293,613
Buildings and improvements	9,047,803	-	9,047,803
Land and land improvements	499,102	-	499,102
Streets and related infrastructure	8,653,823	2,549,980	11,203,803
Machinery, equipment, and vehicles	7,630,909	508,794	8,139,703
Total Capital Assets	27,125,250	3,058,774	30,184,024
Less: Accumulated depreciation	<u>(16,888,960)</u>	<u>(517,498)</u>	<u>(17,406,458)</u>
Total Capital Assets, Net	10,236,290	2,541,276	12,777,566
Business-Type Activities			
Land, land improvements, and easements	664,020	-	664,020
Water and sewer infrastructure	25,621,439	159,599	25,781,038
Machinery, equipment, and vehicles	2,170,309	653,927	2,824,236
Total Capital Assets	28,455,768	813,526	29,269,294
Less: Accumulated depreciation	<u>(16,173,993)</u>	<u>(432,844)</u>	<u>(16,606,837)</u>
Total Capital Assets, Net	12,281,775	380,682	12,662,457
 Total Reporting Entity	 <u>\$ 22,518,065</u>	 <u>\$ 2,921,958</u>	 <u>\$ 25,440,023</u>

Long-Term Debt

As of June 30, 2020, the Town's long-term obligations total \$1,724,529.

Change in Long-Term Debt

	<u>Balance July 1, 2019</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2020</u>	<u>Due Within One Year</u>
Governmental Activities				
Landfill obligation	\$ 157,495	\$ -	\$ 157,495	\$ -
Compensated absences	284,592	(1,278)	283,314	28,331
Total Governmental Activities	442,087	(1,278)	440,809	28,331
Business-Type Activities				
Virginia Resources Authority	1,387,092	(103,372)	1,283,720	103,372
Total Business-Type Activities	1,387,092	(103,372)	1,283,720	103,372
Total Reporting Entity	<u>\$ 1,829,179</u>	<u>\$ (104,650)</u>	<u>\$ 1,724,529</u>	<u>\$ 131,703</u>

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The average unemployment rate for the Town of South Hill, Virginia in June 2020, which uses Mecklenburg County's rate, was 8.7%. This compares unfavorably to the state's rate of 8.5% and favorably to the national rate of 11.2%.
- According to the 2010 U.S. Census, the population in the Town of South Hill, Virginia was 4,650, an increase of 5.61%, since the 2000 U.S. Census.
- The per capita income in the Town of South Hill, Virginia was \$21,646, compared to \$27,705 for the state, according to the 2010 U.S. Census data.

The fiscal year 2021 adopted budget anticipates General Fund revenues and expenditures to be \$10,670,455, a 21.49% decrease over the fiscal year 2020 final budget.

The fiscal year 2021 adopted budget anticipates water and sewer revenue to be \$10,083,342, a 1.96% increase over the fiscal year 2020 budget.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. Questions concerning this report or requests for additional information should be directed to Kim Callis, Town Manager, or 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



Town of South Hill, Virginia

Statement of Net Position

At June 30, 2020

Primary Government

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 21,590,329	\$ 3,671,355	\$ 25,261,684
Property taxes receivable, net	195,848	-	195,848
Receivables, net	572,631	377,076	949,707
Due from other governments	542,487	-	542,487
Capital Assets			
Land, land improvements, and easements	1,293,613	664,020	1,957,633
Buildings and improvements	9,047,803	-	9,047,803
Land and land improvements	499,102	-	499,102
Infrastructure	11,203,803	25,781,038	36,984,841
Machinery, equipment, and vehicles	8,139,703	2,824,236	10,963,939
Less: Accumulated depreciation	(17,406,458)	(16,606,837)	(34,013,295)
Capital Assets, Net	<u>12,777,566</u>	<u>12,662,457</u>	<u>25,440,023</u>
Total Assets	35,678,861	16,710,888	52,389,749
Deferred Outflows of Resources			
Deferred outflows - pension	<u>1,379,151</u>	<u>170,311</u>	<u>1,549,462</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 37,058,012</u>	<u>\$ 16,881,199</u>	<u>\$ 53,939,211</u>
Liabilities			
Accounts payable and accrued expenses	\$ 729,015	\$ 90,395	\$ 819,410
Customer deposits	-	169,086	169,086
Long-Term Liabilities			
<i>Due within one year</i>			
Bonds and notes payable	-	103,372	103,372
Compensated absences	28,331	-	28,331
<i>Due in more than one year</i>			
Bonds and notes payable	-	1,180,348	1,180,348
Compensated absences	254,983	-	254,983
Net pension liability	4,120,655	533,406	4,654,061
Landfill obligation	<u>157,495</u>	<u>-</u>	<u>157,495</u>
Total Liabilities	5,290,479	2,076,607	7,367,086
Deferred Inflows of Resources			
Deferred inflows - pension	250,417	30,924	281,341
Net Position			
Net investment in capital assets	12,777,566	11,378,737	24,156,303
Restricted	10,003	-	10,003
Unrestricted	<u>18,729,547</u>	<u>3,394,931</u>	<u>22,124,478</u>
Total Net Position	<u>31,517,116</u>	<u>14,773,668</u>	<u>46,290,784</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 37,058,012</u>	<u>\$ 16,881,199</u>	<u>\$ 53,939,211</u>

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

Town of South Hill, Virginia

Statement of Activities

For the Year Ended June 30, 2020

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	
Primary Government						
Governmental Activities						
General government administration	\$ 1,472,583	\$ -	\$ 46,893	\$ (1,425,690)		\$ (1,425,690)
Public safety	3,058,407	116,840	165,279	(2,776,288)		(2,776,288)
Public works	3,388,184	738,799	2,952,518	303,133		303,133
Parks, recreation, and cultural	531,450	-	4,500	(526,950)		(526,950)
Community development	1,082,551	83,026	-	(999,525)		(999,525)
Total Governmental Activities	9,533,175	938,665	3,169,190	(5,425,320)		(5,425,320)
Business-Type Activities						
Water and sewer fund	3,141,870	3,502,400	-	-	\$ 360,530	360,530
Total Primary Government	\$ 12,675,045	\$ 4,441,065	\$ 3,169,190	(5,425,320)	360,530	(5,064,790)
General Revenues						
Taxes						
General property taxes, real and personal				2,321,647	-	2,321,647
Other local taxes				4,656,648	-	4,656,648
Grants and contributions not restricted to specific programs				345,711	-	345,711
Unrestricted revenues from use of property				55,724	-	55,724
Investment earnings				257,456	21,918	279,374
Miscellaneous				298,117	-	298,117
Transfers				78,019	(78,019)	-
Total General Revenues and Transfers				8,013,322	(56,101)	7,957,221
Change in Net Position				2,588,002	304,429	2,892,431
Net Position - Beginning of Year				28,929,114	14,469,239	43,398,353
Net Position - End of Year				\$ 31,517,116	\$ 14,773,668	\$ 46,290,784

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

Town of South Hill, Virginia

Balance Sheet

Governmental Funds

At June 30, 2020

	<u>General Fund</u>	<u>Food Hub Fund</u>	<u>Groom School Fund</u>	<u>Cemetery Fund</u>	<u>Total Governmental Funds</u>
Assets					
Cash and investments	\$ 21,580,326	\$ -	\$ -	\$ 10,003	\$ 21,590,329
Property taxes receivable, net	195,848	-	-	-	195,848
Accounts receivable, net	572,631	-	-	-	572,631
Due from other funds	9,011	-	-	-	9,011
Due from other governments	<u>542,488</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>542,488</u>
Total Assets	<u>\$ 22,900,304</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,003</u>	<u>\$ 22,910,307</u>
Liabilities					
Accounts payable and accrued liabilities	\$ 729,015	\$ -	\$ -	\$ -	\$ 729,015
Due to other funds	<u>-</u>	<u>9,011</u>	<u>-</u>	<u>-</u>	<u>9,011</u>
Total Liabilities	729,015	9,011	-	-	738,026
Deferred Inflows of Resources					
Unavailable revenue - property taxes	<u>66,162</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66,162</u>
Total Deferred Inflows of Resources	66,162	-	-	-	66,162
Fund Balance					
Restricted	-	-	-	10,003	10,003
Unassigned	<u>22,105,127</u>	<u>(9,011)</u>	<u>-</u>	<u>-</u>	<u>22,096,116</u>
Total Fund Balance (Deficit)	<u>22,105,127</u>	<u>(9,011)</u>	<u>-</u>	<u>10,003</u>	<u>22,106,119</u>
Total Liabilities, Deferred Inflows of of Resources, and Fund Balance (Deficit)	<u>\$ 22,900,304</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,003</u>	<u>\$ 22,910,307</u>

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

Town of South Hill, Virginia

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

At June 30, 2020

Total Fund Balances for Governmental Funds \$ 22,106,119

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

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

Land, land improvements, and easements	\$ 1,734,123
Buildings and improvements, net of accumulated depreciation	5,482,778
Streets and related infrastructure, net of accumulated depreciation	3,180,613
Machinery, equipment, and vehicles, net of accumulated depreciation	<u>2,380,052</u>

Total Capital Assets 12,777,566

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

Unavailable revenue - property taxes 66,161

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

Deferred outflows of resources related to pensions	1,379,151
Deferred inflows of resources related to pensions	<u>(250,417)</u>

Total Deferred Outflows and Inflows of Resources 1,128,734

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

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

Net pension liability	(4,120,655)
Landfill obligation	(157,495)
Compensated absences	<u>(283,314)</u>

Total (4,561,464)

Total Net Position of Governmental Activities \$ 31,517,116

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

Town of South Hill, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2020

	<u>General Fund</u>	<u>Food Hub Fund</u>	<u>Groom School Fund</u>	<u>Cemetery Fund</u>	<u>Total Governmental Funds</u>
Revenues					
Property taxes	\$ 2,293,854	\$ -	\$ -	\$ -	\$ 2,293,854
Other local taxes	4,656,648	-	-	-	4,656,648
Permits, privilege fees, and regulatory licenses	42,909	-	-	-	42,909
Fines and forfeitures	73,931	-	-	-	73,931
Use of money and property	313,181	-	-	-	313,181
Charges for services	738,799	-	-	-	738,799
Miscellaneous	337,056	1,545	-	40	338,641
<i>Intergovernmental</i>					
Revenue from the Commonwealth of Virginia	2,559,623	-	-	-	2,559,623
Revenue from the Federal Government	<u>955,279</u>	<u>83,026</u>	<u>-</u>	<u>-</u>	<u>1,038,305</u>
Total Revenues	11,971,280	84,571	-	40	12,055,891
Expenditures					
Current					
General government administration	1,344,419	-	-	-	1,344,419
Public safety	2,987,067	-	-	-	2,987,067
Public works	6,107,243	-	-	-	6,107,243
Parks, recreation, and cultural	419,933	-	-	800	420,733
Community development	<u>786,263</u>	<u>98,788</u>	<u>197,500</u>	<u>-</u>	<u>1,082,551</u>
Total Expenditures	<u>11,644,925</u>	<u>98,788</u>	<u>197,500</u>	<u>800</u>	<u>11,942,013</u>
Excess (Deficiency) of Revenues Over Expenditures	326,355	(14,217)	(197,500)	(760)	113,878
Other Financing Sources (Uses)					
Transfers in (out)	<u>72,813</u>	<u>5,206</u>	<u>-</u>	<u>-</u>	<u>78,019</u>
Total Other Financing Sources (Uses)	<u>72,813</u>	<u>5,206</u>	<u>-</u>	<u>-</u>	<u>78,019</u>
Net Change in Fund Balance	399,168	(9,011)	(197,500)	(760)	191,897
Fund Balance - Beginning of Year	<u>21,705,959</u>	<u>-</u>	<u>197,500</u>	<u>10,763</u>	<u>21,914,222</u>
Fund Balance (Deficit) - End of Year	<u>\$ 22,105,127</u>	<u>\$ (9,011)</u>	<u>\$ -</u>	<u>\$ 10,003</u>	<u>\$ 22,106,119</u>

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

Town of South Hill, Virginia

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

Year Ended June 30, 2020

Net Change in Fund Balances - Total Governmental Funds \$ 191,897

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

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

Capitalized assets	\$ 3,058,774	
Depreciation	<u>(517,498)</u>	
		2,541,276

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.

27,792

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

Pension contributions	641,294	
Cost of benefits earned net of employee contributions	<u>(815,535)</u>	
		(174,241)

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

Compensated absences	<u>1,278</u>	
Net Adjustment		<u>1,278</u>

Change in Net Position of Governmental Activities \$ 2,588,002

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

Town of South Hill, Virginia

Statement of Net Position

Proprietary Fund

At June 30, 2020

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

Assets**Current Assets**

Cash	\$ 3,671,355
Accounts receivable (net of allowance for bad debts)	<u>377,076</u>
Total Current Assets	4,048,431

Capital Assets

Land, land improvements, and easements	664,020
Infrastructure	26,144,546
Machinery, equipment, and vehicles	2,460,728
Less: Accumulated depreciation	<u>(16,606,837)</u>
Capital Assets, Net	12,662,457

Deferred Outflows of Resources

Deferred outflows - pension	<u>170,311</u>
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Total Assets and Deferred Outflows of Resources	<u><u>\$ 16,881,199</u></u>
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Liabilities**Current Liabilities**

Accounts payable and accrued liabilities	\$ 90,395
Current portion of general obligation bonds	<u>103,372</u>
Total Current Liabilities	193,767

Noncurrent Liabilities

Customer deposits	169,086
Net pension liability	533,406
General obligation bonds (net of current portion)	<u>1,180,348</u>
Total Noncurrent Liabilities	<u>1,882,840</u>

Total Liabilities	2,076,607
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Deferred Inflows of Resources

Deferred inflows - pension	30,924
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Net Position

Net investment in capital assets	11,378,737
Unrestricted	<u>3,394,931</u>

Total Net Position	<u>14,773,668</u>
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Total Liabilities, Deferred Inflows of Resources, and Net Position	<u><u>\$ 16,881,199</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

Town of South Hill, Virginia

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

Proprietary Fund

Year Ended June 30, 2020

	<u>Business-Type Activities - Enterprise Fund Water and Sewer Fund</u>
Operating Revenues	
Charges for services	\$ 3,351,782
Miscellaneous	78,229
Connection and cut-on fees	<u>72,389</u>
Total Operating Revenues	3,502,400
Operating Expenses	
Water purchases	1,143,818
Salaries and wages	386,059
Fringe benefits	161,286
Contractual services	28,253
Professional Services	7,176
Chemicals	19,872
Vehicle and power equipment	4,556
Repairs and maintenance	344,537
Insurance	19,953
Other charges	156,026
Depreciation	634,839
Utilities	<u>176,225</u>
Total Operating Expenses	<u>3,082,600</u>
Operating Income	419,800
Nonoperating Revenues (Expenses)	
Investment and interest income	21,918
Interest expense on bonds	<u>(59,270)</u>
Total Nonoperating Revenues (Expenses)	<u>(37,352)</u>
Income Before Operating Transfers	382,448
Operating Transfers In (Out)	<u>(78,019)</u>
Change in Net Position	304,429
Total Net Position - Beginning of Year	<u>14,469,239</u>
Total Net Position - End of Year	<u><u>\$ 14,773,668</u></u>

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

Town of South Hill, Virginia

Statement of Cash Flows

Proprietary Fund

Year Ended June 30, 2020

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

Cash Flows from Operating Activities

Receipts from customers	\$ 3,367,635
Payments to personnel and related costs	(826,119)
Payments to suppliers	<u>(1,483,804)</u>
Net Cash Provided by Operating Activities	1,057,712

Cash Flows from Noncapital Financing Activities

Funds from (paid to) other funds	<u>(78,019)</u>
Net Cash Used in Noncapital Financing Activities	(78,019)

Cash Flows from Financing Capital and Related Activities

Purchase of capital assets	(1,015,521)
Principal paid on long-term debt	(103,372)
Interest paid on long-term debt	<u>(59,270)</u>
Net Cash Used in Financing Capital and Related Activities	(1,178,163)

Cash Flows from Investing Activities

Investment and interest income	<u>21,918</u>
Net Cash Provided by Investing Activities	<u>21,918</u>

Net Decrease in Cash	(176,552)
Cash - Beginning of Year	<u>3,847,907</u>
Cash - End of Year	<u><u>\$ 3,671,355</u></u>

**Reconciliation of Operating Income to Net
Cash Provided by Operating Activities**

Operating income	\$ 419,800
<i>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</i>	
Depreciation expense	634,839
<i>Changes in assets and liabilities</i>	
Receivables, net	(60,042)
Due from other funds	6,991
Accounts payable and accrued expenses	20,393
Customer deposits	14,989
Deferred outflows - pension	(81,714)
Net pension liability	128,999
Deferred inflows - pension	<u>(26,543)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 1,057,712</u></u>

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

Town of South Hill Virginia

Notes to the Financial Statements

Year Ended June 30, 2020

1 Summary of Significant Accounting Policies

Narrative Profile

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

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

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

1-A. Financial Reporting Entity

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

Exclusions from the Reporting Entity

Jointly Governed Organizations

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

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

Related Organization

Industrial Development Authority of the Town of South Hill, Virginia

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

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

1-B. Financial Reporting Model

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

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

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

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

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

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

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

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

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

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

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

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

1-C. Financial Statement Presentation

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

- **Governmental Funds** – Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The Town reports the difference between its governmental fund assets and deferred outflows of resources and its liabilities and deferred inflows of resources as fund balance. The following are the Town's major governmental funds:
 - *General Fund* – The General Fund is the primary operating fund of the Town and accounts for all revenues and expenditures applicable to the general operations of the Town which are not accounted for in other funds. Revenues are derived primarily from property and other local taxes, licenses, permits, charges for services, use of money and property, and intergovernmental grants.
 - *Special Revenue Funds* – Special Revenue Funds account for the proceeds of specific revenue sources (other than those derived from special assessments, expendable trusts, or dedicated for major capital projects) requiring separate accounting due to legal or regulatory provisions or administrative action. Special Revenue Funds include the following:
 - Cemetery Fund – This fund accounts for Town revenues collected and disbursed for maintenance of the Cemetery Fund controlled by the Town.
 - Food Hub Fund – This fund accounts for revenues collected and disbursed for the building and erection of the Food Hub, which is controlled by the Town.
 - Groom School Fund – This fund accounts for revenues collected and disbursed for the rehabilitation of the Groom School, which is controlled by the Town.
 - *Capital Projects Funds* – Capital Projects Funds account for financial resources to be used for rehabilitation projects, other than those financed by proprietary funds. There are no Capital Projects Funds.
- **Proprietary Funds** – Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The Town has one enterprise fund, the Water and Sewer Fund, which accounts for operations that are financed and operated in a manner similar to private business enterprises. The intent of the Town is that the cost of providing services to the general public be financed or recovered through user charges.

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

1-D. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

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

1-E-1 Cash and Cash Equivalents

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

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

1-E-2 Investments

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

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

1-E-3 Receivables and Payables

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

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

	<u>General</u>
General Fund - Property Taxes	\$ 32,568
	<u>\$ 32,568</u>

Real and Personal Property Tax Data

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

Real Property Personal Property

Levy	July 1	July 1
Due Date	January 5	January 5
Lien Date	July 1	July 1

The Town bills and collects its own property taxes.

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

1-E-4 Prepaid Items

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

1-E-5 Capital Assets

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

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

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

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

1-E-6 Deferred Outflows/Inflows of Resources

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

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

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

1-E-7 Compensated Absences

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

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

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

1-E-8 Pensions

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

1-E-9 Fund Equity

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

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

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

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

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

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

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

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

1-E-10 Operating Revenues and Expenses

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

1-E-11 Interfund Activity

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

1-E-12 Long-Term Obligations

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

1-E-13 Adoption of New GASB Statement

During the fiscal year ended June 30, 2020, the Town adopted the following GASB statement:

- Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance

This Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- Implementation Guide No. 2018-1, *Implementation Guidance Update—2018*
- Implementation Guide No. 2019-1, *Implementation Guidance Update—2019*
- Implementation Guide No. 2019-2, *Fiduciary Activities*

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*

1-F. Estimates

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

2 Stewardship, Compliance, and Accountability

Budgets and Budgetary Accounting

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

Budgetary Data

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

1. Prior to April 1, the Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing July 1. The operating budget and capital budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the fund, function, and departmental level. These appropriations for each fund, function, and department can be revised only by the Town Council.
5. Formal budgetary integration is employed as a management control device during the year and budgets are legally adopted for all major funds.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Expenditures in Excess of Appropriations

Expenditures exceeded appropriations in the Groom School Fund and Food Hub Fund at June 30, 2020.

No budget is adopted for these funds.

Fund Deficits

The Food Hub Fund had a fund balance deficit of \$9,011 at June 30, 2020.

3 Cash and Cash Equivalents

Deposits

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

The following is a summary and reconciliation of the pooled cash and certificates of deposit at June 30, 2020:

<u>Asset Type</u>	<u>Balance June 30, 2020</u>
Petty cash	\$ 950
Deposit accounts	<u>25,260,734</u>
Total Cash and Cash Equivalents	<u>\$ 25,261,684</u>

4 Net Receivables

Receivables at June 30, 2020 consist of the following:

Primary Government

	<u>Governmental Activities</u>		<u>Business-Type</u>	
	<u>General</u>	<u>Total Governmental</u>	<u>Activities</u>	<u>Total</u>
Property taxes	\$ 228,416	\$ 228,416	\$ -	\$ 228,416
Sales taxes	93,760	93,760	-	93,760
Utility taxes	15,465	15,465	-	15,465
Garbage, water and sewer	88,418	88,418	377,076	465,494
Meals tax	166,225	166,225	-	166,225
Lodging tax	67,525	67,525	-	67,525
Motor vehicle license fees	4,833	4,833	-	4,833
Fines	2,064	2,064	-	2,064
Mecklenburg tipping fees	8,469	8,469	-	8,469
Miscellaneous	<u>125,872</u>	<u>125,872</u>	<u>-</u>	<u>125,872</u>
Total	801,047	801,047	377,076	1,178,123
Allowance for uncollectibles	<u>(32,568)</u>	<u>(32,568)</u>	<u>-</u>	<u>(32,568)</u>
Net Receivables	<u>\$ 768,479</u>	<u>\$ 768,479</u>	<u>\$ 377,076</u>	<u>\$ 1,145,555</u>

5 Interfund Transfers and Balances

Interfund transfers for the year ended June 30, 2020 consisted of the following:

Primary Government

	<u>Transfer To</u>	<u>Transfer From</u>
General Fund		
To Water and Sewer Fund for reimbursed expenses	\$ 49,037	\$ -
To Food Hub for reimbursed expenses	5,206	-
From Water and Sewer Fund for administrative fees	<u>-</u>	<u>127,056</u>
Total General Fund	54,243	127,056
Water and Sewer Fund		
To General Fund for administrative fees	63,528	-
To General Fund for administrative fees	63,528	-
From General Fund for reimbursed expenses	<u>-</u>	<u>49,037</u>
Total Water and Sewer Fund	<u>127,056</u>	<u>49,037</u>
Southern Virginia Food Hub		
From General Fund for reimbursed expenses	<u>-</u>	<u>5,206</u>
Total Southern Virginia Food Hub	<u>-</u>	<u>5,206</u>
Total Transfers	<u>\$ 181,299</u>	<u>\$ 181,299</u>

Interfund balances for the year ended June 30, 2020 consisted of the following amounts:

	<u>Due From</u>	<u>Due To</u>
General Fund		
Due from Food Hub	\$ 9,011	\$ -
Southern Virginia Food Hub		
Due to General Fund	-	9,011
Total Due To/From Other Funds	<u>\$ 9,011</u>	<u>\$ 9,011</u>

6 Capital Assets

The following is a summary of changes in capital assets:

Governmental Activities

	<u>Balance July 1, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2020</u>
Capital Assets Not Being Depreciated				
Land and easements	\$ 1,293,613	\$ -	\$ -	\$ 1,293,613
Total Capital Assets Not Being Depreciated	1,293,613	-	-	1,293,613
Other Capital Assets				
Buildings and improvements	9,047,803	-	-	9,047,803
Land improvements	499,102	-	-	499,102
Streets and related infrastructure	8,653,823	2,549,980	-	11,203,803
Machinery, equipment, and vehicles	<u>7,630,909</u>	<u>701,951</u>	<u>193,157</u>	<u>8,139,703</u>
Total Other Capital Assets	25,831,637	3,251,931	193,157	28,890,411
Less: Accumulated depreciation for				
Buildings and improvements	3,330,732	234,293	-	3,565,025
Land improvements	54,008	4,584	-	58,592
Streets and related infrastructure	7,984,759	38,431	-	8,023,190
Machinery, equipment, and vehicles	<u>5,519,461</u>	<u>391,820</u>	<u>151,630</u>	<u>5,759,651</u>
Total Accumulated Depreciation	<u>16,888,960</u>	<u>669,128</u>	<u>151,630</u>	<u>17,406,458</u>
Other Capital Assets, Net	<u>8,942,677</u>	<u>2,582,803</u>	<u>41,527</u>	<u>11,483,953</u>
Net Capital Assets	<u>\$ 10,236,290</u>	<u>\$ 2,582,803</u>	<u>\$ 41,527</u>	<u>\$ 12,777,566</u>

Depreciation expense was allocated as follows:

General government administration	\$ 90,412
Public safety	113,568
Public works	342,200
Parks, recreation, and cultural	<u>122,948</u>
Total Depreciation Expense	<u>\$ 669,128</u>

Business-Type Activities

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020
Capital Assets Not Being Depreciated				
Land, land improvements, and easements	\$ 664,020	\$ -	\$ -	\$ 664,020
Total Capital Assets Not Being Depreciated	664,020	-	-	664,020
Other Capital Assets				
Water and sewer infrastructure	25,621,439	359,883	200,284	25,781,038
Machinery, equipment, and vehicles	2,170,309	655,777	1,850	2,824,236
Total Other Capital Assets	27,791,748	1,015,660	202,134	28,605,274
Less: Accumulated depreciation for				
Water and sewer infrastructure	14,836,976	472,665	1,711	15,307,930
Machinery, equipment, and vehicles	1,337,017	162,174	200,284	1,298,907
Total Accumulated Depreciation	16,173,993	634,839	201,995	16,606,837
Other Capital Assets, Net	11,617,755	380,821	139	11,998,437
Net Capital Assets	\$ 12,281,775	\$ 380,821	\$ 139	\$ 12,662,457
Depreciation expense was allocated as follows:				
Water and sewer activities	\$ 634,839			
Total Depreciation Expense	\$ 634,839			

7 Compensated Absences

Town employees can accumulate up to 360 hours of compensated leave. Upon termination, employees are paid accumulated vacation leave. The Town has outstanding compensated absences totaling \$283,314 for the governmental activities.

8 Long-Term Debt

PRIMARY GOVERNMENT

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

<u>Year(s) Ended June 30,</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ -	\$ -	\$ 103,372	\$ 55,161	\$ 103,372	\$ 55,161
2022	-	-	108,372	51,335	108,372	51,335
2023	-	-	113,372	46,896	113,372	46,896
2024	-	-	163,372	41,810	163,372	41,810
2025	-	-	123,372	36,421	123,372	36,421
2026-2030	-	-	671,860	89,577	671,860	89,577
Landfill obligation	157,495	-	-	-	157,495	-
Compensated absences	283,314	-	-	-	283,314	-
Total	<u>\$ 440,809</u>	<u>\$ -</u>	<u>\$ 1,283,720</u>	<u>\$ 321,200</u>	<u>\$ 1,724,529</u>	<u>\$ 321,200</u>

Changes in Long-Term Debt

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

	<u>Balance July 1, 2019</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2020</u>	<u>Due Within One Year</u>
Governmental Activities					
	\$ -	\$ -	\$ -	\$ -	\$ -
Subtotal	-	-	-	-	-
Landfill obligation	157,495	-	-	157,495	-
Compensated absences	284,592	-	1,278	283,314	28,331
Total Governmental Activities	442,087	-	1,278	440,809	28,331
Business-Type Activities					
Virginia Resources Authority - Series 2010A	1,295,000	-	95,000	1,200,000	95,000
Subtotal	1,295,000	-	95,000	1,200,000	95,000
ADD					
Unamortized Premium on Bond Series 2010A	92,092	-	8,372	83,720	8,372
Total Business-Type Activities	1,387,092	-	103,372	1,283,720	103,372
Grand Total - All Debt	<u>\$ 1,829,179</u>	<u>\$ -</u>	<u>\$ 104,650</u>	<u>\$ 1,724,529</u>	<u>\$ 131,703</u>

Bonds and notes payable at June 30, 2020 are comprised of the following:

Governmental Activities

Landfill obligation	\$ 157,495
Compensated absences	<u>283,314</u>
Total Governmental Activities	440,809

Business-Type Activities

\$1,995,000 Virginia Resources Authority, Pooled Bond Loan Program, Wastewater and Storm Facilities GOB Series 2010A, semiannual interest payments at varying rates from 2.88 percent to 5.20 percent and annual principal payments ranging from \$80,000 per year to \$150,000 per year for a 20-year period.	1,200,000
Unamortized Premiums on Bond Series 2010A	<u>83,720</u>
Total Business-Type Activities	<u>1,283,720</u>
Total Long-Term Debt	<u>\$ 1,724,529</u>

9 Net Investment in Capital Assets

The “net investment in capital assets” amount reported on the government-wide Statement of Net Position as of June 30, 2020 is determined as follows:

	Governmental Activities	Business- Type Activities
Net Investment in Capital Assets		
Cost of capital assets	\$ 30,184,024	\$ 29,269,294
Less: Accumulated depreciation	<u>(17,406,458)</u>	<u>(16,606,837)</u>
Book value	12,777,566	12,662,457
Less: Capital related debt	-	(1,200,000)
Less: Unamortized premium	-	<u>(83,720)</u>
Net Investment in Capital Assets	<u>\$ 12,777,566</u>	<u>\$ 11,378,737</u>

10 Deferred Inflows of Resources

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

Primary Government

General Fund

Unavailable revenue - property taxes	\$ <u>66,162</u>
Total Deferred Inflows of Resources - Governmental Funds	<u>\$ 66,162</u>

11 Risk Management

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

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

Surety bond coverage is as follows:

<u>Name</u>	<u>Title</u>	<u>Amount</u>
Kim Callis	Town Manager	\$ 200,000
C.J. Dean	Director of Municipal Services	50,000
Sheila Cutrell	Finance Director	400,000
Anna Cratch	Town Clerk	25,000
Carol Hutchinson	HR Manager	50,000
All Employees	Faithful Performance Blanket Bond	10,000

12 Commitments and Contingencies

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

13 Litigation

At June 30, 2020, there were no matters of litigation involving the Town which would materially affect the Town's financial position should any court decisions or pending matters not be favorable to such entities.

14 Legal Compliance

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

Computation of Legal Debt Margin

Total Assessed Value of Taxed Real Estate	<u>\$ 430,845,700</u>
Debt Limit per Constitution of Virginia -10% Assessed Value	\$ 43,084,570
Amount of Debt Applicable to Debt Limit Gross Debt	<u>1,200,000</u>
Legal Debt Margin - June 30, 2020	<u>\$ 41,884,570</u>

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

15 Landfill Obligation

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

The Town will recognize the remaining estimated costs of post-closure care of \$157,495 as the costs to finalize closure of its landfill. These amounts are based on what it would cost to perform all post-closure care as of June 30, 2020. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The Town is paying these costs on an annual pay-as-you-go basis.

16 Pension Plan

Plan Description

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

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

RETIREMENT PLAN PROVISIONS

PLAN 1

About Plan 1

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

Eligible Members

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

Hybrid Opt-In Election

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

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

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

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

PLAN 2

About Plan 2

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

Eligible Members

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

Hybrid Opt-In Election

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

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

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

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

HYBRID RETIREMENT PLAN

About the Hybrid Retirement Plan

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

- The defined benefit is based on a member's age, service credit, and average final compensation at retirement using a formula.
- The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
- In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

Eligible Members

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

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

**Non-Eligible Members*

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

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

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

PLAN 1

Retirement Contributions

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

Service Credit

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

Vesting

Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of service credit. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.

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

PLAN 2

Retirement Contributions

Same as Plan 1.

Service Credit

Same as Plan 1.

Vesting

Same as Plan 1.

HYBRID RETIREMENT PLAN

Retirement Contributions

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

Service Credit

Defined Benefit Component:

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

Defined Contributions Component:

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

Vesting

Defined Benefit Component:

Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of service credit. Plan 1 or Plan 2 members with at least five years (60 months) of service credit who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contributions Component:

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

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

PLAN 1

Calculating the Benefit

The Basic Benefit is determined using the average final compensation, service credit, and plan multiplier. An early retirement reduction is applied to this amount if the member is retiring with a reduced benefit. In cases where the member has elected an optional form of retirement payment, an option factor specific to the option chosen is then applied.

An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

Average Final Compensation

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

Service Retirement Multiplier

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

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

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

PLAN 2

Calculating the Benefit

See definition under Plan 1.

Average Final Compensation

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

Service Retirement Multiplier

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

Sheriffs and regional jail superintendents: Same as Plan 1.

Political subdivision hazardous duty employees: Same as Plan 1.

HYBRID RETIREMENT PLAN

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

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

Distribution not required, except as governed by law.

Calculating the Benefit

Defined Benefit Component:

See definition under Plan 1.

Defined Contribution Component:

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

Average Final Compensation

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

Service Retirement Multiplier

Defined Benefit Component:

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

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

Sheriffs and regional jail superintendents: Not applicable.

Political subdivision hazardous duty employees: Not applicable.

Defined Contribution Component

Not applicable.

PLAN 1
Normal Retirement Age

VRS: Age 65.

Political subdivisions hazardous duty employees:
Age 60.

Earliest Unreduced Retirement Eligibility

VRS: Age 65 with at least five years (60 months) of service credit or at age 50 with at least 30 years of service credit.

Political subdivisions hazardous duty employees:
Age 60 with at least five years of service credit or age 50 with at least 25 years of service credit.

Earliest Reduced Retirement Eligibility

VRS: Age 55 with at least five years (60 months) of service credit or age 50 with at least 10 years of service credit.

Political subdivisions hazardous duty employees:
Age 50 with at least five years of service credit.

Cost-of-Living Adjustment (COLA) in Retirement

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

Eligibility:

For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of service credit, the COLA will go into effect on July 1 after one full calendar year from the retirement date.

For members who retire with a reduced benefit and who have less than 20 years of service credit, the COLA will go into effect on July 1 after one calendar year following the

PLAN 2
Normal Retirement Age

VRS: Normal Social Security retirement age.

Political subdivisions hazardous duty employees:
Same as Plan 1.

Earliest Unreduced Retirement Eligibility

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

Political subdivisions hazardous duty employees:
Same as Plan 1.

Earliest Reduced Retirement Eligibility

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

Political subdivisions hazardous duty employees:
Same as Plan 1.

Cost-of-Living Adjustment (COLA) in Retirement

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

Eligibility:

Same as Plan 1

**HYBRID
RETIREMENT PLAN**
Normal Retirement Age

Defined Benefit Component:
VRS: Same as Plan 2.

Political subdivisions hazardous duty employees:
Not applicable.

Defined Contribution Component:

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

Earliest Unreduced Retirement Eligibility

Defined Benefit Component:
VRS: Normal Social Security retirement age and have at least five years (60 months) of service credit or when their age plus service credit equal 90.

Political subdivisions hazardous duty employees:
Not applicable.

Defined Contribution Component:

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

Earliest Reduced Retirement Eligibility

Defined Benefit Component:
VRS: Age 60 with at least five years (60 months) of service credit.

Political subdivisions hazardous duty employees:
Not applicable

Defined Contribution Component:

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

Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component:
Same as Plan 2

Defined Contribution Component:

Not applicable

Eligibility:

Same as Plan 1 and Plan 2

PLAN 1

Exceptions to COLA Effective Dates:

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

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

Disability Coverage

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

Purchase of Prior Service

Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as service credit in their plan. Prior service credit counts towards vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service.

Members also may be eligible to purchase periods of leave without pay.

PLAN 2

Exceptions to COLA Effective Dates:

Same as Plan 1

Disability Coverage

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

Purchase of Prior Service

Same as Plan 1

HYBRID RETIREMENT PLAN

Exceptions to COLA Effective Dates:

Same as Plan 1 and Plan 2

Disability Coverage

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

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

Purchase of Prior Service

Defined Benefit Component:

Same as Plan 1, with the following exceptions:

- Hybrid Retirement Plan members are ineligible for ported service.

Defined Contribution Component:

Not applicable

Employees Covered by Benefit Terms

As of the June 30, 2018 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	29
Inactive members:	
Vested inactive members	11
Non-vested inactive members	23
LTD	0
Inactive members active elsewhere in VRS	<u>22</u>
Total inactive members	56
Active members	<u>63</u>
Total covered employees	<u>148</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.

If the employer used the certified rate: The Town of South Hill, Virginia's contractually required contribution rate for the year ended June 30, 2020 was 15.53% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town of South Hill, Virginia were \$475,054 and \$458,212 for the years ended June 30, 2020 and June 30, 2019, respectively.

Net Pension Liability

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For Town of South Hill, Virginia, the net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2018 rolled forward to the measurement date of June 30, 2019.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2018, 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, 2019.

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*

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of pension liabilities.

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 15%
Discount Rate	Decrease rate from 7.00% to 6.75%

Actuarial Assumptions – Public Safety Employees

The total pension liability for Public Safety employees in the Political Subdivision Retirement Plan was based on an actuarial valuation as of June 30, 2018, 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, 2019.

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*

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of pension liabilities.

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

All Others (Non 10 Largest) – Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decrease rate from 60% to 45%
Discount Rate	Decrease rate from 7.00% to 6.75%

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS - Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP - Private Investment Partnership	<u>3.00%</u>	6.29%	0.19%
Total	<u>100.00%</u>		<u>5.13%</u>
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.63%</u>

*The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2019, the alternate rate was the employer contribution rate used in FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017, actuarial valuations, whichever was greater. From July 1, 2019 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

	Total Pension Liability (a)	<u>Increase (Decrease)</u> Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2018	\$ 12,903,786	\$ 9,422,445	\$ 3,481,341
Changes for the Year			
Service cost	350,124	-	350,124
Interest	882,588	-	882,588
Benefit changes	-	-	-
Assumption changes	441,738	-	441,738
Differences between expected and actual experience	728,192	-	728,192
Contributions - employer	-	456,672	(456,672)
Contributions - employee	-	144,968	(144,968)
Net investment income	-	634,807	(634,807)
Benefit payments, including refunds	(590,784)	(590,784)	-
Refunds of employee contributions	-	-	-
Administrative expenses	-	(6,123)	6,123
Other changes	-	(402)	402
Net Changes	<u>1,811,858</u>	<u>639,138</u>	<u>1,172,720</u>
Balances at June 30, 2019	<u>\$ 14,715,644</u>	<u>\$ 10,061,583</u>	<u>\$ 4,654,061</u>

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

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

	<u>1.00% Decrease</u> <u>5.75%</u>	<u>Current Discount</u> <u>Rate 6.75%</u>	<u>1.00% Increase</u> <u>7.75%</u>
Political subdivision's Net Pension Liability	\$ 6,644,858	\$ 4,654,061	\$ 3,068,767

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

For the year ended June 30, 2020, the Town of South Hill, Virginia recognized pension expense of \$668,497. At June 30, 2020, the Town of South Hill, Virginia reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 752,382	\$ 114,380
Change in assumptions	322,026	73,469
Net difference between projected and actual earnings on pension plan investments	-	93,492
Employer contributions subsequent to the measurement date	<u>475,054</u>	<u>-</u>
Total	<u>\$ 1,549,462</u>	<u>\$ 281,341</u>

\$475,054 reported as deferred outflows of resources related to pensions resulting from the Town of South Hill, Virginia'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, 2021. 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:

**Year Ended
June 30,**

2021	\$ 269,528
2022	304,008
2023	214,547
2024	4,984
2025	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2019 *Comprehensive Annual Financial Report* (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2019-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

17 Fund Balances – Governmental Funds

As of June 30, 2020, fund balances are composed of the following:

<u>Restricted</u>	<u>Primary Government</u>
Cemetery Fund - Subsequent years' appropriations	\$ 10,003
Total Restricted	<u>\$ 10,003</u>

18 Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to June 30, 2020 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2020. Management has performed their analysis through December 11, 2020.

REQUIRED SUPPLEMENTARY INFORMATION



Town of South Hill, Virginia

Budgetary Comparison Schedule

Year Ended June 30, 2020

General Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
General Property Taxes				
Real property taxes	\$ 1,450,000	\$ 1,450,000	\$ 1,444,725	\$ (5,275)
Public service corporation property taxes	65,200	65,200	68,305	3,105
Personal property taxes	700,000	700,000	750,072	50,072
Delinquent taxes	5,000	5,000	11,407	6,407
Interest on taxes	4,000	4,000	10,123	6,123
Penalties on taxes	4,000	4,000	9,222	5,222
Total General Property Taxes	2,228,200	2,228,200	2,293,854	65,654
Other Local Taxes				
Local sales and use taxes	400,000	400,000	630,223	230,223
Consumers' utility taxes	195,000	195,000	199,791	4,791
Business licenses	757,500	757,500	889,759	132,259
Motor vehicle licenses	36,000	36,000	46,916	10,916
Bank stock taxes	185,000	185,000	224,301	39,301
Lodging taxes	450,000	450,000	498,458	48,458
Meals taxes	1,800,000	1,800,000	1,921,869	121,869
Cigarette taxes	350,000	350,000	243,905	(106,095)
Penalties & interest other local taxes	-	-	1,425	1,425
Total Other Local Taxes	4,173,500	4,173,500	4,656,647	483,147
Permits, Privilege Fees, and Regulatory Licenses				
Zoning and subdivision fees	100	100	800	700
Building permits	25,000	25,000	42,109	17,109
Total Permits, Privilege Fees, and Regulatory Licenses	25,100	25,100	42,909	17,809
Fines and Forfeitures				
Court fines	110,000	110,000	73,766	(36,234)
Parking fines	500	500	165	(335)
Total Fines and Forfeitures	110,500	110,500	73,931	(36,569)
Revenue from Use of Money and Property				
Revenue from use of money	95,000	95,000	257,456	162,456
Revenue from use of property	50,500	50,500	55,685	5,185
Revenue from sale of property	500	500	40	(460)
Total Revenue from Use of Money and Property	146,000	146,000	313,181	167,181

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Charges for Services				
Sanitation and waste removal	475,000	475,000	526,436	51,436
Landfill tipping fees	200,000	200,000	212,363	12,363
Total Charges for Services	675,000	675,000	738,799	63,799
Miscellaneous	1,672,000	1,778,575	337,059	(1,441,516)
Intergovernmental				
<i>Revenue from the Commonwealth of Virginia</i>				
<i>Noncategorical Aid</i>				
Personal Property Tax Relief Act	113,068	113,068	113,068	-
Communication Sales and Use Tax	170,000	170,000	171,081	1,081
State Aid Asset Forfeiture	-	-	1,215	1,215
Rolling Stock Tax	200	200	134	(66)
Mobile Home Tax	500	500	360	(140)
Rental Vehicle Tax	25,000	25,000	55,210	30,210
VDOT Revenue Sharing	471,000	471,000	618,698	147,698
Fema State Funds	-	-	5,401	5,401
Cares Act State Funds	-	-	1,350	1,350
E Summons	-	-	4,543	4,543
Total Noncategorical Aid	779,768	779,768	971,060	191,292
<i>Categorical Aid</i>				
Street and highway revenues	1,300,000	1,300,000	1,445,540	145,540
Police Law Enforcement Grant	112,600	112,600	121,336	8,736
Fire Department Grant	29,127	46,063	16,937	(29,126)
Other project grants	5,000	5,000	250	(4,750)
Cultural and Arts Grants	4,500	4,500	4,500	-
Total Categorical Aid	1,451,227	1,468,163	1,588,563	120,400
Total Revenue from the Commonwealth of Virginia	2,230,995	2,247,931	2,559,623	311,692
Revenue from the Federal Government				
Police Grants	50,000	50,000	12,332	(37,668)
Federal Asset Forfeiture	-	-	14,525	14,525
Fema Disaster Funds	-	-	20,253	20,253
Federal Cares Act Funds	-	-	19,889	19,889
VDOT Revenue Sharing Federal	889,000	889,000	888,280	(720)
Total Revenue from the Federal Government	939,000	939,000	955,279	16,279
Total Intergovernmental Revenues	3,169,995	3,186,931	3,514,902	327,971
Total Revenues	12,200,295	12,323,806	11,971,282	(352,524)

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures				
Current				
<i>General Government Administration</i>				
Town Council	701,532	723,312	686,788	36,524
Other general administration	349,174	459,504	289,789	169,715
Town Manager	262,910	262,910	267,205	(4,295)
Municipal Services	<u>136,725</u>	<u>136,725</u>	<u>100,637</u>	<u>36,088</u>
Total General Government Administration	1,450,341	1,582,451	1,344,419	238,032
<i>Public Safety</i>				
Police Department	2,370,317	2,370,317	2,336,664	33,653
Fire Department	433,340	470,276	460,099	10,177
Building Inspector	<u>224,572</u>	<u>224,572</u>	<u>190,305</u>	<u>34,267</u>
Total Public Safety	3,028,229	3,065,165	2,987,068	78,097
<i>Public Works</i>				
Sanitation	937,851	937,851	882,745	55,106
Street maintenance	4,091,857	5,152,732	4,710,246	442,486
Town shop maintenance	322,637	322,637	309,128	13,509
Building and grounds maintenance	<u>225,530</u>	<u>225,530</u>	<u>205,125</u>	<u>20,405</u>
Total Public Works	5,577,875	6,638,750	6,107,244	531,506
<i>Parks, Recreation, and Cultural</i>				
Library	22,500	22,500	18,593	3,907
Parks and recreation	<u>429,759</u>	<u>429,759</u>	<u>401,340</u>	<u>28,419</u>
Total Parks, Recreation, and Cultural	452,259	452,259	419,933	32,326
<i>Community Development</i>				
South Hill Community Development Association	504,285	504,285	504,285	-
Other planning and community development	<u>1,307,306</u>	<u>1,348,504</u>	<u>336,221</u>	<u>1,012,283</u>
Total Community Development	1,811,591	1,852,789	840,506	1,012,283
<i>Debt Service</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>12,320,295</u>	<u>13,591,414</u>	<u>11,699,170</u>	<u>1,892,244</u>
Excess (Deficiency) of Revenues Over Expenditures	(120,000)	(1,267,608)	272,112	1,539,720
Other Financing Sources (Uses)				
Prior year surplus	-	1,147,608	-	(1,147,608)
Transfers in	120,000	120,000	127,056	7,056
Transfers (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>120,000</u>	<u>1,267,608</u>	<u>127,056</u>	<u>(1,140,552)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	399,168	<u>\$ 399,168</u>
Fund Balance - Beginning of Year			21,705,959	
Fund Balance - End of Year			<u>\$ 22,105,127</u>	

Cemetery Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Miscellaneous revenue	\$ -	\$ -	\$ 40	\$ 40
Total Revenues	-	-	40	40
Expenditures				
Parks, recreation, and cultural	-	800	800	-
Total Expenditures	-	800	800	-
Excess (Deficiency) of Revenues Over Expenditures	-	(800)	(760)	40
Other Financing Sources (Uses)				
Transfers in (out)	-	800	-	(800)
Total Other Financing Sources (Uses)	-	800	-	(800)
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	(760)	<u>\$ (760)</u>
Fund Balance - Beginning of Year			10,763	
Fund Balance - End of Year			<u>\$ 10,003</u>	

Food Hub Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Revenues from Commonwealth of Virginia	\$ -	\$ -	\$ 83,026	\$ 83,026
Miscellaneous revenue	<u>-</u>	<u>-</u>	<u>1,544</u>	<u>1,544</u>
Total Revenues	-	-	84,570	84,570
Expenditures				
Community Development	<u>-</u>	<u>-</u>	<u>98,787</u>	<u>(98,787)</u>
Total Expenditures	<u>-</u>	<u>-</u>	<u>98,787</u>	<u>(98,787)</u>
Excess (Deficiency) of Revenues Over Expenditures	-	-	(14,217)	(14,217)
Other Financing Sources (Uses)				
Transfers in (out)	<u>-</u>	<u>-</u>	<u>5,206</u>	<u>5,206</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>5,206</u>	<u>5,206</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	(9,011)	<u>\$ (9,011)</u>
Fund Balance - Beginning of Year			<u>-</u>	
Fund Balance (Deficit) - End of Year			<u>\$ (9,011)</u>	

Groom School Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
Miscellaneous revenue	\$ -	\$ -	\$ -	\$ -
Total Revenues	-	-	-	-
Expenditures				
Community Development	-	-	197,500	(197,500)
Total Expenditures	-	-	197,500	(197,500)
Excess (Deficiency) of Revenues Over Expenditures	-	-	(197,500)	(197,500)
Other Financing Sources (Uses)				
Transfers in (out)	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	(197,500)	<u>\$ (197,500)</u>
Fund Balance - Beginning of Year			197,500	
Fund Balance - End of Year			<u>\$ -</u>	

Town of South Hill, Virginia

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

For the Plan Years Ended June 30

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability						
Service cost	\$ 350,124	\$ 306,319	\$ 218,018	\$ 219,206	\$ 221,445	\$ 219,741
Interest	882,588	709,193	736,579	717,940	683,450	639,859
Changes in benefit terms	-	1,600,914	-	-	-	-
Difference between expected and actual experience	728,192	514,952	(427,735)	(280,545)	(141,590)	-
Changes of assumptions	441,738	-	(313,046)	-	-	-
Benefit payments	<u>(590,784)</u>	<u>(717,842)</u>	<u>(492,253)</u>	<u>(288,387)</u>	<u>(252,810)</u>	<u>(220,917)</u>
Net change in total pension liability	1,811,858	2,413,536	(278,437)	368,214	510,495	638,683
Total pension liability - beginning	<u>12,903,786</u>	<u>10,490,250</u>	<u>10,768,687</u>	<u>10,400,473</u>	<u>9,889,978</u>	<u>9,251,295</u>
Total pension liability - ending (a)	<u>\$ 14,715,644</u>	<u>\$ 12,903,786</u>	<u>\$ 10,490,250</u>	<u>\$ 10,768,687</u>	<u>\$ 10,400,473</u>	<u>\$ 9,889,978</u>
 Plan fiduciary net position						
Contributions - employer	\$ 456,672	\$ 418,464	\$ 233,865	\$ 293,643	\$ 284,506	\$ 284,688
Contributions - employee	144,968	139,669	131,362	133,865	130,070	127,161
Net investment income	634,807	664,863	979,037	143,332	341,779	985,156
Benefit payments	<u>(590,784)</u>	<u>(717,842)</u>	<u>(492,253)</u>	<u>(288,387)</u>	<u>(252,810)</u>	<u>(220,917)</u>
Administrator charges	<u>(6,123)</u>	<u>(5,780)</u>	<u>(5,657)</u>	<u>(4,754)</u>	<u>(4,445)</u>	<u>(5,106)</u>
Other	<u>(402)</u>	<u>(585)</u>	<u>(872)</u>	<u>(59)</u>	<u>(72)</u>	<u>52</u>
Net change in plan fiduciary net position	639,138	498,789	845,482	277,640	499,028	1,171,034
Plan fiduciary net position - beginning	<u>9,422,445</u>	<u>8,923,656</u>	<u>8,078,174</u>	<u>7,800,534</u>	<u>7,301,506</u>	<u>6,130,472</u>
Plan fiduciary net position - ending (b)	<u>\$ 10,061,583</u>	<u>\$ 9,422,445</u>	<u>\$ 8,923,656</u>	<u>\$ 8,078,174</u>	<u>\$ 7,800,534</u>	<u>\$ 7,301,506</u>
 Political subdivision's net pension liability - ending (a) - (b)	<u>\$ 4,654,061</u>	<u>\$ 3,481,341</u>	<u>\$ 1,566,594</u>	<u>\$ 2,690,513</u>	<u>\$ 2,599,939</u>	<u>\$ 2,588,472</u>
 Plan fiduciary net position as a percentage of the total Pension liability	68.37%	73.02%	85.07%	75.02%	75.00%	73.83%
 Covered payroll	\$ 3,244,564	\$ 3,123,768	\$ 2,966,627	\$ 3,079,442	\$ 2,862,798	\$ 2,469,837
 Political subdivision's net pension liability as a percentage of covered payroll	143.44%	111.45%	52.81%	87.37%	90.82%	90.42%

Town of South Hill, Virginia

Schedule of Employer Contributions

Political Subdivisions Retirement Plan

For the Years Ended June 30, 2011 through 2020

Date	Contractually Required Contribution (1)	Contribution in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
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%
2015	287,012	287,012	-	2,862,798	10.03%
2014	287,776	287,776	-	2,469,837	11.65%
2013	305,339	305,339	-	2,469,837	12.36%
2012	400,660	400,660	-	2,303,891	17.39%
2011	383,155	383,155	-	2,279,610	16.81%

For Reference Only:

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

Column 2 – Actual employer contribution remitted to VRS

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

Town of South Hill, Virginia

Notes to Required Supplementary Information

For the Year Ended June 30, 2020

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, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 15%
Discount Rate	Decrease rate from 7.00% to 6.75%

All Others (Non 10 Largest) – Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decrease rate from 60% to 45%
Discount Rate	Decrease rate from 7.00% to 6.75%

OTHER INFORMATION



Town of South Hill, Virginia

Water and Sewer Revenue Bond Debt Service Coverage

Last Ten Fiscal Years

<u>Fiscal Years Ended June 30</u>	<u>Gross Revenues</u>	<u>Direct Operating Expenses**</u>	<u>Net Available</u>	<u>Principal***</u>	<u>Interest</u>	<u>Total Debt</u>	<u>Coverage</u>
2020	\$ 3,524,318	\$ 2,447,761	\$ 1,076,557	\$ 103,372	\$ 59,270	\$ 162,642	6.62
2019	3,713,406	2,495,502	1,217,904	389,091	67,463	456,554	2.67
2018	3,860,972	2,139,496	1,721,476	616,145	76,006	692,151	2.49
2017	3,965,706	2,228,192	1,737,514	597,145	40,768	637,913	2.72
2016	4,146,172	2,204,964	1,941,208	578,424	120,463	698,887	2.78
2015	3,629,120	2,193,236	1,435,884	571,145	123,249	694,394	2.07
2014	3,410,646	1,975,392	1,435,254	473,796	168,375	642,171	2.24
2013	3,068,791	1,985,092	1,083,699	511,599	187,821	699,420	1.55
2012	2,969,308	2,026,245	943,063	518,033	203,536	721,569	1.31
2011	3,120,307	2,107,388	1,012,919	496,123	207,893	704,016	1.44

**Excluding depreciation, interest, and amortization.

***Excludes debt refinancing payoffs.

COMPLIANCE SECTION





**Creedle
Jones
& Associates**

A Professional Corporation

*Robin B. Jones, CPA, CFP
Denise C. Williams, CPA, CSEP
Kimberly W. Jackson, CPA*

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

To the Town Council
Town of South Hill, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of South Hill, Virginia, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town of South Hill, Virginia's basic financial statements and have issued our report thereon dated December 11, 2020.

Internal Control Over Financial Reporting

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

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

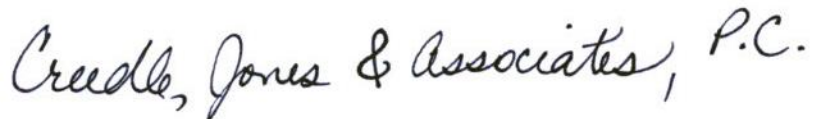
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Creedle, Jones & Associates, P.C." in a cursive script.

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

South Hill, Virginia
December 11, 2020



**Creedle
Jones
& Associates**

A Professional Corporation

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

To the Town Council
Town of South Hill, Virginia

Report on Compliance for Each Major Federal Program

We have audited the Town of South Hill, Virginia's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Town of South Hill, Virginia's major federal programs for the year ended June 30, 2020. Town of South Hill, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of South Hill, Virginia's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards, the Uniform Guidance, and specifications require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of South Hill, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town of South Hill, Virginia's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of South Hill, Virginia, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

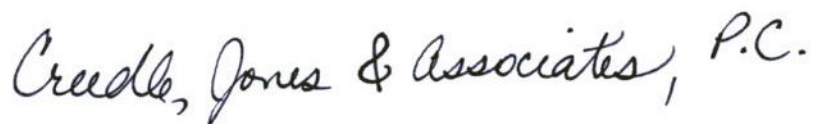
Report on Internal Control over Compliance

Management of the Town of South Hill, Virginia, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of South Hill, Virginia's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of South Hill, Virginia's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



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

South Hill, Virginia
December 11, 2020



REPORT ON COMPLIANCE WITH COMMONWEALTH OF VIRGINIA'S LAWS, REGULATIONS, CONTRACTS, AND GRANTS

To the Town Council
Town of South Hill, Virginia

We have audited the financial statements of the Town of South Hill, Virginia, as of and for the year ended June 30, 2020, and have issued our report thereon dated December 11, 2020.

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

Compliance with Commonwealth of Virginia's laws, regulations, contracts, and grants applicable to the Town of South Hill, Virginia, is the responsibility of the Town of South Hill, Virginia's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Town of South Hill, Virginia's compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts, and grants. However, the objective of our audit of the basic financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

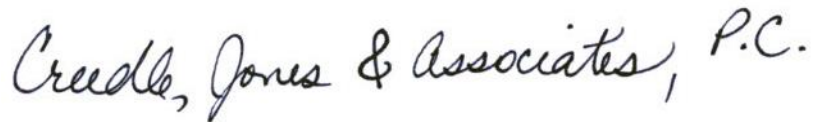
The following is a summary of the Commonwealth of Virginia's laws, regulations, contracts, and grants for which we performed tests of compliance:

Code of Virginia

- Budget and Appropriation Laws
- Cash and Investments
- Conflicts of Interest
- Retirement Systems
- Debt Provisions
- Procurement
- Unclaimed Property
- Personal Property Tax Relief Act

The results of our tests disclosed no instances of noncompliance with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Town of South Hill, Virginia had not complied, in all material respects, with those provisions.

This report is intended solely for the information of the Town Council, Town of South Hill, Virginia's management, Auditor of Public Accounts of the Commonwealth of Virginia, and applicable state agencies, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Creedle, Jones & Associates, P.C.".

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

South Hill, Virginia
December 11, 2020

Town of South Hill, Virginia

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2020

Federal Granting Agency/Recipient State Agency/ <u>Grant Program</u>	<u>Federal Catalog Number</u>	<u>State Agency Number</u>	<u>Expenditures</u>
U. S. Department of Housing			
Pass-Through Payments			
Community Development Block Grants	14.228	165	\$ 83,026
U. S. Department of Homeland Security			
Pass-Through Payments			
Disaster Grants - Public Assistance (Presidential Declared Disaster)	97.036	127	20,253
U. S. Department of Treasury			
Pass-Through Payments			
<i>Department of Accounts</i>			
Coronavirus Relief Fund	21.019	151	19,889
U. S. Department of Justice			
Direct Payments			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	4,798
Equitable Sharing Program - Asset Forfeiture Program	16.922	N/A	<u>14,524</u>
Subtotal - U. S. Department of Justice			19,322
U. S. Department of Transportation			
Pass-Through Payments			
<i>Department of Motor Vehicles</i>			
Alcohol Open Container Requirements	20.607	530	7,534
<i>Highway Planning and Construction Cluster</i>			
Highway Planning and Construction	20.205	501	<u>888,280</u>
Total Highway Planning and Construction Cluster			<u>888,280</u>
Subtotal - U. S. Department of Transportation			<u>895,814</u>
Grand Totals			<u><u>\$ 1,038,304</u></u>

See accompanying notes to schedule of expenditures of federal awards.

Town of South Hill, Virginia

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2020

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Town of South Hill, Virginia under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Town of South Hill, Virginia, it is not intended to and does not present the financial position, changes in net position, or cash flows of Town of South Hill, Virginia.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

Town of South Hill, Virginia has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

4. Subrecipients

No awards passed through to subrecipients.

Town of South Hill, Virginia

Schedule of Findings and Questioned Costs

Year Ended June 30, 2020

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None Reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None Reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? No

Identification of major federal programs:

CFDA Number(s)

Name of Federal Program or Cluster

20.205

Highway Planning and Construction Cluster

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? No

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters reported

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters reported