

**Town of Hillsville, Virginia**

*Financial Statements*

*Year Ended June 30, 2016*

**Town Council**

Gregory N. Crowder, Mayor  
Ed Terry, Vice Mayor  
Bill Tate  
Greg Yonce  
David Young

**Town Manager**

Retta N. Jackson

**Town Attorney**

Andrea Tolbert

**Treasurer**

LeAnna Surratt

**Independent Auditors**

Hicok, Fern, Brown & Garcia

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**Hicok, Fern  
& COMPANY CPAs**  
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**INDEPENDENT AUDITOR'S REPORT**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hillsville, Virginia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town'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 the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Certified Public Accountants*

*\*Members of National Association of  
Certified Valuation Analysts*

All Accountants Licensed in Virginia with Additional Licensures Noted: <sup>I</sup> KY; <sup>II</sup> NC; <sup>III</sup> TN; <sup>IV</sup> WV

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hillsville, Virginia, as of June 30, 2016, 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 and budgetary comparison information and schedules related to pension and OPEB funding be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects to the basic financial statements taken as a whole.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Hillsville, Virginia's basic financial statements. The introductory section, combining and individual non-major fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis, and is also not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were 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 combining and individual non-major fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2017, on our consideration of the Town of Hillsville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Hillsville's internal control over financial reporting and compliance.



Hicok, Fern & Company  
Abingdon, Virginia

January 16, 2017



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hillsville, Virginia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of Hillsville, Virginia’s basic financial statements, and have issued our report thereon dated January 16, 2017.

**Internal Control over Financial Reporting**

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

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

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

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## **Compliance and Other Matters**

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

## **Purpose of this Report**

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



Hicok, Fern & Company  
Abingdon, Virginia

January 16, 2017



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# Town of Hillsville

## Management's Discussion and Analysis

*As of June 30, 2016*

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As management of the Town of Hillsville ("the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

### Financial Highlights

- The Town of Hillsville's net position was \$5.4 million as of June 30, 2016.
- Total investment in capital assets, net of related debt was \$3.5 million.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$2.4 million, an increase of \$452 thousand in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2.3 million.

### Overview of the Financial Statements

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

### Basic Financial Statements

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

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

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

### Government-wide Financial Statements

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

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

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# Town of Hillsville

## Management's Discussion and Analysis

As of June 30, 2016

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

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

### Fund Financial Statements

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

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

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

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

### Notes to Financial Statements

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

# Town of Hillsville

## Management's Discussion and Analysis

As of June 30, 2016

### Required Supplemental Information

In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees and information about expenditures of Federal awards. Required supplementary information can be found beginning on page 54 of this report.

### Town of Hillsville's Net Position

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The Town's net position was \$5.4 million as of June 30, 2016, an increase of \$641 thousand compared to the prior year-end as increased water and sewer rates provided increased revenue along with grant revenue which was used to make improvements to the water plant. Meals and lodging taxes also continued to increase. The largest portion of net position (65%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment) and economic development, less any related debt still outstanding that was issued to acquire those items. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. The Town's financial position as of June 30, 2016 and 2015 is shown in Figure 1.

#### Assets, Liabilities, and Net Position

Figure 1

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 3,368,346	\$ 3,009,090	\$ 1,061,856	\$ 1,286,976	\$ 4,430,202	\$ 4,296,066
Capital assets	1,957,618	1,944,893	9,428,670	8,939,773	11,386,288	10,884,666
Total assets	5,325,964	4,953,983	10,490,526	10,226,749	15,816,490	15,180,732
Pension contributions	135,360	113,180	44,716	38,758	180,076	151,938
Total deferred outflows of resources	135,360	113,180	44,716	38,758	180,076	151,938
Long-term liabilities	1,347,272	1,375,563	7,437,814	6,936,583	8,785,086	8,312,146
Other liabilities	512,378	529,907	360,405	686,605	872,783	1,216,512
Total liabilities	1,859,650	1,905,470	7,798,219	7,623,188	9,657,869	9,528,658
Deferred inflows related to pension	148,946	233,843	49,648	76,500	198,594	310,343
Deferred revenue	746,884	741,759	-	-	746,884	741,759
Total deferred inflows of resources	895,830	975,602	49,648	76,500	945,478	1,052,102
Net position:						
Invested in capital assets, net of related debt	1,304,703	1,237,028	2,179,966	2,006,451	3,484,669	3,243,479
Restricted	44,734	47,817	-	-	44,734	47,817
Unrestricted	1,356,407	901,246	507,409	559,368	1,863,816	1,460,614
Total net position	\$ 2,705,844	\$ 2,186,091	\$ 2,687,375	\$ 2,565,819	\$ 5,393,219	\$ 4,751,910

# Town of Hillsville

## Management's Discussion and Analysis

As of June 30, 2016

**Governmental activities.** Governmental activities increased the Town's net position by \$520 thousand for the year ended June 30, 2016 which compares to an increase of \$484 thousand in the prior year.

**Business-type activities:** Business-type activities increased the Town's net position by \$122 thousand for the year ended June 30, 2016 compared to a decrease of \$287 thousand for the year ended June 30, 2015.

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

### Changes in Net Position

Figure 2

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>Revenue</b>						
Program revenues:						
Charges for services	\$ 146,162	\$ 47,690	\$ 1,176,076	\$ 1,092,501	\$ 1,322,238	\$ 1,140,191
Operating grants and contributions	77,860	77,843	-	-	77,860	77,843
Capital grants and contributions	86,880	17,772	307,812	98,504	394,692	116,276
General revenues:						
Property taxes	717,694	725,502	-	-	717,694	725,502
Other taxes	2,040,504	1,806,825	-	-	2,040,504	1,806,825
Interest and investment earnings	38,902	37,676	9,308	4,854	48,210	42,530
Other	61,437	68,807	26,589	26,885	88,026	95,692
Total revenue	<u>3,169,439</u>	<u>2,782,115</u>	<u>1,519,785</u>	<u>1,222,744</u>	<u>4,689,224</u>	<u>4,004,859</u>
<b>Expenses</b>						
General government	449,575	407,310	-	-	449,575	407,310
Public safety	1,142,534	1,032,841	-	-	1,142,534	1,032,841
Public works	730,797	677,929	-	-	730,797	677,929
Community development	143,829	119,061	-	-	143,829	119,061
Other activities	10,685	37,884	-	-	10,685	37,884
Interest on long-term debt	21,524	22,713	-	-	21,524	22,713
Water	-	-	591,332	539,405	591,332	539,405
Sewer	-	-	957,639	970,836	957,639	970,836
Total expenses	<u>2,498,944</u>	<u>2,297,738</u>	<u>1,548,971</u>	<u>1,510,241</u>	<u>4,047,915</u>	<u>3,807,979</u>
Increase (decrease) in net position before transfers	670,495	484,377	(29,186)	(287,497)	641,309	196,880
Transfers	(150,742)	-	150,742	-	-	-
Increase(decrease) in net position	519,753	484,377	121,556	(287,497)	641,309	196,880
Net position, beginning	2,186,091	2,516,277	2,565,819	3,119,792	4,751,910	5,636,069
Prior period adjustments	-	(814,563)	-	(266,476)	-	(1,081,039)
Net position, ending	<u>\$ 2,705,844</u>	<u>\$ 2,186,091</u>	<u>\$ 2,687,375</u>	<u>\$ 2,565,819</u>	<u>\$ 5,393,219</u>	<u>\$ 4,751,910</u>

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# Town of Hillsville

## Management's Discussion and Analysis

*As of June 30, 2016*

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### *Financial Analysis of the Town's Funds*

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

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

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, the unreserved fund balance of the General Fund consisted of assigned funds of \$71 thousand and unassigned funds of \$2.3 million.

At June 30, 2016, the governmental funds of the Town reported a combined fund balance of \$2.4 million.

**Proprietary Funds.** The Town's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$2.7 million.

### **General Fund Budgetary Highlights**

Local sales and use taxes exceeded budget by \$75 thousand, business license and vendor taxes exceeded budget by \$42 thousand, bank stock taxes exceeded budget by \$41 thousand, and restaurant food taxes exceeded budget by \$79 thousand. Actual fines and forfeitures were under budget by \$99 thousand.

Capital projects expenses were budgeted to be \$166 thousand however only \$16 thousand were expended. Amounts budgeted to capital projects expenses are reserved from year to year until needed.

# Town of Hillsville

## Management's Discussion and Analysis

As of June 30, 2016

### Capital Assets and Long-term Debt

**Capital Assets.** The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2016, totals \$11.3 million (net of accumulated depreciation). These assets include land and land improvements, buildings and improvements, vehicles and equipment.

**Capital Assets**  
(net of depreciation)  
Figure 3

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 100,248	\$ 100,248	\$ 44,168	\$ 44,168	\$ 144,416	\$ 144,416
Land improvements	559,055	600,453	-	-	559,055	600,453
Buildings and improvements	636,597	665,110	9,289,709	8,798,729	9,926,306	9,463,839
Vehicles	-	-	6,767	9,566	6,767	9,566
Equipment	661,718	579,082	88,026	87,310	749,744	666,392
Total	<u>\$ 1,957,618</u>	<u>\$ 1,944,893</u>	<u>\$ 9,428,670</u>	<u>\$ 8,939,773</u>	<u>\$ 11,386,288</u>	<u>\$ 10,884,666</u>

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

**Changes in Capital Assets**  
Figure 4

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Land improvements	5,667	17,433	-	-	5,667	17,433
Buildings and improvements	3,380	6,563	974,170	577,835	977,550	584,398
Vehicles	-	-	-	22,144	-	22,144
Equipment	214,192	98,326	21,105	9,575	235,297	107,901
Total additions	<u>\$ 223,239</u>	<u>\$ 122,322</u>	<u>\$ 995,275</u>	<u>\$ 609,554</u>	<u>\$ 1,218,514</u>	<u>\$ 731,876</u>
Land	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Land improvements	-	-	-	-	-	-
Buildings and improvements	-	-	-	-	-	-
Vehicles	-	-	-	5,044	-	5,044
Equipment	54,834	104,397	-	9,575	54,834	113,972
Total disposals	<u>\$ 54,834</u>	<u>\$ 104,397</u>	<u>\$ -</u>	<u>\$ 14,619</u>	<u>\$ 54,834</u>	<u>\$ 119,016</u>

Additional information on the Town's capital assets can be found in note 5 of the Basic Financial Statements.

# Town of Hillsville

## Management's Discussion and Analysis

As of June 30, 2016

**Long-term Debt.** As of June 30, 2016, the Town had total bonded debt outstanding of \$7.9 million. All debt is backed by the full faith and credit of the Town.

### Outstanding Debt Installment Notes and General Obligation Bonds Figure 5

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Installment notes payable	\$ 483,046	\$ 567,848	\$ -	\$ -	\$ 483,046	\$ 567,848
General obligation bonds	<u>131,422</u>	<u>140,017</u>	<u>7,248,704</u>	<u>6,933,322</u>	<u>7,380,126</u>	<u>7,073,339</u>
Total	<u>\$ 614,468</u>	<u>\$ 707,865</u>	<u>\$ 7,248,704</u>	<u>\$ 6,933,322</u>	<u>\$ 7,863,172</u>	<u>\$ 7,641,187</u>

The Town's total debt increased by \$222 thousand (2.9%) during the past fiscal year.

Virginia General Statutes limit the amount of general obligation debt that a unit of government can issue to 10% of the total assessed value of taxable real property located within that government's boundaries. The debt limit for the Town was approximately \$21.1 million as of June 30, 2016.

Additional information regarding the Town's long-term debt can be found in note 9 and schedules 11 and 12.

### Budget Highlights for the Fiscal Year Ending June 30, 2017

**Governmental Activities:** General fund revenues are budgeted to be \$2.6 million for the fiscal year ending June 30, 2017 in accordance with lower anticipated capital projects and operating transfers out. The Town uses revenues to finance programs currently in place.

### Requests for Information

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

# Town of Hillsville, Virginia

## Statement of Net Position

June 30, 2016

Exhibit A

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 2,178,179	\$ 474,335	\$ 2,652,514
Investments	157,090	269,316	426,406
Receivables (net of allowances for uncollectibles):			
Taxes, including penalties	766,763	-	766,763
Accounts	207,793	110,306	318,099
Accrued charges for services	-	57,157	57,157
Loans	37,364	-	37,364
Due from other funds	-	150,742	150,742
Due from other governmental units	21,157	-	21,157
Capital assets, net	<u>1,957,618</u>	<u>9,428,670</u>	<u>11,386,288</u>
Total assets	<u>5,325,964</u>	<u>10,490,526</u>	<u>15,816,490</u>
<b>Deferred Outflows of Resources</b>			
Pension contributions	<u>135,360</u>	<u>44,716</u>	<u>180,076</u>
<b>Liabilities</b>			
Accounts payable	270,196	186,413	456,609
Deposits	3,025	83,847	86,872
Due to other funds	150,742	-	150,742
Accrued bond interest	1,712	23,335	25,047
Bonds and notes payable due within one year	67,710	66,810	134,520
Bonds and notes payable due in more than one year	546,758	7,181,894	7,728,652
Capital lease obligations due within one year	18,993	-	18,993
Capital lease obligations due in more than one year	19,454	-	19,454
Compensated absences	105,891	36,396	142,287
Net pension liability	<u>675,169</u>	<u>219,524</u>	<u>894,693</u>
Total liabilities	<u>1,859,650</u>	<u>7,798,219</u>	<u>9,657,869</u>
<b>Deferred Inflows of Resources</b>			
Deferred inflows related to pension	148,946	49,648	198,594
Deferred revenue	<u>746,884</u>	<u>-</u>	<u>746,884</u>
Total deferred inflows of resources	<u>895,830</u>	<u>49,648</u>	<u>945,478</u>
<b>Net Position</b>			
Invested in capital assets, net of related debt	1,304,703	2,179,966	3,484,669
Restricted	44,734	-	44,734
Unrestricted	<u>1,356,407</u>	<u>507,409</u>	<u>1,863,816</u>
Total net position	<u>\$ 2,705,844</u>	<u>\$ 2,687,375</u>	<u>\$ 5,393,219</u>

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



# Town of Hillsville, Virginia

Exhibit B

## Statement of Activities

For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary Government:							
Government Activities:							
General government	\$ 449,575	\$ -	\$ -	\$ -	\$ (449,575)	\$ -	\$ (449,575)
Public safety	1,142,534	143,956	74,288	20,255	(904,035)	-	(904,035)
Public works	730,797	2,206	3,572	66,625	(658,394)	-	(658,394)
Community development	143,829	-	-	-	(143,829)	-	(143,829)
Other activities	10,685	-	-	-	(10,685)	-	(10,685)
Interest on long – term debt	21,524	-	-	-	(21,524)	-	(21,524)
Total government activities	<u>2,498,944</u>	<u>146,162</u>	<u>77,860</u>	<u>86,880</u>	<u>(2,188,042)</u>	<u>-</u>	<u>(2,188,042)</u>
Business – type activities:							
Water	591,332	478,425	-	293,565	-	180,658	180,658
Sewer	957,639	697,651	-	14,247	-	(245,741)	(245,741)
Total business – type activities	<u>1,548,971</u>	<u>1,176,076</u>	<u>-</u>	<u>307,812</u>	<u>-</u>	<u>(65,083)</u>	<u>(65,083)</u>
Total primary government	<u>\$ 4,047,915</u>	<u>\$ 1,322,238</u>	<u>\$ 77,860</u>	<u>\$ 394,692</u>			<u>(2,253,125)</u>
General Revenues:							
General property					717,694	-	717,694
Sales tax					159,914	-	159,914
Utility tax					90,655	-	90,655
Business license					297,840	-	297,840
Franchise tax					17,835	-	17,835
Motor vehicle license					47,308	-	47,308
Bank stock tax					131,281	-	131,281
Meals tax					1,028,626	-	1,028,626
Lodgings tax					265,443	-	265,443
Other taxes					-	-	-
Licenses and permits					1,602	-	1,602
Grants and contributions not restricted to specific programs					-	-	-
Use of money and property					34,316	9,308	43,624
Miscellaneous					38,902	26,589	65,491
Gain (loss) on sale/retirement of capital assets					27,121	-	27,121
Transfers					(150,742)	150,742	-
Total general revenues and transfers					<u>2,707,795</u>	<u>186,639</u>	<u>2,894,434</u>
Change in net position					519,753	121,556	641,309
Net position, beginning					<u>2,186,091</u>	<u>2,565,819</u>	<u>4,751,910</u>
Net position, ending					<u>\$ 2,705,844</u>	<u>\$ 2,687,375</u>	<u>\$ 5,393,219</u>

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

# Town of Hillsville, Virginia

Balance Sheet  
Governmental Funds  
June 30, 2016

Exhibit C  
Page 1

	<u>General Fund</u>	<u>CDBG Fund</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 2,133,285	\$ 44,894	\$ 2,178,179
Investments	157,090	-	157,090
Receivables (net of allowances for uncollectibles):			
Taxes, including penalties	766,763	-	766,763
Accounts	207,793	-	207,793
Loans	-	37,364	37,364
Due from other funds	160	-	160
Due from other governmental units	21,157	-	21,157
Total assets	<u>3,286,248</u>	<u>82,258</u>	<u>3,368,506</u>
<b>Liabilities</b>			
Accounts payable	31,860	-	31,860
Deposits	3,025	-	3,025
Due to other funds	150,742	160	150,902
Total liabilities	<u>185,627</u>	<u>160</u>	<u>185,787</u>
<b>Deferred Inflows of Resources</b>			
Deferred revenue	<u>709,616</u>	<u>37,364</u>	<u>746,980</u>
<b>Fund Balances</b>			
Nonspendable	-	-	-
Restricted:			
Community development	-	44,734	44,734
Committed	-	-	-
Assigned:			
Capital projects	71,100	-	71,100
Unassigned	2,319,905	-	2,319,905
Total fund balances	<u>\$ 2,391,005</u>	<u>\$ 44,734</u>	<u>\$ 2,435,739</u>

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

# Town of Hillsville, Virginia

Balance Sheet  
Governmental Funds  
June 30, 2016

Exhibit C  
Page 2

	<u>Total</u>
Total fund balances per Balance Sheet for Governmental Funds	\$ 2,435,739
Amounts reported for governmental activities in the Statement of Net Position (Exhibit A) are different because:	
Capital assets in government activities are not financial resources and therefore are not reported as fund assets. The Statement of Net Position, however, includes these assets, net of accumulated depreciation/amortization.	
Capital assets, net	1,957,618
Some receivables are not available to pay for current period expenditures and therefore are deferred in the fund financial statements.	
Property taxes	96
Pension expense	(148,946)
Pension contributions subsequent to the measurement date of the net pension liability are considered to be deferred outflows of resources	135,360
Some liabilities, including general governmental bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities are included in the Statement of Net Position.	
Accounts payable (related to post employment benefits)	(238,336)
Accrued bond interest	(1,712)
Bonds and notes payable	(614,468)
Capital lease obligations	(38,447)
Compensated absences	(105,891)
Net pension liability	(675,169)
Net position of governmental activities	<u>\$ 2,705,844</u>

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

# Town of Hillsville, Virginia

## Statement of Revenues, Expenditures and Changes in Fund Balance

### Governmental Funds

For the Year Ended June 30, 2016

Exhibit D

Page 1

	<u>General Fund</u>	<u>CDBG Fund</u>	<u>Total Governmental Activities</u>
<b>Revenues:</b>			
General property taxes	\$ 763,137	\$ -	\$ 763,137
Other local taxes	2,038,902	-	2,038,902
Permits, privilege fees and regulatory licenses	1,602	-	1,602
Fines and forfeitures	143,956	-	143,956
Payment in lieu of taxes	-	-	-
Revenue from use of money and property	33,729	587	34,316
Charges for services	2,206	-	2,206
Gain on sale of capital assets	11,955	-	11,955
Miscellaneous	35,082	3,820	38,902
Intergovernmental:			
Federal	52,230	-	52,230
State	77,860	-	77,860
Total revenues	<u>3,160,659</u>	<u>4,407</u>	<u>3,165,066</u>
<b>Expenditures:</b>			
Current:			
General government administration	437,655	-	437,655
Public safety	1,064,477	-	1,064,477
Public works	802,920	-	802,920
Community development	94,811	7,200	102,011
Non-departmental	6,051	-	6,051
Capital projects	16,093	-	16,093
Annexation expenses	-	-	-
Debt service:			
Principal retirement	112,358	-	112,358
Interest and finance charges	21,130	-	21,130
Total expenditures	<u>2,555,495</u>	<u>7,200</u>	<u>2,562,695</u>
Excess (loss) of revenues over expenditures	<u>605,164</u>	<u>(2,793)</u>	<u>602,371</u>
<b>Other financing sources and uses:</b>			
Proceeds from debt	-	-	-
Operating transfers in	290	-	290
Operating transfers out	(150,742)	(290)	(151,032)
Total other financing sources and uses	<u>(150,452)</u>	<u>(290)</u>	<u>(150,742)</u>
Excess (loss) of revenues and other sources over expenditures and other uses	454,712	(3,083)	451,629
Fund balance, beginning	1,936,293	47,817	1,984,110
Fund balance, ending	<u>\$ 2,391,005</u>	<u>\$ 44,734</u>	<u>\$ 2,435,739</u>

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

**Town of Hillsville, Virginia**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Funds**  
*For the Year Ended June 30, 2016*

Exhibit D  
Page 2

	<u>Total Governmental Activities</u>
Net change in fund balances – total governmental funds	\$ 451,629
Amounts reported for governmental activities in the Statement of Activities (Exhibit B) are different because:	
Governmental funds report the cost of equipment and facilities acquired as current expenditures while the governmental Statement of Activities reports depreciation expense to allocate those expenditures over the life of the assets.	
Capital assets additions	223,239
Depreciation expense	(208,255)
Difference between accumulated depreciation and cost of disposed assets	(2,259)
Debt proceeds provide current financial resources to governmental funds, but debt issues increase long – term liabilities in the Statement of Net Position. Principal repayments are expenditures in governmental funds, but reduce long – term liabilities in the Statement of Net Position.	
New debt issued	(56,993)
Principal payments	111,943
Interest accrued	21
Certain revenues in the government-wide statement of activities do not provide current financial resources and are not reported as revenue in the fund financial statements.	
General property taxes	(45,442)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in post employment benefits	(41,191)
Change in compensated absences	(4,543)
Change in pension plan benefits	<u>91,604</u>
Change in net position of governmental activities	<u>\$ 519,753</u>

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

# Town of Hillsville, Virginia

## Statement of Net Position

### Proprietary Funds

June 30, 2016

Exhibit E

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<b>Assets</b>			
Current assets:			
Cash and equivalents	\$ 344,524	\$ 129,811	\$ 474,335
Investments	134,658	134,658	269,316
Accounts receivable (net of allowance for uncollectibles)	62,641	47,665	110,306
Accrued charges for services	26,985	30,172	57,157
Due from other funds	<u>52,476</u>	<u>98,266</u>	<u>150,742</u>
Total current assets	<u>621,284</u>	<u>440,572</u>	<u>1,061,856</u>
Capital assets			
Buildings	5,400,972	11,315,117	16,716,089
Land	31,468	12,700	44,168
Machinery and equipment	<u>173,480</u>	<u>227,904</u>	<u>401,384</u>
Total capital assets	5,605,920	11,555,721	17,161,641
Less accumulated depreciation	<u>(2,650,059)</u>	<u>(5,082,912)</u>	<u>(7,732,971)</u>
Net capital assets	<u>2,955,861</u>	<u>6,472,809</u>	<u>9,428,670</u>
Total assets	<u>3,577,145</u>	<u>6,913,381</u>	<u>10,490,526</u>
<b>Deferred Outflows of Resources</b>			
Pension contributions	<u>22,614</u>	<u>22,102</u>	<u>44,716</u>
<b>Liabilities</b>			
Liabilities:			
Current liabilities (payable from current assets):			
Accounts payable	135,538	50,875	186,413
Deposits	41,928	41,919	83,847
Accrued bond interest	20,757	2,578	23,335
Current portion of bonds	<u>42,121</u>	<u>24,689</u>	<u>66,810</u>
Total current liabilities (payable from current assets)	<u>240,344</u>	<u>120,061</u>	<u>360,405</u>
Long-term liabilities:			
Bonds (net of current portion)	2,061,776	5,120,118	7,181,894
Compensated absences	20,761	15,635	36,396
Net pension liability	<u>112,636</u>	<u>106,888</u>	<u>219,524</u>
Total long-term liabilities	<u>2,195,173</u>	<u>5,242,641</u>	<u>7,437,814</u>
Total liabilities	<u>2,435,517</u>	<u>5,362,702</u>	<u>7,798,219</u>
<b>Deferred Inflows of Resources</b>			
Deferred inflows related to pension	<u>25,816</u>	<u>23,832</u>	<u>49,648</u>
<b>Net Position</b>			
Net Position:			
Invested in capital assets, net of related debt	851,964	1,328,002	2,179,966
Unrestricted	<u>286,462</u>	<u>220,947</u>	<u>507,409</u>
Total net position	<u>\$ 1,138,426</u>	<u>\$ 1,548,949</u>	<u>\$ 2,687,375</u>

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

# Town of Hillsville, Virginia

Exhibit F

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

### Proprietary Funds

For the Year Ended June 30, 2016

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<b>Operating revenues:</b>			
Charges for services	\$ 478,425	\$ 697,651	\$ 1,176,076
Miscellaneous	182	4,903	5,085
Total operating revenues	<u>478,607</u>	<u>702,554</u>	<u>1,181,161</u>
<b>Operating expenses:</b>			
Personnel services	188,037	182,785	370,822
Fringe benefits	64,254	59,691	123,945
Contractual services	3,197	4,193	7,390
Payment in lieu of taxes	-	-	-
Depreciation and amortization	153,754	352,624	506,378
Other	155,108	162,481	317,589
Total operating expenses	<u>564,350</u>	<u>761,774</u>	<u>1,326,124</u>
Operating loss	<u>(85,743)</u>	<u>(59,220)</u>	<u>(144,963)</u>
<b>Nonoperating revenues (expenses):</b>			
Connection fees	4,358	2,033	6,391
Interest	4,361	4,947	9,308
Other nonoperating revenues	1,065	14,048	15,113
Interest and fiscal charges	(26,982)	(195,865)	(222,847)
Total nonoperating revenues (expenses)	<u>(17,198)</u>	<u>(174,837)</u>	<u>(192,035)</u>
Loss before contributions and transfers	(102,941)	(234,057)	(336,998)
Capital grants and contributions	293,565	14,247	307,812
Operating transfers in	52,608	98,266	150,874
Operating transfers out	-	(132)	(132)
Changes in net position	243,232	(121,676)	121,556
Net position, beginning	<u>895,194</u>	<u>1,670,625</u>	<u>2,565,819</u>
Net position, ending	<u>\$ 1,138,426</u>	<u>\$ 1,548,949</u>	<u>\$ 2,687,375</u>

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

# Town of Hillsville, Virginia

Exhibit G

## Statement of Cash Flows

### Proprietary Funds

For the Year Ended June 30, 2016

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<b>Cash flows from operating activities:</b>			
Cash received from customers	\$ 454,939	\$ 711,609	\$ 1,166,548
Cash payments to suppliers for goods and services	(246,979)	(170,871)	(417,850)
Cash payments to employees for services	(265,471)	(255,564)	(521,035)
Payment in lieu of taxes	-	-	-
Net cash (used by) provided by operating activities	<u>(57,511)</u>	<u>285,174</u>	<u>227,663</u>
<b>Cash flows from noncapital financing activities:</b>			
Operating transfers from (to) other funds	<u>132</u>	<u>(132)</u>	<u>-</u>
Net cash provided (used) by noncapital financing activities	<u>132</u>	<u>(132)</u>	<u>-</u>
<b>Cash flows from capital and related financing activities:</b>			
Capital grants	293,565	14,247	307,812
Acquisition, construction and disposal of capital assets	(970,869)	(24,406)	(995,275)
Issuance of bonds	756,616	-	756,616
Principal paid on bonds	(57,122)	(384,112)	(441,234)
Interest paid on bonds	(9,755)	(269,333)	(279,088)
Net cash provided by (used by) capital and related financing activities	<u>12,435</u>	<u>(663,604)</u>	<u>(651,169)</u>
<b>Cash flows from investing activities:</b>			
Cash payments to purchase investments	(3,109)	(3,109)	(6,218)
Interest on temporary investments	4,361	4,947	9,308
Net cash provided by investing activities	<u>1,252</u>	<u>1,838</u>	<u>3,090</u>
Net decrease in cash and cash equivalents	(43,692)	(376,724)	(420,416)
Cash and cash equivalents at beginning of year	388,216	506,535	894,751
Cash and cash equivalents at end of year	<u>\$ 344,524</u>	<u>\$ 129,811</u>	<u>\$ 474,335</u>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>			
Operating loss	\$ (85,743)	\$ (59,220)	\$ (144,963)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation and amortization	153,754	352,624	506,378
Receivables and accrued charges for services	(30,205)	(8,131)	(38,336)
Accounts payable and deferred revenue	(88,674)	(4,197)	(92,871)
Connection fees and other income	5,423	16,081	21,504
Other accrued expenses	(13,180)	(13,088)	(26,268)
Deposits	1,114	1,105	2,219
Total adjustments	<u>28,232</u>	<u>344,394</u>	<u>372,626</u>
Net cash provided by operating activities	<u>\$ (57,511)</u>	<u>\$ 285,174</u>	<u>\$ 227,663</u>

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



# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

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### 1. Summary of Significant Accounting Policies

The financial statements of the Town of Hillsville, Virginia (the “Town”) conform to generally accepted accounting principles (“GAAP”) applicable to government units promulgated by the Governmental Accounting Standards Board (“GASB”).

The following is a summary of the more significant policies:

#### A. The Financial Reporting Entity

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

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

#### B. Government-wide and Fund Financial Statements

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

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

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

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

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

# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

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### 1. Summary of Significant Accounting Policies, continued

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

The Town reports the following major governmental funds:

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

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

The Town reports the following major proprietary funds:

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

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

# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

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### 1. Summary of Significant Accounting Policies, continued

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

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

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

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

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

#### D. Budgets and Budgetary Accounting

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

1. Prior to March 30, the Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the department level or category level. The appropriation for each department or category can be revised only by the Town Council. The Town Manager is authorized to transfer budgeted amounts within general government departments.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund.
6. All budgets are adopted and maintained on a basis consistent with GAAP. The original budget and budget revisions during the fiscal year are authorized at the departmental level by Town council.
7. Appropriations lapse on June 30 for all Town units.

# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

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### 1. Summary of Significant Accounting Policies, continued

#### E. Cash and Cash Equivalents

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

#### F. Investments

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

#### G. Property, Plant, and Equipment

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

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

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

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

#### H. Property Taxes

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

#### I. Net Position

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

# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

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### 1. Summary of Significant Accounting Policies, continued

#### J. Fund Balances

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

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

#### K. Deferred Outflows/Inflows of Resources

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

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

#### L. Pensions

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

# Town of Hillsville, Virginia

## Notes to Financial Statements

*As of June 30, 2016*

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### 1. Summary of Significant Accounting Policies, continued

#### M. Recently Adopted Accounting Standards

GASB Statement No. 72, Fair Value Measurement and Application, addresses accounting and financial reporting issues related to fair value measurements. The requirements of this Statement were effective for reporting periods beginning after June 15, 2015.

#### N. Use of Estimates

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

#### O. Subsequent Events

Subsequent events have been evaluated as of January 16, 2017, which is the date the financial statements were issued.

# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

### 2. Cash and Investments

**Cash:** At year-end the carrying value of the Town’s deposits with banks and savings institutions was \$2,651,864 and the bank balance was \$2,781,168. All of the bank balance was covered by Federal depository insurance or collateral held under the provisions of the Virginia Security for Public Deposits Act. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC Bank Insurance Fund must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC Savings Association Insurance Fund limits. The State Treasury board is responsible for monitoring compliance with the collateralization and reporting requirements for the Act and for notifying local governments of compliance by banks and savings and loans.

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

**Credit Risk:** State statutes require that commercial paper have a short-term debt rating of no less than “A-1” (or its equivalent) from at least two of the following: Moody’s Investors Service, Standard & Poor’s and Fitch Investor’s Service. Corporate notes, negotiable Certificates of Deposit and bank deposit notes maturing in less than one year must have a short-term debt rating of at least “A-1” by Standard & Poor’s and “P-1” by Moody’s Investors Service. Notes having a maturity of greater than one year must be rated “AA” by Standard & Poor’s and “Aa” by Moody’s Investors Service. The Town’s rated debt investments as of June 30, 2016 are presented below using the Standard & Poor’s rating scale.

	<u>Fair Quality Ratings</u>		<u>Fair Value</u>
	<u>AAAm</u>	<u>Unrated</u>	
Alliance U.S. Government Bond Fund	\$ -	\$ 137,319	\$ 137,319
Investment in Local Government Investment Pool (LGIP)	<u>289,087</u>	<u>-</u>	<u>289,087</u>
Total	<u>\$ 289,087</u>	<u>\$ 137,319</u>	<u>\$ 426,406</u>

**Concentration of Credit Risk:** The Town’s investments in the Alliance Bond Fund and the LGIP represented 32.2% and 67.8%, respectively, of the portfolio at June 30, 2016.

### 3. Allowance for Uncollectible Accounts

The Town of Hillsville calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance at June 30, 2016 is composed of the following:

General Fund, Allowance for Uncollectible Taxes	\$ 44,706
Water and Sewer Funds, Allowance for Uncollectible Accounts	<u>47,363</u>
	<u>\$ 92,069</u>

### 4. Due From Other Governmental Units

Amounts due from other governmental units at June 30, 2016 are summarized as follows:

Carroll County, Virginia	
Court fines and forfeitures	<u>\$ 21,157</u>

# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

### 5. Capital Assets

A summary of changes in capital assets follows:

#### Governmental Activities

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2016</u>
Land (not depreciated)	\$ 100,248	\$ -	\$ -	\$ 100,248
Land improvements	699,055	5,667	-	704,722
Buildings and improvements	1,105,341	3,380	-	1,108,721
Equipment	<u>1,760,264</u>	<u>214,192</u>	<u>(54,834)</u>	<u>1,919,622</u>
Total	3,664,908	223,239	(54,834)	3,833,313
Less accumulated depreciation	<u>(1,720,015)</u>	<u>(208,255)</u>	<u>52,575</u>	<u>(1,875,695)</u>
Government activities capital assets, net	<u>\$ 1,944,893</u>	<u>\$ 14,984</u>	<u>\$ (2,259)</u>	<u>\$ 1,957,618</u>

#### Business-type Activities

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2016</u>
Water Fund:				
Land (not depreciated)	\$ 31,468	\$ -	\$ -	\$ 31,468
Buildings and improvements	4,431,802	969,170	-	5,400,972
Vehicles	32,024	-	-	32,024
Equipment	<u>139,757</u>	<u>1,699</u>	<u>-</u>	<u>141,456</u>
Total	4,635,051	970,869	-	5,605,920
Less accumulated depreciation	<u>(2,496,305)</u>	<u>(153,754)</u>	<u>-</u>	<u>(2,650,059)</u>
Water Fund capital assets, net	<u>\$ 2,138,746</u>	<u>\$ 817,115</u>	<u>\$ -</u>	<u>\$ 2,955,861</u>
Sewer Fund:				
Land (not depreciated)	\$ 12,700	\$ -	\$ -	\$ 12,700
Buildings and improvements	11,310,117	5,000	-	11,315,117
Vehicles	53,512	-	-	53,512
Equipment	<u>154,986</u>	<u>19,406</u>	<u>-</u>	<u>174,392</u>
Total	11,531,315	24,406	-	11,555,721
Less accumulated depreciation	<u>(4,730,288)</u>	<u>(352,624)</u>	<u>-</u>	<u>(5,082,912)</u>
Sewer Fund capital assets, net	<u>\$ 6,801,027</u>	<u>\$ (328,218)</u>	<u>\$ -</u>	<u>\$ 6,472,809</u>

Depreciation expense was charged to functions/programs as follows:

#### Governmental Activities

General government	\$ 22,611
Public safety	120,083
Public works	23,742
Community development	<u>41,819</u>
	<u>\$ 208,255</u>

#### Business-type Activities

Water	\$ 153,754
Sewer	<u>352,624</u>
	<u>\$ 506,378</u>



# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

### 6. Benefits

#### VRS Retirement Plan

##### A. Plan Description

All full-time, salaried permanent employees of the Town are automatically covered by 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:

	<b>VRS PLAN 1</b>	<b>VRS PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<b>Summary</b>	Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for 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.	The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members") <ul style="list-style-type: none"> <li>• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</li> <li>• 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.</li> <li>• 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.</li> </ul>

# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

### 6. Benefits, continued

#### VRS Retirement Plan, continued

##### A. Plan Description, continued

	<b>VRS PLAN 1</b>	<b>VRS PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<b>Eligible Members</b>	<p>Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> 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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>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.</p>	<p>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.</p> <p><b>Hybrid Opt-In Election</b> 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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>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.</p>	<p>Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> <li>• Political subdivision employees*</li> <li>• 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</li> </ul> <p><b>*Non-Eligible Members</b> Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> <li>• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees</li> </ul> <p>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.</p>

# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

### 6. Benefits, continued

#### VRS Retirement Plan, continued

##### A. Plan Description, continued

	VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<b>Retirement Contributions</b>	Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. 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.	Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.	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.
<b>Creditable Service</b>	Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	Same as Plan 1.	<b>Defined Benefit Component:</b> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

### 6. Benefits, continued

#### VRS Retirement Plan, continued

##### A. Plan Description, continued

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

# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

### 6. Benefits, continued

#### VRS Retirement Plan, continued

##### A. Plan Description, continued

	VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Vesting, continued			<p><b><u>Defined Contributions Component:</u></b>            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.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>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.</p> <ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distribution is not required by law until age 70½.</p>

# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

### 6. Benefits, continued

#### VRS Retirement Plan, continued

##### A. Plan Description, continued

	<b>VRS PLAN 1</b>	<b>VRS PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<b>Calculating the Benefit</b>	<p>The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>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.</p>	See definition under Plan 1.	<p><b><u>Defined Benefit Component:</u></b> See definition under Plan 1</p> <p><b><u>Defined Contribution Component:</u></b> 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.</p>
<b>Average Final Compensation</b>	A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

### 6. Benefits, continued

#### VRS Retirement Plan, continued

##### A. Plan Description, continued

<p><b>Service Retirement Multiplier</b></p>	<p>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%.</p> <p><b>Sheriffs and regional jail superintendents:</b> The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p><b>Political subdivision hazardous duty employees:</b> 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.</p>	<p>Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p> <p><b>Sheriffs and regional jail superintendents:</b> Same as Plan 1.</p> <p><b>Political subdivision hazardous duty employees:</b> Same as Plan 1.</p>	<p><b><u>Defined Benefit Component:</u></b> The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members that opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p><b>Sheriffs and regional jail superintendents:</b> Not applicable.</p> <p><b>Political subdivision hazardous duty employees:</b> Not applicable.</p> <p><b><u>Defined Contribution Component:</u></b> Not applicable.</p>
<p><b>Normal Retirement Age</b></p>	<p>Age 65.</p> <p><b>Political subdivisions hazardous duty employees:</b> Age 60.</p>	<p>Normal Social Security retirement age.</p> <p><b>Political subdivisions hazardous duty employees:</b> Same as Plan 1.</p>	<p><b><u>Defined Benefit Component:</u></b> Same as Plan 2.</p> <p><b>Political subdivisions hazardous duty employees:</b> Not applicable.</p> <p><b><u>Defined Contribution Component:</u></b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

### 6. Benefits, continued

#### VRS Retirement Plan, continued

##### A. Plan Description, continued

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



# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

### 6. Benefits, continued

#### VRS Retirement Plan, continued

##### A. Plan Description, continued

	VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<b>Cost-of-Living Adjustment (COLA) in Retirement, continued</b>	<p><b><u>Eligibility:</u></b> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> <li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>• The member retires on disability.</li> <li>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</li> <li>• 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</li> </ul>	<p><b><u>Eligibility:</u></b> Same as Plan 1.</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b> Same as Plan 1.</p>	<p><b><u>Eligibility:</u></b> Same as Plan 1 and Plan 2.</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b> Same as Plan 1 and Plan 2.</p>

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# Town of Hillsville, Virginia

## Notes to Financial Statements

*As of June 30, 2016*

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# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

### 6. Benefits, continued

#### VRS Retirement Plan, continued

##### A. Plan Description, continued

	<b>VRS PLAN 1</b>	<b>VRS PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<b>Cost-of-Living Adjustment (COLA) in Retirement, continued</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>		
<b>Disability Coverage</b>	<p>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.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>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.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>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.</p> <p>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.</p>

# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

### 6. Benefits, continued

#### VRS Retirement Plan, continued

##### A. Plan Description, continued

	VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<b>Purchase of Prior Service</b>	Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	Same as Plan 1.	<p><b><u>Defined Benefit Component:</u></b> Same as Plan 1 with the following exceptions:</p> <ul style="list-style-type: none"> <li>• Hybrid Retirement Plan members are ineligible for ported service.</li> <li>• The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.</li> <li>• Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.</li> </ul> <p><b><u>Defined Contribution Component:</u></b> Not applicable.</p>

##### B. Employees Covered by Benefit Terms

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<b><u>Number of Employees</u></b>
Inactive members or their beneficiaries currently receiving benefits	<u>21</u>
Inactive members:	
Vested	4
Non-vested	6
Active elsewhere in the VRS	<u>23</u>
Total inactive members	<u>33</u>
Active members	<u>37</u>
<b>Total covered employees</b>	<b><u>91</u></b>

# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

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### 6. Benefits, continued

#### *VRS Retirement Plan, continued*

##### C. Contributions

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

The Town's contractually required contribution rate for the year ended June 30, 2016 was 13.03% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$243,736 and \$232,987 for the years ended June 30, 2016 and 2015, respectively.

##### D. Net Pension Liability

The Town's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

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### 6. Benefits, continued

#### *VRS Retirement Plan, continued*

##### E. Actuarial Assumptions

###### *General Employees*

The total pension liability for General Employees in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2014, 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, 2015.

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

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

Mortality rates: 14% of deaths assumed to be service related.

###### Largest 10 – Non-LEOs:

###### Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years.

###### Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

###### Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

###### All Others (Non 10 Largest) – Non-LEOs:

###### Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years.

###### Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

###### Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

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### 6. Benefits, continued

#### *VRS Retirement Plan, continued*

##### E. Actuarial Assumptions , continued

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

##### Largest 10 – Non-LEOs:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

##### All Others (Non 10 Largest) – Non-LEOs:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

#### *Public Safety Employees*

The total pension liability for Public Safety Employees in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2014, 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, 2015.

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

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

Mortality rates: 60% of deaths assumed to be service related.

##### Largest 10 – LEOs:

##### Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years.

##### Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

##### Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

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### 6. Benefits, continued

#### *VRS Retirement Plan, continued*

##### E. Actuarial Assumptions, continued

All Others (Non 10 Largest) – LEOs:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – LEOs:

- Update mortality table
- Decrease in males rates of disability

All Others (Non 10 Largest) – LEOs:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability



# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

### 6. Benefits, continued

#### VRS Retirement Plan, continued

##### F. Long-Term Expected Rate of Return

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

<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>
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	<u>1.00%</u>	(1.50%)	<u>(0.02%)</u>
Total	<u>100.00%</u>		<u>5.83%</u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u>8.33%</u>

\* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

##### G. Discount Rate

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

# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

### 6. Benefits, continued

#### VRS Retirement Plan, continued

#### H. Changes in Net Pension Liability

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability</b>
	<b>(a)</b>	<b>(b)</b>	<b>(a) – (b)</b>
Balances at June 30, 2014	\$ 5,970,661	\$ 5,095,152	\$ 875,509
Changes for the year:			
Service cost	160,994	-	160,994
Interest	407,404	-	407,404
Differences between expected and actual experience	(89,216)	-	(89,216)
Contributions – employer	-	168,941	(168,941)
Contributions – employee	-	64,046	(64,046)
Net investment income	-	230,241	(230,241)
Benefit payments, including refunds of employee contributions	(301,198)	(301,198)	-
Administrative expense	-	(3,181)	3,181
Other changes	-	(49)	49
Net changes	<u>177,984</u>	<u>158,800</u>	<u>19,184</u>
Balances at June 30, 2015	<u>\$ 6,148,645</u>	<u>\$ 5,253,952</u>	<u>\$ 894,693</u>

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

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

	<b>1% Decrease (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1% Increase (8.00%)</b>
Net Pension Liability	<u>\$ 1,743,267</u>	<u>\$ 894,693</u>	<u>\$ 192,073</u>

# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

### 6. Benefits, continued

#### VRS Retirement Plan, continued

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

For the year ended June 30, 2016, the Town recognized pension expense of \$76,374. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 64,973
Changes of assumptions	-	-
Net difference between projected and actual earnings on plan investments	-	133,621
Employer contributions subsequent to the Measurement Date*	180,076	-
Total	<u>\$ 180,076</u>	<u>\$ 198,594</u>

\* \$180,076 reported as deferred outflows of resources related to pensions resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2017	\$ (77,045)
2018	(77,045)
2019	(69,288)
2020	24,784
2021	-
Thereafter	-

# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

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### 6. Benefits, continued

#### *Other Post Employment Benefits*

##### A. Plan Description

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

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

##### *General Employees Prior Plan – All Plan 1 Members vested as of January 1, 2013:*

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

##### *General Employees Current Plan – All Plan 1 Members not vested as of January 1, 2013 and Members hired on or after July 1, 2010 (Plan 2):*

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

##### *Public Safety Employees:*

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

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

##### B. Funding Policy

The retiree and spouse pay 100% of the premium cost for their elected coverage.

##### C. Annual OPEB Cost

The annual required contribution (ARC), an actuarially determined rate, represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize unfunded actuarial liabilities over a period not to exceed thirty (30) years.

# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

### 6. Benefits, continued

#### *Other Post Employment Benefits, continued*

#### C. Annual OPEB Cost, continued

The following table represents the calculation of the Net OPEB Obligation:

<u>Fiscal Year</u> <u>Ending</u> <u>June 30,</u>	<u>Annual</u> <u>Required</u> <u>Contribution</u>	<u>Interest on Net</u> <u>OPEB</u> <u>Obligation</u>	<u>Adjustment to</u> <u>the ARC</u>	<u>Net OPEB</u> <u>Cost</u>	<u>Actual</u> <u>Contribution</u>	<u>Net OPEB</u> <u>Obligation</u>
2012	18,900	-	-	18,900	31,109	6,772
2013	20,100	237	(250)	20,087	26,484	375
2014	20,800	492	(520)	20,772	21,147	-
2015	21,600	771	(815)	21,556	21,556	-
2016	30,100	-	-	30,100	9,300	20,800

#### D. Funding Status and Funding Progress

The plan is funded on a pay-as-you-go basis and has no assets. The actuarial accrued liability for benefits for the most recent valuation date, June 30, 2016, was \$319,100, resulting in an UAAL of \$319,100. The estimated covered payroll (annual payroll of active employees covered by the plan) was \$1,450,100, and the ratio of the UAAL to the covered payroll was 22.01%.

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

#### E. Actuarial Methods and Assumptions

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

Actuarial valuation date	6/30/2016
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of payroll
Remaining amortization period	30 years (open)
Actuarial assumptions:	
Investment rate of return	3.5% annual returns net of both investment and non-actuarial administrative expenses
Medical cost trend assumption	Getzen Trend Model – 6.8% in 2016, 7.00% in 2017, 5.30% in 2018, graded to 4.10% in 2096
Payroll growth	3.0% per year

# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

### 7. Compensated Absences

Each Town employee earns vacation leave based on years of service up to 20 days per year after 15 years of service and sick leave at the rate of one day per month. No benefits or pay are received for unused sick leave upon termination. Accumulated vacation up to thirty days is paid upon termination. The Town has outstanding accrued vacation pay totaling \$105,891 in Governmental Activities and \$36,396 in Business-type Activities at June 30, 2016.

### 8. Lease Obligations (Capital and Operating)

The Town periodically leases various types of equipment under capital and operating agreements. Lease expenditures under operating lease agreements for the year ended June 30, 2016 amount to \$1,982. The Town entered into a capital lease of \$56,993 for equipment during the year ended June 30, 2016. The balance at June 30, 2016 was \$38,447. Annual lease payments are expected to be as follows: \$18,993 for the year ended June 30, 2017 and \$19,454 for the year ended June 30, 2018.

### 9. Long-Term Debt

The following is a summary of long-term debt transactions of the Town for the year ended June 30, 2016:

	<b>Amounts payable at July 1, 2015</b>	<b>Increases</b>	<b>Decreases</b>	<b>Amounts payable at June 30, 2016</b>	<b>Due within one year</b>
<b>Governmental Activities</b>					
Installment notes payable	\$ 567,848	\$ -	\$ (84,802)	\$ 483,046	\$ 58,812
General obligation bonds	<u>140,017</u>	<u>-</u>	<u>(8,595)</u>	<u>131,422</u>	<u>8,898</u>
	<u>\$ 707,865</u>	<u>\$ -</u>	<u>\$ (93,397)</u>	<u>\$ 614,468</u>	<u>\$ 67,710</u>
<b>Business-type Activities</b>					
General obligation bonds	\$ 6,933,322	\$ 756,616	\$ (441,234)	\$ 7,248,704	\$ 66,810
Revenue bonds	-	-	-	-	-
	<u>\$ 6,933,322</u>	<u>\$ 756,616</u>	<u>\$ (441,234)</u>	<u>\$ 7,248,704</u>	<u>\$ 66,810</u>

Contractual maturities for long-term debt are as follows:

<b>Year ending June 30,</b>	<b>Governmental Activities Notes Payable and Bonds</b>		<b>Business-type Activities Bonds</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2017	\$ 67,710	\$ 17,149	\$ 66,810	\$ 139,512
2018	51,224	14,902	279,601	211,756
2019	33,429	13,720	305,397	203,016
2020	34,421	12,729	312,008	193,954
2021	35,443	11,706	323,680	184,568
2022-2026	193,725	42,021	1,770,800	727,557
2027-2031	176,859	13,702	1,908,302	401,516
2032-2036	21,657	196	1,566,706	137,561
2037-2041	-	-	605,043	40,351
2042-2046	-	-	110,357	2,319
2047-2051	-	-	-	-
Total	<u>\$ 614,468</u>	<u>\$ 126,125</u>	<u>\$ 7,248,704</u>	<u>\$ 2,242,110</u>

# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

### 9. Long-Term Debt, continued

#### Details of Long-Term Indebtedness

<u>Notes Payable:</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Installment note payable monthly including interest at 3.99%, through December 27, 2017. Unsecured.	\$ 54,933	\$ -	\$ 54,933
Installment note payable monthly including interest at 2.49%, through February 22, 2032, secured by fire truck.	428,113	-	428,113
<u>General Obligations Bonds:</u>			
\$913,000 2001 General Obligation Bond, interest at 4.5%, principal and interest payable monthly through November 30, 2042.	-	774,517	774,517
\$1,276,279 2008 General Obligation Bond, at no interest payable semi-annually through August 1, 2039.	-	989,841	989,841
\$193,000 2008 General Obligation Bond, interest at 4.00% payable semi-annually through June 1, 2028.	131,422	-	131,422
\$4,885,000 2013 General Obligation Bond, interest at 3.50% payable semi-annually, principal payable annually through July 15, 2035.	-	4,390,000	4,390,000
\$164,935 2014 General Obligation Bond, no interest, payable semi-annually through June 1, 2035.	-	155,890	155,890
\$1,069,358 2015 General Obligation Bond, interest at 3.00% payable semi-annually, through January 1, 2046.	-	938,456	938,456
Total long-term debt	<u>\$ 614,468</u>	<u>\$ 7,248,704</u>	<u>\$ 7,863,172</u>

# Town of Hillsville, Virginia

## Notes to Financial Statements

As of June 30, 2016

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### 10. Deferred Revenue

Deferred revenue represents a measurable inflow of resources that will be available in a future reporting period. Deferred revenue totaling \$746,980 at June 30, 2016 is comprised of the following:

#### Deferred Property Tax Revenue

Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled \$704,363.

#### Prepaid Property Taxes

Property taxes due subsequent to the current tax levy but paid in advance by taxpayers totaled \$5,253.

#### Deferred Loan Revenue

Deferred loan revenue representing uncollected loans receivable not available to fund current expenditures totaled \$37,364.

### 11. Commitments and Contingencies

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

At June 30, 2016, the Town was involved in various litigation arising out of the normal course of operations, however, in the opinion of management, there were no matters of litigation involving the Town which would materially affect the Town's financial position should any court decision or pending matter not be favorable to the Town.

### 12. Surety Bond Information

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

### 13. Accrued Charges for Services

The Town has adopted a bi-monthly billing cycle for most of its water and sewer customers. As a result, most customers have received services for as many as one and one-half months for which they had not been billed. These revenues are subject to accrual, and the asset represents an estimate of such charges based on subsequent bi-monthly billings. This amount is included in proprietary fund operating revenues. At June 30, 2016, Water and Sewer Fund accrued charges for services are \$26,985 and \$30,172, respectively.



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# Town of Hillsville, Virginia

## Notes to Financial Statements

*As of June 30, 2016*

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### **14. Risk of Loss**

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

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

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

# Town of Hillsville, Virginia

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

### Governmental Funds

For the Year Ended June 30, 2016

Schedule 1

Page 1

Revenues	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Primary government:				
General fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 435,299	\$ 435,299	\$ 465,962	\$ 30,663
Real and personal public service corporation property taxes	22,330	22,330	31,303	8,973
Personal property taxes	249,368	249,368	179,767	(69,601)
Machinery and tools taxes	75,948	75,948	77,064	1,116
Penalties and interest	2,500	2,500	9,041	6,541
Bad debt expense	-	-	-	-
Total general property taxes	785,445	785,445	763,137	(22,308)
Other local taxes:				
Local sales and use taxes	85,000	85,000	159,914	74,914
Consumers utility taxes	92,000	92,000	90,655	(1,345)
Business license taxes and vendor taxes	255,500	255,500	297,840	42,340
Franchise license taxes	17,000	17,000	17,835	835
Motor vehicle licenses	45,000	45,000	47,308	2,308
Bank stock taxes	90,000	90,000	131,281	41,281
Hotel and motel room taxes	254,800	254,800	265,443	10,643
Restaurant food taxes	950,000	950,000	1,028,626	78,626
Total other local taxes	1,789,300	1,789,300	2,038,902	249,602
Permits, privilege fees, and regulatory licenses	1,000	1,000	1,602	602
Fines and forfeitures	242,500	242,500	143,956	(98,544)
Payment in lieu of taxes	35,000	35,000	-	(35,000)
Revenue from use of money and property:				
Revenue from use of money	-	-	2,101	2,101
Revenue from use of property	32,000	32,000	31,628	(372)
Total revenue from use of money and property	32,000	32,000	33,729	1,729
Charges for services:				
Charges for sanitation and waste removal	-	-	2,206	2,206
Gain on sale of capital assets	-	-	11,955	11,955
Miscellaneous	17,025	21,440	35,082	13,642
Total revenue from local sources	2,902,270	2,906,685	3,030,569	123,884
Revenue from the Federal Government:				
Byrne Justice Assistance Grant	-	-	5,658	5,658
Highway safety grants	10,000	10,000	14,597	4,597
Community facilities grant	-	-	31,975	31,975
Total revenue from the Federal Government	10,000	10,000	52,230	42,230
Revenue from the Commonwealth:				
Noncategorical aid:				
Aid to localities with police department	66,500	66,500	65,288	(1,212)
Total noncategorical aid	66,500	66,500	65,288	(1,212)
Categorical aid:				
Litter control	-	-	1,572	1,572
VML insurance programs	-	-	2,000	2,000
Fire prevention	10,500	10,500	9,000	(1,500)
Total categorical aid	10,500	10,500	12,572	2,072
Total revenue from the Commonwealth	77,000	77,000	77,860	860
Total general fund	2,989,270	2,993,685	3,160,659	166,974

(continued)

# Town of Hillsville, Virginia

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

### Governmental Funds

For the Year Ended June 30, 2016

Schedule 1

Page 2

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
Special revenue funds:				
CDBG Fund				
Revenue from local sources:				
Revenue from use of property	\$ -	\$ -	\$ 587	\$ 587
Miscellaneous	-	-	3,820	3,820
Total revenue CDBG Fund	-	-	4,407	4,407
Total revenues	2,989,270	2,993,685	3,165,066	171,381
<b>Expenditures</b>				
Primary government:				
General fund:				
General governmental administration:				
Legislative:				
Town council	41,406	38,634	37,237	1,397
Total legislative	41,406	38,634	37,237	1,397
General and financial administration:				
Clerk of council	1,650	1,650	249	1,401
Administration	339,086	339,135	328,152	10,983
Legal services	18,150	18,150	15,700	2,450
Independent auditor	15,000	15,000	11,597	3,403
Treasurer	660	705	705	-
Accounting	5,700	6,680	7,042	(362)
Elections	-	6,023	6,023	-
Risk management	8,500	13,600	13,588	12
Data processing	16,250	20,355	17,362	2,993
Total general and financial administration	404,996	421,298	400,418	20,880
Total general government administration	446,402	459,932	437,655	22,277
Public safety:				
Law enforcement and traffic control:				
Police department	921,658	970,255	991,125	(20,870)
Fire and rescue services:				
Fire department	1,700	1,260	1,254	6
Building inspections	72,552	72,527	72,098	429
Total public safety	995,910	1,044,042	1,064,477	(20,435)

(continued)

# Town of Hillsville, Virginia

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

For the Year Ended June 30, 2016

Schedule 1

Page 3

Expenditures	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
General engineering/administration	\$ 338,752	\$ 422,702	\$ 377,850	\$ 44,852
Highway, street, bridge and sidewalk maintenance	29,050	17,255	15,396	1,859
Street lights	40,000	40,000	36,576	3,424
Total maintenance of highways, streets, bridges and sidewalks	<u>407,802</u>	<u>479,957</u>	<u>429,822</u>	<u>50,135</u>
Sanitation and waste removal:				
Refuse disposal	<u>375,051</u>	<u>374,815</u>	<u>351,282</u>	<u>23,533</u>
Maintenance of buildings and grounds:				
General properties	<u>22,750</u>	<u>22,840</u>	<u>21,816</u>	<u>1,024</u>
Total public works	<u>805,603</u>	<u>877,612</u>	<u>802,920</u>	<u>74,692</u>
Primary government:				
General fund:				
Community development:				
Planning and community development:				
Community development	91,100	88,528	88,688	(160)
Economic development	6,000	7,548	6,123	1,425
Total community development	<u>97,100</u>	<u>96,076</u>	<u>94,811</u>	<u>1,265</u>
Non-departmental	<u>16,210</u>	<u>16,210</u>	<u>6,051</u>	<u>10,159</u>
Capital projects	<u>214,500</u>	<u>165,712</u>	<u>16,093</u>	<u>149,619</u>
Annexation expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Debt service:				
Principal retirement	237,729	161,945	112,358	49,587
Interest and fiscal charges	<u>24,790</u>	<u>21,130</u>	<u>21,130</u>	<u>-</u>
Total debt service	<u>262,519</u>	<u>183,075</u>	<u>133,488</u>	<u>49,587</u>
Total general fund	<u>2,838,244</u>	<u>2,842,659</u>	<u>2,555,495</u>	<u>287,164</u>
Special revenue funds:				
CDBG fund:				
Community development	<u>-</u>	<u>-</u>	<u>7,200</u>	<u>(7,200)</u>
Total expenditures	<u>2,838,244</u>	<u>2,842,659</u>	<u>2,562,695</u>	<u>279,964</u>
Excess revenues over expenditures	<u>151,026</u>	<u>151,026</u>	<u>602,371</u>	<u>451,345</u>
<b>Other financing sources and uses</b>				
Proceeds from debt	-	-	-	-
Operating transfers in	-	-	290	290
Operating transfers out	(122,467)	(122,467)	(151,032)	(28,565)
Carryover balances	<u>(28,559)</u>	<u>(28,559)</u>	<u>-</u>	<u>28,559</u>
Total other financing sources and uses	<u>(151,026)</u>	<u>(151,026)</u>	<u>(150,742)</u>	<u>284</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>451,629</u>	<u>\$ 451,629</u>
Fund balance, beginning			1,984,110	
Fund balance, ending			<u>\$ 2,435,739</u>	

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

# Town of Hillsville, Virginia

## Schedule 2

### Schedule of Changes in Net Pension Liability and Related Ratios Last Two Years<sup>1</sup>

	Fiscal Year	
	2016	2015
<b>Total Pension Liability</b>		
Service cost	\$ 160,994	\$ 165,156
Interest	407,404	386,331
Contributions – employer	-	-
Contributions – employee	-	-
Differences between expected and actual experience	(89,216)	-
Net investment income	-	-
Benefit payments, including refunds of employee contributions	(301,198)	(199,669)
Administrative expense	-	-
Other changes	-	-
Net change	177,984	351,818
Total pension liability, beginning	5,970,661	5,618,843
Total pension liability, ending	<u>\$ 6,148,645</u>	<u>\$ 5,970,661</u>
<b>Plan Fiduciary Net Position</b>		
Service cost	\$ -	\$ -
Interest	-	-
Contributions – employer	168,941	183,712
Contributions – employee	64,046	66,294
Net investment income	230,241	694,350
Benefit payments, including refunds of employee contributions	(301,198)	(199,669)
Administrative expense	(3,181)	(3,663)
Other changes	(49)	36
Net change	158,800	741,060
Plan fiduciary net position, beginning		5,095,152
Plan fiduciary position, ending	<u>\$ 5,253,952</u>	<u>\$ 5,095,152</u>
<b>Net Pension Liability</b>	<u>\$ 894,693</u>	<u>\$ 875,509</u>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	85.45%	85.34%
<b>Covered-employee Payroll</b>	\$ 1,381,354	\$ 1,305,996
<b>Net Pension Liability as a Percentage of Covered-Employee Payroll</b>	64.77%	67.04%

<sup>1</sup> Data is not readily available for years prior to the adoption of SGAS No. 68.

# Town of Hillsville, Virginia

Schedule 3

## Schedule of Employer Contributions Last Two Years<sup>1</sup>

Fiscal Year <sup>2</sup>	Recommended Contribution Rate <i>(Information Only)</i>	Contractually Required Contribution <u>(1)</u>	Contributions in Relation to Contractually Required Contribution		Contribution Deficiency (Excess) <u>(1) - (2)</u>	Employer's Covered Employee Payroll <u>(4)</u>	Contributions as a % of Covered Employee Payroll <u>(5)</u>
			<u>(2)</u>				
2014	13.84%	\$ 180,750	\$ 176,200	\$ 4,550	\$ 1,305,996	13.49%	
2015	13.03	179,990	151,938	28,052	1,381,354	11.00	

<sup>1</sup> Data is not readily available for years prior to the adoption of SGAS No. 68.

<sup>2</sup> Date of actuarial valuation.

## Funding Progress for Post Employment Benefit Plan

### Post Employment Benefit Plan

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Estimated Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
June 30, 2010	\$ -	\$ 158,800	\$ 158,800	0.00%	\$ 1,238,800	12.82%
June 30, 2013	-	221,900	221,900	0.00	1,306,900	16.98
June 30, 2016	-	319,100	319,100	0.00	1,450,100	22.01

\* Information is only available for the years presented.

# Town of Hillsville, Virginia

Schedule 5

## Schedule of Federal Expenditures

<u>Federal Grantor/ Pass Through Grantor/ Program Title/</u>	<u>Federal CFDA Number</u>	<u>Grant/ Contract Agreement Numbers</u>	<u>Period Ended</u>	<u>Federal Expenditures</u>
<u>Department of Justice:</u>				
<u>Pass-through payments:</u>				
<u>Department of Criminal Justice Services</u>				
Local Law Enforcement Block Grant	16.738	15-Q1048LO14	12/31/2015	\$ 5,658
<u>Department of Transportation:</u>				
<u>Pass-through payments:</u>				
<u>Department of Motor Vehicles</u>				
Highway Safety Grant - Speed	20.600	SC-2015-55012-5751	09/30/2015	2,223
Highway Safety Grant - Speed	20.600	SC-2016-56026--6226	09/30/2016	5,091
Highway Safety Grant – Alcohol	20.600	154AL-2016-56081-6281	09/30/2016	5,141
Highway Safety Grant – Occupant Protection	20.600	OP-2016-56033-6233	09/30/2016	2,785
<u>Department of Agriculture:</u>				
<u>Pass-through payments:</u>				
<u>Rural Housing Service</u>				
Community Facilities Grant	10.766	n/a	06/30/16	66,625
<u>Environmental Protection Agency:</u>				
<u>Pass-through payments:</u>				
<u>Department of Health</u>				
Drinking Water State Revolving Fund	66.468	WSAG-13-12	06/30/15	<u>251,441</u>
Total				<u>\$ 338,964</u>

The accompanying schedule of expenditures of federal rewards includes the federal grant activity of the Town and is presented using the accrual basis of accounting. The information in this schedule is presented as required by the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



# Town of Hillsville, Virginia

Schedule 6

## Changes in Net Position

Last Ten Fiscal Years

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Governmental Activities</b>										
Net position, beginning	\$ 2,186,091	\$ 2,516,277	\$ 2,131,102	\$ 1,920,987	\$ 1,659,801	\$ 1,840,322	\$ 1,920,821	\$ 1,968,740	\$ 1,841,907	\$ 1,688,767
Revenues	3,018,697	2,782,115	2,800,192	2,577,983	2,656,268	2,058,454	2,150,642	2,067,521	2,424,002	2,190,668
Expenses	(2,498,944)	(2,297,738)	(2,415,017)	(2,367,868)	(2,395,082)	(2,127,242)	(2,231,141)	(2,115,440)	(2,297,169)	(2,037,528)
Prior period adjustment	-	(814,563)	-	-	-	(111,733)	-	-	-	-
Net position, ending	\$ 2,705,844	\$ 2,186,091	\$ 2,516,277	\$ 2,131,102	\$ 1,920,987	\$ 1,659,801	\$ 1,840,322	\$ 1,920,821	\$ 1,968,740	\$ 1,841,907
<b>Business-type Activities</b>										
Net position, beginning	\$ 2,565,819	\$ 3,119,792	\$ 3,606,230	\$ 4,059,354	\$ 4,495,735	\$ 4,600,876	\$ 4,756,512	\$ 4,567,640	\$ 4,519,178	\$ 4,567,893
Revenues	1,670,527	1,222,744	1,159,878	1,101,100	1,121,094	1,579,275	1,562,805	1,612,598	1,445,116	1,391,196
Expenses	(1,548,971)	(1,510,241)	(1,568,240)	(1,554,224)	(1,557,475)	(1,645,749)	(1,718,441)	(1,423,726)	(1,396,654)	(1,439,911)
Prior period adjustment	-	(266,476)	(78,076)	-	-	(38,667)	-	-	-	-
Net position, ending	\$ 2,687,375	\$ 2,565,819	\$ 3,119,792	\$ 3,606,230	\$ 4,059,354	\$ 4,495,735	\$ 4,600,876	\$ 4,756,512	\$ 4,567,640	\$ 4,519,178
<b>Primary Government</b>										
Net position, beginning	\$ 4,751,910	\$ 5,636,069	\$ 5,737,332	\$ 5,980,341	\$ 6,155,536	\$ 6,441,198	\$ 6,677,333	\$ 6,536,380	\$ 6,361,085	\$ 6,256,660
Revenues	4,689,224	4,004,859	3,960,070	3,679,083	3,777,362	3,637,729	3,714,597	3,680,119	3,869,118	3,581,864
Expenses	(4,047,915)	(3,807,979)	(3,983,257)	(3,922,092)	(3,952,557)	(3,772,991)	(3,950,732)	(3,539,166)	(3,693,823)	(3,477,439)
Prior period adjustment	-	(1,081,039)	(78,076)	-	-	(150,400)	-	-	-	-
Net position, ending	\$ 5,393,219	\$ 4,751,910	\$ 5,636,069	\$ 5,737,332	\$ 5,980,341	\$ 6,155,536	\$ 6,441,198	\$ 6,677,333	\$ 6,536,380	\$ 6,361,085

# Town of Hillsville, Virginia

Schedule 7

## Revenues by Function

Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	
<b>Governmental Activities</b>											
Public Safety											
Charges for services	\$ 143,956	\$ 44,870	\$ 33,202	\$ 56,175	\$ 38,982	\$ 26,949	\$ 48,537	\$ 24,519	\$ 43,469	\$ 30,191	
Operating grants and contributions	74,288	76,288	75,288	73,288	93,328	104,241	98,742	107,981	98,018	102,834	
Capital grants and contributions	20,255	14,272	11,920	15,732	30,000	-	-	-	-	-	
Public Works											
Charges for services	2,206	2,820	1,150	1,012	333	495	148	57	-	88	
Operating grants and contributions	3,572	1,555	1,558	1,766	1,223	1,461	1,267	1,602	1,645	1,358	
Capital grants and contributions	66,625	-	4,801	3,131	-	-	-	-	-	-	
Community Development											
Charges for services	-	-	-	-	-	-	-	-	-	38,959	
Operating grants and contributions	-	-	-	-	-	1,000	-	1,775	33,936	87,698	
Capital grants and contributions	-	3,500	42,670	251,728	94,728	-	-	-	199,321	-	
General Revenues											
General property taxes	717,694	725,502	715,007	671,824	589,502	620,904	624,193	636,319	631,457	625,738	
Meals tax	1,028,626	910,071	871,089	548,910	597,745	460,031	489,913	479,827	503,135	439,500	
Lodgings tax	265,443	231,173	221,152	137,660	188,078	117,868	161,549				
Other local taxes	744,833	663,933	729,896	635,190	683,167	661,426	633,333	721,088	733,458	624,908	
Licenses and permits	1,602	1,648	6,040	1,249	1,561	1,234	1,442	1,177	2,742	2,989	
Use of money and property	34,316	37,676	38,536	34,805	26,542	34,511	39,176	38,691	56,410	66,063	
Miscellaneous	38,902	68,807	47,883	110,288	258,861	78,334	53,492	56,433	79,746	68,491	
Gain (loss) on sale of capital assets		27,121	-	-	35,225	2,218	-	-	(1,948)	24,788	12,050
Transfers	(150,742)	-	-	-	50,000	(50,000)	(1,150)	-	15,877	89,801	
Total governmental activities revenues	<u>\$ 3,018,697</u>	<u>\$ 2,782,115</u>	<u>\$ 2,800,192</u>	<u>\$ 2,577,983</u>	<u>\$ 2,656,268</u>	<u>\$ 2,058,454</u>	<u>\$ 2,150,642</u>	<u>\$ 2,067,521</u>	<u>\$ 2,424,002</u>	<u>\$ 2,190,668</u>	
<b>Business-type Activities</b>											
Water											
Charges for services	\$ 478,425	\$ 416,835	\$ 420,933	\$ 434,064	\$ 442,525	\$ 492,129	\$ 456,253	\$ 499,015	\$ 480,067	\$ 486,669	
Capital grants and contributions	293,565	98,504	75,256	3,589	511	-	-	275,000	48,750	1,250	
Sewer											
Charges for services	697,651	675,666	614,590	627,851	661,214	659,169	828,198	759,485	821,304	802,224	
Capital grants and contributions	14,247	-	17,788	636	-	246,871	220,475	15,000	-	69,187	
General Business-type Revenues											
Use of money and property	9,308	4,854	10,441	4,840	13,557	20,590	41,550	36,548	56,103	74,146	
Miscellaneous	26,589	26,885	19,300	29,543	53,153	110,516	19,369	29,067	38,892	47,521	
Gain (loss) on sale of capital assets	-	-	-	1,570	577	134	-	(4,190)	(1,517)	-	-
Transfers	150,742	-	-	-	(50,000)	50,000	1,150	-	-	(89,801)	
Total business-type activities revenues	<u>\$ 1,670,527</u>	<u>\$ 1,222,744</u>	<u>\$ 1,159,878</u>	<u>\$ 1,101,100</u>	<u>\$ 1,121,094</u>	<u>\$ 1,579,275</u>	<u>\$ 1,562,805</u>	<u>\$ 1,612,598</u>	<u>\$ 1,445,116</u>	<u>\$ 1,391,196</u>	

# Town of Hillsville, Virginia

Schedule 8

## Expenses by Function Last Ten Fiscal Years

### Governmental Activities

<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Community Development</u>	<u>Interest on Long-term Debt</u>	<u>Other</u>	<u>Total</u>
2007	\$ 352,284	\$ 817,209	\$ 619,046	\$ 195,064	\$ 19,864	\$ 34,061	\$ 2,037,528
2008	361,530	829,491	634,583	367,439	18,200	85,926	2,297,169
2009	375,016	874,222	653,526	121,117	22,496	69,063	2,115,440
2010	403,329	924,227	704,297	148,363	24,347	26,578	2,231,141
2011	383,544	891,421	666,183	133,299	19,834	32,961	2,127,242
2012	498,977	1,053,610	660,234	105,485	23,316	53,460	2,395,082
2013	379,778	1,051,032	713,735	124,637	27,952	70,734	2,367,868
2014	414,681	1,082,316	721,765	114,859	25,218	56,178	2,415,017
2015	407,310	1,032,841	677,929	119,061	22,713	37,884	2,297,738
2016	449,575	1,142,534	730,797	143,829	21,524	10,685	2,498,944

### Business-type Activities

<u>Fiscal Year</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
2007	\$ 548,564	\$ 891,347	\$ 1,439,911
2008	500,547	896,107	1,396,654
2009	525,368	898,358	1,423,726
2010	706,820	1,011,621	1,718,441
2011	640,918	1,004,831	1,645,749
2012	571,629	985,846	1,557,475
2013	559,511	994,713	1,554,224
2014	577,820	990,420	1,568,240
2015	539,405	970,836	1,510,241
2016	591,332	957,639	1,548,971

# Town of Hillsville, Virginia

Schedule 9

## Assessed Valuation of Taxable Property and Property Tax Rates Last Ten Fiscal Years

### Assessed Valuation

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Public Utility		Supplements/ Abatements/ Exemptions	Total
				Real Estate	Personal Property		
2007	\$ 144,563,200	\$ 20,317,179	\$ 13,419,325	\$ 9,422,584	\$ -	\$ (968,600)	\$ 186,753,688
2008	145,258,500	20,592,155	12,347,300	9,185,501	-	(842,678)	186,540,778
2009	178,476,300	23,079,670	11,535,210	10,805,994	-	(770,560)	223,126,614
2010	180,090,666	27,993,675	10,291,190	10,325,571	-	(733,629)	227,967,473
2011	180,566,500	26,956,320	9,317,500	9,529,213	-	(625,413)	225,744,120
2012	181,942,500	23,827,370	10,251,670	14,449,401		(1,158,789)	229,312,152
2013	225,995,700	25,949,900	9,309,765	10,552,720	24,836	(1,578,631)	270,254,290
2014	199,185,900	26,094,190	9,397,920	9,666,860	87,886	(2,179,421)	242,253,335
2015	200,170,800	26,286,600	10,443,835	10,187,225	65,246	(4,329,577)	242,824,129
2016	200,585,742	25,441,920	10,703,335	10,001,006	79,618	(4,228,615)	242,583,006

Source: Carroll County, Virginia Commissioner of Revenue

### Property Tax Rates (per \$100 assessed value)

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Public Utility	
				Real Estate	Personal Property
2007	\$ .22	\$ .72	\$ .72	\$ .22	\$ .72
2008	.22	.72	.72	.22	.72
2009	.18	.72	.72	.18	.72
2010	.18	.72	.72	.18	.72
2011	.18	.72	.72	.18	.72
2012	.18	.72	.72	.18	.72
2013	.18	.72	.72	.18	.72
2014	.22	.72	.72	.22	.72
2015	.22	.72	.72	.22	.72
2016	.22	.72	.72	.22	.72

# Town of Hillsville, Virginia

Schedule 10

## Property Tax Levies and Collections Last Ten Fiscal Years

Fiscal Year	Taxes Levied for the Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount <sup>1</sup>	Percent of Levy		Amount <sup>1</sup>	Percent of Levy
2007	\$ 574,415	\$ 558,702	97.26%	\$ 14,112	\$ 572,813	99.72%
2008	571,355	560,103	98.03	9,749	569,852	99.74
2009	586,016	573,313	97.83	12,464	585,777	99.96
2010	614,436	599,261	97.53	12,034	611,296	99.49
2011	600,035	582,719	97.11	12,118	594,838	99.13
2012	594,107	579,967	97.62	10,152	590,119	99.33
2013	674,452	653,541	96.90	8,860	662,401	98.21
2014	705,784	676,677	95.88	14,999	691,676	98.00
2015	712,737	676,455	94.91	18,930	695,385	97.57
2016	713,803	691,647	96.90	n/a	691,647	96.90

<sup>1</sup> Exclusive of penalties and interest.

# Town of Hillsville, Virginia

Schedule 11

## Outstanding Debt by Type Last Ten Fiscal Years

Fiscal Year	General Bonded Debt			Percentage of Actual Property Value
	General Obligation Bonds	Installment Notes	Total	
	2007	\$ 173,641	\$ 323,060	
2008	150,941	297,814	448,755	0.24
2009	312,555	271,508	584,063	0.26
2010	281,578	244,084	525,662	0.23
2011	249,527	215,646	465,173	0.21
2012	163,851	807,277	971,128	0.42
2013	156,219	729,897	886,116	0.33
2014	148,278	649,747	798,025	0.33
2015	140,017	567,848	707,865	0.29
2016	131,422	483,046	614,468	0.25

  

Fiscal Year	Business-type Activities			Total Primary Government
	Water Bonds	Sewer Bonds	Total	
	2007	\$ 272,787	\$ 6,107,666	
2008	252,312	5,950,297	6,202,609	6,651,364
2009	1,190,095	5,784,897	6,974,992	7,559,055
2010	1,449,610	5,611,291	7,060,901	7,586,563
2011	1,381,943	5,429,569	6,811,512	7,276,685
2012	1,352,925	5,500,212	6,853,137	7,824,265
2013	1,310,404	5,478,562	6,788,966	7,675,082
2014	1,267,883	5,455,190	6,723,073	7,521,098
2015	1,404,403	5,528,919	6,933,322	7,641,187
2016	2,103,897	5,144,807	7,248,704	7,863,172

# Town of Hillsville, Virginia

## Schedule 12

### Computation of Legal Debt Margin

*Last Ten Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Debt limit <sup>1</sup>	\$ 21,058,675	\$ 20,995,262	\$ 20,885,276	\$ 23,654,842	\$ 19,639,190	\$ 19,009,571	\$ 19,041,624	\$ 18,928,229	\$ 15,444,400	\$ 15,398,578
Amount of debt applicable to limit	<u>7,863,172</u>	<u>7,641,187</u>	<u>7,521,098</u>	<u>7,675,082</u>	<u>7,824,265</u>	<u>7,276,685</u>	<u>7,586,563</u>	<u>7,559,055</u>	<u>6,651,364</u>	<u>6,877,154</u>
Legal debt margin	<u>\$ 13,195,503</u>	<u>\$ 13,354,075</u>	<u>\$ 13,364,178</u>	<u>\$ 15,979,760</u>	<u>\$ 11,814,925</u>	<u>\$ 11,732,886</u>	<u>\$ 11,455,061</u>	<u>\$ 11,369,174</u>	<u>\$ 8,793,036</u>	<u>\$ 8,521,424</u>
Total net debt applicable to limit as a percentage of debt limit	37%	36%	36%	32%	40%	38%	40%	40%	43%	45%

<sup>1</sup> 10% of real estate assessed value.

# Town of Hillsville, Virginia

Schedule 13

## Population, Personal Income and Unemployment Rate *Latest Available Information*

<u>Year</u>	<u>Population</u>	<u>Household Median Income<sup>1</sup></u>	<u>Per Capita Personal Income<sup>1</sup></u>	<u>Unemployment Rate</u>
2007	2,849	\$ 27,148	\$ 16,663	6.6%
2010	2,622	34,240	17,942	10.9%
2011	2,709	30,922	18,070	8.4%
2013	2,714	30,293	20,891	6.4%

<sup>1</sup> Unemployment rate and income is for Carroll County, Virginia which includes the Town of Hillsville, Virginia. The unemployment rate and income for the Town of Hillsville, Virginia was not readily available.



**Top Ten Employers**  
*Current Year*

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<u>Rank</u>	<u>Employer</u>
1	Carroll County School Board
2	Parkdale Mills Inc.
3	SW Virginia Training Center
4	Unicon, Inc.
5	County of Carroll
6	Mohawk Esv Incorporated
7	Aerial Machine and Tool Corporation
8	Barker Microfarads
9	Lowe's Home Centers, Inc.
10	D.L.B., Inc.

<sup>1</sup> Large employers are for Carroll County, Virginia which includes the Town of Hillsville, Virginia. Large employers for the Town of Hillsville, Virginia was not readily available.

# Town of Hillsville, Virginia

Schedule 15

## Full-time Equivalent Government Employees by Function Last Ten Years

	Full-time Equivalent Employees as of June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
General government										
Management	1	1	1	1	1	1	1	1	1	1
Finance	5	5	4	4	4	4	4	4	4	4
Building	1	1	1	1	1	1	1	1	1	1
Police										
Officers	14.5	14.5	13	12	12	11	11	11	11	11
Civilians	1	1	1	1	1	1	1	1	1	1
Refuse collection	4	4	4	4	4	4	4	4	4	4
Other public works	6	5	5	5	5	5	5	5	5	5
Water	5	4.5	4.5	4.5	4.5	5	5	5	5	5
Wastewater	5	4.5	4.5	4.5	4.5	4	4	4	4	4