

Town of Hillsville, Virginia

Financial Statements

Year Ended June 30, 2015

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 & Company

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Hicok, Fern & Company

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Certified Public Accountants*

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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, 2015, 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.

Hicok, Fern & Company
Certified Public Accountants

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

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, 2015, 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 combining and individual non-major fund financial statements 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.

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Certified Public Accountants

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2015 the Town adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions— an amendment of GASB Statement No. 27 and 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2016, 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 8, 2016

Hicok, Fern & Company

Certified Public Accountants

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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, 2015, 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 8, 2016.

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.

Hicok, Fern & Company
Certified Public Accountants

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 8, 2016

Town of Hillsville

Management's Discussion and Analysis

As of June 30, 2015

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, 2015. 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 \$4.8 million as of June 30, 2015.
- Total investment in capital assets, net of related debt was \$3.2 million.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$2.0 million, an increase of \$404 thousand in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1.7 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.

Town of Hillsville

Management's Discussion and Analysis

As of June 30, 2015

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, 2015

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 \$4.8 million as of June 30, 2015, a decrease of \$884 thousand compared to the prior year-end primarily related to a prior period adjustment due to the adoption of SGAS No. 68 as discussed in Note 1 to the Financial Statements. The largest portion of net position (68.3%) 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, 2015 and 2014 is shown in Figure 1.

Assets, Liabilities, and Net Position

Figure 1

	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 3,009,090	\$ 2,532,918	\$ 1,286,976	\$ 1,261,730	\$ 4,296,066	\$ 3,794,648
Capital assets	1,944,893	1,991,824	8,939,773	8,852,145	10,884,666	10,843,969
Total assets	4,953,983	4,524,742	10,226,749	10,113,875	15,180,732	14,638,617
Pension contributions	113,180	-	38,758	-	151,938	-
Total deferred outflows of resources	113,180	-	38,758	-	151,938	-
Long-term liabilities	1,375,563	807,766	6,936,583	6,616,610	8,312,146	7,424,376
Other liabilities	529,907	455,618	686,605	377,473	1,216,512	833,091
Total liabilities	1,905,470	1,263,384	7,623,188	6,994,083	9,528,658	8,257,467
Deferred inflows related to pension	233,843	-	76,500	-	310,343	-
Deferred revenue	741,759	745,081	-	-	741,759	745,081
Total deferred inflows of resources	975,602	745,081	76,500	-	1,052,102	745,081
Net position:						
Invested in capital assets, net of related debt	1,237,028	1,193,799	2,006,451	2,129,072	3,243,479	3,322,871
Restricted	47,817	40,247	-	-	47,817	40,247
Unrestricted	901,246	1,282,231	559,368	990,720	1,460,614	2,272,951
Total net position	\$ 2,186,091	\$ 2,516,277	\$ 2,565,819	\$ 3,119,792	\$ 4,751,910	\$ 5,636,069

Town of Hillsville

Management's Discussion and Analysis

As of June 30, 2015

Governmental activities. Governmental activities increased the Town's net position by \$484 thousand for the year ended June 30, 2015 which compares to an increase of \$385 thousand in the prior year.

Business-type activities: Business-type activities decreased the Town's net position by \$287 thousand for the year ended June 30, 2015 compared to a decrease of \$408 thousand for the year ended June 30, 2014.

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	
	2015	2014	2015	2014	2015	2014
Revenue						
Program revenues:						
Charges for services	\$ 47,690	\$ 34,352	\$ 1,092,501	\$ 1,035,523	\$ 1,140,191	\$ 1,069,875
Operating grants and contributions	77,843	76,846	-	-	77,843	76,846
Capital grants and contributions	17,772	59,391	98,504	93,044	116,276	152,435
General revenues:						
Property taxes	725,502	715,007	-	-	725,502	715,007
Other taxes	1,806,825	1,828,177	-	-	1,806,825	1,828,177
Interest and investment earnings	37,676	38,536	4,854	10,441	42,530	48,977
Other	68,807	47,883	26,885	20,870	95,692	68,753
Total revenue	<u>2,782,115</u>	<u>2,800,192</u>	<u>1,222,744</u>	<u>1,159,878</u>	<u>4,004,859</u>	<u>3,960,070</u>
Expenses						
General government	407,310	414,681	-	-	407,310	414,681
Public safety	1,032,841	1,082,316	-	-	1,032,841	1,082,316
Public works	677,929	721,765	-	-	677,929	721,765
Community development	119,061	114,859	-	-	119,061	114,859
Other activities	37,884	56,178	-	-	37,884	56,178
Interest on long-term debt	22,713	25,218	-	-	22,713	25,218
Water	-	-	539,405	577,820	539,405	577,820
Sewer	-	-	970,836	990,420	970,836	990,420
Total expenses	<u>2,297,738</u>	<u>2,415,017</u>	<u>1,510,241</u>	<u>1,568,240</u>	<u>3,807,979</u>	<u>3,983,257</u>
Increase (decrease) in net position before transfers	484,377	385,175	(287,497)	(408,362)	196,880	(23,187)
Transfers	-	-	-	-	-	-
Increase(decrease) in net position	484,377	385,175	(287,497)	(408,362)	196,880	(23,187)
Net position, beginning	2,516,277	2,131,102	3,119,792	3,606,230	5,636,069	5,737,332
Prior period adjustments	(814,563)	-	(266,476)	(78,076)	(1,081,039)	(78,076)
Net position, ending	<u>\$ 2,186,091</u>	<u>\$ 2,516,277</u>	<u>\$ 2,565,819</u>	<u>\$ 3,119,792</u>	<u>\$ 4,751,910</u>	<u>\$ 5,636,069</u>

Town of Hillsville

Management's Discussion and Analysis

As of June 30, 2015

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 \$225 thousand and unassigned funds of \$1.7 million.

At June 30, 2015, the governmental funds of the Town reported a combined fund balance of \$2.0 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 \$2.6 million.

General Fund Budgetary Highlights

Local sales and use taxes exceeded budget by \$80 thousand, business license and vendor taxes exceeded budget by \$33 thousand, and restaurant food taxes exceeded budget by \$65 thousand. Motor vehicle licenses were under budget by \$43 thousand as the Town restructured the timing for collections of this tax.

Capital projects expenses were budgeted to be \$214 thousand however only \$44 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, 2015

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, 2015, totals \$10.9 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	
	2015	2014	2015	2014	2015	2014
Land	\$ 100,248	\$ 100,248	\$ 44,168	\$ 44,168	\$ 144,416	\$ 144,416
Land improvements	600,453	608,014	-	-	600,453	608,014
Buildings and improvements	665,110	690,290	8,798,729	8,685,928	9,463,839	9,376,218
Vehicles	-	-	9,566	12,367	9,566	12,367
Equipment	579,082	593,272	87,310	109,682	666,392	702,954
Total	<u>\$ 1,944,893</u>	<u>\$ 1,991,824</u>	<u>\$ 8,939,773</u>	<u>\$ 8,852,145</u>	<u>\$ 10,884,666</u>	<u>\$ 10,843,969</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	
	2015	2014	2015	2014	2015	2014
Land	\$ -	\$ 10,398	\$ -	\$ -	\$ -	\$ 10,398
Land improvements	17,433	-	-	-	17,433	-
Buildings and improvements	6,563	23,600	577,835	53,398	584,398	76,998
Vehicles	-	-	22,144	14,000	22,144	14,000
Equipment	98,326	13,830	9,575	63,233	107,901	77,063
Total additions	<u>\$ 122,322</u>	<u>\$ 47,828</u>	<u>\$ 609,554</u>	<u>\$ 130,631</u>	<u>\$ 731,876</u>	<u>\$ 178,459</u>
Land	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Land improvements	-	-	-	-	-	-
Buildings and improvements	-	-	-	-	-	-
Vehicles	-	-	5,044	15,600	5,044	15,600
Equipment	104,397	78,866	9,575	5,120	113,972	83,986
Total disposals	<u>\$ 104,397</u>	<u>\$ 78,866</u>	<u>\$ 14,619</u>	<u>\$ 20,720</u>	<u>\$ 119,016</u>	<u>\$ 99,586</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, 2015

Long-term Debt. As of June 30, 2015, the Town had total bonded debt outstanding of \$7.6 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	
	2015	2014	2015	2014	2015	2014
Installment notes payable	\$ 567,848	\$ 649,747	\$ -	\$ -	\$ 567,848	\$ 649,747
General obligation bonds	140,017	148,278	6,933,322	6,723,073	7,073,339	6,871,351
Total	<u>\$ 707,865</u>	<u>\$ 798,025</u>	<u>\$ 6,933,322</u>	<u>\$ 6,723,073</u>	<u>\$ 7,641,187</u>	<u>\$ 7,521,098</u>

The Town's total debt increased by \$120 thousand (2%) 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 \$21.0 million as of June 30, 2015.

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, 2015

Governmental Activities: Real estate and personal property taxes are expected to increase in budgeted revenue by 15% based on estimates calculated as of January 1, 2015. Traffic safety revenue is expected to increase revenue by \$206 thousand. The Town uses revenues to finance programs currently in place.

Budgeted expenditures in the General Fund are expected to remain relatively flat.

Requests for Information

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

Town of Hillsville, Virginia

Statement of Net Position

June 30, 2015

Exhibit A

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Assets			
Cash and cash equivalents	\$ 1,807,316	\$ 894,751	\$ 2,702,067
Investments	156,584	263,098	419,682
Receivables (net of allowances for uncollectibles):			
Taxes, including penalties	771,765	-	771,765
Accounts	237,268	84,356	321,624
Accrued charges for services	-	44,771	44,771
Loans	33,887	-	33,887
Due from other governmental units	2,270	-	2,270
Capital assets, net	<u>1,944,893</u>	<u>8,939,773</u>	<u>10,884,666</u>
Total assets	<u>4,953,983</u>	<u>10,226,749</u>	<u>15,180,732</u>
Deferred Outflows of Resources			
Pension contributions	<u>113,180</u>	<u>38,758</u>	<u>151,938</u>
Liabilities			
Accounts payable	431,978	279,284	711,262
Deposits	2,850	81,628	84,478
Accrued bond interest	1,733	79,576	81,309
Bonds and notes payable due within one year	93,346	246,117	339,463
Bonds and notes payable due in more than one year	614,519	6,687,205	7,301,724
Compensated absences	101,348	33,565	134,913
Net pension liability	<u>659,696</u>	<u>215,813</u>	<u>875,509</u>
Total liabilities	<u>1,905,470</u>	<u>7,623,188</u>	<u>9,528,658</u>
Deferred Inflows of Resources			
Deferred inflows related to pension	233,843	76,500	310,343
Deferred revenue	<u>741,759</u>	-	<u>741,759</u>
Total deferred inflows of resources	<u>975,602</u>	<u>76,500</u>	<u>1,052,102</u>
Net Position			
Invested in capital assets, net of related debt	1,237,028	2,006,451	3,243,479
Restricted	47,817	-	47,817
Unrestricted	<u>901,246</u>	<u>559,368</u>	<u>1,460,614</u>
Total net position	<u>\$ 2,186,091</u>	<u>\$ 2,565,819</u>	<u>\$ 4,751,910</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, 2015

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	\$ 407,310	\$ -	\$ -	\$ -	\$ (407,310)	\$ -	\$ (407,310)
Public safety	1,032,841	44,870	76,288	14,272	(897,411)	-	(897,411)
Public works	677,929	2,820	1,555	-	(673,554)	-	(673,554)
Community development	119,061	-	-	3,500	(115,561)	-	(115,561)
Other activities	37,884	-	-	-	(37,884)	-	(37,884)
Interest on long – term debt	22,713	-	-	-	(22,713)	-	(22,713)
Total government activities	<u>2,297,738</u>	<u>47,690</u>	<u>77,843</u>	<u>17,772</u>	<u>(2,154,433)</u>	<u>-</u>	<u>(2,154,433)</u>
Business – type activities:							
Water	539,405	416,835	-	98,504	-	(24,066)	(24,066)
Sewer	970,836	675,666	-	-	-	(295,170)	(295,170)
Total business – type activities	<u>1,510,241</u>	<u>1,092,501</u>	<u>-</u>	<u>98,504</u>	<u>-</u>	<u>(319,236)</u>	<u>(319,236)</u>
Total primary government	<u>\$ 3,807,979</u>	<u>\$ 1,140,191</u>	<u>\$ 77,843</u>	<u>\$ 116,276</u>			<u>(2,473,669)</u>
General Revenues:							
General property					725,502	-	725,502
Sales tax					155,129	-	155,129
Utility tax					92,870	-	92,870
Business license					297,823	-	297,823
Franchise tax					18,451	-	18,451
Motor vehicle license					695	-	695
Bank stock tax					98,965	-	98,965
Meals tax					910,071	-	910,071
Lodgings tax					231,173	-	231,173
Other taxes					-	-	-
Licenses and permits					1,648	-	1,648
Grants and contributions not restricted to specific programs					-	-	-
Use of money and property					37,676	4,854	42,530
Miscellaneous					68,807	26,885	95,692
Gain (loss) on sale/retirement of capital assets					-	-	-
Transfers					-	-	-
Total general revenues and transfers					<u>2,638,810</u>	<u>31,739</u>	<u>2,670,549</u>
Change in net position					484,377	(287,497)	196,880
Net position, beginning					2,516,277	3,119,792	5,636,069
Prior period adjustment related to adoption of SGAS No. 68					(814,563)	(266,476)	(1,081,039)
Net position, ending					<u>\$ 2,186,091</u>	<u>\$ 2,565,819</u>	<u>\$ 4,751,910</u>

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

Town of Hillsville, Virginia

Balance Sheet
Governmental Funds
June 30, 2015

Exhibit C
Page 1

	<u>General Fund</u>	<u>CDBG Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 1,759,339	\$ 47,977	\$ 1,807,316
Investments	156,584	-	156,584
Receivables (net of allowances for uncollectibles):			
Taxes, including penalties	771,765	-	771,765
Accounts	237,268	-	237,268
Loans	-	33,887	33,887
Due from other funds	160	-	160
Due from other governmental units	<u>2,270</u>	<u>-</u>	<u>2,270</u>
Total assets	<u>2,927,386</u>	<u>81,864</u>	<u>3,009,250</u>
Liabilities			
Accounts payable	234,833	-	234,833
Deposits	2,850	-	2,850
Due to other funds	<u>-</u>	<u>160</u>	<u>160</u>
Total liabilities	<u>237,683</u>	<u>160</u>	<u>237,843</u>
Deferred Inflows of Resources			
Deferred revenue	<u>753,410</u>	<u>33,887</u>	<u>787,297</u>
Fund Balances			
Nonspendable	-	-	-
Restricted:			
Community development	-	47,817	47,817
Committed	-	-	-
Assigned:			
Capital projects	225,000	-	225,000
Unassigned	<u>1,711,293</u>	<u>-</u>	<u>1,711,293</u>
Total fund balances	<u>\$ 1,936,293</u>	<u>\$ 47,817</u>	<u>\$ 1,984,110</u>

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

Town of Hillsville, Virginia

Balance Sheet
Governmental Funds
June 30, 2015

Exhibit C
Page 2

	<u>Total</u>
Total fund balances per Balance Sheet for Governmental Funds	\$ 1,984,110
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	1,944,893
Some receivables are not available to pay for current period expenditures and therefore are deferred in the fund financial statements.	
Property taxes	45,538
Pension expense	(233,843)
Pension contributions subsequent to the measurement date of the net pension liability are considered to be deferred outflows of resources	113,180
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)	(197,145)
Accrued bond interest	(1,733)
Bonds and notes payable	(707,865)
Compensated absences	(101,348)
Net pension liability	(659,696)
Net position of governmental activities	<u>\$ 2,186,091</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, 2015

Exhibit D

Page 1

	<u>General Fund</u>	<u>CDBG Fund</u>	<u>Total Governmental Activities</u>
Revenues:			
General property taxes	\$ 705,705	\$ -	\$ 705,705
Other local taxes	1,805,177	-	1,805,177
Permits, privilege fees and regulatory licenses	1,648	-	1,648
Fines and forfeitures	44,870	-	44,870
Payment in lieu of taxes	-	-	-
Revenue from use of money and property	36,491	1,185	37,676
Charges for services	2,820	-	2,820
Miscellaneous	62,259	6,548	68,807
Intergovernmental:			
Federal	17,772	-	17,772
State	77,843	-	77,843
Total revenues	<u>2,754,585</u>	<u>7,733</u>	<u>2,762,318</u>
Expenditures:			
Current:			
General government administration	385,699	-	385,699
Public safety	969,412	-	969,412
Public works	710,088	-	710,088
Community development	97,797	163	97,960
Non-departmental	37,594	-	37,594
Capital projects	44,285	-	44,285
Annexation expenses	-	-	-
Debt service:			
Principal retirement	90,502	-	90,502
Interest and finance charges	23,032	-	23,032
Total expenditures	<u>2,358,409</u>	<u>163</u>	<u>2,358,572</u>
Excess (loss) of revenues over expenditures	<u>396,176</u>	<u>7,570</u>	<u>403,746</u>
Other financing sources and uses:			
Proceeds from debt	-	-	-
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>
Excess (loss) of revenues and other sources over expenditures and other uses	396,176	7,570	403,746
Fund balance, beginning	<u>1,540,117</u>	<u>40,247</u>	<u>1,580,364</u>
Fund balance, ending	<u>\$ 1,936,293</u>	<u>\$ 47,817</u>	<u>\$ 1,984,110</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, 2015

Exhibit D
Page 2

	<u>Total Governmental Activities</u>
Net change in fund balances – total governmental funds	\$ 403,746
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	122,322
Depreciation expense	(169,253)
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	-
Principal payments	90,160
Interest accrued	660
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	19,797
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	(16,175)
Change in compensated absences	(1,084)
Change in pension plan benefits	<u>34,204</u>
Change in net position of governmental activities	<u>\$ 484,377</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, 2015

Exhibit E

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Assets			
Current assets:			
Cash and equivalents	\$ 388,216	\$ 506,535	\$ 894,751
Investments	131,549	131,549	263,098
Accounts receivable (net of allowance for uncollectibles)	38,380	45,976	84,356
Accrued charges for services	21,041	23,730	44,771
Total current assets	<u>579,186</u>	<u>707,790</u>	<u>1,286,976</u>
Capital assets			
Buildings	4,431,802	11,310,118	15,741,920
Land	31,468	12,700	44,168
Machinery and equipment	171,781	208,497	380,278
Total capital assets	<u>4,635,051</u>	<u>11,531,315</u>	<u>16,166,366</u>
Less accumulated depreciation	<u>2,496,305</u>	<u>4,730,288</u>	<u>7,226,593</u>
Net capital assets	<u>2,138,746</u>	<u>6,801,027</u>	<u>8,939,773</u>
Total assets	<u>2,717,932</u>	<u>7,508,817</u>	<u>10,226,749</u>
Deferred Outflows of Resources			
Pension contributions	<u>19,548</u>	<u>19,210</u>	<u>38,758</u>
Liabilities			
Liabilities:			
Current liabilities (payable from current assets):			
Accounts payable	224,212	55,072	279,284
Deposits	40,814	40,814	81,628
Accrued bond interest	3,530	76,046	79,576
Current portion of bonds	49,321	196,796	246,117
Total current liabilities (payable from current assets)	<u>317,877</u>	<u>368,728</u>	<u>686,605</u>
Long-term liabilities:			
Bonds (net of current portion)	1,355,082	5,332,123	6,687,205
Compensated absences	18,842	14,723	33,565
Net pension liability	111,102	104,711	215,813
Total long-term liabilities	<u>1,485,026</u>	<u>5,451,557</u>	<u>6,936,583</u>
Total liabilities	<u>1,802,903</u>	<u>5,820,285</u>	<u>7,623,188</u>
Deferred Inflows of Resources			
Deferred inflows related to pension	<u>39,383</u>	<u>37,117</u>	<u>76,500</u>
Net Position			
Net Position:			
Invested in capital assets, net of related debt	734,343	1,272,108	2,006,451
Unrestricted	160,851	398,517	559,368
Total net position	<u>\$ 895,194</u>	<u>\$ 1,670,625</u>	<u>\$ 2,565,819</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, 2015

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating revenues:			
Charges for services	\$ 416,835	\$ 675,666	\$ 1,092,501
Miscellaneous	<u>1,153</u>	<u>1,620</u>	<u>2,773</u>
Total operating revenues	<u>417,988</u>	<u>677,286</u>	<u>1,095,274</u>
Operating expenses:			
Personnel services	185,602	177,624	363,226
Fringe benefits	60,751	58,126	118,877
Contractual services	3,266	3,025	6,291
Payment in lieu of taxes	-	-	-
Depreciation and amortization	138,373	351,834	490,207
Other	<u>144,267</u>	<u>184,173</u>	<u>328,440</u>
Total operating expenses	<u>532,259</u>	<u>774,782</u>	<u>1,307,041</u>
Operating loss	<u>(114,271)</u>	<u>(97,496)</u>	<u>(211,767)</u>
Nonoperating revenues (expenses):			
Connection fees	3,375	5,062	8,437
Interest	2,439	2,415	4,854
Gain (loss) on sale/retirement of fixed assets	-	-	-
Other nonoperating revenues	8,428	7,247	15,675
Interest and fiscal charges	<u>(7,146)</u>	<u>(196,054)</u>	<u>(203,200)</u>
Total nonoperating revenues (expenses)	<u>7,096</u>	<u>(181,330)</u>	<u>(174,234)</u>
Loss before contributions and transfers	<u>(107,175)</u>	<u>(278,826)</u>	<u>(386,001)</u>
Capital grants and contributions	98,504	-	98,504
Operating transfers in	12,635	618	13,253
Operating transfers out	<u>(618)</u>	<u>(12,635)</u>	<u>(13,253)</u>
Changes in net position	3,346	(290,843)	(287,497)
Net position, beginning	1,029,032	2,090,760	3,119,792
Prior period adjustment related to adoption of SFAS No. 68	<u>(137,184)</u>	<u>(129,292)</u>	<u>(266,476)</u>
Net position, ending	<u>\$ 895,194</u>	<u>\$ 1,670,625</u>	<u>\$ 2,565,819</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, 2015

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from customers	\$ 432,728	\$ 689,558	\$ 1,122,286
Cash payments to suppliers for goods and services	35,096	(172,148)	(137,052)
Cash payments to employees for services	(249,155)	(242,258)	(491,413)
Payment in lieu of taxes	-	-	-
Net cash provided by operating activities	<u>218,669</u>	<u>275,152</u>	<u>493,821</u>
Cash flows from noncapital financing activities:			
Operating transfers from (to) other funds	<u>12,017</u>	<u>(12,017)</u>	<u>-</u>
Net cash provided (used) by noncapital financing activities	<u>12,017</u>	<u>(12,017)</u>	<u>-</u>
Cash flows from capital and related financing activities:			
Capital grants	98,504	-	98,504
Acquisition, construction and disposal of capital assets	(417,847)	(159,988)	(577,835)
Issuance of bonds	181,841	164,935	346,776
Principal paid on bonds	(45,321)	(91,206)	(136,527)
Interest paid on bonds	(6,726)	(197,335)	(204,061)
Net cash used by capital and related financing activities	<u>(189,549)</u>	<u>(283,594)</u>	<u>(473,143)</u>
Cash flows from investing activities:			
Cash payments to purchase investments	(569)	(569)	(1,138)
Interest on temporary investments	<u>2,439</u>	<u>2,415</u>	<u>4,854</u>
Net cash provided by investing activities	<u>1,870</u>	<u>1,846</u>	<u>3,716</u>
Net decrease in cash and cash equivalents	43,007	(18,613)	24,394
Cash and cash equivalents at beginning of year	<u>345,209</u>	<u>525,148</u>	<u>870,357</u>
Cash and cash equivalents at end of year	<u>\$ 388,216</u>	<u>\$ 506,535</u>	<u>\$ 894,751</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	<u>\$ (114,271)</u>	<u>\$ (97,496)</u>	<u>\$ (211,767)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation and amortization	138,373	351,834	490,207
Receivables and accrued charges for services	1,630	(1,344)	286
Accounts payable and deferred revenue	182,629	15,050	197,679
Connection fees and other income	11,803	12,309	24,112
Other accrued expenses	(2,802)	(6,508)	(9,310)
Deposits	<u>1,307</u>	<u>1,307</u>	<u>2,614</u>
Total adjustments	<u>332,940</u>	<u>372,648</u>	<u>705,588</u>
Net cash provided by operating activities	<u>\$ 218,669</u>	<u>\$ 275,152</u>	<u>\$ 493,821</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, 2015

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, 2015

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, 2015

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, 2015

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 and 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, 2015

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

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 are reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2015

1. Summary of Significant Accounting Policies, continued

M. Recently Adopted Accounting Standards

The Town implemented the financial reporting provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the fiscal year ended June 30, 2014 which states that debt issuance costs, except any portion related to prepaid costs, should be recognized as an expense in the period incurred. In accordance with the adoption of the standard, the Town recognized an aggregate prior period adjustment of \$78,076 to the Net Position of the Business-type Activities.

The Town implemented the financial reporting provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* for the fiscal year ended June 30, 2015. This Statement requires governments with defined benefit pension plans to disclose a “net pension liability” on their balance sheets. That liability equals the difference between the total pension liability and the value of assets set aside in a pension plan to pay benefits. The statement requires immediate recognition of more pension expense than is currently required, including immediate recognition of annual service cost and interest on the pension liability, plus the effect of changes in benefit terms on the net pension liability. In accordance with adoption of the standard, the Town recognized an aggregate prior period downward adjustment of \$1,081,039 to its Net Position.

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.

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2015

2. Cash and Investments

Cash: At year-end the carrying value of the Town’s deposits with banks and savings institutions was \$2,701,467 and the bank balance was \$2,844,812. 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, 2015 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	\$ -	\$ 131,526	\$ 131,526
Investment in Local Government Investment Pool (LGIP)	288,156	-	288,156
Total	<u>\$ 288,156</u>	<u>\$ 131,526</u>	<u>\$ 419,682</u>

Concentration of Credit Risk: The Town’s investments in the Alliance Bond Fund and the LGIP represented 31.3% and 68.7%, respectively, of the portfolio at June 30, 2015.

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, 2015 is composed of the following:

General Fund, Allowance for Uncollectible Taxes	\$ 36,547
Water and Sewer Funds, Allowance for Uncollectible Accounts	44,019
	<u>\$ 80,566</u>

4. Due From Other Governmental Units

Amounts due from other governmental units at June 30, 2015 are summarized as follows:

Carroll County, Virginia	
Court fines and forfeitures	<u>\$ 2,270</u>

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2015

5. Capital Assets

A summary of changes in capital assets follows:

Governmental Activities

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2015</u>
Land (not depreciated)	\$ 100,248	\$ -	\$ -	\$ 100,248
Land improvements	681,622	17,433	-	699,055
Buildings and improvements	1,098,778	6,563	-	1,105,341
Equipment	<u>1,766,335</u>	<u>98,326</u>	<u>104,397</u>	<u>1,760,264</u>
Total	3,646,983	122,322	104,397	3,664,908
Less accumulated depreciation	<u>1,655,159</u>	<u>169,253</u>	<u>104,397</u>	<u>1,720,015</u>
Government activities capital assets, net	<u>\$ 1,991,824</u>	<u>\$ (46,931)</u>	<u>\$ -</u>	<u>\$ 1,944,893</u>

Business-type Activities

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2015</u>
Water Fund:				
Land (not depreciated)	\$ 31,468	\$ -	\$ -	\$ 31,468
Buildings and improvements	4,013,955	417,847	-	4,431,802
Vehicles	35,918	-	3,894	32,024
Equipment	<u>149,332</u>	<u>-</u>	<u>9,575</u>	<u>139,757</u>
Total	4,230,673	417,847	13,469	4,635,051
Less accumulated depreciation	<u>2,371,401</u>	<u>138,373</u>	<u>13,469</u>	<u>2,496,305</u>
Water Fund capital assets, net	<u>\$ 1,859,272</u>	<u>\$ 279,474</u>	<u>\$ -</u>	<u>\$ 2,138,746</u>
Sewer Fund:				
Land (not depreciated)	\$ 12,700	\$ -	\$ -	\$ 12,700
Buildings and improvements	11,150,130	159,988	-	11,310,118
Vehicles	32,518	22,144	1,150	53,512
Equipment	<u>145,410</u>	<u>9,575</u>	<u>-</u>	<u>154,985</u>
Total	11,340,758	191,707	1,150	11,531,315
Less accumulated depreciation	<u>4,347,885</u>	<u>383,553</u>	<u>1,150</u>	<u>4,730,288</u>
Sewer Fund capital assets, net	<u>\$ 6,992,873</u>	<u>\$ (191,846)</u>	<u>\$ -</u>	<u>\$ 6,801,027</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities

General government	\$ 22,874
Public safety	112,579
Public works	12,699
Community development	<u>21,101</u>
	<u>\$ 169,253</u>

Business-type Activities

Water	\$ 138,373
Sewer	<u>351,834</u>
	<u>\$ 490,207</u>

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2015

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:

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

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2015

6. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

	VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Eligible Members	<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>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</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>Hybrid Opt-In Election VRS 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"> • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees <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, 2015

6. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

	VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Retirement Contributions	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.
Creditable Service	Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	Same as Plan 1.	<u>Defined Benefit Component:</u> 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, 2015

6. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

	VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Creditable Service, continued			<u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
Vesting	Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	Same as Plan 1.	<u>Defined Benefit Component:</u> 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, 2015

6. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

	VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Vesting, continued			<p><u>Defined Contributions Component:</u> 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"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2015

6. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

	VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Calculating the Benefit	<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><u>Defined Benefit Component:</u> See definition under Plan 1</p> <p><u>Defined Contribution Component:</u> 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>
Average Final Compensation	A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2015

6. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

<p>Service Retirement Multiplier</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>Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p>Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</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>Sheriffs and regional jail superintendents: Same as Plan 1.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p><u>Defined Benefit Component:</u> 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>Sheriffs and regional jail superintendents: Not applicable.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p>
<p>Normal Retirement Age</p>	<p>Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p><u>Defined Benefit Component:</u> Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> 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, 2015

6. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

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

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2015

6. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

	VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement, continued	<p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within 5 years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. 	<p><u>Eligibility:</u> Same as Plan 1.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.</p>	<p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2015

6. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

	VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement, continued	<ul style="list-style-type: none"> The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 		
Disability Coverage	<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>Virginia Sickness and Disability Program (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>Virginia Sickness and Disability Program (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, 2015

6. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

	VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Purchase of Prior Service	Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. 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><u>Defined Benefit Component:</u> Same as Plan 1 with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • 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. <p><u>Defined Contribution Component:</u> Not applicable.</p>

B. Employees Covered by Benefit Terms

As of the June 30, 2013 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number of Employees</u>
Inactive members or their beneficiaries currently receiving benefits	21
Inactive members:	
Vested	4
Non-vested	5
Active elsewhere in the VRS	21
Total inactive members	30
Active members	37
Total covered employees	88

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2015

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 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Town's contractually required contribution rate for the year ended June 30, 2015 was 11.79% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2014.

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 \$232,987 and \$249,295 for the years ended June 30, 2015 and 2014, respectively.

D. Net Pension Liability

The Town's net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2015

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, 2013, 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, 2014.

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, 2015

6. Benefits, continued

VRS Retirement Plan, continued

E. Actuarial Assumptions, continued

The actuarial assumptions used in the June 30, 2013 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, 2013, 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, 2014.

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 – Non-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, 2015

6. Benefits, continued

VRS Retirement Plan, continued

E. Actuarial Assumptions, continued

All Others (Non 10 Largest) – Non-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, 2013 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 males rates of disability

All Others (Non 10 Largest) – Non-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, 2015

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	1.00%	(1.50%)	(0.02%)
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, 2015

6. Benefits, continued

VRS Retirement Plan, continued

H. Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2013	\$ 5,618,843	\$ 4,354,092	\$ 1,264,751
Changes for the year:			
Service cost	165,156	-	165,156
Interest	386,331	-	386,331
Contributions – employer	-	183,712	(183,712)
Contributions – employee	-	66,294	(66,294)
Net investment income	-	694,350	(694,350)
Benefit payments, including refunds of employee contributions	(199,669)	(199,669)	-
Administrative expense	-	(3,663)	3,663
Other changes	-	36	(36)
Net changes	<u>351,818</u>	<u>741,060</u>	<u>(389,242)</u>
Balances at June 30, 2014	<u>\$ 5,970,661</u>	<u>\$ 5,095,152</u>	<u>\$ 875,509</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:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net Pension Liability	<u>\$ 1,694,175</u>	<u>\$ 875,509</u>	<u>\$ 198,117</u>

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2015

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, 2015, the Town recognized pension expense of \$104,813. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on plan investments	-	310,343
Employer contributions subsequent to the Measurement Date*	<u>151,938</u>	<u>-</u>
Total	<u>\$ 151,938</u>	<u>\$ 310,343</u>

\$151,938 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2016	\$ (77,586)
2017	(77,586)
2018	(77,586)
2019	(77,585)
Thereafter	-

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2015

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, or obtaining health coverage not offered by the Town.

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, 2015

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>
2011	\$ 18,900	\$ -	\$ -	\$ 18,900	\$ 8,410	\$ 18,981
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	-

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, 2013, was \$221,900, resulting in an UAAL of \$221,900. The estimated covered payroll (annual payroll of active employees covered by the plan) was \$1,436,170, and the ratio of the UAAL to the covered payroll was 15.5%.

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	6/30/2013
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	<i>Health</i> : Getzen Trend Model – 7.0% graded to 4.8% over 70 years
Payroll growth	3.0% per year

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2015

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 \$101,348 in Governmental Activities and \$33,565 in Business-type Activities at June 30, 2015.

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, 2015 amount to \$627. The Town was not a party to any capital leases at June 30, 2015.

9. Long-Term Debt

The following is a summary of long-term debt transactions of the Town for the year ended June 30, 2015:

	Amounts payable at July 1, 2014	Increases	Decreases	Amounts payable at June 30, 2015	Due within one year
Governmental Activities					
Installment notes payable	\$ 649,747	\$ -	\$ 81,899	\$ 567,848	\$ 84,798
General obligation bonds	148,278	-	8,261	140,017	8,548
	<u>\$ 798,025</u>	<u>\$ -</u>	<u>\$ 90,160</u>	<u>\$ 707,865</u>	<u>\$ 93,346</u>
Business-type Activities					
General obligation bonds	\$ 6,723,073	\$ 346,776	\$ 136,527	\$ 6,933,322	\$ 246,117
Revenue bonds	-	-	-	-	-
	<u>\$ 6,723,073</u>	<u>\$ 346,776</u>	<u>\$ 136,527</u>	<u>\$ 6,933,322</u>	<u>\$ 246,117</u>

Contractual maturities for long-term debt are as follows:

Year ending June 30,	Governmental Activities Notes Payable and Bonds		Business-type Activities Bonds	
	Principal	Interest	Principal	Interest
2016	\$ 93,346	\$ 20,154	\$ 246,117	\$ 198,850
2017	67,674	17,152	284,130	196,386
2018	51,175	14,906	290,528	188,065
2019	33,391	13,725	301,979	179,428
2020	34,382	12,734	308,486	170,472
2021-2025	187,898	47,684	1,651,790	708,221
2026-2030	185,700	18,881	1,709,240	454,011
2031-2035	54,299	1,200	1,615,598	182,978
2036-2040	-	-	410,759	50,017
2041-2045	-	-	114,695	6,565
2046-2050	-	-	-	-
Total	<u>\$ 707,865</u>	<u>\$ 146,436</u>	<u>\$ 6,933,322</u>	<u>\$ 2,334,993</u>

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2015

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.	\$ 89,683	\$ -	\$ 89,683
Installment note payable monthly including interest at 2.49%, through February 22, 2032, secured by fire truck.	450,177	-	450,177
Installment note payable annually including interest at 2.45%, through August 17, 2015, secured by four dodge chargers.	27,988	-	27,988
<u>General Obligations Bonds:</u>			
\$913,000 2001 General Obligation Bond, interest at 4.5%, principal and interest payable monthly through November 30, 2042.	-	789,584	789,584
\$1,276,663 2008 General Obligation Bond, at no interest payable semi-annually through August 1, 2039.	-	1,031,962	1,031,962
\$193,000 2008 General Obligation Bond, interest at 4.00% payable semi-annually through June 1, 2028.	140,017	-	140,017
\$4,885,000 2013 General Obligation Bond, interest at 3.50% payable semi-annually, principal payable annually through July 15, 2035.	-	4,765,000	4,765,000
\$164,935 2014 General Obligation Bond, no interest, payable semi-annually through June 1, 2035.	-	164,935	164,935
\$1,069,358 2015 General Obligation Bond, interest at 3.00% payable semi-annually, through January 1, 2046.	-	181,841	181,841
Total long-term debt	<u>\$ 707,865</u>	<u>\$ 6,933,322</u>	<u>\$ 7,641,187</u>

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2015

10. Deferred Revenue

Deferred revenue represents a measurable inflow of resources that will be available in a future reporting period. Deferred revenue totaling \$787,297 at June 30, 2015 is comprised of the following:

Deferred Property Tax Revenue

Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled \$745,125.

Prepaid Property Taxes

Property taxes due subsequent to the current tax levy but paid in advance by taxpayers totaled \$8,285.

Deferred Loan Revenue

Deferred loan revenue representing uncollected loans receivable not available to fund current expenditures totaled \$33,887.

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, 2015, 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, 2015, Water and Sewer Fund accrued charges for services are \$21,041 and \$23,730, respectively.

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2015

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, 2015

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	\$ 418,000	\$ 418,000	\$ 430,697	\$ 12,697
Real and personal public service corporation property taxes	20,600	20,600	14,154	(6,446)
Personal property taxes	174,788	174,788	178,626	3,838
Machinery and tools taxes	68,274	68,274	75,196	6,922
Penalties and interest	2,500	2,500	7,032	4,432
Bad debt expense	-	-	-	-
Total general property taxes	<u>684,162</u>	<u>684,162</u>	<u>705,705</u>	<u>21,543</u>
Other local taxes:				
Local sales and use taxes	75,000	75,000	155,129	80,129
Consumers utility taxes	90,000	90,000	92,870	2,870
Business license taxes and vendor taxes	265,225	265,225	297,823	32,598
Franchise license taxes	19,000	19,000	18,451	(549)
Motor vehicle licenses	44,000	44,000	695	(43,305)
Bank stock taxes	90,000	90,000	98,965	8,965
Hotel and motel room taxes	214,500	214,500	231,173	16,673
Restaurant food taxes	845,000	845,000	910,071	65,071
Total other local taxes	<u>1,642,725</u>	<u>1,642,725</u>	<u>1,805,177</u>	<u>162,452</u>
Permits, privilege fees, and regulatory licenses	<u>1,000</u>	<u>1,000</u>	<u>1,648</u>	<u>648</u>
Fines and forfeitures	<u>36,300</u>	<u>36,300</u>	<u>44,870</u>	<u>8,570</u>
Payment in lieu of taxes	<u>50,000</u>	<u>50,000</u>	<u>-</u>	<u>(50,000)</u>
Revenue from use of money and property:				
Revenue from use of money	-	-	2,871	2,871
Revenue from use of property	32,300	32,300	33,620	1,320
Total revenue from use of money and property	<u>32,300</u>	<u>32,300</u>	<u>36,491</u>	<u>4,191</u>
Charges for services:				
Charges for sanitation and waste removal	-	-	2,820	2,820
Miscellaneous	<u>51,289</u>	<u>51,289</u>	<u>62,259</u>	<u>10,970</u>
Total revenue from local sources	<u>2,497,776</u>	<u>2,497,776</u>	<u>2,658,970</u>	<u>161,194</u>
Revenue from the Federal Government:				
Byrne Justice Assistance Grant	-	-	4,427	4,427
Highway safety grants	10,000	10,000	9,845	(155)
Local Government Challenge Grant	5,000	5,000	3,500	(1,500)
Total revenue from the Federal Government	<u>15,000</u>	<u>15,000</u>	<u>17,772</u>	<u>2,772</u>
Revenue from the Commonwealth:				
Noncategorical aid:				
Aid to localities with police department	65,500	65,500	65,288	(212)
Total noncategorical aid	<u>65,500</u>	<u>65,500</u>	<u>65,288</u>	<u>(212)</u>
Categorical aid:				
Litter control	1,500	1,500	1,555	55
Fire prevention	9,000	9,000	11,000	2,000
Total categorical aid	<u>10,500</u>	<u>10,500</u>	<u>12,555</u>	<u>2,055</u>
Total revenue from the Commonwealth	<u>76,000</u>	<u>76,000</u>	<u>77,843</u>	<u>1,843</u>
Total general fund	<u>2,588,776</u>	<u>2,588,776</u>	<u>2,754,585</u>	<u>165,809</u>

(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, 2015

Schedule 1

Page 2

Revenues	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Special revenue funds:				
CDBG Fund				
Revenue from local sources:				
Revenue from use of property	\$ 6,647	\$ 6,647	\$ 1,185	\$ (5,462)
Miscellaneous	-	-	6,548	6,548
Total revenue CDBG Fund	6,647	6,647	7,733	1,086
 Total revenues	 2,595,423	 2,595,423	 2,762,318	 166,895
Expenditures				
Primary government:				
General fund:				
General governmental administration:				
Legislative:				
Town council	41,503	32,243	35,947	(3,704)
Total legislative	41,503	32,243	35,947	(3,704)
General and financial administration:				
Clerk of council	20	20	40	(20)
Manager	295,814	299,741	286,885	12,856
Legal services	18,650	18,650	15,790	2,860
Independent auditor	14,000	14,000	15,380	(1,380)
Treasurer	660	442	216	226
Accounting	6,100	6,385	5,951	434
Elections	-	-	-	-
Risk management	7,800	9,711	9,711	-
Data processing	16,150	13,423	15,779	(2,356)
Total general and financial administration	359,194	362,372	349,752	12,620
Total general government administration	400,697	394,615	385,699	8,916
Public safety:				
Law enforcement and traffic control:				
Police department	836,939	860,248	898,011	(37,763)
Fire and rescue services:				
Fire department	1,700	1,700	1,553	147
Ambulance and rescue service	-	-	-	-
Total fire and rescue services	1,700	1,700	1,553	147
Building inspections	73,738	73,738	69,848	3,890
Total public safety	912,377	935,686	969,412	(33,726)

(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, 2015

Schedule 1

Page 3

Expenditures	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
General engineering/administration	\$ 337,061	\$ 327,876	\$ 289,993	\$ 37,883
Highway, street, bridge and sidewalk maintenance	31,600	32,051	28,150	3,901
Street lights	39,000	39,000	35,085	3,915
Total maintenance of highways, streets, bridges and sidewalks	407,661	398,927	353,228	45,699
Sanitation and waste removal:				
Refuse disposal	373,865	375,382	323,808	51,574
Maintenance of buildings and grounds:				
General properties	21,750	23,227	33,052	(9,825)
Total public works	803,276	797,536	710,088	87,448
Primary government:				
General fund:				
Community development:				
Planning and community development:				
Community development	99,000	100,488	93,092	7,396
Economic development	6,000	3,321	4,705	(1,384)
Total community development	105,000	103,809	97,797	6,012
Non-departmental	40,000	42,204	37,594	4,610
Capital projects	213,881	201,381	44,285	157,096
Annexation expenses	-	-	-	-
Debt service:				
Principal retirement	90,534	90,534	90,502	32
Interest and fiscal charges	23,011	23,011	23,032	(21)
Total debt service	113,545	113,545	113,534	11
Total general fund	2,588,776	2,588,776	2,358,409	230,367
Special revenue funds:				
CDBG fund:				
Community development	44,577	44,577	163	44,414
Total expenditures	2,633,353	2,633,353	2,358,572	274,781
Excess revenues over expenditures	(37,930)	(37,930)	403,746	(441,676)
Other financing sources and uses				
Proceeds from debt	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Carryover balances	37,930	37,930	-	(37,930)
Total other financing sources and uses	37,930	37,930	-	(37,930)
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	403,746	\$ 403,746
Fund balance, beginning			1,580,364	
Fund balance, ending			\$ 1,984,110	

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 Year¹

	<u>Fiscal Year</u> <u>2015</u>	
Total Pension Liability		
Service cost	\$ 165,156	
Interest	386,331	
Contributions – employer	-	
Contributions – employee	-	
Net investment income	-	
Benefit payments, including refunds of employee contributions	(199,669)	
Administrative expense	-	
Other changes	-	
Net change	351,818	
Total pension liability, beginning	5,618,843	
Total pension liability, ending	<u>\$ 5,970,661</u>	
Plan Fiduciary Net Position		
Service cost	\$ -	
Interest	-	
Contributions – employer	183,712	
Contributions – employee	66,294	
Net investment income	694,350	
Benefit payments, including refunds of employee contributions	(199,669)	
Administrative expense	(3,663)	
Other changes	36	
Net change	741,060	
Plan fiduciary net position, beginning	4,354,092	
Plan fiduciary position, ending	<u>\$ 5,095,152</u>	
Net Pension Liability	<u>\$ 875,509</u>	
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.34%	
Covered-employee Payroll	\$ 1,305,996	
Net Pension Liability as a Percentage of Covered- Employee Payroll	67.04%	

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

Town of Hillsville, Virginia

Schedule 3

Schedule of Employer Contributions Last Year¹

<u>Fiscal Year</u>	<u>Contractually Required Contribution (1)</u>	<u>Contributions in Relation to Contractually Required Contribution (2)</u>	<u>Contribution Deficiency (Excess) (1) – (2)</u>	<u>Employer's Covered Employee Payroll (4)</u>	<u>Contributions as a % of Covered Employee Payroll (5)</u>
2015	\$ 154,876	\$ 151,938	\$ 2,938	\$ 1,313,620	11.57%

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

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

* 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	14-P1048L013	12/31/2014	\$ 4,427
<u>Department of Transportation:</u>				
<u>Pass-through payments:</u>				
<u>Department of Motor Vehicles</u>				
Highway Safety Grant	20.600	SC-2014-54121-5369	09/30/2014	2,110
Highway Safety Grant	20.600	SC-2015-55012-5751	09/30/2015	6,629
<u>National Endowment for the Arts:</u>				
<u>Pass-through payments:</u>				
<u>Virginia Commission for the Arts</u>				
Local Government Challenge Grant	45.025		06/30/15	3,500
<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	63,504
Total				<u>\$ 80,170</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 in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. 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									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Governmental Activities										
Net position, beginning	\$ 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	\$ 1,593,663
Revenues	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	1,967,112
Expenses	(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)	(1,872,008)
Prior period adjustment	(814,563)	-	-	-	(111,733)	-	-	-	-	-
Net position, ending	\$ 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
Business-type Activities										
Net position, beginning	\$ 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	\$ 4,160,035
Revenues	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	1,814,527
Expenses	(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)	(1,406,669)
Prior period adjustment	(266,476)	(78,076)	-	-	(38,667)	-	-	-	-	-
Net position, ending	\$ 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
Primary Government										
Net position, beginning	\$ 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	\$ 5,753,698
Revenues	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	3,781,639
Expenses	(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)	(3,278,677)
Prior period adjustment	(1,081,039)	(78,076)	-	-	(150,400)	-	-	-	-	-
Net position, ending	\$ 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

Town of Hillsville, Virginia

Schedule 7

Revenues by Function

Last Ten Fiscal Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Governmental Activities										
General Government										
Capital grants and contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,993
Public Safety										
Charges for services	44,870	33,202	56,175	38,982	26,949	48,537	24,519	43,469	30,191	18,489
Operating grants and contributions	76,288	75,288	73,288	93,328	104,241	98,742	107,981	98,018	102,834	90,651
Capital grants and contributions	14,272	11,920	15,732	30,000	-	-	-	-	-	-
Public Works										
Charges for services	2,820	1,150	1,012	333	495	148	57	-	88	3,975
Operating grants and contributions	1,555	1,558	1,766	1,223	1,461	1,267	1,602	1,645	1,358	1,598
Capital grants and contributions	-	4,801	3,131	-	-	-	-	-	-	-
Community Development										
Charges for services	-	-	-	-	-	-	-	-	38,959	12,842
Operating grants and contributions	-	-	-	-	1,000	-	1,775	33,936	87,698	11,442
Capital grants and contributions	3,500	42,670	251,728	94,728	-	-	-	199,321	-	-
General Revenues										
General property taxes	725,502	715,007	671,824	589,502	620,904	624,193	636,319	631,457	625,738	661,491
Meals tax	231,173	221,152	548,910	597,745	460,031	489,913	479,827	503,135	439,500	424,634
Other local taxes	1,574,004	1,600,985	772,850	871,245	779,294	794,882	721,088	733,458	624,908	628,224
Licenses and permits	1,648	6,040	1,249	1,561	1,234	1,442	1,177	2,742	2,989	2,006
Use of money and property	37,676	38,536	34,805	26,542	34,511	39,176	38,691	56,410	66,063	55,363
Miscellaneous	68,807	47,883	110,288	258,861	78,334	53,492	56,433	79,746	68,491	52,404
Gain (loss) on sale of capital assets	-	-	-	35,225	2,218	-	-	(1,948)	24,788	12,050
Transfers	-	-	-	50,000	(50,000)	(1,150)	-	15,877	89,801	-
Total governmental activities revenues	<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>	<u>\$ 1,967,112</u>
Business-type Activities										
Water										
Charges for services	\$ 416,835	\$ 420,933	\$ 434,064	\$ 442,525	\$ 492,129	\$ 456,253	\$ 499,015	\$ 480,067	\$ 486,669	\$ 499,374
Capital grants and contributions	98,504	75,256	3,589	511	-	-	275,000	48,750	1,250	-
Sewer										
Charges for services	675,666	614,590	627,851	661,214	659,169	828,198	759,485	821,304	802,224	827,531
Capital grants and contributions	-	17,788	636	-	246,871	220,475	15,000	-	69,187	403,465
General Business-type Revenues										
Use of money and property	4,854	10,441	4,840	13,557	20,590	41,550	36,548	56,103	74,146	21,042
Miscellaneous	26,885	19,300	29,543	53,153	110,516	19,369	29,067	38,892	47,521	63,115
Gain (loss) on sale of capital assets	-	-	1,570	577	134	-	(4,190)	(1,517)	-	-
Transfers	-	-	-	(50,000)	50,000	1,150	-	-	(89,801)	-
Total business-type activities revenues	<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>	<u>\$ 1,814,527</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>
2006	\$ 328,740	\$ 779,039	\$ 584,537	\$ 142,955	\$ 21,503	\$ 15,234	\$ 1,872,008
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

Business-type Activities

<u>Fiscal Year</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
2006	\$ 505,164	\$ 901,505	\$ 1,406,669
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

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		
2006	\$ 142,839,700	\$ 20,241,180	\$ 23,104,060	\$ 11,740,823	\$ 16,346	\$ (654,623)	\$ 197,287,486
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

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
2006	\$.20	\$.70	\$.70	\$.20	\$.70
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

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 ¹	Percent of Levy		Amount ¹	Percent of Levy
2006	\$ 608,431	\$ 595,080	97.80%	\$ 10,572	\$ 605,652	99.54%
2007	574,415	558,702	97.26	13,992	572,693	99.70
2008	571,355	560,103	98.03	9,578	569,680	99.71
2009	586,016	573,313	97.83	12,230	585,543	99.92
2010	614,436	599,261	97.53	11,449	610,711	99.39
2011	600,035	582,719	97.11	11,547	594,266	99.04
2012	594,107	579,967	97.62	9,582	589,549	99.23
2013	674,452	653,541	96.90	8,018	661,559	98.09
2014	705,784	676,677	95.88	11,807	688,484	97.55
2015	712,737	676,455	94.91	n/a	676,455	94.91

¹ 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	
	2006	\$ 195,641	\$ 347,353	
2007	173,641	323,060	496,701	0.27
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

Fiscal Year	Business-type Activities			Total Primary Government
	Water Bonds	Sewer Bonds	Total	
	2006	\$ 293,238	\$ 6,260,427	
2007	272,787	6,107,666	6,380,453	6,877,154
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

Town of Hillsville, Virginia

Schedule 12

Computation of Legal Debt Margin

Last Ten Fiscal Years

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2006</u>
Debt limit ¹	\$ 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	\$ 15,458,052
Amount of debt applicable to limit	<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>	<u>7,096,659</u>
Legal debt margin	<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>	<u>\$ 8,361,393</u>
Total net debt applicable to limit as a percentage of debt limit	36%	36%	32%	40%	38%	40%	40%	43%	45%	46%

¹ 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 Income¹</u>	<u>Per Capita Personal Income¹</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%

¹ 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.

Town of Hillsville, Virginia

Schedule 14

Principal Employers
Current Year

Employer	Employees	Rank
Bucyrus Caterpillar	100-299	1
Mt. Rogers Ind. & Dev. Center	100-299	2
Magnolia Manufacturing Co.	200	3
Barker MicroFarads	100-199	4
Mohawk Industries	108	5
APAC-Virginia	20-49	6
Salem Stone Corporation	20-49	7
Turman Sawmill	20-49	8
F&M Construction	20-49	9
Goad Lumber Company	1-19	10
Blue Ridge Concrete	1-10	11

Town of Hillsville, Virginia

Schedule 15

Full-time Equivalent Government Employees by Function Last Ten Years

	Full-time Equivalent Employees as of June 30,									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
General government										
Management	1	1	1	1	1	1	1	1	1	1
Finance	5	4	4	4	4	4	4	4	4	4
Building	1	1	1	1	1	1	1	1	1	1
Police										
Officers	14.5	13	12	12	11	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	5	5	5	5	5	5	5	5	5	5
Water	4.5	4.5	4.5	4.5	5	5	5	5	5	5
Wastewater	4.5	4.5	4.5	4.5	4	4	4	4	4	4