

TOWN OF DUMFRIES, VIRGINIA
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2018

TOWN OF DUMFRIES, VIRGINIA

PRINCIPAL OFFICIALS

TOWN COUNCIL AND EXECUTIVE OFFICERS

Mayor

Derrick R. Wood

Vice-Mayor

Monae S. Nickerson

Town Manager-interim

Derrick R. Wood

Town Treasurer

Retta Ladd

Chief of Police

Nicholas R. Esposito

Town Attorney

Kristi Malei Caturano

Town Clerk

Dawn Hobgood, CMC

COUNCIL MEMBERS

Charles C. Brewer

Melva P. Willis

Selonia B. Miles

Cydny A. Neville

Brian K. Fields

TOWN OF DUMFRIES, VIRGINIA
Financial Report
For the Year Ended June 30, 2018

Table of Contents

	Page
Independent Auditors' Report	1-3
Management's Discussion and Analysis	4-9
<u>Basic Financial Statements</u>	
<u>Government-wide Financial Statements</u>	
Exhibit 1 Statement of Net Position	10
Exhibit 2 Statement of Activities	11
<u>Fund Financial Statements</u>	
Exhibit 3 Balance Sheet—Governmental Funds	12
Exhibit 4 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	13
Exhibit 5 Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds	14
Exhibit 6 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities—Governmental Funds	15
Notes to Financial Statements	16-97
<u>Required Supplementary Information</u>	
Exhibit 7 Schedule of Changes in Net Pension Liability (Asset) and Related Ratios	98
Exhibit 8 Schedule of Employer Contributions - VRS	99
Exhibit 9 Notes to Required Supplementary Information	100
Exhibit 10 Schedule of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual—General Fund	101
Exhibit 11 Schedule of Employers Share of Net OPEB Liability - Line of Duty Act Program	102

TOWN OF DUMFRIES, VIRGINIA
Financial Report
For the Year Ended June 30, 2018

Table of Contents (Continued)

	Page
Exhibit 12	Schedule of Employers Contributions - Line of Duty Act Program 103
Exhibit 13	Notes to Required Supplementary Information - Line of Duty Act Program 104
Exhibit 14	Schedule of Employers Share of Net OPEB Liability - Group Life Insurance Program 105
Exhibit 15	Schedule of Employers Contributions - Group Life Insurance Program 106
Exhibit 16	Notes to Required Supplementary Information - Group Life Insurance Program 107-108
Exhibit 17	Schedule of Changes in the Net OPEB Liability and Related Ratios - Health Insurance Credit Program 109
Exhibit 18	Schedule of Employer Contributions - Health Insurance Credit Program 110
Exhibit 19	Notes to Required Supplementary Information - Health Insurance Credit Program 111
Exhibit 20	Schedule of Town's Share of Net OPEB Liability - Virginia Local Disability Program 112
Exhibit 21	Schedule of Employer Contributions - Virginia Local Disability Program 113
Exhibit 22	Notes to Required Supplementary Information - Virginia Local Disability Program 114

Other Supplementary Information
Supporting Schedule

Schedule 1	Schedule of Revenues - Budget and Actual—Governmental Funds	115-116
------------	---	---------

TOWN OF DUMFRIES, VIRGINIA

Financial Report
For the Year Ended June 30, 2018

Table of Contents (Continued)

	Page
<u><i>Statistical Information</i></u>	
Table 1 General Fund Expenditures by Function—Last Ten Fiscal Years	117
Table 2 General Fund Revenues by Source—Last Ten Fiscal Years	118
Table 3 Real Property Tax Levies and Collections—Last Ten Fiscal Years	119
Table 4 Assessed Value of Taxable Property—Last Ten Fiscal Years	120
Table 5 Property Tax Rates—Last Ten Fiscal Years	121
Table 6 Legal Debt Margin	122
Table 7 Miscellaneous Statistics—Last Ten Fiscal Years	123
 <u><i>Compliance</i></u>	
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 <i>Government Auditing Standards</i>	124-125
Schedule of Findings and Responses	126

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Town of Dumfries, Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Town of Dumfries, Virginia, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2018, the Town adopted new accounting guidance, GASB Statement Nos. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, 81 *Irrevocable Split-Interest Agreements*, and 85 *Omnibus 2017*. Our opinion is not modified with respect to this matter.

Restatement of Beginning Balances

As described in Note 16 to the financial statements, in 2018, the Town restated beginning balances to reflect the requirements of GASB Statement No. 75, and for capital lease proceeds prior year. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension and OPEB funding located on pages 4-9, and 98-114 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Town of Dumfries, Virginia's basic financial statements. The supporting schedule and statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supporting schedule 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 supporting schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2018 on our consideration of Town of Dumfries, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Town of Dumfries, Virginia's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Dumfries, Virginia's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Fredericksburg, Virginia
November 29, 2018

Town of Dumfries Management's Discussion and Analysis

The following discussion provides an overview and analysis of Town of Dumfries's (Town) financial activities for the fiscal year ended June 30, 2018. Please read this information in conjunction with the Town's audited financial statements as reported herein.

Financial Highlights

- The assets and deferred outflows of resources of the Town of Dumfries, on a government-wide basis exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$6,233,845 (net position). Of that, \$2,448,582 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The total assets of the Town's governmental activities for fiscal year ended June 30, 2018 were \$18,870,973.
- For the year ended June 30, 2018, the Town of Dumfries's governmental activities reported a positive change in net position of \$159,987.
- The Town's revenue bonds decreased by \$175,000 due to debt repayment, the Town issued General Obligation bonds in the amount of \$5,460,000 and the Town's compensated absences liabilities increased by \$41,398.
- Net pension liability as of June 30, 2018 was \$1,066,334 and there was a net pension liability at June 30, 2017 of \$1,109,735 resulting in a net increase in liability of \$43,401.
- Net OPEB liabilities as of June 30, 2018 was \$219,153 and there was a net OPEB Liabilities at June 30, 2017 of \$242,575 resulting in a net increase in liability of \$23,422.

Overview of the Financial Statements

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

Government-wide financial statements

The *government-wide financial statements* are designed to provide the readers with a broad overview of the Town's finances, in a manner similar to a private-sector business. The *statement of net position* presents all of the Town's permanent accounts or assets, deferred outflows, liabilities, deferred inflows and the resulting net position. The difference between assets (including deferred outflows of resources) and liabilities (including deferred inflows of resources) is reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. Other non-financial factors will also need to be considered to determine the overall financial position of the Town.

The *Statement of Activities* presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying events giving rise to the changes occur, *regardless of the timing of related cash flows*. Thus, some transactions reported in this statement will result in cash flows in future fiscal periods.

Government-wide financial statements (Continued)

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government administration, public safety, public works, community development, and interest paid on long-term debt.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Town only has governmental funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on the *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Notes to the Financial Statements

The notes provide additional information and details that are essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also contains required supplementary information including budgetary comparisons for the general fund and progress in funding its obligation to provide pension and other post-employment benefits to its employees.

Government-wide Financial Analysis

The following table reflects the condensed Summary of Net Position as presented in the government-wide financial statements:

Statement of Net Position			
As of June 30, 2018 and 2017			
	Governmental Activities		
	2018	2017	
Current and other assets	\$ 5,474,316	\$ 5,318,998	
Capital assets	13,137,882	7,486,030	
Total assets	\$ 18,612,198	\$ 12,805,028	
Deferred outflows of resources	\$ 258,775	\$ 236,119	
Total assets and deferred outflows	\$ 18,870,973	\$ 13,041,147	
Current and other liabilities	\$ 957,654	\$ 855,428	
Long-term liabilities	11,110,811	5,307,501	
Total liabilities	\$ 12,068,465	\$ 6,162,929	
Deferred inflows of resources	\$ 568,663	\$ 574,856	
Net position:			
Net investment in capital assets	\$ 3,785,263	\$ 3,336,225	
Unrestricted	2,448,582	2,967,137	
Total net position	\$ 6,233,845	\$ 6,303,362	
Total liabilities, deferred inflows, and net position	\$ 18,870,973	\$ 13,041,147	

Note: FY2018 was the first year of implementation of GASB Statement No. 75, and prior year comparative information was unavailable. As a consequence, the FY2017 information in Table 2 above has not been restated to reflect the requirements of GASB Statement No. 75.

The net position for the Town totals \$6,233,845, which is a decrease of \$65,694 (7%) under the previous fiscal year. The individual revenue and expense categories of the governmental activities remained relatively level as compared with the prior year with the following exceptions. An decrease in operating grants of \$268,790 attributable primarily to the fish and wildlife stream restoration grant, a decrease of capital grants of \$33,136 due to state road grants and highway planning and construction aid, and an increase in Public Safety expenses of \$450,302 attributable primarily to less capital project expenditures.

Government-wide Financial Analysis (Continued)

The following table shows the revenue and expenses of government-wide activities:

Statement of Activities			
For the Year Ended June 30, 2018 and 2017			
	Governmental Activities		
	2018	2017	
Revenues:			
Program Revenues:			
Charges for services	\$ 417,382	\$ 339,385	
Operating grants & contributions	448,808	733,919	
Capital grants & contributions	209,932	226,747	
General Revenues:			
Real estate taxes	844,725	806,609	
Other local taxes	2,264,138	2,254,710	
Miscellaneous	12,604	81,217	
Unrestricted investment earnings	41,334	26,398	
Grants and contributions not restricted to specific programs	272,913	255,555	
Gain on disposal of capital asset	41,438		
Total revenues	\$ 4,553,274	\$ 4,724,540	
Expenses:			
Administration	\$ 1,211,175	\$ 1,128,888	
Public safety	1,367,025	916,723	
Public works	1,191,246	953,922	
Community development	229,624	187,762	
Interest on long-term debt	394,217	212,635	
Total expenses	\$ 4,393,287	\$ 3,399,930	
Change in net position	\$ 159,987	\$ 1,324,610	
Net position beginning of year, as restated	6,073,858	4,978,752	
Net position end of year	\$ 6,233,845	\$ 6,303,362	

Note: FY2018 was the first year of implementation of GASB Statement No. 75, and prior year comparative information was unavailable. As a consequence, the FY2017 information in Table 2 above has not been restated to reflect the requirements of GASB Statement No. 75.

Government-wide Financial Analysis (Continued)

Governmental Activities. For fiscal year 2018, the real estate tax rate was \$0.1899 per \$100 of assessed value. Capital grants and contributions decreased as compared to FY17 by \$33,136. This reduction was due to a decrease in VDOT roads grants in the fiscal year.

Financial Analysis of the Town's Funds

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds: The focus of the Town's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town's financing requirement. In particular *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the Town's governmental funds reported a combined ending fund balance of \$4,170,217, an increase of \$109,690 in comparison with the prior year. Of this total amount, \$3,782,694 or 91% constitutes the unassigned fund balance. The remaining \$4,127 consists of the restricted, committed and assigned fund balances designated for various items.

The General Fund is the Town's primary operating fund. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$3,782,694.

General Fund Budgetary Highlights

There were no amendments to the General Fund budget during the year ended June 30, 2018.

Capital Assets and Debt Administration

Capital assets: The Town's investment in capital assets for its governmental activities totaled \$3,401,919, net of accumulated depreciation. This is a decrease of \$65,694 from the previous year. This investment in capital assets includes land, buildings and improvements, infrastructure, machinery and equipment, and construction in progress. This increase is primarily due to increases of construction in progress related to roads projects.

Additional details on the Town's capital assets can be found in Note 4 of the Notes to Financial Statements.

Long-term obligations: At the end of the current fiscal year, the Town had total outstanding long-term obligations of \$11,110,811. The increase of \$5,803,310 from the prior year primarily represents the payment of debt service offset by a net decrease in the net pension liability. Debt service repayments during the year totaled \$225,173. The liability balances for compensated absences decreased by \$89,164, the net pension liability decreased \$43,401 and net OPEB liabilities decreased by 23,422.

For towns, the Commonwealth of Virginia limits the amount of debt outstanding to 10% of the locality's assessed value of real property. The Town's outstanding debt is significantly below this limitation representing the Town's historically conservative debt borrowing policy and management approach.

Additional details on the Town's long-term obligations can be found in Notes 6 of the Notes to Financial Statements.

Economic Factors

- Economic Development and Redevelopment will continue to be a major issue for the Town of Dumfries for the foreseeable future. The Town of Dumfries has a finite amount of land available for new construction and, as a result, there continues to be a need to encourage redevelopment options within the Town limits. A local developer is currently moving forward with a \$42 million Main Street project that will include residential over retail development with a parking garage. It is anticipated that once that project is completed, other developers will explore opportunities for redevelopment throughout the Town of Dumfries.
- The Route 1 widening project is moving forward on a timeline for completion that is shorter than what was originally anticipated. Funding appears to be the controlling factor and that issue is being dealt with on several different levels. Once completed, the project will result in all lanes of Route 1 through the Town of Dumfries being located where the northbound only lanes currently run. That will allow the present southbound lanes to revert to a “Main Street” setting that will encourage development and redevelopment.
- Although economic recovery continues at the local, state and federal levels, it remains slower than anticipated and there continues to be reduced funding opportunities available to local government.

Requests for Information

This financial report is designed to provide a general overview of the Town’s financial condition as of fiscal year ended June 30, 2018. Questions concerning this report or requests for additional information should be directed to the Treasurer, Town of Dumfries, 17755 Main Street, Dumfries, VA 22026.

Basic Financial Statements

Government-wide Financial Statements

Statement of Net Position
June 30, 2018

	Primary Government Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 4,364,453
Receivables (net of allowance for uncollectibles):	
Taxes receivable	449,807
Accounts receivable	196,763
Due from other governmental units	79,949
Restricted assets:	
Cash and cash equivalents	383,344
Capital assets (net of accumulated depreciation):	
Land	1,051,765
Buildings and improvements	5,055,467
Machinery and equipment	317,604
Infrastructure	6,114,341
Construction in progress	598,705
Total assets	\$ 18,612,198
DEFERRED OUTFLOWS OF RESOURCES	
Pension related items	\$ 218,250
OPEB related items	40,525
Total deferred outflows of resources	\$ 258,775
LIABILITIES	
Accounts payable	\$ 53,330
Accrued liabilities	58,744
Escrow and other deposits	145,957
Accrued interest payable	101,801
Unearned revenue	597,822
Long-term liabilities:	
Due within one year	355,118
Due in more than one year	10,755,693
Total liabilities	\$ 12,068,465
DEFERRED INFLOWS OF RESOURCES	
Pension related items	\$ 91,920
OPEB related items	49,361
Deferred revenue - property taxes	427,382
Total deferred inflows of resources	\$ 568,663
NET POSITION	
Net investment in capital assets	\$ 3,785,263
Unrestricted	2,448,582
Total net position	\$ 6,233,845

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

Statement of Activities
For the Year Ended June 30, 2018

Functions/Programs	Program Revenues				Net (Expense) Revenue and
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Changes in Net Position
					Primary Government
					Governmental Activities
PRIMARY GOVERNMENT:					
Governmental activities:					
General government administration	\$ 1,211,175	\$ 95,116	\$ -	\$ -	\$ (1,116,059)
Public safety	1,367,025	-	171,825	18,321	(1,176,879)
Public works	1,191,246	-	276,983	191,611	(722,652)
Community development	229,624	322,266	-	-	92,642
Interest on long-term debt	394,217	-	-	-	(394,217)
Total governmental activities	\$ 4,393,287	\$ 417,382	\$ 448,808	\$ 209,932	\$ (3,317,165)
General revenues:					
General property taxes					\$ 844,725
Local sales and use taxes					386,890
Consumers' utility taxes					185,883
Business licenses					323,790
Restaurant food taxes					695,829
Transient occupancy taxes					285,430
Cigarette tax					171,595
Other local taxes					214,721
Unrestricted revenues from use of money and property					41,334
Miscellaneous					12,604
Grants and contributions not restricted to specific programs					272,913
Gain on disposal of capital assets					41,438
Total general revenues					\$ 3,477,152
Change in net position					\$ 159,987
Net position - beginning, as restated					6,073,858
Net position - ending					\$ 6,233,845

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

Fund Financial Statements

Balance Sheet
Governmental Funds
June 30, 2018

	General	Capital Projects	Total
ASSETS			
Cash and cash equivalents	\$ 4,364,256	\$ 197	\$ 4,364,453
Receivables (net of allowance for uncollectibles):			
Taxes receivable	449,807	-	449,807
Accounts receivable	196,763	-	196,763
Due from other governmental units	79,949	-	79,949
Restricted assets:			
Cash and cash equivalents	383,344	-	383,344
Total assets	<u>\$ 5,474,119</u>	<u>\$ 197</u>	<u>\$ 5,474,316</u>
LIABILITIES			
Accounts payable	\$ 53,330	\$ -	\$ 53,330
Accrued liabilities	58,744	-	58,744
Escrow and other deposits	145,957	-	145,957
Unearned revenue	597,822	-	597,822
Total liabilities	<u>\$ 855,853</u>	<u>\$ -</u>	<u>\$ 855,853</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	\$ 448,246	\$ -	\$ 448,246
Total deferred inflows of resources	<u>\$ 448,246</u>	<u>\$ -</u>	<u>\$ 448,246</u>
FUND BALANCES			
Restricted:			
Asset forfeiture	\$ 437	\$ -	\$ 437
Courthouse maintenance funds	3,545	-	3,545
Debt reserve funds	383,344	-	383,344
Assigned:			
Capital projects	-	197	197
Unassigned:			
General fund	3,782,694	-	3,782,694
Total fund balances	<u>\$ 4,170,020</u>	<u>\$ 197</u>	<u>\$ 4,170,217</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 5,474,119</u>	<u>\$ 197</u>	<u>\$ 5,474,316</u>

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

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2018

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$	4,170,217	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			13,137,882
Other long-term assets are not available to pay for current period expenditures, and therefore, are deferred in the funds.			
Unavailable revenue - property taxes			20,864
Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds.			
Pension related items	\$	218,250	
OPEB related items		<u>40,525</u>	258,775
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expense when due.			(101,801)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.			
Bonds payable	\$	(9,435,000)	
Bond premium		(89,333)	
Capital lease		(211,827)	
Compensated absences		(89,164)	
Net pension liability		(1,066,334)	
Net OPEB liabilities		<u>(219,153)</u>	(11,110,811)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.			
Pension related items	\$	(91,920)	
OPEB related items		<u>(49,361)</u>	<u>(141,281)</u>
Net position of governmental activities	\$		<u><u>6,233,845</u></u>

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

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2018

	General	Capital Projects	Total
REVENUES			
General property taxes	\$ 843,439	\$ -	\$ 843,439
Other local taxes	2,264,138	-	2,264,138
Permits, privilege fees, and regulatory licenses	322,266	-	322,266
Fines and forfeitures	95,116	-	95,116
Revenue from the use of money and property	41,332	2	41,334
Miscellaneous	12,604	-	12,604
Intergovernmental:			
Commonwealth	807,598	-	807,598
Federal	124,055	-	124,055
Total revenues	\$ 4,510,548	\$ 2	\$ 4,510,550
EXPENDITURES			
Current:			
General government administration	\$ 1,133,917	\$ -	\$ 1,133,917
Public safety	1,547,818	-	1,547,818
Public works	1,177,787	-	1,177,787
Community development	218,306	-	218,306
Capital projects	5,793,908		5,793,908
Debt service:			
Principal retirement	225,173	-	225,173
Interest and other fiscal charges	321,755	-	321,755
Total expenditures	\$ 10,418,664	\$ -	\$ 10,418,664
Excess (deficiency) of revenues over (under) expenditures	\$ (5,908,116)	\$ 2	\$ (5,908,114)
OTHER FINANCING SOURCES (USES)			
Issuance of bonds	\$ 5,460,000	\$ -	\$ 5,460,000
Premium on issuance of bonds	89,333	-	89,333
Proceeds from the sale of land	206,471	-	206,471
Total other financing sources (uses)	\$ 5,755,804	\$ -	\$ 5,755,804
Net change in fund balances	\$ (152,312)	\$ 2	\$ (152,310)
Fund balances - beginning, as restated	4,322,332	195	4,322,527
Fund balances - ending	\$ 4,170,020	\$ 197	\$ 4,170,217

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

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
to the Statement of Activities - Governmental Funds
For the Year Ended June 30, 2018

		<u>Governmental Funds</u>
Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances - total governmental funds	\$	(152,310)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation or vice versa in the current period.		
Capital outlay	\$ 6,114,425	
Depreciation expense	<u>(297,540)</u>	5,816,885
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.		
		(165,033)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes		1,286
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Issuance of long term debt	\$ (5,549,333)	
Principal repayments	<u>225,173</u>	(5,324,160)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.		
Change in compensated absences	\$ (41,398)	
Pension expense	95,664	
OPEB expense	1,515	
Change in interest payable	<u>(72,462)</u>	(16,681)
Change in net position of governmental activities	\$	<u><u>159,987</u></u>
The notes to financial statements are an integral part of this statement.		

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements June 30, 2018

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Narrative Profile:

Town of Dumfries received its charter in 1749. The Town has a population of 5,186 and a land area of 1.63 square miles.

The Town is governed under the Council-Manager form of government. The Town government engages in wide ranges of municipal services including general government administration, public safety, public works, and community development.

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

A. Financial Reporting Entity

Management's Discussion and Analysis: GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis that the private sector provides in their annual reports.

Government-wide Financial Statements: The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter.

Statement of Net Position: The Statement of Net Position is designed to display the financial position of the primary government (governmental and business-type activities) and its discretely presented component units. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Position and report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net position of a government will be broken down into three categories: 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

Statement of Activities: The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

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

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

A. Financial Reporting Entity: (Continued)

Budgetary Comparison Schedules: (Continued)

Under the GASB 34 reporting model, governments provide budgetary comparison information in their annual reports, including the original budget and a comparison of final budget and actual results for its major funds.

Individual Component Unit Disclosures: Accounting principles generally accepted in the United States require financial statements to present the primary government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The Town has no component units that meet the requirements for blending. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide statements to emphasize they are legally separate from the primary government. The Town does not have any discretely presented component units.

B. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the Town as a whole) and fund financial statements. The focus is on both the Town as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds (by category) and the component units, if applicable. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected on a full accrual economic resource basis which incorporates long-term assets and receivables as well as long-term debt and obligations. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

The Town generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The Town may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, community development, etc.) that are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, community development, etc.) or a business-type 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 and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The Town does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

B. Government-wide and Fund Financial Statements: (Continued)

Internal service charges, if applicable, are eliminated and the net income or loss from internal service activities is allocated to the various functional expense categories based on the internal charges to each function. In the fund financial statements, financial transactions and accounts of the Town are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The fund statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustment necessary to reconcile the fund financial statements to the governmental column of the government-wide financial statements.

The following is a brief description of the specific funds used by the Town in FY 2018.

1. *Governmental Funds* - Governmental Funds are those through which most governmental functions typically are financed. The government reports the following governmental funds.

General Fund - The General Fund is the primary operating fund of the Town. This fund is used to account for and report all financial resources except those required to be accounted for and reported in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for service, and interest income. The General Fund is considered a major fund for reporting purposes.

Capital Projects Fund - The Capital Projects Fund accounts for and reports financial resources that are restricted, committed or assigned to expenditure for capital outlays, except for those financed by proprietary funds or for assets held in trust for individuals, private organizations, or other governments. The Capital Projects Fund is considered a major fund.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Government-wide statements are prepared using the economic resources measurement focus. All Governmental Funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

C. Measurement Focus and Basis of Accounting: (Continued)

Governmental funds utilize the modified accrual basis of accounting under which revenues and related assets are recorded when measurable and available to finance operations during the year. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts, except that property taxes not collected within 45 days after year-end are reflected as unavailable revenues. Sales and utility taxes, which are collected by the State or utilities and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the State or utility, which is generally in the month preceding receipt by the Town. Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of State and other grants for the purpose of funding specific expenditures, are recognized when measurable and available or at the time of the specific expenditure and all other grant requirements have been satisfied.

Expenditures, other than interest on long-term debt, are recorded as the related fund liabilities are incurred. Principal and interest on long-term debt are recognized when due except for amounts due on July 1, which are accrued.

D. Budgets and Budgetary Accounting

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

1. Budgets and Budgetary Accounting

- a. The Town Manager submits a proposed operating and capital budget to the Town Council prior to June 30 of each year. The budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain citizen comments.
- c. Prior to June 30, the budget is legally enacted through Council vote.
- d. The Town Manager is authorized to transfer budgeted amounts between line items within a department without prior approval from the Town Council.
- e. All budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

2. Legally Adopted Budgets

The general fund has a legally adopted annual budget.

E. Cash and Cash Equivalents

Cash and cash equivalents include all cash on hand and in banks, certificates of deposit, and highly liquid investments with original maturities of three months or less.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

F. Investments

External investment pools are measured at amortized cost in accordance with GASB 79. All other investments are reported at fair value.

G. Property Taxes

Real estate is assessed annually on January 1st by the County of Prince William at fair market value. Real estate taxes attach as an enforceable lien on the property as of January 1st. Taxes are payable semi-annually on June 5th and December 5th. The Town bills and collects its own property taxes. Penalties accrue on real estate taxes beginning June 6th and December 6th. Interest accrues on real estate taxes beginning July 1st.

H. Allowance for Uncollectible Accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance for uncollectible taxes for the General Fund was \$11,401 at June 30, 2018.

I. Capital Assets

Capital assets include land, buildings and improvements, machinery and equipment, and infrastructure. Any asset or group of assets acquired by the Town that has a useful life in excess of one year and an acquisition cost, or fair market value (when received), of at least \$5,000 is reported in the applicable governmental column in the government-wide financial statements.

Such assets are recorded at historical cost (or estimated historical cost) if constructed or purchased. Donated capital assets are recorded at acquisition value at the date of donation. Capital assets are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings and improvements	20-30 years
Machinery and equipment	5-7 years
Infrastructure	30 years

J. Compensated Absences and Other Employee Benefit Amounts

Vested vacation, sick pay and other related employee benefit amounts are accrued when earned in all funds.

K. Long-term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued and premiums on issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

L. Fund Equity

The Town reports fund balance in accordance with GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund.

When fund balance resources are available for a specific purpose in more than one classification, it is the Town's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

Town Council establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget or a motion to commit funds. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by Town Council or the Town Manager as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

M. Credit Risk

Concentrations of credit risk with respect to receivables are limited due to the large number of customers comprising the Town's customer base. As of June 30, 2018, the Town had no significant concentrations of credit risk.

N. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures and disclosure of contingent assets and liabilities for the reported periods. Actual results could differ from those estimates and assumptions.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

O. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has one item that qualifies for reporting in this category. It [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. It is comprised of certain items related to the measurement of the net pension liability and net OPEB liabilities and contributions to the pension and OPEB plan(s) made during the current year and subsequent to the net pension liability and net OPEB liability measurement date. For more detailed information on these items, reference the related notes.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has multiple items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30, 2nd half installments levied during the fiscal year but due after June 30th, and amounts prepaid on the 2nd half installments and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2nd half installments levied during the fiscal year but due after June 30th and amounts prepaid on the 2nd half installments are reported as deferred inflows of resources. In addition, certain items related to the measurement of the net pension liability and net OPEB asset/liabilities) are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

P. Net Position

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

Q. Net Position Flow Assumption

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

R. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Town's Retirement Plan and the additions to/deductions from the Town'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.

S. Other Postemployment Benefits

Group Life Insurance

The Virginia Retirement System (VRS) Group Life Insurance (GLI) Program provides coverage to state employees, teachers, and employees of participating political subdivisions. The GLI 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 GLI 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 GLI Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the GLI OPEB, and GLI OPEB expense, information about the fiduciary net position of the VRS GLI Program OPEB and the additions to/deductions from the VRS GLI 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.

Line of Duty Act Program

The Virginia Retirement System (VRS) Line of Duty Act Program (LODA) was established pursuant to §9.1-400 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 LODA Program provides death and health insurance benefits to eligible state employees and local government employees, including volunteers, who die or become disabled as a result of the performance of their duties as a public safety officer. In addition, health insurance benefits are provided to eligible survivors and family members. For purposes of measuring the net LODA OPEB liability, deferred outflows of resources and deferred inflows of resources related to the LODA OPEB, and related LODA OPEB expense, information about the fiduciary net position of the VRS LODA Program OPEB Plan and the additions to/deductions from the VRS LODA Program OPEB Plan'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.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

S. Other Postemployment Benefits: (Continued)

Health Insurance Credit Program

The Town Insurance Credit (HIC) Program was established pursuant to §51.1-1400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. For purposes of measuring the net HIC OPEB liability, deferred outflows of resources and deferred inflows of resources related to the HIC OPEB, and the related HIC OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Political Subdivision HIC Program, and the additions to/deductions from the VRS Political Subdivision HIC Program's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

T. Adoption of Accounting Principles

The Town implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* during the fiscal year ended June 30, 2018. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to postemployment benefits other than pensions (other postemployment benefits or OPEB). Note disclosure and required supplementary information requirements about OPEB are also addressed. The requirements of this Statement will improve accounting and financial reporting by state and local governments for OPEB. The implementation of this statement resulted in a restatement of net position, see note 16 for details.

In addition, the Town implemented Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017* during the fiscal year ended June 30, 2018. This Statement addresses practice issues identified during implementation and application of certain GASB statements for a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)).

NOTE 2—DEPOSITS AND INVESTMENTS:

Deposits:

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

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 2— DEPOSITS AND INVESTMENTS: (CONTINUED)

Investments:

Statutes authorize the Town to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes, banker’s acceptances, repurchase agreements and the State Treasurer’s Local Government Investment Pool (LGIP).

Custodial Credit Risk (Investments):

The Town’s investments at June 30, 2018 were held by the Town or in the Town’s name by the Town’s custodial banks.

Credit Risk of Debt Securities:

The Town does not have a policy related to credit risk of debt securities. The Town’s rated debt investments as of June 30, 2018 were rated by Standard and Poor’s and the ratings are presented below using the Standard and Poor’s rating scale.

<u>Town's Rated Debt Investments' Values</u>	
	<u>Fair Quality</u>
	<u>Rating</u>
	<u>AAAm</u>
VML/VACO Virginia Investment Pool	\$ <u>1,393,226</u>

Fair Value Measurements:

Fair Value is the price that would be received to sell an asset or paid to transfer a liability in orderly transaction between market participants at the measurement date. The Town has measured fair value of the above investments at the net asset value (NAV).

NOTE 3—DUE FROM OTHER GOVERNMENTAL UNITS:

At June 30, 2018 the Town has receivables from other governments as follows:

	<u>General</u>
	<u>Fund</u>
Prince William County	
Court fees	\$ 6,369
Sales tax	<u>73,580</u>
Totals	\$ <u>79,949</u>

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 4—CAPITAL ASSETS:

The following is a summary of changes in capital assets during the fiscal year:

Governmental Activities:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets not being depreciated:				
Land	\$ 405,237	\$ 811,561	\$ 165,033	\$ 1,051,765
Construction in progress	2,306,714	155,850	1,863,859	598,705
Total capital assets not being depreciated	<u>\$ 2,711,951</u>	<u>\$ 967,411</u>	<u>\$ 2,028,892</u>	<u>\$ 1,650,470</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 1,021,225	\$ 4,879,926	\$ -	\$ 5,901,151
Machinery and equipment	1,176,485	284,313	226,528	1,234,270
Infrastructure	5,572,943	1,846,634	-	7,419,577
Total capital assets being depreciated	<u>\$ 7,770,653</u>	<u>\$ 7,010,873</u>	<u>\$ 226,528</u>	<u>\$ 14,554,998</u>
Accumulated depreciation:				
Buildings and improvements	\$ 816,254	\$ 29,430	\$ -	\$ 845,684
Machinery and equipment	1,062,002	81,192	226,528	916,666
Infrastructure	1,118,318	186,918	-	1,305,236
Total accumulated depreciation	<u>\$ 2,996,574</u>	<u>\$ 297,540</u>	<u>\$ 226,528</u>	<u>\$ 3,067,586</u>
Total capital assets being depreciated, net	<u>\$ 4,774,079</u>	<u>\$ 6,713,333</u>	<u>\$ -</u>	<u>\$ 11,487,412</u>
Governmental activities capital assets, net	<u>\$ 7,486,030</u>	<u>\$ 7,680,744</u>	<u>\$ 2,028,892</u>	<u>\$ 13,137,882</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General Government	\$ 82,737
Public Safety	112,936
Public Works	85,938
Community Development	<u>15,929</u>
Total	<u>\$ 297,540</u>

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 5—COMPENSATED ABSENCES:

In accordance with GASB statement 16 *Accounting for Compensated Absences*, the Town has accrued the liability arising from outstanding compensated absences. Town employees earn vacation and sick leave at rates determined by length of service. Accumulated amounts paid upon termination vary with the length of service. The Town had outstanding compensated absences as follows:

Governmental Funds	\$ <u>89,164</u>
--------------------	------------------

NOTE 6—LONG-TERM OBLIGATIONS:

The following is a summary of changes in long-term obligation transactions for the fiscal year ended June 30, 2018:

	Balance at July 1, 2017 <u>As Restated</u>	Issuances/ <u>Increases</u>	Retirements/ <u>Decreases</u>	Balance at June 30, 2018	Amounts Due Within <u>One Year</u>
Governmental Activities:					
General obligation bonds	\$ -	\$ 5,460,000	\$ -	\$ 5,460,000	\$ 110,000
Premium on bonds	-	89,333	-	89,333	4,939
Revenue bonds	4,150,000	-	175,000	3,975,000	180,000
Capital lease	262,000	-	50,173	211,827	51,263
Net pension liability	1,109,735	626,140	669,541	1,066,334	-
Net OPEB liabilities	242,575	41,337	64,759	219,153	-
Compensated absences	47,766	41,398	-	89,164	8,916
Total Governmental Activities	\$ <u>5,812,076</u>	\$ <u>6,258,208</u>	\$ <u>959,473</u>	\$ <u>11,110,811</u>	\$ <u>355,118</u>

Remainder of page was left intentionally blank

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 6—LONG-TERM OBLIGATIONS: (CONTINUED)

Details of Long-term Obligations:

	<u>Amount Outstanding</u>	<u>Amounts Due Within One Year</u>
<u>Revenue Bonds:</u>		
\$1,615,000 Revenue Refunding Bonds, issued May 2010, maturing annually in installments ranging from \$15,000 to \$135,000 through October 1, 2026, interest ranging from 2.20% to 5.20% payable semiannually	\$ 1,025,000	\$ 95,000
\$485,000 Revenue Refunding Bonds, issued July 2012, maturing annually in installments ranging from \$5,000 to \$45,000 through October 1, 2027, interest ranging from 2.125% to 5.125% payable semiannually	355,000	25,000
\$2,875,400 IDA Revenue Bonds, issued November 2010, due in annual installments ranging from \$50,000 to \$190,000 through February 1, 2041, interest ranging from 3.0% to 5.5% payable semiannually	<u>2,595,000</u>	<u>60,000</u>
Total revenue bonds	\$ <u>3,975,000</u>	\$ <u>180,000</u>
<u>General Obligation Bonds:</u>		
\$1,850,000 General Obligation Public Improvement Bond, issued April 2018, maturing annually in installments ranging from \$30,000 to \$100,000 through April 1, 2048 interest ranging from 3.625% to 5.125% payable semiannually	\$ 1,850,000	\$ 35,000
\$3,610,000 General Obligation Public Improvement Bond, issued April 2018, maturing annually in installments ranging from \$70,000 to \$205,000 through April 1, 2048, interest ranging from 2.300% to 4.190% payable semiannually	<u>3,610,000</u>	<u>75,000</u>
Total general obligation bonds	\$ <u>5,460,000</u>	\$ <u>110,000</u>
<u>Capital Lease:</u>		
\$262,000 capital lease obligation, issued June 2017, due in semi-annual installments of \$27,781 through June 15, 2022, interest payable at 2.16%	\$ <u>211,827</u>	\$ <u>51,263</u>
Premium on bonds	\$ <u>89,333</u>	\$ <u>4,939</u>
Net pension liability	\$ <u>1,066,334</u>	\$ <u>-</u>
Net OPEB liabilities	\$ <u>219,153</u>	\$ <u>-</u>
Compensated absences	\$ <u>89,164</u>	\$ <u>8,916</u>
Total Governmental Activities	\$ <u><u>11,110,811</u></u>	\$ <u><u>355,118</u></u>

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 6—LONG-TERM OBLIGATIONS: (CONTINUED)

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

Year	General Obligation and Revenue Bonds		Capital Lease	
	Principal	Interest	Principal	Interest
2019	\$ 290,000	\$ 402,180	\$ 51,263	\$ 4,300
2020	295,000	403,530	52,376	3,187
2021	305,000	391,213	53,513	2,049
2022	320,000	378,244	54,675	888
2023	335,000	363,989	-	-
2024	355,000	348,455	-	-
2025	360,000	332,153	-	-
2026	390,000	315,087	-	-
2027	395,000	297,204	-	-
2028	275,000	281,907	-	-
2029	245,000	270,016	-	-
2030	250,000	258,573	-	-
2031	265,000	246,589	-	-
2032	275,000	234,438	-	-
2033	295,000	221,677	-	-
2034	305,000	207,983	-	-
2035	320,000	193,759	-	-
2036	335,000	178,455	-	-
2037	350,000	162,575	-	-
2038	370,000	145,844	-	-
2039	385,000	128,126	-	-
2040	400,000	109,907	-	-
2041	420,000	90,922	-	-
2042	240,000	70,967	-	-
2043	250,000	61,251	-	-
2044	260,000	51,146	-	-
2045	270,000	40,596	-	-
2046	280,000	29,600	-	-
2047	295,000	18,108	-	-
2048	305,000	6,103	-	-
	<u>\$ 9,435,000</u>	<u>\$ 6,240,597</u>	<u>\$ 211,827</u>	<u>\$ 10,424</u>

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (continued)

NOTE 7—PENSION PLAN:

Plan Description

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

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

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. <ul style="list-style-type: none">• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (continued)

NOTE 7—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 (Cont.)</p>	<p>About Plan 2 (Cont.)</p>	<p>About the Hybrid Retirement Plan (Cont.)</p> <ul style="list-style-type: none"> 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.
<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 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>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>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* School division 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.

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (continued)

NOTE 7—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Hybrid Opt-In Election (Cont.) 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>Hybrid Opt-In Election (Cont.) 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>*Non-Eligible Members (Cont.) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.</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>

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (continued)

NOTE 7—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

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

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (continued)

NOTE 7—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

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

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (continued)

NOTE 7—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting (Cont.)	Vesting (Cont.)	Vesting (Cont.) <u>Defined Contribution Component: (Cont.)</u> <ul style="list-style-type: none"> • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	Calculating the Benefit See definition under Plan 1.	Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1. <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.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (continued)

NOTE 7—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p> <p>Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p>Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p>	<p>Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p> <p>Sheriffs and regional jail superintendents: Same as Plan 1.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Service Retirement Multiplier Defined Benefit Component: VRS: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p>Sheriffs and regional jail superintendents: Not applicable.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: 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 Defined Benefit Component: VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (continued)

NOTE 7—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility Defined Benefit Component: VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</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 creditable service.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (continued)

NOTE 7—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<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><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. 	<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><u>Eligibility:</u> Same as Plan 1.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (continued)

NOTE 7—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates: (Cont.)</u></p> <ul style="list-style-type: none"> • 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 (Cont.)</p> <p><u>Exceptions to COLA Effective Dates: (Cont.)</u></p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates: (Cont.)</u></p>
<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 subdivisions and School divisions (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>

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (continued)

NOTE 7—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Disability Coverage (Cont.)	Disability Coverage (Cont.)	Disability Coverage (Cont.) Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.	Purchase of Prior Service Same as Plan 1.	Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions: <ul style="list-style-type: none"> Hybrid Retirement Plan members are ineligible for ported service. <u>Defined Contribution Component:</u> Not applicable.

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report-pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (continued)

NOTE 7—PENSION PLAN: (CONTINUED)

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

Inactive members or their beneficiaries currently receiving benefits	28
Inactive members:	
Vested inactive members	8
Non-vested inactive members	15
Inactive members active elsewhere in VRS	<u>16</u>
Total inactive members	39
Active members	<u>22</u>
Total covered employees	<u><u>89</u></u>

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Town's contractually required employer contribution rate for the year ended June 30, 2018 was 13.00% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$177,737 and \$126,700 for the years ended June 30, 2018 and June 30, 2017, respectively.

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (continued)

NOTE 7—PENSION PLAN: (CONTINUED)

Net Pension Liability

The Town's net pension liabilities were measured as of June 30, 2017. The total pension liabilities used to calculate the net pension liabilities were determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Actuarial Assumptions - General Employees

The total pension liability for General Employees in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7.0%, net of pension plan investment expenses, including inflation*

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

Mortality rates:

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.

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (continued)

NOTE 7—PENSION PLAN: (CONTINUED)

Actuarial Assumptions - General Employees (Continued)

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, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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%

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%

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (continued)

NOTE 7—PENSION PLAN: (CONTINUED)

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.5%
Salary increases, including inflation	3.5% - 4.75%
Investment rate of return	7.0%, net of pension plan investment expenses, including inflation*

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

Mortality rates:

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.

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (continued)

NOTE 7—PENSION PLAN: (CONTINUED)

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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%

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%

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (continued)

NOTE 7—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:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	<u>100.00%</u>		<u>4.80%</u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u>7.30%</u>

* The above allocation provides a one-year return of 7.30%. 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 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the Town Retirement Plans will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (continued)

NOTE 7—PENSION PLAN: (CONTINUED)

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2016	\$ 5,309,404	\$ 4,199,669	\$ 1,109,735
Changes for the year:			
Service cost	\$ 176,675	\$ -	\$ 176,675
Interest	358,946	-	358,946
Benefit changes	-	-	-
Differences between expected and actual experience	51,421	-	51,421
Assumption changes	35,659	-	35,659
Contributions - employer	-	124,388	(124,388)
Contributions - employee	-	46,753	(46,753)
Net investment income	-	498,400	(498,400)
Benefit payments, including refunds	(363,196)	(363,196)	-
Refunds of employee contributions	-	-	-
Administrative expenses	-	(2,999)	2,999
Other changes	-	(440)	440
Net changes	\$ 259,505	\$ 302,906	\$ (43,401)
Balances at June 30, 2017	\$ 5,568,909	\$ 4,502,575	\$ 1,066,334

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

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

	Rate		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Town Net Pension Liability (Asset)	\$ 1,708,863	\$ 1,066,334	\$ 528,173

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (continued)

NOTE 7—PENSION PLAN: (CONTINUED)

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

For the year ended June 30, 2018, the Town recognized pension expense of \$79,761. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 23,923	\$ 31,364
Change in assumptions	16,590	-
Net difference between projected and actual earnings on pension plan investments	-	60,556
Employer contributions subsequent to the measurement date	<u>177,737</u>	<u>-</u>
Total	<u>\$ 218,250</u>	<u>\$ 91,920</u>

\$177,737 reported as deferred outflows of resources related to pensions resulting from the Town's contributions, respectively, subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2019	\$ (32,141)
2020	21,395
2021	1,592
2022	(42,253)
2023	-
Thereafter	-

NOTE 8—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN):*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 is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pensions and other OPEB 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 member contributions and accrued interest.</p>

NOTE 8—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Plan Description (Continued)

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS (CONTINUED)
<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
<p>Reduction in Benefit Amounts</p> <p>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.</p>
<p>Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)</p> <p>For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. The amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently \$8,111.</p>

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 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). 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, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. 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 Town were \$7,000 and 6,000 for the years ended June 30, 2018 and June 30, 2017, respectively.

NOTE 8—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

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, 2018, the Town reported a liability of \$79,000, for their proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. 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, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the Town's proportion was .00528% as compared to .00689% at June 30, 2016.

For the year ended June 30, 2018, the Town recognized GLI OPEB expense of (\$3,000). 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.

At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience \$	-	\$ 2,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	3,000
Change in assumptions	-	4,000
Changes in proportion	-	24,000
Employer contributions subsequent to the measurement date	7,000	-
Total	\$ 7,000	\$ 33,000

NOTE 8—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

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

\$7,000 reported as deferred outflows of resources related to the GLI OPEB resulting from the Town'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, 2019. 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:

<u>Year Ended June 30</u>	
2019	\$ (6,000)
2020	(6,000)
2021	(6,000)
2022	(6,000)
2023	(5,000)
Thereafter	(4,000)

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.5%
Salary increases, including inflation:	
General state employees	3.5% - 5.35%
Teachers	3.5%-5.95%
SPORS employees	3.5%-4.75%
VaLORS employees	3.5%-4.75%
JRS employees	4.5%
Locality - General employees	3.5%-5.35%
Locality - Hazardous Duty employees	3.5%-4.75%
Investment rate of return	7.0%, net of investment expenses, including inflation*

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

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 8—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions: (Continued)

Mortality Rates - General State Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 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; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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 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	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 8—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions: (Continued)

Mortality Rates - Teachers

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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 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	Adjusted rates to better match experience
Salary Scale	No change

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 8—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions: (Continued)

Mortality Rates - SPORS 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 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, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 8—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions: (Continued)

Mortality Rates - VaLORS 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 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, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
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 match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 8—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions: (Continued)

Mortality Rates - JRS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 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; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 8—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions: (Continued)

Mortality Rates - 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 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, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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 20%

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 8—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions: (Continued)

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 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, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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%

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

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 8—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions: (Continued)

Mortality Rates - Largest Ten Locality Employers - Hazardous Duty Employees: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

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

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 8—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions: (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - Hazardous Duty Employees: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

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, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program
Total GLI OPEB Liability	\$ 2,942,426
Plan Fiduciary Net Position	1,437,586
Employers' Net GLI OPEB Liability (Asset)	\$ 1,504,840
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	48.86%

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.

NOTE 8—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (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:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

*The above allocation provides a one-year return of 7.30%. 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 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. 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, 2019, 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. From July 1, 2019 on, employers are assumed to contribute 100% 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.

NOTE 8—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The follow presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, 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 (6.00%) or one percentage point higher (8.00%) than the current rate:

	Rate		
	1% Decrease	Current Discount	1% Increase
	(6.00%)	(7.00%)	(8.00%)
Proportionate share of the Group Life Insurance Program			
Net OPEB Liability	\$ 103,000	\$ 79,000	\$ 60,000

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 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 9—HEALTH INSURANCE CREDIT (HIC) PROGRAM:

Plan Description

All full-time, salaried permanent employees of participating political subdivisions are automatically covered by the VRS Political Subdivision Health Insurance Credit Program upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information about the Political Subdivision Health Insurance Credit Program OPEB, including eligibility, coverage and benefits is set out in the table below:

POLITICAL SUBDIVISION HEALTH INSURANCE CREDIT PROGRAM PLAN PROVISIONS	
Eligible Employees	
The Political Subdivision Retiree Health Insurance Credit Program was established July 1, 1993 for retired political subdivision employees of employers who elect the benefit and who retire with at least 15 years of service credit.	
Eligible employees of participating employers are enrolled automatically upon employment. They include:	
<ul style="list-style-type: none">• Full-time permanent salaried employees of the participating political subdivision who are covered under the VRS pension plan.	
Benefit Amounts	
The political subdivision's Retiree Health Insurance Credit Program provides the following benefits for eligible employees:	
<ul style="list-style-type: none">• <u>At Retirement</u> - For employees who retire, the monthly benefit is \$1.50 per year of service per month with a maximum benefit of \$45.00 per month.• <u>Disability Retirement</u>- For employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is \$45.00 per month.	
Health Insurance Credit Program Notes:	
<ul style="list-style-type: none">• The monthly Health Insurance Credit benefit cannot exceed the individual premium amount.• No health insurance credit for premiums paid and qualified under LODA; however, the employee may receive the credit for premiums paid for other qualified health plans.• Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the health insurance credit as a retiree.	

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 9—HEALTH INSURANCE CREDIT (HIC) PROGRAM: (CONTINUED)

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the HIC OPEB plan:

Inactive members or their beneficiaries currently receiving benefits	5
Inactive members:	
Vested inactive members	-
Non-vested inactive members	-
Inactive members active elsewhere in VRS	-
Total inactive members	-
Active members	22
Total covered employees	27

Contributions

The contribution requirements for active employees is governed by §51.1-1402(E) 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. The Town contractually required employer contribution rates for the year ended June 30, 2018 were .17% and .44% of covered employee compensation respectively. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Town to the Health Insurance Credit Program were \$1,525 and \$1,071 for the years ended June 30, 2018 and June 30, 2017, respectively.

NOTE 9—HEALTH INSURANCE CREDIT (HIC) PROGRAM: (CONTINUED)

Net HIC OPEB Liability

The Town’s net Health Insurance Credit OPEB liabilities were measured as of June 30, 2017. The total Health Insurance Credit OPEB liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Actuarial Assumptions

The total HIC OPEB liability was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.5%	
Salary increases, including inflation:		
Locality - General employees	3.5%-5.35%	
Locality - Hazardous Duty employees	3.5%-4.75%	
Investment rate of return	7.0%, net of investment expenses, including inflation*	

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

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 9—HEALTH INSURANCE CREDIT (HIC) PROGRAM: (CONTINUED)

Actuarial Assumptions: (Continued)

Mortality Rates - 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, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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 20%

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 9—HEALTH INSURANCE CREDIT (HIC) PROGRAM: (CONTINUED)

Actuarial Assumptions: (Continued)

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, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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%

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 9—HEALTH INSURANCE CREDIT (HIC) PROGRAM: (CONTINUED)

Actuarial Assumptions: (Continued)

Mortality Rates - 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, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 9—HEALTH INSURANCE CREDIT (HIC) PROGRAM: (CONTINUED)

Actuarial Assumptions: (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, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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%

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 9—HEALTH INSURANCE CREDIT (HIC) PROGRAM: (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:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

*The above allocation provides a one-year return of 7.30%. 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 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total HIC OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that 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, 2019, the rate contributed by the entity for the HIC OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the HIC 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 HIC OPEB liability.

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 9—HEALTH INSURANCE CREDIT (HIC) PROGRAM: (CONTINUED)

Changes in Net HIC OPEB Liability

	Town		
	Increase (Decrease)		
	Total	Plan	Net
	HIC OPEB	Fiduciary	HIC OPEB
	Liability	Net Position	Liability (Asset)
	(a)	(b)	(a) - (b)
Balances at June 30, 2016	\$ 29,482	\$ 26,907	\$ 2,575
Changes for the year:			
Service cost	\$ 1,304	\$ -	\$ 1,304
Interest	1,985	-	1,985
Benefit changes	-	-	-
Differences between expected and actual experience	-	-	-
Assumption changes	(446)	-	(446)
Contributions - employer	-	1,071	(1,071)
Net investment income	-	3,081	(3,081)
Benefit payments	(2,251)	(2,251)	-
Administrative expenses	-	(48)	48
Other changes	-	161	(161)
Net changes	\$ 592	\$ 2,014	\$ (1,422)
Balances at June 30, 2017	\$ 30,074	\$ 28,921	\$ 1,153

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 9—HEALTH INSURANCE CREDIT (HIC) PROGRAM: (CONTINUED)

Sensitivity of the Health Insurance Credit Net OPEB Liability to Changes in the Discount Rate

The follow presents the Town Health Insurance Credit Program net HIC OPEB liability using the discount rate of 7.00%, as well as what the net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

		Rate		
		1% Decrease	Current Discount	1% Increase
		(6.00%)	(7.00%)	(8.00%)
Town's				
Net HIC OPEB Liability	\$	3,903	\$	1,153
				\$ (1,221)

Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Health Insurance Credit Program OPEB

For the year ended June 30, 2018, the Town recognized Health Insurance Credit Program OPEB expense of \$1,010. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to the Health Insurance Credit Program from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on HIC OPEB plan investments	\$ -	\$ 988
Change in assumptions	-	373
Employer contributions subsequent to the measurement date	1,525	-
Total	\$ 1,525	\$ 1,361

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 9—HEALTH INSURANCE CREDIT (HIC) PROGRAM: (CONTINUED)

Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Health Insurance Credit Program OPEB: (Continued)

\$1,525 reported by the Town as deferred outflows of resources related to the HIC OPEB resulting from the contributions subsequent to the measurement date will be recognized as a reduction of the Net HIC OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIC OPEB will be recognized in the HIC OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>		
2019	\$	(320)
2020		(320)
2021		(320)
2022		(320)
2023		(73)
Thereafter		(8)

Health Insurance Credit Program Plan Data

Information about the VRS Political Subdivision Health Insurance Credit Program is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

NOTE 10—POLITICAL SUBDIVISION EMPLOYEE VIRGINIA LOCAL DISABILITY (VLDP):

Plan Description

All full-time, salaried general employees; including local law enforcement officers, firefighters, or emergency medical technicians of political subdivisions who do not provide enhanced hazardous duty benefits; who are in the VRS Hybrid Retirement Plan benefit structure and whose employer has not elected to opt out of the VRS-sponsored program are automatically covered by the VRS Political Subdivision Employee Virginia Local Disability Program. This is a multiple-employer, cost-sharing plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for eligible public employer groups in the Commonwealth of Virginia. Political subdivisions are required by Title 51.1 of the Code of Virginia, as amended, to provide short-term and long-term disability benefits for their Hybrid employees either through a local plan or through the Virginia Local Disability Program (VLDP).

The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

POLITICAL SUBDIVISION EMPLOYEE VIRGINIA LOCAL DISABILITY PROGRAM PLAN PROVISIONS
<p>Eligible Employees The Political Subdivision Employee Virginia Local Disability Program was implemented January 1, 2014 to provide short-term and long-term disability benefits for non-work-related and work-related disabilities for employees with Hybrid retirement benefits.</p> <p>Eligible employees are enrolled automatically upon employment, unless their employer has elected to provide comparable coverage. They include:</p> <ul style="list-style-type: none"> • Full-time general employees; including local law enforcement officers, firefighters, or emergency medical technicians who do not have enhanced hazardous duty benefits; of public political subdivisions covered under VRS.
<p>Benefit Amounts The Political Subdivision Employee Virginia Local Disability Program (VLDP) provides the following benefits for eligible employees:</p> <p><u>Short-Term Disability</u> -</p> <ul style="list-style-type: none"> • The program provides a short-term disability benefit beginning after a seven-calendar-day waiting period from the first day of disability. Employees become eligible for non-work-related short-term disability coverage after one year of continuous participation in VLDP with their current employer. • During the first five years of continuous participation in VLDP with their current employer, employees are eligible for 60% of their pre-disability income if they go out on non-work-related or work-related disability. • Once the eligibility period is satisfied, employees are eligible for higher income replacement levels.

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 10—POLITICAL SUBDIVISION EMPLOYEE VIRGINIA LOCAL DISABILITY (VLDP): (CONTINUED)

Plan Description: (Continued)

Benefit Amounts: (Continued)
<u>Long-Term Disability -</u> <ul style="list-style-type: none">• The VLDP program provides a long-term disability benefit beginning after 125 workdays of short-term disability. Members are eligible if they are unable to work at all or are working fewer than 20 hours per week.• Members approved for long-term disability will receive 60% of their pre-disability income. If approved for work-related long-term disability, the VLDP benefit will be offset by the workers' compensation benefit. Members will not receive a VLDP benefit if their workers' compensation benefit is greater than the VLDP benefit.
Virginia Local Disability Program Notes: <ul style="list-style-type: none">• Members approved for short-term or long-term disability at age 60 or older will be eligible for a benefit, provided they remain medically eligible.• VLDP Long-Term Care Plan is a self-funded program that assists with the cost of covered long-term care services.

Contributions

The contribution requirements for active Hybrid employees is governed by §51.1-1178(C) of the Code of Virginia, as amended, but may be impacted as a result of funding provided to political subdivisions by the Virginia General Assembly. Each political subdivision's contractually required employer contribution rate for the year ended June 30, 2018 was 0.60% of covered employee compensation for employees in the VRS Political Subdivision Employee VDLDP. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Town to the VRS Political Subdivision Employee VDLDP were \$1,000 and \$1,000 for the years ended June 30, 2018 and June 30, 2017, respectively.

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 10—POLITICAL SUBDIVISION EMPLOYEE VIRGINIA LOCAL DISABILITY (VLDP): (CONTINUED)

VLDP OPEB Liabilities, VLDP OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to VLDP OPEB

At June 30, 2018, the Town reported a liability of \$1,000 for its proportionate share of the VLDP Net OPEB Liability. The Net VLDP OPEB Liability was measured as of June 30, 2017 and the total VLDP OPEB liability used to calculate the Net VLDP OPEB Liability was determined by an actuarial valuation as of that date. The Town's proportion of the Net VLDP OPEB Liability was based on the Town's actuarially determined employer contributions to the VLDP OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the Town's proportion of the VLDP was .10507% as compared to .15151%.

For the year ended June 30, 2018, the Town recognized VLDP OPEB expense of \$1,000. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017 a portion of the VLDP Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to the VLDP OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions subsequent to the measurement date	\$ 1,000	\$ -
Total	<u>\$ 1,000</u>	<u>\$ -</u>

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 10—POLITICAL SUBDIVISION EMPLOYEE VIRGINIA LOCAL DISABILITY (VLDP): (CONTINUED)

VLDP OPEB Liabilities, VLDP OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to VLDP OPEB: (Continued)

\$1,000 reported as deferred outflows of resources related to the VLDP OPEB resulting from the Town’s contributions subsequent to the measurement date will be recognized as a reduction of the Net VLDP OPEB Liability in the fiscal year ending June 30, 2019.

Actuarial Assumptions

The total VLDP OPEB liability for the VLDP was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.5%
Salary increases, including inflation:	
Political Subdivision Employees	3.5%-5.35%
Investment rate of return	7.0%, net of plan investment expenses, including inflation*

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

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 10—POLITICAL SUBDIVISION EMPLOYEE VIRGINIA LOCAL DISABILITY (VLDP): (CONTINUED)

Actuarial Assumptions: (Continued)

Mortality Rates - Largest Ten Locality Employers - General and Non-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 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, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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 year age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 10—POLITICAL SUBDIVISION EMPLOYEE VIRGINIA LOCAL DISABILITY (VLDP): (CONTINUED)

Actuarial Assumptions: (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - General and Non-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, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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 year age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 10—POLITICAL SUBDIVISION EMPLOYEE VIRGINIA LOCAL DISABILITY (VLDP): (CONTINUED)

Net VLDP OPEB Liability

The net OPEB liability (NOL) for the Political Subdivision Employee VLDP 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, 2017, NOL amounts for the VRS Political Subdivision Employee VLDP is as follows (amounts expressed in thousands):

		Political Subdivision Employee VLDP OPEB Plan
		<hr/>
Total Political Subdivision VLDP OPEB Liability	\$	914
Plan Fiduciary Net Position		351
Political Subdivision net VLDP OPEB Liability (Asset)	\$	<hr/> 563 <hr/>
Plan Fiduciary Net Position as a Percentage of the Total Political Subdivision VLDP OPEB Liability		38.40%

The total Political Subdivision Employee VLDP OPEB liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net Political Subdivision Employee VLDP 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.

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 10—POLITICAL SUBDIVISION EMPLOYEE VIRGINIA LOCAL DISABILITY (VLDP): (CONTINUED)

Long-Term Expected Rate of Return

The long-term expected rate of return on VRS 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 VRS 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:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

*The above allocation provides a one-year return of 7.30%. 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 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total VLDP OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by the Town for the VLDP will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the VLDP OPEB 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 VLDP OPEB liability.

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 10—POLITICAL SUBDIVISION EMPLOYEE VIRGINIA LOCAL DISABILITY (VLDP): (CONTINUED)

Sensitivity of the Town's Proportionate Share of the VLDP Net OPEB Liability to Changes in the Discount Rate

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

		Rate		
		1% Decrease	Current Discount	1% Increase
		(6.00%)	(7.00%)	(8.00%)
Town's				
proportionate share of the				
Net VLDP OPEB Liability	\$	1,000	\$ 1,000	\$ 1,000

Political Subdivision Employee VLDP OPEB Fiduciary Net Position

Detailed information about the VRS Political Subdivision Employee Virginia Local Disability Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Remainder of page was left intentionally blank

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 11—LINE OF DUTY ACT (LODA) PROGRAM:

Plan Description

All paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VALORS) are automatically covered by the Line of Duty Act Program (LODA). As required by statute, the Virginia Retirement System (the System) is responsible for managing the assets of the program. Participating employers made contributions to the program beginning in FY 2012. The employer contributions are determined by the System's actuary using anticipated program costs and the number of covered individuals associated with all participating employers.

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

LINE OF DUTY ACT PROGRAM PLAN PROVISIONS
Eligible Employees The eligible employees of the Line of Duty Act Program are paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VALORS).
Benefit Amounts The Line of Duty Act Program provides death and health insurance benefits for eligible individuals: <ul style="list-style-type: none">• Death - The Line of Duty Act program death benefit is a one-time payment made to the beneficiary or beneficiaries of a covered individual. Amounts vary as follows:<ul style="list-style-type: none">○ \$100,000 when a death occurs as the direct or proximate result of performing duty as of January 1, 2006, or after.○ \$25,000 when the cause of death is attributed to one of the applicable presumptions and occurred earlier than five years after the retirement date.○ An additional \$20,000 benefit is payable when certain members of the National Guard and U.S. military reserves are killed in action in any armed conflict on or after October 7, 2001.• Health Insurance - The Line of Duty Act program provides health insurance benefits.<ul style="list-style-type: none">○ Prior to July 1, 2017, these benefits were managed through the various employer plans and maintained the benefits that existed prior to the employee's death or disability. These premiums were reimbursed to the employer by the LODA program.○ Beginning July 1, 2017, the health insurance benefits are managed through the Virginia Department of Human Resource Management (DHRM). The health benefits are modeled after the State Employee Health Benefits Program plans and provide consistent, premium-free continued health plan coverage for LODA-eligible disabled individuals, survivors, and family members. Individuals receiving the health insurance benefits must continue to meet eligibility requirements as defined by the Line of Duty Act.

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 11—LINE OF DUTY ACT (LODA) PROGRAM: (CONTINUED)

Contributions

The contribution requirements for the Line of Duty Act Program are governed by §9.1-400.1 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the Line of Duty Act Program for the year ended June 30, 2018 was \$567.37 per covered full-time-equivalent employee. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and represents the pay-as-you-go funding rate and not the full actuarial cost of the benefits under the program. The actuarially determined pay-as-you-go rate was expected to finance the costs and related expenses of benefits payable during the year. Contributions to the Line of Duty Act Program from the entity were \$6,000 and \$5,000 for the years ended June 30, 2018 and June 30, 2017, respectively.

LODA OPEB Liabilities, LODA OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the LODA OPEB

At June 30, 2018, the entity reported a liability of \$138,000 for its proportionate share of the Net LODA OPEB Liability. The Net LODA OPEB Liability was measured as of June 30, 2017 and the total LODA OPEB liability used to calculate the Net LODA OPEB Liability was determined by an actuarial valuation as of that date. The entity's proportion of the Net LODA OPEB Liability was based on the entity's actuarially determined pay-as-you-go employer contributions to the LODA OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined pay-as-you-go employer contributions for all participating employers. At June 30, 2017, the entity's proportion was .05261% as compared to .04254% at June 30, 2016.

For the year ended June 30, 2018, the entity recognized LODA OPEB expense of \$15,000. Since there was a change in proportionate share between measurement dates, a portion of the LODA OPEB expense was related to deferred amounts from changes in proportion.

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 11—LINE OF DUTY ACT (LODA) PROGRAM: (CONTINUED)

LODA OPEB Liabilities, LODA OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the LODA OPEB: (Continued)

At June 30, 2018, the entity reported deferred outflows of resources and deferred inflows of resources related to the LODA OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Change in assumptions	\$ -	\$ 15,000
Change in proportion	25,000	-
Employer contributions subsequent to the measurement date	<u>6,000</u>	<u>-</u>
Total	\$ <u>31,000</u>	\$ <u>15,000</u>

\$6,000 reported as deferred outflows of resources related to the LODA OPEB resulting from the entity's contributions subsequent to the measurement date will be recognized as a reduction of the Net LODA OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the LODA OPEB will be recognized in LODA OPEB expense in future reporting periods as follows:

Year Ended June 30

2019	\$ 1,000
2020	1,000
2021	1,000
2022	1,000
2023	1,000
Thereafter	5,000

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 11—LINE OF DUTY ACT (LODA) PROGRAM: (CONTINUED)

Actuarial Assumptions

The total LODA OPEB liability was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.5%
Salary increases, including inflation:	
General state employees	3.50%-5.35%
SPORS employees	3.50%-4.75%
VaLORS employees	3.50%-4.75%
Locality employees	3.50%-4.75%
Medical cost trend rates assumption:	
Under age 65	7.75%-5.00%
Ages 65 and older	5.75%-5.00%
Investment rate of return	3.56%, net of OPEB plan investment expenses, including inflation*

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 3.56%. However, since the difference was minimal, a more conservative 3.56% investment return assumption has been used. Since LODA is funded on a current-disbursement basis, the assumed annual rate of return of 3.56% was used since it approximates the risk-free rate of return.

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 11—LINE OF DUTY ACT (LODA) PROGRAM: (CONTINUED)

Actuarial Assumptions: (Continued)

Mortality rates - General State Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 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; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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 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	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 11—LINE OF DUTY ACT (LODA) PROGRAM: (CONTINUED)

Actuarial Assumptions: (Continued)

Mortality rates - SPORS 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, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 11—LINE OF DUTY ACT (LODA) PROGRAM: (CONTINUED)

Actuarial Assumptions: (Continued)

Mortality rates - VaLORS 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, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
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 match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 11—LINE OF DUTY ACT (LODA) PROGRAM: (CONTINUED)

Actuarial Assumptions: (Continued)

Mortality Rates - Largest Ten Locality Employers with Public Safety 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, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 11—LINE OF DUTY ACT (LODA) PROGRAM: (CONTINUED)

Actuarial Assumptions: (Continued)

Mortality Rates - Non-Largest Ten Locality Employers with Public Safety 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, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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%

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 11—LINE OF DUTY ACT (LODA) PROGRAM: (CONTINUED)

Changes to the LODA Program Associated with HB 1345 (2016) and HB 2243 (2017)

The following changes were made to the LODA Program as a result of legislation in 2016 and 2017, but were specifically not considered in the June 30, 2016 actuarial valuation results which were rolled forward to the measurement date of June 30, 2017. There was no current actuarial experience on which to base the adjustments and the combined impact of the changes was not considered to be material to the final results. These changes will be factored into future actuarial valuations for the LODA Program.

- The discontinuance of spouse health care coverage, if a covered spouse divorces a disabled employee or a covered surviving spouse remarries.
- The potential for VRS's periodic review of the disability status of a disabled employee.
- For those beneficiaries who become eligible for health care benefits as the result of a disability occurring after June 30, 2017, the suspension of health care benefits in years when VRS certifies current income exceeds salary at the time of the disability, indexed for inflation.
- The extension of health care benefits for dependent children to age 26.
- The expansion of the definition of presumption of death or disability to include infectious diseases.

Net LODA OPEB Liability

The net OPEB liability (NOL) for the Line of Duty Act 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, 2017, NOL amounts for the Line of Duty Act Program is as follows (amounts expressed in thousands):

	<u>LODA Program</u>
Total LODA OPEB Liability	\$ 266,252
Plan Fiduciary Net Position	3,461
Employers' Net OPEB Liability (Asset)	<u>\$ 262,791</u>
Plan Fiduciary Net Position as a Percentage of the Total LODA OPEB Liability	1.30%

The total LODA 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 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.

Long-Term Expected Rate of Return

The long-term expected rate of return on LODA OPEB Program's investments was set at 3.56% for this valuation. Since LODA is funded on a current-disbursement basis, it is not able to use the VRS Pooled Investments 7.00% assumption. Instead, the assumed annual rate of return of 3.56% was used since it approximates the risk-free rate of return. This Single Equivalent Interest Rate (SEIR) is the applicable municipal bond index rate based on the Bond Buyer General Obligation 20-year Municipal Bond Index published monthly by the Board of Governors of the Federal Reserve System as of the measurement date of June 30, 2017.

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 11—LINE OF DUTY ACT (LODA) PROGRAM: (CONTINUED)

Discount Rate

The discount rate used to measure the total LODA OPEB liability was 3.56%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by participating employers to the LODA OPEB Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly.

Sensitivity of the Covered Employer's Proportionate Share of the Net LODA OPEB Liability to Changes in the Discount Rate

The following presents the covered employer's proportionate share of the net LODA OPEB liability using the discount rate of 3.56%, as well as what the covered employer's proportionate share of the net LODA OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.56%) or one percentage point higher (4.56%) than the current rate:

		Discount Rate		
		1% Decrease (2.56%)	Current (3.56%)	1% Increase (4.56%)
Town's proportionate share of the total LODA Net OPEB Liability	\$	157,000	\$ 138,000	\$ 123,000

Sensitivity of the Covered Employer's Proportionate Share of the Net LODA OPEB Liability to Changes in the Health Care Trend Rate

Because the Line of Duty Act Program contains a provision for the payment of health insurance premiums, the liabilities are also impacted by the health care trend rates. The following presents the covered employer's proportionate share of the net LODA OPEB liability using the health care trend rate of 7.75% decreasing to 5.00%, as well as what the covered employer's proportionate share of the net LODA OPEB liability would be if it were calculated using a health care trend rate that is one percentage point lower (6.75% decreasing to 4.00%) or one percentage point higher (8.75% decreasing to 6.00%) than the current rate:

		Health Care Trend Rates		
		1% Decrease (6.75% decreasing to 4.00%)	Current (7.75% decreasing to 5.00%)	1% Increase (8.75% decreasing to 6.00%)
Town's proportionate share of the total LODA Net OPEB Liability	\$	117,000	\$ 138,000	\$ 164,000

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 11—LINE OF DUTY ACT (LODA) PROGRAM: (CONTINUED)

LODA OPEB Fiduciary Net Position

Detailed information about the Line of Duty Act Program Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Summary of OPEB Liabilities, Deferred Outflows of Resources and Deferred Inflows of Resources:

	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources
LODA	\$ 138,000	\$ 31,000	\$ 15,000
Group Life	79,000	7,000	33,000
HIC	1,153	1,525	1,361
VLDP	1,000	1,000	-
Total	\$ <u>219,153</u>	\$ <u>40,525</u>	\$ <u>49,361</u>

Remainder of page was left intentionally blank

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 12— DEFERRED/UNAVAILABLE/UNEARNED REVENUE:

Deferred/unavailable/unearned revenue represents amounts for which asset recognition have been met, but for which revenue recognition criteria have not been met. Unavailable/unearned/deferred revenue is comprised of the following:

	Unearned Revenue <u>Statement of Net Position</u>	
Grant revenue received in advance	\$	579,601
Other		<u>18,221</u>
Total unearned revenue	\$	<u><u>597,822</u></u>
	<u>Deferred/Unavailable Revenue</u>	
	Balance Sheet <u>Governmental Funds</u>	<u>Statement of Net Position Governmental Activities</u>
2nd half assessments representing uncollected property tax which has not been billed but for which an enforceable lien is in effect.	\$ 420,606	\$ 420,606
Prepaid property tax revenues representing collections for property taxes that are applicable to the subsequent budget year.	6,776	6,776
Unavailable revenue representing uncollected property tax billings for which revenue recognition criteria has not been met. The uncollected tax billings are not available for the funding of current expenditures.	<u>20,864</u>	<u>-</u>
Total deferred/unavailable revenue	\$ <u><u>448,246</u></u>	\$ <u><u>427,382</u></u>

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements
June 30, 2018 (Continued)

NOTE 13—FIDELITY BOND:

Fidelity bond coverage with Virginia Municipal League during the fiscal year 2018 was as follows:

	<u>Coverage</u>
Fidelity and Crime	\$ 20,000

NOTE 14—COMMITMENTS AND CONTINGENCIES:

State and Federal Programs

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

Construction Commitments

At June 30, 2018, the Town has outstanding construction contracts and commitments for various projects. The outstanding balances on these items totaled approximately \$55,961 at June 30, 2018.

NOTE 15—LITIGATION:

At June 30, 2018, there were no matters of litigation involving the Town which would materially affect the Town's financial position should any court decisions on pending matters not be favorable to the Town.

NOTE 16—RESTATEMENT OF NET POSITION/FUND BALANCE:

Net Position/Fund Balance as of July 1, 2017 was restated as follows:

	<u>Net Position</u> <u>Governmental</u> <u>Activities</u>	<u>Fund Balance</u> <u>General</u> <u>Fund</u>
Beginning net position/fund balance, as previously reported	\$ 6,303,362	\$ 4,060,332
Restatement of capital lease proceeds	-	262,000
Implementation of GASB 75	<u>(229,504)</u>	<u>-</u>
Beginning net position/fund balance, as restated	<u>\$ 6,073,858</u>	<u>\$ 4,322,332</u>

Required Supplementary Information

Note to Required Supplementary Information:

Presented budgets were prepared in accordance with Accounting Principles Generally Accepted in the United States of America.

Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
For the Years Ended June 30, 2015 through June 30, 2018

	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 176,675	\$ 174,120	\$ 165,663	\$ 160,496
Interest	358,946	366,051	357,672	346,097
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	51,421	(292,740)	(56,086)	-
Changes in assumptions	35,659	-	-	-
Benefit payments, including refunds of employee contributions	(363,196)	(334,656)	(360,452)	(322,017)
Net change in total pension liability	\$ 259,505	\$ (87,225)	\$ 106,797	\$ 184,576
Total pension liability - beginning	5,309,404	5,396,629	5,289,832	5,105,256
Total pension liability - ending (a)	<u>\$ 5,568,909</u>	<u>\$ 5,309,404</u>	<u>\$ 5,396,629</u>	<u>\$ 5,289,832</u>
Plan fiduciary net position				
Contributions - employer	\$ 124,388	\$ 201,857	\$ 186,470	\$ 218,931
Contributions - employee	46,753	64,864	56,470	57,342
Net investment income	498,400	72,174	186,026	564,853
Benefit payments, including refunds of employee contributions	(363,196)	(334,656)	(360,452)	(322,017)
Administrative expense	(2,999)	(2,610)	(2,627)	(3,062)
Other	(440)	(31)	(40)	30
Net change in plan fiduciary net position	\$ 302,906	\$ 1,598	\$ 65,847	\$ 516,077
Plan fiduciary net position - beginning	4,199,669	4,198,071	4,132,224	3,616,147
Plan fiduciary net position - ending (b)	<u>\$ 4,502,575</u>	<u>\$ 4,199,669</u>	<u>\$ 4,198,071</u>	<u>\$ 4,132,224</u>
County/City/Town's net pension liability (asset) - ending (a) - (b)	\$ 1,066,334	\$ 1,109,735	\$ 1,198,558	\$ 1,157,608
Plan fiduciary net position as a percentage of the total pension liability	80.85%	79.10%	77.79%	78.12%
Covered payroll	\$ 974,616	\$ 1,238,898	\$ 1,134,812	\$ 1,146,836
Town's net pension liability (asset) as a percentage of covered payroll	109.41%	89.57%	105.62%	100.94%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

Schedule of Employer Contributions

For the Years Ended June 30, 2009 through June 30, 2018

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)
Primary Government					
2018	\$ 177,737	\$ 177,737	\$ -	\$ 1,386,322	13%
2017	126,700	126,700	-	974,616	13%
2016	204,790	204,790	-	1,238,898	17%
2015	187,584	187,584	-	1,134,812	17%
2014	218,931	218,931	-	1,146,836	19%
2013	208,600	208,600	-	1,092,717	19%
2012	153,746	153,746	-	1,127,998	14%
2011	165,916	165,916	-	1,217,288	14%
2010	219,532	219,532	-	1,598,920	14%
2009	215,066	215,066	-	1,566,398	14%

Notes to Required Supplementary Information
For the Year Ended June 30, 2018

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

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%

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%

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%

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%

Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual - General Fund
For the Year Ended June 30, 2018

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
General property taxes	\$ 855,502	\$ 843,517	\$ 843,439	\$ (78)
Other local taxes	2,450,563	2,339,721	2,264,138	(75,583)
Permits, privilege fees, and regulatory licenses	295,000	333,921	322,266	(11,655)
Fines and forfeitures	83,000	83,000	95,116	12,116
Revenue from the use of money and property	28,316	30,516	41,332	10,816
Miscellaneous	8,800	6,185	12,604	6,419
Intergovernmental:				
Commonwealth	1,580,448	1,945,954	807,598	(1,138,356)
Federal	5,665	5,665	124,055	118,390
Total revenues	\$ 5,307,294	\$ 5,588,479	\$ 4,510,548	\$ (1,077,931)
Expenditures:				
General government administration:				
Legislative:				
Governing body	\$ 64,450	\$ 70,405	\$ 72,308	\$ (1,903)
General and financial administration:				
Administration	\$ 902,425	\$ 943,495	\$ 861,052	\$ 82,443
Information technology	225,400	215,400	200,557	14,843
Total general and financial administration	\$ 1,127,825	\$ 1,158,895	\$ 1,061,609	\$ 97,286
Total general government administration	\$ 1,192,275	\$ 1,229,300	\$ 1,133,917	\$ 95,383
Public safety:				
Law enforcement and traffic control:				
Police	\$ 1,298,977	\$ 1,603,745	\$ 1,547,818	\$ 55,927
Public works:				
Maintenance of general buildings and grounds	\$ 76,400	\$ 121,015	\$ 93,290	\$ 27,725
Street maintenance	265,500	271,191	270,724	467
Facilities and other public works	745,904	766,793	666,451	100,342
Stormwater management	133,600	140,839	147,322	(6,483)
Total public works	\$ 1,221,404	\$ 1,299,838	\$ 1,177,787	\$ 122,051
Community development:				
Planning and community development:				
Community development	\$ 253,442	\$ 197,442	\$ 158,789	\$ 38,653
Community services	94,270	71,110	53,417	17,693
Boards and commissions	8,100	8,100	6,100	2,000
Total community development	\$ 355,812	\$ 276,652	\$ 218,306	\$ 58,346
Capital projects	\$ -	\$ -	\$ 5,793,908	\$ (5,793,908)
Debt service:				
Principal retirement	\$ 175,000	\$ 175,000	\$ 225,173	\$ (50,173)
Interest and other fiscal charges	209,373	209,373	321,755	(112,382)
Total debt service	\$ 384,373	\$ 384,373	\$ 546,928	\$ (162,555)
Total expenditures	\$ 4,452,841	\$ 4,793,908	\$ 10,418,664	\$ (5,624,756)
Excess (deficiency) of revenues over (under) expenditures	\$ 854,453	\$ 794,571	\$ (5,908,116)	\$ (6,702,687)
Other financing sources (uses)				
Transfers out	\$ (2,155,196)	\$ (2,155,196)	\$ -	\$ 2,155,196
Issuance of bonds	-	-	5,460,000	5,460,000
Premium on issuance of bonds	-	-	89,333	89,333
Proceeds from the sale of land	-	66,400	206,471	140,071
Total other financing sources (uses)	\$ (2,155,196)	\$ (2,088,796)	\$ 5,755,804	\$ 7,844,600
Net change in fund balance	\$ (1,300,743)	\$ (1,294,225)	\$ (152,312)	\$ 1,141,913
Fund balances at beginning of year, as restated	\$ 1,300,743	\$ 1,294,225	\$ 4,322,332	\$ 3,028,107
Fund balances at end of year	\$ -	\$ -	\$ 4,170,020	\$ 4,170,020

Schedule of Employer's Share of Net OPEB Liability - LODA
Line of Duty Act Program (LODA)
For the Year Ended June 30, 2018

Date (1)	Employer's Proportion of the Net LODA OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net LODA OPEB Liability (Asset) (3)	Covered- Employee Payroll * (4)	Employer's Proportionate Share of the Net LODA OPEB Liability (Asset) as a Percentage of its Covered-Employee Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total LODA OPEB Liability (6)
2017	0.05261% \$	138,000 \$	Not Applicable	Not Applicable	1.30%

* The contributions for the Line of Duty Act Program are based on the number of participants in the Program using a per capita-based contribution versus a payroll-based contribution. Therefore, covered-employee payroll is the relevant measurement, which is the total payroll of the employees in the OPEB plan. However, when volunteers and part-time employees make up a significant percentage of the employer's members in the plan, the employer may determine that covered-employee payroll is misleading and, therefore, not applicable for disclosure.

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

Schedule of Employer Contributions

Line of Duty Act Program (LODA)

For the Years Ended June 30, 2017 through June 30, 2018

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Covered- Employee Payroll * (4)	Contributions as a % of Covered - Employee Payroll (5)
2018	\$ 6,000	\$ 6,000	\$ -	\$ Not Applicable	Not Applicable
2017	5,000	5,000	-	Not Applicable	Not Applicable

*

The contributions for the Line of Duty Act Program are based on the number of participants in the Program using a per capita-based contribution versus a payroll-based contribution. Therefore, covered-employee payroll is the relevant measurement, which is the total payroll of employees in the OPEB plan. However, when volunteers and part-time employees make up a significant percentage of the employer's members in the plan, the employer may determine that covered-employee payroll is misleading and, therefore, not applicable for disclosure.

Schedule is intended to show information for 10 years. Additional years will be included as they become available.

Notes to Required Supplementary Information
Line of Duty Act Program (LODA)
For the Year Ended June 30, 2018

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 following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

General State 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 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	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

SPORS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

ValORS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
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 match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Employees in the Largest Ten Locality Employers with Public Safety 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
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Employees in the Non-Largest Ten Locality Employers with Public Safety 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%

Schedule of Town of Dumfries, Virginia's Share of Net OPEB Liability
 Group Life Insurance Program
 For the Year Ended June 30, 2018

Date (1)	Employer's Proportion of the Net GLI OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6)
Primary Government					
2017	0.005280% \$	79,000 \$	974,616	8.11%	48.86%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

Schedule of Employer Contributions

Group Life Insurance Program

For the Years Ended June 30, 2009 through June 30, 2018

Date	Contributions in Relation to			Contributions	
	Contractually Required Contribution (1)	Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	as a % of Covered Payroll (5)
Primary Government					
2018	\$ 7,209	\$ 7,209	\$ -	\$ 1,386,321	0.52%
2017	5,068	5,068	-	974,616	0.52%
2016	5,947	5,947	-	1,238,898	0.48%
2015	5,447	5,447	-	1,134,812	0.48%
2014	5,505	5,505	-	1,146,836	0.48%
2013	5,245	5,245	-	1,092,717	0.48%
2012	3,158	3,158	-	1,127,998	0.28%
2011	3,408	3,408	-	1,217,288	0.28%
2010	3,321	3,321	-	1,598,920	0.21%
2009	4,229	4,229	-	1,566,398	0.27%

Notes to Required Supplementary Information
Group Life Insurance Program
For the Year Ended June 30, 2018

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 following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

General State 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 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	Adjusted rates to better match experience	
Salary Scale	No change	
Line of Duty Disability	Increased rate from 14% to 25%	

Teachers

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	Adjusted rates to better match experience	
Salary Scale	No change	

SPORS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience	
Retirement Rates	Increased age 50 rates and lowered rates at older ages	
Withdrawal Rates	Adjusted rates to better fit experience	
Disability Rates	Adjusted rates to better match experience	
Salary Scale	No change	
Line of Duty Disability	Increased rate from 60% to 85%	

VaLORS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience	
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 50% to 35%	

Notes to Required Supplementary Information
 Group Life Insurance Program
 For the Year Ended June 30, 2018 (Continued)

JRS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

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 20%

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%

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	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

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%

Schedule of Changes in the Net OPEB Liability and Related Ratios
 Health Insurance Credit Program (HIC)
 For the Year Ended June 30, 2018

	<u>2017</u>
Total HIC OPEB Liability	
Service cost	\$ 1,304
Interest	1,985
Impact of change in proportion	-
Changes in assumptions	(446)
Benefit payments	(2,251)
Net change in total HIC OPEB liability	\$ 592
Total HIC OPEB Liability - beginning	29,482
Total HIC OPEB Liability - ending (a)	<u>\$ 30,074</u>
Plan fiduciary net position	
Contributions - employer	\$ 1,071
Net investment income	3,081
Benefit payments	(2,251)
Administrative expense	(48)
Other	161
Net change in plan fiduciary net position	\$ 2,014
Plan fiduciary net position - beginning	26,907
Plan fiduciary net position - ending (b)	<u>\$ 28,921</u>
Net HIC OPEB liability - ending (a) - (b)	\$ 1,153
Plan fiduciary net position as a percentage of the total HIC OPEB liability	96.17%
Covered payroll	\$ 974,616
Net HIC OPEB liability as a percentage of covered payroll	0.12%

Schedule is intended to show information for 10 years. Information prior to the 2018 valuation is not available. However, additional years will be included as they become available.

Schedule of Employer Contributions
 Health Insurance Credit Program (HIC)
 For the Years Ended June 30, 2009 through June 30, 2018

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)
Primary Government					
2018	\$ 1,525	\$ 1,525	\$ -	\$ 1,386,321	0.11%
2017	1,072	1,072	-	974,616	0.11%
2016	1,239	1,239	-	1,238,898	0.10%
2015	1,135	1,135	-	1,134,812	0.10%
2014	1,376	1,376	-	1,146,836	0.12%
2013	1,318	1,318	-	1,092,717	0.12%
2012	1,692	1,692	-	1,127,998	0.15%
2011	1,826	1,826	-	1,217,288	0.15%
2010	3,358	3,358	-	1,598,920	0.21%
2009	3,301	3,301	-	1,566,398	0.21%

Notes to Required Supplementary Information
Health Insurance Credit Program (HIC)
For the Year Ended June 30, 2018

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 following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

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 20%

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%

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	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

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%

Schedule of Town's Share of Net OPEB Liability
 Virginia Local Disability Program (VLDP)
 For the Year Ended June 30, 2018

Date (1)	Employer's Proportion of the Net VLDP OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net VLDP OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net VLDP OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total VLDP OPEB Liability (6)
2017	0.10507% \$	-	\$ 192,930	0.00%	38.40%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

Schedule of Employer Contributions

Virginia Local Disability Program (VLDP)

For the Years Ended June 30, 2009 through June 30, 2018

Date	Contributions in Relation to					Contributions as a % of Covered Payroll
	Contractually Required Contribution (1)	Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)		
2018	\$ 1,390	\$ 1,390	\$ -	\$ 231,658		0.60%
2017	1,158	1,158	-	192,930		0.60%
2016	1,123	1,123	-	187,129		0.60%
2015	462	462	-	77,075		0.60%

Schedule is intended to show information for 10 years. Information prior to 2015 is not available. However, additional years will be included as they become available.

Notes to Required Supplementary Information
 Virginia Local Disability Program (VLDP)
 For the Year Ended June 30, 2018

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 following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest Ten Locality Employers - General and Non-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	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 year age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Non-Largest Ten Locality Employers - General and Non-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	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 year age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Supporting Schedule

Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2018

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 828,352	\$ 816,367	\$ 815,409	\$ (958)
Real and personal public service corporation taxes	18,600	18,600	18,943	343
Penalties	8,000	8,000	8,089	89
Interest	550	550	998	448
Total general property taxes	<u>\$ 855,502</u>	<u>\$ 843,517</u>	<u>\$ 843,439</u>	<u>\$ (78)</u>
Other local taxes:				
Local sales and use taxes	\$ 414,000	\$ 350,000	\$ 386,890	\$ 36,890
Consumers' utility taxes	176,000	176,000	185,883	9,883
Business license taxes	418,989	372,147	323,790	(48,357)
Motor vehicle licenses	70,000	70,000	63,557	(6,443)
Franchise license taxes	72,000	72,000	59,088	(12,912)
Bank stock taxes	41,419	41,419	45,298	3,879
Transient occupancy taxes	340,700	340,700	285,430	(55,270)
Cigarette tax	192,000	192,000	171,595	(20,405)
Meals taxes	686,000	686,000	695,829	9,829
Other	39,455	39,455	46,778	7,323
Total other local taxes	<u>\$ 2,450,563</u>	<u>\$ 2,339,721</u>	<u>\$ 2,264,138</u>	<u>\$ (75,583)</u>
Permits, privilege fees, and regulatory licenses:				
Building and related permits	\$ 80,000	\$ 80,000	\$ 66,562	\$ (13,438)
Stormwater management fees	149,000	149,000	143,608	(5,392)
Landfill host fees	63,000	101,921	111,360	9,439
Other permits and licenses	3,000	3,000	736	(2,264)
Total permits, privilege fees, and regulatory licenses	<u>\$ 295,000</u>	<u>\$ 333,921</u>	<u>\$ 322,266</u>	<u>\$ (11,655)</u>
Fines and forfeitures:				
Court and other fines and forfeitures	<u>\$ 83,000</u>	<u>\$ 83,000</u>	<u>\$ 95,116</u>	<u>\$ 12,116</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 800	\$ 3,000	\$ 7,653	\$ 4,653
Revenue from use of property	27,516	27,516	33,679	6,163
Total revenue from use of money and property	<u>\$ 28,316</u>	<u>\$ 30,516</u>	<u>\$ 41,332</u>	<u>\$ 10,816</u>

Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2018

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (continued)				
Revenue from local sources: (continued)				
Miscellaneous:				
Miscellaneous	\$ 8,800	\$ 6,185	\$ 12,604	\$ 6,419
Total miscellaneous	\$ 8,800	\$ 6,185	\$ 12,604	\$ 6,419
Total revenue from local sources	\$ 3,721,181	\$ 3,636,860	\$ 3,578,895	\$ (57,965)
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle rental tax	\$ 80,000	\$ 80,000	\$ 86,478	\$ 6,478
Rolling stock tax	6	6	71	65
Telecommunications sales tax	183,000	183,000	186,364	3,364
Total noncategorical aid	\$ 263,006	\$ 263,006	\$ 272,913	\$ 9,907
Categorical aid:				
State roads grants	\$ 469,000	\$ 819,831	\$ 73,221	\$ (746,610)
Street and highway maintenance	266,700	271,191	271,191	-
Litter control	2,863	2,863	2,792	(71)
State fire funds	19,000	19,000	16,585	(2,415)
Public safety grants	139,879	165,063	165,896	833
VML risk management grant	-	2,000	2,000	-
VHDA Grant	20,000	-	-	-
DEQ Grants	400,000	403,000	3,000	(400,000)
Total other categorical aid	\$ 1,317,442	\$ 1,682,948	\$ 534,685	\$ (1,148,263)
Total categorical aid	\$ 1,317,442	\$ 1,682,948	\$ 534,685	\$ (1,148,263)
Total revenue from the Commonwealth	\$ 1,580,448	\$ 1,945,954	\$ 807,598	\$ (1,138,356)
Revenue from the federal government:				
Categorical aid:				
Department of justice vests grant	\$ 5,665	\$ 5,665	\$ 5,665	\$ -
Highway planning and construction	-	-	118,390	118,390
Total categorical aid	\$ 5,665	\$ 5,665	\$ 124,055	\$ 118,390
Total revenue from the federal government	\$ 5,665	\$ 5,665	\$ 124,055	\$ 118,390
Total General Fund	\$ 5,307,294	\$ 5,588,479	\$ 4,510,548	\$ (1,077,931)
Capital Projects Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ -	\$ 2	\$ 2
Total Governmental Funds	\$ 5,307,294	\$ 5,588,479	\$ 4,510,550	\$ (1,077,929)

Supporting Schedule

General Fund Expenditures by Function
Last Ten Fiscal Years

Fiscal Year Ended June 30,	General Government Administration	Public Safety	Public Works	Community Development	Non- Departmental	Debt Service	Capital Outlays	Total
2018	\$ 1,133,917	\$ 1,547,818	\$ 1,177,787	\$ 218,306	\$ -	\$ 546,928	\$ 5,793,908	\$ 10,418,664
2017	1,157,458	1,000,511	1,417,674	183,444	-	383,893	348,049	4,491,029
2016	1,058,433	1,159,248	1,283,106	258,288	-	388,108	1,020,581	5,167,764
2015	1,027,429	1,034,409	1,387,421	304,127	-	388,609	211,352	4,353,347
2014	1,298,958	1,135,714	911,123	125,704	8,150	388,129	-	3,867,778
2013	814,069	1,277,980	1,203,515	170,583	80,607	211,689	-	3,758,443
2012	989,472	1,201,994	1,214,505	114,253	137,803	105,000	86,701	3,849,728
2011	1,122,360	1,157,029	1,141,320	48,416	112,093	105,000	86,349	3,772,567
2010	852,959	1,403,128	1,120,386	120,655	-	242,503	79,523	3,819,154
2009	979,214	1,548,375	1,159,419	157,528	-	202,154	72,798	4,119,488

General Fund Revenue by Source
Last Ten Fiscal Years

Fiscal Year Ended June 30,	General Property Taxes	Other Local Taxes	Licenses Permits, and Privilege Fees	Fines and Penalties	Use of Money and Property	Miscel- laneous	Inter- Govern- mental	Total
2018	\$ 843,439	\$ 2,264,138	\$ 322,266	\$ 95,116	\$ 41,332	\$ 12,604	\$ 931,653	\$ 4,510,548
2017	816,258	2,254,710	307,373	32,012	26,323	81,217	1,216,221	4,734,114
2016	785,006	2,076,084	198,635	74,223	39,264	73,194	1,144,938	4,391,344
2015	906,071	2,082,798	195,261	118,058	26,775	15,265	2,057,401	5,401,629
2014	1,066,225	1,934,150	709,415	62,117	31,412	21,367	622,864	4,447,550
2013	1,006,758	2,656,046	258,267	102,690	28,631	20,788	578,385	4,651,565
2012	1,009,185	2,244,838	234,215	80,063	32,630	38,303	504,934	4,144,168
2011	1,039,493	2,126,602	253,549	51,181	34,159	10,677	463,308	3,978,969
2010	1,052,180	2,080,461	195,129	69,351	33,772	40,351	439,078	3,910,322
2009	748,870	1,935,084	89,364	92,394	47,791	22,934	422,909	3,359,346

Real Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Total Tax Levy [1]	Total Tax Collections [2]	Percent of Levy Collected	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
2018	\$ 823,413	\$ 834,352	101.33%	\$ 40,601	4.93%
2017	771,530	806,502	104.53%	45,638	5.92%
2016	761,100	775,967	101.95%	59,775	7.85%
2015	901,736	893,814	99.12%	65,258	7.24%
2014	954,205	962,884	100.91%	83,233	8.72%
2013	1,063,060	1,006,758	94.70%	88,366	8.31%
2012	1,033,885	1,009,185	97.61%	78,083	7.55%
2011	1,011,245	1,039,493	102.79%	67,923	6.72%
2010	1,034,544	1,052,180	101.70%	64,508	6.24%
2009	722,942	748,870	103.59%	75,052	10.38%

[1] Figures may not include all abatements or supplements.

[2] Penalties and interest not included.

Assessed Value of Taxable Property
Last Ten Fiscal Years

<u>Fiscal Year</u>		<u>Real Estate</u>
2018	\$	433,375,267
2017		406,068,190
2016		404,117,855
2015		388,811,330
2014		359,345,592
2013		339,310,600
2012		310,196,400
2011		284,878,800
2010		292,154,885
2009		308,543,700

Property Tax Rates
Last Ten Fiscal Years

Fiscal Year	Real Estate
2018	\$.1899/\$100
2017	\$.1899/\$100
2016	\$.1899/\$100
2015	\$.2333/\$100
2014	\$.2733/\$100
2013	\$.3133/\$100
2012	\$.3333/\$100
2011	\$.3533/\$100
2010	\$.3533/\$100
2009	\$.18/\$100

Legal Debt Margin
June 30, 2018

Total assessed value of taxed real property	\$ <u>433,375,267</u>
Debt limit - 10% of total assessed value	\$ 43,337,527
Less: Amount of debt applicable to debt limit - gross debt	<u>9,435,000</u>
Legal debt margin	\$ <u><u>33,902,527</u></u>

Miscellaneous Statistics
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Population</u>
2018	5,230
2017	5,186
2016	5,217
2015	4,961
2014	5,207
2013	5,207
2012	4,937
2011	4,937
2010	4,937
2009	4,937

Compliance

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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 Members of the Town Council
Town of Dumfries
Dumfries, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities and each major fund of Town of Dumfries, Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Town of Dumfries, Virginia's basic financial statements, and have issued our report thereon dated November 29, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiency in internal control that we consider to be a material weakness (2018-001).

Compliance and Other Matters

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

Town of Dumfries, Virginia's Response to Findings

Town of Dumfries, Virginia's response to the findings identified in our audit is described in the accompanying schedule of findings responses. Town of Dumfries, Virginia'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.

Robinson, Farmer, Cox Associates

Fredericksburg, Virginia
November 29, 2018

TOWN OF DUMFRIES, VIRGINIA

Schedule of Findings and Responses
Year Ended June 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	No
Noncompliance material to financial statements noted?	No

Section II - Financial Statement Findings

Finding 2018-001 Unrecorded Capital Lease (Material Weakness)

Criteria:

All existing liabilities should be recorded in the financial statements in accordance with Generally Accepted Accounting Principles.

Condition:

Our audit procedures disclosed a capital lease in the amount of \$262,000 issued on June 15, 2017 was not recorded by the Town.

Cause:

The City's internal controls in place to capture and record all necessary balances in the automated accounting system were not adequate.

Effect:

As a result, material adjustments to the Town's general ledger were necessary to restate beginning fund balance.

Recommendation:

We recommend the Town implement procedures to ensure all debt issuances are identified and recorded in the financial statements as required by Generally Accepted Accounting Principles.

Management's Response:

Management concurs with this recommendation and will strengthen internal controls to ensure that all debt issuances are identified and recorded in automated accounting system in the future.

Section III - Prior Audit Findings

2017-001: Reconciliation of Weldon Cooper Survey (Material Weakness and Noncompliance Material to Financial Statements)

This finding is not reported in 2018.