

TOWN OF LOVETTSVILLE, VIRGINIA
FINANCIAL AND COMPLIANCE REPORTS
JUNE 30, 2021

TOWN OF LOVETTSVILLE, VIRGINIA
DIRECTORY OF OFFICIALS

COUNCIL

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Christopher Hornbaker, Vice-Mayor

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OFFICIALS

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David W. Black, CPA
Managing Partner

Christopher R. Montgomery, CPA
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INDEPENDENT AUDITORS' REPORT

To the Honorable Town Council
Town of Lovettsville
PO Box 209
Lovettsville, VA 20180

Report on the Audited Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Town of Lovettsville, Virginia, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town of Lovettsville's basic financial statements as listed in the table of contents.

Management's Responsibility for the Audited 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

Auditors' Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Town of Lovettsville, Virginia, as of June 30, 2021, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Lovettsville's basic financial statements. The other supplementary information, listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2021, on our consideration of the Town of Lovettsville'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 the Town of Lovettsville's internal control over financial reporting and compliance.

Young, Nicholas, Branner & Phillips, LLP

Harrisonburg, VA
November 18, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Town of Lovettsville's financial performance provides an overview of the Town's financial activities for the year ended June 30, 2021. Please read it in conjunction with the Town's financial statements, which begin on page 13.

FINANCIAL HIGHLIGHTS

- The assets of the Town exceeded its liabilities by \$14,455,757 at the close of the most recent fiscal year.
- The Town's net position increased as a result of this year's operations. While net position of the business-type activities increased by \$232,285, net position of the governmental activities increased by \$315,233.
- In the Town's business-type activities, operating revenues decreased by \$3,280 from the previous year while operating expenses increased by \$75,684. Nonoperating income increased by \$2,821.
- In the Town's governmental activities, operating revenues increased by \$181,355 from the previous year while operating expenses increased by \$247,421. Nonoperating income decreased by \$42,604.
- Actual revenues were \$226,919 less than budgeted for the General Fund. General Fund expenditures were \$694,879 less than budgeted.
- Operating and nonoperating revenues were \$186,930 less than budgeted for the Water and Sewer Fund. Water and Sewer Fund operating expenses, excluding depreciation, were \$64,218 less than budgeted. In addition, interest expense was \$18,075 less than budgeted.
- The Town spent \$867,101 for capital additions during the current fiscal year.
- The Town's long-term debt decreased by \$177,644 during the current fiscal year.
- Through the Coronavirus Relief Fund, the CARES Act provided the Town with \$374,744 during the fiscal year to help navigate the impact of the COVID-19 outbreak.
- Through the American Rescue Plan Act of 2021 (ARPA), the Town received \$1,140,231 during the fiscal year intended to help respond to the COVID-19 emergency and bring back jobs. The ARPA funds are reflected as unearned revenue at the end of the fiscal year. The funding will be reflected in revenue in future periods as the funds are expended.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 13 and 14) provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements start on page 15. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for the future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds.

Reporting the Town as a Whole

One of the most important questions asked about the Town's finances is, "Is the Town as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Town as a whole and about its activities in a way that help answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's *net position* and changes in it. You can think of the Town's net position - the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources - as one way to measure the Town's financial health, or *financial position*. Over time, *increases* or *decreases* in the Town's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Town's property base and condition of the Town's roads, to assess the *overall health* of the Town.

In the Statement of Net Position and the Statement of Activities, we divide the Town into two kinds of activities:

- *Governmental activities* - Most of the Town's basic services are reported here, including public safety, public works, community development and general administration. Property taxes, other local taxes and development fees finance most of these activities.
- *Business-type activities* - The Town charges a fee to customers/users to help it cover all or most of the cost of certain services it provides. The Town's water and sewer system is reported here.

Reporting the Town's Most Significant Funds

The fund financial statements begin on page 15 and provide detailed information about the Town's funds-not the Town as a whole. 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 uses fund accounting to ensure and reflect compliance (or noncompliance) with finance-related legal requirements, such as the budget ordinance. The Town's two kinds of funds - *governmental* and *proprietary* - use different accounting approaches.

- *Governmental fund* - Most of the Town's basic services are reported in the governmental fund, which focuses on how money flows into and out of the fund, and the balances left at year-end that are nonspendable, restricted, committed, assigned, or unassigned. These classifications of fund balance show the nature and extent of constraints placed on the Town's fund balances by law, creditors, Town council, and the Town's annually adopted budget. Unassigned fund balance is available for spending for any purpose. This fund is reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Town's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and the governmental *fund* in reconciliations following the fund financial statements.

- *Proprietary fund* - When the Town charges customers/users for the services provided it is reported in a proprietary fund. The proprietary fund is reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the Town's enterprise fund is the same as the business-type activities we report in the government-wide statements but provides more detail and additional information, such as cash flows, for the proprietary fund.

THE TOWN AS A WHOLE

The Town's *combined* net assets changed modestly from a year ago – *increasing* from \$13,908,239 to \$14,455,757. During the year, the net assets of the governmental and business-type activities increased by 5.7 percent and increased by 2.8 percent, respectively. Below is a summary of the net assets as of June 30, 2021 and 2020.

	NET ASSETS					
	Governmental Activities		Business-Type Activities		Totals	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 3,769,036	\$ 2,805,766	\$ 2,761,034	\$ 2,528,709	\$ 6,530,070	\$ 5,334,475
Capital assets	<u>5,172,477</u>	<u>4,553,198</u>	<u>8,184,545</u>	<u>8,490,173</u>	<u>13,357,022</u>	<u>13,043,371</u>
Total assets	\$ <u>8,941,513</u>	\$ <u>7,358,964</u>	\$ <u>10,945,579</u>	\$ <u>11,018,882</u>	\$ <u>19,887,092</u>	\$ <u>18,377,846</u>
Total deferred outflows of resources	\$ 77,083	\$ 63,089	\$ 94,982	\$ 106,898	\$ 172,065	\$ 169,987
Long-term liabilities	\$ 1,547,691	\$ 1,353,751	\$ 2,267,355	\$ 2,601,326	\$ 3,815,046	\$ 3,955,077
Other liabilities	<u>1,246,996</u>	<u>105,745</u>	<u>200,165</u>	<u>182,498</u>	<u>1,447,161</u>	<u>288,243</u>
Total liabilities	\$ <u>2,794,687</u>	\$ <u>1,459,496</u>	\$ <u>2,467,520</u>	\$ <u>2,783,824</u>	\$ <u>5,262,207</u>	\$ <u>4,243,320</u>
Total deferred inflows of resources	\$ <u>336,878</u>	\$ <u>390,759</u>	\$ <u>4,315</u>	\$ <u>5,515</u>	\$ <u>341,193</u>	\$ <u>396,274</u>
Net position:						
Net investment in capital assets	\$ 3,675,376	\$ 3,210,544	\$ 5,918,849	\$ 5,874,858	\$ 9,594,225	\$ 9,085,402
Unrestricted	<u>2,211,655</u>	<u>2,361,254</u>	<u>2,649,877</u>	<u>2,461,583</u>	<u>4,861,532</u>	<u>4,822,837</u>
Total net position	\$ <u>5,887,031</u>	\$ <u>5,571,798</u>	\$ <u>8,568,726</u>	\$ <u>8,336,441</u>	\$ <u>14,455,757</u>	\$ <u>13,908,239</u>

A portion of the Town's net position (66.37 percent) reflects its investments in capital assets (e.g., land, buildings, equipment, improvements, and infrastructure), less any debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of unrestricted net assets (\$4,861,532) may be used to meet the government's ongoing obligation to citizens and creditors.

The following is a summary of the change in net position for the governmental and business-type activities for the years ended June 30, 2021 and 2020.

	Governmental Activities		Business-Type Activities		Totals	
	2021	2020	2021	2020	2021	2020
Revenues						
Charges for services	\$ 9,052	\$ 24,552	\$ 1,158,289	\$ 1,161,569	\$ 1,167,341	\$ 1,186,121
General property taxes	694,513	754,199	-	-	694,513	754,199
Other local taxes	679,757	634,101	-	-	679,757	634,101
Intergovernmental	405,737	203,353	-	-	405,737	203,353
Miscellaneous	18,828	10,327	-	-	18,828	10,327
Total revenues	<u>\$ 1,807,887</u>	<u>\$ 1,626,532</u>	<u>\$ 1,158,289</u>	<u>\$ 1,161,569</u>	<u>\$ 2,966,176</u>	<u>\$ 2,788,101</u>
Program expenses						
General government	\$ 1,054,633	\$ 839,945	\$ -	\$ -	\$ 1,054,633	\$ 839,945
Community development	13,375	31,659	-	-	13,375	31,659
Parks, recreation, and cultural	29,901	24,276	-	-	29,901	24,276
Public safety	15,000	10,000	-	-	15,000	10,000
Public works	296,112	260,528	-	-	296,112	260,528
Events	4,808	-	-	-	4,808	-
Water and sewer	-	-	1,314,554	1,238,870	1,314,554	1,238,870
Total expenses	<u>\$ 1,413,829</u>	<u>\$ 1,166,408</u>	<u>\$ 1,314,554</u>	<u>\$ 1,238,870</u>	<u>\$ 2,728,383</u>	<u>\$ 2,405,278</u>
Operating income (loss)	<u>\$ 394,058</u>	<u>\$ 460,124</u>	<u>\$ (156,265)</u>	<u>\$ (77,301)</u>	<u>\$ 237,793</u>	<u>\$ 382,823</u>
Nonoperating						
Gain (loss) from disposal of equipment	\$ -	\$ -	\$ (3,966)	\$ 7,876	\$ (3,966)	\$ 7,876
Interest income	2,343	17,698	10,073	30,373	12,416	48,071
Lease income	-	-	107,757	88,870	107,757	88,870
Interest expense	(81,168)	(53,919)	(81,199)	(97,275)	(162,367)	(151,194)
Total nonoperating	<u>\$ (78,825)</u>	<u>\$ (36,221)</u>	<u>\$ 32,665</u>	<u>\$ 29,844</u>	<u>\$ (46,160)</u>	<u>\$ (6,377)</u>
Income (loss) before contributions	\$ 315,233	\$ 423,903	\$ (123,600)	\$ (47,457)	\$ 191,633	\$ 376,446
Contributions	-	-	355,885	26,250	355,885	26,250
Increase in net position	<u>\$ 315,233</u>	<u>\$ 423,903</u>	<u>\$ 232,285</u>	<u>\$ (21,207)</u>	<u>\$ 547,518</u>	<u>\$ 402,696</u>

The Town's total revenues increased by \$178,075 (6.39 percent). The total cost of all programs and services increased by \$323,105 (13.43 percent). Nonoperating revenues decreased by \$39,783 (623.85 percent). Capital contributions increased by \$329,635. Our analysis that follows separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenues for the Town's governmental activities increased by \$181,355 (11.15 percent) and expenses increased by \$247,421 (21.21 percent). The factors driving these results include:

Revenues

- *General property taxes* decreased by \$59,686. This change is primarily related to the decrease in real estate taxes. This decrease was the result of an accrual error between fiscal years 2019 and 2020 that is being corrected, causing the revenue to be lower by about \$35,000. In addition to this, there was a rate decrease of 3 percent which accounts for about \$23,000 of the decrease.

- *Other local taxes* increased by \$45,656. Business licenses increased by \$50,718 due to the prior year deadline being pushed into August causing two payments from multiple businesses being collected over the fiscal year.
- *Intergovernmental* revenue increased by \$202,384. This was due to the receipt of CARES Act money of \$324,344. The increase in Federal money was offset by the decrease in transportation project funds from the county and VDOT of \$103,000 and \$16,616, respectively.

Expenses

- *General government* increased by \$214,688. This increase is primarily a result of the expenditures related to the CARES Act funding of \$204,621 spent on non-capital outlay. In addition, refunds increased by \$25,088 due to the bank franchise refund paid to BB&T for 2012 through 2014. Consulting services also increased by \$14,878 because of fee increases from both external accounting services and billing services.
- *Public works* increased by \$35,584. Refuse service increased by \$39,787 as a result of increased fees and new developments being continued. And there was no street paving, which decreased by \$4,299.

Business-Type Activities

Revenues for the Town's business-type activities decreased by \$3,280 (0.28 percent) and expenses increased by \$75,684 (6.11 percent). The factors driving these results include:

Revenues

- *Water and sewer revenues* decreased overall by \$3,280. This is due primarily to the charges for services increasing by \$39,398 and being offset by the \$11,420 decrease in late charges as late fees were temporarily waived in response to COVID-19. Additionally, miscellaneous revenues decreased by \$26,072 because the prior year had insurance proceeds from a damaged utility vehicle.

Expenses

- *Water and sewer expenses* increased overall by \$75,684. Personnel services increased by \$59,925 because vacant positions were filled since the prior fiscal year. This also increased benefits and taxes. Depreciation which fluctuates depending on capital outlay, increased by \$26,920. These increases were offset by the \$9,833 decrease in utilities as a result of the Town staff working part time from home.

The Town's business-type activities also included a decrease to interest income of \$20,300 and a decrease in interest expense of \$16,076. The decrease in interest income resulted from lower interest rates. The decrease in interest expense is normal when no new debt is incurred.

Finally, contributions increased in business-type activities by \$329,635 from the prior year. Water and sewer availability fees were \$279,235 higher than the prior year, with more availabilities being sold due to the increase in development. The additional \$50,400 difference was the CARES Act funding that went towards the water and sewer fund's capital outlays.

THE TOWN'S FUNDS

As the Town completed the year, its governmental fund (as presented in the balance sheet on page 15) reported a fund balance of \$2,199,250, which is a decrease of \$151,785 from last year's total of \$2,251,035. The primary reasons for the General Fund's decrease mirror the changes noted in the previous section under "governmental" activities. Also, the Town expended \$744,809 in capital outlay for various projects throughout the Town.

As the Town completed the year, its proprietary funds (as presented in the statement of net position on pages 19 and 20) reported net assets of \$8,568,726, which is an increase of \$232,285 over last year's total of \$8,336,441. Significant changes in the change in net assets are noted in the previous section under "business-type" activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Town Council did not make any revisions to the General Fund budget. The significant variations of actual results to the General Fund budget are summarized below:

<u>Account</u>	<u>Variance Positive (Negative)</u>
Revenues	
Real estate taxes	\$ 65,636
Commercial & industrial real estate taxes	(32,517)
Sales taxes	40,581
Meals taxes	35,108
Motor vehicle license	13,487
Business licenses	32,902
Flagpole donations and other miscellaneous	10,978
Event revenues	(267,387)
VDOT grant funds	(265,130)
Transportation project funds	(157,218)
CARES Act county pass through	324,344
Expenditures	
<i>General Government Administration</i>	
Administrative salaries	\$ 10,488
Maintenance support	9,820
Payroll taxes	4,987
Health insurance	43,862
VRS Contribution	16,182
Legal fees, non-reimbursable	12,852
Advertising, non-reimbursable	9,297
Website	9,117
Repairs/replacements	15,000
CARES Act	(204,621)
<i>Community Development</i>	
Consultant	13,895
Engineering, reimbursable	9,000
<i>Event expenditures</i>	264,692
<i>Capital Outlay</i>	
Projects	445,673

The Town's budget did not take into account the assessment increase half way through the year, causing the positive variance in real estate taxes. The County also combines commercial & industrial real estate taxes when remitting to the Town, causing a negative variance to the budget. Sales taxes and meals taxes exceeded expectations due to the continued growth of the Town. Motor vehicle licenses are also collected by the County, resulting in collected amounts higher than expected. Business licenses were more than budgeted because the previous year's deadline was extended and actual amounts include some from the prior fiscal year. Flagpole donations were not budgeted at all and other miscellaneous revenue was from higher than expected reimbursements. Event revenues were less than budgeted because both Oktoberfest and Mayfest were cancelled for the fiscal year. VDOT grant and transportation project funds were under budget because the additional CARES Act revenues reduced the necessity to apply for such grants.

The Town's payroll provider does not account for maintenance support; therefore, the actual is less than the budget. The other payroll related expenses (administrative salaries, payroll taxes, health insurance and VRS contribution) were less than budget due to positions not immediately being filled, and employees not being vested into benefit plans until later in the year. Legal fees and advertising were less than budgeted because various expected and planned events did not occur, primarily due to COVID-19 effects. Website expenses remained under budget as a result of a previous service no longer being used. Repairs/replacements were less as a result of the modular office being replaced by a brand new building. CARES Act expenditures were not budgeted, causing the negative variance. Both the consultant end engineering expenditures were less because initially discussed projects were either delayed or did not happen due to COVID-19. Similar to the revenue variance, event expenditures were budgeted; however, both Oktoberfest and Mayfest were cancelled for the fiscal year.

Capital outlays were budgeted for the targeted completion timing and amount; project delays resulted in less expenses than expected.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2021, the Town had \$13,357,022 invested in capital assets including land, buildings, equipment, infrastructure and the utility system. (See table that follows.) This represents a net increase of \$313,651, or 2.40 percent, over last year.

	Governmental Activities		Business-Type Activities		Totals	
	2021	2020	2021	2020	2021	2020
Land	\$ 973,820	\$ 973,820	\$ 154,200	\$ 154,200	\$ 1,128,020	\$ 1,128,020
Construction in progress	520,954	443,569	18,840	-	539,794	443,569
Buildings	968,123	364,122	-	-	968,123	364,122
Improvements	304,093	316,861	-	-	304,093	316,861
Equipment	56,619	30,671	-	-	56,619	30,671
Infrastructure	2,348,868	2,424,155	-	-	2,348,868	2,424,155
Utility system	-	-	8,011,505	8,335,973	8,011,505	8,335,973
Totals	<u>\$ 5,172,477</u>	<u>\$ 4,553,198</u>	<u>\$ 8,184,545</u>	<u>\$ 8,490,173</u>	<u>\$13,357,022</u>	<u>\$13,043,371</u>

This year's additions to be included on the depreciation schedule:

General Fund

Town office expansion	\$ 555,558
Old town hall renovation	59,430
Conference room IT equipment	13,309
Council chamber IT upgrades	15,471
Security cameras	8,195
Flagpole	15,460
Total general fund	<u>\$ 667,423</u>

Water/Sewer Fund

Creek bank shoring	\$ 18,840
Sewage grinder	16,400
Netting and Pole installation	34,000
Kings Ridge access road WTP	26,387
Biosolids dewatering study	6,900
Alum pump controls	19,765
Total water/sewer fund	<u>\$ 122,292</u>

Debt

At year-end, the Town had \$3,728,127 in outstanding debt compared to \$3,905,771 last year. This is a decrease of 4.55 percent as shown in the following table.

	Governmental Activities		Business-Type Activities		Totals	
	2021	2020	2021	2020	2021	2020
Bonds Payable:						
General obligation bonds	\$ 1,475,886	\$ 1,305,000	\$ 253,725	\$ 370,362	\$ 1,729,611	\$ 1,675,362
Revenue bonds	-	-	1,500,000	1,675,000	1,500,000	1,675,000
Lease payable	-	-	380,002	402,882	380,002	402,882
Premium on bond issuance	11,645	13,309	106,869	139,218	118,514	152,527
Totals	\$ 1,487,531	\$ 1,318,309	\$ 2,240,596	\$ 2,587,462	\$ 3,728,127	\$ 3,905,771

Debt in the amount of \$1,488,000 was issued during the year ended June 30, 2021. The Town borrowed \$1,263,000 from Truist Governmental Finance in the General Fund to refinance the general obligation bond from Wells Fargo. An additional \$225,000 was borrowed from Blue Ridge Bank to help pay for the Town Hall expansion.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Town anticipates a recovering economy with growth expected over the course of the next year. The following is a summary of the Town of Lovettsville's budget for fiscal year 2021-2022.

- The budgeted revenues are set to decrease by approximately \$591,000 in the fiscal year ending June 30, 2022, for the general fund. The largest decrease is due to the previously budgeted \$540,000 in loan proceeds for the new administration building as well as a reduction of \$90,000 in VDOT grant funding as they turn to county funding for the continued transportation related projects. The remainder of the budgeted revenue is very similar to the previous fiscal budget.
- The budgeted expenditures for the general fund are set to decrease by approximately \$591,000 in the fiscal year ending June 30, 2022. The Town has mirrored the reduction in revenue for the new administration building for \$540,000. The transportation project expenses were also shifted from the E. Broadway 2A improvements, which decreased by about \$53,000, to S. Church Street and E. Pennsylvania Avenue improvements, which increased to \$228,000. The remainder of the budgeted expenses is very similar to the previous fiscal budget.
- The budgeted revenue in the utility fund is expected to increase by approximately \$241,000 in the fiscal year ending June 30, 2022. This increase is primarily linked with a \$455,000 increase in capital revenue which consists of a VDH Wellhead Protection Grant for \$140,000 and a transfer of \$145,000. The remainder of the budgeted revenue is very similar to the previous fiscal budget.
- The budgeted expenses remain fairly steady in the utility fund for the upcoming year. The budgeted expenses for the fiscal year ending June 30, 2022, are approximately \$1,494,000 in comparison with the budgeted expenses for the prior fiscal year of \$1,548,000, which is a decrease of \$54,000 or 3.5 percent. Reflecting the revenue increase, the changes in expenditures come from the capital expense budget increase of \$241,000 as the Town shifts focus to the creek bank shoring and other updates to the utility facilities.

In conclusion, the proposed budget is balanced in accordance with state statutes, and revenues based on conservative estimates, while expenditures are based on historical data, as well as actual proposed costs.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Town Office at 6 East Pennsylvania Avenue, Lovettsville, VA.

Government-Wide Financial Statements

TOWN OF LOVETTSVILLE, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2021

	----- Primary Government -----		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 3,019,252	\$ 2,713,863	\$ 5,733,115
Receivables:			
Property taxes	21,118	-	21,118
Utility taxes	1,240	-	1,240
Accounts	1,342	138,470	139,812
Meals and occupancy	26,281	-	26,281
Due from other governmental units	595,365	-	595,365
Prepaid expense	3,010	10,129	13,139
Internal balances	101,428	(101,428)	-
Capital assets:			
Non-depreciable	1,494,774	173,040	1,667,814
Depreciable, net of accumulated depreciation	<u>3,677,703</u>	<u>8,011,505</u>	<u>11,689,208</u>
Total assets	<u>\$ 8,941,513</u>	<u>\$ 10,945,579</u>	<u>\$ 19,887,092</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension amounts	\$ 71,323	\$ 26,730	\$ 98,053
Deferred OPEB amounts, life insurance	5,760	5,264	11,024
Deferred charges on refunding	<u>-</u>	<u>62,988</u>	<u>62,988</u>
Total deferred outflows of resources	<u>\$ 77,083</u>	<u>\$ 94,982</u>	<u>\$ 172,065</u>
LIABILITIES			
Accounts payable	\$ 52,697	\$ 56,230	\$ 108,927
Accrued liabilities	22,098	14,441	36,539
Accrued interest payable	9,570	25,100	34,670
Compensated absences	22,400	21,762	44,162
Unearned revenue, ARPA funds	1,140,231	-	1,140,231
Deposits	-	82,632	82,632
Long-term liabilities:			
Net OPEB liability, life insurance	25,288	23,107	48,395
Net pension liability	34,872	3,652	38,524
Long-term debt due within one year	130,683	262,429	393,112
Due in more than one year	<u>1,356,848</u>	<u>1,978,167</u>	<u>3,335,015</u>
Total liabilities	<u>\$ 2,794,687</u>	<u>\$ 2,467,520</u>	<u>\$ 5,262,207</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	\$ 330,364	\$ -	\$ 330,364
Deferred pension amounts	4,892	2,833	7,725
Deferred OPEB amounts, life insurance	<u>1,622</u>	<u>1,482</u>	<u>3,104</u>
Total deferred inflows of resources	<u>\$ 336,878</u>	<u>\$ 4,315</u>	<u>\$ 341,193</u>
NET POSITION			
Net investments in capital assets	\$ 3,675,376	\$ 5,918,849	\$ 9,594,225
Unrestricted	<u>2,211,655</u>	<u>2,649,877</u>	<u>4,861,532</u>
Total net position	<u>\$ 5,887,031</u>	<u>\$ 8,568,726</u>	<u>\$ 14,455,757</u>

See Notes to Financial Statements.

TOWN OF LOVETTSVILLE, VIRGINIA

STATEMENT OF ACTIVITIES
Year Ended June 30, 2021

Functions/ Programs	Expenses	----- Program Revenues -----		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government administration	\$ 1,054,633	\$ 150	\$ 204,621	\$ 119,723
Community development	13,375	8,289	-	-
Parks, recreation and cultural	29,901	-	-	-
Public safety	15,000	-	15,000	-
Public works	296,112	-	1,102	52,934
Events	4,808	613	-	-
Interest on long-term obligations	81,168	-	-	-
 Total governmental activities	 \$ 1,494,997	 \$ 9,052	 \$ 220,723	 \$ 172,657
Business-type activities:				
Water and sewer	\$ 1,395,753	\$ 1,266,046	\$ -	\$ 355,885
 Total business-type activities	 \$ 1,395,753	 \$ 1,266,046	 \$ -	 \$ 355,885
 Total primary government	 \$ 2,890,750	 \$ 1,275,098	 \$ 220,723	 \$ 528,542

General revenues:

General property taxes
Other local taxes
Unrestricted revenue from the use of money and property
Miscellaneous
(Loss) from disposal of equipment
Grants and contributions not restricted to specific program

Total general revenues and transfers

Change in net position

Net position at beginning of year

Net position at end of year

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Assets

----- Primary Government -----

Governmental Activities	Business-Type Activities	Total
\$ (730,139)	\$ -	\$ (730,139)
(5,086)	-	(5,086)
(29,901)	-	(29,901)
-	-	-
(242,076)	-	(242,076)
(4,195)	-	(4,195)
<u>(81,168)</u>	<u>-</u>	<u>(81,168)</u>
<u>\$ (1,092,565)</u>	<u>\$ -</u>	<u>\$ (1,092,565)</u>
<u>\$ -</u>	<u>\$ 226,178</u>	<u>\$ 226,178</u>
<u>\$ -</u>	<u>\$ 226,178</u>	<u>\$ 226,178</u>
<u>\$ (1,092,565)</u>	<u>\$ 226,178</u>	<u>\$ (866,387)</u>
\$ 694,513	\$ -	\$ 694,513
679,757	-	679,757
2,343	10,073	12,416
18,828	-	18,828
-	(3,966)	(3,966)
<u>12,357</u>	<u>-</u>	<u>12,357</u>
<u>\$ 1,407,798</u>	<u>\$ 6,107</u>	<u>\$ 1,413,905</u>
\$ 315,233	\$ 232,285	\$ 547,518
<u>5,571,798</u>	<u>8,336,441</u>	<u>13,908,239</u>
<u>\$ 5,887,031</u>	<u>\$ 8,568,726</u>	<u>\$ 14,455,757</u>

Fund Financial Statements

TOWN OF LOVETTSVILLE, VIRGINIA

----GOVERNMENTAL FUND----
 BALANCE SHEET
 June 30, 2021

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 3,019,252
Receivables:	
Property taxes	21,118
Utility taxes	1,240
Meals and occupancy	26,281
Accounts	1,342
Prepaid expense	3,010
Due from other governmental units	595,365
Due from other funds	<u>101,428</u>
Total assets	<u>\$ 3,769,036</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 52,697
Accrued liabilities	22,098
Compensated absences	3,278
Unearned revenue, ARPA funds	<u>1,140,231</u>
Total liabilities	<u>\$ 1,218,304</u>
Deferred Inflows of Resources	
Unavailable revenue	<u>\$ 351,482</u>
Total deferred inflows of resources	<u>\$ 351,482</u>
Total liabilities	<u>\$ 1,569,786</u>
Fund Balance	
Nonspendable:	
Prepaid items	\$ 3,010
Committed:	
Capital project – E. Broad Way improvements	58,859
Assigned:	
Event fund balance	50,511
Unassigned	<u>2,086,870</u>
Total fund balance	<u>\$ 2,199,250</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 3,769,036</u>

See Notes to Financial Statements.

TOWN OF LOVETTSVILLE, VIRGINIA

----GOVERNMENTAL FUND----
**RECONCILIATION OF THE BALANCE SHEET
 TO THE STATEMENT OF NET POSITION**
June 30, 2021

FUND BALANCE - TOTAL GOVERNMENTAL FUND **\$ 2,199,250**

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund.

Governmental capital assets	\$ 5,985,539	
Less accumulated depreciation	<u>(813,062)</u>	5,172,477

Deferred outflows of resources for pension and life insurance amounts.	\$ <u>77,083</u>	77,083
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Deferred inflows of resources for pension and life insurance amounts.	\$ <u>(6,514)</u>	(6,514)
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Certain revenues not available to pay for current period expenditures are not reported in the governmental fund.

Deferred revenue, property taxes	\$ <u>21,118</u>	21,118
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Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. All liabilities - both current and long-term - are reported in the Statement of Net Position.

General obligation bonds	\$ (1,475,886)	
Premium on bond issuance	(11,645)	
Accrued interest payable	(9,570)	
Compensated absences	(19,122)	
Net pension liability	(34,872)	
Net OPEB liability, life insurance	<u>(25,288)</u>	<u>(1,576,383)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 5,887,031**

See Notes to Financial Statements.

TOWN OF LOVETTSVILLE, VIRGINIA

---GOVERNMENTAL FUND---
**STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE**
 Year Ended June 30, 2021

	<u>General Fund</u>
REVENUES	
General property taxes	\$ 694,945
Other local taxes	679,757
Permits, privilege fees, and regulatory licenses	8,289
Revenues from the use of money and property	2,343
Charges for services	150
Miscellaneous	18,828
Event revenues	613
Intergovernmental revenues:	
Commonwealth	80,291
County	1,102
Federal	324,344
Total revenues	\$ 1,810,662
EXPENDITURES	
Current:	
General government administration	\$ 1,012,028
Community development	13,375
Public safety	15,000
Parks, recreation and cultural	29,901
Public works	217,305
Event expenditures	3,308
Debt service	151,721
Capital outlay	744,809
Total expenditures	\$ 2,187,447
Excess (deficiency) of revenues over expenditures	\$ (376,785)
OTHER FINANCING SOURCES	
Loan proceeds for Town Hall	\$ 225,000
Total other financing sources	\$ 225,000
Net change in fund balance	\$ (151,785)
FUND BALANCE AT BEGINNING OF YEAR	2,351,035
FUND BALANCE AT END OF YEAR	\$ 2,199,250

See Notes to Financial Statements.

TOWN OF LOVETTSVILLE, VIRGINIA

---GOVERNMENTAL FUND---
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN THE FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES**
Year Ended June 30, 2021

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUND **\$ (151,785)**

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

The governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over the estimated useful lives.

Expenditures for capital assets	\$ 744,808	
Less current year depreciation	<u>(125,529)</u>	619,279

Loan proceeds provide current financial resources to the governmental fund, but issuing debt increases long-term liabilities in the statement of net position. Repayment of loan principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.

Principal proceeds	\$ (225,000)	
Principal repayments	<u>54,114</u>	(170,886)

Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the governmental fund. This amount is the net change in these revenues.

Property taxes	\$ <u>(431)</u>	(431)
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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 the governmental fund.

Change in accrued interest	\$ 16,439	
Difference between pension expenditures and pension expense	(10,324)	
Change in long-term compensated absences	<u>12,941</u>	<u>19,056</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 315,233**

See Notes to Financial Statements.

TOWN OF LOVETTSVILLE, VIRGINIA

---- PROPRIETARY FUND ----
 STATEMENT OF NET POSITION
 June 30, 2021

	<u>Enterprise Fund</u> <u>Water & Sewer</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,631,231
Restricted cash and cash equivalents, deposits	82,632
Accounts receivable	138,470
Prepaid expense	<u>10,129</u>
Total current assets	<u>\$ 2,862,462</u>
Noncurrent assets:	
Capital assets:	
Land	\$ 154,200
Construction in progress	18,840
Utility plant, distribution and collection systems	14,511,498
Less accumulated depreciation	<u>(6,499,993)</u>
Total noncurrent assets	<u>\$ 8,184,545</u>
Total assets	<u>\$ 11,047,007</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pension amounts	\$ 26,730
Deferred OPEB, life insurance	5,264
Deferred charges on refunding	<u>62,988</u>
Total deferred outflows of resources	<u>\$ 94,982</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 56,230
Accrued liabilities	14,441
Accrued interest payable	25,100
Deposits	82,632
Due to other funds	101,428
Bonds, notes and loans payable	262,429
Compensated absences	<u>21,762</u>
Total current liabilities	<u>\$ 564,022</u>
Noncurrent liabilities:	
Net OPEB liability, life insurance	\$ 23,107
Net pension liability	3,652
Bonds, notes and loans payable, current portion	<u>1,978,167</u>
Total noncurrent liabilities	<u>\$ 2,004,926</u>
Total liabilities	<u>\$ 2,568,948</u>

(Continued)

TOWN OF LOVETTSVILLE, VIRGINIA

---- PROPRIETARY FUND ----
 STATEMENT OF NET POSITION
 June 30, 2021

	Enterprise Fund <u>Water & Sewer</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred pension amounts	\$ 2,833
Deferred OPEB amounts, life insurance	<u>1,482</u>
Total deferred inflows of resources	<u>\$ 4,315</u>
NET POSITION	
Net investment in capital assets	\$ 5,918,849
Unrestricted	<u>2,649,877</u>
Total net position	<u>\$ 8,568,726</u>

See Notes to Financial Statements.

TOWN OF LOVETTSVILLE, VIRGINIA

---PROPRIETARY FUND---
**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION**
Year Ended June 30, 2021

	Enterprise Fund <u>Water & Sewer</u>
OPERATING REVENUES	
Charges for services	\$ 1,138,773
Late charges	7,736
Frye Court Service District tax	4,432
Bulkwater	5,675
Miscellaneous	<u>1,673</u>
Total operating revenues	<u>\$ 1,158,289</u>
OPERATING EXPENSES	
Personnel services	\$ 405,689
Contractual services	71,264
Repairs and maintenance	227,571
Utilities	61,893
Communications	9,445
Insurance	21,598
Miscellaneous	18,074
Supplies and equipment	75,066
Depreciation	<u>423,954</u>
Total operating expenses	<u>\$ 1,314,554</u>
Operating income (loss)	<u>\$ (156,265)</u>
NONOPERATING REVENUES (EXPENSE)	
(Loss) on disposal of equipment	\$ (3,966)
Lease of water tower space	107,757
Interest income	10,073
Interest expense	<u>(81,199)</u>
Total nonoperating revenues (expense)	<u>\$ 32,665</u>
Income (loss) before contributions	<u>\$ (123,600)</u>
CAPITAL CONTRIBUTIONS	
Sewer availability fees	\$ 181,997
Water availability fees	123,488
CARES Act funding	<u>50,400</u>
Total capital contributions	<u>\$ 355,885</u>
Change in net position	\$ 232,285
NET POSITION AT BEGINNING OF YEAR	<u>8,336,441</u>
NET POSITION AT END OF YEAR	<u>\$ 8,568,726</u>

See Notes to Financial Statements.

TOWN OF LOVETTSVILLE, VIRGINIA

---PROPRIETARY FUND---
STATEMENT OF CASH FLOWS
Year Ended June 30, 2021

	<u>Enterprise Fund</u> <u>Water & Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,153,582
Cash payments to suppliers of goods and services	(458,550)
Cash payments to employees	<u>(405,689)</u>
Net cash provided by (used in) operating activities	<u>\$ 289,343</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Payment to other fund	<u>\$ (108,756)</u>
Net cash provided by (used in) noncapital financing activities	<u>\$ (108,756)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments on long-term debt	\$ (314,517)
Interest payments on long-term debt	(97,235)
Rental income	107,757
Purchase of property, plant and equipment	(122,292)
CARES Act funding	50,400
Sewer availability fees	181,997
Water availability fees	<u>123,488</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (70,402)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earned from investments	<u>\$ 10,073</u>
Net cash provided by (used in) investing activities	<u>\$ 10,073</u>
Net increase (decrease) in cash and cash equivalents	\$ 120,258
Cash and cash equivalents:	
Beginning	<u>2,593,605</u>
Ending	<u>\$ 2,713,863</u>

(Continued)

TOWN OF LOVETTSVILLE, VIRGINIA

---PROPRIETARY FUND---
STATEMENT OF CASH FLOWS
 Year Ended June 30, 2021

	<u>Enterprise Fund</u> <u>Water & Sewer</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	
Operating income (loss)	\$ (156,265)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Life insurance costs (earnings)	7,894
Pension costs (earnings)	5,728
Depreciation	423,954
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(5,947)
(Increase) decrease in prepaid expense	(6,441)
Increase (decrease) in accounts payable and accrued expenses	19,180
Increase (decrease) in deposits	<u>1,240</u>
Net cash provided by (used in) operating activities	<u>\$ 289,343</u>

See Notes to Financial Statements.

TOWN OF LOVETTSVILLE, VIRGINIA**NOTES TO FINANCIAL STATEMENTS****Note 1. Summary of Significant Accounting Policies**

The financial statements of the Town of Lovettsville, Virginia, 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 most significant policies:

A. Reporting Entity

The Town of Lovettsville, Virginia, is a municipality governed by a six-member Town Council and Mayor. Daily operations are conducted by the Town Manager. In determining the reporting entity, the Town complies with the provisions of GASB Statement No. 14, "The Financial Reporting Entity." Based on the criteria provided in that Statement there are no agencies or entities that should be presented with the Town.

B. Governmental Accounting Standards

The Town follows the general provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This Statement identifies the financial reporting requirements of state and local governments.

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. 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 identifiable activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. 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 identifiable activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. 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.

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

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Government-Wide Financial Statements

The Town government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of governmental and business-type activities for the Town accompanied by a total column.

These statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the Town’s assets and liabilities, including capital assets as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the Town are reported in three categories: (1) charges for services, (2) operating grants and contributions, and (3) capital grants and contributions.

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the government-wide financial statements.

All governmental funds are accounted for on a spending or “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 45 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Town, are property taxes, sales and use taxes, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The General Fund is the Town’s only governmental fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows for each major proprietary fund.

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

The Town reports the following major proprietary fund:

Water and Sewer Fund-accounts for the activities related to the provision of water and sewer services to Town's businesses, residents, schools, and churches. The Town operates and maintains its wells and water distribution system, and its sewer treatment plant and sewer collection system.

E. Assets, Liabilities and EquityCash and Cash Equivalents

For purposes of reporting cash flows, the Town considers all cash on hand, checking accounts, savings accounts, money market funds and highly liquid instruments with a maturity of three months or less to be cash and cash equivalents. All certificates of deposit, regardless of maturity, are considered to be cash and cash equivalents.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical collection data and specific account analysis. Major receivable balances for the governmental activities include sales and use taxes and utility taxes. Business-type activities report utility services as their major receivable. The Town grants credit to the customers of its water and sewer systems. The customers are either local businesses or residents.

In the fund financial statements, major receivable balances and the allowances for uncollectible accounts are the same as those in the governmental and business-type activities.

Property Taxes

Real estate taxes are assessed semi-annually by Loudoun County, Virginia, for all property of record as of January 1. Property taxes attach as an enforceable lien on property as of January 1. The Town collects real estate taxes on a semi-annual basis. The portion of the tax receivable that is not collected within 45 days after June 30 is shown as deferred revenue in the fund financial statements. The tax rate assessed for the year ended June 30, 2021, was \$.184 per \$100 valuation. A penalty of 10 percent of the tax is assessed after the applicable payment date.

The taxes receivable balance at June 30, 2021, consists of amounts billed before June 30, 2020. Amounts not yet billed or received by the County of Loudon from the January 1, 2021, levy (due December 5, 2021), are included in due from other governmental units. These items are included in deferred revenue since these taxes are restricted for use until fiscal year 2022.

The Town calculates its allowance for uncollectible delinquent property tax accounts using historical collection data and specific account analysis. No allowance was deemed necessary at June 30, 2021.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Interfund Receivables and Payables

During the course of operations, transactions occur that may result in amounts owed between funds. Those related to goods and service type transactions are classified as “due to and from other funds.” Short-term interfund loans are reported as “interfund receivables and payables.” Long-term interfund loans (noncurrent portion) are reported as “advances from and to other funds.” Interfund receivables and payables between funds are eliminated in the Statement of Net Position. The Town’s General Fund has a due from the Water and Sewer Fund in the amount of \$101,428 at June 30, 2021.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in the governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items owned by the Town), are reported in the applicable governmental or business-type activities columns. In general, the Town defines capital assets as assets with an initial, individual cost of more than \$5,000 (not rounded) and an estimated useful life in excess of one year. Capital assets are carried at historical cost except for donated capital assets that are recorded at their estimated fair value on the date received.

The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets’ estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and Improvements	30-50 years
Land improvements	20 years
Utility System	25-40 years
Machinery and Equipment	5-10 years
Infrastructure	20-40 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)Compensated Absences

Vested or accumulated vacation leave is reported as an expense in the Statement of Activities and a long-term obligation in the Statement of Net Position. In accordance with the provisions of Government Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that is estimated will be paid upon retirement, which is liquidated in the Town general fund. Sick leave is paid upon separation of employment with the Town up to an amount equal to 25 percent of the unused balance.

Deferred Revenue

Deferred revenue is recorded when asset recognition criteria (measurable) have been met, but revenue recognition (available) criteria have not been met.

Long-Term Debt

The accounting treatment of the long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds, loans and notes payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for the proprietary funds is the same in the fund financial statements as it is in the government-wide statements.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position or balance sheet 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/expenditure) until then. The Town has three items that qualify for reporting in this category. One item is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The other two items are deferred pension and OPEB amounts.

In addition to liabilities, the statement of net position or balance sheet 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. The Town currently has four items (property taxes, vehicle license billing, and deferred pension and OPEB amounts) that qualify for reporting in this category.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Equity Classifications

Government-Wide Statements

Equity is classified as net position and displayed in three components:

- a. 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.
- b. Restricted net position-consists of assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. These assets are reduced by liabilities and deferred inflows of resources related to those assets.
- c. Unrestricted-all other net position is reported in this category.

Fund Statements

In the governmental fund financial statements, fund balances are classified as follows:

- **Nonspendable** - Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- **Restricted** - Amounts that can be spent only for specific purposes because of the Town Charter, the Town Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- **Committed** - Amounts that can be used only for specific purposes determined by a formal action by Town Council ordinance or resolution. This includes the Budget Reserve Account.
- **Assigned** - Amounts that are designated by the Town Council for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by Town Council.
- **Unassigned** - All amounts not included in other spendable classifications.

Proprietary fund equity is classified the same as in the government-wide statements.

F. Revenues, Expenditures, and Expenses

Governmental Fund Revenues

As mentioned above, governmental fund revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Accordingly, property taxes not collected within 45 days after year-end are reflected as deferred revenues-uncollected property taxes. The Town recognizes sales and utility taxes remitted to the Town as revenues and receivables in the month preceding receipt. Licenses and permits 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 specific expenditure.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. They also include all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Sewer and Water Availability Fees

Sewer and water availability fees are recorded as revenue when received. Fees recorded in the Water and Sewer Fund are shown as capital contributions in the Statement of Revenues, Expenses and Changes in Fund Position. The same fees are presented in the government-wide Statement of Activities as capital grants and contributions. Council has designated that the sewer availability fees will be used to pay debt incurred in building the wastewater treatment plant and other sewer system improvements. The Council has also designated that the water availability fees will be used to pay for future water system improvements.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified by function for the governmental fund and by operating and nonoperating for the proprietary funds.

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to the use of economic resources.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers.

Advertising

The Town expenses advertising production costs as they are incurred and advertising communication costs the first time the advertising takes place. Non-reimbursable advertising expenditures in the General Fund were \$3,703, for the year ended June 30, 2021. Advertising expense in the Water and Sewer Fund was \$ - , for the year ended June 30, 2021.

Fringe benefits

Fringe benefits of the Town include:

- a. Social Security System - All employees participate in the Federal Social Security Program. The employer share of FICA taxes for the employees is the responsibility of the Town.
- b. Health Insurance - The Town provides health insurance coverage for all electing full-time, salaried permanent employees.
- c. Pension Plan - Employees of the Town participate in the Virginia Retirement System (VRS). The VRS is administered by the Commonwealth, which bills the Town for the employer share of contributions. The VRS is obligated to pay a monthly benefit to participants upon retirement with the amount of the benefit depending on length of service and earnings.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)**G. Estimates and Assumptions**

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

H. Use of Restricted/Unrestricted Net Assets

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Town's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the Town's policy is to first apply the expenditure toward the restricted fund balance and then to other, less-restrictive classifications-committed and then assigned fund balances before using unassigned fund balances.

I. Pensions

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

J. Group Life Insurance

The Virginia Retirement System (VRS) Group Life Insurance Program is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The Group Life Insurance Program was established pursuant to §51.1-500 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The Group Life Insurance Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net Group Life Insurance Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance Program OPEB, and Group Life Insurance Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Group Life Insurance program OPEB and the additions to/deductions from the VRS Group Life Insurance Program OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTES TO FINANCIAL STATEMENTS

Note 2. Stewardship, Compliance, and Accountability

A. Budgetary Information

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the General Fund. Amounts shown in the accompanying financial statements as "budget" represent the original and final operating budget for the fiscal year 2021. Below is a summary of budgeted information which is not included in the General Fund Statement of Revenues and Expenditures – Budget:

	Original & Final Budget
Annual contributions:	
New capital fund	\$ 135,054
Reimbursement from utility fund	<u>169,691</u>
	<u>\$ 304,745</u>

A budget is also adopted for the Enterprise Fund as an operating guideline. Budget to actual information is shown as other supplementary information. Below is a summary of budgeted information that is not included in the Enterprise Fund's Statement of Revenues, Expenses and Changes in Net Assets - Budget:

	Original & Final Budget
Annual contributions:	
Capital asset replacement fund	\$ 170,000
Reserve funds	(10,000)
Reimbursement to general fund	(169,691)
Capital outlay	(160,000)
Debt service	<u>(314,050)</u>
	<u>\$ (483,741)</u>

B. Excess of Expenditures Over Appropriations

For the year ended June 30, 2021, General Fund expenditures exceeded appropriations in government administration by \$69,089 and public safety by \$1,500. These over expenditures were funded by lower than anticipated expenditures in capital outlay.

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Cash EquivalentsDeposits

Below is a summary of the Town's accounts/deposits at June 30, 2021:

<u>Account</u>	<u>Bank</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
<u>General</u>			
Checking	BB&T	\$ 178,374	\$ 191,604
Unassigned fund balance	Atlantic Union Bank	491,896	491,896
Capital asset replacement fund	Atlantic Union Bank	1,157,878	1,157,878
ARPA Funds	BB&T	1,140,231	1,140,231
Checking - Oktoberfest	BB&T	24,989	24,989
Checking - Mayfest	BB&T	25,684	25,684
Petty cash	N/A	200	-
		<u>\$ 3,019,252</u>	<u>\$ 3,032,282</u>
<u>Water and Sewer</u>			
Checking, capital	BB&T	\$ 363,405	\$ 376,053
90-Day O&M reserve fund	Atlantic Union Bank	406,394	406,394
UF Repair, Renew, & Replace fund	Atlantic Union Bank	1,672,578	1,672,578
New water & sewer acct	BB&T	271,486	271,486
Money Market (meters)	US Bancorp	-	-
		<u>\$ 2,713,863</u>	<u>\$ 2,726,511</u>
		<u>\$ 5,733,115</u>	<u>\$ 5,758,793</u>

All cash of the Town is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, §2.2-4400 et. seq. of the *Code of Virginia* or covered by federal depository insurance. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50 percent to 130 percent of excess deposits. Accordingly, all deposits are considered fully collateralized.

Note 4. Receivables

Receivables as of June 30, 2021, for the government's individual major funds including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Water and Sewer</u>	<u>Total</u>
Receivables:			
Property taxes	\$ 21,118	\$ -	\$ 21,118
Other taxes:			
Utilities	1,240	-	1,240
Meals and occupancy	26,281	-	26,281
Accounts	1,342	138,470	139,812
Gross receivables	<u>\$ 49,981</u>	<u>\$ 138,470</u>	<u>\$ 188,451</u>
Less: allowance for uncollectibles	<u>-</u>	<u>-</u>	<u>-</u>
Net total receivables	<u>\$ 49,981</u>	<u>\$ 138,470</u>	<u>\$ 188,451</u>

NOTES TO FINANCIAL STATEMENTS

Note 5. Due from Other Governmental Units

Due from other governmental units consists of the following:

Government-type activities

Commonwealth of Virginia:

Department of Taxation, communications tax collected
for the Town \$ 803

County of Loudoun, Virginia:

Property taxes collected for the Town 546,480

Sales tax collected for the Town 44,666

Auto decal fees collected for the Town 3,416

\$ 595,365

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2021, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 973,820	\$ -	\$ -	\$ 973,820
Construction in progress	<u>443,569</u>	<u>632,943</u>	<u>555,558</u>	<u>520,954</u>
Total capital assets not being depreciated	<u>\$ 1,417,389</u>	<u>\$ 632,943</u>	<u>\$ 555,558</u>	<u>\$ 1,494,774</u>
Capital assets being depreciated				
Buildings	\$ 445,676	\$ 614,988	\$ -	\$ 1,060,664
Land improvements	543,668	15,460	-	559,128
Machinery and equipment	95,194	36,975	-	132,169
Infrastructure	<u>2,738,804</u>	<u>-</u>	<u>-</u>	<u>2,738,804</u>
Total capital assets being depreciated	<u>\$ 3,823,342</u>	<u>\$ 667,423</u>	<u>\$ -</u>	<u>\$ 4,490,765</u>
Less accumulated depreciation for				
Buildings	\$ 81,554	\$ 10,987	\$ -	\$ 92,541
Land improvements	226,807	28,228	-	255,035
Machinery and equipment	64,523	11,027	-	75,550
Infrastructure	<u>314,649</u>	<u>75,287</u>	<u>-</u>	<u>389,936</u>
Total accumulated depreciation	<u>\$ 687,533</u>	<u>\$ 125,529</u>	<u>\$ -</u>	<u>\$ 813,062</u>
Total capital assets being depreciated, net	<u>\$ 3,135,809</u>	<u>\$ 541,894</u>	<u>\$ -</u>	<u>\$ 3,677,703</u>
GOVERNMENTAL ACTIVITIES				
CAPITAL ASSETS, NET	<u>\$ 4,553,198</u>	<u>\$ 1,174,837</u>	<u>\$ 555,558</u>	<u>\$ 5,172,477</u>

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 154,200	\$ -	\$ -	\$ 154,200
Construction in progress	<u>-</u>	<u>18,840</u>	<u>-</u>	<u>18,840</u>
Total capital assets not being depreciated	<u>\$ 154,200</u>	<u>\$ 18,840</u>	<u>\$ -</u>	<u>\$ 173,040</u>
Capital assets being depreciated				
Utility system	\$14,479,556	\$ 103,452	\$ 71,510	\$14,511,498
Total capital assets being depreciated	<u>\$14,479,556</u>	<u>\$ 103,452</u>	<u>\$ 71,510</u>	<u>\$14,511,498</u>
Less accumulated depreciation for				
Utility system	\$ 6,143,583	\$ 423,954	\$ 67,544	\$ 6,499,993
Total accumulated depreciation	<u>\$ 6,143,583</u>	<u>\$ 423,954</u>	<u>\$ 67,544</u>	<u>\$ 6,499,993</u>
Total capital assets being depreciated, net	<u>\$ 8,335,973</u>	<u>\$ (320,502)</u>	<u>\$ 3,966</u>	<u>\$ 8,011,505</u>
BUSINESS-TYPE ACTIVITIES				
CAPITAL ASSETS, NET	<u>\$ 8,490,173</u>	<u>\$ (301,662)</u>	<u>\$ 3,966</u>	<u>\$ 8,184,545</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

GOVERNMENTAL ACTIVITIES

General government administration	\$ 45,222
Public works	78,807
Events	<u>1,500</u>
Total depreciation expense - governmental activities	<u>\$ 125,529</u>

BUSINESS-TYPE ACTIVITIES

Water and sewer	<u>\$ 423,954</u>
Total depreciation expense - business-type activities	<u>\$ 423,954</u>

NOTES TO FINANCIAL STATEMENTS

Note 7. Unavailable Revenue

The following is a summary of unavailable revenue included in deferred inflows of resources by fund/activity at June 30, 2021:

Fund Statements

	<u>General Fund</u>
Property taxes billing in fiscal year 2022	\$ 329,809
Uncollected property tax billing	21,118
Taxes collected in advance	<u>555</u>
	<u>\$ 351,482</u>

Government-Wide Statements

	<u>Governmental Activities</u>
Property taxes billing in fiscal year 2022	\$ 329,809
Taxes collected in advance	<u>555</u>
	<u>\$ 330,364</u>

Note 8. Long-Term Obligations

A summary of long-term debt activity for the year ended June 30, 2021, is as follows. Additional detailed information is available on the following pages.

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due within One Year</u>
<u>Government-type activities</u>					
<i>General Fund</i>					
General obligation bonds	\$ 1,305,000	\$ 1,488,000	\$ 1,317,114	\$ 1,475,886	\$ 129,019
Premium on bond issuance	<u>13,309</u>	<u>-</u>	<u>1,664</u>	<u>11,645</u>	<u>1,664</u>
	<u>\$ 1,318,309</u>	<u>\$ 1,488,000</u>	<u>\$ 1,318,778</u>	<u>\$ 1,487,531</u>	<u>\$ 130,683</u>
<u>Business-type activities</u>					
<i>Water and Sewer Fund</i>					
General obligation and revenue bonds	\$ 2,045,362	\$ -	\$ 291,637	\$ 1,753,725	\$ 210,315
Premium on bond issuance	139,218	-	32,349	106,869	28,446
Lease payable	<u>402,882</u>	<u>-</u>	<u>22,880</u>	<u>380,002</u>	<u>23,668</u>
	<u>\$ 2,587,462</u>	<u>\$ -</u>	<u>\$ 346,866</u>	<u>\$ 2,240,596</u>	<u>\$ 262,429</u>

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Obligations (Continued)

Government-type activities*Details of long-term obligations:*

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
<u>General Obligation Bond:</u>		
\$1,263,000 General obligation bond issued November 3, 2020 payable in annual principal payments ranging from \$120,000 to \$130,000 and semi-annual interest payments at 1.57 percent with final payment due February 1, 2031.	\$ 1,259,441	\$ 120,372
\$225,000 General obligation bond issued April 24, 2021 payable in semi-annual installments of \$7,487, bearing interest at 2.95 percent. Final payment due April 15, 2040.	<u>216,445</u>	<u>8,647</u>
Total general obligation bonds	\$ 1,475,886	\$ 129,019
Premium on bond issuance	<u>11,645</u>	<u>1,664</u>
Total governmental activities obligations	<u>\$ 1,487,531</u>	<u>\$ 130,683</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 129,024	\$ 26,095
2023	131,599	23,948
2024	134,853	21,757
2025	137,699	19,511
2026	133,529	17,217
2027-2031	691,792	52,035
2032-2036	61,527	13,341
2037-2041	<u>55,863</u>	<u>3,757</u>
Total	<u>\$ 1,475,886</u>	<u>\$ 177,662</u>

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Obligations (Continued)

Business-type activities*Details of long-term obligations:*

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
<u>General Obligation Bonds:</u>		
\$2,005,000 Series 2015A Refunding Revenue bonds issued through Virginia Resource Authority on May 28, 2015, bearing interest at 3.125 percent to 5.125 percent payable in semi-annual installments. Principal payable annually through October 1, 2027.	\$ 1,500,000	\$ 185,000
\$476,327 Virginia Resource Authority bond issued October 23, 2009, payable in semi-annual installments of \$17,284, bearing interest at 2.65 percent. Final payment due March 1, 2030.	<u>253,725</u>	<u>25,315</u>
Total general obligation and revenue bonds	\$ 1,753,725	\$ 210,315
Premium on bond issuance	106,869	28,446
<u>Leases Payable</u>		
\$425,000 Tax-Exempt Lease/Purchase Agreement made on February 15, 2019, payable in semi-annual installments of \$18,220, bearing interest at 3.414 percent. Final payment due February 15, 2034.	<u>380,002</u>	<u>23,668</u>
Total business-type activities	<u>\$ 2,240,596</u>	<u>\$ 262,429</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 233,983	\$ 84,805
2023	240,473	73,940
2024	257,010	62,529
2025	263,594	50,570
2026	280,226	38,062
2027-2031	755,364	56,353
2032-2036	<u>103,077</u>	<u>6,245</u>
Total	<u>\$ 2,133,727</u>	<u>\$ 372,504</u>

NOTES TO FINANCIAL STATEMENTS

Note 9. Fund Balance and Net Asset Designations

Designations segregate portions of the fund balance and net assets that are earmarked for specific purposes. The Town Council and management establish the various designations.

Unreserved fund balance and unrestricted net assets in the Fund Financial Statements are designated as follows:

General Fund

East Broad Way improvements	\$ 58,859
Designated fund balance	50,511
Unappropriated fund balance	2,086,870
Prepaid items	<u>3,010</u>
Fund Balance, Unreserved	<u>\$ 2,199,250</u>

Water & Sewer Fund

Unappropriated net assets	<u>\$ 8,568,726</u>
Net Assets, Unrestricted	<u>\$ 8,568,726</u>

Note 10. Operating Lease Commitments

The Town receives rental income from four operating leases.

The Town leases its water tank to communications companies under noncancelable operating leases for 59 months. The monthly rents received from the leases range from \$3,542 to \$4,236. Each lease is adjusted upward annually. The companies use the tank to mount their antennas. The following is a schedule by years of future minimum rentals under the initial terms of the leases:

Year Ending June 30

2022	\$ 103,129
2023	79,763
2024	<u>27,188</u>
	<u>\$ 210,080</u>

The total rental income from these leases that is included in the Water and Sewer Fund's statement of revenues and expenses for the years ended June 30, 2021, was \$107,757.

Note 11. Compensated Absences

In accordance with GASB Statement 16, *Accounting for Compensated Absences*, the Town has accrued liabilities arising from compensated absences.

Town employees earn annual leave at various rates. Sick leave is paid upon separation of employment with the Town up to an amount equal to 25 percent of the unused balance. Accumulated vacation and annual leave is paid upon termination up to a maximum of 240 hours. The Town's general fund has outstanding accrued leave pay totaling \$22,400 and the Water and Sewer Fund have outstanding accrued leave pay of \$21,762.

NOTES TO FINANCIAL STATEMENTS

Note 12. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To reduce insurance costs and the need for self-insurance, the Town has joined with other municipalities in the Commonwealth of Virginia in a public entity risk pool that operates as a common risk management and insurance program for member municipalities. The Town is not self-insured.

The Town has insurance coverage with the Virginia Risk Sharing Association (VRSA). Each Association member jointly and severally agrees to assume, pay and discharge any liability. The Town pays contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the Association and claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the Association may assess all members in the proportion that the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The Town’s settled claims have not exceeded insurance coverage in any of the past three fiscal years.

Note 13. Pension Plan

Plan Description

All full-time, salaried permanent employees of the Political Subdivision 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 that follows:

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>About VRS Plan 1 VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member’s age, service credit and average final compensation at retirement using a formula.</p>	<p>About VRS Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member’s age, service credit and average final compensation at retirement using a formula.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</p> <ul style="list-style-type: none"> • The defined benefit is based on a member’s age, service credit and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.</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 VRS 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>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</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>Eligible Members 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 VRS Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions Employees contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions Same as Plan 1.</p>	<p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Service Credit Service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Service Credit Same as VRS Plan 1.</p>	<p>Service Credit Defined Benefit Component: Under the defined benefit component of the plan, service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p>Defined Contributions Component: Under the defined contribution component, service credit is used to determine vesting for the employer contribution portion of the plan.</p>
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of service credit. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as VRS Plan 1.</p>	<p>Vesting Defined Benefit Component: Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of service credit. Plan 1 or Plan 2 members with at least five years (60 months) of service credit who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p>Defined Contributions Component: Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</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, except as governed by law.</p>

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Calculating the Benefit The basic benefit is determined using the average final compensation, service credit and plan multiplier. An early retirement reduction is applied to this amount if the member is retiring with a reduced benefit. In cases where the member has elected an optional form of retirement payment, an option factor specific to the option chosen is then applied.</p>	<p>Calculating the Benefit See definition under VRS Plan 1.</p>	<p>Calculating the Benefit <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>
<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.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier 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 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.</p>	<p>Service Retirement Multiplier Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for service credit earned, purchased or granted on or after January 1, 2013. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.</p>	<p>Service Retirement Multiplier <u>Defined Benefit Component:</u> The retirement multiplier for the defined benefit component is 1.0%.</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. Not applicable to sheriffs, regional jail superintendents and political subdivision hazardous duty employees.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p>
<p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p>Political subdivision 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>
<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of service credit or at age 50 with at least 30 years of service credit.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of service credit or age 50 with at least 25 years of service credit.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of service credit or when their age plus service credit equals 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Normal Social Security retirement age with at least five years (60 months) of service credit or when their age plus service credit equals 90.</p> <p>Political subdivision 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>

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of service credit or age 50 with at least 10 years of service credit.</p> <p>Political subdivisions hazardous duty employees: Age 50 with at least five years of service credit.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of service credit.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Reduced Retirement Eligibility Defined Benefit Component: VRS: Age 60 with at least five years (60 months) of service credit.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>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%.</p> <p>Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of service credit, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of service credit, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p>Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</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 the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p>Eligibility: Same as Plan 1.</p> <p>Exceptions to COLA Effective Dates: Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement Defined Benefit Component: Same as Plan 2.</p> <p>Defined Contribution Component: Not applicable.</p> <p>Eligibility: Same as Plan 1 and Plan 2.</p> <p>Exceptions to COLA Effective Dates: Same as Plan 1 and Plan 2.</p>

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p>	<p>Disability Coverage Employees of political subdivision (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>
<p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as service credit in their plan. Prior service credit counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service Defined Benefit Component: Same as Plan 1, with the following exception:</p> <ul style="list-style-type: none"> Hybrid Retirement Plan members are ineligible for ported service. <p>Defined Contribution Component: Not applicable.</p>

Employees Covered by Benefit Terms

As of the June 30, 2019 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	1
Inactive members:	
Vested inactive members	-
Non-vested inactive members	-
LTD	-
Retirees and beneficiaries	-
Inactive members active elsewhere in VRS	<u>3</u>
Total inactive members	3
Active members	<u>10</u>
Total covered employees	<u>14</u>

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00 percent of their compensation toward their retirement.

The political subdivision's contractually required contribution rate for the year ended June 30, 2021 was 7.24 percent of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by the employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$35,481 and \$30,569 for the years ended June 30, 2021 and June 30, 2020, respectively.

Net Pension (Asset) Liability

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For the political subdivision, the net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2019, rolled forward to the measurement date of June 30, 2020.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2019, 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, 2020.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent – 5.35 percent
Investment rate of return	6.75 percent, 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 percent of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75 percent. However, since the difference was minimal, and a more conservative 6.75 percent investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75 percent to simplify preparation of pension liabilities.

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

Mortality rates:

Largest 10 – Non-Hazardous Duty: 20% of deaths are assumed to be service related

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest 10 – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%
Discount Rate	Decreased from 7% to 6.75%

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%
Discount Rate	Decreased rate from 7% to 6.75%

Actuarial Assumptions – Public Safety Employees with Hazardous Duty Benefits

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the Political Subdivision Retirement Plan was based on an actuarial valuation as of June 30, 2019, 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, 2020.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent – 4.75 percent
Investment rate of return	6.75 percent, 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 percent of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75 percent. However, since the difference was minimal, and a more conservative 6.75 percent investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75 percent to simplify preparation of pension liabilities.

Mortality rates:

Largest 10 – Hazardous Duty: 70% of deaths are assumed to be service related:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest 10 – Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%
Discount Rate	Decreased rate from 7% to 6.75%

All Others (Non 10 Largest) – Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%
Discount Rate	Decreased rate from 7% to 6.75%

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	34.00%	4.65%	1.58%
Fixed Income	15.00%	0.46%	0.07%
Credit Strategies	14.00%	5.38%	0.75%
Real Assets	14.00%	5.01%	0.70%
Private Equity	14.00%	8.34%	1.17%
MAPS – Multi-Asset Public Strategies	6.00%	3.04%	0.18%
PIP – Private Investment Partnership	<u>3.00%</u>	6.49%	<u>0.19%</u>
Total	<u>100.00%</u>		4.64%
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.14%</u>

* The above allocation provides a one-year return of 7.14 percent. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11 percent, including expected inflation of 2.50 percent. On October 10, 2019, the VRS Board elected a long-term rate of 6.75 percent which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for FY2020 actuarial valuations, provide a median return of 6.81 percent.

Discount Rate

The discount rate used to measure the total pension liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2020, the alternate rate was the employer contribution rate used in FY 2012 or 100 percent of the actuarially determined employer contribution rate from the June 30, 2017 actuarial valuations, whichever was greater. From July 1, 2020 on, participating employers are assumed to contribute 100 percent 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.

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

Changes in Net Pension (Asset) Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) – (b)
Balances at June 30, 2019	\$ 488,247	\$ 503,337	\$ (15,090)
Changes for the year:			
Service cost	\$ 78,085	\$ -	\$ 78,085
Interest	32,552	-	32,552
Changes of assumptions	-	-	-
Differences between expected and actual experience	11,468	-	11,468
Contributions - employer	-	29,757	(29,757)
Contributions - employee	-	29,043	(29,043)
Net investment income	-	9,995	(9,995)
Benefit payments, including refunds of employee contributions	(11,969)	(11,969)	-
Administrative expenses	-	(291)	291
Other changes	-	(13)	13
Net changes	<u>\$ 110,137</u>	<u>\$ 56,522</u>	<u>\$ 53,615</u>
Balances at June 30, 2020	<u>\$ 598,384</u>	<u>\$ 559,859</u>	<u>\$ 38,525</u>

Sensitivity of the Net Pension (Asset) Liability to Changes in the Discount Rate

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

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Political Subdivision's Net Pension (Asset) Liability	\$ 128,418	\$ 38,525	\$ (34,788)

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

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

For the year ended June 30, 2021, the political subdivision recognized pension expense of \$63,229. At June 30, 2021, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 32,585	\$ 4,852
Change in assumptions	12,656	2,873
Net difference between projected and actual earnings on pension plan investments	17,331	-
Employer contributions subsequent to the measurement date	<u>35,481</u>	<u>-</u>
Total	<u>\$ 98,053</u>	<u>\$ 7,725</u>

The amount of \$35,481 reported as deferred outflows of resources related to pensions resulting from the subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension (Asset) Liability in the fiscal year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30

2022	\$ 10,395
2023	13,837
2024	15,698
2025	12,499
2026	2,068
Thereafter	350

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2020 *Comprehensive Annual Financial Report* (CAFR). A copy of the 2020 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2020-annual-report.pdf>, or by writing to the System's Chief Financial Officer at PO Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

At June 30, 2021, the Town reported a payable of \$4,516 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2021.

NOTES TO FINANCIAL STATEMENTS

Note 14. Group Life Insurance

Plan Description

All full-time, salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OBEB plans, for public employer groups in the Commonwealth of Virginia.

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

The specific information for Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS
<p>Eligible Employees</p> <p>The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:</p> <ul style="list-style-type: none"> • City of Richmond • City of Portsmouth • City of Roanoke • City of Norfolk • Roanoke City School Board <p>Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.</p>
<p>Benefit Amounts</p> <p>The benefits payable under the Group Life Insurance Program have several components.</p> <ul style="list-style-type: none"> • <u>Natural Death Benefit</u> – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. • <u>Accidental Death Benefit</u> – The accidental death benefit is double the natural death benefit. • <u>Other Benefit Provisions</u> – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include: <ul style="list-style-type: none"> ○ Accidental dismemberment benefit ○ Safety belt benefit ○ Repatriation benefit ○ Felonious assault benefit ○ Accelerated death benefit option

NOTES TO FINANCIAL STATEMENTS

Note 14. Group Life Insurance (Continued)

Reduction in benefit Amounts

The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.

Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)

For covered members with at least 30 years of service credit, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$8,616 as of June 30, 2021.

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.34 percent of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.80 percent (1.34 percent X 60 percent) and the employer component was 0.54 percent (1.34 percent X 40 percent). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2021 was 0.54 percent of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Program from the entity were \$2,578 and \$3,126 for the years ended June 30, 2021, and 2020, respectively.

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB

At June 30, 2021, the entity reported a liability of \$48,396 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2020 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of June 30, 2019, and rolled forward to the measurement date of June 30, 2019. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2020 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2020, the participating employer's proportion was .00290 percent as compared to .00303 percent at June 30, 2019.

For the year ended June 30, 2021, the participating employer recognized GLI OPEB expense of \$2,380. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

NOTES TO FINANCIAL STATEMENTS

Note 14. Group Life Insurance (Continued)

At June 30, 2020, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,104	\$ 434
Net difference between projected and actual earnings on GLI OPEB program investments	1,454	-
Change in assumptions	2,420	1,011
Changes in proportion	3,468	1,659
Employer contributions subsequent to the measurement date	<u>2,578</u>	<u>-</u>
Total	<u>\$ 11,024</u>	<u>\$ 3,104</u>

\$2,578 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ending June 30

2022	\$ 1,263
2023	1,674
2024	2,049
2025	2,065
2026	337
Thereafter	(46)

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2019, 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, 2020.

Inflation	2.5 percent
Salary increases, including inflation –	
Locality – General employees	3.5 percent – 5.35 percent
Locality – Hazardous Duty employees	3.5 percent – 4.75 percent
Investment rate of return	6.75 Percent, net of investment expenses, including inflation*

NOTES TO FINANCIAL STATEMENTS

Note 14. Group Life Insurance (Continued)

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

Mortality rates – Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75.
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%
Discount Rate	Decreased rate from 7% to 6.75%

NOTES TO FINANCIAL STATEMENTS

Note 14. Group Life Insurance (Continued)

Mortality rates – Non-Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%
Discount Rate	Decreased rate from 7% to 6.75%

Net GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2020, NOL amounts for the Group Life Insurance Program are as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program
Total GLI OPEB Liability	\$ 3,523,937
Plan Fiduciary Net Position	<u>1,855,102</u>
Employers' Net GLI OPEB Liability (Asset)	<u>\$ 1,668,835</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	52.64%

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

NOTES TO FINANCIAL STATEMENTS

Note 14. Group Life Insurance (Continued)

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	34.00%	4.65%	1.58%
Fixed Income	15.00%	0.46%	0.07%
Credit Strategies	14.00%	5.38%	0.75%
Real Assets	14.00%	5.01%	0.70%
Private Equity	14.00%	8.34%	1.17%
MAPS – Multi-Asset Public Strategies	6.00%	3.04%	0.18%
PIP – Private Investment Partnership	<u>3.00%</u>	<u>6.49%</u>	<u>0.19%</u>
Total	<u>100.00%</u>		4.64%
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.14%</u>

* The above allocation provides a one-year return of 7.14 percent. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11 percent, including expected inflation of 2.50 percent. On October 10, 2019, the VRS Board elected a long-term rate of 6.75 percent which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for FY2020 actuarial valuations provide a median return of 6.81 percent.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance 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, 2020, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100 percent of the actuarially determined contribution rate. From July 1, 2020 on, employers are assumed to contribute 100 percent of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

NOTES TO FINANCIAL STATEMENTS

Note 14. Group Life Insurance (Continued)Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

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

	<u>1.00% Decrease (5.75%)</u>	<u>Current Discount Rate (6.75%)</u>	<u>1.00% Increase (7.75%)</u>
Employer's proportionate share of the Group Life Insurance Program Net OPEB Liability	\$ 63,621	\$ 48,396	\$ 36,033

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2020 *Comprehensive Annual Financial Report* (CAFR). A copy of the 2020 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2020-annual-report.pdf>, or by writing to the System's Chief Financial Officer at PO Box 2500, Richmond, VA, 23218-2500.

Payables to the VRS Group Life Insurance OPEB Plan

At June 30, 2020, the Town reported a payable of \$463 from the Town to the VRS Group Life Insurance OPEB Plan.

Note 15. Change to Beginning Fund Balance and Net Assets

On July 1, 2020, the Town combined the Event Fund, previously reported as a fiduciary fund, into the General Fund. This action was taken by approval of the Town Council.

The beginning fund balance of the General Fund and the beginning net assets of the governmental activities have been restated as a result of combining the applicable assets and liabilities from the Event Fund.

	<u>General Fund</u>
Beginning fund balance, prior to combining	\$ 2,297,828
Add current assets and liabilities (net) from Event Fund on July 1, 2020	<u>53,207</u>
Beginning fund balance, after combining	<u>\$ 2,351,035</u>
	<u>Governmental Net Assets</u>
Beginning net assets, prior to combining	\$ 5,505,091
Add all assets and liabilities (net) from Event Fund on July 1, 2020	<u>66,707</u>
Beginning net assets, after combining	<u>\$ 5,571,798</u>

**Required Supplementary Information-
Other than Management's Discussion and Analysis**

TOWN OF LOVETTSVILLE, VIRGINIA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2021

	Original & Final Budget	Actual	Variance Positive (Negative)
REVENUES			
General property taxes	\$ 659,824	\$ 694,945	\$ 35,121
Other local taxes	564,500	679,757	115,257
Permits, privilege fees, and regulatory licenses	8,225	8,289	64
Revenues from the use of money and property	17,000	2,343	(14,657)
Charges for services	9,550	150	(9,400)
Miscellaneous	9,000	18,828	9,828
Event revenues	268,000	613	(267,387)
Intergovernmental revenues:			
Commonwealth	343,264	80,291	(262,973)
Federal	-	324,344	324,344
County	158,218	1,102	(157,116)
Total revenues	<u>\$ 2,037,581</u>	<u>\$ 1,810,662</u>	<u>\$ (226,919)</u>
EXPENDITURES			
Current :			
General government administration	\$ 942,939	\$ 1,012,028	\$ (69,089)
Community development	43,600	13,375	30,225
Public safety	13,500	15,000	(1,500)
Parks, recreation and cultural	49,900	29,901	19,999
Public works	220,500	217,305	3,195
Event expenditures	268,000	3,308	264,692
Debt service	153,405	151,721	1,684
Capital outlay	1,190,482	744,809	445,673
Total expenditures	<u>\$ 2,882,326</u>	<u>\$ 2,187,447</u>	<u>\$ 694,879</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (844,745)</u>	<u>\$ (376,785)</u>	<u>\$ 467,960</u>
OTHER FINANCING SOURCES			
Loan proceeds for Town Hall	\$ 540,000	\$ 225,000	\$ (315,000)
Total other financing sources	<u>\$ 540,000</u>	<u>\$ 225,000</u>	<u>\$ (315,000)</u>
Net change in fund balance	\$ (304,745)	\$ (151,785)	\$ 152,960
FUND BALANCE AT BEGINNING OF YEAR	<u>2,351,035</u>	<u>2,351,035</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 2,046,290</u>	<u>\$ 2,199,250</u>	<u>\$ 152,960</u>

TOWN OF LOVETTSVILLE, VIRGINIA

SCHEDULE OF CHANGES IN THE TOWN'S NET PENSION (ASSET) LIABILITY
AND RELATED RATIOS AND SCHEDULE OF EMPLOYER CONTRIBUTIONSSCHEDULE OF CHANGES IN THE TOWN'S NET PENSION (ASSET) LIABILITY
AND RELATED RATIOS

	<u>2020</u>	<u>2019</u>
Total pension liability		
Service cost	\$ 78,085	\$ 56,648
Interest	32,553	26,999
Changes of benefit terms	-	-
Differences between expected and actual experience	11,468	59
Changes in assumptions	-	18,876
Benefit Payments, including refunds of employee contributions	<u>(11,969)</u>	<u>(68)</u>
Net change in total pension liability	110,137	102,514
Total pension liability - beginning	<u>488,247</u>	<u>385,733</u>
Total pension liability - ending (a)	<u>\$ 598,384</u>	<u>\$ 488,247</u>
Plan fiduciary net position		
Contributions - employer	\$ 29,757	\$ 29,476
Contributions - employee	29,043	28,734
Net investment income	9,995	30,736
Benefit payments, including refunds of employee contributions	(11,969)	(68)
Administrative expense	(291)	(226)
Other	<u>(13)</u>	<u>(20)</u>
Net change in plan fiduciary net position	56,522	88,632
Plan fiduciary net position - beginning	<u>503,337</u>	<u>414,705</u>
Plan fiduciary net position - ending (b)	<u>\$ 559,859</u>	<u>\$ 503,337</u>
Political subdivision's net pension (asset) liability - ending (a) - (b)	<u>\$ 38,525</u>	<u>\$ (15,090)</u>
Plan fiduciary net position as a percentage of the total pension liability	93.56%	103.09%
Covered payroll	\$ 591,279	\$ 585,180
Political subdivision's net pension (asset) liability as a percentage of covered payroll	6.52%	(2.58%)

TOWN OF LOVETTSVILLE, VIRGINIA

SCHEDULE OF CHANGES IN THE TOWN'S NET PENSION (ASSET) LIABILITY
AND RELATED RATIOS AND SCHEDULE OF EMPLOYER CONTRIBUTIONSSCHEDULE OF CHANGES IN THE TOWN'S NET PENSION (ASSET) LIABILITY
AND RELATED RATIOS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability					
Service cost	\$ 55,068	\$ 51,718	\$ 49,173	\$ 39,110	\$ 36,166
Interest	21,824	17,265	13,741	6,423	3,637
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience	(2,901)	3,739	(12,577)	59,014	-
Changes in assumptions	-	(7,545)	-	-	-
Benefit Payments, including refunds of employee contributions	(68)	(6)	-	-	-
Net change in total pension liability	<u>73,923</u>	<u>65,171</u>	<u>50,337</u>	<u>104,547</u>	<u>39,803</u>
Total pension liability - beginning	<u>311,810</u>	<u>246,639</u>	<u>196,302</u>	<u>91,755</u>	<u>51,952</u>
Total pension liability - ending (a)	<u>\$ 385,733</u>	<u>\$ 311,810</u>	<u>\$ 246,639</u>	<u>\$ 196,302</u>	<u>\$ 91,755</u>
Plan fiduciary net position					
Contributions - employer	\$ 27,213	\$ 27,704	\$ 30,137	\$ 26,970	\$ 23,007
Contributions - employee	24,801	25,290	23,400	21,041	32,974
Net investment income	26,296	34,012	5,026	7,499	15,109
Benefit payments, including refunds of employee contributions	(68)	(6)	-	-	-
Administrative expense	(179)	(140)	(85)	(53)	(34)
Other	(26)	(33)	(2)	(1)	1
Net change in plan fiduciary net position	<u>78,037</u>	<u>86,827</u>	<u>58,476</u>	<u>55,456</u>	<u>71,057</u>
Plan fiduciary net position - beginning	<u>336,668</u>	<u>249,841</u>	<u>191,365</u>	<u>135,909</u>	<u>64,852</u>
Plan fiduciary net position - ending (b)	<u>\$ 414,705</u>	<u>\$ 336,668</u>	<u>\$ 249,841</u>	<u>\$ 191,365</u>	<u>\$ 135,909</u>
Political subdivision's net pension (asset) liability - ending (a) - (b)	<u>\$ (28,972)</u>	<u>\$ (24,858)</u>	<u>\$ (3,202)</u>	<u>\$ 4,937</u>	<u>\$ (44,154)</u>
Plan fiduciary net position as a percentage of the total pension liability	107.51%	107.97%	101.30%	97.48%	148.12%
Covered payroll	\$ 550,620	\$ 518,076	\$ 500,141	\$ 435,845	\$ 317,750
Political subdivision's net pension (asset) liability as a percentage of covered payroll	(5.26%)	(4.80%)	(0.64%)	1.13%	(13.9%)

TOWN OF LOVETTSVILLE, VIRGINIA

SCHEDULE OF CHANGES IN THE TOWN'S NET PENSION (ASSET) LIABILITY
AND RELATED RATIOS AND SCHEDULE OF EMPLOYER CONTRIBUTIONSSCHEDULE OF CHANGES IN THE TOWN'S NET PENSION (ASSET) LIABILITY
AND RELATED RATIOSSCHEDULE OF EMPLOYER CONTRIBUTIONS
Years Ended June 30, 2015 through 2021

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2015	\$ 27,720	\$ 27,720	\$ -	\$ 435,845	\$ 6.36%
2016	51,284	51,284	-	500,141	10.25%
2017	44,781	44,781	-	518,076	8.64%
2018	46,435	46,435	-	550,620	8.43%
2019	30,254	30,254	-	585,180	5.17%
2020	30,569	30,569	-	591,279	5.17%
2021	35,481	35,481	-	490,074	7.24%

Schedules are intended to show information for 10 years. Since 2021 is the seventh year for this presentation, only seven years of data are available. However, additional years will be included as they become available.

Notes to Required Supplemental Information For the Year Ended June 30, 2021

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

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

Largest 10 – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%
Discount Rate	Decreased rate from 7% to 6.75%

TOWN OF LOVETTSVILLE, VIRGINIA

SCHEDULE OF CHANGES IN THE TOWN'S NET PENSION (ASSET) LIABILITY
AND RELATED RATIOS AND SCHEDULE OF EMPLOYER CONTRIBUTIONS

Notes to Required Supplemental Information For the Year Ended June 30, 2021 (Continued)

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%
Discount Rate	Decreased rate from 7% to 6.75%

Largest 10 – Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%
Discount Rate	Decreased rate from 7% to 6.75%

All Others (Non 10 Largest) – Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%
Discount Rate	Decreased rate from 7% to 6.75%

TOWN OF LOVETTSVILLE, VIRGINIA

**SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY –
GROUP LIFE INSURANCE PROGRAM AND SCHEDULE OF EMPLOYER CONTRIBUTIONS**

**SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY -
GROUP LIFE INSURANCE PROGRAM**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Employer's Proportion of the Net GLI OPEB Liability (Asset)	.00290%	.00303%	.00271%	.00290 %
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset)	\$ 48,396	\$ 49,306	\$ 41,000	\$ 43,000
Employer's Covered Payroll	\$ 591,279	\$ 585,180	\$ 550,620	\$ 550,620
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered Payroll	8.19%	8.43%	7.45%	7.81%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	52.64%	52.00%	51.22%	48.86%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
Years Ended June 30, 2018 through 2021**

<u>Date</u>	<u>Contractually Required Contribution (1)</u>	<u>Contributions in Relation to Contractually Required Contribution (2)</u>	<u>Contribution Deficiency (Excess) (3)</u>	<u>Employer's Covered Payroll (4)</u>	<u>Contributions as a % of Covered Payroll (5)</u>
2018	\$ 1,844	\$ 1,844	\$ -	\$ 550,620	.335%
2019	3,111	3,111	-	585,180	.532%
2020	3,126	3,126	-	591,279	.529%
2021	2,578	2,578	-	490,074	.526%

Schedules are intended to show information for 10 years. Since 2021 is the fourth year for this presentation, only four years of data are available. However, additional years will be included as they become available.

TOWN OF LOVETTSVILLE, VIRGINIA

**SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY –
GROUP LIFE INSURANCE PROGRAM AND SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Notes to Required Supplemental Information For the Year Ended June 30, 2021

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

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

Non-Largest Ten Locality Employers – General Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75.
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%
Discount Rate	Decreased rate from 7% to 6.75%

Non-Largest Ten Locality Employers – Hazardous Duty Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%
Discount Rate	Decreased rate from 7% to 6.75%

Other Supplementary Information

TOWN OF LOVETTSVILLE, VIRGINIA

GENERAL FUND
STATEMENT OF REVENUES, COMPARED TO BUDGET
Year Ended June 30, 2021

	Original & Final Budget	Actual	Variance Positive (Negative)
GENERAL PROPERTY TAXES			
Real estate taxes	\$ 625,307	\$ 690,943	\$ 65,636
Penalties and interest	2,000	4,002	2,002
Commercial & industrial real estate taxes	32,517	-	(32,517)
	<u>\$ 659,824</u>	<u>\$ 694,945</u>	<u>\$ 35,121</u>
OTHER LOCAL TAXES			
Sales taxes	\$ 220,000	\$ 260,581	\$ 40,581
Utility tax	15,000	15,063	63
Cigarette tax	23,000	22,361	(639)
Meals tax	159,000	194,108	35,108
Motor vehicle licenses	38,000	51,487	13,487
Bank franchise tax	32,000	25,755	(6,245)
Business licenses	77,500	110,402	32,902
	<u>\$ 564,500</u>	<u>\$ 679,757</u>	<u>\$ 115,257</u>
PERMITS, PRIVILEGE FEES AND REGULATORY LICENSES			
Zoning application fees	\$ 4,950	\$ 7,205	\$ 2,255
Plat fees	1,125	-	(1,125)
Conditional use permits	350	-	(350)
Inspections	1,800	1,084	(716)
	<u>\$ 8,225</u>	<u>\$ 8,289</u>	<u>\$ 64</u>
REVENUES FROM THE USE OF MONEY AND PROPERTY			
Interest earned	\$ 17,000	\$ 2,343	\$ (14,657)
	<u>\$ 17,000</u>	<u>\$ 2,343</u>	<u>\$ (14,657)</u>
CHARGES FOR SERVICES			
Reimbursements:			
Copier	\$ 50	\$ -	\$ (50)
Engineering	9,000	-	(9,000)
Legal	-	150	150
Love Fall	500	-	(500)
	<u>\$ 9,550</u>	<u>\$ 150</u>	<u>\$ (9,400)</u>

(Continued)

TOWN OF LOVETTSVILLE, VIRGINIA

GENERAL FUND
STATEMENT OF REVENUES, COMPARED TO BUDGET
Year Ended June 30, 2021

	Original & Final Budget	Actual	Variance Positive (Negative)
MISCELLANEOUS			
Paver donations	\$ 4,000	\$ 3,850	\$ (150)
Clock Tower donations	1,000	-	(1,000)
Flagpole donations	-	6,693	6,693
Other	4,000	8,285	4,285
	<u>\$ 9,000</u>	<u>\$ 18,828</u>	<u>\$ 9,828</u>
EVENT REVENUES			
Beer & wine sales	\$ 158,050	\$ -	\$ (158,050)
Vendor sales	20,600	-	(20,600)
Souvenir sales	40,760	-	(40,760)
Sponsorship & donations	42,250	500	(41,750)
General fund donation	5,500	50	(5,450)
Other	840	63	(777)
	<u>\$ 268,000</u>	<u>\$ 613</u>	<u>\$ (267,387)</u>
INTERGOVERNMENTAL REVENUES			
Commonwealth			
Rolling Stock tax	\$ 200	\$ 58	\$ (142)
Motor vehicle carriers' tax	2,500	2,284	(216)
Communications tax	12,500	10,015	(2,485)
Fire program funds	10,000	15,000	5,000
VDOT grant funds	318,064	52,934	(265,130)
	<u>\$ 343,264</u>	<u>\$ 80,291</u>	<u>\$ (262,973)</u>
County			
Transportation project funds	\$ 157,218	\$ -	\$ (157,218)
Litter grant	1,000	1,102	102
	<u>\$ 158,218</u>	<u>\$ 1,102</u>	<u>\$ (157,116)</u>
Federal			
CARES Act, county pass through	\$ -	\$ 324,344	\$ 324,344
	<u>\$ -</u>	<u>\$ 324,344</u>	<u>\$ 324,344</u>
Total revenues	<u>\$ 2,037,581</u>	<u>\$ 1,810,662</u>	<u>\$ (226,919)</u>

TOWN OF LOVETTSVILLE, VIRGINIA

GENERAL FUND
STATEMENT OF EXPENDITURES, COMPARED TO BUDGET
Year Ended June 30, 2021

	Original & Final Budget	Actual	Variance Positive (Negative)
GENERAL GOVERNMENT ADMINISTRATION			
Administration			
Administrative salaries	\$ 471,221	\$ 460,733	\$ 10,488
Maintenance support	9,820	-	9,820
Council salaries	16,000	14,084	1,916
Payroll taxes	38,666	33,679	4,987
Health insurance	88,007	44,145	43,862
ICMA Hybrid retirement	6,500	3,367	3,133
VRS Contribution	46,000	29,818	16,182
Auditing	12,000	10,940	1,060
Legal fees, non-reimbursable	56,000	43,148	12,852
Consulting services	27,500	26,382	1,118
Advertising, non-reimbursable	13,000	3,703	9,297
Telephone	3,600	3,275	325
Cellular phones	1,250	2,007	(757)
Postage	4,200	2,797	1,403
Software and support	9,000	8,341	659
Software upgrade	13,000	17,724	(4,724)
Website	23,000	13,883	9,117
Copier lease	5,800	4,303	1,497
Books and subscriptions	500	400	100
Office computers	8,000	7,689	311
Office supplies	9,000	10,186	(1,186)
Office cleaning	4,000	2,638	1,362
Snow removal	1,900	1,421	479
Mowing/landscaping	3,500	3,913	(413)
Repairs/replacements	15,000	-	15,000
Vehicle maintenance	2,800	1,388	1,412
Education	7,575	3,268	4,307
Mileage and travel	1,750	14	1,736
Building and grounds			
Electricity	4,300	3,020	1,280
Water and sewer	900	542	358

(Continued)

TOWN OF LOVETTSVILLE, VIRGINIA

GENERAL FUND
STATEMENT OF EXPENDITURES, COMPARED TO BUDGET
Year Ended June 30, 2021

	Original & Final Budget	Actual	Variance Positive (Negative)
Other			
Donation, Love events	\$ 5,500	\$ 1,656	\$ 3,844
Donation, other	3,500	-	3,500
Bank fees	-	2,006	(2,006)
Tourism/branding	1,500	711	789
Municipal dues	4,200	3,098	1,102
General liability insurance	13,250	13,250	-
Refunds	6,000	27,386	(21,386)
Beautification	3,200	1,720	1,480
Hospitality	2,000	772	1,228
CARES Act:			
Non-capital outlay	-	31,400	(31,400)
Not-for-profit distributions	-	49,322	(49,322)
Residential distributions	-	10,399	(10,399)
Business distributions	-	113,500	(113,500)
Total general government administration	<u>\$ 942,939</u>	<u>\$ 1,012,028</u>	<u>\$ (69,089)</u>
 COMMUNITY DEVELOPMENT			
Consultant	\$ 18,000	\$ 4,105	\$ 13,895
Engineering, non-reimbursable	3,000	100	2,900
Planning commission salaries	8,400	6,250	2,150
Planning commission, other	2,500	-	2,500
Event expense	2,400	-	2,400
Miscellaneous	300	-	300
Reimbursable expenditures:			
Engineering	9,000	-	9,000
Legal	-	2,920	(2,920)
Total community development	<u>\$ 43,600</u>	<u>\$ 13,375</u>	<u>\$ 30,225</u>
 PUBLIC SAFETY			
Donation to fire and rescue company	\$ 3,500	\$ -	\$ 3,500
Fire fund allocation	10,000	15,000	(5,000)
Total public safety	<u>\$ 13,500</u>	<u>\$ 15,000</u>	<u>\$ (1,500)</u>
 PARKS, RECREATION AND CULTURAL			
Maintenance	\$ 29,000	\$ 5,588	\$ 23,412
Litter grant spending	1,000	1,000	-
Utilities	4,700	7,734	(3,034)
Beautification	11,200	12,690	(1,490)
Supplies	2,000	2,676	(676)
Park tools and equipment	2,000	213	1,787
Total parks, recreation and cultural	<u>\$ 49,900</u>	<u>\$ 29,901</u>	<u>\$ 19,999</u>
 PUBLIC WORKS			
Refuse service	\$ 198,000	\$ 201,185	\$ (3,185)
Street signs	500	-	500
Street sweeping	5,000	-	5,000
Street lighting	17,000	16,120	880
Total public works	<u>\$ 220,500</u>	<u>\$ 217,305</u>	<u>\$ 3,195</u>

(Continued)

TOWN OF LOVETTSVILLE, VIRGINIA

GENERAL FUND
STATEMENT OF EXPENDITURES, COMPARED TO BUDGET
Year Ended June 30, 2021

	Original & Final Budget	Actual	Variance Positive (Negative)
EVENT EXPENDITURES			
Love America	\$ 500	\$ -	\$ 500
Love summer	7,500	-	7,500
Love winter	2,500	486	2,014
Oktoberfest:			
Rentals	43,200	-	43,200
Parking shuttle	8,500	-	8,500
Insurance	5,754	-	5,754
Other site expenses	18,470	-	18,470
Marketing	13,864	-	13,864
Sponsorship	1,850	-	1,850
Entertainment	16,400	-	16,400
Kinderfest	4,500	-	4,500
Administrative	25,825	2,301	23,524
Beer & wine costs	64,252	-	64,252
Other cost of goods	29,885	-	29,885
Mayfest:			
Site expense	11,280	-	11,280
Decorations	550	222	328
Entertainment	4,375	-	4,375
Incidentals	1,000	-	1,000
Miscellaneous	1,150	137	1,013
Prizes & souvenirs	1,650	-	1,650
Marketing	2,125	162	1,963
Refreshments	2,870	-	2,870
Total event expenditures	<u>\$ 268,000</u>	<u>\$ 3,308</u>	<u>\$ 264,692</u>
DEBT SERVICE			
Principal	\$ 100,000	\$ 54,114	\$ 45,886
Interest	53,405	97,607	(44,202)
Total debt service	<u>\$ 153,405</u>	<u>\$ 151,721</u>	<u>\$ 1,684</u>
CAPITAL OUTLAY			
Broad Way Improvement 2A	\$ 413,282	\$ 65,456	\$ 347,826
S. Church/E. Penn improvements	87,000	52,258	34,742
Transportation master plan	25,000	44,314	(19,314)
Town office expansion	540,000	454,916	85,084
Quarter branch barn improvements	20,000	-	20,000
Loudon St. improvements	30,000	-	30,000
Locus St. improvements	50,000	-	50,000
New park facilities	25,200	-	25,200
Flagpole project	-	15,460	(15,460)
Old Town Hall renovations	-	59,430	(59,430)
Council chamber IT upgrades	-	15,471	(15,471)
Conference room IT equipment	-	13,309	(13,309)
Painting renovations for Town	-	16,000	(16,000)
Security cameras	-	8,195	(8,195)
Total capital outlay	<u>\$ 1,190,482</u>	<u>\$ 744,809</u>	<u>\$ 445,673</u>
Total expenditures	<u>\$ 2,882,326</u>	<u>\$ 2,187,447</u>	<u>\$ 694,879</u>

TOWN OF LOVETTSVILLE, VIRGINIA

WATER AND SEWER FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - BUDGET AND ACTUAL
Year Ended June 30, 2021

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
OPERATING REVENUES			
Charges for services	\$ 1,261,282	\$ 1,138,773	\$ (122,509)
Late charges	22,800	7,736	(15,064)
Connection fees	15,298	-	(15,298)
Frye Court Service District tax	5,280	4,432	(848)
Reimbursements, developers	4,000	-	(4,000)
Bulk water	5,000	5,675	675
Miscellaneous	800	1,673	873
Total operating revenues	<u>\$ 1,314,460</u>	<u>\$ 1,158,289</u>	<u>\$ (156,171)</u>
OPERATING EXPENSES			
Personnel services	\$ 424,683	\$ 405,689	\$ 18,994
Contractual services	87,750	71,264	16,486
Repairs and maintenance	247,350	227,571	19,779
Utilities	66,750	61,893	4,857
Communications	7,455	9,445	(1,990)
Insurance	22,600	21,598	1,002
Miscellaneous	18,400	18,074	326
Supplies and equipment	79,830	75,066	4,764
Depreciation	-	423,954	(423,954)
Total operating expenses	<u>\$ 954,818</u>	<u>\$ 1,314,554</u>	<u>\$ (359,736)</u>
Operating income (loss)	<u>\$ 359,642</u>	<u>\$ (156,265)</u>	<u>\$ (515,907)</u>
NONOPERATING REVENUES (EXPENSE)			
(Loss) on disposal of equipment	\$ -	\$ (3,966)	\$ (3,966)
Lease of water tower space	117,623	107,757	(9,866)
Interest income	27,000	10,073	(16,927)
Interest expense	(99,274)	(81,199)	18,075
Total nonoperating revenues (expense)	<u>\$ 45,349</u>	<u>\$ 32,665</u>	<u>\$ (12,684)</u>
Income (loss) before contributions	<u>\$ 404,991</u>	<u>\$ (123,600)</u>	<u>\$ (528,591)</u>
CAPITAL CONTRIBUTIONS			
Sewer availability fees	\$ 46,857	\$ 181,997	\$ 135,140
Water availability fees	31,893	123,488	91,595
CARES Act funding	-	50,400	50,400
Total capital contributions	<u>\$ 78,750</u>	<u>\$ 355,885</u>	<u>\$ 277,135</u>
Change in net position	<u>\$ 483,741</u>	<u>\$ 232,285</u>	<u>\$ (251,456)</u>
NET POSITION AT BEGINNING OF YEAR	<u>8,336,441</u>	<u>8,336,441</u>	<u>-</u>
NET POSITION AT END OF YEAR	<u>\$ 8,820,182</u>	<u>\$ 8,568,726</u>	<u>\$ (251,456)</u>

TOWN OF LOVETTSVILLE, VIRGINIA

WATER AND SEWER FUND
STATEMENT OF OPERATING EXPENSES, COMPARED TO BUDGET
Year Ended June 30, 2021

	Original & Final Budget	Actual	Variance Positive (Negative)
PERSONNEL SERVICES			
Utility operators	\$ 312,116	\$ 308,114	\$ 4,002
Payroll taxes	23,877	22,176	1,701
Benefits	88,690	75,399	13,291
	<u>\$ 424,683</u>	<u>\$ 405,689</u>	<u>\$ 18,994</u>
CONTRACTUAL SERVICES			
Engineering	\$ 12,000	\$ 1,383	\$ 10,617
Auditing	12,000	10,940	1,060
Sample testing, sewer	34,000	32,386	1,614
Sample testing, water	4,250	1,725	2,525
Consulting services	8,000	1,699	6,301
Legal services	3,000	11,059	(8,059)
GIS update	5,000	3,900	1,100
Software support	7,000	4,642	2,358
Facility repairs	2,500	3,530	(1,030)
	<u>\$ 87,750</u>	<u>\$ 71,264</u>	<u>\$ 16,486</u>
REPAIRS AND MAINTENANCE			
Sewer:			
Permits	\$ 2,900	\$ 2,889	\$ 11
Equipment repair	10,000	7,766	2,234
Mowing/landscaping	4,350	5,491	(1,141)
Snow removal	4,500	1,360	3,140
Maintenance contracts	7,000	7,628	(628)
Sludge hauling	95,000	110,400	(15,400)
WTP system repairs	28,000	20,774	7,226
Frye Court lift station	2,000	787	1,213
Inflow and infiltration maintenance	25,000	575	24,425
SCADA operation	4,500	1,131	3,369
Water:			
Plant/water line repair	28,500	39,244	(10,744)
Service contracts	3,000	2,537	463
Equipment repair	10,000	1,800	8,200
Water meter installation	5,000	7,943	(2,943)
Water tower maintenance	14,600	14,580	20
SCADA operation	3,000	2,666	334
	<u>\$ 247,350</u>	<u>\$ 227,571</u>	<u>\$ 19,779</u>
UTILITIES			
Electricity-water	\$ 30,500	\$ 30,713	\$ (213)
Electricity-sewer	36,000	30,884	5,116
Electricity-Frye Court lift station	250	296	(46)
	<u>\$ 66,750</u>	<u>\$ 61,893</u>	<u>\$ 4,857</u>

(Continued)

TOWN OF LOVETTSVILLE, VIRGINIA

WATER AND SEWER FUND
STATEMENT OF OPERATING EXPENSES, COMPARED TO BUDGET
Year Ended June 30, 2021

	Original & Final Budget	Actual	Variance Positive (Negative)
COMMUNICATIONS			
Telephone	\$ 6,155	\$ 5,880	\$ 275
DSL	1,300	3,565	(2,265)
	<u>\$ 7,455</u>	<u>\$ 9,445</u>	<u>\$ (1,990)</u>
INSURANCE			
General liability	\$ 22,600	\$ 21,598	\$ 1,002
	<u>\$ 22,600</u>	<u>\$ 21,598</u>	<u>\$ 1,002</u>
MISCELLANEOUS			
Training	\$ 5,000	\$ 1,627	\$ 3,373
Dues	1,000	503	497
Credit card fees	9,900	11,665	(1,765)
Reimbursements/refunds	1,700	3,039	(1,339)
Miss Utility	800	1,240	(440)
	<u>\$ 18,400</u>	<u>\$ 18,074</u>	<u>\$ 326</u>
SUPPLIES AND EQUIPMENT			
Sewer:			
Software upgrade	\$ 1,500	\$ 1,725	\$ (225)
Sample testing	4,500	7,530	(3,030)
Chemicals	12,000	14,390	(2,390)
Gas/diesel fuel	1,000	553	447
Office supplies	2,500	2,190	310
Postage	3,000	1,834	1,166
Safety supplies	2,000	1,194	806
Spare parts	5,000	6,665	(1,665)
Tools	2,000	694	1,306
Stone/gravel	500	-	500
Vehicle expense	12,500	8,865	3,635
Uniforms	4,500	4,200	300
Water:			
Software upgrade	1,500	1,725	(225)
Sample testing	4,000	3,485	515
Chemicals	7,000	7,713	(713)
Gas/diesel fuel	1,000	474	526
Office supplies	2,230	2,752	(522)
Office equipment	1,500	430	1,070
Postage	2,100	1,579	521
Safety supplies	1,500	442	1,058
Spare parts	5,000	5,428	(428)
Tools	2,000	1,198	802
Stone/gravel	1,000	-	1,000
	<u>\$ 79,830</u>	<u>\$ 75,066</u>	<u>\$ 4,764</u>
DEPRECIATION			
Depreciation	\$ -	\$ 423,954	\$ (423,954)
	<u>\$ -</u>	<u>\$ 423,954</u>	<u>\$ (423,954)</u>
Total operating expenses	<u>\$ 954,818</u>	<u>\$ 1,314,554</u>	<u>\$ (359,736)</u>



David W. Black, CPA
Managing Partner

Christopher R. Montgomery, CPA
Tax Partner

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

To the Honorable Town Council
Town of Lovettsville
PO Box 209
Lovettsville, VA 20180

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund, of the Town of Lovettsville, Virginia, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town of Lovettsville's basic financial statements, and have issued our report thereon dated November 18, 2021. The financial statements of the Town's fiduciary funds were not audited and this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with those funds.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Lovettsville'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 Lovettsville's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Lovettsville'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.

Young, Nicholas, Branner & Phillips, LLP
Certified Public Accountants

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Retired Partners

Edward M. Young, CPA
Jack D. Nicholas, CPA
J. Robert Branner, CPA
Richard E. Phillips, CPA

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, items 2021-1 through 2021-2, which we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Lovettsville's financial statements are free of 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*.

Response to Findings

The Town of Lovettsville's response to the findings identified in our audit is described under the material weaknesses reported above. The Town of Lovettsville's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Young, Nicholas, Branner & Phillips, LLP

Harrisonburg, VA
November 18, 2021

TOWN OF LOVETTSVILLE, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2021

FINDINGS – FINANCIAL STATEMENT AUDIT

A. Material Weaknesses in Internal Control

2021-1 Accounting Assistance

Criteria: The management and staff of the Town should reconcile accounts, maintain depreciation schedules, and make all adjusting entries necessary to prepare financial statements in accordance with generally accepted accounting standards.

Condition: The management and staff of the Town lack the expertise to reconcile certain accounts, maintain depreciation schedules, and make all adjusting entries necessary to prepare financial statements in accordance with generally accepted accounting standards.

Cause: The cause of this condition is the Town cannot afford to hire a full-time, in-house Certified Public Accountant skilled in governmental accounting standards at this time.

Effect: As a result of this deficiency in internal control, the Town's financial statements may be misstated without the assistance and expertise of a third party.

Recommendation: The recommendation is for management of the Town to enlist the auditor to provide basic accounting assistance such as reconciling certain accounts, maintaining depreciation schedules, and proposing journal entries. Professional standards indicate that it is acceptable for the auditor to perform such nonaudit services providing independence is not impaired. However, the auditor cannot be considered part of the Town's internal control and this matter is required to be communicated to you.

Management's response: Management believes the current practice to be acceptable and cost beneficial to the Town. The management of the Town plans to continue to enlist the auditor to provide basic accounting assistance such as reconciling certain accounts, maintaining depreciation schedules, and proposing journal entries.

2021-2 Financial Statement Presentation

Criteria: The management and staff of the Town should prepare financial statements in accordance with generally accepted accounting standards.

Condition: The management and staff of the Town lack the expertise to prepare financial statements in accordance with generally accepted accounting standards.

Cause: The cause of this condition is the Town cannot afford to hire a full-time, in-house Certified Public Accountant skilled in governmental accounting standards at this time.

Effect: As a result of this deficiency in internal control, the Town's financial statements may be misstated without the assistance and expertise of a third party.

TOWN OF LOVETTSVILLE, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2021

FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

Recommendation: The recommendation is for management of the Town to enlist the auditor to provide assistance in drafting the Town's financial statements. Professional standards indicate that it is acceptable for the auditor to perform such nonaudit service providing independence is not impaired. However, the auditor cannot be considered part of the Town's internal control and this matter is required to be communicated to you.

Management's response: Management believes the current practice to be acceptable and cost beneficial to the Town. The management of the Town plans to continue to enlist the auditor to provide assistance in drafting the Town's financial statements.

B. Significant Deficiencies in Internal Control - None