

TOWN OF SHENANDOAH, VIRGINIA

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2020

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INDEPENDENT AUDITOR'S REPORTS

White, Withers, Masincup & Cannaday, PC

THOMAS A. WHITE, CPA
JOHN W. WITHERS, CPA
ROBERT W. MASINCUP, CPA
ANDREW L. CANNADAY, CPA

Certified Public Accountants

MEMBERS
AMERICAN INSTITUTE OF C.P.A.
VIRGINIA SOCIETY OF C.P.A.

INDEPENDENT AUDITOR'S REPORT

TO THE TOWN COUNCIL
TOWN OF SHENANDOAH, VIRGINIA

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Shenandoah, Virginia, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provides 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, the business-type activities, and each major fund of the Town of Shenandoah, Virginia, as of June 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the exhibits listed as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying information listed as Other Supplementary Information in the table of contents is presented for purposes of additional analysis is not a required part of the basic financial statements.

The Other Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2021, on our consideration of the Town'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 the Town'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 the Town's internal control over financial reporting and compliance.

White, Withers, Masimire & Connolly, P.C.

Staunton, Virginia
July 29, 2021

White, Withers, Masincup & Cannaday, PC

THOMAS A. WHITE, CPA
JOHN W. WITHERS, CPA
ROBERT W. MASINCUP, CPA
ANDREW L. CANNADAY, CPA

Certified Public Accountants

MEMBERS
AMERICAN INSTITUTE OF C.P.A.
VIRGINIA SOCIETY OF C.P.A.

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

TO THE TOWN COUNCIL
TOWN OF SHENANDOAH, VIRGINIA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Shenandoah, Virginia, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated July 29, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control that we consider to be significant deficiencies. The Town is a small municipality with a limited number of staff and therefore, as with many small Town's, has inadequate internal control over the preparation of the annual financial report with full note disclosures required to be in conformity with the U.S. Generally Accepted Accounting Principles. The Town has determined the costs to eliminate this deficiency exceed the benefits, and thus have engaged the auditing firm to assist in this process.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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 financial statements. 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's Response to Findings

The Town's response to the findings identified in our audit is described previously. The Town'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 Town'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 Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

White, Withers, Masimac & Connolly, P.C.

Staunton, Virginia
July 29, 2021

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION
As of June 30, 2020

| | Governmental Activities | Business- Type Activities | Total Primary Government |
|--|----------------------------|---------------------------------|--------------------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 774 963 | \$ 837 500 | \$ 1 612 463 |
| Restricted cash and cash equivalents | 56 572 | 522 481 | 579 053 |
| Receivables (Net of allowances for uncollectibles of \$32,283) | | | |
| Real estate and personal property taxes | 40 733 | - | 40 733 |
| Other local revenues | 46 560 | - | 46 560 |
| Accounts, billed | - | 42 758 | 42 758 |
| Accounts, unbilled | - | 58 682 | 58 682 |
| Grants and other | - | 17 554 | 17 554 |
| Due from other governments | 28 889 | - | 28 889 |
| Total Current Assets | \$ 947 717 | \$ 1 478 975 | \$ 2 426 692 |
| Noncurrent Assets: | | | |
| Capital assets, net | \$ 1 106 143 | \$ 3 804 008 | \$ 4 910 151 |
| Total Noncurrent Assets | \$ 1 106 143 | \$ 3 804 008 | \$ 4 910 151 |
| Total Assets | \$ 2 053 860 | \$ 5 282 983 | \$ 7 336 843 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows related to pension | \$ 128 700 | \$ 58 652 | \$ 187 352 |
| Deferred outflows related to OPEB | 15 393 | 7 060 | 22 453 |
| Total Deferred Outflows of Resources | \$ 144 093 | \$ 65 712 | \$ 209 805 |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts payable | \$ 8 067 | \$ 6 813 | \$ 14 880 |
| Accrued payroll and payroll liabilities | 12 321 | 5 540 | 17 861 |
| Accrued interest payable | 211 | 4 030 | 4 241 |
| Notes and bonds payable, current portion | 8 374 | 42 914 | 51 288 |
| Customer deposits | 72 | 18 512 | 18 584 |
| Total Current Liabilities | \$ 29 045 | \$ 77 809 | \$ 106 854 |
| Noncurrent Liabilities: | | | |
| Notes and bonds payable | \$ 67 496 | \$ 1 167 746 | \$ 1 235 242 |
| Net pension liability | 387 626 | 177 930 | 565 556 |
| Net OPEB liability | 47 984 | 22 110 | 70 094 |
| Compensated absences | 64 676 | 36 582 | 101 258 |
| Total Noncurrent Liabilities | \$ 567 782 | \$ 1 404 368 | \$ 1 972 150 |
| Total Liabilities | \$ 596 827 | \$ 1 482 177 | \$ 2 079 004 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Prepayments received | \$ 10 686 | \$ 5 453 | \$ 16 139 |
| Deferred inflows related to pension | 15 880 | 7 289 | 23 169 |
| Deferred inflows related to OPEB | 6 023 | 2 770 | 8 793 |
| Total Deferred Inflows of Resources | \$ 32 589 | \$ 15 512 | \$ 48 101 |
| NET POSITION | | | |
| Net investment in capital assets | \$ 1 030 273 | \$ 2 593 348 | \$ 3 623 621 |
| Restricted: | | | |
| Revolving loan fund | 10 905 | - | 10 905 |
| Debt service reserve | 10 896 | - | 10 896 |
| Various unspent restricted donations | 34 771 | - | 34 771 |
| Bond retirement | - | 522 481 | 522 481 |
| Unrestricted | 481 692 | 735 177 | 1 216 869 |
| Total Net Position | \$ 1 568 537 | \$ 3 851 006 | \$ 5 419 543 |

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

TOWN OF SHENANDOAH, VIRGINIA

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

| Functions/Programs | Expenses | Program Revenues | | |
|---------------------------------------|---------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Governmental Activities: | | | | |
| General government administration | \$ 476 128 | \$ 120 376 | \$ 8 885 | \$ 7 600 |
| Public safety | 513 003 | 902 | 69 174 | 11 500 |
| Public works | 466 003 | 152 352 | 1 066 | 24 771 |
| Economic development | 42 085 | 13 575 | 15 760 | - |
| Interest on long-term debt | 2 788 | - | - | - |
| Total Governmental Activities | \$ 1 500 007 | \$ 287 205 | \$ 94 885 | \$ 43 871 |
| Business-type Activities: | | | | |
| Utility Fund | \$ 764 188 | \$ 734 164 | \$ - | \$ 161 000 |
| Total Business-Type Activities | \$ 764 188 | \$ 734 164 | \$ - | \$ 161 000 |
| Total Primary Government | \$ 2 264 195 | \$ 1 021 369 | \$ 94 885 | \$ 204 871 |

General Revenues:

General property taxes
Local sales and use taxes
Restaurant food taxes
Utility taxes
Electric surtax
Communications tax
Cigarette tax
Electric franchise
Bank stock taxes
Transient occupancy tax
Railroad rolling stock taxes
Interest income
Miscellaneous

Total General Revenues

Gain (Loss) on Disposal of Assets

Transfers

Change in Net Position

Net Position at Beginning of Year

Net Position at End of Year

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

| Net (Expenses) Revenue and Changes in Net Position | | |
|---|--|---|
| Governmental Activities | Business- Type Activities | Total Primary Government |
| \$ (339 267) | \$ - | \$ (339 267) |
| (431 427) | - | (431 427) |
| (287 814) | - | (287 814) |
| (12 750) | - | (12 750) |
| (2 788) | - | (2 788) |
| <u>\$ (1 074 046)</u> | <u>\$ -</u> | <u>\$ (1 074 046)</u> |
| \$ - | \$ 130 976 | \$ 130 976 |
| <u>\$ -</u> | <u>\$ 130 976</u> | <u>\$ 130 976</u> |
| \$ (1 074 046) | \$ 130 976 | \$ (943 070) |
| <u>\$ (1 074 046)</u> | <u>\$ 130 976</u> | <u>\$ (943 070)</u> |
| \$ 688 790 | \$ - | \$ 688 790 |
| 124 214 | - | 124 214 |
| 190 741 | - | 190 741 |
| 26 526 | - | 26 526 |
| 32 801 | - | 32 801 |
| 22 988 | - | 22 988 |
| 45 000 | - | 45 000 |
| 9 465 | - | 9 465 |
| 54 482 | - | 54 482 |
| 9 233 | - | 9 233 |
| 12 262 | - | 12 262 |
| 1 166 | 23 737 | 24 903 |
| 1 191 | 912 | 2 103 |
| <u>\$ 1 218 859</u> | <u>\$ 24 649</u> | <u>\$ 1 243 508</u> |
| \$ - | \$ 453 | \$ 453 |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| \$ 144 813 | \$ 156 078 | \$ 300 891 |
| <u>1 423 724</u> | <u>3 694 928</u> | <u>5 118 652</u> |
| <u>\$ 1 568 537</u> | <u>\$ 3 851 006</u> | <u>\$ 5 419 543</u> |

BALANCE SHEET - GOVERNMENTAL FUNDS
As of June 30, 2020

| | General Fund |
|--|--------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 774 963 |
| Receivables (Net of allowances for uncollectibles of \$32,283): | |
| Real estate and personal property taxes | 40 733 |
| Other local revenues | 46 560 |
| Due from other governments | 28 889 |
| Restricted cash and cash equivalents | <u>56 572</u> |
| Total Assets | \$ <u>947 717</u> |
| LIABILITIES | |
| Accounts payable | \$ 8 067 |
| Accrued payroll and payroll liabilities | 12 321 |
| Customer deposits | <u>72</u> |
| Total Liabilities | \$ <u>20 460</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Prepaid property taxes | \$ 10 686 |
| Unavailable revenue-property taxes | <u>27 104</u> |
| Total Deferred Inflows of Resources | \$ <u>37 790</u> |
| FUND BALANCES | |
| Restricted: | |
| Revolving loan fund | \$ 10 905 |
| Debt service reserve | 10 896 |
| Various unspent restricted donations | 34 771 |
| Assigned to capital improvements | 294 290 |
| Unassigned | <u>538 605</u> |
| Total Fund Balances | \$ <u>889 467</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | \$ <u>947 717</u> |

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

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
As of June 30, 2020**Amounts reported for governmental activities in the Statement of
Net Position are different because of the following:**

| | |
|--|--------------|
| Fund balances of governmental funds | \$ 889 467 |
| Capital assets, net of depreciation, are not current financial resources and are not included in the governmental funds. | 1 106 143 |
| Long-term liabilities, including notes and bonds payable and compensated absences, are not due and payable in the current period and therefore, are not reported in the funds. | (140 546) |
| Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the funds: | |
| Deferred outflows related to pension | 128 700 |
| Deferred inflows related to pension | (15 880) |
| Net pension liability | (387 626) |
| Financial statement elements related to OPEB are applicable to future periods and, therefore, are not reported in the funds: | |
| Deferred outflows related to OPEB | 15 393 |
| Deferred inflows related to OPEB | (6 023) |
| Net OPEB liability | (47 984) |
| Property taxes receivable not received within forty-five days after year end are not available to fund current-period expenditures and, therefore, are deferred in the funds. | 27 104 |
| Interest payable on long-term debt does not require current financial resources, and therefore, is not reported as a liability in the funds. | (211) |
| Net position of governmental activities | \$ 1 568 537 |

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2020

| | General Fund |
|--|-------------------------|
| Revenues: | |
| General property taxes | \$ 686 395 |
| Other local taxes | 635 826 |
| Fines and forfeitures | 902 |
| Revenues from use of money and property | 3 521 |
| Charges for services | 163 572 |
| Miscellaneous | 40 563 |
| Intergovernmental: | |
| Revenue from the Commonwealth | 82 857 |
| Revenue from the Federal Government | 9 689 |
| Total Revenues | \$ 1 623 325 |
| Expenditures: | |
| Current: | |
| General government administration | \$ 474 000 |
| Public safety | 446 078 |
| Public works | 436 234 |
| Economic development | 37 311 |
| Capital expenditures | 18 002 |
| Debt Service: | |
| Debt service payments | 10 896 |
| Total Expenditures | \$ 1 422 521 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | \$ 200 804 |
| Other Financing Sources (Uses): | |
| Net operating transfers | \$ - |
| Total Other Financing Sources (Uses) | \$ - |
| Net Change in Fund Balances | \$ 200 804 |
| Fund Balance at Beginning of Year | 688 663 |
| Fund Balance at End of Year | \$ 889 467 |

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

**Amounts reported for governmental activities in the Statement of
Activities are different because of the following:**

| | |
|---|-------------------|
| Net change in fund balance - total governmental funds | \$ 200 804 |
| 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 depreciation (\$128,649) exceeded capital outlay (\$68,595) in the current period. | (60 054) |
| Repayment of long-term debt is an expenditure in the governmental funds, but reduces long-term debt in the Statement of Activities. | 8 086 |
| Governmental funds report employer pension contributions as expenditures. However, in the Statement of Activities the cost of pension benefits earned net of employee contributions is reported as pension expense. This is the amount by which employer contributions (\$49,080) exceeded pension expense (\$47,121). | 1 959 |
| Governmental funds report employer OPEB contributions as expenditures. However, in the Statement of Activities the cost of OPEB benefits earned net of employee contributions is reported as OPEB expense. This is the amount by which employer contributions (\$8,037) exceeded OPEB expense (\$6,263). | 1 774 |
| The change in compensated absences liability reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported in the governmental funds. | (10 173) |
| General property tax revenues in the Statement of Activities that do not provide current financial resources are not reported in the governmental funds. | 2 395 |
| In the governmental funds, interest on long-term debt is reported as interest expense when due, whereas in the Statement of Activities it is accrued. | <u>22</u> |
| Change in net position of governmental funds | <u>\$ 144 813</u> |

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
As of June 30, 2020

| | Utility Fund |
|---|---------------------|
| ASSETS | |
| Current Assets: | |
| Cash and cash equivalents | \$ 837 500 |
| Restricted cash and cash equivalents | 522 481 |
| Receivables: | |
| Accounts, billed | 42 758 |
| Accounts, unbilled | 58 682 |
| Grants and other | 17 554 |
| Total Current Assets | \$ 1 478 975 |
| Noncurrent Assets: | |
| Capital assets, net | \$ 3 804 008 |
| Total Noncurrent Assets | \$ 3 804 008 |
| Total Assets | \$ 5 282 983 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred outflows related to pension | \$ 58 652 |
| Deferred outflows related to OPEB | 7 060 |
| Total Deferred Outflows of Resources | \$ 65 712 |
| LIABILITIES | |
| Current Liabilities: | |
| Accounts payable | \$ 6 813 |
| Accrued payroll and payroll liabilities | 5 540 |
| Accrued interest payable | 4 030 |
| Notes and bonds payable, current portion | 42 914 |
| Customer deposits | 18 512 |
| Total Current Liabilities | \$ 77 809 |
| Noncurrent Liabilities: | |
| Notes and bonds payable | \$ 1 167 746 |
| Net pension liability | 177 930 |
| Net OPEB liability | 22 110 |
| Compensated absences | 36 582 |
| Total Noncurrent Liabilities | \$ 1 404 368 |
| Total Liabilities | \$ 1 482 177 |
| DEFERRED INFLOWS OF RESOURCES | |
| Customer prepayments | \$ 5 453 |
| Deferred inflows related to pension | 7 289 |
| Deferred inflows related to OPEB | 2 770 |
| Total Deferred Inflows of Resources | \$ 15 512 |
| NET POSITION | |
| Net investment in capital assets | \$ 2 593 348 |
| Restricted for bond retirement | 522 481 |
| Unrestricted: | |
| Undesignated | 28 786 |
| Designated for capital improvements | 706 391 |
| Total Net Position | \$ 3 851 006 |

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 For the Year Ended June 30, 2020

| | <u>Utility Fund</u> |
|---|-------------------------|
| Operating Revenues: | |
| Charges for services | \$ 719 793 |
| Total Operating Revenues | \$ 719 793 |
| Operating Expenses: | |
| Personal services | \$ 274 836 |
| Fringe benefits | 84 195 |
| Supplies, materials, and maintenance | 75 764 |
| Power and fuel | 44 827 |
| Depreciation and amortization | 186 897 |
| Other | 42 316 |
| Total Operating Expenses | \$ 708 835 |
| Operating Income (Loss) | \$ 10 958 |
| Nonoperating Revenues (Expenses): | |
| Interest | \$ 23 737 |
| Penalties | 11 071 |
| Cut-on fees | 3 300 |
| Miscellaneous income | 912 |
| Gain (loss) on disposal of assets | 453 |
| Interest and fiscal charges | (55 353) |
| Total Nonoperating Revenues (Expenses) | \$ (15 880) |
| Net Income (Loss) Before Contributions and Transfers | \$ (4 922) |
| Contributions - connection fees | \$ 161 000 |
| Operating transfers in / (out) | - |
| Total Contributions and Transfers | \$ 161 000 |
| Change in Net Position | \$ 156 078 |
| Net Position at Beginning of Year | 3 694 928 |
| Net Position at End of Year | \$ 3 851 006 |

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

TOWN OF SHENANDOAH, VIRGINIA

Statement 7

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 For the Year Ended June 30, 2020

| | Utility Fund |
|---|-------------------------|
| Cash Flows from Operating Activities: | |
| Cash received from customers | \$ 735 871 |
| Cash payments to suppliers | (162 251) |
| Cash payments to employees | (361 492) |
| Net Cash Provided (Used) by Operating Activities | \$ 212 128 |
| Cash Flows from Noncapital Financing Activities: | |
| Net transfers | \$ - |
| Other noncapital financing received | 15 283 |
| Net Cash Provided (Used) by Noncapital Financing Activities | \$ 15 283 |
| Cash Flows from Capital and Related Financing Activities: | |
| Acquisition and construction of capital assets | \$ (50 966) |
| Proceeds from sale of capital assets | 11 632 |
| Proceeds from connection fees and capital grants | 161 000 |
| Repayment of long-term debt | (41 026) |
| Interest paid on long-term debt | (55 490) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | \$ 25 150 |
| Cash Flows from Investing Activities: | |
| Interest earned | \$ 23 737 |
| Net Increase (Decrease) in Cash and Cash Equivalents | \$ 276 298 |
| Cash and Cash Equivalents at Beginning of Year | 1 083 683 |
| Cash and Cash Equivalents at End of Year | \$ 1 359 981 |
| Cash and Cash Equivalents per Statement of Net Position: | |
| Cash and cash equivalents | \$ 837 500 |
| Restricted cash and cash equivalents | 522 481 |
| Total Cash and Cash Equivalents per Statement of Net Position | \$ 1 359 981 |

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

STATEMENT OF CASH FLOWS - Continued
PROPRIETARY FUNDS
For the Year Ended June 30, 2020**Reconciliation of Operating Income to Net Cash
Provided (Used) by Operating Activities:**

| Utility Fund |
|-------------------------|
| <hr/> |
| \$ 10 958 |
| 186 897 |
| 10 632 |
| (28 937) |
| (2 619) |
| 656 |
| 1 779 |
| (7) |
| 2 846 |
| 32 200 |
| 1 998 |
| 5 453 |
| (8 791) |
| (937) |
| <hr/> |
| \$ <u>212 128</u> |

**Net Cash Provided (Used) by
Operating Activities**

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Town of Shenandoah, Virginia (the “Town”) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting and reporting policies and practices used by the Town are described below.

A. Reporting Entity

The Town is a municipal government that is governed by an elected seven-member council, including a mayor. Generally accepted accounting principles requires these financial statements to present the Town (the primary government) and its component units, entities for which the government is considered to be financially accountable. Currently there are no component units that meet the criteria to be included in this report.

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

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Public Safety, Public Works, etc.) or activity are offset by program revenues. Direct expenses are those that are clearly identifiable with specific function or activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or activity and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues. The net cost (by function or business-type activity) is normally covered by general revenue (property, sales, franchise taxes, intergovernmental revenues, interest income, etc.).

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

The government-wide focus is more on the sustainability of the Town as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the individual funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

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

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

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

Government fund level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if collected within 45 days of the end of the current fiscal period. Grant revenues availability period is generally considered to be one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the liability has matured and payment is due.

Ad valorem, franchise and sales tax revenues in the General Fund are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash as the resulting receivable is immaterial. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the Town; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Business type activities and all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise funds are charges to customers for sales and services. Operating expenses for the Town's enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The following funds are used by the Town:

1. Governmental Funds:

The following is a description of the Governmental Funds of the Town:

The General Fund accounts for the Town's primary services (General Government Administration, Public Safety, Public Works, Economic Development, etc.) and is the primary operating unit of the Town.

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)****2. Proprietary Funds:**

The following is a description of the Proprietary Funds of the Town:

The Utility Fund accounts for the operation of the Town's water and sewer utility. Activities of the fund include administration, operation and maintenance of the water and sewer system and billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for revenue bonds and obligations under capital leases when due throughout the year. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund.

3. Non-Current Governmental Assets/Liabilities:

GASB Statement No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the government-wide Statement of Net Assets.

D. Cash, Cash Equivalents and Investments

For purposes of the Statement of Cash Flows, cash and cash equivalents include business interest checking and savings accounts, certificates of deposit, and money market accounts maintained during the year.

E. Capital Assets

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed fixed assets are recorded at estimated fair market value at the time received. Public domain (infrastructure) fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems will be recorded at historical cost on a prospective basis as the Town has elected out of recording such assets retrospectively as allowed for Phase 3 Governments.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Net revenue bond interest cost incurred during construction periods is capitalized when material.

Property, plant, and equipment of the Town is depreciated using the straight-line method over estimated useful lives ranging from three to fifty years.

F. Pensions – Virginia Retirement System

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

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**G. Health Insurance Credit Program – Virginia Retirement System**

The Town's Health Insurance Credit Program is a multiple-employer, agent defined benefit plan that provides a credit toward the cost of health insurance coverage for retired employees. The Health Insurance Credit 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 Health Insurance Credit Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Health Insurance Credit Program OPEB, and the Health Insurance Credit Program OPEB expense, information about the fiduciary net position of the VRS Health Insurance Credit Program; and the additions to/deductions from the VRS Health Insurance Credit 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.

H. Group Life Insurance Program – Virginia Retirement System

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

I. Fund Equity

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

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

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**J. Property Taxes**

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are payable in June and December. The Town bills and collects its own property taxes based on assessment values obtained from the Page County, Virginia, Commissioner of Revenue.

NOTE 2—CASH DEPOSITS:

Deposits: Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (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.

Restricted cash consists of the following:

| | | |
|----|----------------|--|
| \$ | 10 905 | Revolving loan fund |
| | 10 896 | Debt service |
| | <u>34 771</u> | Various unspent restricted donations |
| \$ | <u>56 572</u> | Restricted cash – Governmental Activities |
| \$ | <u>522 481</u> | Bond Retirement |
| \$ | <u>522 481</u> | Restricted Cash – Business – Type Activities |
| \$ | <u>579 053</u> | Total Restricted Cash |

NOTE 3—DUE FROM OTHER GOVERNMENTS:

Governmental Activities:

Page County:

Local sales tax \$ 20 004

U.S. Department of the Treasury:

Coronavirus Relief Fund 8 885

Total – Governmental Activities \$ 28 889

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 4—CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2020, was as follows:

| | Balance at Beginning Of Year | Additions | Retirements | Transfers | Balance at End Of Year |
|---|------------------------------------|--------------------|-------------|-------------|------------------------------|
| Governmental Activities: | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land | \$ 293 681 | \$ - | \$ - | \$ - | \$ 293 681 |
| Construction in progress | <u>17 547</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>17 547</u> |
| Subtotal | <u>\$ 311 228</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 311 228</u> |
| Capital assets being depreciated: | | | | | |
| Buildings | \$ 218 067 | \$ - | \$ - | \$ - | \$ 218 067 |
| Other improvements | 350 117 | 42 022 | - | - | 392 139 |
| Police department | 741 678 | 15 325 | - | - | 757 003 |
| Street department | 534 531 | - | - | - | 534 531 |
| Office furniture and equipment | 71 668 | 11 248 | - | - | 82 916 |
| Computer center assets | <u>530 726</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>530 726</u> |
| Subtotal | <u>\$ 2 446 787</u> | <u>\$ 68 595</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2 515 382</u> |
| Less accumulated depreciation: | | | | | |
| Buildings | \$ (157 009) | \$ (2 954) | \$ - | \$ - | \$ (159 963) |
| Other improvements | (157 390) | (15 606) | - | - | (172 996) |
| Police department | (471 457) | (66 714) | - | - | (538 171) |
| Street department | (306 716) | (35 934) | - | - | (342 650) |
| Office furniture and equipment | (63 432) | (2 667) | - | - | (66 099) |
| Computer center assets | <u>(435 814)</u> | <u>(4 774)</u> | <u>-</u> | <u>-</u> | <u>(440 588)</u> |
| Subtotal | <u>\$(1 591 818)</u> | <u>\$(128 649)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$(1 720 467)</u> |
| Total capital assets being depreciated, net | <u>\$ 854 969</u> | <u>\$(60 054)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 794 915</u> |
| Governmental Activities capital assets, net | <u>\$ 1 166 197</u> | <u>\$(60 054)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1 106 143</u> |

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 4—CAPITAL ASSETS: (Continued)

| | Balance at Beginning Of Year | Additions | Retirements | Transfers | Balance at End Of Year |
|--|------------------------------------|--------------|-------------|-----------|------------------------------|
| Business-type Activities: | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land and land rights | \$ 36 946 | \$ - | \$ - | \$ - | \$ 36 946 |
| Subtotal | \$ 36 946 | \$ - | \$ - | \$ - | \$ 36 946 |
| Capital assets being depreciated: | | | | | |
| Structures and improvements: | | | | | |
| Source of supply | \$ 1 185 759 | \$ - | \$ - | \$ - | \$ 1 185 759 |
| Pumping plant | 1 358 | - | - | - | 1 358 |
| Water treatment plant | 152 127 | - | - | - | 152 127 |
| Sewage treatment plant | 2 645 406 | 10 412 | - | - | 2 655 818 |
| Transmission and distribution | 3 883 078 | 20 723 | - | - | 3 903 801 |
| Water treatment plant equipment | 338 251 | 19 831 | (13 239) | - | 344 843 |
| Vehicles | 106 264 | - | - | - | 106 264 |
| Office furniture and equipment | 32 235 | - | - | - | 32 235 |
| Shop equipment | 88 864 | - | - | - | 88 864 |
| Subtotal | \$ 8 433 342 | \$ 50 966 | \$ (13 239) | \$ - | \$ 8 471 069 |
| Less accumulated depreciation: | | | | | |
| Structures and improvements: | | | | | |
| Source of supply | \$ (957 049) | \$ (23 715) | \$ - | \$ - | \$ (980 764) |
| Pumping plant | (1 358) | - | - | - | (1 358) |
| Water treatment plant | (111 138) | (3 042) | - | - | (114 180) |
| Sewage treatment plant | (1 302 175) | (55 553) | - | - | (1 357 728) |
| Transmission and distribution | (1 822 071) | (77 942) | - | - | (1 900 013) |
| Water treatment plant equipment | (151 555) | (17 039) | 2 060 | - | (166 534) |
| Vehicles | (91 220) | (5 542) | - | - | (96 762) |
| Office furniture and equipment | (31 542) | (173) | - | - | (31 715) |
| Shop equipment | (51 062) | (3 891) | - | - | (54 953) |
| Subtotal | \$ (4 519 170) | \$ (186 897) | \$ 2 060 | \$ - | \$ (4 704 007) |
| Total capital assets being depreciated, net | \$ 3 914 172 | \$ (135 931) | \$ (11 179) | \$ - | \$ 3 767 062 |
| Business-type Activities capital assets, net | \$ 3 951 118 | \$ (135 931) | \$ (11 179) | \$ - | \$ 3 804 008 |

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 4—CAPITAL ASSETS: (Continued)

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

Governmental Activities:

| | |
|-----------------------------------|--------------|
| General government administration | \$ 5 621 |
| Public safety | 66 714 |
| Public works | 51 540 |
| Economic development | <u>4 774</u> |

Total depreciation expense – governmental activities \$ 128 649

Business-type Activities:

| | |
|--------------|-------------------|
| Utility Fund | \$ <u>186 897</u> |
|--------------|-------------------|

Total depreciation expense – business-type activities \$ 186 897

NOTE 5—LONG-TERM DEBT:

Annual requirements to amortize long-term debt are as follows:

Governmental Activities

| Year Ending June 30 | General Obligation Bonds | | Notes Payable | | Total | |
|------------------------|--------------------------|-------------|------------------|------------------|------------------|------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2021 | \$ - | \$ - | \$ 8 374 | \$ 2 522 | \$ 8 374 | \$ 2 522 |
| 2022 | - | - | 8 672 | 2 224 | 8 672 | 2 224 |
| 2023 | - | - | 8 980 | 1 916 | 8 980 | 1 916 |
| 2024 | - | - | 9 300 | 1 596 | 9 300 | 1 596 |
| 2025 | - | - | 9 630 | 1 266 | 9 630 | 1 266 |
| 2026 - 2030 | <u>-</u> | <u>-</u> | <u>30 914</u> | <u>1 692</u> | <u>30 914</u> | <u>1 692</u> |
| Total | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 75 870</u> | <u>\$ 11 216</u> | <u>\$ 75 870</u> | <u>\$ 11 216</u> |

Business-type Activities

| Year Ending June 30 | General Obligation Bonds | | Notes Payable | | Total | |
|------------------------|--------------------------|-------------------|---------------|-------------|---------------------|-------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2021 | \$ 42 914 | \$ 53 602 | \$ - | \$ - | \$ 42 914 | \$ 53 602 |
| 2022 | 44 886 | 51 630 | - | - | 44 886 | 51 630 |
| 2023 | 46 948 | 49 568 | - | - | 46 948 | 49 568 |
| 2024 | 49 104 | 47 412 | - | - | 49 104 | 47 412 |
| 2025 | 51 360 | 45 156 | - | - | 51 360 | 45 156 |
| 2026-2030 | 294 438 | 188 142 | - | - | 294 438 | 188 142 |
| 2031-2035 | 368 576 | 114 004 | - | - | 368 576 | 114 004 |
| 2036-2040 | <u>312 434</u> | <u>25 871</u> | <u>-</u> | <u>-</u> | <u>312 434</u> | <u>25 871</u> |
| Total | <u>\$ 1 210 660</u> | <u>\$ 575 385</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1 210 660</u> | <u>\$ 575 385</u> |

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 5—LONG-TERM DEBT: (Continued)Changes in Long-Term Debt and Compensated Absences

The following is a summary of long-term debt transactions of the Town for the year ended June 30, 2020.

| | Amounts payable at July 1, 2019 | Increases | Decreases | Amounts payable at June 30, 2020 |
|---------------------------|---------------------------------------|------------------|--------------------|--|
| Governmental Activities: | | | | |
| Compensated absences | \$ 54 503 | \$ 10 173 | \$ - | \$ 64 676 |
| Notes payable | <u>83 956</u> | <u>-</u> | <u>(8 086)</u> | <u>75 870</u> |
| Total | <u>\$ 138 459</u> | <u>\$ 10 173</u> | <u>\$ (8 086)</u> | <u>\$ 140 546</u> |
| Business-type Activities: | | | | |
| Compensated absences | \$ 33 736 | \$ 2 846 | \$ - | \$ 36 582 |
| General Obligation Bonds | <u>1 251 686</u> | <u>-</u> | <u>(41 026)</u> | <u>1 210 660</u> |
| Total | <u>\$ 1 285 422</u> | <u>\$ 2 846</u> | <u>\$ (41 026)</u> | <u>\$ 1 247 242</u> |

Details of Long-Term IndebtednessGovernmental Activities:

Notes Payable:

Rural Utilities Services – payable monthly in the amount of \$908 commencing July 2018 for a term of ten years, including interest at 3.5%, secured by a promissory note, a financing statement on all accounts and general intangibles of the Town, and all equipment purchased with the RUS loan and grant funds. \$ 75 870

Total Notes Payable \$ 75 870

Total Governmental Activities \$ 75 870

Business-type Activities:

General Obligation Bonds:

USDA/Rural Development General Obligation Refunding Bonds Series of 1999 – payable monthly in the amount of \$8,043 commencing March 3, 2001 for a term of 38 years, including interest at 4.5%. \$ 1 210 660

Total General Obligation Bonds \$ 1 210 660

Total Business-type Activities \$ 1 210 660

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 6—DEFINED BENEFIT PENSION PLAN:

Plan Description

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

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

VRS – PLAN 1

1. **About Plan 1** - Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, service credit and average final compensation at retirement using a formula.
2. **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.

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. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

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.

3. **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.
4. **Service Credit** – Service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 6—DEFINED BENEFIT PENSION PLAN: (Continued)**VRS – PLAN 1** (Continued)

5. **Vesting** - Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of service credit. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.

Members are always 100% vested in the contributions that they make.

6. **Calculating the Benefit** - The basic benefit is determined using the average final compensation, service credit, and plan multiplier. An early retirement reduction is applied to this amount if the member is retiring with a reduced retirement benefit. In cases where the member has elected an optional form of retirement payment, an option factor specific to the option chosen is then applied.
7. **Average Final Compensation** - A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.
8. **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%.

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.

9. **Normal Retirement Age**

VRS - Age 65.

Political subdivision hazardous duty employees - Age 60.

10. **Earliest Unreduced Retirement Eligibility**

VRS - Age 65 with at least five years of service credit or age 50 with at least 30 years of service credit.

Political subdivisions hazardous duty employees - Age 60 with at least five years of service credit or age 50 with at least 25 years of service credit.

11. **Earliest Reduced Retirement Eligibility**

VRS - Age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.

Political subdivision hazardous duty employees - Age 50 with at least five years of service credit.

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 6—DEFINED BENEFIT PENSION PLAN: (Continued)
VRS – PLAN 1 (Continued)

- 12. 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%.

Eligibility - For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of service credit, the COLA will go into effect on July 1 after one full calendar year from the retirement date.

For members who retire with a reduced benefit and who have less than 20 years of service credit, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

Exceptions to COLA Effective Dates - The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
 - The member retires on disability.
 - The member retires directly from short-term or long-term disability.
 - 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.
- 13. 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.
- 14. Purchase of Prior Service** - Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as service credit in their plan. Prior service credit counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 6—DEFINED BENEFIT PENSION PLAN: (Continued)

VRS - PLAN 2

1. **About Plan 2** - Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, service credit, and average final compensation at retirement using a formula.
2. **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.

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. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

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.

3. **Retirement Contributions** – Same as Plan 1.
4. **Service Credit** - Same as Plan 1.
5. **Vesting** - Same as Plan 1.
6. **Calculating the Benefit** – See definition under Plan 1.
7. **Average Final Compensation** - A member's average final compensation is the average of the 60 consecutive months of highest compensation as a covered employee.
8. **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 service credit earned, purchased or granted on or after January 1, 2013.

Political subdivision hazardous duty employees – Same as Plan 1.

9. **Normal Retirement Age**

VRS – Normal Social Security retirement age.

Political subdivision hazardous duty employees – Same as Plan 1.

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 6—DEFINED BENEFIT PENSION PLAN: (Continued)**VRS - PLAN 2 (Continued)****10. Earliest Unreduced Retirement Eligibility**

VRS – Normal Social Security retirement age with at least five years of service credit or when their age plus service credit equals 90.

Political subdivision hazardous duty employees – Same as Plan 1.

11. Earliest Reduced Retirement Eligibility

VRS - Age 60 with at least five years of service credit.

Political subdivision hazardous duty employees – Same as Plan 1.

12. 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%.

Eligibility - Same as Plan 1.

Exceptions to COLA Effective Dates - Same as Plan 1.

13. 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.**14. Purchase of Prior Service** - Same as Plan 1.**HYBRID RETIREMENT PLAN****1. About the Hybrid Retirement Plan** - The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.

- The defined benefit is based on a member's age, service credit, and average final compensation at retirement using a formula.
- The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
- In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 6—DEFINED BENEFIT PENSION PLAN: (Continued)

HYBRID RETIREMENT PLAN (Continued)

2. **Eligible Members** - Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

- Political subdivision employees*
- Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014

*Non-Eligible Members - Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

- Political subdivision employees who are covered by enhanced benefits for hazardous duty employees

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.

3. **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.

4. **Service Credit**

Defined Benefit Component - Under the defined benefit component of the plan, service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Defined Contribution Component - Under the defined contribution component, service credit is used to determine vesting for the employer contribution portion of the plan.

5. **Vesting**

Defined Benefit Component - Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years of service credit. Plan 1 or Plan 2 members with at least five years of service credit who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 6—DEFINED BENEFIT PENSION PLAN: (Continued)**HYBRID RETIREMENT PLAN (Continued)**

Defined Contribution Component - Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.

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.

- After two years, a member is 50% vested and may withdraw 50% of employer contributions.
- After three years, a member is 75% vested and may withdraw 75% of employer contributions.
- After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

Distributions not required, except as governed by law.

6. Calculating the Benefit

Defined Benefit Component- See definition under Plan 1.

Defined Contribution Component- 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.

- 7. Average Final Compensation** - Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

8. Service Retirement Multiplier

Defined Benefit Component:

VRS – The retirement multiplier for the defined benefit component is 1.00%.

For members that opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

Political subdivision hazardous duty employees – Not applicable.

Defined Contribution Component – Not applicable.

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 6—DEFINED BENEFIT PENSION PLAN: (Continued)

HYBRID RETIREMENT PLAN (Continued)

9. Normal Retirement Age

Defined Benefit Component:

VRS – Same as Plan 2.

Political subdivision hazardous duty employees – Not applicable.

Defined Contribution Component – Members are eligible to receive distributions upon leaving employment, subject to restrictions.

10. Earliest Unreduced Retirement Eligibility

Defined Benefit Component:

VRS – Normal Social Security retirement age and have at least five years of service credit or when their age plus service credit equals 90.

Political subdivision hazardous duty employees – Not applicable.

Defined Contribution Component – Members are eligible to receive distributions upon leaving employment, subject to restrictions.

11. Earliest Reduced Retirement Eligibility

Defined Benefit Component:

VRS – Age 60 with at least five years of service credit.

Political subdivision hazardous duty employees – Not applicable.

Defined Contribution Component - Members are eligible to receive distributions upon leaving employment, subject to restrictions.

12. Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component - Same as Plan 2.

Defined Contribution Component - Not Applicable.

Eligibility - Same as Plan 1 and Plan 2.

Exceptions to COLA Effective Dates - Same as Plan 1 and Plan 2.

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 6—DEFINED BENEFIT PENSION PLAN: (Continued)**HYBRID RETIREMENT PLAN (Continued)**

- 13. Disability Coverage** – Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.

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.

14. Purchase of Prior Service

Defined Benefit Component- Same as Plan 1, with the following exception:

- Hybrid Retirement Plan members are ineligible for ported service.

Defined Contribution Component- Not Applicable.

Employees Covered by Benefit Terms

As of the June 30, 2018, actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

| | <u>Number</u> |
|--|---------------|
| Inactive members or their beneficiaries currently receiving benefits | <u>12</u> |
| Inactive members: | |
| Vested inactive members | 2 |
| Non-vested inactive members | 6 |
| Inactive members active elsewhere in VRS | <u>7</u> |
| Total inactive members | <u>15</u> |
| Active members | <u>17</u> |
| Total covered employees | <u>44</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.

The Town's contractually required employer contribution rate for the year ended June 30, 2020, was 9.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

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 \$71,184 and \$67,513 for the years ended June 30, 2020, and June 30, 2019, respectively.

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 6—DEFINED BENEFIT PENSION PLAN: (Continued)**Net Pension Liability**

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For the Town, the net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2018, rolled forward to the measurement date of June 30, 2019.

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, 2018, 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, 2019.

| | |
|--|---|
| Inflation | 2.5% |
| Salary increases, including Inflation | 3.5% – 5.35% |
| Investment rate of return | 6.75%, 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of pension liabilities.

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 6—DEFINED BENEFIT PENSION PLAN: (Continued)

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

| | |
|---|---|
| Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) | Update 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 | Increase rate from 14% to 15% |
| Discount Rate | Decrease rate from 7% to 6.75% |

Actuarial Assumptions – Public Safety Employees with Hazardous Duty Benefits

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2018, 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, 2019:

| | |
|---------------------------------------|--|
| Inflation | 2.5% |
| Salary increases, including inflation | 3.5% – 4.75% |
| Investment rate of return | 6.75%, 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of pension liabilities.

Mortality rates:

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 SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 6—DEFINED BENEFIT PENSION PLAN: (Continued)

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

All Others (Non 10 Largest) – Hazardous Duty:

| | |
|---|---|
| Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) | Update to a more current mortality table – RP-2014 projected to 2020 |
| Retirement Rates | Increase 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 | Decrease rate from 60% to 45% |
| Discount Rate | Decrease rate from 7% to 6.75% |

Long-Term Expected Rate of Return

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

| <u>Asset Class (Strategy)</u> | <u>Target Allocation</u> | <u>Arithmetic Long-Term Expected Rate of Return</u> | <u>Weighted Average Long-Term Expected Rate of Return *</u> |
|--------------------------------------|--------------------------------------|---|---|
| Public Equity | 34.00% | 5.61% | 1.91% |
| Fixed Income | 15.00% | 0.88% | 0.13% |
| Credit Strategies | 14.00% | 5.13% | 0.72% |
| Real Assets | 14.00% | 5.27% | 0.74% |
| Private Equity | 14.00% | 8.77% | 1.23% |
| MAPS – Multi-Asset Public Strategies | 6.00% | 3.52% | 0.21% |
| PIP – Private Investment Partnership | 3.00% | 6.29% | 0.19% |
| Total | <u>100.00%</u> | | <u>5.13%</u> |
| | Inflation | | <u>2.50%</u> |
| | * Expected arithmetic nominal return | | <u>7.63%</u> |

* The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75%, which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 6—DEFINED BENEFIT PENSION PLAN: (Continued)**Discount Rate**

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2019, the alternate rate was the employer contribution rate used in FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017, actuarial valuations, whichever was greater. From July 1, 2019 on, participating employers are assumed to continue 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.

Changes in Net Pension Liability

| | Increase (Decrease) | | |
|--|--------------------------------------|--|--|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
| Balances at June 30, 2018 | \$ 2 704 861 | \$ 2 252 115 | \$ 452 746 |
| Changes for the year: | | | |
| Service cost | \$ 66 405 | \$ - | \$ 66 405 |
| Interest | 184 148 | - | 184 148 |
| Changes of assumptions | 81 123 | - | 81 123 |
| Differences between expected and actual experience | 71 282 | - | 71 282 |
| Contributions - employer | - | 67 516 | (67 516) |
| Contributions - employee | - | 72 397 | (72 397) |
| Net investment income | - | 151 787 | (151 787) |
| Benefit payments, including refunds of employee contributions | (148 348) | (148 348) | - |
| Administrative expenses | - | (1 456) | 1 456 |
| Other changes | - | (96) | 96 |
| Net changes | \$ 254 610 | \$ 141 800 | \$ 112 810 |
| Balances at June 30, 2019 | \$ 2 959 471 | \$ 2 393 915 | \$ 565 556 |

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 6—DEFINED BENEFIT PENSION PLAN: (Continued)**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 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

| | <u>1% Decrease (5.75%)</u> | <u>Current Discount Rate (6.75%)</u> | <u>1% Increase (7.75%)</u> |
|-----------------------|--------------------------------|--|--------------------------------|
| Net Pension Liability | \$ <u>930 334</u> | \$ <u>565 556</u> | \$ <u>273 801</u> |

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

For the year ended June 30, 2020, the Town recognized pension expense of \$67,300. At June 30, 2020, 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 | \$ 61 643 | \$ - |
| Change in assumptions | 54 525 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 23 169 |
| Employer contributions subsequent to the measurement date | <u>71 184</u> | <u>-</u> |
| Total | \$ <u>187 352</u> | \$ <u>23 169</u> |

\$71,184 reported as deferred outflows of resources related to pensions resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ending June 30, 2021. 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:

Year ended June 30

| | |
|-------|------------------|
| 2021 | \$ 61 185 |
| 2022 | 28 871 |
| 2023 | 1 840 |
| 2024 | <u>1 103</u> |
| Total | \$ <u>92 999</u> |

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 6—DEFINED BENEFIT PENSION PLAN: (Continued)**Pension Plan Data**

Information about the VRS Town Retirement Plan is also available in the separately issued VRS 2019 *Comprehensive Annual Financial Report* (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at varetire.org/pdf/publications/2019-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Payables to the Pension Plan

The Town's payables to VRS as of June 30, 2020, were as follows:

| | | |
|----|--------------|--------------------------|
| \$ | 6 271 | Governmental Activities |
| | <u>2 894</u> | Business-type Activities |
| \$ | <u>9 165</u> | Total |

NOTE 7—OTHER POST-EMPLOYMENT BENEFITS – HEALTH INSURANCE CREDIT 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 plan is 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 Health Insurance Credit Program OPEB, including eligibility, coverage and benefits is set out below:

Health Insurance Credit Program (HIC) Plan Provisions**Eligible Employees**

The Health Insurance Credit Program was established July 1, 1993, for retired employees of employers who elect the benefit and who retire with at least 15 years of service credit.

Eligible employees are enrolled automatically upon employment. They include:

- Full-time permanent salaried employees of the participating political subdivision who are covered under the VRS pension plan.

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 7—OTHER POST-EMPLOYMENT BENEFITS – HEALTH INSURANCE CREDIT PROGRAM: (Continued)**Benefit Amounts**

The Town's Health Insurance Credit Program provides the following benefits for eligible employees:

- **At Retirement** – 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.
- **Disability Retirement** – 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:

- 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.

Employees Covered by Benefit Terms

As of the June 30, 2018, actuarial valuation, the following employees were covered by the benefit terms of the HIC OPEB plan:

| | <u>Number</u> |
|--|------------------|
| Inactive members or their beneficiaries currently receiving benefits | <u>4</u> |
| Inactive members: | |
| Vested inactive members | - |
| Non-vested inactive members | - |
| Inactive members active elsewhere in VRS | <u>-</u> |
| Total inactive members | <u>-</u> |
| Active members | <u>17</u> |
| Total covered employees | <u><u>21</u></u> |

Contributions

The contribution requirement 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's contractually required employer contribution rate for the year ended June 30, 2020, was .21% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. 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 \$1,618 and \$1,519 for the years ended June 30, 2020, and June 30, 2019, respectively.

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 7—OTHER POST-EMPLOYMENT BENEFITS – HEALTH INSURANCE CREDIT PROGRAM: (Continued)**Net HI OPEB Liability**

The Town's net Health Insurance Credit OPEB liability was measured as of June 30, 2019. The total Health Insurance Credit OPEB liability was determined by an actuarial valuation performed as of June 30, 2018, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019.

Actuarial Assumptions

The total HIC OPEB liability was based on an actuarial valuation as of June 30, 2018, 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, 2019.

| | |
|---------------------------------------|--|
| 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 | 6.75%, 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of OPEB liabilities.

Mortality rates – Non-Largest Ten Locality Employers – General Employees**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 Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 7—OTHER POST-EMPLOYMENT BENEFITS – HEALTH INSURANCE CREDIT PROGRAM: (Continued)

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

| | |
|--|--|
| Mortality Rates (Pre-retirement, post-retirement healthy, and disabled Retirement Rates) | Update to a more current mortality table – RP-2014 projected to 2020 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 | Increase rate from 14% to 15% |
| Discount Rate | Decrease rate from 7% to 6.75% |

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, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

| | |
|--|---|
| Mortality Rates (Pre-retirement, post-retirement healthy, and disabled Retirement Rates) | Updated to a more current mortality table – RP-2014 projected to 2020 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 | Decrease rate from 60% to 45% |
| Discount Rate | Decrease rate from 7% to 6.75% |

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 7—OTHER POST-EMPLOYMENT BENEFITS – HEALTH INSURANCE CREDIT 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:

| <u>Asset Class (Strategy)</u> | <u>Target Allocation</u> | <u>Arithmetic Long-Term Expected Rate of Return</u> | <u>Weighted Average Long-Term Expected Rate of Return *</u> |
|--------------------------------------|--------------------------------------|---|---|
| Public Equity | 34.00% | 5.61% | 1.91% |
| Fixed Income | 15.00% | 0.88% | 0.13% |
| Credit Strategies | 14.00% | 5.13% | 0.72% |
| Real Assets | 14.00% | 5.27% | 0.74% |
| Private Equity | 14.00% | 8.77% | 1.23% |
| MAPS – Multi-Asset Public Strategies | 6.00% | 3.52% | 0.21% |
| PIP – Private Investment Partnership | 3.00% | 6.29% | 0.19% |
| Total | <u>100.00%</u> | | <u>5.13%</u> |
| | Inflation | | <u>2.50%</u> |
| | * Expected arithmetic nominal return | | <u>7.63%</u> |

* The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75%, which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Discount Rate

The discount rate used to measure the total HIC OPEB liability was 6.75%. 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, which was 100% of the actuarially determined contribution rate. 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 SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 7—OTHER POST-EMPLOYMENT BENEFITS – HEALTH INSURANCE CREDIT PROGRAM: (Continued)**Changes in Net HIC OPEB Liability**

| | Increase (Decrease) | | |
|--|---------------------------------------|--|---|
| | Total HIC OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net HIC OPEB Liability (a) - (b) |
| Balances at June 30, 2018 | \$ 33 568 | \$ 25 271 | \$ 8 297 |
| Changes for the year: | | | |
| Service cost | \$ 825 | \$ - | \$ 825 |
| Interest | 2 275 | - | 2 275 |
| Changes of assumptions | 814 | - | 814 |
| Differences between expected and actual experience | 772 | - | 772 |
| Contributions - employer | - | 1 521 | (1 521) |
| Net investment income | - | 1 614 | (1 614) |
| Benefit payments, including refunds of employee contributions | (2 127) | (2 127) | - |
| Administrative expenses | - | (35) | 35 |
| Other changes | - | (2) | 2 |
| Net changes | \$ 2 559 | \$ 971 | \$ 1 588 |
| Balances at June 30, 2019 | \$ 36 127 | \$ 26 242 | \$ 9 885 |

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

The following presents the Health Insurance Credit Program net HIC OPEB liability using the discount rate of 6.75%, as well as what the Town's net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

| | 1% Decrease (5.75%) | Current Discount Rate (6.75%) | 1% Increase (7.75%) |
|-------------------------------|------------------------|-------------------------------------|------------------------|
| Town's Net HIC OPEB Liability | \$ 13 457 | \$ 9 855 | \$ 6 796 |

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, 2020, the Town recognized Health Insurance Credit Program OPEB expense of \$700. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to the Health Insurance Credit Program from the following sources:

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 7—OTHER POST-EMPLOYMENT BENEFITS – HEALTH INSURANCE CREDIT PROGRAM: (Continued)

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 652 | \$ 2 336 |
| Change of assumptions | 687 | 763 |
| Net difference between projected and actual earnings on HIC OPEB plan investments | - | 30 |
| Employer contributions subsequent to the measurement date | <u>1 618</u> | <u>-</u> |
| Total | \$ <u>2 957</u> | \$ <u>3 409</u> |

\$1,618 reported as deferred outflows of resources related to the HIC OPEB resulting from the Town's 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, 2021. 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:

Year ended June 30

| | |
|------------|-------------------|
| 2021 | \$ (691) |
| 2022 | (689) |
| 2023 | (494) |
| 2024 | (287) |
| 2025 | (13) |
| Thereafter | <u>104</u> |
| Total | \$ <u>(2 070)</u> |

Health Insurance Credit Program Plan Data

Information about the VRS Political Subdivision Health Insurance Credit Program is available in the separately issued VRS 2019 *Comprehensive Annual Financial Report* (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at varetire.org/pdf/publications/2019-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Payables to the Health Insurance Credit Program OPEB Plan

The Town's payables to VRS as of June 30, 2020, were as follows:

| | |
|---------------|--------------------------|
| \$ 94 | Governmental Activities |
| <u>44</u> | Business-type Activities |
| \$ <u>138</u> | Total |

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 8—OTHER POST-EMPLOYMENT BENEFITS – GROUP LIFE INSURANCE PROGRAM:

Plan Description

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

Group Life Insurance Program Plan Provisions

Eligible Employees

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:

- City of Richmond
- City of Portsmouth
- City of Roanoke
- City of Norfolk
- Roanoke City Schools Board

Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.

Benefit Amounts

The benefits payable under the Group Life Insurance Program have several components.

- **Natural Death Benefit** – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.
- **Accidental Death Benefit** – The accidental death benefit is double the natural death benefit
- **Other Benefit Provisions** – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:
 - Accidental dismemberment benefit
 - Safety belt benefit
 - Repatriation benefit
 - Felonious assault benefit
 - Accelerated death benefit option

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 8—OTHER POST-EMPLOYMENT BENEFITS – GROUP LIFE INSURANCE PROGRAM: (Continued)**Reduction in Benefit Amounts**

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

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

For covered members with at least 30 years of service credit, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute in 2015. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$8,463 as of June 30, 2020.

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, 2020, was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. 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 \$10,090 and \$9,491 for the years ended June 30, 2020, and June 30, 2019, respectively.

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

At June 30, 2020, the Town reported a liability of \$60,209 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2019, and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2019, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the participating employer's proportion was .00370% as compared to .00358% at June 30, 2018.

For the year ended June 30, 2020, the participating employer recognized GLI OPEB expense of \$1,245. 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.

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 8—OTHER POST-EMPLOYMENT BENEFITS – GROUP LIFE INSURANCE PROGRAM: (Continued)

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 4 004 | \$ 780 |
| Net difference between projected and actual earnings on GLI OPEB program investments | - | 1 237 |
| Change in assumptions | 3 801 | 1 816 |
| Changes in proportion | 1 601 | 1 551 |
| Employer contributions subsequent to the measurement date | <u>10 090</u> | <u>-</u> |
| Total | \$ <u>19 496</u> | \$ <u>5 384</u> |

\$10,090 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year ended June 30

| | |
|------------|-----------------|
| 2021 | \$ 67 |
| 2022 | 67 |
| 2023 | 591 |
| 2024 | 1 314 |
| 2025 | 1 539 |
| Thereafter | <u>444</u> |
| Total | \$ <u>4 022</u> |

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2018, 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, 2019.

| | |
|---------------------------------------|--|
| 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 | 6.75% percent, net of investment expenses, including inflation* |

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 8—OTHER POST-EMPLOYMENT BENEFITS – GROUP LIFE INSURANCE PROGRAM: (Continued)

* 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of OPEB liabilities.

Mortality rates – Non-Largest Ten Locality Employers – General Employees**Pre-Retirement:**

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

Post-Retirement:

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

Post-Disablement:

RP-2014 Disability Life Mortality Tables 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, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 8—OTHER POST-EMPLOYMENT BENEFITS – GROUP LIFE INSURANCE PROGRAM: (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, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study, and VRS Board action are as follows:

| | |
|---|--|
| Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) | Update 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 | Decrease rate from 60% to 45% |
| Discount Rate | Decrease rate from 7% to 6.75% |

Net GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2019, NOL amounts for the Group Life Insurance Program are as follows (amounts expressed in thousands):

| | <u>Group Life Insurance OPEB Program</u> |
|--|--|
| Total GLI OPEB Liability | \$ 3 390 238 |
| Plan Fiduciary Net Position | <u>1 762 972</u> |
| GLI Net OPEB Liability (Asset) | <u>\$ 1 627 266</u> |
| Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability | 52.00% |

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 8—OTHER POST-EMPLOYMENT BENEFITS – GROUP LIFE INSURANCE PROGRAM: (Continued)

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.

Long-Term Expected Rate of Return

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

| <u>Asset Class (Strategy)</u> | <u>Target Allocation</u> | <u>Arithmetic Long-Term Expected Rate of Return</u> | <u>Weighted Average Long-Term Expected Rate of Return *</u> |
|--------------------------------------|--------------------------------------|---|---|
| Public Equity | 34.00% | 5.61% | 1.91% |
| Fixed Income | 15.00% | 0.88% | 0.13% |
| Credit Strategies | 14.00% | 5.31% | 0.72% |
| Real Assets | 14.00% | 5.27% | 0.74% |
| Private Equity | 14.00% | 8.77% | 1.23% |
| MAPS – Multi-Asset Public Strategies | 6.00% | 3.52% | 0.21% |
| PIP – Private Investment Partnership | 3.00% | 6.29% | 0.19% |
| Total | <u>100.00%</u> | | <u>5.13%</u> |
| | Inflation | | <u>2.50%</u> |
| | * Expected arithmetic nominal return | | <u>7.63%</u> |

* The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting, the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75%, which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 8—OTHER POST-EMPLOYMENT BENEFITS – GROUP LIFE INSURANCE PROGRAM: (Continued)**Discount Rate**

The discount rate used to measure the total GLI OPEB liability was 6.75%. 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 Town for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. 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.

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

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

| | 1% Decrease (5.75%) | Current Discount Rate (6.75%) | 1% Increase (7.75%) |
|---|------------------------|-------------------------------------|------------------------|
| Employer's proportionate share of the Group Life Insurance Program Net OPEB Liability | \$ 79,098 | \$ 60,209 | \$ 44,890 |

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 2019 *Comprehensive Annual Financial Report* (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at varetire.org/pdf/publications/2019-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Payables to the VRS Group Life Insurance OPEB Plan

The Town's payables to VRS as of June 30, 2020, were as follows:

| | |
|---------------|--------------------------|
| \$ 583 | Governmental Activities |
| 275 | Business-type Activities |
| <u>\$ 858</u> | Total |

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 9—DEFERRED INFLOWS OF RESOURCES:

Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that future time.

The following items qualify for reporting in this category:

- A. Prepaid property taxes
Property taxes due subsequent to June 30, 2020, but paid in advance by taxpayers totaled \$10,686 at June 30, 2020. These payments were collected in the current fiscal year for property taxes levied to fund future years.
- B. Customer prepayments
Credit balances of Utility Fund customers totaled \$5,453 at June 30, 2020.
- C. Unavailable property tax revenue
Unavailable revenue representing uncollected tax billings not available for funding of current expenditures totaled \$27,104 at June 30, 2020. This item occurs only under the modified accrual basis of accounting and is reported only on the Governmental Funds Balance Sheet. It represents receivables not collected within 45 days of year end.

NOTE 10—CONTINGENT LIABILITIES (INCLUDING FEDERALLY ASSISTED PROGRAMS - COMPLIANCE AUDITS):

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

NOTE 11—INTERFUND LOANS AND TRANSFERS:

Interfund transfers during the year took place as follows:

| | <u>General Fund</u> | <u>Utility Fund</u> |
|---|-------------------------|-------------------------|
| Net transfers to fund operating expenditures and capital purchases | \$ _____ - | \$ _____ - |
| Total Transfers, Net | \$ _____ - | \$ _____ - |

TOWN OF SHENANDOAH, VIRGINIA

Notes to Financial Statements (Continued)
For the Year Ended June 30, 2020

NOTE 12—SUBSEQUENT EVENTS:

The Town was awarded approximately \$412,000 in funds through the Cares Act to be utilized according to the grant requirements.

The Town received a \$95,000 USDA Loan/Grant for the purchase of a utility truck and police vehicle.

The Town authorized approximately \$244,000 for the purchase of a new utility billing system in fiscal year 2022, including hardware, software, training, setup, support, and installation of the retrofit meters and meter replacements.

The Town authorized approximately \$51,000 for installation of an industrial generator at a Town well and \$90,000 to drill a Town well deeper.

The Town was awarded approximately \$972,000 in funds through the American Rescue Plan Act to be utilized according to the grant requirements.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2020

| | General Fund | | | Variance Favorable (Unfavorable) |
|--|---------------------|---------------------|---------------------|--|
| | Original Budget | Final Budget | Actual | |
| Revenues: | | | | |
| General property taxes | \$ 740 850 | \$ 740 850 | \$ 686 395 | \$ (54 455) |
| Other local taxes | 621 973 | 621 973 | 635 826 | 13 853 |
| Fines and forfeitures | 2 000 | 2 000 | 902 | (1 098) |
| Revenues from use of money and property | 3 450 | 3 450 | 3 521 | 71 |
| Charges for services | 179 232 | 179 232 | 163 572 | (15 660) |
| Miscellaneous | 37 900 | 37 900 | 40 563 | 2 663 |
| Intergovernmental: | | | | |
| Revenue from the Commonwealth | 80 565 | 80 565 | 82 857 | 2 292 |
| Revenue from the Federal Government | 2 000 | 2 000 | 9 689 | 7 689 |
| Total Revenues | \$ 1 667 970 | \$ 1 667 970 | \$ 1 623 325 | \$ (44 645) |
| Expenditures: | | | | |
| Current: | | | | |
| General government administration | \$ 487 075 | \$ 487 075 | \$ 474 000 | \$ 13 075 |
| Public safety | 396 340 | 396 340 | 446 078 | (49 738) |
| Public works | 489 818 | 489 818 | 436 234 | 53 584 |
| Economic development | 48 409 | 48 409 | 37 311 | 11 098 |
| Capital expenditures | 138 932 | 138 932 | 18 002 | 120 930 |
| Debt Service: | | | | |
| Debt service payments | 10 896 | 10 896 | 10 896 | - |
| Total Expenditures | \$ 1 571 470 | \$ 1 571 470 | \$ 1 422 521 | \$ 148 949 |
| Excess (Deficiency) of Revenues Over Expenditures | \$ 96 500 | \$ 96 500 | \$ 200 804 | \$ 104 304 |
| Other Financing Sources (Uses): | | | | |
| Net operating transfers | \$ (96 500) | \$ (96 500) | \$ - | \$ 96 500 |
| Total Other Financing Sources (Uses) | \$ (96 500) | \$ (96 500) | \$ - | \$ 96 500 |
| Net Change in Fund Balances | \$ - | \$ - | \$ 200 804 | \$ 200 804 |
| Fund Balance at Beginning of Year | - | - | 688 663 | 688 663 |
| Fund Balance at End of Year | \$ - | \$ - | \$ 889 467 | \$ 889 467 |

See notes to required supplementary information.

TOWN OF SHENANDOAH, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS For the Plan Years Ended June 30, 2014 to 2019

| | 6/30/2019 | 6/30/2018 |
|---|---------------------|---------------------|
| Total Pension Liability: | | |
| Service cost | \$ 66 405 | \$ 64 959 |
| Interest | 184 148 | 173 964 |
| Difference between expected and actual experience | 71 282 | 38 926 |
| Change of assumptions | 81 123 | - |
| Benefit payments, including refunds of employee contributions | (148 348) | (116 369) |
| Net Change in Total Pension Liability | \$ 254 610 | \$ 161 480 |
| Total Pension Liability at Beginning of Year | 2 704 861 | 2 543 381 |
| Total Pension Liability at End of Year (a) | <u>\$ 2 959 471</u> | <u>\$ 2 704 861</u> |
| Plan Fiduciary Net Position: | | |
| Contributions - employer | \$ 67 516 | \$ 64 644 |
| Contributions - employee | 72 397 | 33 177 |
| Net investment income | 151 787 | 156 206 |
| Benefit payments, including refunds of employee contributions | (148 348) | (116 369) |
| Administrative expense | (1 456) | (1 337) |
| Other | (96) | (140) |
| Net Change in Plan Fiduciary Net Position | \$ 141 800 | \$ 136 181 |
| Plan Fiduciary Net Position at Beginning of Year | 2 252 115 | 2 115 934 |
| Plan Fiduciary Net Position at End of Year (b) | <u>\$ 2 393 915</u> | <u>\$ 2 252 115</u> |
| Net Pension Liability at End of Year (a) - (b) | <u>\$ 565 556</u> | <u>\$ 452 746</u> |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 80.89% | 83.26% |
| Covered Payroll | \$ 697 033 | \$ 671 796 |
| Net Pension Liability as a Percentage of Covered Payroll | 81.14% | 67.39% |

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

See notes to required supplementary information.

| <u>6/30/2017</u> | <u>6/30/2016</u> | <u>6/30/2015</u> | <u>6/30/2014</u> |
|---------------------|---------------------|---------------------|---------------------|
| \$ 68 681 | \$ 67 727 | \$ 65 382 | \$ 62 685 |
| 175 379 | 173 941 | 166 523 | 158 794 |
| (51 601) | (41 779) | (11 473) | - |
| (25 990) | - | - | - |
| <u>(257 006)</u> | <u>(101 688)</u> | <u>(127 240)</u> | <u>(94 892)</u> |
| \$ (90 537) | \$ 98 201 | \$ 93 192 | \$ 126 587 |
| <u>2 633 918</u> | <u>2 535 717</u> | <u>2 442 525</u> | <u>2 315 938</u> |
| <u>\$ 2 543 381</u> | <u>\$ 2 633 918</u> | <u>\$ 2 535 717</u> | <u>\$ 2 442 525</u> |
| \$ 63 489 | \$ 84 152 | \$ 80 470 | \$ 76 857 |
| 32 679 | 33 986 | 32 532 | 30 360 |
| 244 575 | 35 125 | 88 486 | 259 906 |
| (257 006) | (101 688) | (127 240) | (94 892) |
| (1 555) | (1 216) | (1 201) | (1 379) |
| <u>(207)</u> | <u>(15)</u> | <u>(17)</u> | <u>14</u> |
| \$ 81 975 | \$ 50 344 | \$ 73 030 | \$ 270 866 |
| <u>2 033 959</u> | <u>1 983 615</u> | <u>1 910 585</u> | <u>1 639 719</u> |
| <u>\$ 2 115 934</u> | <u>\$ 2 033 959</u> | <u>\$ 1 983 615</u> | <u>\$ 1 910 585</u> |
| <u>\$ 427 447</u> | <u>\$ 599 959</u> | <u>\$ 552 102</u> | <u>\$ 531 940</u> |
| 83.19% | 77.22% | 78.23% | 78.22% |
| \$ 637 664 | \$ 662 961 | \$ 661 804 | \$ 617 664 |
| 67.03% | 90.50% | 83.42% | 86.12% |

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN
 For the Years Ended June 30, 2011 to 2020

| Year Ending June 30, | Contractually Required Contribution (a) | Contributions in Relation to Contractually Required Contribution (b) | Contribution Deficiency (Excess) (a-b) | Employer's Covered Payroll (c) | Contributions as a % of Covered Payroll (b/c) |
|-------------------------|--|---|---|---|---|
| | | | | | |
| 2020 | \$ 71 184 | \$ 71 184 | \$ - | \$ 770 209 | 9.24% |
| 2019 | 67 513 | 67 513 | - | 697 033 | 9.69% |
| 2018 | 64 645 | 64 645 | - | 671 796 | 9.62% |
| 2017 | 63 489 | 63 489 | - | 637 664 | 9.96% |
| 2016 | 84 152 | 84 152 | - | 662 961 | 12.69% |
| 2015 | 80 470 | 80 470 | - | 661 804 | 12.16% |
| 2014 | 76 857 | 76 857 | - | 617 664 | 12.44% |
| 2013 | 74 168 | 74 168 | - | 590 244 | 12.57% |
| 2012 | 85 576 | 85 576 | - | 538 105 | 15.90% |
| 2011 | 83 559 | 83 559 | - | 534 651 | 15.63% |

See notes to required supplementary information.

TOWN OF SHENANDOAH, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET HEALTH INSURANCE CREDIT OPEB LIABILITY AND RELATED RATIOS

For the Plan Years Ended June 30, 2017 to 2019

| | <u>6/30/2019</u> | <u>6/30/2018</u> |
|--|-------------------------|-------------------------|
| Total HIC OPEB Liability: | | |
| Service cost | \$ 825 | \$ 813 |
| Interest | 2 275 | 2 440 |
| Difference between expected and actual experience | 772 | (3 374) |
| Change in assumptions | 814 | - |
| Benefit payments | <u>(2 127)</u> | <u>(2 336)</u> |
| Net Change in Total HIC OPEB Liability | \$ 2 559 | \$ (2 457) |
| Total HIC OPEB Liability at Beginning of Year | <u>33 568</u> | <u>36 025</u> |
| Total HIC OPEB Liability at End of Year (a) | \$ <u><u>36 127</u></u> | \$ <u><u>33 568</u></u> |
| Plan Fiduciary Net Position: | | |
| Contributions - employer | \$ 1 521 | \$ 1 635 |
| Net investment income | 1 614 | 1 716 |
| Benefit payments | (2 127) | (2 336) |
| Administrative expense | (35) | (40) |
| Other | <u>(2)</u> | <u>(128)</u> |
| Net Change in Plan Fiduciary Net Position | \$ 971 | \$ 847 |
| Plan Fiduciary Net Position at Beginning of Year | <u>25 271</u> | <u>24 424</u> |
| Plan Fiduciary Net Position at End of Year (b) | \$ <u><u>26 242</u></u> | \$ <u><u>25 271</u></u> |
| Net HIC OPEB Liability at End of Year (a) - (b) | \$ <u><u>9 885</u></u> | \$ <u><u>8 297</u></u> |
| Plan Fiduciary Net Position as a Percentage of the Total HIC OPEB Liability | 72.64% | 75.28% |
| Covered Payroll | \$ 697 033 | \$ 671 796 |
| Net HIC OPEB Liability as a Percentage of Covered Payroll | 1.42% | 1.24% |

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

See notes to required supplementary information.

| <u>6/30/2017</u> | |
|------------------|----------------------|
| \$ | 893 |
| | 2 449 |
| | - |
| | (1 483) |
| | <u>(1 630)</u> |
| \$ | 229 |
| | <u>35 796</u> |
| \$ | <u><u>36 025</u></u> |
| | |
| \$ | 1 593 |
| | 2 520 |
| | (1 630) |
| | (41) |
| | <u>128</u> |
| \$ | 2 570 |
| | <u>21 854</u> |
| \$ | <u><u>24 424</u></u> |
| | |
| \$ | <u><u>11 601</u></u> |
| | |
| | 67.80% |
| | |
| \$ | 637 664 |
| | |
| | 1.82% |

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS TO HEALTH INSURANCE CREDIT OPEB PLAN
 For the Years Ended June 30, 2011 to 2020

| Year Ending June 30, | Contractually Required Contribution (a) | Contributions in Relation to Contractually Required Contribution (b) | Contribution Deficiency (Excess) (a-b) | Employer's Covered Payroll (c) | Contributions as a % of Covered Payroll (b/c) |
|-------------------------|--|---|---|---|---|
| | | | | | |
| 2020 | \$ 1 618 | \$ 1 618 | \$ - | \$ 770 209 | 0.21% |
| 2019 | 1 519 | 1 519 | - | 697 033 | 0.22% |
| 2018 | 1 634 | 1 634 | - | 671 796 | 0.24% |
| 2017 | 1 595 | 1 595 | - | 637 664 | 0.25% |
| 2016 | 2 136 | 2 136 | - | 662 961 | 0.32% |
| 2015 | 1 990 | 1 990 | - | 661 804 | 0.30% |
| 2014 | 2 188 | 2 188 | - | 617 664 | 0.35% |
| 2013 | 2 111 | 2 111 | - | 590 244 | 0.36% |
| 2012 | 2 118 | 2 118 | - | 538 105 | 0.39% |
| 2011 | 2 068 | 2 068 | - | 534 651 | 0.39% |

See notes to required supplementary information.

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER'S SHARE OF NET GROUP LIFE INSURANCE OPEB LIABILITY
 For the Measurement Dates of June 30, 2017 to 2019

| | <u>6/30/2019</u> | <u>6/30/2018</u> | <u>6/30/2017</u> |
|--|------------------|------------------|------------------|
| Employer's Proportion of the Net GLI OPEB Liability (Asset) | 0.00370% | 0.00358% | 0.00360% |
| Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) | \$ 60 209 | \$ 54 000 | \$ 54 000 |
| Employer's Covered Payroll | \$ 697 033 | \$ 671 796 | \$ 637 664 |
| Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered Payroll | 8.64% | 8.04% | 8.47% |
| Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability | 52.00% | 51.22% | 48.86% |

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

See notes to required supplementary information.

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS TO GROUP LIFE INSURANCE OPEB PLAN
 For the Years Ended June 30, 2011 to 2020

| Year Ending June 30, | Contractually Required Contribution (a) | Contributions in Relation to Contractually Required Contribution (b) | Contribution Deficiency (Excess) (a-b) | Employer's Covered Payroll (c) | Contributions as a % of Covered Payroll (b/c) |
|-------------------------|--|---|---|---|---|
| 2020 | \$ 10 090 | \$ 10 090 | \$ - | \$ 770 209 | 1.31% |
| 2019 | 9 491 | 9 491 | - | 697 033 | 1.36% |
| 2018 | 8 922 | 8 922 | - | 671 796 | 1.33% |
| 2017 | 8 694 | 8 694 | - | 637 664 | 1.36% |
| 2016 | 8 200 | 8 200 | - | 662 961 | 1.24% |
| 2015 | 7 640 | 7 640 | - | 661 804 | 1.15% |
| 2014 | 7 233 | 7 233 | - | 617 664 | 1.17% |
| 2013 | 6 977 | 6 977 | - | 590 244 | 1.18% |
| 2012 | 1 520 | 1 520 | - | 538 105 | 0.28% |
| 2011 | 1 485 | 1 485 | - | 534 651 | 0.28% |

See notes to required supplementary information.

TOWN OF SHENANDOAH, VIRGINIA**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2020

NOTE 1 - BUDGETARY COMPARISON SCHEDULE:

During the year ended June 30, 2020, total expenditures did not exceed the amount budgeted.

NOTE 2 - SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND CONTRIBUTIONS AND NET HIC AND GLI OPEB LIABILITIES AND CONTRIBUTIONS:

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

Changes of assumptions: The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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

| | |
|---|---|
| Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) | Update 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 | Increase rate from 14% to 15% |
| Discount Rate | Decrease rate from 7% to 6.75% |

All Others (Non 10 Largest) - Hazardous Duty:

| | |
|---|---|
| Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) | Update 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 | Decrease rate from 60% to 45% |
| Discount Rate | Decrease from 7% to 6.75% |

OTHER SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES - BUDGET AND ACTUAL
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2020

| <u>Fund, Major and Minor Revenue Source</u> | <u>Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|--|-------------------|-------------------|---|
| GENERAL FUND: | | | |
| Revenue from Local Sources: | | | |
| General Property Taxes: | | | |
| Real property taxes | \$ 609 900 | \$ 555 675 | \$ (54 225) |
| Personal property taxes | 104 950 | 96 768 | (8 182) |
| Penalties and interest | 26 000 | 33 952 | 7 952 |
| Total General Property Taxes | \$ 740 850 | \$ 686 395 | \$ (54 455) |
| Other Local Taxes: | | | |
| Local sales and use taxes | \$ 132 100 | \$ 124 214 | \$ (7 886) |
| Restaurant food taxes | 175 108 | 190 741 | 15 633 |
| Business licenses | 48 000 | 51 485 | 3 485 |
| Motor vehicle licenses | 60 000 | 59 685 | (315) |
| Utility taxes | 34 000 | 26 526 | (7 474) |
| Electric surtax | 32 000 | 32 801 | 801 |
| Communications tax | 26 000 | 22 988 | (3 012) |
| Cigarette tax | 50 000 | 45 000 | (5 000) |
| Electric franchise | 9 465 | 9 465 | - |
| Bank stock taxes | 41 000 | 54 482 | 13 482 |
| Transient occupancy tax | 6 600 | 9 233 | 2 633 |
| Permits and administration | 7 700 | 9 206 | 1 506 |
| Total Other Local Taxes | \$ 621 973 | \$ 635 826 | \$ 13 853 |
| Fines and Forfeitures: | | | |
| Fines and forfeitures | \$ 2 000 | \$ 902 | \$ (1 098) |
| Revenues from Use of Money and Property: | | | |
| Revenue from use of money | \$ 450 | \$ 1 166 | \$ 716 |
| Revenue from use of property | 3 000 | 2 355 | (645) |
| Total Revenues from Use of Money and Property | \$ 3 450 | \$ 3 521 | \$ 71 |
| Charges for Services: | | | |
| Charges for maintenance of highways, streets, bridges and sidewalks | \$ 22 000 | \$ 6 225 | \$ (15 775) |
| Charges for sanitation and waste removal | 142 000 | 143 243 | 1 243 |
| Computer center revenue | 5 000 | 3 843 | (1 157) |
| Broadband revenue | 9 732 | 9 732 | - |
| Sale of services and supplies | 500 | 529 | 29 |
| Total Charges for Services | \$ 179 232 | \$ 163 572 | \$ (15 660) |

TOWN OF SHENANDOAH, VIRGINIA

SCHEDULE OF REVENUES - BUDGET AND ACTUAL
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2020

| Fund, Major and Minor Revenue Source | Budget | Actual | Variance Favorable (Unfavorable) |
|--|----------------------------|----------------------------|---|
| GENERAL FUND: (Continued) | | | |
| Miscellaneous: | | | |
| Donations | \$ 32 500 | \$ 39 372 | \$ 6 872 |
| Refunds/claims | 4 000 | 304 | (3 696) |
| Miscellaneous revenue | <u>1 400</u> | <u>887</u> | <u>(513)</u> |
| Total Miscellaneous | <u>\$ 37 900</u> | <u>\$ 40 563</u> | <u>\$ 2 663</u> |
| Total Revenue from Local Sources | <u>\$ 1 585 405</u> | <u>\$ 1 530 779</u> | <u>\$ (54 626)</u> |
| Revenue from the Commonwealth: | | | |
| Noncategorical Aid: | | | |
| Railroad rolling stock taxes | \$ 12 300 | \$ 12 262 | \$ (38) |
| Aid to localities with police departments | <u>47 840</u> | <u>49 704</u> | <u>1 864</u> |
| Total Noncategorical Aid | <u>\$ 60 140</u> | <u>\$ 61 966</u> | <u>\$ 1 826</u> |
| Categorical Aid: | | | |
| Litter control grant | \$ 1 300 | \$ 1 066 | \$ (234) |
| VML safety grant | 2 000 | 2 000 | - |
| Fire fund | 10 000 | 10 700 | 700 |
| Healthy Communities Action Team Grant | <u>7 125</u> | <u>7 125</u> | <u>-</u> |
| Total Categorical Aid | <u>\$ 20 425</u> | <u>\$ 20 891</u> | <u>\$ 466</u> |
| Total Revenue from the Commonwealth | <u>\$ 80 565</u> | <u>\$ 82 857</u> | <u>\$ 2 292</u> |
| Revenue from the Federal Government: | | | |
| Categorical Aid: | | | |
| U.S. Department of Justice-LLEGB | \$ 2 000 | \$ 804 | \$ (1 196) |
| U.S. Department of the Treasury-Coronavirus Relief | <u>-</u> | <u>8 885</u> | <u>8 885</u> |
| Total Categorical Aid | <u>\$ 2 000</u> | <u>\$ 9 689</u> | <u>\$ 7 689</u> |
| Total Revenue from the Federal Government | <u>\$ 2 000</u> | <u>\$ 9 689</u> | <u>\$ 7 689</u> |
| Total General Fund | <u><u>\$ 1 667 970</u></u> | <u><u>\$ 1 623 325</u></u> | <u><u>\$ (44 645)</u></u> |

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2020

| <u>Fund, Function, Activity and Elements</u> | <u>Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|--|-------------------|-------------------|---|
| GENERAL FUND: | | | |
| General Government Administration: | | | |
| Legislative: | | | |
| Ordinance codification | \$ 2 000 | \$ 1 175 | \$ 825 |
| General and Financial Administration: | | | |
| General administration | \$ 176 634 | \$ 155 739 | \$ 20 895 |
| Professional services | 14 000 | 18 197 | (4 197) |
| Risk management | 82 000 | 84 503 | (2 503) |
| Employee benefits, including payroll taxes | 212 441 | 214 386 | (1 945) |
| Total General and Financial Administration | <u>\$ 485 075</u> | <u>\$ 472 825</u> | <u>\$ 12 250</u> |
| Total General Government Administration | <u>\$ 487 075</u> | <u>\$ 474 000</u> | <u>\$ 13 075</u> |
| Public Safety: | | | |
| Law enforcement and traffic control | \$ 386 340 | \$ 435 925 | \$ (49 585) |
| Fire and rescue services | 10 000 | 10 153 | (153) |
| Total Public Safety | <u>\$ 396 340</u> | <u>\$ 446 078</u> | <u>\$ (49 738)</u> |
| Public works: | | | |
| Maintenance of Highways, Streets, Bridges and Sidewalks: | | | |
| Highways, streets, bridges and sidewalks | \$ 249 193 | \$ 215 599 | \$ 33 594 |
| Street lights | 53 000 | 46 707 | 6 293 |
| Total Maintenance of Highways, Streets, Bridges and Sidewalks | <u>\$ 302 193</u> | <u>\$ 262 306</u> | <u>\$ 39 887</u> |
| Sanitation and Waste Removal: | | | |
| Refuse collection | \$ 113 640 | \$ 106 725 | \$ 6 915 |
| Maintenance of General Buildings and Grounds: | | | |
| General properties | \$ 15 660 | \$ 9 643 | \$ 6 017 |
| Parks, Recreation and Cultural: | | | |
| Recreational and cultural activities | \$ 58 325 | \$ 57 560 | \$ 765 |
| Total Parks, Recreation and Cultural | <u>\$ 58 325</u> | <u>\$ 57 560</u> | <u>\$ 765</u> |
| Total Public Works | <u>\$ 489 818</u> | <u>\$ 436 234</u> | <u>\$ 53 584</u> |

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2020

| <u>Fund, Function, Activity and Elements</u> | <u>Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|--|-----------------------------------|-----------------------------------|---|
| GENERAL FUND: (Continued) | | | |
| Economic Development: | | | |
| Economic development administration | \$ 10 850 | \$ 4 820 | \$ 6 030 |
| Computer Center | <u>37 559</u> | <u>32 491</u> | <u>5 068</u> |
| Total Economic Development | \$ <u>48 409</u> | \$ <u>37 311</u> | \$ <u>11 098</u> |
| Capital Expenditures: | | | |
| Street improvements | \$ 5 000 | \$ - | \$ 5 000 |
| Police equipment | 5 000 | 2 678 | 2 322 |
| Street equipment | 4 000 | - | 4 000 |
| Town office equipment | 2 000 | 1 645 | 355 |
| Miscellaneous | 1 500 | - | 1 500 |
| Contingencies | <u>121 432</u> | <u>13 679</u> | <u>107 753</u> |
| Total Capital Expenditures | \$ <u>138 932</u> | \$ <u>18 002</u> | \$ <u>120 930</u> |
| Debt Service: | | | |
| Debt service payments | \$ <u>10 896</u> | \$ <u>10 896</u> | \$ <u>-</u> |
| Total General Fund | \$ <u><u>1 571 470</u></u> | \$ <u><u>1 422 521</u></u> | \$ <u><u>148 949</u></u> |