

Town of Hillsville, Virginia

Financial Statements

Year Ended June 30, 2017

Town Council

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

Town Manager

Retta N. Jackson

Town Attorney

Trenton Crewe, Jr.

Treasurer

LeAnna Surratt

Independent Auditors

Hicok, Fern & Company

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**Hicok, Fern
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TRUST. LEGACY. VALUES. IT ALL ADDS UP.

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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, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

*Members of American Institute
of Certified Public Accountant*

*Members of Virginia Society of
Certified Public Accountants*

**Members of National Association of
Certified Valuation Analysts*

All Accountants Licensed in Virginia with Additional Licensures Noted: ^I KY; ^{II} NC; ^{III} TN; ^{IV} WV

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hillsville, Virginia, as of June 30, 2017, 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.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2017, the Town adopted new accounting guidance, GASB Statement No. 77 Tax Abatement Disclosures. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2017, on our consideration of the Town of Hillsville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Hillsville's internal control over financial reporting and compliance.



Hicok, Fern & Company
Abingdon, Virginia

December 8, 2017



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hillsville, Virginia, as of and for the year ended June 30, 2017, 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 December 8, 2017.

Internal Control over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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



Hicok, Fern & Company
Abingdon, Virginia

December 8, 2017

Town of Hillsville

Management's Discussion and Analysis

As of June 30, 2017

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, 2017. 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 \$6.0 million as of June 30, 2017.
- 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 \$3.0 million, an increase of \$544 thousand in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2.8 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, 2017

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, 2017

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 53 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 \$6.0 million as of June 30, 2017, an increase of \$584 thousand compared to the prior year-end. The largest portion of net position (53%) 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, 2017 and 2016 is shown in Figure 1.

Assets, Liabilities, and Net Position						
Figure 1						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 3,974,441	\$ 3,368,346	\$ 1,308,592	\$ 1,061,856	\$ 5,283,033	\$ 4,430,202
Capital assets	<u>2,106,959</u>	<u>1,957,618</u>	<u>9,010,623</u>	<u>9,428,670</u>	<u>11,117,582</u>	<u>11,386,288</u>
Total assets	<u>6,081,400</u>	<u>5,325,964</u>	<u>10,319,215</u>	<u>10,490,526</u>	<u>16,400,615</u>	<u>15,816,490</u>
Deferred inflows related to pension	104,194	-	34,730	-	138,924	-
Pension contributions	<u>111,797</u>	<u>135,360</u>	<u>40,027</u>	<u>44,716</u>	<u>151,824</u>	<u>180,076</u>
Total deferred outflows of resources	<u>215,991</u>	<u>135,360</u>	<u>74,757</u>	<u>44,716</u>	<u>290,748</u>	<u>180,076</u>
Long-term liabilities	1,517,713	1,347,272	7,306,829	7,437,814	8,824,542	8,785,086
Other liabilities	<u>651,226</u>	<u>512,378</u>	<u>406,922</u>	<u>360,405</u>	<u>1,058,148</u>	<u>872,783</u>
Total liabilities	<u>2,168,939</u>	<u>1,859,650</u>	<u>7,713,751</u>	<u>7,798,219</u>	<u>9,882,690</u>	<u>9,657,869</u>
Deferred inflows related to pension	88,349	148,946	29,448	49,648	117,797	198,594
Deferred revenue	<u>713,181</u>	<u>746,884</u>	<u>-</u>	<u>-</u>	<u>713,181</u>	<u>746,884</u>
Total deferred inflows of resources	<u>801,530</u>	<u>895,830</u>	<u>29,448</u>	<u>49,648</u>	<u>830,978</u>	<u>945,478</u>
Net position:						
Invested in capital assets, net of related debt	1,366,058	1,304,703	1,807,640	2,179,966	3,173,698	3,484,669
Restricted	69,194	44,734	-	-	69,194	44,734
Unrestricted	<u>1,891,670</u>	<u>1,356,407</u>	<u>843,133</u>	<u>507,409</u>	<u>2,734,803</u>	<u>1,863,816</u>
Total net position	<u>\$ 3,326,922</u>	<u>\$ 2,705,844</u>	<u>\$ 2,650,773</u>	<u>\$ 2,687,375</u>	<u>\$ 5,977,695</u>	<u>\$ 5,393,219</u>

Town of Hillsville

Management's Discussion and Analysis

As of June 30, 2017

Governmental activities. Governmental activities increased the Town's net position by \$621 thousand for the year ended June 30, 2017 which compares to an increase of \$520 thousand in the prior year. Management has been strategically focusing on collecting past due taxes. Revenues from increased fines and forfeitures were used to purchase public safety equipment and supplies.

Business-type activities: Business-type activities decreased the Town's net position by \$37 thousand for the year ended June 30, 2017 compared to an increase of \$122 thousand for the year ended June 30, 2016. The decrease was a result of less grant income for the year ended June 30, 2017.

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	
	2017	2016	2017	2016	2017	2016
Revenue						
Program revenues:						
Charges for services	\$ 431,075	\$ 146,162	\$ 1,223,826	\$ 1,176,076	\$ 1,654,901	\$ 1,322,238
Operating grants and contributions	81,407	77,860	1,821	-	83,228	77,860
Capital grants and contributions	104,890	86,880	79,213	307,812	184,103	394,692
General revenues:						
Property taxes	765,251	717,694	-	-	765,251	717,694
Other taxes	2,080,964	2,040,504	-	-	2,080,964	2,040,504
Interest and investment earnings	43,318	34,316	7,899	9,308	51,217	43,624
Other	79,669	66,023	27,990	26,589	107,659	92,612
Total revenue	<u>3,586,574</u>	<u>3,169,439</u>	<u>1,340,749</u>	<u>1,519,785</u>	<u>4,927,323</u>	<u>4,689,224</u>
Expenses						
General government	476,609	449,575	-	-	476,609	449,575
Public safety	1,225,899	1,142,534	-	-	1,225,899	1,142,534
Public works	743,716	730,797	-	-	743,716	730,797
Community development	240,931	143,829	-	-	240,931	143,829
Other activities	41,274	10,685	-	-	41,274	10,685
Interest on long-term debt	19,538	21,524	-	-	19,538	21,524
Water	-	-	609,854	591,332	609,854	591,332
Sewer	-	-	985,026	957,639	985,026	957,639
Total expenses	<u>2,747,967</u>	<u>2,498,944</u>	<u>1,594,880</u>	<u>1,548,971</u>	<u>4,342,847</u>	<u>4,047,915</u>
Increase (decrease) in net position before transfers	838,607	670,495	(254,131)	(29,186)	584,476	641,309
Transfers	<u>(217,529)</u>	<u>(150,742)</u>	<u>217,529</u>	<u>150,742</u>	-	-
Increase(decrease) in net position	621,078	519,753	(36,602)	121,556	584,476	641,309
Net position, beginning	2,705,844	2,186,091	2,687,375	2,565,819	5,393,219	4,751,910
Prior period adjustments	-	-	-	-	-	-
Net position, ending	<u>\$ 3,326,922</u>	<u>\$ 2,705,844</u>	<u>\$ 2,650,773</u>	<u>\$ 2,687,375</u>	<u>\$ 5,977,695</u>	<u>\$ 5,393,219</u>

Town of Hillsville

Management's Discussion and Analysis

As of June 30, 2017

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 \$70 thousand and unassigned funds of \$2.8 million.

At June 30, 2017, the governmental funds of the Town reported a combined fund balance of \$3.0 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 \$2.7 million.

General Fund Budgetary Highlights

Local sales and use taxes exceeded budget by \$74 thousand, business license and vendor taxes exceeded budget by \$41 thousand, bank stock taxes exceeded budget by \$52 thousand, and lodging and restaurant taxes exceeded budget by \$118 thousand and \$146 thousand, respectively.

Actual fines and forfeitures exceeded budget by \$44 thousand while public safety expenses exceeded budget by \$72 thousand. Public works expenses also exceeded budget by \$49 thousand as funds from a grant and a loan were used to purchase a new garbage truck.

Town of Hillsville

Management's Discussion and Analysis

As of June 30, 2017

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, 2017, totals \$11.1 million (net of accumulated depreciation). These assets include land, land improvements, buildings and improvements, vehicles, and equipment.

Capital Assets
(net of depreciation)
Figure 3

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 100,248	\$ 100,248	\$ 44,168	\$ 44,168	\$ 144,416	\$ 144,416
Land improvements	529,823	559,055	-	-	529,823	559,055
Buildings and improvements	605,154	636,597	8,871,025	9,289,709	9,476,179	9,926,306
Vehicles	-	-	3,966	6,767	3,966	6,767
Equipment	871,734	661,718	91,464	88,026	963,198	749,744
Total	<u>\$ 2,106,959</u>	<u>\$ 1,957,618</u>	<u>\$ 9,010,623</u>	<u>\$ 9,428,670</u>	<u>\$ 11,117,582</u>	<u>\$ 11,386,288</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	
	2017	2016	2017	2016	2017	2016
Land	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Land improvements	16,300	5,667	-	-	16,300	5,667
Buildings and improvements	-	3,380	76,098	974,170	76,098	977,550
Vehicles	-	-	-	-	-	-
Equipment	363,968	214,192	24,111	21,105	388,079	235,297
Total additions	<u>\$ 380,268</u>	<u>\$ 223,239</u>	<u>\$ 100,209</u>	<u>\$ 995,275</u>	<u>\$ 480,477</u>	<u>\$ 1,218,514</u>
Land	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Land improvements	-	-	-	-	-	-
Buildings and improvements	-	-	-	-	-	-
Vehicles	-	-	-	-	-	-
Equipment	27,102	54,834	-	-	27,102	54,834
Total disposals	<u>\$ 27,102</u>	<u>\$ 54,834</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,102</u>	<u>\$ 54,834</u>

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

Town of Hillsville

Management's Discussion and Analysis

As of June 30, 2016

Long-term Debt. As of June 30, 2017, the Town had total bonded debt outstanding of \$7.8 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	
	2017	2016	2017	2016	2017	2016
Installment notes payable	\$ 424,694	\$ 483,046	\$ 100,000	\$ -	\$ 524,694	\$ 483,046
General obligation bonds	<u>209,943</u>	<u>131,422</u>	<u>7,102,983</u>	<u>7,248,704</u>	<u>7,312,926</u>	<u>7,380,126</u>
Total	<u>\$ 634,637</u>	<u>\$ 614,468</u>	<u>\$ 7,202,983</u>	<u>\$ 7,248,704</u>	<u>\$ 7,837,620</u>	<u>\$ 7,863,172</u>

The Town's total debt decreased by \$26 thousand during the past fiscal year.

Virginia General Statutes limit the amount of general obligation debt that a unit of government can issue to 10% of the total assessed value of taxable real property located within that government's boundaries. The debt limit for the Town was approximately \$21.1 million as of June 30, 2017.

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

Budget Highlights for the Fiscal Year Ending June 30, 2017

Governmental Activities: General fund revenues are budgeted to be \$2.8 million for the fiscal year ending June 30, 2017 as the growth in fines and forfeitures is expected to continue. The Town uses revenues to finance programs currently in place.

Requests for Information

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

Town of Hillsville, Virginia

Statement of Net Position

June 30, 2017

Exhibit A

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Assets			
Cash and cash equivalents	\$ 2,717,160	\$ 734,972	\$ 3,452,132
Investments	158,276	271,304	429,580
Receivables (net of allowances for uncollectibles):			
Taxes, including penalties	721,950	-	721,950
Accounts	320,455	94,836	415,291
Accrued charges for services	-	56,738	56,738
Loans	15,491	-	15,491
Due from other funds	-	150,742	150,742
Due from other governmental units	41,109	-	41,109
Capital assets, net	<u>2,106,959</u>	<u>9,010,623</u>	<u>11,117,582</u>
Total assets	<u>6,081,400</u>	<u>10,319,215</u>	<u>16,400,615</u>
Deferred Outflows of Resources			
Pension contributions	111,797	40,027	151,824
Deferred outflows related to pension	<u>104,194</u>	<u>34,730</u>	<u>138,924</u>
Total deferred outflows of resources	<u>215,991</u>	<u>74,757</u>	<u>290,748</u>
Liabilities			
Accounts payable	389,492	112,331	501,823
Deposits	3,025	85,461	88,486
Due to other funds	150,742	-	150,742
Accrued bond interest	1,957	18,421	20,378
Bonds and notes payable due within one year	58,050	190,709	248,759
Bonds and notes payable due in more than one year	576,587	7,012,274	7,588,861
Capital lease obligations due within one year	47,960	-	47,960
Capital lease obligations due in more than one year	58,304	-	58,304
Compensated absences	94,604	37,348	131,952
Net pension liability	<u>788,218</u>	<u>257,207</u>	<u>1,045,425</u>
Total liabilities	<u>2,168,939</u>	<u>7,713,751</u>	<u>9,882,690</u>
Deferred Inflows of Resources			
Deferred inflows related to pension	88,349	29,448	117,797
Deferred revenue	<u>713,181</u>	<u>-</u>	<u>713,181</u>
Total deferred inflows of resources	<u>801,530</u>	<u>29,448</u>	<u>830,978</u>
Net Position			
Invested in capital assets, net of related debt	1,366,058	1,807,640	3,173,698
Restricted	69,194	-	69,194
Unrestricted	<u>1,891,670</u>	<u>843,133</u>	<u>2,734,803</u>
Total net position	<u>\$ 3,326,922</u>	<u>\$ 2,650,773</u>	<u>\$ 5,977,695</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, 2017

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	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	\$ 476,609	\$ -	\$ -	\$ -	\$ (476,609)	\$ -	\$ (476,609)
Public safety	1,225,899	431,075	77,392	22,640	(694,792)	-	(694,792)
Public works	743,716	-	1,515	45,500	(696,701)	-	(696,701)
Community development	240,931	-	2,500	36,750	(201,681)	-	(201,681)
Other activities	41,274	-	-	-	(41,274)	-	(41,274)
Interest on long – term debt	19,538	-	-	-	(19,538)	-	(19,538)
Total government activities	<u>2,747,967</u>	<u>431,075</u>	<u>81,407</u>	<u>104,890</u>	<u>(2,130,595)</u>	<u>-</u>	<u>(2,130,595)</u>
Business – type activities:							
Water	609,854	521,569	-	79,213	-	(9,072)	(9,072)
Sewer	985,026	702,257	1,821	-	-	(280,948)	(280,948)
Total business – type activities	<u>1,594,880</u>	<u>1,223,826</u>	<u>1,821</u>	<u>79,213</u>	<u>-</u>	<u>(290,020)</u>	<u>(290,020)</u>
Total primary government	<u>\$ 4,342,847</u>	<u>\$ 1,654,901</u>	<u>\$ 83,228</u>	<u>\$ 184,103</u>			<u>(2,420,615)</u>
General Revenues:							
General property					765,251	-	765,251
Sales tax					168,512	-	168,512
Utility tax					92,398	-	92,398
Business license					296,237	-	296,237
Franchise tax					17,397	-	17,397
Motor vehicle license					45,249	-	45,249
Bank stock tax					141,829	-	141,829
Meals tax					980,621	-	980,621
Lodgings tax					332,358	-	332,358
Other taxes					422	-	422
Licenses and permits					5,941	-	5,941
Grants and contributions not restricted to specific programs					-	-	-
Use of money and property					43,318	7,899	51,217
Miscellaneous					73,818	27,990	101,808
Gain (loss) on sale/retirement of capital assets					5,851	-	5,851
Transfers					(217,529)	217,529	-
Total general revenues and transfers					<u>2,751,673</u>	<u>253,418</u>	<u>3,005,091</u>
Change in net position					621,078	(36,602)	584,476
Net position, beginning					<u>2,705,844</u>	<u>2,687,375</u>	<u>5,393,219</u>
Net position, ending					<u>\$ 3,326,922</u>	<u>\$ 2,650,773</u>	<u>\$ 5,977,695</u>

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

Town of Hillsville, Virginia

Balance Sheet
Governmental Funds
June 30, 2017

Exhibit C
Page 1

	<u>General Fund</u>	<u>CDBG Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 2,647,806	\$ 69,354	\$ 2,717,160
Investments	158,276	-	158,276
Receivables (net of allowances for uncollectibles):			
Taxes, including penalties	721,950	-	721,950
Accounts	320,455	-	320,455
Loans	-	15,491	15,491
Due from other funds	160	-	160
Due from other governmental units	<u>41,109</u>	<u>-</u>	<u>41,109</u>
Total assets	<u>3,889,756</u>	<u>84,845</u>	<u>3,974,601</u>
Liabilities			
Accounts payable	127,887	-	127,887
Deposits	3,025	-	3,025
Due to other funds	<u>150,742</u>	<u>160</u>	<u>150,902</u>
Total liabilities	<u>281,654</u>	<u>160</u>	<u>281,814</u>
Deferred Inflows of Resources			
Deferred revenue	<u>697,969</u>	<u>15,491</u>	<u>713,460</u>
Fund Balances			
Nonspendable	-	-	-
Restricted:			
Community development	-	69,194	69,194
Committed	-	-	-
Assigned:			
Capital projects	70,100	-	70,100
Unassigned	<u>2,840,033</u>	<u>-</u>	<u>2,840,033</u>
Total fund balances	<u>\$ 2,910,133</u>	<u>\$ 69,194</u>	<u>\$ 2,979,327</u>

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

Town of Hillsville, Virginia

Balance Sheet
Governmental Funds
June 30, 2017

Exhibit C
Page 2

	<u>Total</u>
Total fund balances per Balance Sheet for Governmental Funds	\$ 2,979,327
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	2,106,959
Some receivables are not available to pay for current period expenditures and therefore are deferred in the fund financial statements.	
Property taxes	279
Pension expense	15,845
Pension contributions subsequent to the measurement date of the net pension liability are considered to be deferred outflows of resources	111,797
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)	(261,605)
Accrued bond interest	(1,957)
Bonds and notes payable	(634,637)
Capital lease obligations	(106,264)
Compensated absences	(94,604)
Net pension liability	(788,218)
Net position of governmental activities	<u>\$ 3,326,922</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, 2017

Exhibit D

Page 1

	<u>General Fund</u>	<u>CDBG Fund</u>	<u>Total Governmental Activities</u>
Revenues:			
General property taxes	\$ 765,067	\$ -	\$ 765,067
Other local taxes	2,075,023	-	2,075,023
Permits, privilege fees and regulatory licenses	5,941	-	5,941
Fines and forfeitures	431,075	-	431,075
Payment in lieu of taxes	-	-	-
Revenue from use of money and property	40,944	2,374	43,318
Charges for services	-	-	-
Gain on sale of capital assets	5,851	-	5,851
Miscellaneous	51,940	21,878	73,818
Intergovernmental:			
Federal	104,890	-	104,890
State	81,407	-	81,407
Total revenues	<u>3,562,138</u>	<u>24,252</u>	<u>3,586,390</u>
Expenditures:			
Current:			
General government administration	456,851	-	456,851
Public safety	1,416,495	-	1,416,495
Public works	873,533	-	873,533
Community development	105,733	82	105,815
Non-departmental	31,674	-	31,674
Capital projects	9,600	-	9,600
Annexation expenses	-	-	-
Debt service:			
Principal retirement	116,515	-	116,515
Interest and finance charges	19,233	-	19,233
Total expenditures	<u>3,029,634</u>	<u>82</u>	<u>3,029,716</u>
Excess (loss) of revenues over expenditures	<u>532,504</u>	<u>24,170</u>	<u>556,674</u>
Other financing sources and uses:			
Proceeds from debt	204,442	-	204,442
Operating transfers in	-	290	290
Operating transfers out	(217,818)	-	(217,818)
Total other financing sources and uses	<u>(13,376)</u>	<u>290</u>	<u>(13,086)</u>
Excess (loss) of revenues and other sources over expenditures and other uses	519,128	24,460	543,588
Fund balance, beginning	2,391,005	44,734	2,435,739
Fund balance, ending	<u>\$ 2,910,133</u>	<u>\$ 69,194</u>	<u>\$ 2,979,327</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, 2017

Exhibit D
Page 2

	<u>Total Governmental Activities</u>
Net change in fund balances – total governmental funds	\$ 543,588
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	380,268
Depreciation expense	(230,927)
Difference between accumulated depreciation and cost of disposed assets	-
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	(204,442)
Principal payments	116,455
Interest accrued	(245)
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	184
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	(23,269)
Change in compensated absences	11,287
Change in pension plan benefits	<u>28,179</u>
Change in net position of governmental activities	<u>\$ 621,078</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, 2017

Exhibit E

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Assets			
Current assets:			
Cash and equivalents	\$ 434,015	\$ 300,957	\$ 734,972
Investments	135,652	135,652	271,304
Accounts receivable (net of allowance for uncollectibles)	46,051	48,785	94,836
Accrued charges for services	28,385	28,353	56,738
Due from other funds	<u>52,476</u>	<u>98,266</u>	<u>150,742</u>
Total current assets	<u>696,579</u>	<u>612,013</u>	<u>1,308,592</u>
Capital assets			
Buildings	5,477,070	11,315,117	16,792,187
Land	31,468	12,700	44,168
Machinery and equipment	<u>173,480</u>	<u>252,015</u>	<u>425,495</u>
Total capital assets	5,682,018	11,579,832	17,261,850
Less accumulated depreciation	<u>(2,814,505)</u>	<u>(5,436,722)</u>	<u>(8,251,227)</u>
Net capital assets	<u>2,867,513</u>	<u>6,143,110</u>	<u>9,010,623</u>
Total assets	<u>3,564,092</u>	<u>6,755,123</u>	<u>10,319,215</u>
Deferred Outflows of Resources			
Pension contributions	19,798	20,229	40,027
Deferred outflows related to pension	<u>18,060</u>	<u>16,670</u>	<u>34,730</u>
Total deferred outflows of resources	<u>37,858</u>	<u>36,899</u>	<u>74,757</u>
Liabilities			
Liabilities:			
Current liabilities (payable from current assets):			
Accounts payable	54,161	58,170	112,331
Deposits	42,730	42,731	85,461
Accrued bond interest	15,857	2,564	18,421
Current portion of bonds	<u>65,348</u>	<u>125,361</u>	<u>190,709</u>
Total current liabilities (payable from current assets)	<u>178,096</u>	<u>228,826</u>	<u>406,922</u>
Long-term liabilities:			
Bonds (net of current portion)	2,107,107	4,905,167	7,012,274
Compensated absences	20,787	16,561	37,348
Net pension liability	<u>132,231</u>	<u>124,976</u>	<u>257,207</u>
Total long-term liabilities	<u>2,260,125</u>	<u>5,046,704</u>	<u>7,306,829</u>
Total liabilities	<u>2,438,221</u>	<u>5,275,530</u>	<u>7,713,751</u>
Deferred Inflows of Resources			
Deferred inflows related to pension	<u>15,313</u>	<u>14,135</u>	<u>29,448</u>
Net Position			
Net Position:			
Invested in capital assets, net of related debt	695,058	1,112,582	1,807,640
Unrestricted	<u>453,358</u>	<u>389,775</u>	<u>843,133</u>
Total net position	<u>\$ 1,148,416</u>	<u>\$ 1,502,357</u>	<u>\$ 2,650,773</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, 2017

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating revenues:			
Charges for services	\$ 521,569	\$ 702,257	\$ 1,223,826
Miscellaneous	-	2,469	2,469
Total operating revenues	<u>521,569</u>	<u>704,726</u>	<u>1,226,295</u>
Operating expenses:			
Personnel services	199,357	214,595	413,952
Fringe benefits	70,326	68,394	138,720
Contractual services	2,527	4,012	6,539
Payment in lieu of taxes	-	-	-
Depreciation and amortization	164,446	353,810	518,256
Other	135,903	159,667	295,570
Total operating expenses	<u>572,559</u>	<u>800,478</u>	<u>1,373,037</u>
Operating loss	<u>(50,990)</u>	<u>(95,752)</u>	<u>(146,742)</u>
Nonoperating revenues (expenses):			
Connection fees	7,745	3,792	11,537
Interest	3,331	4,568	7,899
Other nonoperating revenues	8,872	6,933	15,805
Interest and fiscal charges	(37,295)	(184,548)	(221,843)
Total nonoperating revenues (expenses)	<u>(17,347)</u>	<u>(169,255)</u>	<u>(186,602)</u>
Loss before contributions and transfers	(68,337)	(265,007)	(333,344)
Capital grants and contributions	79,213	-	79,213
Operating transfers in	-	218,415	217,529
Operating transfers out	(886)	-	-
Changes in net position	9,990	(46,592)	(36,602)
Net position, beginning	<u>1,138,426</u>	<u>1,548,949</u>	<u>2,687,375</u>
Net position, ending	<u>\$ 1,148,416</u>	<u>\$ 1,502,357</u>	<u>\$ 2,650,773</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, 2017

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from customers	\$ 554,178	\$ 716,962	\$ 1,271,140
Cash payments to suppliers for goods and services	(219,807)	(156,384)	(376,191)
Cash payments to employees for services	(275,809)	(288,469)	(564,278)
Payment in lieu of taxes	-	-	-
Net cash (used by) provided by operating activities	<u>58,562</u>	<u>272,109</u>	<u>330,671</u>
Cash flows from noncapital financing activities:			
Operating transfers from (to) other funds	(886)	218,415	217,529
Net cash provided (used) by noncapital financing activities	<u>(886)</u>	<u>218,415</u>	<u>217,529</u>
Cash flows from capital and related financing activities:			
Capital grants	79,213	-	79,213
Acquisition, construction and disposal of capital assets	(76,098)	(24,111)	(100,209)
Issuance of bonds	130,898	100,000	230,898
Principal paid on bonds	(62,340)	(214,279)	(276,619)
Interest paid on bonds	(42,195)	(184,562)	(226,757)
Net cash provided by (used by) capital and related financing activities	<u>29,478</u>	<u>(322,952)</u>	<u>(293,474)</u>
Cash flows from investing activities:			
Cash payments to purchase investments	(994)	(994)	(1,988)
Interest on temporary investments	3,331	4,568	7,899
Net cash provided by investing activities	<u>2,337</u>	<u>3,574</u>	<u>5,911</u>
Net decrease in cash and cash equivalents	89,491	171,146	260,637
Cash and cash equivalents at beginning of year	344,524	129,811	474,335
Cash and cash equivalents at end of year	<u>\$ 434,015</u>	<u>\$ 300,957</u>	<u>\$ 734,972</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (50,990)	\$ (95,752)	\$ (146,742)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation and amortization	164,446	353,810	518,256
Receivables and accrued charges for services	15,190	699	15,889
Accounts payable and deferred revenue	(81,377)	7,295	(74,082)
Connection fees and other income	16,617	10,725	27,342
Other accrued expenses	(6,126)	(5,480)	(11,606)
Deposits	802	812	1,614
Total adjustments	<u>142,688</u>	<u>367,861</u>	<u>510,549</u>
Net cash provided by operating activities	<u>\$ 58,562</u>	<u>\$ 272,109</u>	<u>\$ 330,671</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, 2017

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, 2017

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 90 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, 2017

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, 2017

1. Summary of Significant Accounting Policies, continued

E. Cash and Cash Equivalents

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

F. Investments

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

G. Property, Plant, and Equipment

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

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

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

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

H. Property Taxes

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

I. Net Position

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

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2017

1. Summary of Significant Accounting Policies, continued

J. Fund Balances

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

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

K. Deferred Outflows/Inflows of Resources

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

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

L. Pensions

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

M. Recently Adopted Accounting Standards

GASB Statement No. 77, Tax Abatement Disclosures, requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

1. Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
2. The gross dollar amount of amount of taxes abated during the period.
3. Commitments made by a government, other than to abate taxes, as part of a tax abatement.

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2017

1. Summary of Significant Accounting Policies, continued

N. Use of Estimates

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

O. Subsequent Events

These financial statements have not been updated for subsequent events occurring after December 8, 2017, which is the date the financial statements were available to be issued.

2. Cash and Investments

Cash: At year-end the carrying value of the Town's deposits with banks and savings institutions was \$3,451,482 and the bank balance was \$3,780,690. 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).

	<u>Fair Quality Ratings</u>		<u>Fair Value</u>
	<u>AAAm</u>	<u>Unrated</u>	
Alliance U.S. Government Bond Fund	\$ -	\$ 138,310	\$ 138,310
Investment in Local Government Investment Pool (LGIP)	<u>291,270</u>	<u>-</u>	<u>291,270</u>
Total	<u>\$ 291,270</u>	<u>\$ 138,310</u>	<u>\$ 429,580</u>

Concentration of Credit Risk: The Town's investments in the Alliance Bond Fund and the LGIP represented 32.2% and 67.8%, respectively, of the portfolio at June 30, 2017.

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, 2017 is composed of the following:

General Fund, Allowance for Uncollectible Taxes	\$ 32,083
Water and Sewer Funds, Allowance for Uncollectible Accounts	<u>46,405</u>
	<u>\$ 78,489</u>

4. Due from Other Governmental Units

Amounts due from other governmental units at June 30, 2017 are summarized as follows:

Carroll County, Virginia	
Court fines and forfeitures	<u>\$ 41,109</u>

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2017

5. Capital Assets

A summary of changes in capital assets follows:

Governmental Activities

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2017</u>
Land (not depreciated)	\$ 100,248	\$ -	\$ -	\$ 100,248
Land improvements	704,722	16,300	-	721,022
Buildings and improvements	1,108,721	-	-	1,108,721
Equipment	<u>1,919,622</u>	<u>363,968</u>	<u>(27,102)</u>	<u>2,256,488</u>
Total	3,833,313	380,268	-	4,186,479
Less accumulated depreciation	<u>(1,875,695)</u>	<u>(230,927)</u>	<u>27,102</u>	<u>(2,079,520)</u>
Government activities capital assets, net	<u>\$ 1,957,618</u>	<u>\$ 149,341</u>	<u>\$ -</u>	<u>\$ 2,106,959</u>

Business-type Activities

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2017</u>
Water Fund:				
Land (not depreciated)	\$ 31,468	\$ -	\$ -	\$ 31,468
Buildings and improvements	5,400,972	76,098	-	5,477,070
Vehicles	32,024	-	-	32,024
Equipment	<u>141,456</u>	<u>-</u>	<u>-</u>	<u>141,456</u>
Total	5,605,920	76,098	-	5,682,018
Less accumulated depreciation	<u>(2,650,059)</u>	<u>(164,446)</u>	<u>-</u>	<u>(2,814,505)</u>
Water Fund capital assets, net	<u>\$ 2,955,861</u>	<u>\$ (88,348)</u>	<u>\$ -</u>	<u>\$ 2,867,513</u>
Sewer Fund:				
Land (not depreciated)	\$ 12,700	\$ -	\$ -	\$ 12,700
Buildings and improvements	11,315,117	-	-	11,315,117
Vehicles	53,512	-	-	53,512
Equipment	<u>174,392</u>	<u>24,111</u>	<u>-</u>	<u>198,503</u>
Total	11,555,721	24,111	-	11,579,832
Less accumulated depreciation	<u>(5,082,912)</u>	<u>(353,810)</u>	<u>-</u>	<u>(5,436,722)</u>
Sewer Fund capital assets, net	<u>\$ 6,472,809</u>	<u>\$ (329,699)</u>	<u>\$ -</u>	<u>\$ 6,143,110</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities

General government	\$ 23,639
Public safety	130,715
Public works	35,739
Community development	<u>40,834</u>
	<u>\$ 230,927</u>

Business-type Activities

Water	\$ 164,446
Sewer	<u>353,810</u>
	<u>\$ 518,256</u>

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2017

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:

RETIREMENT PLAN PROVISIONS			
	PLAN 1	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, 2017

6. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

	PLAN 1	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 Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • 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, 2017

6. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

	PLAN 1	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 were 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 were 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, 2017

6. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

	PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Creditable Service, continued			<u>Defined Contribution 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, 2017

6. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

	PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting, continued			<p><u>Defined Contribution 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, 2017

6. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

	PLAN 1	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, 2017

6. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

	PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Service Retirement Multiplier	<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>
Normal Retirement Age	<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, 2017

6. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

	PLAN 1	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, 2017

6. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

	PLAN 1	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.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under 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, 2017

6. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

	PLAN 1	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>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2017

6. Benefits, continued

VRS Retirement Plan, continued

A. Plan Description, continued

	PLAN 1	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, 2015 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	<u>23</u>
Inactive members:	
Vested	5
Non-vested	5
Active elsewhere in the VRS	<u>22</u>
Total inactive members	<u>32</u>
Active members	<u>40</u>
Total covered employees	<u><u>95</u></u>

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2017

6. Benefits, continued

VRS Retirement Plan, continued

C. Contributions

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

The Town's contractually required contribution rate for the year ended June 30, 2017 was 10.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$215,085 and \$243,736 for the years ended June 30, 2017 and 2016, respectively.

D. Net Pension Liability

The Town's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2017

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, 2015, 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, 2016.

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, 2017

6. Benefits, continued

VRS Retirement Plan, continued

E. Actuarial Assumptions , continued

The actuarial assumptions used in the June 30, 2015 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, 2015, 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, 2016.

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

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

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

Largest 10 – LEOs:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2017

6. Benefits, continued

VRS Retirement Plan, continued

E. Actuarial Assumptions, continued

All Others (Non 10 Largest) – LEOs:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – LEOs:

- Update mortality table
- Decrease in males rates of disability

All Others (Non 10 Largest) – LEOs:

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

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2017

6. Benefits, continued

VRS Retirement Plan, continued

F. Long-Term Expected Rate of Return

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

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

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

G. Discount Rate

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

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2017

6. Benefits, continued

VRS Retirement Plan, continued

H. Changes in Net Pension Liability

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) – (b)</u>
Balances at June 30, 2016	\$ 6,148,645	\$ 5,253,952	\$ 894,693
Changes for the year:			
Service cost	166,982	-	166,982
Interest	421,845	-	421,845
Differences between expected and actual experience	(104,689)	-	(104,689)
Contributions – employer	-	176,973	(176,973)
Contributions – employee	-	66,763	(66,763)
Net investment income	-	92,953	(92,953)
Benefit payments, including refunds of employee contributions	(244,587)	(244,587)	-
Administrative expense	-	(3,244)	3,244
Other changes	-	(37)	37
Net changes	<u>239,551</u>	<u>88,821</u>	<u>150,730</u>
Balances at June 30, 2017	<u>\$ 6,388,196</u>	<u>\$ 5,342,773</u>	<u>\$ 1,045,423</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:

	<u>1% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Net Pension Liability	<u>\$ 1,924,740</u>	<u>\$ 1,045,423</u>	<u>\$ 319,309</u>

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2017

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, 2017, the Town recognized pension expense of \$107,984. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 117,797
Changes of assumptions	-	-
Net difference between projected and actual earnings on plan investments	138,924	-
Employer contributions subsequent to the Measurement Date*	<u>151,824</u>	<u>-</u>
Total	<u>\$ 290,748</u>	<u>\$ 117,797</u>

* \$151,824 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2018	\$ (49,731)
2019	(41,974)
2020	57,897
2021	54,935
2022	-
Thereafter	-

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2017

6. Benefits, continued

Other Post Employment Benefits

K. Plan Description

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

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

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

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

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

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

Public Safety Employees:

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

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

L. Funding Policy

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

M. 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, 2017

6. Benefits, continued

Other Post Employment Benefits, continued

N. 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>
2013	\$ 20,100	\$ 237	\$ (250)	\$ 20,087	\$ 26,484	\$ 375
2014	20,800	492	(520)	20,772	21,147	-
2015	21,600	771	(815)	21,556	21,556	-
2016	30,100	-	-	30,100	9,300	20,800
2017	31,600	728	(769)	31,559	12,300	40,059

O. Funding Status and Funding Progress

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

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

P. Actuarial Methods and Assumptions

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

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

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2017

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 is paid upon termination. The Town has outstanding accrued vacation pay totaling \$94,604 in Governmental Activities and \$37,348 in Business-type Activities at June 30, 2017.

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, 2017 amount to \$1,807. The Town entered into two capital leases of \$58,271 each for equipment during the year ended June 30, 2017. The Town also entered into a capital lease of \$56,993 for equipment during the year ended June 30, 2016. The balance of outstanding leases at June 30, 2017 was \$106,264. Annual lease payments are expected to be as follows: \$47,960 for the year ended June 30, 2018, \$28,935 for the year ended June 30, 2019, and \$29,369 for the year ended June 30, 2020.

9. Long-Term Debt

The following is a summary of long-term debt transactions of the Town for the year ended June 30, 2017:

	Amounts payable at July 1, 2016	Increases	Decreases	Amounts payable at June 30, 2017	Due within one year
Governmental Activities					
Installment notes payable	\$ 483,046	\$ -	\$ (58,352)	\$ 424,694	\$ 41,347
General obligation bonds	<u>131,422</u>	<u>87,900</u>	<u>(9,379)</u>	<u>209,943</u>	<u>16,703</u>
	<u>\$ 614,468</u>	<u>\$ 87,900</u>	<u>\$ (67,731)</u>	<u>\$ 634,637</u>	<u>\$ 58,050</u>
Business-type Activities					
General obligation bonds	\$ 7,248,704	\$ 230,898	\$ (276,619)	\$ 7,202,983	\$ 190,709
Revenue bonds	-	-	-	-	-
	<u>\$ 7,248,704</u>	<u>\$ 230,898</u>	<u>\$ (276,619)</u>	<u>\$ 7,202,983</u>	<u>\$ 190,709</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
2018	\$ 58,050	\$ 20,233	\$ 190,709	\$ 64,941
2019	40,559	18,649	302,165	207,146
2020	41,879	17,236	308,677	198,902
2021	43,244	15,770	320,247	190,360
2022	44,655	14,252	326,878	181,516
2023-2027	245,259	46,460	1,806,140	670,127
2028-2032	160,991	10,639	1,912,496	349,069
2033-2037	-	-	1,255,630	102,297
2038-2042	-	-	549,599	31,616
2043-2047	-	-	230,442	329
2048-2052	-	-	-	-
Total	<u>\$ 634,637</u>	<u>\$ 143,239</u>	<u>\$ 7,202,983</u>	<u>\$ 1,996,303</u>

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2017

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.	\$ 18,768	\$ -	\$ 18,768
Installment note payable monthly including interest at 2.49%, through February 22, 2032, secured by fire truck.	405,926	-	405,926
Single payment loan bearing interest at 4.5%, maturing December 27, 2017	-	100,000	100,000
<u>General Obligations Bonds:</u>			
\$913,000 2001 General Obligation Bond, interest at 4.5%, principal and interest payable monthly through November 30, 2042.	-	761,284	761,284
\$1,276,279 2008 General Obligation Bond, at no interest payable semi-annually through August 1, 2039.	-	947,720	947,720
\$193,000 2008 General Obligation Bond, interest at 4.00% payable semi-annually through June 1, 2028.	122,480	-	122,480
\$4,885,000 2013 General Obligation Bond, interest at 3.50% payable semi-annually, principal payable annually through July 15, 2035.	-	4,190,000	4,190,000
\$164,935 2014 General Obligation Bond, no interest, payable semi-annually through June 1, 2035.	-	146,844	146,844
\$1,069,358 2015 General Obligation Bond, interest at 3.00% payable semi-annually, through January 1, 2046.	-	1,057,135	1,057,135
\$87,900 General Obligation Bond, interest at 2.875%, principal and interest payable monthly, maturing May 1, 2027	<u>87,463</u>	<u>-</u>	<u>87,463</u>
Total long-term debt	<u>\$ 634,637</u>	<u>\$ 7,202,983</u>	<u>\$ 7,837,620</u>

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2017

10. Deferred Revenue

Deferred revenue represents a measurable inflow of resources that will be available in a future reporting period. Deferred revenue totaling \$713,460 at June 30, 2017 is comprised of the following:

Deferred Property Tax Revenue

Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled \$693,319.

Prepaid Property Taxes

Property taxes due subsequent to the current tax levy but paid in advance by taxpayers totaled \$4,650.

Deferred Loan Revenue

Deferred loan revenue representing uncollected loans receivable not available to fund current expenditures totaled \$15,491.

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, 2017, 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, 2017, Water and Sewer Fund accrued charges for services are \$28,385 and \$28,353, respectively.

Town of Hillsville, Virginia

Notes to Financial Statements

As of June 30, 2017

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 1

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

Page 1

Governmental Funds

For the Year Ended June 30, 2017

Revenues	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Primary government:				
General fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 430,000	\$ 430,000	\$ 415,970	\$ (14,030)
Real and personal public service corporation property taxes	20,000	20,000	23,519	3,519
Personal property taxes	178,588	178,588	206,761	28,173
Machinery and tools taxes	76,000	76,000	98,156	22,156
DMV stop	-	-	580	580
Penalties and interest	2,500	2,500	20,081	17,581
Bad debt expense	-	-	-	-
Total general property taxes	707,088	707,088	765,067	57,979
Other local taxes:				
Local sales and use taxes	95,000	95,000	168,512	73,512
Consumers utility taxes	92,000	92,000	92,398	398
Business license taxes and vendor taxes	255,500	255,500	296,237	40,737
Franchise license taxes	17,000	17,000	17,397	397
Motor vehicle licenses	45,000	45,000	45,249	249
Bank stock taxes	90,000	90,000	141,829	51,829
Hotel and motel room taxes	214,800	214,800	332,358	117,558
Restaurant food taxes	835,000	835,000	980,621	145,621
Farmers market vendor fees	-	309	422	113
Total other local taxes	1,644,300	1,644,609	2,075,023	430,414
Permits, privilege fees, and regulatory licenses	1,000	1,000	5,941	4,941
Fines and forfeitures	102,393	386,583	431,075	44,492
Payment in lieu of taxes	-	-	-	-
Revenue from use of money and property:				
Revenue from use of money	100	100	5,008	4,908
Revenue from use of property	32,300	32,300	35,936	3,636
Total revenue from use of money and property	32,400	32,400	40,944	8,544
Charges for services:				
Charges for sanitation and waste removal	-	-	-	-
Gain on sale of capital assets	-	-	5,851	5,851
Miscellaneous	11,050	11,193	51,940	40,747
Total revenue from local sources	2,498,231	2,782,873	3,375,841	592,968
Revenue from the Federal Government:				
Byrne Justice Assistance grant	-	-	3,924	3,924
Community facilities grant	-	-	45,500	45,500
Highway safety grants	10,000	10,000	18,716	8,716
Local government challenge grant	3,500	3,500	1,750	(1,750)
Preventive health and human services grant	-	20,000	35,000	15,000
Total revenue from the Federal Government	13,500	33,500	104,890	71,390

(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, 2017

Schedule 1

Page 2

Revenues	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenue from the Commonwealth:				
Noncategorical aid:				
Aid to localities with police department	\$ 65,000	\$ 65,000	\$ 67,392	\$ 2,392
Total noncategorical aid	65,000	65,000	67,392	2,392
Categorical aid:				
Litter control	1,500	1,500	1,515	15
Tourism	-	2,500	2,500	-
Fire prevention	10,000	10,000	10,000	-
Total categorical aid	11,500	14,000	14,015	15
Total revenue from the Commonwealth	76,500	79,000	81,407	2,407
Total general fund	2,588,231	2,895,373	3,562,138	666,765
Special revenue funds:				
CDBG Fund				
Revenue from local sources:				
Revenue from use of property	-	-	2,374	2,374
Miscellaneous	5,029	5,029	21,878	16,849
Total revenue CDBG Fund	5,029	5,029	24,252	19,223
Total revenues	2,593,260	2,900,402	3,586,390	685,988
Expenditures				
Primary government:				
General fund:				
General governmental administration:				
Legislative:				
Town council	52,784	52,656	49,523	3,133
Total legislative	52,784	52,656	49,523	3,133
General and financial administration:				
Clerk of council	1,565	1,565	126	1,439
Administration	336,427	341,208	337,943	3,265
Legal services	18,130	18,130	20,153	(2,023)
Independent auditor	15,000	15,000	13,160	1,840
Treasurer	2,000	2,000	2,107	(107)
Accounting	4,800	4,466	6,373	(1,907)
Elections	-	-	-	-
Risk management	11,696	11,696	13,804	(2,108)
Data processing	15,800	18,397	13,662	4,735
Total general and financial administration	405,418	412,462	407,328	5,134
Total general government administration	458,202	465,118	456,851	8,267
Public safety:				
Law enforcement and traffic control:				
Police department	986,190	1,270,380	1,344,346	(73,966)
Fire and rescue services:				
Fire department	1,162	1,162	1,441	(279)
Building inspections	72,709	72,495	70,708	1,787
Total public safety	1,060,061	1,344,037	1,416,495	(72,458)

(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, 2017

Schedule 1

Page 3

Expenditures	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
General engineering/administration	\$ 351,628	\$ 349,516	\$ 297,305	\$ 52,211
Highway, street, bridge and sidewalk maintenance	30,600	30,566	29,013	1,553
Street lights	38,000	38,000	36,584	1,416
Total maintenance of highways, streets, bridges and sidewalks	420,228	418,082	362,902	55,180
Sanitation and waste removal:				
Refuse disposal	383,148	383,030	492,279	(109,249)
Maintenance of buildings and grounds:				
General properties	22,800	23,433	18,352	5,081
Total public works	826,176	824,545	873,533	(48,988)
Primary government:				
General fund:				
Community development:				
Planning and community development:				
Community development	92,000	91,650	90,262	1,388
Economic development	6,000	3,956	3,956	-
Farmers market	-	6,912	11,515	(4,603)
Total community development	98,000	102,518	105,733	(3,215)
Non-departmental	16,200	31,759	31,674	85
Capital projects	12,500	10,261	9,600	661
Annexation expenses	-	-	-	-
Debt service:				
Principal retirement	106,177	106,177	116,515	(10,338)
Interest and fiscal charges	17,532	17,575	19,233	(1,658)
Total debt service	123,709	123,752	135,748	(11,996)
Total general fund	2,594,848	2,901,990	3,029,634	(127,644)
Special revenue funds:				
CDBG fund:				
Community development	5,029	5,029	82	4,947
Total expenditures	2,599,877	2,907,019	3,029,716	(122,697)
Excess revenues over expenditures	(6,617)	(6,617)	556,674	563,291
Other financing sources and uses				
Proceeds from debt	-	-	204,442	204,442
Operating transfers in	-	-	290	290
Operating transfers out	-	-	(217,818)	(217,818)
Carryover balances	6,617	6,617	-	(6,617)
Total other financing sources and uses	6,617	6,617	(13,086)	(19,703)
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	543,588	\$ 543,588
Fund balance, beginning			2,435,739	
Fund balance, ending			\$ 2,979,327	

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 Three Years¹

	Fiscal Year		
	2017	2016	2015
Total Pension Liability			
Service cost	\$ 166,982	\$ 160,994	\$ 165,156
Interest	421,845	407,404	386,331
Contributions – employer	-	-	-
Contributions – employee	-	-	-
Differences between expected and actual experience	(104,689)	(89,216)	-
Net investment income	-	-	-
Benefit payments, including refunds of employee contributions	(244,587)	(301,198)	(199,669)
Administrative expense	-	-	-
Other changes	-	-	-
Net change	239,551	177,984	351,818
Total pension liability, beginning	6,148,645	5,970,661	5,618,843
Total pension liability, ending	<u>\$ 6,388,196</u>	<u>\$ 6,148,645</u>	<u>\$ 5,970,661</u>
Plan Fiduciary Net Position			
Service cost	\$ -	\$ -	\$ -
Interest	-	-	-
Contributions – employer	176,973	168,941	183,712
Contributions – employee	66,763	64,046	66,294
Net investment income	92,953	230,241	694,350
Benefit payments, including refunds of employee contributions	(244,587)	(301,198)	(199,669)
Administrative expense	(3,244)	(3,181)	(3,663)
Other changes	(37)	(49)	36
Net change	88,821	158,800	741,060
Plan fiduciary net position, beginning		5,253,952	5,095,152
Plan fiduciary position, ending	<u>\$ 5,342,773</u>	<u>\$ 5,253,952</u>	<u>\$ 5,095,152</u>
Net Pension Liability	<u>\$ 1,045,423</u>	<u>\$ 894,693</u>	<u>\$ 875,509</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.64%	85.45%	85.34%
Covered-employee Payroll	\$ 1,423,882	\$ 1,381,354	\$ 1,305,996
Net Pension Liability as a Percentage of Covered-Employee Payroll	73.42%	64.77%	67.04%

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

Schedule of Employer Contributions
Last Three Years¹

Fiscal Year ²	Recommended Contribution Rate <i>(Information Only)</i>	Contractually Required Contribution <u>(1)</u>	Contributions in Relation to Contractually Required Contribution		Contribution Deficiency (Excess) <u>(1) – (2)</u>	Employer's Covered Employee Payroll <u>(4)</u>	Contributions as a % of Covered Employee Payroll <u>(5)</u>
			<u>(2)</u>				
2014	13.84%	\$ 180,750	\$ 176,200	\$ 4,550	\$ 1,305,996	13.49%	
2015	13.03	179,990	151,938	28,052	1,381,354	11.00	
2016	11.79	167,876	180,076	(12,200)	1,423,882	12.65	

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

² Date of actuarial valuation.

Notes to Required Supplementary Information - Schedule of Employer Contributions
For the Year Ended June 30, 2017

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 are not material.

Changes of assumptions – The actuarial assumptions used in the June 30, 2015 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

Largest 10 – LEOs:

- Update mortality table
- Decrease in males rates of disability

All Others (Non 10 Largest) – LEOs:

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

Funding Progress for Post Employment Benefit Plan

Post Employment Benefit Plan

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

* Information is only available for the years presented.

Town of Hillsville, Virginia

Schedule 5

Changes in Net Position

Last Ten Fiscal Years

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Governmental Activities										
Net position, beginning	\$ 2,705,844	\$ 2,186,091	\$ 2,516,277	\$ 2,131,102	\$ 1,920,987	\$ 1,659,801	\$ 1,840,322	\$ 1,920,821	\$ 1,968,740	\$ 1,841,907
Revenues	3,369,045	3,018,697	2,782,115	2,800,192	2,577,983	2,656,268	2,058,454	2,150,642	2,067,521	2,424,002
Expenses	(2,747,967)	(2,498,944)	(2,297,738)	(2,415,017)	(2,367,868)	(2,395,082)	(2,127,242)	(2,231,141)	(2,115,440)	(2,297,169)
Prior period adjustment	-	-	(814,563)	-	-	-	(111,733)	-	-	-
Net position, ending	\$ 3,326,922	\$ 2,705,844	\$ 2,186,091	\$ 2,516,277	\$ 2,131,102	\$ 1,920,987	\$ 1,659,801	\$ 1,840,322	\$ 1,920,821	\$ 1,968,740
Business-type Activities										
Net position, beginning	\$ 2,687,375	\$ 2,565,819	\$ 3,119,792	\$ 3,606,230	\$ 4,059,354	\$ 4,495,735	\$ 4,600,876	\$ 4,756,512	\$ 4,567,640	\$ 4,519,178
Revenues	1,558,278	1,670,527	1,222,744	1,159,878	1,101,100	1,121,094	1,579,275	1,562,805	1,612,598	1,445,116
Expenses	(1,594,880)	(1,548,971)	(1,510,241)	(1,568,240)	(1,554,224)	(1,557,475)	(1,645,749)	(1,718,441)	(1,423,726)	(1,396,654)
Prior period adjustment	-	-	(266,476)	(78,076)	-	-	(38,667)	-	-	-
Net position, ending	\$ 2,650,773	\$ 2,687,375	\$ 2,565,819	\$ 3,119,792	\$ 3,606,230	\$ 4,059,354	\$ 4,495,735	\$ 4,600,876	\$ 4,756,512	\$ 4,567,640
Primary Government										
Net position, beginning	\$ 5,393,219	\$ 4,751,910	\$ 5,636,069	\$ 5,737,332	\$ 5,980,341	\$ 6,155,536	\$ 6,441,198	\$ 6,677,333	\$ 6,536,380	\$ 6,361,085
Revenues	4,927,323	4,689,224	4,004,859	3,960,070	3,679,083	3,777,362	3,637,729	3,714,597	3,680,119	3,869,118
Expenses	(4,342,847)	(4,047,915)	(3,807,979)	(3,983,257)	(3,922,092)	(3,952,557)	(3,772,991)	(3,950,732)	(3,539,166)	(3,693,823)
Prior period adjustment	-	-	(1,081,039)	(78,076)	-	-	(150,400)	-	-	-
Net position, ending	\$ 5,977,695	\$ 5,393,219	\$ 4,751,910	\$ 5,636,069	\$ 5,737,332	\$ 5,980,341	\$ 6,155,536	\$ 6,441,198	\$ 6,677,333	\$ 6,536,380

Town of Hillsville, Virginia

Schedule 6

Revenues by Function

Last Ten Fiscal Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	
Governmental Activities											
Public Safety											
Charges for services	\$ 431,075	\$ 143,956	\$ 44,870	\$ 33,202	\$ 56,175	\$ 38,982	\$ 26,949	\$ 48,537	\$ 24,519	\$ 43,469	
Operating grants and contributions	77,392	74,288	76,288	75,288	73,288	93,328	104,241	98,742	107,981	98,018	
Capital grants and contributions	22,640	20,255	14,272	11,920	15,732	30,000	-	-	-	-	
Public Works											
Charges for services	-	2,206	2,820	1,150	1,012	333	495	148	57	-	
Operating grants and contributions	1,515	3,572	1,555	1,558	1,766	1,223	1,461	1,267	1,602	1,645	
Capital grants and contributions	45,500	66,625	-	4,801	3,131	-	-	-	-	-	
Community Development											
Charges for services	-	-	-	-	-	-	-	-	-	-	
Operating grants and contributions	2,500	-	-	-	-	-	1,000	-	1,775	33,936	
Capital grants and contributions	36,750	-	3,500	42,670	251,728	94,728	-	-	-	199,321	
General Revenues											
General property taxes	765,251	717,694	725,502	715,007	671,824	589,502	620,904	624,193	636,319	631,457	
Meals tax	980,621	1,028,626	910,071	871,089	548,910	597,745	460,031	489,913	479,827	503,135	
Lodgings tax	332,358	265,443	231,173	221,152	137,660	188,078	117,868	161,549	-	-	
Other local taxes	762,044	744,833	663,933	729,896	635,190	683,167	661,426	633,333	721,088	733,458	
Licenses and permits	5,941	1,602	1,648	6,040	1,249	1,561	1,234	1,442	1,177	2,742	
Use of money and property	43,318	34,316	37,676	38,536	34,805	26,542	34,511	39,176	38,691	56,410	
Miscellaneous	73,818	38,902	68,807	47,883	110,288	258,861	78,334	53,492	56,433	79,746	
Gain (loss) on sale of capital assets		5,851	27,121	-	-	35,225	2,218	-	-	(1,948)	24,788
Transfers	(217,529)	(150,742)	-	-	-	50,000	(50,000)	(1,150)	-	15,877	
Total governmental activities revenues	\$ 3,369,045	\$ 3,018,697	\$ 2,782,115	\$ 2,800,192	\$ 2,577,983	\$ 2,656,268	\$ 2,058,454	\$ 2,150,642	\$ 2,067,521	\$ 2,424,002	
Business-type Activities											
Water											
Charges for services	\$ 521,569	\$ 478,425	\$ 416,835	\$ 420,933	\$ 434,064	\$ 442,525	\$ 492,129	\$ 456,253	\$ 499,015	\$ 480,067	
Capital grants and contributions	79,213	293,565	98,504	75,256	3,589	511	-	-	275,000	48,750	
Sewer											
Charges for services	702,257	697,651	675,666	614,590	627,851	661,214	659,169	828,198	759,485	821,304	
Operating grants and contributions	1,821	-	-	-	-	-	-	-	-	-	
Capital grants and contributions	-	14,247	-	17,788	636	-	246,871	220,475	15,000	-	
General Business-type Revenues											
Use of money and property	7,899	9,308	4,854	10,441	4,840	13,557	20,590	41,550	36,548	56,103	
Miscellaneous	27,990	26,589	26,885	19,300	29,543	53,153	110,516	19,369	29,067	38,892	
Gain (loss) on sale of capital assets		-	-	-	1,570	577	134	-	(4,190)	(1,517)	
Transfers	217,529	150,742	-	-	-	(50,000)	50,000	1,150	-	-	
Total business-type activities revenues	\$ 1,558,278	\$ 1,670,527	\$ 1,222,744	\$ 1,159,878	\$ 1,101,100	\$ 1,121,094	\$ 1,579,275	\$ 1,562,805	\$ 1,612,598	\$ 1,445,116	

Town of Hillsville, Virginia

Schedule 7

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>
2008	\$ 361,530	\$ 829,491	\$ 634,583	\$ 367,439	\$ 18,200	\$ 85,926	\$ 2,297,169
2009	375,016	874,222	653,526	121,117	22,496	69,063	2,115,440
2010	403,329	924,227	704,297	148,363	24,347	26,578	2,231,141
2011	383,544	891,421	666,183	133,299	19,834	32,961	2,127,242
2012	498,977	1,053,610	660,234	105,485	23,316	53,460	2,395,082
2013	379,778	1,051,032	713,735	124,637	27,952	70,734	2,367,868
2014	414,681	1,082,316	721,765	114,859	25,218	56,178	2,415,017
2015	407,310	1,032,841	677,929	119,061	22,713	37,884	2,297,738
2016	449,575	1,142,534	730,797	143,829	21,524	10,685	2,498,944
2017	476,609	1,225,899	743,716	240,931	19,538	41,274	2,747,967

Business-type Activities

<u>Fiscal Year</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
2008	\$ 500,547	\$ 896,107	\$ 1,396,654
2009	525,368	898,358	1,423,726
2010	706,820	1,011,621	1,718,441
2011	640,918	1,004,831	1,645,749
2012	571,629	985,846	1,557,475
2013	559,511	994,713	1,554,224
2014	577,820	990,420	1,568,240
2015	539,405	970,836	1,510,241
2016	591,332	957,639	1,548,971
2017	609,854	985,026	1,594,880

Town of Hillsville, Virginia

Schedule 8

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		
2008	\$ 145,258,500	\$ 20,592,155	\$ 12,347,300	\$ 9,185,501	\$ -	\$ (842,678)	\$ 186,540,778
2009	178,476,300	23,079,670	11,535,210	10,805,994	-	(770,560)	223,126,614
2010	180,090,666	27,993,675	10,291,190	10,325,571	-	(733,629)	227,967,473
2011	180,566,500	26,956,320	9,317,500	9,529,213	-	(625,413)	225,744,120
2012	181,942,500	23,827,370	10,251,670	14,449,401	-	(1,158,789)	229,312,152
2013	225,995,700	25,949,900	9,309,765	10,552,720	24,836	(1,578,631)	270,254,290
2014	199,185,900	26,094,190	9,397,920	9,666,860	87,886	(2,179,421)	242,253,335
2015	200,170,800	26,286,600	10,443,835	10,187,225	65,246	(4,329,577)	242,824,129
2016	200,585,742	25,441,920	10,703,335	10,001,006	79,618	(4,228,615)	242,583,006
2017	200,763,800	26,070,880	12,201,370	10,412,411	84,914	(3,715,054)	245,818,321

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
2008	\$.22	\$.72	\$.72	\$.22	\$.72
2009	.18	.72	.72	.18	.72
2010	.18	.72	.72	.18	.72
2011	.18	.72	.72	.18	.72
2012	.18	.72	.72	.18	.72
2013	.18	.72	.72	.18	.72
2014	.22	.72	.72	.22	.72
2015	.22	.72	.72	.22	.72
2016	.22	.72	.72	.22	.72
2017	.22	.72	.72	.22	.72

Town of Hillsville, Virginia

Schedule 9

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
2008	\$ 571,355	\$ 560,103	98.03%	\$ 10,006	\$ 570,109	99.78%
2009	586,016	573,313	97.83	13,012	586,325	100.00
2010	614,436	599,261	97.53	13,138	612,399	99.67
2011	600,035	582,719	97.11	13,344	596,063	99.34
2012	594,107	579,967	97.62	11,909	591,876	99.62
2013	674,452	653,541	96.90	18,336	671,877	98.62
2014	705,784	676,677	95.88	25,809	702,486	99.53
2015	712,737	676,455	94.91	31,029	707,484	99.26
2016	713,803	691,647	96.90	14,237	705,884	98.89
2017	732,819	718,504	98.05	n/a	718,504	98.05

¹ Exclusive of penalties and interest.

Town of Hillsville, Virginia

Schedule 10

Outstanding Debt by Type Last Ten Fiscal Years

Fiscal Year	General Bonded Debt			Percentage of Actual Property Value
	General Obligation Bonds	Installment Notes	Total	
2008	\$ 150,941	\$ 297,814	\$ 448,755	0.24%
2009	312,555	271,508	584,063	0.26
2010	281,578	244,084	525,662	0.23
2011	249,527	215,646	465,173	0.21
2012	163,851	807,277	971,128	0.42
2013	156,219	729,897	886,116	0.33
2014	148,278	649,747	798,025	0.33
2015	140,017	567,848	707,865	0.29
2016	131,422	483,046	614,468	0.25
2017	209,943	424,694	634,637	0.25

Fiscal Year	Business-type Activities			Total Primary Government
	Water Bonds	Sewer Bonds	Total	
2008	\$ 252,312	\$ 5,950,297	\$ 6,202,609	\$ 6,651,364
2009	1,190,095	5,784,897	6,974,992	7,559,055
2010	1,449,610	5,611,291	7,060,901	7,586,563
2011	1,381,943	5,429,569	6,811,512	7,276,685
2012	1,352,925	5,500,212	6,853,137	7,824,265
2013	1,310,404	5,478,562	6,788,966	7,675,082
2014	1,267,883	5,455,190	6,723,073	7,521,098
2015	1,404,403	5,528,919	6,933,322	7,641,187
2016	2,103,897	5,144,807	7,248,704	7,863,172
2017	2,172,455	5,030,528	7,202,983	7,837,620

Town of Hillsville, Virginia

Schedule 11

Computation of Legal Debt Margin

Last Ten Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Debt limit ¹	\$ 21,117,621	\$ 21,058,675	\$ 20,995,262	\$ 20,885,276	\$ 23,654,842	\$ 19,639,190	\$ 19,009,571	\$ 19,041,624	\$ 18,928,229	\$ 15,444,400
Amount of debt applicable to limit	<u>7,837,620</u>	<u>7,863,172</u>	<u>7,641,187</u>	<u>7,521,098</u>	<u>7,675,082</u>	<u>7,824,265</u>	<u>7,276,685</u>	<u>7,586,563</u>	<u>7,559,055</u>	<u>6,651,364</u>
Legal debt margin	<u>\$ 13,280,001</u>	<u>\$ 13,195,503</u>	<u>\$ 13,354,075</u>	<u>\$ 13,364,178</u>	<u>\$ 15,979,760</u>	<u>\$ 11,814,925</u>	<u>\$ 11,732,886</u>	<u>\$ 11,455,061</u>	<u>\$ 11,369,174</u>	<u>\$ 8,793,036</u>
Total net debt applicable to limit as a percentage of debt limit	37%	37%	36%	36%	32%	40%	38%	40%	40%	43%

¹ 10% of real estate assessed value.

Town of Hillsville, Virginia

Schedule 12

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%
2015	2,680	30,584	21,645	4.9%

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 13

Principal Employers Current Year

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

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

Town of Hillsville, Virginia

Schedule 14

Full-time Equivalent Government Employees by Function Last Ten Years

	Full-time Equivalent Employees as of June 30,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Community development										
Farmers' market	1	-	-	-	-	-	-	-	-	-
General government										
Management	1	1	1	1	1	1	1	1	1	1
Finance	5	5	5	4	4	4	4	4	4	4
Building	1	1	1	1	1	1	1	1	1	1
Police										
Officers	18	14.5	14.5	13	12	12	11	11	11	11
Civilians	1	1	1	1	1	1	1	1	1	1
Refuse collection	4	4	4	4	4	4	4	4	4	4
Other public works	6	6	5	5	5	5	5	5	5	5
Water	5.5	5	4.5	4.5	4.5	4.5	5	5	5	5
Wastewater	5.5	5	4.5	4.5	4.5	4.5	4	4	4	4