

TOWN OF **Herndon** VIRGINIA



Annual Comprehensive Financial Report Fiscal Year Ended June 30, 2023

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TOWN OF HERNDON, VIRGINIA
ANNUAL COMPREHENSIVE FINANCIAL REPORT
FISCAL YEAR ENDED
JUNE 30, 2023

Prepared by the
Department of Finance

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**TOWN OF HERNDON, VIRGINIA
FINANCIAL REPORT**

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INTRODUCTORY SECTION



Office of the Town Manager

T (703) 787-7368

town.manager@herndon-va.gov

November 17, 2023

Dear Mayor Olem, Members of the Town Council and Residents of the Town of Herndon, Virginia

We are pleased to present to you the Annual Comprehensive Financial Report of the Town of Herndon, Virginia (town), for the fiscal year ended June 30, 2023. The Herndon Town Charter, Section 4.2 (f), requires that the Town Manager arrange for an annual audit by a certified public accountant. In addition, Section 15.2-2511 of the Code of Virginia requires that all counties, cities and towns with populations greater than 3,500 have their accounts and records audited annually as of June 30 by an independent certified public accountant in accordance with the specifications furnished by the Auditor of Public Accounts of the Commonwealth of Virginia. This report is formally submitted to you in fulfillment of those requirements.

The financial statements included in this report, which have earned an unmodified audit opinion, conform to the standards of financial reporting as prescribed by the Governmental Accounting Standards Board (GASB), the Government Finance Officers Association of the United States and Canada (GFOA), and the Auditor of Public Accounts.

Town management is responsible for the accuracy, fairness, and completeness of the information, including all disclosures that are presented in this report. To the best of our knowledge, the enclosed data are believed to be accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the various funds of the town. All necessary disclosures have been included to enable the reader to gain a thorough understanding of the town's financial affairs. For additional information regarding the basic financial statements and the town's financial position, please refer to Management's Discussion and Analysis (MD&A) which appears in the financial section of the report.

Town management is also responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the town are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America.

The town's financial statements have been audited by Brown Edwards & Company, LLP, a certified public accounting firm. The goal of the independent audit was to provide reasonable assurance that the financial statements of the town for the fiscal year ended June 30, 2023, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by town management; and evaluating the overall financial statement presentation.

The independent auditors' report is presented as the first component of the report's financial section.

Profile of the Town

The Town of Herndon, Virginia, incorporated in 1879, is located in the northwest quadrant of Fairfax County. Part of the Washington DC Metropolitan Area, Herndon is approximately 23 miles west of the city, accessible via Metrorail's Silver Line, and two miles east of Washington Dulles International Airport. The town has a land area of 4.25 square miles. A rural dairy outpost at its founding, Herndon is now home to 24,167 residents, according to the 2022 U.S. Census annual population estimate. The town's currently adopted comprehensive master plan anticipates a population increase to approximately 28,200 in 2030.

The Town of Herndon is the third largest town in the Commonwealth of Virginia. Amidst a 21st-century Northern Virginia landscape of high-rise buildings, industrial complexes and transportation hubs, Herndon maintains a small-town charm that is evident in its downtown, its neighborhoods and its commercial areas. The town boasts a unique synergy between its powerful sense of community and its stature as a 21st-century business center at the hub of the region's high-tech corridor, resulting in a blending of the old and the new into a foundation that provides solid support for small, medium, and large businesses. Businesses have cited the highly qualified workforce available in the town, proximity to Dulles International Airport and the nation's capital, and transit accessibility as reasons for choosing to relocate or expand in the Town of Herndon.

The town is organized under the council / manager form of government. The Town Council, in its role as governing body, formulates policies for the proper administration of the town. The mayor and six members of the Council are elected simultaneously for two-year terms. The Town Manager, appointed by the Town Council, serves as chief administrative officer and is charged with directing all business affairs of the town.

The town provides general governmental services for its residents that are typical of towns in Virginia. These include public works and utilities, parks and recreation, police, community development, and other administrative services. In Virginia, incorporated towns are an integral part of the counties in which they are located. The residents of Herndon pay Fairfax County property taxes (real estate and personal property), in addition to town taxes. In exchange, Fairfax County provides public education, certain technical and special education, libraries, health and human services, mental health assistance, fire and ambulance services, judicial services, correctional facilities and additional recreation activities and facilities.

The town's annual budget serves as the foundation for the town's financial planning and control. The Town Manager is required by the Code of Virginia to prepare and present to the Town Council a proposed budget no later than April 1 of each year; the Town Council is then required to adopt a budget, to include tax rates, prior to July 1. Activities of the General Fund, Capital Projects Fund, and Enterprise Funds (Water and Sewer, Cemetery and Golf Course) are included in the annual appropriations resolution and adopted budget. Town residents and business owners are provided with proposed budget information and summaries on the town's website and via direct mail, and public hearings are held to seek public input prior to Town Council adoption of the budget.

The level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is established by individual fund. Management control is maintained at the department level, with all departments having on-line access to expenditure account information. The town also maintains an encumbrance accounting system; encumbered amounts lapse at year end, except for capital projects, grants, and certain restricted funds. If requested by the Town Manager and approved by the Town Council, encumbered amounts may be re-appropriated as part of the following year's budget.

Local Economic Conditions and Outlook

According to the US Census, American Community Survey 2017-2021, the town's median household income in 2021 was \$117,741. According to the Virginia Employment Commission, in August 2023, the unemployment rate for Fairfax County (in which Herndon is located) was 2.6 percent, the unemployment rate for the Commonwealth of Virginia rate was 3.1 percent; and the national unemployment rate was 3.9 percent.

In FY 2023, Herndon's economy continued to face challenges including high levels of inflation, supply chain issues and a tight labor market. The Federal Reserve Bank has addressed the high levels of inflation by raising the federal funds rate throughout FY 2023, with the rate currently sitting at 5.5 percent. The rate increases have caused an increase in home mortgage interest rates that has resulted in a slowdown in residential home sales with values remaining flat. The overall economic outlook assumes residential and commercial property values will remain flat in the near term. The town anticipates a small increase in hotel occupancy tax due to business travel returning to normal levels. The meals tax should have a modest increase as workers continue to return to offices.

Indeed, due largely to its location at the heart of the Dulles Technology Corridor, Herndon continues to enjoy a significant corporate presence that includes Amazon Web Services; Beacon Roofing Supply; Boeing; Karsun Solutions; Northwest Federal Credit Union; Peraton; Physician Transport Systems and Serco. The second phase of the Metrorail's Silver Line, including a station stop in Herndon, opened in 2022, spurring strong redevelopment interest in FY 2023. The Town Council approved a development plan for Parkview Executive Center, adjacent to the new station; the plan permits up to one million sq. ft. of new development, of which no more than 60 percent may be residential. The Town Council also approved an amendment to the development plan for 555 Herndon Parkway, also in Herndon's Metro area. The new plan permits up to 700,000 sq. ft. of new development, of which 490,000 sq. ft. is committed to residential.

Planning for the Transit-Related Growth Area (TRG), an area adjacent to the new station, continued through FY 2023 with the expectation of the plan being adopted in mid-2024. This plan will establish a vision for redevelopment of the TRG with mixed land uses, potentially higher densities, new transportation connections and open spaces, and thoughtful urban design appropriate for its adjacency to the Herndon Metrorail Station.

The town also received a rezoning application for the redevelopment of 13100 & 13150 Worldgate Drive, an obsolete office complex, into a 401 apartments and townhome community.

Additional information on the town's activities may be found in the annual report online at <https://www.herndon-va.gov/annualreport>.

Long-term Financial Planning

In FY 2023, the town received a Rebuilding American Infrastructure with Sustainability and Equity (RAISE) grant from the U.S. Department of Transportation for \$720,000 to fund a new town-wide comprehensive plan. The plan, Herndon 2050, will establish long-term policies concerning existing and future development and infrastructure, with public participation and equity underpinning the planning effort.

Financial Policies

The Mayor and Town Council adopted the Updated Financial & Internal Administrative Policies resolution in May 2018 which provides accounting, budgeting, and financial management directives. These financial policies were updated based on advice from the town's financial advisors. Financial policies are a key component of the town's annual budgetary planning process, which highlights the organization's commitment to fiscal integrity and sound financial management. To maintain sound financial management, the policy states the General Fund unassigned fund balance should be maintained at a minimum of 20 percent of total General Fund operating expenditures. Further, the policy establishes guidelines for the revenue stabilization fund, contingency fund, and capital reserve fund. The policies also place limits on how much long-term debt the town can incur so that the total of combined outstanding and proposed debt is no greater than the town's maximum debt capacities.

Major Initiatives

The town has several focus areas that will significantly impact its economy in the coming years: the Herndon Metrorail station area, redevelopment of downtown Herndon, and the Transit Related Growth area plan.

The Herndon Metrorail station opened in November 2022 as part of Phase 2 of the Washington Metro Silver Line project. The town continues to focus on the implementation of the Herndon Transit-Oriented Core (HTOC) plan, adopted by the Town Council in 2012, that focuses on redevelopment of 38 acres near the future station. The plan calls for the transformation of the existing low-rise office space into transit-oriented development to include office, residential, hotel and retail space.

The Herndon Downtown Redevelopment Project, a partnership between the town and Comstock Herndon Venture LC, has been delayed until April 2024, due to the developer exercising its right to a market pause for two years due to market conditions related to an increase in construction and labor costs. This project is approved for 273 apartments, 17,000 sf of retail space, an 16,265 sf Arts Center, and a 726-space parking garage.

Planning for the Transit-Related Growth Area (TRG) continued through FY 2023 with the expectation of the plan being adopted in mid-2024. This area is a strategic location for redevelopment as the area is within walking distance to the Herndon Metro station and is currently comprised of aging low-density commercial structures.

Awards and Acknowledgements

Golf Course – By continuing its tradition of providing high-quality playing conditions, value and service, Herndon Centennial remains one of the premier public golf courses in the Northern Virginia metropolitan area. During the fiscal year, the course maintained its designation as a “Certified Audubon Cooperative Sanctuary”, with a focus on increasing wildlife habitat areas and reduced water and chemical usage.

Tree City USA – The Community Forestry Division of the Department of Community Development received a Tree City USA award from the National Arbor Day Foundation. This is the 34th consecutive year that the town has achieved this award, confirming the town’s commitment to its tree canopy and environmental stewardship.

AAA Credit Rating – The town maintained its “triple, triple” credit rating, the highest credit rating possible for a local government, from all three credit agencies: Moody’s Investors Service, Inc. (Aaa), Standard and Poor’s Corporation (AAA), and Fitch Investor Service (AAA).

Distinguished Budget Presentation Award – The Government Finance Officers Association of the United States and Canada (GFOA) has awarded the town with the prestigious Distinguished Budget Presentation Award for the fiscal year beginning July 1, 2022. This is the 32nd consecutive year that the town has achieved this honor. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communication device. The town’s budget documents for the fiscal year beginning July 1, 2023, were submitted to GFOA for consideration for another Distinguished Budget Presentation Award.

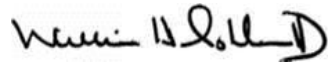
Certificate of Achievement for Excellence in Financial Reporting – The GFOA has also awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Herndon, Virginia, for its annual comprehensive financial report for the fiscal year ended June 30, 2022. This was the 48th consecutive year that the town has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized annual comprehensive financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current annual comprehensive financial report continues to meet the Certificate of Achievement Program’s requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Town of Herndon continues to maintain a stable financial position through responsible progressive management of financial operations combined with sound accounting and financial reporting practices. The timely preparation of this report could not have been accomplished without the effort of the entire staff of the Department of Finance and the town’s independent auditors. We wish to express our appreciation to all who assisted in its preparation and to commend them for the professionalism they displayed throughout the year.

We would also like to express our appreciation to the Mayor and the members of the Town Council for their interest and continued support in planning and conducting the financial operations of the town in a responsible and progressive manner.

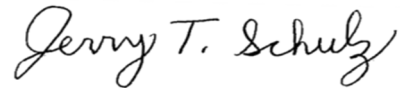
Respectfully submitted,

A handwritten signature in black ink, appearing to read "William H. Ashton II".

William H. Ashton II
Town Manager

A handwritten signature in black ink, appearing to read "Marjorie E. Sloan".

Marjorie E. Sloan, CPA
Director of Finance

A handwritten signature in black ink, appearing to read "Jerry T. Schulz".

Jerry T. Schulz, CPA
Deputy Director of Finance



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Town of Herndon
Virginia**

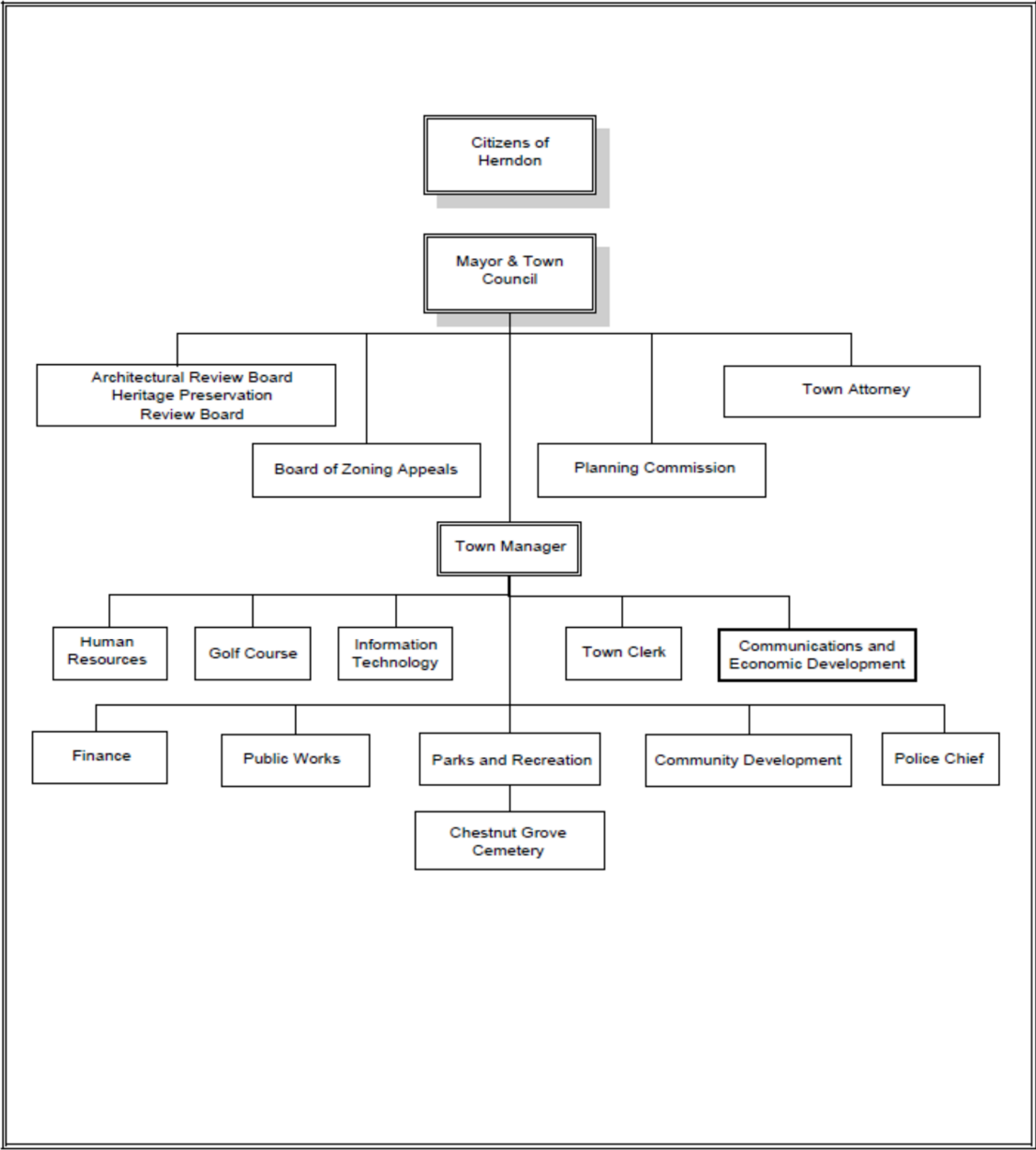
For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2022

Christopher P. Morill

Executive Director/CEO

**TOWN OF HERNDON, VIRGINIA
ORGANIZATION CHART**





Annual Comprehensive Financial Report
Year Ended June 30, 2023

Directory of Officials

Sheila A. Olem
Mayor

TOWN COUNCIL

Clark Hedrick – Vice Mayor
Naila Alam
Cesar del Aguila
Pradip Dhakal
Keven LeBlanc
Donielle M. Scherff

MANAGEMENT TEAM

William H. Ashton II
Town Manager

Lesa J. Yeatts
Town Attorney

Anne P. Curtis
Maggie A. DeBoard
Mike Mueller
Elizabeth M. Gilleran
Page Kalapasev
Tanya J. Kendrick
Cynthia S. Roeder
Scott Robinson
Marjorie Sloan
Kirstyn Barr Jovanovich

Chief Communications Officer
Chief of Police
General Manager
Director of Community Development
Director of Information Technology
Director of Human Resources
Director of Parks and Recreation
Director of Public Works
Director of Finance
Town Clerk

Independent Auditor

Brown, Edwards & Company, L.L.P.

Prepared by the Department of Finance



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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Herndon, Virginia (the "town"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the town's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the town, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the town and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As described in Notes 6 and 8, to the financial statements, in 2023, the town adopted new accounting guidance, *GASB Statement No. 96, Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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.

Responsibilities of Management for the Financial Statements (Continued)

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the town's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 town's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about town's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Supplementary 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 other supplementary information is presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the basic financial statements. The other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Summarized Comparative Information

We have previously audited the financial statements of the Town as of June 30, 2022, and we expressed an unmodified opinion on those statements in our report dated November 17, 2022. The 2022 financial information, included in Exhibits A-11 and A-12, is provided for comparative purposes only.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2023, 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 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.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 17, 2023

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Town of Herndon, Virginia's (town) financial statements provides an overview of the town's financial performance for the fiscal year ended June 30, 2023. Please read it in conjunction with the transmittal letter located in the introductory section of this report and the town's basic financial statements which follow this discussion and analysis.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2023

- The town's total assets and deferred outflows of resources exceeded its total liabilities and deferred inflows of resources at the close of the current fiscal year by \$154.1 million (*total net position*). Of this amount, \$44.7 million in unrestricted net position may be used to meet the town's ongoing obligations to citizens and creditors. See Table 1 for more information.
- The town's governmental activities net position increased by \$12.3 million in fiscal year 2023 versus \$11.0 million in fiscal year 2022. The \$1.3 million increase was driven by increased general revenues of \$5.1 million, increased program revenues of \$1.1 million, offset by increased total expenses of \$4.9 million. See Table 2 for more information.
- For the town's business-type activities, net position increased by \$2.3 million in fiscal year 2023 versus an increase of \$0.7 million in fiscal year 2022. The fiscal year 2023 increase is primarily due to the favorable operating performance at all three business-types activities: Water and Sewer, Golf Course and Chestnut Grove Cemetery. See Table 2 for more information.
- As of the close of the current fiscal year, the town's governmental funds reported combined ending fund balances of \$39.7 million, an increase of \$1.4 million from the previous fiscal year. This change was comprised of an increase in the General Fund balance of \$1.2 million, an increase in the ARPA Fund balance of \$0.8 million, and an increase of \$0.1 million to other governmental fund balance which was offset by \$0.7 million decrease in the Capital Projects Fund balances. The General Fund balance increase was driven by revenues exceeding expenditures with business license and meals tax revenues exceeding expectations due to a strong economy and inflationary prices. The town's operating department expenditures were less than expected due to the continued Comstock market pause of the downtown redevelopment project. Employee vacancies continued during this fiscal year due to the tight labor market. The Capital Projects Fund balance decreased by \$0.7 million, due primarily to the change in restricted fund balance driven by the town's use of bond proceeds to fund several major transportation projects. ARPA Fund balance increased \$0.8 million due to interest earned from investing the cash received in advance of project expenditures. Other governmental fund balance increased by \$0.1 million due to a slight increase in the Cemetery Perpetual Care Fund assets. See Table 3 for more information.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund increased \$0.4 million to \$17.4 million because of the increase in other local taxes. The General Fund's unassigned fund balance is available for spending at the town's discretion and represents approximately 45 percent of total General Fund expenditures and 44 percent of the total fund balance of the governmental funds. See Table 3 for more information.
- For the current fiscal year end, General Fund total revenues exceeded the amended budget by approximately \$5.1 million. Other local taxes, which include meals tax and business license tax were the main reason revenues exceeded the amended budget. Parks and Recreation's charges for services continued to be lower than budget because the programs have not yet returned to pre-pandemic levels. Total expenditures, other financing, and transfers were less than the amended budget amounts by \$3.9 million, mostly due to non-departmental expenditures related to the downtown redevelopment project not materializing during the fiscal year because the developer continued to exercise a pause to construction due to market conditions or other matters. See Table 4 for more information.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2023 (Continued)

- The town's net capital assets increased by \$9.3 million from the prior fiscal year, with new investments of \$13.3 million coming mostly from five infrastructure improvement projects that were in the construction phase when the fiscal year ended. See Table 5 for more information.
- The town's total outstanding debt is \$19.1 million, which is a decrease of \$1.5 million, driven mainly by debt service payments during the normal course of business. See Table 6 for more information.

USING THE FINANCIAL SECTION OF THIS ANNUAL FINANCIAL REPORT

Management's discussion and analysis is intended to serve as an introduction to the town's basic financial statements. The basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) the notes to financial statements. This report also includes required supplementary information and other supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide a broad overview of the town's finances, in a manner like private-sector business. The statements provide readers with an insight into short term and long-term financial position for the town during the fiscal year.

The *Statement of Net Position* presents information on all the town's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, using the accrual basis of accounting, with the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the town is improving or declining. In addition, nonfinancial factors, such as a change in the town's real estate assessment values or the condition of the town's facilities and infrastructure, should be considered in assessing the overall financial health of the town.

The *Statement of Activities* presents information showing how the town's net position changed during the most recent fiscal year. Changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of when the cash is received or paid (accrual basis of accounting). Thus, certain revenues and expenses are reported in this statement for items that will result in cash flows for future periods (e.g., uncollected taxes and earned but unused employee annual leave).

Both government-wide financial statements segregate functions of the town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a substantial portion of their expenses through user fees and charges (business-type activities). The government-wide financial statements are segregated as follows:

Governmental Activities - Many of the activities, programs and services traditionally identified with government are reported here. These activities and services are Legislative, Administration, Town Attorney, Parks and Recreation, Finance, Community Development, Police, and Public Works. These activities are financed primarily through property taxes, other local taxes, charges for services, and intergovernmental revenues (federal, state, and local grants).

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Government-Wide Financial Statements (Continued)

Business-type Activities – These activities are intended to recover all or a significant portion of their expenditures through charge for services or user fees. At the end of the fiscal year, the town has three business-type activities funds: The Water and Sewer Fund (provides customers with water distribution and sewer conveyance); the Golf Course Fund (provides customers with recreational golfing opportunities); the Chestnut Grove Cemetery Fund (operates and manages the Chestnut Grove Cemetery).

Fund Financial Statements

The fund financial statements provide more detailed information about the town's most significant funds. A "fund" is a grouping of related accounts that is used to maintain control over resources which have been segregated for specific activities or purposes. The town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds – Most of the town's basic services are included in governmental funds which focus on (1) how cash, and other financial assets that can be readily converted to cash, flow in and out, and (2) the balances remaining at fiscal year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader in determining whether there are more or fewer financial resources that can be spent in the near future to finance the town's programs. The town's governmental funds include the General Fund, Capital Projects Fund, American Rescue Plan Act (ARPA) Fund, and Chestnut Grove Cemetery Perpetual Care Fund.

Proprietary Funds – These funds are used to account for the operations that are financed in a manner like private business enterprises in which costs are recovered primarily through user charges. Proprietary fund financial statements, like the government-wide financial statements, provide both short-term and long-term financial information. The town uses *enterprise funds* (one type of proprietary fund) to account for the activities of the Water and Sewer Fund, Golf Course Fund, and Chestnut Grove Cemetery Fund.

Fiduciary Funds – These funds are used to account for resources held for the benefit of parties outside of town government. The town is responsible for ensuring the assets reported in the fund are used for their intended purposes. The town's fiduciary activities are reported in a separate statement of fiduciary net position. The town excludes these activities from the town government-wide financial statements because the town cannot use these assets to finance its programs. The town's fiduciary fund accounts for the Police Supplemental Retirement Pension Trust Fund.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found in the section titled "Notes to the Financial Statements" of this report which immediately follows the basic financial statements.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

Statement of Net Position:

The following table presents a condensed version of Exhibit A-1, Statement of Net Position, in comparative format:

Table 1
Summary Statement of Net Position
As of June 30
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022	2023	2022
Current and other assets	\$ 85,279	\$ 77,232	\$ 20,424	\$ 20,126	\$ 105,703	\$ 97,358
Capital assets, net	100,889	91,301	24,176	24,415	125,065	115,716
Total assets	186,168	168,533	44,600	44,541	230,768	213,074
Deferred outflows of resources	3,567	5,669	447	575	4,014	6,244
Current and other liabilities	29,844	18,860	1,507	1,712	31,351	20,572
Non-current liabilities	16,620	18,207	10,480	11,195	27,100	29,402
Total liabilities	46,464	37,067	11,987	12,907	58,451	49,974
Deferred inflows of resources	20,527	26,657	1,710	3,133	22,237	29,790
Net Position:						
Net investment in capital assets	92,390	85,163	14,579	14,191	106,969	99,354
Restricted	2,359	6,311	92	559	2,451	6,870
Unrestricted	27,995	19,004	16,680	14,328	44,675	33,332
Total net position	\$ 122,744	\$ 110,478	\$ 31,351	\$ 29,078	\$ 154,095	\$ 139,556

Net position may serve over time as a useful indicator of the town's financial position. The town's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$154.1 million, representing an increase of \$14.5 million from the prior year. About 29 percent of the town's net position is unrestricted and available to meet the town's ongoing obligations to citizens and creditors. The larger net position sub-component, labeled "Net investment in capital assets," reflects the town's investment in capital assets (e.g., land, infrastructure, buildings, improvements, machinery and equipment, intangible assets, and construction in progress), net of accumulated depreciation and amortization and outstanding debt associated with acquisitions. The town uses its capital assets to provide services to its citizens; consequently, these assets are not readily available for future spending. Although the town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets would not likely be used to liquidate these liabilities.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Activities:

The following table summarizes Exhibit A-2, Changes in Net Position, in comparative format:

Table 2
Summary of Changes in Net Position
For the Fiscal Years Ended June 30
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022	2023	2022
Revenues:						
Program revenues:						
Charges for services	\$ 3,156	\$ 3,057	\$ 11,641	\$ 10,496	\$ 14,797	\$ 13,553
Operating grants and contributions	2,537	1,964	-	-	2,537	1,964
Capital grants and contributions	11,323	10,905	84	130	11,407	11,035
Total program revenues	17,016	15,926	11,725	10,626	28,741	26,552
General revenues:						
General property taxes	13,724	12,869	-	-	13,724	12,869
Other local taxes	17,148	15,534	-	-	17,148	15,534
Intergovernmental non-categorical aid	1,248	1,281	-	1	1,248	1,282
Use of money and property	2,666	549	631	61	3,297	610
Miscellaneous	846	252	649	672	1,495	924
Total general revenues	35,632	30,485	1,280	734	36,912	31,219
Total revenues	52,648	46,411	13,005	11,360	65,653	57,771
Expenses:						
General government administration	6,892	6,060	-	-	6,892	6,060
Parks and recreation	4,434	4,025	-	-	4,434	4,025
Community development	2,474	1,578	-	-	2,474	1,578
Police	10,805	10,013	-	-	10,805	10,013
Public works	15,539	13,589	-	-	15,539	13,589
Interest	231	245	-	-	231	245
Water and sewer	-	-	8,151	8,224	8,151	8,224
Golf course	-	-	1,899	1,634	1,899	1,634
Chestnut Grove cemetery	-	-	689	759	689	759
Total expenses	40,375	35,510	10,739	10,617	51,114	46,127
Change in net position before transfers	12,273	10,901	2,266	743	14,539	11,644
Transfers	(7)	71	7	(71)	-	-
Change in net position	12,266	10,972	2,273	672	14,539	11,644
Net position, July 1	110,478	99,506	29,078	28,406	139,556	127,912
Net position, June 30	\$122,744	\$110,478	\$31,351	\$29,078	\$154,095	\$139,556

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Activities: (Continued)

Governmental Activities

During the current fiscal year, governmental-type activities increased the town's net position by \$12.3 million as revenues exceeded expenses and transfers.

Revenues: For the current fiscal year ended June 30, 2023, revenues for governmental activities totaled \$52.6 million, an increase of \$6.2 million or 13.4 percent increase from the prior fiscal year. Total program revenues increased by \$1.1 million and total general revenues increased by \$5.1 million.

The increase in total program revenues for governmental activities consists of a \$0.1 increase in charges for services, a \$0.6 million increase in operating grants and contributions, and a \$0.4 million increase in capital grants and contributions.

Charges for services were flat compared to the previous fiscal year, increasing only \$0.1 million. This revenue stream mainly comprised of revenues generated by Parks and Recreation programs and services. Operating grants increased by \$0.6 million primarily due to the increase in police grants and contributions of \$0.4 million.

Capital grants and contributions increased by \$0.4 million primarily due to an increase in American Rescue Plan Act grant (ARPA) revenue of \$1.9 million offset by a decrease in transportation project grant revenue of \$1.6 million. Total capital transportation grant and ARPA intergovernmental revenues during the fiscal year were \$5.9 and \$4.2 million, respectively, as shown in Exhibit B-5 and B-6.

Total general revenues increased by \$5.1 million from the prior fiscal year, driven primarily by increases in property taxes, other local taxes, and use of money.

General property taxes, the town's single largest revenue source, were \$13.7 million which is an increase of \$0.9 million from the prior fiscal year. The taxable assessed value of real property within the town, including Public Service Corporations (PSCs), for calendar year 2022 (fiscal year 2023) was \$5.3 billion, an increase of 7.8 percent over the prior year's taxable assessed values. Residential property values increased by 10.9 percent and commercial property values increased by 4.0 percent. Assessed values for PSCs increased by 2.6 percent. The town's real estate tax rate remained at \$0.265 per \$100 of assessed value.

Other local taxes, the town's largest combined revenue source at \$17.1 million, increased by \$1.6 million from the prior fiscal year. Business license tax, meals tax, transient occupancy tax, local sales tax, and bank stock tax all increased because businesses have continued to recover from the pandemic, increased demand from the resilient American consumer, and general economic inflation.

Use of money and property increased \$2.1 million from the prior fiscal year because of the Federal Reserve's continued interest rate increases in fiscal year 2023. The town's investments in LGIP were earning 5.37% as of June 30, 2023, compared to 1.15% as of June 30, 2022.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Activities: (Continued)

Expenses: For the current fiscal year ended, expenses for governmental activities totaled \$40.4 million, an increase of \$4.9 million or 13.7 percent from the prior fiscal year.

The town's three largest programs, other than general government administration, are public safety, public works, and parks and recreation. These three programs comprise 76 percent of total governmental expenses.

Expenses related to employee salaries and benefits across all town governmental activity programs including the largest three programs increased \$1.8 million or 7.3%. This increase was driven by two factors; increased pay rates of approximately five percent for pay-for-performance and market rate adjustments and increased FTE (full-time equivalents) employment. The town had eight and half FTEs more than the prior year as shown in Statistical Table 16.

Public Works operation and maintenance costs increased by \$1.2 million driven mainly by economic inflation across all categories including energy costs, repaving, concrete repair and building maintenance costs. Also included in the Public Works increase was the purchase of refuse residential toters for curbside pickup at a cost of \$0.25 million. Community Development operation and maintenance expenses increased by \$0.5 million driven primarily by reimbursable professional services related to the transit-related growth area and tree maintenance, removals, and plantings. Public Safety had increased costs related to recruiting and training new police officers.

Business-Type Activities

During the current fiscal year, business-type activities net position increased by \$2.3 million primarily due to the favorable operating performance at all three business-types activities: Water & Sewer, Golf Course and Chestnut Grove Cemetery. This compares to the prior year \$0.7 million increase for business-type activities whereby only the Golf Course and Chestnut Grove Cemetery had increases in net position. See the proprietary fund financial Statement of Revenues, Expenses and Changes in Net Position in Exhibit A-9 for more details.

Charges for services for business-type activities include customer-paid fees for water and sewer, cemetery, and golf services. Charges for services revenue increased by \$1.1 million as the Water and Sewer and Golf funds experienced increasing revenues from the prior year. The Water and Sewer Fund was up about \$1.0 million primarily due to increased waste and sewer rates. During the year, the town increased water rates by 3% and sewer rates by 14% as recommended by the water and sewer rate model consultants. Golf revenues were up slightly by \$0.3 million due to an approximate 11% increase in green and cart fees. Chestnut Grove Cemetery revenues were down almost \$0.2 million due to a decline in interment rights for sites sold and interment performed as shown in Statistical Table 17. Fiscal year 2023 returned to more normal levels of revenue for the cemetery because fiscal year 2022 was significantly up due to the pandemic.

Chestnut Grove Cemetery and Water and Sewer fund expense were both flat compared to the prior year. Golf Course expenses increased by \$0.3 million primarily due to materials and supplies used to repair and maintain the golf course, employee salaries and benefits and general economic inflation of all costs used in the operation.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Governmental funds - The General Fund is the major governmental fund of the town. The town's other governmental funds are the Capital Projects Fund, American Rescue Plan Act (ARPA) fund and one non-major governmental funds - the Chestnut Grove Cemetery Perpetual Care Fund. See Note 1 in the notes to financial statements section for more fund information.

The following table summarizes the fund balance section of Exhibit A-3, Governmental Fund Balances, in comparative format:

Table 3
Governmental Fund Balances
As of June 30
(in thousands)

	General		Capital Projects		ARPA		Other Governmental		Total	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Non-spendable	\$ 289	\$ 355	\$ 5	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ 294	\$ 360
Restricted	1,053	1,098	1,680	4,384	-	-	1,989	1,924	4,722	7,406
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	11,542	10,607	4,916	2,924	852	31	-	-	17,310	13,562
Unassigned	17,358	16,999	-	-	-	-	-	-	17,358	16,999
Total fund balances	\$30,242	\$29,059	\$ 6,601	\$ 7,313	\$ 852	\$ 31	\$1,989	\$1,924	\$39,684	\$38,327

As of the end of the current fiscal year, the town's total governmental fund balance increased by 3.5% to \$39.7 million from the prior fiscal year. The main driver of this increase was the General Fund, which increased by \$1.2 million and the ARPA Fund which increased \$0.8 million. These increases were partially offset by a decrease in the Capital Projects Fund of \$0.7 million. The General Fund Unassigned Fund Balance increased by \$0.4 million as \$0.6 million was moved to the capital reserve assigned fund balance. The General Fund Unassigned Fund Balance of \$17.4 million represents approximately 45 percent of the General Fund's expenditures, excluding transfers out, for fiscal year 2023.

The fiscal year 2023 Capital Projects Fund restricted fund balance represents stormwater taxes collected by Fairfax County on real property within the town's limit, to be spent solely for qualifying stormwater projects. The fiscal year 2022 balance also included unused restricted bond proceeds from the town's past debt issuance. The Capital Projects Fund assigned fund balance increased \$2.0 million primarily as a result of using / unrestricting the restricted bond proceeds during fiscal year 2023 to fund some major transportation projects.

The ARPA Fund's assigned fund balance increased by \$0.8 million due to interest earned from investing the cash received in advance of project expenditures.

Other Governmental fund balances increased \$0.1 million from the prior fiscal year. This slight increase is primarily attributable to the small increase in assets of the Cemetery Perpetual Care Fund.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (Continued):

Proprietary funds - The financial statements for the town's enterprise funds, which are a type of proprietary fund, provide the same type of information found in the government-wide financial statements for business-type activities, but in greater detail. The enterprise funds' total net position of the three funds increased by \$2.3 million from the prior year as shown in Exhibit A-9. Unrestricted net position, shown in Exhibit A-8, for each of the three enterprise funds increased or decreased from the prior year as follows:

- | | |
|--------------------------------|---|
| ➤ Water and Sewer Fund | Increased to \$11.8 million from \$10.9 million |
| ➤ Golf Course Fund | Increased to \$ 2.4 million from \$ 1.5 million |
| ➤ Chestnut Grove Cemetery Fund | Increased to \$ 2.5 million from \$ 1.9 million |

For fiscal year 2023, the combined operating income of all the proprietary funds was \$1.9 million. The Water and Sewer Fund, Golf Fund and Chestnut Grove Cemetery Fund posted operating income of \$0.5 million, \$0.8 million, and \$0.5 million, respectively as shown on Exhibit A-9.

The Water and Sewer Fund's improved operating income of \$0.5 million is primarily attributable to increased water and sewer rates charged to town customers. Last year the fund had an operating loss of \$0.7 million. During the year, the town increased water rates by 3% and sewer rates by 14% as recommended by the water and sewer rate model consultants. Net non-operating revenues outweighed non-operating expenses at \$0.1 million due to higher interest income earned on LGIP investments.

Operating income for the Golf Fund was approximately the same as last year at \$0.8 million. The number of rounds played, 47,922, was relatively the same as the previous year as shown in Statistical Table 17. The increase in operating revenues of approximately \$0.3 million over the prior year was attributable to an approximate 11% increase in green and cart fees for the full fiscal year. Net non-operating revenues outweighed non-operating expenses at \$0.1 million due to higher interest income earned on LGIP investments.

The Cemetery Fund's operating income of \$0.5 million is slightly lower than last year's \$0.6 million primarily due to decreased interment rights sold and interments performed as shown in Statistical Table 17. Net non-operating revenues outweighed non-operating expenses at \$0.1 million due to higher interest income earned on LGIP investments.

See Exhibits A-8 and A-9 for further details for each fund's financial statement line items.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL FUND BUDGETARY HIGHLIGHTS

The following table summarizes information found in Exhibit A-7, Statement of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual – General Fund:

Table 4
General Fund Budget to Actual
(in thousands)

	Fiscal Year 2023			Over / (Under)
	Original Budget	Amended Budget	Actual	
Taxes	\$ 27,100	\$ 27,100	\$ 31,274	\$ 4,174
Intergovernmental	4,599	4,602	4,681	79
Other	3,928	4,402	5,288	886
Total revenues	35,627	36,104	41,243	5,139
Expenditures	37,146	44,200	38,371	(5,829)
Other financing (sources) & Transfers out (in)	(19)	(242)	1,689	1,931
Total expenditures	37,127	43,958	40,060	(3,898)
Change in fund balance	(1,500)	(7,854)	1,183	9,037
Fund balance, beginning	29,059	29,059	29,059	-
Fund balance, ending	\$ 27,559	\$ 21,205	\$ 30,242	\$ 9,037

The final amended budget appropriations, which include expenditures, other financing, and transfers, exceeded the original budget by \$6.8 million in fiscal year 2023.

At the conclusion of the fiscal year, total revenues exceeded the amended budget amount by \$5.1 million which was led by other local taxes exceeding budget by \$4.2 million. Actual expenditures, other financing and transfers out were lower than the amended budget amounts by \$3.9 million. This was primarily due to \$4.0 million budgeted for the downtown redevelopment project, but the actual expenditure did not occur in fiscal year 2023 because in April 2022 the developer exercised its right to pause construction commencement for up to 24 months due to market conditions or other matters. Highlights of the comparison of amended budget to actual figures for the fiscal year ended June 30, 2023, include the following:

- Tax revenues exceeded expectations by \$4.2 million with business license, meals, transient occupancy, and local sales taxes coming in with higher actuals by \$1.5 million, \$1.3 million, \$0.9, and \$0.3 million, respectively. Business license tax was collected in fiscal year 2023 totaled nearly \$6.5 million, as shown in Statistical Table 5. General property taxes came in at \$13.8 million, which was in line with the budget.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL FUND BUDGETARY HIGHLIGHTS (Continued)

- Intergovernmental revenues were in line with the budget with actuals being almost \$4.7 million.
- Other revenues exceeded the budget by \$0.9 million because interest income earned on General Fund investments in the Local Government Investment Pool increased as a result of continued Federal Reserve interest rate hikes throughout fiscal year 2023. Charges for Services was \$0.1 million unfavorable to the budget because Parks and Recreation services revenue continued to underperform. While the Herndon Community Center programs, classes, festivals, and events have continued to improve over the prior fiscal year, they have yet to return to the levels observed prior to the COVID-19 pandemic. Permits, fines and forfeitures, and miscellaneous revenues were in line with the budget.
- Total expenditures excluding transfers out and other financing uses came in under amended budget by \$5.8 million. Expenditure amounts for most of the operating departments were less than the amended budgets by a sum of \$3.2 million, which is driven mostly by lower operations and maintenances costs. Lower personnel costs, including employee benefits accounted for \$0.6 million of this variance. Lower personnel costs are mostly due to employee vacancy savings throughout the fiscal year. Non-departmental came in under budget by \$3.0 million primarily due to \$4.0 million budgeted for the downtown redevelopment project, but the actual expenditure did not occur because in April 2022 the developer exercised its right to pause construction commencement for up to 24 months due to market conditions or other matters. Debt service expenditures were \$0.2 million higher than the budget primarily due to the implementation of GASB 96, Subscription-Based Information Technology Agreements.
- Other financing sources and transfers out were \$1.9 million unfavorable to the amended budget because \$2.4 million was transferred out to the Capital Projects Fund to fund the town's share of capital improvement costs. Capital projects receiving these funds included Van Buren Complete Streets, Herndon Parkway/Van Buren Street intersection, Elden/Center Street intersection, Trails to Metro, Vehicular and Pedestrian Access to Herndon Metrorail Station, and sidewalks and minor trails.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS

As of June 30, 2023, the town had invested approximately \$125.1 million, an increase of \$9.3 million from the prior fiscal year, in a variety of capital assets as reflected in the following table. More detailed information on capital assets can be found in Note 6 of the notes to the financial statements.

Table 5
Summary of Capital Assets
As of June 30
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022	2023	2022
Land	\$ 27,705	\$ 27,702	\$ 2,540	\$ 2,540	\$ 30,245	\$ 30,242
Construction in progress	30,949	19,575	1,940	729	32,889	20,304
Infrastructure	82,563	82,563	-	-	82,563	82,563
Buildings	42,224	42,224	3,856	3,552	46,080	45,776
Improvements other than buildings	17,215	17,215	36,115	36,115	53,330	53,330
Machinery and equipment	12,872	12,197	4,180	4,078	17,052	16,275
Machinery and equipment - Leases	127	122	25	25	152	147
Intangibles and purchased capacity	1,134	1,137	15,370	16,166	16,504	17,303
Furniture and fixtures	1,124	1,135	-	195	1,124	1,330
Subscriptions	614	-	-	-	614	-
Accumulated depreciation	(115,638)	(112,569)	(39,850)	(38,984)	(155,488)	(151,553)
Total capital assets, net	\$ 100,889	\$ 91,301	\$ 24,176	\$ 24,416	\$ 125,065	\$ 115,717

The net increase in the town's capital asset investment is attributable to the increase in new investments of \$13.3 million exceeding accumulated depreciation of \$3.9 million. Significant changes include construction in progress increasing by \$12.6 million, subscription-based information technology increasing by \$0.6 million and machinery and equipment increasing by \$0.8 million.

Major capital asset transactions during the fiscal year in both governmental and business-type activities are as follows:

- Most of the increase in construction in progress can be attributable to five infrastructure improvement projects. These five projects account for \$9.0 million of the total increase. These infrastructure improvement projects are Herndon Parkway/Van Buren Street intersection, Van Buren Complete Streets, East Spring Street widening, Sugarland Run South stream restoration, and Water Utility Master Plan. Construction on these projects continued into fiscal year 2024.
- The \$0.6 million increase in the subscriptions category was in governmental activities and consisted of four software subscriptions for which two make up a significant portion of the balance: an enterprise resource financial and human resources software, and a website hosting software.
- Most of the increase in machinery and equipment is from the purchase of new heavy duty and light duty trucks in the public works fleet along with a few new police vehicles.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS (continued)

- In addition to the five significant projects in progress named above, twenty-five other capital projects were in progress during the fiscal year with expenditures incurred. The American Rescue Plan Act fund is paying for ten of these projects, the Capital Projects Fund is paying for seven of these projects while the remaining eight projects are being paid by the business-type funds.

Some ARPA fund projects in progress include the Pool Pak & Boiler replacement, Tennis Bubble rehabilitation, Tennis & Pickleball court resurfacing, Fuel Tank replacement, and Water Pump Station. In the Water and Sewer fund, several water line and sewer line improvement projects were in progress. The Cemetery fund has started an expansion project, and the Golf fund started a tee box and stormwater drainage project. The downtown redevelopment and downtown utility undergrounding projects remained on hold due to market conditions or other matters.

During the fiscal year, significant design and specifications, right-of-way acquisition, and utility relocation efforts progressed on other critical transportation projects with East Elden Street being the largest project. Also, significant non-transportation projects with design progress include Fuel Tank replacement, Water Pump Station & Vaults, Cemetery Expansion, Golf Tee Box & Drainage improvements, and Sugarland Run North Stream restoration. More detailed information on future capital improvements can be found in the town's adopted six-year Capital Improvement Program (CIP).

LONG-TERM DEBT

The following table summarizes information found in Note 8, Long-Term Debt, in the notes to the financial statements.

Table 6
Summary of General Obligation Bonds and Other Obligations
As of June 30
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022	2023	2022
General obligation (GO) bonds	\$ 9,002	\$ 9,996	\$ 7,319	\$ 7,492	\$ 16,321	\$ 17,488
Fairfax Water obligations	-	-	1,966	2,916	1,966	2,916
GO bonds - premiums	122	130	-	-	122	130
Notes payable	-	-	300	-	300	-
Leases	53	80	13	19	66	99
Subscriptions	374	-	-	-	374	-
Total long-term outstanding debt	\$ 9,551	\$ 10,206	\$ 9,598	\$ 10,427	\$ 19,149	\$ 20,633

At the end of fiscal year 2023, the town had \$19.1 million in outstanding long-term general obligations bonds, other obligations, and premiums, as reflected in the above table. This represents a decrease of \$1.5 million from the prior fiscal year, driven by debt service payments during the normal course of business. Fairfax Water obligations were adjusted \$0.8 million lower to represent only the

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

LONG-TERM DEBT (continued)

principal balance outstanding. The town's Golf Course entered a financed purchase obligation to install a new HVAC system in the clubhouse for \$0.3 million. Also, during fiscal year 2023, the town adopted GASB 96 Subscription-Based Information Technology Arrangements which increased total other obligations by \$0.4 million.

As of the end of fiscal year 2023, the town's issuer rating from the three credit ratings agencies remained as follows: AAA from Fitch Investor Service, Aaa from Moody's Investor Service, Inc., and AAA from Standard and Poor's Corporation. More detailed information on long-term debt can be found in Note 8 of the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The town's economic and demographic conditions in many ways benefit from the relative stability, high income, and low unemployment characteristics of the Washington, D.C. region. Today, thanks in part to the diversity of the town's businesses, the town's commercial environment has been able to withstand downturns in the economies over time and has weathered the impact of the pandemic. As of August 2023, the unemployment rate in the Washington metropolitan area was 2.6 percent compared to 3.6 percent in September 2022. In comparison, the August 2023 unemployment rates for the Commonwealth of Virginia and the United States were 3.1 percent and 3.9 percent, respectively, according to the Virginia Employment Commission.

The total adopted fiscal year 2024 budget (all funds), including inter-fund transfers, is \$62.2 million which is about 8.6 percent higher than the original budget for fiscal year 2023. This \$4.9 million increase is the result of additions in the governmental funds of \$0.2 million and proprietary funds of \$4.7 million. The town lowered its real estate tax rate by \$0.005 to \$0.260 per \$100 of assessed value for fiscal year 2024. All other excise taxes and fees town-wide remain unchanged from fiscal year 2023. Due to significantly increased operating costs in the Water & Sewer Fund, the Town Council adopted increases in the charges for services in the Water & Sewer Fund by increasing the utility billing rates in the fiscal year 2024 budget.

CURRENTLY KNOWN FACTS LIKELY TO IMPACT FINANCIAL CONDITION

In addition to the unprecedented financial uncertainty wrought by the COVID-19 pandemic, other factors expected to affect the town's financial position include the downtown redevelopment project and American Rescue Plan Act funding the town received.

Following months of review and significant input from the public, in the fall of 2017 the Herndon Town Council adopted a resolution to enter into a comprehensive agreement with Comstock Herndon Venture, LC for the redevelopment of 4.675 acres in Herndon's downtown. The town's additional financial obligations include \$3.6 million in payments to Comstock Herndon Venture, LC during the construction phase of the project, and between \$2.5 and \$3.5 million for the design and construction of the Arts Center component of the project. This project has experienced delays since the signing of the comprehensive agreement.

In Fiscal Year 2021, the Herndon Town Council approved a resolution that amended the comprehensive agreement with Comstock, to advance the project on November 17, 2020. This amendment allowed continued interim use by the town of the property for the existing ArtSpace and provides for public shared parking. Also, it established a date by which Comstock must have the project under construction which is December 31, 2021. The town transferred the development site to Comstock on December 15, 2020, per the amended comprehensive agreement.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

CURRENTLY KNOWN FACTS LIKELY TO IMPACT FUTURE FINANCIAL CONDITION (Continued)

Also, the town approved several incentives for the project via the town's Arts District ordinance. This will be done by utilizing fee reductions and refunding the town's portion of property taxes on the completed project for up to 10 years. The fee reductions are 50% for Water Availability fees of \$950,000; Sewer Availability fees of \$1,300,000; and Base Building Permit fees of \$100,000 for a total fee reduction of \$2,350,000. Town property taxes are proposed to be refunded for up to ten years valued at \$1,908,000. In addition, the town is deferring the recreational proffer of \$491,000 for ten years and eliminating the Arts Center mezzanine valued at \$250,000.

The town has an appropriation of \$3.6 million as part of this agreement for the project. In return, the town will be receiving public parking, an arts center shell, public improvements, temporary parking, arts center, and environmental upgrades that accumulate to about \$16.6 million in value.

In April 2022 Comstock exercised its right in the amended comprehensive agreement to pause construction commencement for up to 24 months, due to market conditions or other matters, including delays as a result of the COVID-19 pandemic. ArtSpace will continue to use their existing space and the town will continue to use the development site for public shared parking. More detailed information about the downtown redevelopment project can be found in the comprehensive agreement on the town's website.

The town received funding from the US Treasury as part of the American Rescue Plan Act. The town received two installments of \$12.7 million each with the first installment of the funds received at the end of fiscal year 2021 and the second installment of funds was received at the beginning of fiscal year 2023. The funds will help with operational maintenance back log items and help relieve some of the budgetary constraints on the capital projects that were halted in fiscal year 2020 and fiscal year 2021 due to the COVID-19 pandemic.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the town's finances and to demonstrate the town's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to the Director of Finance, Town of Herndon, Department of Finance, 777 Lynn St., Herndon, VA 20170. The telephone number is (703) 435-6898 or visit the town's web site at www.herndon-va.gov.

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www.herndon-va.gov

BASIC FINANCIAL STATEMENTS

TOWN OF HERNDON, VIRGINIA

Exhibit A-1

STATEMENT OF NET POSITION
June 30, 2023

	Governmental Activities	Business-type Activities	Totals
ASSETS			
Cash, cash equivalents, and investments (Note 2)	\$ 55,852,545	\$ 17,067,236	\$ 72,919,781
Cash and investments with fiscal agent (Note 2)	1,053,197	-	1,053,197
Receivables, net:			
Property taxes (Note 3)	13,982,913	-	13,982,913
Trade and other accounts (Note 3)	1,490,632	2,039,872	3,530,504
Accrued interest	14,036	2,855	16,891
Due from other governments (Note 3)	9,062,618	-	9,062,618
Inventories	242,361	104,724	347,085
Prepaid costs	51,885	480	52,365
Cash, cash equivalents, and investments - restricted (Note 2)	2,359,144	-	2,359,144
Leases receivable (Note 4)	1,169,889	1,209,076	2,378,965
Capital assets: (Note 6)			
Nondepreciable	58,653,930	4,479,887	63,133,817
Depreciable, net	42,234,704	19,696,294	61,930,998
Total assets	<u>186,167,854</u>	<u>44,600,424</u>	<u>230,768,278</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions (Notes 9 and 13)	2,907,255	313,072	3,220,327
Deferred outflows related to other postemployment benefits (Notes 11, 12, and 13)	660,165	133,799	793,964
Total deferred outflows of resources	<u>3,567,420</u>	<u>446,871</u>	<u>4,014,291</u>
LIABILITIES			
Accounts payable	2,349,557	1,055,069	3,404,626
Accrued payroll	478,748	128,081	606,829
Accrued liabilities - other	1,120,410	147,363	1,267,773
Accrued interest	85,780	-	85,780
Unearned revenue (Note 7)	23,833,521	12,932	23,846,453
Customer deposits	1,975,821	163,614	2,139,435
Noncurrent liabilities:			
Due within one year (Note 8)	1,716,071	455,729	2,171,800
Due in more than one year (Note 8)	10,525,490	9,464,395	19,989,885
Net pension liability (Notes 9 and 13)	506,558	53,107	559,665
Net other postemployment benefit liability (Notes 11, 12, and 13)	3,871,854	506,407	4,378,261
Total liabilities	<u>46,463,810</u>	<u>11,986,697</u>	<u>58,450,507</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions (Notes 9 and 13)	3,592,220	376,605	3,968,825
Deferred inflows related to other postemployment benefits (Notes 11, 12, and 13)	1,956,586	174,666	2,131,252
Lease-related deferred inflows	1,145,775	1,158,874	2,304,649
Property taxes (Note 7)	13,832,527	-	13,832,527
Total deferred inflows of resources	<u>20,527,108</u>	<u>1,710,145</u>	<u>22,237,253</u>
NET POSITION			
Net investment in capital assets	92,390,332	14,578,598	106,968,930
Restricted:			
Local seized assets	370,211	-	370,211
Lateral program	-	91,592	91,592
Cemetery Perpetual Care Fund - expendable	1,988,933	-	1,988,933
Unrestricted	<u>27,994,880</u>	<u>16,680,263</u>	<u>44,675,143</u>
Total net position	<u>\$ 122,744,356</u>	<u>\$ 31,350,453</u>	<u>\$ 154,094,809</u>

The Notes to Financial Statements are an integral part of this Statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-2

**STATEMENT OF ACTIVITIES
Year Ended June 30, 2023**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Governmental activities:							
Legislative	\$ 625,269	\$ -	\$ -	\$ -	\$ (625,269)		\$ (625,269)
Administration	3,715,691	20,273	-	-	(3,695,418)		(3,695,418)
Town attorney	897,125	-	-	-	(897,125)		(897,125)
Parks and recreation	4,434,240	1,800,092	-	-	(2,634,148)		(2,634,148)
Finance	1,654,259	-	-	-	(1,654,259)		(1,654,259)
Community development	2,474,048	-	78,940	-	(2,395,108)		(2,395,108)
Police	10,805,123	319,681	1,191,527	-	(9,293,915)		(9,293,915)
Public works	15,538,878	1,016,307	1,266,252	11,323,314	(1,933,005)		(1,933,005)
Interest	230,704	-	-	-	(230,704)		(230,704)
Total governmental activities	40,375,337	3,156,353	2,536,719	11,323,314	(23,358,951)		(23,358,951)
Business-type activities:							
Water and sewer	8,151,096	7,874,004	-	84,070		(193,022)	(193,022)
Golf course	1,899,298	2,620,230	-	-		720,932	720,932
Chestnut Grove cemetery	688,507	1,146,629	-	-		458,122	458,122
Total business-type activities	10,738,901	11,640,863	-	84,070		986,032	986,032
Total government	\$ 51,114,238	\$ 14,797,216	\$ 2,536,719	\$ 11,407,384	(23,358,951)	986,032	(22,372,919)
General Revenues:							
Taxes:							
General property					13,723,835	-	13,723,835
Business licenses					6,523,651	-	6,523,651
Transient occupancy					1,681,394	-	1,681,394
Meals					4,203,292	-	4,203,292
Local sales					2,391,096	-	2,391,096
Consumer utility					808,218	-	808,218
Bank stock tax					606,024	-	606,024
Motor vehicle licenses					466,540	-	466,540
Other local taxes					468,033	-	468,033
Revenues not restricted to specific programs					72,926	-	72,926
Intergovernmental, non-categorical aid					1,248,438	-	1,248,438
Use of money and property					2,666,203	630,914	3,297,117
Gain on sale of capital assets					57,512	20,079	77,591
Miscellaneous and lease income					715,221	628,531	1,343,752
Transfers					(7,345)	7,345	-
Total general revenues and transfers					35,625,038	1,286,869	36,911,907
Change in net position					12,266,087	2,272,901	14,538,988
Net position, July 1					110,478,269	29,077,552	139,555,821
Net position, June 30					\$ 122,744,356	\$ 31,350,453	\$ 154,094,809

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-3
Page 1BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2023

	General	Capital Projects Fund	ARPA Fund	Nonmajor Governmental Fund	Total Governmental Funds
ASSETS					
Cash, cash equivalents, and investments	\$ 31,447,628	\$ 3,191,325	\$ 21,213,592	\$ -	\$ 55,852,545
Cash and investments with fiscal agent	1,053,197	-	-	-	1,053,197
Receivables (net of allowance for doubtful accounts):					
Property taxes	13,982,913	-	-	-	13,982,913
Trade and other accounts	1,490,632	-	-	-	1,490,632
Leases	1,169,889	-	-	-	1,169,889
Accrued interest	9,855	4,181	-	-	14,036
Due from other governments	636,318	8,426,300	-	-	9,062,618
Inventories	242,361	-	-	-	242,361
Prepaid costs	46,885	5,000	-	-	51,885
Cash, cash equivalents, and investments - restricted	370,211	-	-	1,988,933	2,359,144
Total assets	<u>\$ 50,449,889</u>	<u>\$ 11,626,806</u>	<u>\$ 21,213,592</u>	<u>\$ 1,988,933</u>	<u>\$ 85,279,220</u>

(Continued)

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-3

Page 2

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2023

	General	Capital Projects Fund	ARPA Fund	Nonmajor Governmental Fund	Total Governmental Funds
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 823,898	\$ 262,731	\$ 1,262,928	\$ -	\$ 2,349,557
Accrued payroll	478,748	-	-	-	478,748
Accrued liabilities - other	1,025,234	95,176	-	-	1,120,410
Accrued Interest - leases and subscription arrangements	2,542	-	-	-	2,542
Unearned revenue	66,940	4,668,359	19,098,222	-	23,833,521
Customer deposits	1,975,821	-	-	-	1,975,821
Total liabilities	4,373,183	5,026,266	20,361,150	-	29,760,599
Deferred inflows of resources:					
Unavailable revenue - property taxes	14,049,989	-	-	-	14,049,989
Unavailable revenue - other	639,269	-	-	-	639,269
Leases related deferred inflows	1,145,775	-	-	-	1,145,775
Total deferred inflows of resources	15,835,033	-	-	-	15,835,033
Fund Balances:					
Nonspendable:					
Inventories	242,361	-	-	-	242,361
Prepaid costs	46,885	5,000	-	-	51,885
Restricted:					
Bond proceeds not yet spent	1,053,197	-	-	-	1,053,197
Cemetery perpetual care	-	-	-	1,988,933	1,988,933
Stormwater	-	1,679,770	-	-	1,679,770
Assigned:					
Revenue stabilization	1,900,000	-	-	-	1,900,000
Operating & capital costs	1,158,290	2,457,209	-	-	3,615,499
Capital reserve	3,900,000	-	-	-	3,900,000
Contingency reserve	900,000	-	-	-	900,000
e-Summons	25,166	-	-	-	25,166
Downtown Parking	3,000,000	-	-	-	3,000,000
Subsequent years' expenditures for:					
General Fund	658,500	-	-	-	658,500
Capital Projects Fund	-	2,458,561	-	-	2,458,561
ARPA Fund	-	-	852,442	-	852,442
Unassigned:					
General Fund	17,357,274	-	-	-	17,357,274
Total fund balances	30,241,673	6,600,540	852,442	1,988,933	39,683,588
Total liabilities, deferred inflows of resources, and fund balances	\$ 50,449,889	\$ 11,626,806	\$ 21,213,592	\$ 1,988,933	\$ 85,279,220

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-4

**RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2023**

Total fund balances - governmental funds	\$ 39,683,588
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.	100,888,634
Unavailable revenue represents amounts that were not available to fund current expenditures and, therefore, is not reported as revenue in the governmental funds.	856,731
Financial statement elements related to other postemployment benefits and pensions are applicable to future periods and, therefore, are not reported in the funds.	
Deferred outflows related to:	
Pensions	\$ 2,907,255
Other postemployment benefits	<u>660,165</u>
	3,567,420
Deferred inflows related to:	
Pensions	(3,592,220)
Other postemployment benefits	<u>(1,956,586)</u>
	(5,548,806)
Net pension liability	(506,558)
Net other post employment benefits liability	(3,871,854)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
Bonds, leases, and SBITAs payable, including unamortized premiums and discounts	(9,551,499)
Compensated absences	(2,690,062)
Interest payable	<u>(83,238)</u>
	<u>(12,324,799)</u>
Net position of governmental activities	<u><u>\$ 122,744,356</u></u>

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-5
Page 1STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2023

	General	Capital Projects Fund	ARPA Fund	Nonmajor Governmental Fund	Total Governmental Funds
Revenues:					
General property taxes	\$ 13,805,589	\$ -	\$ -	\$ -	\$ 13,805,589
Other local taxes	17,468,036	-	-	-	17,468,036
Permits, privilege fees, and regulatory licenses	572,280	-	-	-	572,280
Fines and forfeitures	342,056	-	-	-	342,056
Use of money and property	1,706,286	66,702	820,729	72,486	2,666,203
Charges for services	2,356,037	-	-	-	2,356,037
Miscellaneous	311,308	89,457	-	-	400,765
Intergovernmental	4,681,197	5,884,687	4,172,375	-	14,738,259
Total revenues	41,242,789	6,040,846	4,993,104	72,486	52,349,225
Expenditures:					
Current:					
Legislative	613,312	-	-	-	613,312
Administration	3,357,954	-	-	-	3,357,954
Town attorney	833,754	-	-	-	833,754
Parks and recreation	3,961,843	-	-	-	3,961,843
Finance	1,646,904	-	-	-	1,646,904
Community development	2,671,606	-	-	-	2,671,606
Police	10,601,772	-	-	-	10,601,772
Public works	13,122,731	-	-	-	13,122,731
Grants	8,363	-	-	-	8,363
Non-departmental	68,781	-	-	-	68,781
Capital outlay	-	9,150,003	4,172,375	-	13,322,378
Debt service:					
Principal	1,236,103	-	-	-	1,236,103
Interest and fiscal charges	247,829	-	-	-	247,829
Total expenditures	38,370,952	9,150,003	4,172,375	-	51,693,330
Excess (deficiency) of revenues over (under) expenditures	2,871,837	(3,109,157)	820,729	72,486	655,895

(Continued)

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-5
Page 2

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2023

	General	Capital Projects Fund	ARPA Fund	Nonmajor Governmental Fund	Total Governmental Funds
Other financing sources (uses):					
Proceeds from sale of capital assets	\$ 306,273	\$ -	\$ -	\$ -	\$ 306,273
Issuance of leases and subscription arrangements	86,887	-	-	-	86,887
Insurance recoveries	314,456	-	-	-	314,456
Transfers in	-	2,396,407	-	65,141	2,461,548
Transfers out	(2,396,407)	-	-	(72,486)	(2,468,893)
Total other financing sources (uses), net	(1,688,791)	2,396,407	-	(7,345)	700,271
Net change in fund balances	1,183,046	(712,750)	820,729	65,141	1,356,166
Fund balances, July 1	29,058,627	7,313,290	31,713	1,923,792	38,327,422
Fund balances, June 30	\$ 30,241,673	\$ 6,600,540	\$ 852,442	\$ 1,988,933	\$ 39,683,588

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2023**

Net change in fund balances - total governmental funds		\$ 1,356,166
Reconciliation of amounts reported for governmental activities in the Statement of Activities:		
<p>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 and amortization expense. This is the amount by which capital outlays exceeded depreciation and amortization in the current period.</p>		
Expenditure for capital assets	\$ 13,137,562	
Less: depreciation and amortization expense	<u>(3,803,752)</u>	
Excess of capital outlay over depreciation and amortization		9,333,810
<p>The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net position:</p>		
Loss on disposal of capital assets		(248,761)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Change in unavailable revenue		(72,424)
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the Statement of Net Position.</p>		
Issuance of leases and SBITAs		(86,887)
Principal repayments		1,236,103
<p>Governmental funds report 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.</p>		
Employer pension contributions		1,412,476
Pension expense		(668,857)
<p>Governmental funds report employer other postemployment benefit contributions as expenditures. However, in the statement of activities the cost of these benefits earned, net of employee contributions, is reported as other postemployment benefit expense.</p>		
Employer other postemployment benefit contributions		148,394
Other postemployment benefit expense		(4,389)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Accrued interest	9,466	
Compensated absences	(156,669)	
Amortization of premiums and discounts	<u>7,659</u>	<u>(139,544)</u>
Change in net position of governmental activities		<u>\$ 12,266,087</u>

The Notes to the Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-7
Page 1

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2023**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Revenues:				
General property taxes	\$ 13,866,648	\$ 13,866,648	\$ 13,805,589	\$ (61,059)
Other local taxes	13,233,000	13,233,000	17,468,036	4,235,036
Permits, privilege fees, and regulatory licenses	653,300	653,300	572,280	(81,020)
Fines and forfeitures	311,500	311,500	342,056	30,556
Use of money and property	496,494	496,494	1,706,286	1,209,792
Charges for services	2,454,000	2,454,000	2,356,037	(97,963)
Miscellaneous	13,000	486,279	311,308	(174,971)
Intergovernmental	4,598,879	4,602,347	4,681,197	78,850
Total revenues	35,626,821	36,103,568	41,242,789	5,139,221
Expenditures:				
Current:				
Legislative	624,041	806,255	613,312	192,943
Administration	3,537,222	3,651,430	3,357,954	293,476
Town attorney	818,564	815,580	833,754	(18,174)
Parks and recreation	4,505,801	4,513,912	3,961,843	552,069
Finance	1,780,976	1,921,446	1,646,904	274,542
Community development	2,362,518	2,879,582	2,671,606	207,976
Police	10,700,246	11,080,036	10,601,772	478,264
Public works	12,357,254	14,171,702	13,122,731	1,048,971
Grants	19,738	24,144	8,363	15,781
Non-departmental	(791,274)	3,062,048	68,781	2,993,267
Debt service:				
Principal	992,839	1,035,553	1,236,103	(200,550)
Interest and fiscal charges	237,896	238,308	247,829	(9,521)
Total expenditures	37,145,821	44,199,996	38,370,952	5,829,044
Excess (deficiency) of revenues over (under) expenditures	(1,519,000)	(8,096,428)	2,871,837	10,968,265

(Continued)

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-7
Page 2

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2023**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive (Negative)</u>
Other financing sources (uses):				
Proceeds from sale of capital assets	\$ 50,000	\$ 50,000	\$ 306,273	\$ 256,273
Issuance of leases and subscription arrangements	-	-	86,887	86,887
Insurance recoveries	20,000	242,922	314,456	71,534
Transfers out	(51,000)	(51,000)	(2,396,407)	(2,345,407)
Total other financing uses, net	19,000	241,922	(1,688,791)	(1,930,713)
Net change in fund balance	<u>\$ (1,500,000)</u>	<u>\$ (7,854,506)</u>	<u>\$ 1,183,046</u>	<u>\$ 9,037,552</u>

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-8

Page 1

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

June 30, 2023

	Business-type Activities - Enterprise Funds			
	Major Funds			
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Totals
ASSETS				
Current Assets:				
Cash, cash equivalents, and investments	\$ 11,517,440	\$ 2,847,321	\$ 2,702,475	\$ 17,067,236
Receivables (net of allowance for doubtful accounts):	2,039,872	-	-	2,039,872
Accrued interest	2,744	111	-	2,855
Inventories	62,065	42,659	-	104,724
Prepaid costs	383	97	-	480
Leases receivable - current portion	328,726	30,621	-	359,347
Total current assets	13,951,230	2,920,809	2,702,475	19,574,514
Noncurrent Assets:				
Leases receivable	830,551	19,178	-	849,729
Capital assets:				
Land	200,000	1,621,574	718,500	2,540,074
Buildings	-	2,544,906	1,311,437	3,856,343
Improvements other than buildings	31,300,796	3,157,597	1,656,239	36,114,632
Machinery and equipment	2,481,779	1,526,941	171,957	4,180,677
Machinery and equipment - leases	24,876	-	-	24,876
Furniture and fixtures	194,919	-	-	194,919
Intangibles	15,370,173	-	-	15,370,173
Construction in progress	1,807,190	6,875	125,748	1,939,813
Less: accumulated depreciation and amortization	(32,264,112)	(5,727,711)	(2,053,503)	(40,045,326)
Total capital assets (net of accumulated depreciation and amortization)	19,115,621	3,130,182	1,930,378	24,176,181
Total noncurrent assets	19,946,172	3,149,360	1,930,378	25,025,910
Total assets	33,897,402	6,070,169	4,632,853	44,600,424
DEFERRED OUTFLOWS OF RESOURCES				
Pension-related deferred outflows	170,567	94,897	47,608	313,072
OPEB-related deferred outflows	96,827	31,854	5,118	133,799
Total deferred outflows of resources	267,394	126,751	52,726	446,871

(Continued)

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-8
Page 2

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2023

	Business-type Activities - Enterprise Funds			
	Major Funds			
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Totals
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 974,356	\$ 21,265	\$ 59,448	\$ 1,055,069
Accrued payroll	67,385	45,585	15,111	128,081
Accrued liabilities - other	134,872	8,926	3,565	147,363
Due to other governments	164,628	-	-	164,628
Unearned revenue	-	12,932	-	12,932
Compensated absences	29,975	5,458	10,543	45,976
Customer deposits	163,064	550	-	163,614
Current obligations payable	136,044	80,021	29,060	245,125
Total current liabilities	1,670,324	174,737	117,727	1,962,788
Noncurrent Liabilities:				
Compensated absences	119,900	141,904	14,761	276,565
Due to other governments	1,801,716	-	-	1,801,716
Net pension liability	27,561	16,785	8,761	53,107
Net other post employment benefit liability	236,926	248,875	20,606	506,407
Long-term obligations payable, net	6,116,757	554,772	714,585	7,386,114
Total noncurrent liabilities	8,302,860	962,336	758,713	10,023,909
Total liabilities	9,973,184	1,137,073	876,440	11,986,697
DEFERRED INFLOWS OF RESOURCES				
Pension-related deferred inflows	195,447	119,032	62,126	376,605
OPEB-related deferred inflows	96,293	47,003	31,370	174,666
Leases related deferred inflows	1,112,838	46,036	-	1,158,874
Total deferred inflows of resources	1,404,578	212,071	93,496	1,710,145
NET POSITION				
Net Position:				
Net investment in capital assets	10,896,476	2,495,389	1,186,733	14,578,598
Restricted, lateral program	91,592	-	-	91,592
Unrestricted	11,798,966	2,352,387	2,528,910	16,680,263
Total net position	\$ 22,787,034	\$ 4,847,776	\$ 3,715,643	\$ 31,350,453

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-9

Page 1

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2023**

	Business-type Activities - Enterprise Funds			
	Major Funds			
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Totals
Operating revenues:				
Sale of water	\$ 3,161,715	\$ -	\$ -	\$ 3,161,715
Sewer service charges	4,626,020	-	-	4,626,020
Late payment charges	81,540	-	-	81,540
Sale of commodities	4,729	-	-	4,729
Rents and leases	431,500	45,277	-	476,777
Greens fees	-	1,927,579	-	1,927,579
Golf cart revenue	-	442,939	-	442,939
Golf pro shop sales	-	99,681	-	99,681
Driving range fees	-	150,031	-	150,031
Cemetery sites	-	-	651,408	651,408
Interment services	-	-	292,297	292,297
Merchandise sales	-	-	202,924	202,924
Miscellaneous	17,606	38,613	70,198	126,417
Total operating revenues	8,323,110	2,704,120	1,216,827	12,244,057
Operating expenses:				
Finance	228,162	-	-	228,162
Water services	2,166,166	-	-	2,166,166
Sewer services	3,664,078	-	-	3,664,078
Contractual services	530,094	41,400	22,400	593,894
Golf course operations	-	920,261	-	920,261
Golf course clubhouse	-	720,507	-	720,507
Cemetery operations	-	-	595,546	595,546
Nondepartmental:				
Depreciation and amortization	1,161,697	175,229	58,225	1,395,151
Miscellaneous	49,288	29,885	4,393	83,566
Total operating expenses	7,799,485	1,887,282	680,564	10,367,331
Operating income	523,625	816,838	536,263	1,876,726

(Continued)

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-9

Page 2

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2023**

	Business-type Activities - Enterprise Funds			
	Major Funds			Totals
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	
Non-operating revenues (expenses):				
Investment earnings, net	\$ 456,920	\$ 88,553	\$ 85,441	\$ 630,914
Interest expense	(351,611)	(12,016)	(7,943)	(371,570)
Insurance recoveries	5,062	20,275	-	25,337
Gain on disposal of capital assets	6,683	13,396	-	20,079
Total non-operating revenues, net	117,054	110,208	77,498	304,760
Income before availability fees and transfers	640,679	927,046	613,761	2,181,486
Availability fees	84,070	-	-	84,070
Transfers in	-	-	72,486	72,486
Transfers out	-	-	(65,141)	(65,141)
Total availability fees and transfers	84,070	-	7,345	91,415
Change in net position	724,749	927,046	621,106	2,272,901
Total net position, July 1	22,062,285	3,920,730	3,094,537	29,077,552
Total net position, June 30	\$ 22,787,034	\$ 4,847,776	\$ 3,715,643	\$ 31,350,453

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-10

Page 1

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2023**

	Business-type Activities - Enterprise Funds		
	Major Funds		
	Water and Sewer	Golf Course	Chestnut Grove Cemetery
			Totals
Operating Activities:			
Receipts from customers	\$ 8,039,296	\$ 2,713,799	\$ 1,216,827
Payments to suppliers for goods and services	(5,286,747)	(811,600)	(194,721)
Payments to employees for services	(1,620,682)	(991,035)	(430,503)
Net cash provided by operating activities	1,131,867	911,164	591,603
Noncapital Financing Activities:			
Transfers in from other funds	-	-	72,486
Transfers out to other funds	-	-	(65,141)
Net cash provided by noncapital financing activities	-	-	7,345
Capital and Related Financing Activities:			
Availability fees	84,070	-	-
Acquisition and construction of capital assets	(1,024,756)	(748,270)	(66,495)
Proceeds from bonds and notes issued	-	300,120	300
Proceeds from the sale of capital assets	11,745	33,671	-
Principal paid on bonds and leases	(131,044)	(20,021)	(29,060)
Principal paid to Fairfax Water	(153,722)	-	-
Interest paid on bonds	(353,934)	(15,846)	(5,036)
Net cash used in capital and related financing activities	(1,567,641)	(450,346)	(100,291)
Investing Activities:			
Interest received on investment securities	455,822	88,448	85,441
Net cash provided by investing activities	455,822	88,448	85,441
Net increase in cash, cash equivalents, and investments	20,048	549,266	584,098
Cash, Cash Equivalents, and Investments:			
Beginning	11,497,392	2,298,055	2,118,377
Ending	<u>\$ 11,517,440</u>	<u>\$ 2,847,321</u>	<u>\$ 2,702,475</u>

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-10

Page 2

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2023

	Business-type Activities - Enterprise Funds			
	Major Funds			
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Totals
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 523,625	\$ 816,838	\$ 536,263	\$ 1,876,726
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	1,161,697	175,229	58,225	1,395,151
Pension expense net of employer contributions	(26,600)	(45,161)	(6,324)	(78,085)
Other postemployment benefit expense net of employer contributions	1,975	(960)	(5,470)	(4,455)
Changes in assets and liabilities:				
(Increase) decrease in:				
Receivables	(223,404)	478	-	(222,926)
Lease receivables	708,719	(31,822)	-	676,897
Inventories	(37,044)	(12,140)	-	(49,184)
Prepaid costs and other assets	697	(97)	2,075	2,675
Increase (decrease) in:				
Accounts payable, accrued liabilities, and compensated absences	(208,669)	(32,224)	6,834	(234,059)
Unearned revenue	-	12,932	-	12,932
Leases related deferred inflows	(717,344)	28,091	-	(689,253)
Deposits	(51,785)	-	-	(51,785)
Net cash provided by operating activities	<u>\$ 1,131,867</u>	<u>\$ 911,164</u>	<u>\$ 591,603</u>	<u>\$ 2,634,634</u>
Schedule of Non-cash Capital and Related Financing Activities:				
Capital assets acquired through accounts payable	<u>\$ 112,348</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 112,348</u>
Reduction of intangible Fairfax Water asset and related liability	<u>\$ 795,981</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 795,981</u>

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-11

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
June 30, 2023
(With Comparative Amounts for 2022)

	<div> <div>Pension Trust Fund</div> <div>Police Supplemental Retirement Pension Trust Fund</div> </div>	
	2023	2022
Money Market (Note 2)	\$ 23,314	\$ 17,205
Mutual funds (Note 2)	3,509,656	3,332,831
Total assets	3,532,970	3,350,036
NET POSITION		
Restricted:		
Net position restricted for pensions	\$ 3,532,970	\$ 3,350,036

TOWN OF HERNDON, VIRGINIA

Exhibit A-12

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
Year Ended June 30, 2023
(With Comparative Amounts for 2022)

	Pension Trust Fund Police Supplemental Retirement Pension Trust Fund	
	2023	2022
Additions:		
Employer contributions	\$ 181,658	\$ 207,604
Investment income (loss):		
Net increase (decrease) in the fair value of investments	394,800	(566,362)
Total additions (reductions), net	576,458	(358,758)
Deductions:		
Benefit payments	393,524	221,737
Change in net position	182,934	(580,495)
Net position, July 1	3,350,036	3,930,531
Net position, June 30	\$ 3,532,970	\$ 3,350,036

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 1. Summary of Significant Accounting Policies

A. The Financial Reporting Entity

The Town of Herndon, Virginia (the "town"), located in the County of Fairfax, Virginia, was incorporated in 1879 under the provisions of the constitution and general statutes of the Commonwealth of Virginia.

The town is governed under the Town Manager-Council form of government. The town engages in a comprehensive range of municipal services, including general government administration; public safety and administration of justice; refuse collection; street and sidewalk maintenance; street lighting; zoning enforcement; education, health, welfare, and human service programs; planning, community development and recreation; and cultural and historic activities. Other municipal services including public education; technical and special education services; health and social services; mental health assistance; fire and ambulance services; judicial services; correctional facilities; and additional recreation services and facilities are provided by the County of Fairfax, Virginia. As required by GAAP, these financial statements present the town's financial position. The town does not have any component units, entities for which the town is considered to be financially accountable or blended component units, legally separate entities which are in substance part of the town's operations.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements:

The Statement of Net Position and the Statement of Activities display information about the town. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Interfund services provided and used are not eliminated in the process of consolidation. These statements distinguish between the government and business-type activities of the town. *Governmental activities* generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. *Business-type activities* are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the town and for each function of the town's governmental activities. *Direct expenses* are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. *Program revenues* include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as *general revenues*.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 1. Summary of Significant Accounting Policies (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

Fund Financial Statements:

The fund financial statements provide information about the town's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, of which each is displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as investment earnings, result from nonexchange transactions.

Operating expenses include cost of services, administrative expenses, and depreciation and amortization on capital assets. All expenses not meeting this definition are reported as non-operating expenses.

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

Government-wide, Proprietary, and Fiduciary Fund Financial Statements: The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Fiduciary funds account for assets held by the town in a trustee capacity or as agent or custodian for individuals and utilize the accrual basis of accounting. These funds include the Police Supplemental Retirement Pension Trust fund which is reported using the economic resources measurement focus.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 1. Summary of Significant Accounting Policies (Continued)

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

Governmental Fund Financial Statements: Governmental funds are reported using *the current financial resources measurement focus* and the *modified accrual basis of accounting*. Under this method, revenues are recognized when measurable and available. The town considers all revenues reported in the governmental funds to be available if the revenues are collected within 75 days after year-end, except property taxes, which are recognized as revenue if they have been collected within the town's availability period, which is 60 days. All taxes and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases and subscriptions are reported as other financing sources.

The town reports the following major governmental funds:

The *General Fund* is the general operating fund of the town. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund.

The *Capital Projects Fund* accounts for all financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds.

The *ARPA Fund* accounts for the uses of American Rescue Plan Act funding received by the town.

The town reports the following major proprietary funds:

The *Water and Sewer Fund* accounts for services to the general public, which are financed primarily by charges to users of those services.

The *Golf Course Fund* accounts for the operation and maintenance of the golf course.

The *Chestnut Grove Cemetery Fund* accounts for operations of the cemetery.

Additionally, the town reports the *Police Supplemental Retirement Trust Fund*. The purpose of this fund is to provide retirement benefits in addition to the benefits provided by the Virginia Retirement System and Social Security. The town has contracted with various financial institutions and insurance carriers to provide fiscal agent services including the accounting, investment, and disbursement services related to this fund.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets and Budgetary Accounting

The *Code of Virginia* makes a clear distinction between budgets and appropriations. Budgets are for informational and fiscal planning purposes, whereas appropriations are authorizations to incur expenditures.

Prior to April 1, the Town Manager submits to the Town Council a proposed operating budget for the fiscal year commencing the following July 1. Annual budgets for the General Fund, and the enterprise funds are adopted at the department level. Capital projects are budgeted on a project basis. The operating and capital budgets include proposed expenditures and the means of financing them. A brief synopsis of the proposed budget is published at least once in a newspaper with general circulation within the town. Additionally, notice is given of one or more public hearings at least ten days prior to the public hearing. The public hearing provides any citizen the opportunity to comment on the budget.

Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution. This resolution appropriates all budgeted amounts. The Appropriations Resolution places legal restrictions on expenditures for each department or category level.

Department heads and directors are authorized to transfer/reallocate/redistribute any amount, up to \$100,000, of the approved operations, maintenance and capital funding between approved expenditure accounts within their respective departments in the General Fund and Enterprise Funds only, except for salary and benefit accounts. Proposed transfers from salary or benefits accounts of any amount must be submitted to the town manager for review and approval. Requirements in excess of \$100,000 must be submitted to the town manager for review, and to Town Council for approval. The town manager is authorized to approve the transfer/reallocation/redistribution of General Fund, ARPA Fund, Water & Sewer Fund, Golf Course Fund, Chestnut Grove Cemetery Fund, and the Capital Projects Funds monies within a department or between departments in the same fund. Actions may be within or between the personnel, operations and maintenance and capital outlays/projects accounts. The total amount of each approval shall not exceed \$100,000 and multiple transfers to the same account cannot exceed a total of \$100,000. Requirements in excess of \$100,000 must be submitted by resolution to the Town Council for approval. The dollar limitation effectively lowers the legal level of budgetary control to the department level. All increases or decreases to the approved budget must be approved by the Town Council before being made. During the year, the Town Council approves additional appropriations, as needed, in the form of Budget Amendments. During the year ended June 30, 2023, budget revisions to the general fund were made, which resulted in an approximate \$7,100,000 increase in budgeted expenditures.

All budgets are adopted on a basis consistent with GAAP. Appropriations lapse June 30 unless specifically encumbered, committed, or assigned. At year-end, the Town Council meets to encumber these appropriations for the next fiscal year.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets and Budgetary Accounting (Continued)

All budget data presented in the accompanying financial statements is the revised budget as of June 30 and includes the budget revisions disclosed previously. Unfavorable variances reported herein should not be interpreted to represent violations of laws as the legal level of fiscal control is based on total appropriated expenditures by fund.

E. Deposits and Investments

Cash resources of the governmental and proprietary funds are combined to form a pool of deposits and investments to maximize interest earnings potential. The pool consists primarily of certificates of deposit, repurchase agreements, government securities, and a local government investment pool. The government securities are stated at fair value based on quoted market prices and the investment in the local government investment pool is reported at the pool's share price in accordance with GASB Statement 79.

For purposes of the Statement of Cash Flows, the town's enterprise funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

F. Fair Value Measurements

The government categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Level 2 investments are valued using a matrix pricing technique, which is based on the investments' benchmark quoted prices.

G. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are shown as a nonspendable fund balance in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

Water and sewer receivables are shown net of an allowance for uncollectibles and consist of billed and unbilled utility receivables. Unbilled receivables are an estimate of utility services provided but not billed by year end.

Allowances for uncollectible accounts receivable (real estate taxes and utility billings) are calculated using historical collection data, specific account analysis, and management's judgment.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 1. Summary of Significant Accounting Policies (Continued)

G. Receivables and Payables (Continued)

The town levies real estate taxes, as of January 1, on all real property in the town on a calendar year basis at a rate enacted by Town Council. The levies are based on the assessed value of property as determined by the Director of Real Estate Assessments of Fairfax County. All property is assessed at 100 percent of appraised value and reassessed each year as of January 1. Real estate taxes are collected in equal installments due July 28 and December 5. Lien dates are 190 days after the due date. The tax rate during 2023 per \$100 of assessed value was \$.265. No discounts are allowed. A late penalty of ten percent is charged after July 28 and December 5. Interest of ten percent on tax and penalty is charged from August 1 for the first half real estate taxes and from January 1 for second half real estate taxes.

The town reports real estate taxes (net of allowances) assessed for calendar year 2023 as receivables, net of payments received in advance of the due date, and deferred tax revenue because the town has an enforceable legal claim to these resources at June 30, 2023; however, these resources will not be available to the town until fiscal year 2024.

The town did not assess personal property taxes during fiscal year 2023.

The portion of taxes receivable that is not collected within 60 days after June 30 is shown as unavailable revenue.

H. Inventories

Inventories in the proprietary funds are recorded at the lower of cost (first-in, first-out) or net realizable value. These inventories consist primarily of parts held for consumption.

Inventory in the General Fund consists of expendable supplies held for consumption and is recorded at cost (determined on a first-in, first-out basis). The cost is recorded as an expenditure when consumed.

I. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements using the consumption method.

J. Restricted Cash

In accordance with the agreements resulting in the issuance of debt, the General Fund, Capital Projects Fund, and the Water and Sewer Fund have a portion of their cash balance restricted and shown as "Cash with fiscal agent" or restricted cash on the Governmental Funds' Balance Sheet and the Statement of Net Position. This restriction on cash balances is due to the intended use, as prescribed in the applicable bond covenants. Amounts also consist of funds to be used for future capital projects and amounts accumulated for use in the Chestnut Grove Cemetery Perpetual Care Fund.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 1. Summary of Significant Accounting Policies (Continued)

K. Deferred Outflows and Inflows of Resources

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

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

- Contributions subsequent to the measurement date for pensions and OPEB; this will be applied to the net pension liability and net OPEB liability in the next fiscal year.
- One item occurs only under the modified accrual basis of accounting; this item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes and other receivables not collected within 60 days of year-end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Another item represents taxes billed and, in some cases, collected before the period they are eligible for use.
- Differences between expected and actual experience for economic/demographic factors and changes of assumptions in the measurement of the total pension and OPEB liability. These differences will be recognized in pension or OPEB expense over the average expected remaining service lives of all employees provided with benefits. This may be reported as a deferred outflow or inflow as appropriate.
- Changes in proportionate share that will be recognized in the OPEB expense over the average expected remaining service lives of all employees provided with benefits. This may be reported as a deferred outflow or inflow as appropriate.
- Difference between projected and actual earnings on pension and OPEB plan investments. This difference will be recognized in pension or OPEB expense over the closed five-year period and may be reported as a deferred outflow or inflow as appropriate.
- Lease-related amounts are recognized at the inception of leases in which the town is the lessor. The deferred inflow of resources is recorded in an amount equal to the corresponding lease receivable plus certain additional amounts received from the lessee at or before the commencement of the lease term that related to future periods, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term. The inflow of resources is recognized in a systematic and rational manner over the term of the lease.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 1. Summary of Significant Accounting Policies (Continued)

L. Capital Assets

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Capital assets and infrastructure are defined by the town as assets with an initial, individual cost of more than \$5,000 and \$20,000, respectively, and an estimated useful life in excess of two years. The town has included all infrastructure assets of the town, including assets acquired before June 30, 1980.

The town's intangible right-to-use assets consist of land easements and software, which were previously recorded and classified as machinery and equipment. Land easements have indefinite useful lives and thus are not subject to amortization.

Intangible right-to-use lease and subscription assets are amortized over the shorter of the lease or subscription term or useful life of the underlying asset. In leases where a purchase option is reasonably certain of being exercised the asset is amortized over the useful life, unless the underlying asset is nondepreciable, in which the asset is not amortized.

Capital assets are depreciated or amortized using the straight-line method over the following estimated useful lives:

Infrastructure	20-50 years
Buildings	10-50 years
Improvements other than buildings	5-50 years
Machinery and equipment	2-20 years
Furniture and fixtures	10-20 years
Intangibles and purchased capacity	5-40 years

Maintenance, repairs, and minor renewals are charged to operations when incurred. Expenses which materially increase values, change capacities, or extend useful lives are capitalized.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 1. Summary of Significant Accounting Policies (Continued)

M. Compensated Absences

Vacation can be accumulated up to 37.5 days for all employees except department heads who can accumulate 40 days. Unused accumulated vacation is paid upon termination, death, or retirement. Employees may utilize their sick leave benefit to the extent sickness causes employees to be absent. Upon retirement under the VRS, employees are considered 25% vested in sick leave benefits and are paid the vested portion up to \$10,000. Upon termination of employment except for dismissals, non-probationary full-time employees are considered 25% vested in sick leave benefits and are paid the vested portion up to \$2,500. A prorated amount shall be paid to non-probationary part-time employees. The vested amount is accrued in compensated absences.

Compensated absences are accrued when incurred in the entity-wide and proprietary funds statements and reported as a fund liability. The General Fund is responsible for paying the liability for compensated absences for General Government employees and has been used in prior years to liquidate the Governmental Funds' liability.

Compensated absences that are expected to be liquidated with expendable available resources are reported as expenditures and fund liabilities of the governmental fund that will pay it. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

N. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Position. Bond premiums, discounts, and deferred losses on refundings are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 1. Summary of Significant Accounting Policies (Continued)

O. Fund Balance

In the fund financial statements, governmental funds report classifications of fund balance as follows:

- **Nonspendable** – amounts that are not in a spendable form or are required to be maintained intact (such as prepaid items, inventory, and advances between funds).
- **Restricted** – amounts constrained to specific purposes by their providers (such as grantors, creditors, or laws and regulations of other governments), or by law through constitutional provisions or enabling legislation.
- **Committed** – amounts constrained to specific purposes by the Town Council. To be reported as committed, amounts cannot be used for any other purpose unless the Town Council takes the action to remove or change the constraint.
- **Assigned** – amounts constrained by the town's intent but are neither restricted nor committed. Encumbrances outstanding at year-end are designated by management, as allowed by the town's financial policies. Re-appropriations are then formally adopted by the Town Council in the following fiscal year through a budget amendment. Amounts designated for subsequent years' expenditures are adopted by a resolution of the Town Council, which is retroactive to fiscal year-end. The action normally takes place during the month of July, which is after fiscal year-end. These amounts are also formally re-appropriated by the Town Council in the following fiscal year through a budget amendment.
- **Unassigned** – residual balance of the General Fund that has not been restricted, committed, or assigned to specific purposes within the General Fund.

Town Council, as the highest level of authority within the town, establishes the commitment of fund balance to purposes through the approval of the annual budget plan by resolution, in conjunction with the resolutions associated with the establishment of fee and tax rates, and acceptance or appropriation of funds. All subsequent changes to the budget plan to add, reduce, or redirect resources to other purposes are also accomplished by Council resolution. As a result, all unrestricted amounts directed toward a purpose are shown as committed. Balances shown as assigned in the General Fund represent encumbrances which would otherwise be unassigned.

The town considers restricted balances to be expended first in cases where both restricted and unrestricted amounts are available. When utilizing unrestricted balances, committed balances are applied first, followed by assigned then unassigned balances.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 1. Summary of Significant Accounting Policies (Continued)

O. Fund Balance (Continued)

Town council established a Revenue Stabilization Fund in 2012 within the assigned portion of the General Fund Balance. At the close of each audited fiscal year, after certifying that the Unassigned Fund Balance is in compliance with these policies, the Revenue Stabilization Fund shall receive a minimum of 25 percent of the prior year's surplus, if any, as calculated in the prior fiscal year audit. Balances in the Revenue Stabilization Fund will be allowed to accumulate until they reach an amount equal to 5.0 percent of General Fund Operating Revenues. Transfers to the Revenue Stabilization Fund may also be made as part of the adopted operating budget.

Withdrawals from the Revenue Stabilization Fund can only be considered if there is an unexpected General Fund recurring revenue decline of at least three percent below the original budget projections for the current fiscal year.

No more than half of the Revenue Stabilization Fund can be withdrawn in any one fiscal year except in the event that using no more than half of the balance would result in Unassigned Fund Balance falling below the 20 percent threshold noted herein. In such an instance, the withdrawal shall be the lesser of the amount needed to maintain the 20 percent Unassigned Fund Balance policy level or the remaining balance in the Revenue Stabilization Fund.

P. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Significant encumbrances as of June 30, 2023, include \$1,158,290 in the general fund and \$2,457,209 in the general capital project fund and \$852,442 in the ARPA fund.

Q. Pensions and Other Post-employment Benefits (OPEB)

For purposes of measuring all financial elements related to pensions and OPEB, information about the fiduciary net position of the town's Plans and the additions to or deductions from the town's Plans net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 1. Summary of Significant Accounting Policies (Continued)

R. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Deposits and Investments

The town maintains a cash and investment pool that is available for use by all funds. Investment income is allocated to certain designated funds based on the percentage of the fund's cash and investments at month-end to the total pool. The General Fund and Capital Projects Fund have specific designated investments, as well as having equity in pooled cash and investments.

Deposits

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

Custodial Credit Risk

This is the risk that in the event of a bank failure, the town's deposits may not be returned to it. The town's investment policy requires all deposits to be insured under FDIC or comply with the Act. At year-end, none of the town's deposits were exposed to custodial credit risk.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 2. Deposits and Investments (Continued)

Investments

Investment Policy:

The State Treasurer's Local Government Investment Pool (LGIP) is a professionally managed money market fund which invests in qualifying obligations and securities as permitted by Virginia statutes. Pursuant to Section 2.2-4605 of the *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings. The fair value of the position of the LGIP is the same as the value of the pool shares, i.e., the LGIP maintains a stable net asset value of \$1 per share and is reported based on guidance in GASB Statement 79.

State statutes and the town's policy authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, "prime-quality" commercial paper and certain corporate notes, bankers acceptances, repurchase agreements, open-end investment funds (mutual funds), certificates of deposit, the Virginia State Non-Arbitrage Program (SNAP); and the LGIP. The town has investments in the LGIP, and the maturity of the LGIP is less than one year and is rated AAAm by Standard & Poor's.

The Town has invested bond proceeds subject to rebate of arbitrage earnings in the SNAP (a 2a-7 like pool), which is an open-ended management investment company registered with the SEC designed to assist local governments in complying with the arbitrage rebate requirements of the Tax Reform Act of 1986. This program provides comprehensive investment management, accounting, and arbitrage rebate calculation services for proceeds of tax-exempt financing.

The town's investment policy establishes the maximum percentages of the portfolio permitted in each of the following instruments:

U. S. Treasury Obligations	100% maximum
U. S. Government Agency Securities and Instruments of Government Sponsored Corporations	100% maximum
Open-End Investment Funds (Mutual Funds)	100% maximum
Bankers' Acceptances	50% maximum
Repurchase Agreements	25% maximum
Certificate of Deposits – Virginia Qualified Commercial Banks, Savings and Loan Associations	75% maximum
Commercial Paper	35% maximum
Local Government Investment Pool	100% maximum
Virginia State Non-Arbitrage Program	100% maximum

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 2. Deposits and Investments (Continued)

Investment Policy: (Continued)

Further, of the total portfolio, no more than 25% can be invested with any one institution for Bankers' Acceptances, 10% with any one institution for Repurchase Agreements, 33% with any one institution for Certificates of Deposit, and no more than 5% with any one institution for Commercial Paper.

Interest Rate Risk:

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting exposure to fair value losses arising from rising interest rates, the town's policy limits the investment of operating funds to investments with a stated maturity of no more than five years from the date of purchase, except for investments of capital projects, long-term reserve and other escrow funds that will be timed to meet contractors' payments, debt service or other anticipated financial obligations. In such cases, the town may invest reserve and escrow funds in securities maturing up to ten years from the date of purchase.

As of June 30, 2023, the town's investments consisted of the following:

Type	Value	S & P Credit Rating	Weighted Average Maturity*
LGIP	\$ 70,258,163	AAAm	0.14
SNAP	1,053,197	AAAm	0.18
Federal Agency Bonds and Notes	1,277,614	AA+	0.27
Money Market	23,314	N/A	N/A
Mutual Funds	3,509,656	Various	N/A
Total investments	<u>\$ 76,121,944</u>		

* - Average Maturity in Years

Concentration of Credit Risk:

Concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. If certain investments in any one issuer represent 5% of total investments, there must be a disclosure for the amount and issuer. At June 30, 2023, the portion of the town's portfolio that exceed 5% of the total portfolio are as follows:

LGIP	92%
SNAP	1%
Federal Agency Bonds and Notes	2%
Mutual Funds	5%

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 2. Deposits and Investments (Continued)

Fair Value:

The town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The town has the following recurring fair value measurements as of June 30, 2023:

	Level 1	Level 2	Level 3	Total
Mutual funds – Police Retirement Plan:				
DFA Emerging Markets Core Equity I	\$ 39,779	\$ -	\$ -	\$ 39,779
DFA International Core Equity I	80,393	-	-	80,393
DFA US Core Equity 2 I	146,095	-	-	146,095
Fidelity Advisor Total Bond Z	50,030	-	-	50,030
Fidelity Mid Cap	9,744	-	-	9,744
Fidelity Large Cap	257,698	-	-	257,698
Fidelity 500 Index	193,384	-	-	193,384
Fidelity US Bond Index	2,935	-	-	2,935
WT CIT III for Metlife GAC 25554 CL J	23,894	-	-	23,894
Vanguard Target Retirement 2055 Inv	92,376	-	-	92,376
Vanguard Target Retirement 2050 Inv	134,760	-	-	134,760
Vanguard Target Retirement 2040 Inv	798,331	-	-	798,331
Vanguard REIT Index Adm	35,796	-	-	35,796
Vanguard Target Retirement 2030 Inv	165,191	-	-	165,191
Vanguard Target Retirement 2065 Inv	1,545	-	-	1,545
Vanguard Target Retirement Income Inv	2,522	-	-	2,522
Vanguard Target Retirement 2045 Inv	322,236	-	-	322,236
Vanguard Target Retirement 2035 Inv	635,244	-	-	635,244
Vanguard Target Retirement 2060 Inv	38,536	-	-	38,536
Vanguard Target Retirement 2025 Inv	470,401	-	-	470,401
Vanguard Target Retirement 2020	8,766	-	-	8,766
Debt securities:				
Federal Agency Bonds and Notes	-	1,277,614	-	1,277,614
	<u>\$ 3,509,656</u>	<u>\$ 1,277,614</u>	<u>\$ -</u>	<u>\$ 4,787,270</u>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 2. Deposits and Investments (Continued)

Fair Value: (Continued)

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Federal agency notes and bonds are classified in Level 2 of the fair value hierarchy and are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Deposits and investments are reflected in the financial statements as follows:

Deposits and investments:	
Deposits	\$ 3,743,148
Investments	72,588,974
Investments held in trust	3,532,970
	<u>\$ 79,865,092</u>

Statement of Net Position:	
Cash and investments	\$ 72,919,781
Cash and investments with fiscal agent	1,053,197
Cash and investments – restricted	2,359,144
Fiduciary fund cash and investments	3,532,970
	<u>\$ 79,865,092</u>

Cash with fiscal agent and other restricted cash and investments:

Restricted cash and investments consist of unspent bond proceeds related to bond issuances, as well as cash restricted for future capital projects and funds accumulated for use in the Chestnut Grove Cemetery Perpetual Care Fund.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 3. Receivables and Due from Other Governments

Receivables are as follows:

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Total</u>
Receivables:			
Property tax	\$ 13,982,913	\$ -	\$ 13,982,913
Meal tax	576,382	-	576,382
Transient occupancy tax	211,203	-	211,203
Trade and other accounts	714,861	2,056,043	2,770,904
Gross receivables	15,485,359	2,056,043	17,541,402
Less: allowance for uncollectible	(11,814)	(16,171)	(27,985)
Receivables, net	<u>\$ 15,473,545</u>	<u>\$ 2,039,872</u>	<u>\$ 17,513,417</u>
Due from other governments:			
Commonwealth of Virginia	\$ 680,092	\$ -	\$ 680,092
Counties	8,382,526	-	8,382,526
Total due from other governments	<u>\$ 9,062,618</u>	<u>\$ -</u>	<u>\$ 9,062,618</u>

Note 4. Leases Receivable

The town is the lessor of three buildings in the general fund with lease terms that expire through 2027. The water and sewer and the golf course funds include leased equipment, water tower space, and land and buildings with varying lease terms that expire through 2033.

The lease receivables are due as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 378,952	\$ 13,386	\$ 359,347	\$ 12,594
2025	393,402	7,886	265,893	8,793
2026	348,550	2,465	237,016	5,943
2027	48,985	60	145,864	3,686
2028	-	-	95,466	2,063
Thereafter	-	-	105,490	891
	<u>\$ 1,169,889</u>	<u>\$ 23,797</u>	<u>\$ 1,209,076</u>	<u>\$ 33,970</u>

Lease and interest revenue in the general fund was \$423,261 and \$14,894 respectively, and \$464,778 and \$19,591 in the business-type activities, respectively, for 2023.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 5. Interfund Receivables, Payables, and Transfers

A summary of interfund transfer activity is presented as follows:

	<u>General Fund</u>	<u>Nonmajor Governmental Fund</u>	<u>Chestnut Grove Cemetery Fund</u>	<u>Total Transferred In</u>
Transferred out:				
Primary government:				
Governmental activities:				
Capital projects	\$ 2,396,407	\$ -	\$ -	\$ 2,396,407
Other nonmajor governmental funds	-	-	65,141	65,141
Business-type activities:				
Chestnut Grove Cemetery Fund	-	72,486	-	72,486
Total Transferred Out	<u>\$ 2,396,407</u>	<u>\$ 72,486</u>	<u>\$ 65,141</u>	<u>\$ 2,534,034</u>

The transfer from the General Fund is for capital project expenditures.

The transfers from the Other nonmajor governmental funds are for capital project expenditures.

The transfer from the Chestnut Grove Cemetery Fund to Other nonmajor governmental funds is for cemetery site sales.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 6. Capital Assets

Capital asset activity for the year ended June 30 is as follows:

Governmental Activities:	Beginning Balance*	Increases/ Transfers	Decreases/ Transfers	Ending Balance
Capital asset, not depreciated:				
Land	\$ 23,823,812	\$ 2,941	\$ -	\$ 23,826,753
Easements	3,878,207	-	-	3,878,207
Construction in progress	19,575,104	11,373,866	-	30,948,970
Total capital assets not depreciated	47,277,123	11,376,807	-	58,653,930
Capital assets, depreciated and amortized:				
Infrastructure	82,562,809	-	-	82,562,809
Buildings	42,223,927	-	-	42,223,927
Improvements other than buildings	17,215,090	-	-	17,215,090
Machinery and equipment	12,197,129	1,636,062	(961,048)	12,872,143
Machinery and equipment – Right-to-use leases	122,457	13,281	(8,324)	127,414
Right-to-use subscriptions	502,737	111,412	-	614,149
Intangibles	1,136,517	-	(2,379)	1,134,138
Furniture and fixtures	1,135,003	-	(11,560)	1,123,443
Total capital assets	157,095,669	1,760,755	(983,311)	157,873,113
Less: accumulated depreciation and amortization:				
Infrastructure	(68,941,499)	(1,254,988)	-	(70,196,487)
Buildings	(23,353,123)	(1,148,514)	-	(24,501,637)
Improvements other than buildings	(10,973,146)	(483,585)	-	(11,456,731)
Machinery and equipment	(7,550,369)	(628,282)	712,753	(7,465,898)
Machinery and equipment – Right-to-use leases	(42,481)	(40,173)	8,324	(74,330)
Right-to-use subscriptions	-	(201,988)	-	(201,988)
Intangibles	(1,136,061)	(18)	1,913	(1,134,166)
Furniture and fixtures	(572,528)	(46,204)	11,560	(607,172)
Total accumulated depreciation and amortization	(112,569,207)	(3,803,752)	734,550	(115,638,409)
Total capital assets, depreciated and amortized, net	44,526,462	(2,042,997)	(248,761)	42,234,704
Governmental activities capital assets, net	\$ 91,803,585	\$ 9,333,810	\$ (248,761)	\$ 100,888,634

* Amounts have been restated to include items related to the implementation of GASB Statement 96 *Subscription-Based Information Technology Arrangements*.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 6. Capital Assets (Continued)

Business-type Activities:	Beginning Balance	Increases/ Transfers	Decreases/ Transfers	Ending Balance
Capital asset, not depreciated:				
Land	\$ 2,540,074	\$ -	\$ -	\$ 2,540,074
Construction in progress	729,340	1,210,473	-	1,939,813
Total capital assets not depreciated	3,269,414	1,210,473	-	4,479,887
Capital assets, depreciated and amortized:				
Buildings	3,551,964	304,379	-	3,856,343
Improvements other than buildings	36,114,632	-	-	36,114,632
Machinery and equipment	4,077,714	437,017	(334,054)	4,180,677
Machinery and equipment – Right-to-use leases	24,876	-	-	24,876
Intangibles and purchased capacity	15,370,173*	-	-	15,370,173
Total capital assets	59,139,359	741,396	(334,054)	59,546,701
Less: accumulated depreciation and amortization:				
Buildings	(2,319,759)	(92,890)	-	(2,412,649)
Improvements other than buildings	(26,870,181)	(921,267)	-	(27,791,448)
Machinery and equipment	(2,632,640)	(168,496)	334,054	(2,467,082)
Machinery and equipment – Right-to-use leases	(6,020)	(6,020)	-	(12,040)
Intangibles and purchased capacity	(6,960,710)	(206,478)	-	(7,167,188)
Total accumulated depreciation and amortization	(38,789,310)	(1,395,151)	334,054	(39,850,407)
Total capital assets, depreciated and amortized, net	20,350,049	(653,755)	-	19,696,294
Business-type activities capital assets, net	<u>\$ 23,619,463</u>	<u>\$ 556,718</u>	<u>\$ -</u>	<u>\$ 24,176,181</u>

* Amounts have been restated. See note on page 43 regarding Fairfax Water Agreement.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 6. Capital Assets (Continued)

Primary Government

Depreciation and amortization expense was charged to functions/programs as follows:

Governmental activities:	
Legislative	\$ 38,772
Administration	96,020
Parks and Recreation	530,973
Finance	38,780
Community Development	41,445
Police	423,033
Public Works	2,266,428
Town Attorney	126,140
Non-Departmental	<u>242,161</u>
	\$ <u>3,803,752</u>
Business-type activities:	
Water and Sewer	\$ 1,161,697
Golf Course	175,229
Chestnut Grove Cemetery	<u>58,225</u>
	\$ <u>1,395,151</u>

The town purchased water capacity rights from Fairfax Water in 1994 and 1999 totaling \$4,538,041. Purchased water capacity is recognized as an asset and is amortized in the water and sewer fund over the life of the agreements. In 2023, this asset and liability was adjusted to only reflect the principal portion, decreasing the original balance by the interest amounts of \$795,981.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 7. Unavailable and Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unavailable revenue and unearned revenue were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property tax receivable	\$ 217,462	\$ -
Advance billing of 2022-2023 taxes	13,832,527	13,832,527
Intergovernmental	-	66,940
ARPA funding	-	19,098,222
Unavailable - other	639,269	4,668,359
	<u>\$ 14,689,258</u>	<u>\$ 37,666,048</u>

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 8. Long-Term Debt

Primary Government

The following is a summary of the long-term debt activity for the year ended June 30:

	Beginning Balance*	Increases	Decreases	Ending Balance	Due within One Year
Governmental Activities:					
General obligation bonds	\$ 9,995,401	\$ -	\$ (992,839)	\$ 9,002,562	\$ 1,019,919
Plus deferred amount for bond premiums	130,209	-	(7,659)	122,550	-
Leases	80,027	13,281	(40,600)	52,708	39,144
Subscriptions	502,737	73,606	(202,664)	373,679	206,598
	<u>10,708,374</u>	<u>86,887</u>	<u>(1,243,762)</u>	<u>9,551,499</u>	<u>1,265,661</u>
Compensated absences	2,533,393	156,669	-	2,690,062	450,410
	<u>\$ 13,241,767</u>	<u>\$ 243,556</u>	<u>\$ (1,243,762)</u>	<u>\$ 12,241,561</u>	<u>\$ 1,716,071</u>
Business-type Activities:					
General obligation bonds	\$ 7,492,099	\$ 420	\$ (174,082)	\$ 7,318,437	\$ 179,027
Financed Purchase	-	300,000	-	300,000	60,000
Fairfax Water	2,120,066	-	(153,722)	1,966,344	164,628
Leases	18,845	-	(6,043)	12,802	6,098
	<u>9,631,010</u>	<u>300,420</u>	<u>(333,847)</u>	<u>9,597,583</u>	<u>409,753</u>
Compensated absences	281,908	40,633	-	322,541	45,976
	<u>\$ 9,912,918</u>	<u>\$ 341,053</u>	<u>\$ (333,847)</u>	<u>\$ 9,920,124</u>	<u>\$ 455,729</u>

* Amounts have been restated to include items related to the implementation of GASB Statement 96 *Subscription-Based Information Technology Arrangements*. Additionally, see note on page 43 regarding Fairfax Water Agreement.

For the governmental activities, compensated absences, pension liabilities, and OPEB liabilities are generally liquidated by the general fund. Changes in compensated absences in the above tables represent net changes.

The town is subject to a legal debt margin based on the Constitution of Virginia. Based upon the Fairfax County valuation, the direct debt limit is \$533,304,040. With total exempt debt of \$9,551,499 the town has a legal debt margin of \$523,752,541.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 8. Long-Term Debt (Continued)

Primary Government (Continued)

Annual requirements to amortize long-term debt, the related interest and other obligations are as follows:

Fiscal Year	Governmental Activities					
	General Obligations		Lease Liabilities		Subscription Liabilities	
	Principal	Interest	Principal	Interest	Principal	Interest
2024	\$ 1,019,919	\$ 213,915	\$ 39,144	\$ 409	\$ 206,598	\$ 6,093
2025	926,507	195,840	5,762	205	119,863	2,299
2026	917,785	178,461	2,994	141	30,646	1,024
2027	873,809	160,614	2,725	79	16,572	362
2028	852,211	143,025	2,083	20	-	-
2029-2033	2,567,331	462,331	-	-	-	-
2034-2038	1,510,000	201,851	-	-	-	-
2039-2043	335,000	10,888	-	-	-	-
	<u>\$ 9,002,562</u>	<u>\$ 1,566,925</u>	<u>\$ 52,708</u>	<u>\$ 854</u>	<u>\$ 373,679</u>	<u>\$ 9,778</u>

Fiscal Year	Business-Type Activities Total					
	General Obligations		Lease Liabilities		Financed Purchases	
	Principal	Interest	Principal	Interest	Principal	Interest
2024	\$ 343,655	\$ 350,198	\$ 6,098	\$ 98	\$ 60,000	\$ 8,451
2025	461,170	334,033	4,508	48	60,000	6,573
2026	504,575	315,626	2,196	8	60,000	4,695
2027	506,815	296,158	-	-	60,000	2,817
2028	519,294	275,959	-	-	60,000	939
2029-2033	1,750,478	1,105,348	-	-	-	-
2034-2038	1,543,867	813,105	-	-	-	-
2039-2043	1,444,874	523,910	-	-	-	-
2044-2048	1,525,000	283,144	-	-	-	-
2049-2050	685,053	36,226	-	-	-	-
	<u>\$ 9,284,781</u>	<u>\$ 4,333,707</u>	<u>\$ 12,802</u>	<u>\$ 154</u>	<u>\$ 300,000</u>	<u>\$ 23,475</u>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 8. Long-Term Debt (Continued)

Primary Government (Continued)

Details of Long-term Indebtedness

	Interest Rates	Date Issued	Maturity Date	Amount of Original Issue	Governmental Activities	Business- Activities
General Obligation Public Improvement and Refunding	\$ 2.15	2012	2023	\$ 4,999,000	\$ 613,000	\$ -
General Obligation Public Improvement Bonds	2.00-5.00	2018	2050	11,135,000	4,150,000	6,240,000
General Obligation Public Refunding Bonds	1.04	2020	2033	5,229,000	3,775,117	1,003,883
General Obligation Public Refunding Bonds	1.16	2020	2026	1,111,000	464,445	74,554
Fairfax Water 1994 Agreement	0.00	1994	2029	2,085,419	-	748,041
Fairfax Water 1999 Agreement	0.00	1999	2039	2,452,622	-	1,218,303
Financed Purchase	3.13	2023	2027	300,000	-	300,000
					<u>\$ 9,002,562</u>	<u>\$ 9,584,781</u>
Leases for equipment	Various	2020	2026	147,333	\$ 52,708	\$ 12,802
Subscriptions	Various	2022	2027	502,737	373,679	-
					<u>\$ 426,387</u>	<u>\$ 12,802</u>

The town has leases for various equipment such as copiers and postage machines for periods expiring between years ended 2025 and 2028. The value of right to use lease asset balances and related accumulated amortization as of year-end are disclosed in Note 6. The related debt, as well as principal and interest requirements to maturity are disclosed in Note 8.

In 2023, the town implemented the guidance of GASB Statement No. 96, Subscription-Based Information Technology Arrangements. This new standard requires reporting an intangible right-to-use asset and subscription liability for IT contracts. The town has SBITAs for various software platforms for periods expiring between years ended 2025 and 2028. The value of the right-to-use subscription asset and related accumulated amortization as of year-end are disclosed in Note 6. The related debt, as well as principal and interest requirements to maturity are disclosed in Note 8.

The town uses its estimated incremental borrowing rate as the discount rate for leases and subscriptions.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 9. Defined Benefit Pension Plan

Plan Description

All full-time, salaried permanent employees of the Town of Herndon, (the "Political Subdivision") are automatically covered by the VRS Retirement Plan upon employment. This multi-employer agent 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 available at

- <https://www.varetire.org/members/benefits/defined-benefit/plan1.asp>,
- <https://www.varetire.org/members/benefits/defined-benefit/plan2.asp>,
- <https://www.varetirement.org/hybrid.html>.

Employees Covered by Benefit Terms

As of the June 30, 2021, 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>166</u>
Inactive members:	
Vested inactive members	54
Non-vested inactive members	87
Active members active elsewhere in VRS	<u>44</u>
Total inactive members	185
Active members	<u>231</u>
Total covered employees	<u><u>582</u></u>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 9. Defined Benefit Pension Plan (Continued)

Contributions

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

The political subdivision's contractually required contribution rate for the year ended June 30, 2023, was 8.37% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021.

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 political subdivision were \$1,568,836 and \$1,397,530 for the years ended June 30, 2023, and June 30, 2022, respectively.

Net Pension Liability

The net pension liability 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 political subdivisions, the net pension liability was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2021, rolled forward to the measurement date of June 30, 2022.

Actuarial Assumptions

The total pension liability for General Employees and Public Safety Employees with Hazardous Duty benefits in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2021, 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, 2022.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 9. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions (Continued)

Inflation	2.50%
General Employees – Salary increases, including inflation	3.50 – 5.35%
Public Safety Employees with hazardous duty benefits – Salary increases, including inflation	3.50 – 4.75%
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Mortality rates: General employees – 15 to 20% of deaths are assumed to be service-related. Public Safety Employees – 45% to 70% of deaths are assumed to be service-related. Mortality is projected using the applicable Pub-2010 Mortality Table with various set backs or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2021, valuation were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020, 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 are as follows:

General Employees – Largest 10 – Non-Hazardous Duty and All Others (Non 10 Largest): Update mortality table; adjusted retirement rates; adjusted withdrawal rates to better-fit experience at each year age and service through 9 years of service; no change to disability rates, no change to salary scale, no change to line of duty disability; and no change to discount rate.

Public Safety Employees – Largest 10 – Hazardous Duty and All Others (Non 10 Largest): Updated mortality table; adjusted retirement rate to better-fit experience and increased final retirement age to 70; decreased rates of withdrawal; no change to disability rates; no changes to salary scale; no change to line of duty disability; and no change to discount rate.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 9. Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	34.00 %	5.71 %	1.94 %
Fixed-Income	15.00	2.04	0.31
Credit Strategies	14.00	4.78	0.67
Real Assets	14.00	4.47	0.63
Private Equity	14.00	9.73	1.36
MAPS – Multi-Asset Public Strategies	6.00	3.73	0.22
PIP – Private Investment Partnership	3.00	6.55	0.20
Total	100.00 %		<u>5.33 %</u>
	Inflation		<u>2.50 %</u>
			<u>7.83 %</u>

*Expected arithmetic nominal return

*The above allocation provides for a one-year return of 7.83%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.72%, including expected inflation of 2.50%. On October 10, 2019, 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 at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 9. 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, 2023, the alternate rate was the employer contribution rate used in the FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2021, actuarial valuations, whichever was greater. From July 1, 2022, 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 (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) – (b)
Balances at June 30, 2021	\$ 97,347,648	\$ 102,183,626	\$ (4,835,978)
Changes for the year:			
Service cost	1,811,464	-	1,811,464
Interest	6,526,562	-	6,526,562
Changes of assumptions	-	-	-
Differences between expected and actual experience	(801,670)	-	(801,670)
Contributions – employer	-	1,405,099	(1,405,099)
Contributions – employee	-	871,165	(871,165)
Net investment income (loss)	-	(73,782)	73,782
Benefit payments, including refunds of employee contributions	(4,938,600)	(4,938,600)	-
Administrative expenses	-	(64,104)	64,104
Other changes	-	2,335	(2,335)
Net changes	2,597,756	(2,797,887)	5,395,643
Balances at June 30, 2022	\$ 99,945,404	\$ 99,385,739	\$ 559,665

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 9. Defined Benefit Pension Plan (Continued)

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

The following presents the net pension liability (asset) of the political subdivision using the discount rate of 6.75%, as well as what the political subdivision's net pension liability (asset) 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:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Political subdivision's net pension liability (asset)	\$ 13,745,667	\$ 559,665	\$ (10,240,626)

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

For the year ended June 30, 2023, the political subdivision recognized pension expense of \$754,699. At June 30, 2023, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 227,846	\$ 1,001,896
Changes of assumptions	1,423,645	-
Net difference between projected and actual earnings on pension plan investments	-	2,966,929
Employer contributions subsequent to the measurement date	1,568,836	-
Total	<u>\$ 3,220,327</u>	<u>\$ 3,968,825</u>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 9. Defined Benefit Pension Plan (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The \$1,568,836 reported as deferred outflows of resources related to pensions resulting from the political subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability (Asset) in the Fiscal Year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Addition (Reduction) to Pension Expense
2024	\$ (483,855)
2025	(1,175,911)
2026	(2,033,411)
2027	1,375,843
2028	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2022 *Annual Comprehensive Financial Report* (Annual Report). A copy of the 2022 VRS annual report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2022-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

At June 30, 2023, \$210,896 was payable to the Virginia Retirement System for the legally required contributions related to June 2023 payroll.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 10. Defined Contribution Plan – Police Retirement

Plan Description

The Town of Herndon Police Supplemental Retirement Plan (Plan) is a defined contribution plan established by the town to provide retirement benefits, supplemental to VRS, for town police officers. The Plan is administered by the town. The town contributes an amount equal to four percent of the officer's wages; the officers make no contribution. The Plan was established by Town Council and any amendments to the plan must be approved by the Council. The Plan does not issue a stand-alone financial report.

The town's police officers are enrolled in the Law Enforcement Officers retirement program within the VRS. The police officers are provided benefits equivalent to those provided for State police officers as set out in Section 51.1-138 of the *Code of Virginia*.

There were 120 participants in the Plan at June 30, 2023. The Plan has eight distribution options available to the officers upon retirement, separation from service, death, disability, or termination of the Plan. Town contributions recorded as pension expenditure totaled \$187,045 for the fiscal year ended June 30, 2023. Data concerning the value of vested and non-vested benefits as of June 30, 2023, is as follows:

Vested benefits	\$ 3,282,931
Non-vested benefits	<u>226,725</u>
	<u>\$ 3,509,656</u>

Vesting

Contributions by the town will vest to the benefit of the officer for which they are made according to the following schedule:

Years of Service as Herndon Police Officer	Vested Percentage
Fewer than 3 years	None
3 years but fewer than 4	20
4 years but fewer than 5	40
5 years but fewer than 6	60
6 years but fewer than 7	80
7 years or more	100

Significant Accounting Policies

Basis of Accounting: The Plan financial statements are prepared using the accrual basis of accounting.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 10. Defined Contribution Plan – Police Retirement (Continued)

Significant Accounting Policies (Continued)

Reporting: The Plan is accounted for as a trust fund of the town.

Investment Valuation and Income Recognition: Shares of registered investment companies (mutual funds) are reported at fair value based on the quoted market price of the mutual fund, which represents the net asset value of the shares held by the Plan.

Payment of Benefits: Benefits are recorded when paid.

In addition, State statutes authorize the town to purchase other investments for pension funds that meet the standard of judgment and care set forth in the *Code of Virginia*. These additional investments may include obligations of other states, political subdivisions thereof, or mutual funds.

Concentrations

At June 30, 2023, Plan assets were comprised of mutual funds investing in stocks, bonds, guaranteed investment contracts, and U.S. government securities. Single investments representing more than 5% of the Plan's net assets as of June 30, 2023, are separately identified in the fair value measurements table in Note 2.

Note 11. Other Post-Employment Benefits – Local Plan

Plan Description

Other postemployment benefits (OPEB) provided by the town include a single-employer, defined benefit retiree health insurance premium plan. No assets are accumulated in a trust to pay benefits to the plan.

A retiree, eligible for the plan, is defined as a full-time employee who is participating in the employer's medical and dental program, and may elect coverage if the employee is (a) eligible for VRS retirement (i.e. General Employees; earlier of age 50 and 10 years of service or age 55 and 5 years of service; Hazardous Duty Employees: age 50 and 7 years of service, or (b) disabled employees who qualify for VRS disability (no age or service requirement in VRS). The plan was established by Town Council and any amendments to the plan must be approved by the Council. The plan does not issue stand-alone financial reports.

Benefits Provided

Benefits include medical, dental, and vision insurance. Participating retirees pay monthly premiums to continue with the Town's insurance plans. Benefits end at the earlier of the retiree's death or attainment of age 65.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 11. Other Post-Employment Benefits Liability– Local Plan (Continued)

Employees Covered by Benefit Terms

As of the July 1, 2022, actuarial valuation, the following employees were covered by the benefit terms of the plan:

	<u>Number</u>
Inactive employees or beneficiaries:	
Currently receiving benefits	59
Entitled to but not yet receiving benefits	<u>-</u>
Total inactive employees	59
Active plan members	<u>228</u>
	<u><u>287</u></u>

Total OPEB Liability

The town's total OPEB liability of \$3,357,910 was measured as of July 1, 2022, and was determined based on an actuarial valuation performed as of July 1, 2022.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 11. Other Postemployment Benefits Liability – Local Plan (Continued)

Actuarial Assumptions and other inputs

The total OPEB liability was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate	3.69%
Salary increases, including inflation	2.5%, plus productivity component of 1.25%
Healthcare cost trend rates	4.57-5.00%
Retirees' share of benefit-related costs	Same as Health Care Trend

Mortality rates: RP-2014 Mortality Table, fully generational with base year 2006, projected using two-dimensional mortality improvement scale MP-2021

The actuarial assumptions used in the July 1, 2022, valuation were based on the results of an actuarial experience study for the period from July 1, 2021, through June 30, 2022.

Changes in the Total OPEB Liability

Balance at June 30, 2022	\$ 4,949,290
Changes for the year:	
Service cost	315,158
Interest	98,923
Differences between expected and actual experience	(1,010,712)
Assumption or other input changes	(769,221)
Benefit payments	(225,528)
Net changes	(1,591,380)
Balance at June 30, 2023	\$ 3,357,910

Benefit payments above represent amounts paid by the town sufficient to satisfy benefit payment requirements to participants.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 11. Other Postemployment Benefits Liability – Local Plan (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.69%) or one percentage point higher (4.69%) than the current discount rate:

	1.00% Decrease (2.69%)	Current Discount Rate (3.69%)	1.00% Increase (4.69%)
Total OPEB liability	\$ 3,663,723	\$ 3,357,910	\$ 3,083,316

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (3.57%) or one percentage point higher (5.57%) than the current healthcare cost trend rates:

	1.00% Decrease (3.57%)	Current Healthcare Cost Trend Rates (4.57%)	1.00% Increase (5.57%)
Total OPEB liability	\$ 3,044,748	\$ 3,357,910	\$ 3,723,900

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 11. Other Postemployment Benefits Liability – Local Plan (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2023, the town recognized OPEB expense of \$202,658. At June 30, 2023, the town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 99,670	\$ 1,272,148
Change in assumptions	407,307	603,189
Employer contributions subsequent to measurement date	57,349	-
Total	<u>\$ 564,326</u>	<u>\$ 1,875,337</u>

The \$57,349 reported as deferred outflows of resources related to OPEB resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the OPEB Liability in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Reduction to OPEB Expense
2024	\$ (413,001)
2025	(445,880)
2026	(284,070)
2027	(225,409)
2028	-
Thereafter	-

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans

In addition to their participation in the pension plans offered through the Virginia Retirement System (VRS), the town also participates in a cost-sharing multiple employer other postemployment benefit plan, described as follows.

Plan Descriptions

Group Life Insurance Program

All full-time teachers and employees of political subdivisions are automatically covered by the VRS Group Life Insurance (GLI) Program upon employment.

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 GLI Program OPEB.

Specific information for the GLI is available at <https://www.varetire.org/members/benefits/life-insurance/basic-group-life-insurance.asp>

The GLI is administered by the VRS along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia. This plan is considered a multiple employer, cost-sharing plan.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

**Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans
(Continued)**

Contributions

Contributions to the VRS OPEB programs were based on actuarially determined rates from actuarial valuations as of June 30, 2021. The actuarially determined rates were expected to finance the cost of benefits earned by employees during the year, with an additional amount to fund any unfunded accrued liability. Specific details related to the contributions for the VRS OPEB programs are as follows:

Group Life Insurance Program

Governed by:	<i>Code of Virginia</i> 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.
Total rate:	1.34% of covered employee compensation. Rate allocated 60/40; 0.80% employee and 0.54% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2023 Contribution	\$106,927
June 30, 2022 Contribution	\$99,538

In June 2022, the Commonwealth made a special contribution of approximately \$30.4 million to the Group Life Insurance plan. This special payment was authorized by a Budget Amendment included in Chapter 1 of the 2022 Appropriation Act.

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

The net OPEB liabilities were measured as of June 30, 2022, and the total OPEB liabilities used to calculate the net OPEB liabilities was determined by an actuarial valuation performed as of June 30, 2021, and rolled forward to the measurement date of June 30, 2022. The covered employer's proportion of the net OPEB liabilities, were based on the covered employer's actuarially determined employer contributions for the year ended June 30, 2022, relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program

June 30, 2023 proportionate share of liability	\$1,020,351
June 30, 2022 proportion	0.08474%
June 30, 2021 proportion	0.08630%
June 30, 2023 expense	\$21,546

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

**Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans
(Continued)**

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

At June 30, 2023, the town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

Group Life Insurance Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 80,799	\$ 40,934
Changes of assumptions	38,057	99,386
Net difference between projected and actual earnings on OPEB plan investments	-	63,757
Changes in proportion	3,855	51,838
Employer contributions subsequent to the measurement date	106,927	-
Total	<u>\$ 229,638</u>	<u>\$ 255,915</u>

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

**Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans
(Continued)**

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

Group Life Insurance Program (Continued)

The \$106,927 reported as deferred outflows of resources related to OPEB resulting from the town's contributions subsequent to the measurement date will be recognized as a reduction of the Net OPEB Liability in the Fiscal Year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in future reporting periods as follows:

<u>Year Ending June 30,</u>	<u>Decrease to OPEB Expense</u>
2024	\$ (30,283)
2025	(28,258)
2026	(62,235)
2027	(1,188)
2028	(11,240)
Thereafter	-

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

**Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans
(Continued)**

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

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2021, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022:

Inflation	2.5%
Salary increases, including inflation:	
• Locality – general employees	3.5 – 5.35%
• Locality – hazardous duty employees	3.5 – 4.75%
Healthcare cost trend rates:	
• Under age 65	7.00 – 4.75%
• Ages 65 and older	5.25 – 4.75%
Investment rate of return, net of expenses, including inflation	GLI: 6.75%

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

**Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans
(Continued)**

Actuarial Assumptions and Other Inputs (Continued)

Mortality rates used for the various VRS OPEB plans are the same as those used for the actuarial valuations of the VRS pension plans. The mortality rates are discussed in detail at Note 9.

Net OPEB Liabilities

The net OPEB liabilities represent each program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2022, net OPEB liability amounts for the various VRS OPEB programs are as follows (amounts expressed in thousands):

	Group Life Insurance Program
Total OPEB Liability	\$ 3,672,085
Plan fiduciary net position	\$ 2,467,989
Employers' net OPEB liability (asset)	\$ 1,204,096
Plan fiduciary net position as a percentage of total OPEB liability	67.21%

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

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

**Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans
(Continued)**

Long-Term Expected Rate of Return

Group Life Insurance

The long-term expected rate of return on VRS 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 OPEB investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	34.00 %	5.71 %	1.94 %
Fixed Income	15.00	2.04	0.31
Credit Strategies	14.00	4.78	0.67
Real Assets	14.00	4.47	0.63
Private Equity	14.00	9.73	1.36
MAPS – Multi-Asset Public Strategies	6.00	3.73	0.22
PIP – Private Investment Partnership	3.00	6.55	0.20
Total	100.00 %		5.33 %
	Inflation	2.50 %	
	*Expected arithmetic nominal return	7.83 %	

- * The above allocation provides for a one-year return of 7.83%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.72%, including expected inflation of 2.50%. On October 10, 2019, 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 at that time, providing a median return of 7.11, including inflation of 2.50%

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

**Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans
(Continued)**

Discount Rate

The discount rate used to measure the GLI OPEB 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 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, 2022, the rate contributed by the employer for the OPEB liabilities will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2020 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the OPEB plans' 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 OPEB liability.

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

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

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
GLI Net OPEB liability	\$ 1,484,731	\$ 1,020,351	\$ 645,069

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2022 *Annual Comprehensive Financial Report* (Annual Report). A copy of the 2022 VRS may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2022-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 13. Summary of Pension and Other Post Employment Benefit Elements

	Governmental Activities	Business-Type Activities	Total Primary Government
Deferred outflows of resources - OPEB			
Local plan	\$ 452,828	\$ 111,498	\$ 564,326
VRS GLI	<u>207,337</u>	<u>22,301</u>	<u>229,638</u>
Total deferred outflows of resources - OPEB	<u>\$ 660,165</u>	<u>\$ 133,799</u>	<u>\$ 793,964</u>
Net OPEB liability			
Local plan	\$ 2,948,325	\$ 409,585	\$ 3,357,910
VRS GLI	<u>923,529</u>	<u>96,822</u>	<u>1,020,351</u>
Total net OPEB liability	<u>\$ 3,871,854</u>	<u>\$ 506,407</u>	<u>\$ 4,378,261</u>
Deferred inflows of resources - OPEB			
Local plan	\$ 1,724,953	\$ 150,384	\$ 1,875,337
VRS GLI	<u>231,633</u>	<u>24,282</u>	<u>255,915</u>
Total deferred inflows of resources - OPEB	<u>\$ 1,956,586</u>	<u>\$ 174,666</u>	<u>\$ 2,131,252</u>
Pension expense			
VRS	\$ 683,084	\$ 71,615	\$ 754,699
Total pension expense	<u>\$ 683,084</u>	<u>\$ 71,615</u>	<u>\$ 754,699</u>
OPEB expense			
Local plan	\$ 188,234	\$ 14,424	\$ 202,658
VRS GLI	<u>19,502</u>	<u>2,044</u>	<u>21,546</u>
Total OPEB expense	<u>\$ 207,736</u>	<u>\$ 16,468</u>	<u>\$ 224,204</u>

(Continued)

TOWN OF HERNDON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

Note 14. Risk Management

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

The town has coverage with the Virginia Risk Sharing Association program (the "Pool") for all insurable risks identified by the town. Each Pool member jointly and severally agrees to assume, pay and discharge any liability. The town pays the Pool contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the Pool and claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the Pool may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

The town contributes to carry commercial insurance for all other risks of losses. Settled claims from these risks have not exceeded commercial coverage in any of the last three fiscal years.

Note 15. Commitments and Contingencies

Federal and State-Assisted Programs

The town has received proceeds from several federal and state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

Litigation

The town is contingently liable with respect to lawsuits and other claims, which arise in the ordinary course of operations. It is the opinion of town management that any losses not covered by insurance, which may ultimately be incurred as a result of the suits and claims, will not be material to the financial position of the town.

(Continued)

TOWN OF HERNDON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

Note 16. New Accounting Standards

In April 2022, the GASB issued **Statement No. 99**, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

In June 2022, the GASB issued **Statement No. 100**, *Accounting Changes and Error Corrections*. This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

In June 2022, the GASB issued **Statement No. 101**, *Compensated Absences*. This statement updates the recognition and measurement guidance for compensated absences and amends certain previously required disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023.

Management has not determined the effects these new GASB Statements may have on prospective financial statements.



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REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF HERNDON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS - LOCAL PLAN
Year Ended June 30, 2023

	Plan Year					
	2022	2021	2020	2019	2018	2017
Total OPEB Liability						
Service cost	\$ 315,158	\$ 255,058	\$ 235,451	\$ 205,822	\$ 132,301	\$ 127,335
Interest on total OPEB liability	98,923	107,304	161,075	172,343	120,406	116,391
Difference between actual and expected experience	(1,010,712)	112,727	(1,201,366)	(73,408)	1,209,950	-
Changes of assumptions	(769,221)	456,570	238,046	201,946	(70,475)	-
Benefit payments	(225,528)	(212,840)	(225,137)	(77,967)	(95,969)	(175,191)
Net change in total OPEB liability	(1,591,380)	718,819	(791,931)	428,736	1,296,213	68,535
Total OPEB liability (beginning)	4,949,290	4,230,471	5,022,402	4,593,666	3,297,453	3,228,918
Total OPEB liability (ending)	<u>\$ 3,357,910</u>	<u>\$ 4,949,290</u>	<u>\$ 4,230,471</u>	<u>\$ 5,022,402</u>	<u>\$ 4,593,666</u>	<u>\$ 3,297,453</u>
Plan fiduciary net position as a percentage of total OPEB liability	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Covered employee payroll	<u>\$ 18,769,623</u>	<u>\$ 16,823,189</u>	<u>\$ 16,823,189</u>	<u>\$ 17,382,513</u>	<u>\$ 17,382,513</u>	<u>\$ 10,855,369</u>
Net OPEB liability as a percentage of covered employee payroll	<u>17.89%</u>	<u>29.42%</u>	<u>25.15%</u>	<u>28.89%</u>	<u>26.43%</u>	<u>30.38%</u>

This schedule is intended to show information for 10 years. Since fiscal year 2018 (plan year 2017) is the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

TOWN OF HERNDON, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB CONTRIBUTIONS
June 30, 2023

Entity Fiscal Year Ended June 30		Contractually Required Contribution		Contributions in Relation to Contractually Required Contribution		Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
VRS Group Term Life Insurance								
2023	\$	106,927	\$	106,927	\$	-	\$ 19,801,684	0.54%
2022		99,538		99,538		-	18,433,108	0.54%
2021		96,206		96,206		-	17,816,619	0.54%
2020		94,122		94,122		-	18,385,923	0.51%
2019		91,104		91,104		-	17,518,246	0.52%
2018		87,898		87,898		-	16,718,150	0.53%

This schedule is intended to show information for 10 years. Since fiscal year 2018 was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

The covered payroll amounts above are for the entity's fiscal year - i.e., the covered payroll on which required contributions were based for the same year.

TOWN OF HERNDON, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
June 30, 2023

Plan Fiscal Year Ended June 30	Employer's Proportion of the Net OPEB Liability (Asset)	Employer's Proportionate Share of the Net OPEB Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
VRS Group Term Life Insurance					
2022	0.08%	\$ 1,020,351	\$ 18,433,108	5.54%	67.21%
2021	0.09%	1,004,766	17,816,619	5.64%	67.45%
2020	0.09%	1,468,409	18,385,923	7.99%	52.64%
2019	0.09%	1,454,124	17,518,246	8.30%	52.00%
2018	0.09%	1,350,000	16,718,150	8.08%	51.22%
2017	0.09%	1,362,000	16,663,134	8.17%	48.86%

This schedule is intended to show information for 10 years. Since fiscal year 2018 (plan year 2017) was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

The covered payroll amounts above are for the measurement period, which is the twelve months prior to the entity's fiscal year, the covered payroll on which required contributions were based for the same year.

TOWN OF HERNDON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Year Ended June 30, 2023

	2022	2021	2020	2019	Plan Year 2018	2017	2016	2015	2014
Total Pension Liability									
Service cost	\$ 1,811,464	\$ 1,929,833	\$ 1,915,044	\$ 1,796,601	\$ 1,723,180	\$ 1,780,019	\$ 1,775,184	\$ 1,780,620	\$ 1,821,327
Interest on total pension liability	6,526,562	6,017,056	5,681,425	5,501,837	5,263,541	5,143,537	4,887,085	4,664,075	4,385,197
Benefit payments, including refunds of employee contributions	(4,938,600)	(4,199,471)	(3,945,737)	(3,592,462)	(2,978,005)	(2,984,230)	(2,474,947)	(2,406,002)	(2,039,114)
Difference between actual and expected experience	(801,670)	(1,098,497)	1,448,447	(482,342)	(297,252)	(1,706,344)	(269,073)	(818,369)	-
Changes of assumptions	-	3,457,423	-	2,524,588	-	(521,761)	-	-	-
Net change in total pension liability	2,597,756	6,106,344	5,099,179	5,748,222	3,711,464	1,711,221	3,918,249	3,220,324	4,167,410
Total pension liability (beginning)	<u>97,347,648</u>	<u>91,241,304</u>	<u>86,142,125</u>	<u>80,393,903</u>	<u>76,682,439</u>	<u>74,971,218</u>	<u>71,052,969</u>	<u>67,832,645</u>	<u>63,665,235</u>
Total pension liability (ending)	<u>\$ 99,945,404</u>	<u>\$ 97,347,648</u>	<u>\$ 91,241,304</u>	<u>\$ 86,142,125</u>	<u>\$ 80,393,903</u>	<u>\$ 76,682,439</u>	<u>\$ 74,971,218</u>	<u>\$ 71,052,969</u>	<u>\$ 67,832,645</u>
Plan Fiduciary Net Position									
Contributions - employer	\$ 1,405,099	\$ 1,376,014	\$ 1,126,210	\$ 1,062,239	\$ 1,239,811	\$ 1,256,634	\$ 1,548,518	\$ 1,562,827	\$ 1,603,624
Contributions - employee	871,165	937,873	859,817	842,610	813,625	876,797	800,721	807,614	832,188
Net investment income (loss)	(73,782)	22,278,449	1,554,123	5,217,554	5,485,075	8,184,878	1,164,925	2,907,557	8,612,262
Benefit payments, including refunds of employee contributions	(4,938,600)	(4,199,471)	(3,945,737)	(3,592,462)	(2,978,005)	(2,984,230)	(2,474,947)	(2,406,002)	(2,039,114)
Administrative expenses	(64,104)	(55,765)	(53,891)	(52,294)	(47,214)	(47,240)	(40,637)	(39,225)	(45,658)
Other	2,335	2,097	(1,845)	(3,286)	(4,893)	(7,263)	(490)	(616)	454
Net change in plan fiduciary net position	(2,797,887)	20,339,197	(461,323)	3,474,361	4,508,399	7,279,576	998,090	2,832,155	8,963,756
Plan fiduciary net position - beginning	<u>102,183,626</u>	<u>81,844,429</u>	<u>82,305,752</u>	<u>78,831,391</u>	<u>74,322,992</u>	<u>67,043,416</u>	<u>66,045,326</u>	<u>63,213,171</u>	<u>54,249,415</u>
Plan fiduciary net position - ending	<u>\$ 99,385,739</u>	<u>\$ 102,183,626</u>	<u>\$ 81,844,429</u>	<u>\$ 82,305,752</u>	<u>\$ 78,831,391</u>	<u>\$ 74,322,992</u>	<u>\$ 67,043,416</u>	<u>\$ 66,045,326</u>	<u>\$ 63,213,171</u>
Net pension liability (asset) - ending	<u>\$ 559,665</u>	<u>\$ (4,835,978)</u>	<u>\$ 9,396,875</u>	<u>\$ 3,836,373</u>	<u>\$ 1,562,512</u>	<u>\$ 2,359,447</u>	<u>\$ 7,927,802</u>	<u>\$ 5,007,643</u>	<u>\$ 4,619,474</u>
Plan fiduciary net position as a percentage of total pension liability	<u>99.44%</u>	<u>104.97%</u>	<u>89.70%</u>	<u>95.55%</u>	<u>98.06%</u>	<u>96.92%</u>	<u>89.43%</u>	<u>92.95%</u>	<u>93.19%</u>
Covered payroll	<u>\$ 18,433,108</u>	<u>\$ 17,816,619</u>	<u>\$ 18,385,923</u>	<u>\$ 17,501,069</u>	<u>\$ 16,835,121</u>	<u>\$ 16,663,134</u>	<u>\$ 16,563,441</u>	<u>\$ 15,901,012</u>	<u>\$ 16,413,756</u>
Net pension liability as a percentage of covered payroll	<u>3.04%</u>	<u>-27.14% #</u>	<u>51.11%</u>	<u>21.92%</u>	<u>9.28%</u>	<u>14.16%</u>	<u>47.86%</u>	<u>31.49%</u>	<u>28.14%</u>

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year - i.e., plan year 2017 information was presented in the entity's fiscal year 2018 financial report.

Schedule is intended to show information for 10 years. Since fiscal year 2015 (plan year 2014) was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

TOWN OF HERNDON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PENSION CONTRIBUTIONS
 June 30, 2023

Fiscal Year Ended June 30	Contractually Determined Contribution	Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
Primary Government					
2023	\$ 1,568,836	\$ 1,568,836	\$ -	\$ 19,801,684	7.92 %
2022	1,397,530	1,397,530	-	18,433,108	7.58
2021	1,357,946	1,357,946	-	17,816,619	7.62
2020	1,124,256	1,124,256	-	18,385,923	6.11
2019	1,062,239	1,062,239	-	17,501,069	6.07
2018	1,239,811	1,239,811	-	16,835,121	7.36
2017	1,256,634	1,256,634	-	16,663,134	7.54
2016	1,548,518	1,573,635	-	16,563,441	9.50
2015	1,562,827	1,562,827	-	15,901,012	9.83

This schedule is intended to show information for 10 years. Since fiscal year 2015 was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

TOWN OF HERNDON, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2023

Note 1. Changes of Benefit Terms

Pension

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation.

Other Postemployment Benefits (OPEB)

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

No assets are accumulated in a trust to pay benefits to the Local Plan.

Note 2. Changes of Assumptions

The actuarial assumptions used in the June 30, 2021, valuation were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest 10 – Non-Hazardous Duty:

- Update mortality table to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020.
- Adjusted retirement rates to better-fit experience for Plan 1; set separate rates based on experience for Plan2/Hybrid; changed final retirement age from 75 to 80 for all.
- Adjusted withdrawal rates to better-fit experience at each year age and service through 9 years of service.
- No change to disability rates.
- No change to salary scale.
- No change to line of duty rates.
- No change to discount rate.

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

- Update mortality table to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Scape MP-2020.
- Adjusted retirement rates to better-fit experience for Plan 1; set separate rates based on experience for Plan2/Hybrid; changed final retirement age.
- Adjusted withdrawal rates to better-fit experience at each year age and service through 9 years of service.
- No change to disability rates.
- No changes to salary scale.
- No change to line of duty rates.
- No change to discount rate.

(Continued)

TOWN OF HERNDON, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2023

Note 2. Changes of Assumptions (Continued)

Largest 10 – Hazardous Duty/Public Safety Employees:

- Update mortality table to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Scale MP-2020.
- Adjusted retirement rates to better-fit experience and changed final retirement age from 65 to 70.
- Decreased withdrawal rates.
- No change to disability rates.
- No change to salary scale.
- No change to line of duty rates.
- No change to discount rate.

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

- Update mortality table to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Scale MP-2020.
- Adjusted retirement rates to better-fit experience for Plan 1; set separate rates based on experience for Plan2/Hybrid; changed final retirement age from 75 to 80 for all.
- Adjusted withdrawal rates to better-fit experience at each year and service through 9 years of service.
- No change to disability rates.
- No changes to salary scale.
- No change to line of duty rates.
- No change to discount rate.

All Others (Non 10 Largest) – Hazardous Duty/Public Safety Employees:

- Update mortality table to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Scale MP-2020.
- Adjusted retirement rates to better-fit experience and changed final retirement age from 65 to 70.
- Decreased withdrawal rates and changed from rates based on age and service to rates based on service only to better-fit experience and to be more consistent with Locals Largest 10 Hazardous Duty.
- No change to disability rates.
- No change to salary scale.
- No change to line of duty rates.
- No change to discount rate.



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OTHER SUPPLEMENTARY INFORMATION

Nonmajor Governmental Fund

Special Revenue Fund

Special revenue funds are used to account for specific revenues that are legally committed by legislative imposition by the Herndon Town Council to expenditure for particular purposes. The town's special revenue fund is the Chestnut Grove Cemetery Perpetual Care Fund.

TOWN OF HERNDON, VIRGINIA

Exhibit B-1

**BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND
June 30, 2023**

		<u>Special Revenue</u>
		Chestnut
		Grove Cemetery
		Perpetual
		Care Fund
		<u> </u>
ASSETS		
Cash, cash equivalents, and investments - restricted	\$	1,988,933
		<u> </u>
Total assets	\$	1,988,933
		<u> </u>
LIABILITIES AND FUND BALANCES		
Fund balances:		
Restricted:		
Cemetery perpetual care		1,988,933
Total fund balances		<u>1,988,933</u>
		<u> </u>
Total fund balances	\$	1,988,933
		<u> </u>

TOWN OF HERNDON, VIRGINIA

Exhibit B-2

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND
Year Ended June 30, 2023

	<u>Special Revenue</u>
	Chestnut
	Grove Cemetery
	Perpetual
	Care Fund
	<u> </u>
Revenues:	
Revenue from local sources:	
Use of money and property	<u>\$ 72,486</u>
Total revenues	<u>72,486</u>
Other financing sources (uses):	
Transfers in	65,141
Transfers out	<u>(72,486)</u>
Total other financing sources, net	<u>(7,345)</u>
Net change in fund balances	65,141
Fund balances, July 1	<u>1,923,792</u>
Fund balances, June 30	<u><u>\$ 1,988,933</u></u>

TOWN OF HERNDON, VIRGINIA

**Exhibit B-3
Page 1**

**GENERAL FUND
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
Year Ended June 30, 2023**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive (Negative)</u>
Revenue from local sources:				
General property taxes:				
Real estate taxes	\$ 13,710,000	\$ 13,710,000	\$ 13,619,732	\$ (90,268)
Elderly tax relief exemption	320,000	320,000	341,462	21,462
Public service corporation taxes	(208,352)	(208,352)	(191,145)	17,207
Penalties and interest	45,000	45,000	35,540	(9,460)
Total general property taxes	<u>13,866,648</u>	<u>13,866,648</u>	<u>13,805,589</u>	<u>(61,059)</u>
Other local taxes:				
Consumer utility tax	775,000	775,000	808,218	33,218
Right-of-way use fees	120,000	120,000	77,363	(42,637)
Cigarette tax	175,000	175,000	167,255	(7,745)
Transient occupancy tax	1,000,000	1,000,000	1,920,100	920,100
Meals tax	3,000,000	3,000,000	4,347,841	1,347,841
Bank stock tax	400,000	400,000	606,024	206,024
Cable TV franchise tax	160,000	160,000	136,711	(23,289)
Business licenses (BPOL)	5,000,000	5,000,000	6,460,183	1,460,183
Utility consumption tax	83,000	83,000	86,705	3,705
Motor vehicle licenses	420,000	420,000	466,540	46,540
Local sales tax	2,100,000	2,100,000	2,391,096	291,096
Total other local taxes	<u>13,233,000</u>	<u>13,233,000</u>	<u>17,468,036</u>	<u>4,235,036</u>
Permits, privilege fees, and regulatory licenses:				
Residential parking permits	300	300	650	350
Planning fees	130,000	130,000	170,367	40,367
State stormwater management fees	4,000	4,000	2,894	(1,106)
Building inspection fees	504,000	504,000	384,630	(119,370)
Right of way permit fees	15,000	15,000	13,739	(1,261)
Total permits, privilege fees, and regulatory licenses	<u>653,300</u>	<u>653,300</u>	<u>572,280</u>	<u>(81,020)</u>
Fines and forfeitures:				
Parking fines	50,000	50,000	47,856	(2,144)
Court fees - Fairfax County	235,000	235,000	266,145	31,145
Court maintenance fees	5,000	5,000	5,680	680
E-Summons fees	20,000	20,000	19,875	(125)
Zoning fines	1,500	1,500	2,500	1,000
Total fines and forfeitures	<u>311,500</u>	<u>311,500</u>	<u>342,056</u>	<u>30,556</u>

(Continued)

TOWN OF HERNDON, VIRGINIA

Exhibit B-3
Page 2GENERAL FUND
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive (Negative)
Revenue from local sources: (Continued)				
Use of money and property:				
Interest on investments	\$ 46,086	\$ 46,086	\$ 1,283,279	\$ 1,237,193
Rental income (expense)	450,408	450,408	(254)	(450,662)
Lease revenue	-	-	423,261	423,261
Total use of money and property	496,494	496,494	1,706,286	1,209,792
Charges for services:				
Franchise lease	70,000	70,000	72,926	2,926
Special refuse collection	25,000	25,000	19,988	(5,012)
Recycling collection	395,000	395,000	442,758	47,758
Recreation program fees	1,150,000	1,150,000	957,909	(192,091)
Admission fees	185,000	185,000	223,874	38,874
Park operation	22,000	22,000	27,676	5,676
Herndon festival	319,000	319,000	248,698	(70,302)
Concession	8,000	8,000	7,765	(235)
Rental income - parks & recreation	67,000	67,000	137,199	70,199
Tennis/multi-use facility	190,000	190,000	196,971	6,971
Sale of recyclable materials	10,000	10,000	6,623	(3,377)
Annual parking space maint fee	13,000	13,000	13,650	650
Total charges for services	2,454,000	2,454,000	2,356,037	(97,963)
Miscellaneous	13,000	486,279	311,308	(174,971)
Total revenue from local sources	31,027,942	31,501,221	36,561,592	5,060,371
Intergovernmental:				
County of Fairfax:				
Forfeiture Proceeds	-	-	367	367
Contribution toward tourism and economic development	140,000	140,000	78,940	(61,060)
Total from County of Fairfax	140,000	140,000	79,307	(60,693)

(Continued)

TOWN OF HERNDON, VIRGINIA

**Exhibit B-3
Page 3**

**GENERAL FUND
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
Year Ended June 30, 2023**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Intergovernmental: (Continued)				
Commonwealth:				
Non-categorical aid:				
Police reimbursement (Section 599)	\$ 647,785	\$ 647,785	\$ 676,168	\$ 28,383
Communications sales and use tax	1,240,000	1,240,000	1,195,575	(44,425)
Vehicle rental taxes	45,000	45,000	52,496	7,496
Total non-categorical aid	<u>1,932,785</u>	<u>1,932,785</u>	<u>1,924,239</u>	<u>(8,546)</u>
Categorical aid:				
Fire fund program	94,274	94,274	98,919	4,645
Litter control grant	7,800	11,268	9,468	(1,800)
Dept. of Criminal Justice Service -				
NOVA regional ICAC grant	40,000	40,000	45,000	5,000
Local law enforcement block grant	5,000	5,000	-	(5,000)
State seized assets	30,000	30,000	4,406	(25,594)
Forestry grant	-	-	20,925	20,925
Arts grant	4,500	4,500	-	(4,500)
VRA_DEQ Site Remediation grant	-	-	(71,500)	(71,500)
Street and highway maintenance allocation	2,100,000	2,100,000	2,425,285	325,285
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total categorical aid	<u>2,281,574</u>	<u>2,285,042</u>	<u>2,532,503</u>	<u>247,461</u>
Total from the Commonwealth	<u>4,214,359</u>	<u>4,217,827</u>	<u>4,456,742</u>	<u>238,915</u>
Federal government:				
Categorical aid:				
Dept. of Transportation/ National Highway Safety				
Administration - Selective Enforcement Grant	66,525	66,525	12,558	(53,967)
US Dept. of Justice/ Criminal Division Office				
Byrne Justice Assistance (JAG) Grant	-	-	2,945	2,945
Bullet Proof Vest Grant	4,995	4,995	1,075	(3,920)
HIDTA Grant	1,000	1,000	2,490	1,490
Forfeiture Proceeds	5,000	5,000	-	(5,000)
Community Development Block Grant	167,000	167,000	126,080	(40,920)
Total from the Federal government	<u>244,520</u>	<u>244,520</u>	<u>145,148</u>	<u>(99,372)</u>
Total intergovernmental revenue	<u>4,598,879</u>	<u>4,602,347</u>	<u>4,681,197</u>	<u>78,850</u>
Other financing sources:				
Proceeds from sale of surplus property	50,000	50,000	306,273	256,273
Insurance recoveries	20,000	242,922	314,456	71,534
Issuance of leases and subscription arrangements	-	-	86,887	86,887
Total other financing sources	<u>70,000</u>	<u>292,922</u>	<u>707,616</u>	<u>414,694</u>
Total General Fund revenues	<u>\$ 35,696,821</u>	<u>\$ 36,396,490</u>	<u>\$ 41,950,405</u>	<u>\$ 5,553,915</u>

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 1

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Legislative:				
Personnel services	\$ 531,144	\$ 531,144	\$ 481,080	\$ 50,064
Operations and maintenance	92,897	275,111	132,232	142,879
Total legislative	624,041	806,255	613,312	192,943
Administration:				
Communications & Economic Development:				
Personnel services	401,465	401,465	403,188	(1,723)
Operations and maintenance	79,700	142,752	126,340	16,412
	481,165	544,217	529,528	14,689
Town manager:				
Personnel services	421,105	421,105	421,293	(188)
Operations and maintenance	17,920	16,570	11,318	5,252
	439,025	437,675	432,611	5,064
Human resources:				
Personnel services	579,049	579,049	586,375	(7,326)
Operations and maintenance	175,145	173,253	146,628	26,625
	754,194	752,302	733,003	19,299
Information services:				
Personnel services	812,660	812,660	851,329	(38,669)
Operations and maintenance	1,002,013	1,055,011	762,282	292,729
Capital outlay	48,165	49,565	49,201	364
	1,862,838	1,917,236	1,662,812	254,424
Total administration	3,537,222	3,651,430	3,357,954	293,476
Town attorney:				
Personnel services	689,625	689,625	716,637	(27,012)
Operations and maintenance	128,939	125,955	117,117	8,838
Total town attorney	818,564	815,580	833,754	(18,174)

(Continued)

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 2GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2023

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Parks and recreation:				
Administration:				
Personnel services	\$ 705,541	\$ 705,541	\$ 608,012	\$ 97,529
Operations and maintenance	103,650	95,074	108,830	(13,756)
Capital outlay	-	3,915	607	3,308
	<u>809,191</u>	<u>804,530</u>	<u>717,449</u>	<u>87,081</u>
Recreation programs:				
Personnel services	752,675	752,675	731,295	21,380
Operations and maintenance	559,500	517,693	297,617	220,076
	<u>1,312,175</u>	<u>1,270,368</u>	<u>1,028,912</u>	<u>241,456</u>
Community center operations:				
Personnel services	823,726	823,726	671,149	152,577
Operations and maintenance	449,900	479,307	471,610	7,697
	<u>1,273,626</u>	<u>1,303,033</u>	<u>1,142,759</u>	<u>160,274</u>
Aquatics programs and operations:				
Personnel services	672,062	672,062	712,246	(40,184)
Operations and maintenance	166,750	166,750	141,421	25,329
Capital outlay	38,000	38,000	9,432	28,568
	<u>876,812</u>	<u>876,812</u>	<u>863,099</u>	<u>13,713</u>
Park operations and development:				
Personnel services	113,797	113,797	85,897	27,900
Operations and maintenance	112,200	137,372	123,727	13,645
Capital outlay	8,000	8,000	-	8,000
	<u>233,997</u>	<u>259,169</u>	<u>209,624</u>	<u>49,545</u>
Total parks and recreation	<u>4,505,801</u>	<u>4,513,912</u>	<u>3,961,843</u>	<u>552,069</u>

(Continued)

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 3GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2023

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Finance:				
Administration:				
Personnel services	\$ 1,612,192	\$ 1,612,192	\$ 1,524,290	\$ 87,902
Operations and maintenance	168,784	168,614	98,526	70,088
Capital outlay	-	140,640	24,088	116,552
Total finance	1,780,976	1,921,446	1,646,904	274,542
Community development:				
Administration:				
Personnel services	1,943,197	1,943,197	1,894,079	49,118
Operations and maintenance	212,485	730,649	534,406	196,243
Capital outlay	11,650	12,850	8,337	4,513
	2,167,332	2,686,696	2,436,822	249,874
Community inspections:				
Personnel services	189,891	189,891	233,788	(43,897)
Operations and maintenance	5,195	2,895	996	1,899
Capital outlay	100	100	-	100
	195,186	192,886	234,784	(41,898)
Total community development	2,362,518	2,879,582	2,671,606	207,976

(Continued)

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 4GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Police:				
Field operations:				
Personnel services	\$ 5,197,328	\$ 5,174,378	\$ 4,853,170	\$ 321,208
Operations and maintenance	70,600	86,936	73,779	13,157
Capital outlay	461,400	794,722	334,979	459,743
	5,729,328	6,056,036	5,261,928	794,108
Support services:				
Personnel services	4,228,068	4,228,068	4,568,477	(340,409)
Operations and maintenance	700,850	718,932	697,972	20,960
Capital outlay	42,000	77,000	73,395	3,605
	4,970,918	5,024,000	5,339,844	(315,844)
Total police	10,700,246	11,080,036	10,601,772	478,264
Public Works:				
Administration:				
Personnel services	1,106,614	1,106,614	1,100,283	6,331
Operations and maintenance	24,330	25,777	12,903	12,874
	1,130,944	1,132,391	1,113,186	19,205
Engineering:				
Personnel services	788,796	788,796	742,134	46,662
Operations and maintenance	171,637	294,650	103,996	190,654
	960,433	1,083,446	846,130	237,316
Program management:				
Personnel services	262,450	262,450	307,966	(45,516)
Operations and maintenance	105,553	136,852	102,005	34,847
Capital outlay	1,000	1,000	-	1,000
	369,003	400,302	409,971	(9,669)
Building inspections:				
Personnel services	554,039	554,039	557,640	(3,601)
Operations and maintenance	121,221	121,221	114,478	6,743
	675,260	675,260	672,118	3,142
Building maintenance:				
Personnel services	521,313	521,313	488,362	32,951
Operations and maintenance	1,022,875	1,350,690	1,362,403	(11,713)
	1,544,188	1,872,003	1,850,765	21,238

(Continued)

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 5

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Public Works: (Continued)				
Grounds maintenance:				
Personnel services	\$ 892,304	\$ 892,304	\$ 822,299	\$ 70,005
Operations and maintenance	264,812	196,880	145,214	51,666
Capital outlay	1,200	48,700	47,174	1,526
	<u>1,158,316</u>	<u>1,137,884</u>	<u>1,014,687</u>	<u>123,197</u>
Street maintenance:				
Personnel services	870,328	870,328	762,163	108,165
Operations and maintenance	1,062,936	1,472,362	1,052,398	419,964
Capital outlay	123,000	4,145	4,145	-
	<u>2,056,264</u>	<u>2,346,835</u>	<u>1,818,706</u>	<u>528,129</u>
Refuse/recycling:				
Personnel services	1,220,409	1,220,409	1,216,374	4,035
Operations and maintenance	968,200	1,099,668	1,037,263	62,405
	<u>2,188,609</u>	<u>2,320,077</u>	<u>2,253,637</u>	<u>66,440</u>
Vehicle and equipment maintenance:				
Personnel services	910,963	910,963	914,132	(3,169)
Operations and maintenance	619,891	703,802	688,241	15,561
Capital outlay	-	763,810	701,180	62,630
	<u>1,530,854</u>	<u>2,378,575</u>	<u>2,303,553</u>	<u>75,022</u>
Traffic engineering:				
Personnel services	281,792	281,792	260,767	21,025
Operations and maintenance	114,091	195,037	247,726	(52,689)
Capital outlay	-	600	-	600
	<u>395,883</u>	<u>477,429</u>	<u>508,493</u>	<u>(31,064)</u>
Right-of-way inspections:				
Personnel services	337,610	337,610	324,685	12,925
Operations and maintenance	9,890	9,890	6,800	3,090
	<u>347,500</u>	<u>347,500</u>	<u>331,485</u>	<u>16,015</u>
Total public works	<u>12,357,254</u>	<u>14,171,702</u>	<u>13,122,731</u>	<u>1,048,971</u>

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 6

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive (Negative)
Grants:				
Operations	\$ 19,738	\$ 24,144	\$ 8,363	\$ 15,781
Total grants	<u>19,738</u>	<u>24,144</u>	<u>8,363</u>	<u>15,781</u>
Non-departmental				
Operations	(791,274)	3,062,048	68,781	2,993,267
Total non-departmental	<u>(791,274)</u>	<u>3,062,048</u>	<u>68,781</u>	<u>2,993,267</u>
Debt service:				
Principal	992,839	1,035,553	1,236,103	(200,550)
Interest and fiscal charges	237,896	238,308	247,829	(9,521)
Total debt service	<u>1,230,735</u>	<u>1,273,861</u>	<u>1,483,932</u>	<u>(210,071)</u>
Other financing uses:				
Transfers out	51,000	51,000	2,396,407	(2,345,407)
Total other financing uses	<u>51,000</u>	<u>51,000</u>	<u>2,396,407</u>	<u>(2,345,407)</u>
Total General Fund expenditures	<u>\$ 37,196,821</u>	<u>\$ 44,250,996</u>	<u>\$ 40,767,359</u>	<u>\$ 3,483,637</u>

TOWN OF HERNDON, VIRGINIA

Exhibit B-5

GOVERNMENTAL FUND TYPE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
CAPITAL PROJECTS FUND
Year Ended June 30, 2023

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Use of money and property	\$ -	\$ -	\$ 66,702	\$ 66,702
Miscellaneous	-	10,790	89,457	78,667
Intergovernmental	2,546,550	2,546,550	5,884,687	3,338,137
Total revenues	<u>2,546,550</u>	<u>2,557,340</u>	<u>6,040,846</u>	<u>3,483,506</u>
Capital Outlay:				
Administration	85,000	85,000	16,992	68,008
Parks & recreation	480,775	500,775	-	500,775
Police	481,464	881,464	-	881,464
Public works:				
Admin, buildings, and grounds	2,096,861	2,341,918	927,600	1,414,318
Streets, sidewalks, and trails	1,896,550	14,938,833	8,071,332	6,867,501
Storm-water	715,000	2,161,253	134,079	2,027,174
Total expenditures	<u>5,755,650</u>	<u>20,909,243</u>	<u>9,150,003</u>	<u>11,759,240</u>
Revenues under expenditures	<u>(3,209,100)</u>	<u>(18,351,903)</u>	<u>(3,109,157)</u>	<u>(8,275,734)</u>
Other financing sources:				
Transfers in	3,209,100	3,209,100	2,396,407	(812,693)
Total other financing sources	<u>3,209,100</u>	<u>3,209,100</u>	<u>2,396,407</u>	<u>(812,693)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (15,142,803)</u>	<u>\$ (712,750)</u>	<u>\$ (9,088,427)</u>

(Continued)

TOWN OF HERNDON, VIRGINIA

Exhibit B-6

GOVERNMENTAL FUND TYPE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
AMERICAN RESCUE PLAN ACT FUND
Year Ended June 30, 2023

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Use of money and property	\$ -	\$ -	\$ 820,729	\$ 820,729
Intergovernmental	-	20,419,250	4,172,375	(16,246,875)
Total revenues	-	20,419,250	4,993,104	(15,426,146)
Capital Outlay:				
Administration - Information technology	-	50,407	5,056	45,351
Parks & recreation	-	6,147,708	1,274,449	4,873,259
Police	-	1,910,716	417,580	1,493,136
Public works	-	14,091,118	2,475,290	11,615,828
Cemetery	-	900,000	-	900,000
Total capital outlay	-	23,099,949	4,172,375	18,927,574
Total expenditures	-	23,099,949	4,172,375	18,927,574
Revenues over (under) expenditures	-	(2,680,699)	820,729	(3,501,428)
Net change in fund balance	\$ -	\$ (2,680,699)	\$ 820,729	\$ (3,501,428)

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STATISTICAL SECTION

**TOWN OF HERNDON, VIRGINIA
STATISTICAL SECTION**

TABLE OF CONTENTS

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Revenue Capacity – Tables 5 – 9

These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax, as well as other revenue sources. 101-105

Debt Capacity – Tables 10 – 13

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Demographic and Economic Information – Tables 14 – 15

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place... 110-111

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These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and activities it performs..... 112-115

Sources: Unless otherwise noted, the information in these schedules is derived from the Annual Comprehensive Financial Reports for the relevant year.

TOWN OF HERNDON, VIRGINIA

Table 1

NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(accrual basis of accounting)
(Unaudited)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Governmental activities:										
Net investment in capital assets	\$ 66,964,850	\$ 69,544,673	\$ 70,494,388	\$ 71,246,008	\$ 71,885,582	\$ 70,826,382	\$ 73,311,591	\$ 76,256,170	\$ 85,163,306	\$ 92,390,332
Restricted	3,156,490	2,400,979	3,985,488	1,618,442	2,132,077	2,542,708	1,781,483	1,847,341	6,310,998	2,359,144
Unrestricted	13,031,542	5,849,529	7,336,877	8,499,347	10,633,283	14,016,685	15,761,317	21,402,934	19,003,965	27,994,880
Total governmental activities net position	\$ 83,152,882	\$ 77,795,181	\$ 81,816,753	\$ 81,363,797	\$ 84,650,942	\$ 87,385,775	\$ 90,854,391	\$ 99,506,445	\$ 110,478,269	\$ 122,744,356
Business-type activities:										
Net investment in capital assets	\$ 14,409,510	\$ 14,601,815	\$ 16,773,326	\$ 16,771,452	\$ 16,649,854	\$ 16,512,129	\$ 17,092,331	\$ 14,818,995	\$ 14,191,182	\$ 14,578,598
Restricted	-	-	-	151,114	161,671	172,116	155,747	160,515	558,821	91,592
Unrestricted	17,747,172	17,347,462	15,399,987	14,653,463	15,559,458	15,985,051	16,082,595	13,426,076	14,327,549	16,680,263
Total business-type activities net position	\$ 32,156,682	\$ 31,949,277	\$ 32,173,313	\$ 31,576,029	\$ 32,370,983	\$ 32,669,296	\$ 33,330,673	\$ 28,405,586	\$ 29,077,552	\$ 31,350,453
Primary government:										
Net investment in capital assets	\$ 81,374,360	\$ 84,146,488	\$ 87,267,714	\$ 88,017,460	\$ 88,535,436	\$ 87,338,511	\$ 90,403,922	\$ 91,075,165	\$ 99,354,488	\$ 106,968,930
Restricted	3,156,490	2,400,979	3,985,488	1,769,556	2,293,748	2,714,824	1,937,230	2,007,856	6,869,819	2,450,736
Unrestricted	30,778,714	23,196,991	22,736,864	23,152,810	26,192,741	30,001,736	31,843,912	34,829,010	33,331,514	44,675,143
Total primary government net position	\$ 115,309,564	\$ 109,744,458	\$ 113,990,066	\$ 112,939,826	\$ 117,021,925	\$ 120,055,071	\$ 124,185,064	\$ 127,912,031	\$ 139,555,821	\$ 154,094,809
	(1)		(2)	(3)				(4)		

Source:
Town of Herndon Finance Department - Exhibit A-1

Notes:

- (1) Fiscal Year 2014 net position was restated for the implementation of GASB Statement No. 68 which reduced net position by \$7,812,196.
- (2) Fiscal Year 2016 unrestricted net position was restated by \$726,240 due to the recognition of various fees (Lateral Sewer fees, Stormwater fees, and BPOL reserve) previously reported as deferred or unearned.
- (3) Fiscal Year 2017 net position was restated for the implementation of GASB Statement No. 75 which reduced net position by \$2,059,806.
- (4) Fiscal Year 2021 the Downtown Parking Fund net position of \$725,872 was reclassified from business-type activities to governmental activities.

TOWN OF HERNDON, VIRGINIA

Table 2

CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(accrual basis of accounting)
(Unaudited)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Expenses:										
Governmental activities:										
Legislative	\$ 627,221	\$ 602,274	\$ 677,277	\$ 745,753	\$ 706,048	\$ 734,671	\$ 551,445	\$ 566,955	\$ 521,966	\$ 625,269
Administration	4,043,656	2,965,744	2,691,531	3,304,796	3,017,512	3,093,764	3,716,194	3,423,026	3,253,326	3,715,691
Town attorney	539,332	522,777	556,236	606,758	612,209	612,349	837,152	1,001,496	822,127	897,125
Parks and recreation	4,659,976	4,732,787	4,839,122	5,012,560	4,879,803	5,280,626	4,649,822	3,312,797	4,024,864	4,434,240
Finance	1,320,493	1,321,326	1,485,207	1,492,031	1,710,148	1,501,718	1,585,696	1,588,972	1,462,517	1,654,259
Community development	1,980,462	1,804,660	1,682,901	1,672,244	1,699,935	1,896,791	2,205,030	2,318,909	1,578,231	2,474,048
Police	9,548,043	9,174,389	10,021,992	10,079,277	10,242,016	10,390,551	11,141,097	10,801,750	10,013,133	10,805,123
Public works	11,530,515	11,501,379	11,665,946	12,594,496	11,337,194	11,598,171	12,810,607	11,860,528	13,588,564	15,538,878
Interest	443,213	511,089	287,036	258,075	257,963	491,896	327,914	305,188	245,028	230,704
Total governmental activities	34,692,911	33,136,425	33,907,248	35,765,990	34,462,828	35,600,537	37,824,957	35,179,621	35,509,756	40,375,337
Business-type activities:										
Water and sewer	7,589,406	6,869,506	7,044,675	7,606,887	6,999,142	8,090,566	7,245,711	7,461,338	8,224,221	8,151,096
Golf course	1,554,011	1,567,919	1,506,117	1,559,749	1,572,043	1,503,005	1,516,523	1,684,876	1,633,991	1,899,298
Chestnut Grove cemetery	707,836	697,207	710,164	708,383	668,944	703,935	682,704	784,405	758,540	688,507
Downtown parking	32,945	28,283	72,623	111,913	133,985	110,788	61,674	101,603	-	-
Total business-type activities	9,884,198	9,162,915	9,333,579	9,986,932	9,374,114	10,408,294	9,506,612	10,032,222	10,616,752	10,738,901
Total government expenses	44,577,109	42,299,340	43,240,827	45,752,922	43,836,942	46,008,831	47,331,569	45,211,843	46,126,508	51,114,238
Program revenue:										
Governmental activities:										
Charges for services:										
Administration	34,762	24,327	9,675	41,075	35,976	6,892	3,205	8,485	52,176	20,273
Parks and recreation	2,762,453	2,785,759	2,710,943	2,767,730	2,767,916	2,873,136	1,399,288	472,882	1,603,104	1,800,092
Finance	533,200	549,600	560,500	571,700	588,333	588,333	583,894	583,894	-	-
Police	469,812	543,901	447,552	397,691	430,685	460,288	332,689	259,372	335,707	319,681
Public works	646,287	634,681	762,796	710,671	749,504	1,208,825	821,113	898,653	1,066,314	1,016,307
Operating grants and contributions:										
Community development	130,000	130,000	40,000	40,000	40,000	40,000	40,000	140,000	40,000	78,940
Police	751,934	671,045	666,752	707,588	864,195	745,352	2,530,623	3,208,911	778,758	1,191,527
Public works	862,301	936,748	953,146	1,178,505	1,046,761	1,080,054	1,194,716	1,234,256	1,145,267	1,266,252
Capital grants and contributions:										
Public works	1,610,482	1,955,113	3,244,961	2,168,349	2,765,821	2,658,343	4,945,608	2,167,274	10,904,664	11,323,314
Total governmental activities program revenue	7,801,231	8,231,174	9,396,325	8,583,309	9,289,191	9,661,223	11,851,136	8,973,727	15,925,990	17,016,386

TOWN OF HERNDON, VIRGINIA

Table 2
Page 2CHANGES IN NET POSITION
LAST TEN FISCAL YEARS (1)
(accrual basis of accounting)
(Unaudited)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Program revenues (Continued):										
Business-type activities:										
Charges for services:										
Water and sewer	\$ 6,445,760	\$ 6,303,140	\$ 6,127,359	\$ 6,506,438	\$ 6,935,184	\$ 7,170,706	\$ 6,900,460	\$ 6,342,651	\$ 6,861,887	\$ 7,874,004
Golf course	1,365,597	1,309,211	1,401,722	1,497,289	1,372,186	1,389,986	1,183,263	2,216,761	2,335,733	2,620,230
Chestnut Grove cemetery	806,521	725,182	783,598	890,165	967,731	905,155	821,964	1,144,677	1,298,235	1,146,629
Downtown parking	-	-	-	26,903	-	-	-	-	-	-
Capital grants and contributions:										
Water and sewer	-	-	-	-	-	-	-	-	130,228	84,070
Golf course	154,239	16,670	-	-	-	-	-	-	-	-
Total business-type activities program revenues	8,772,117	8,354,203	8,312,679	8,920,795	9,275,101	9,465,847	8,905,687	9,704,089	10,626,083	11,724,933
Total government program revenues	16,573,348	16,585,377	17,709,004	17,504,104	18,564,292	19,127,070	20,756,823	18,677,816	26,552,073	28,741,319
Net (expense) revenue (1):										
Governmental activities	(26,891,680)	(24,905,251)	(24,510,923)	(27,182,681)	(25,173,637)	(25,939,314)	(25,973,821)	(26,205,894)	(19,583,766)	(23,358,951)
Business-type activities	(1,112,081)	(808,712)	(1,020,900)	(1,066,137)	(99,013)	(942,447)	(600,925)	(328,133)	9,331	986,032
Total government net expense	(28,003,761)	(25,713,963)	(25,531,823)	(28,248,818)	(25,272,650)	(26,881,761)	(26,574,746)	(26,534,027)	(19,574,435)	(22,372,919)
General revenues and other changes in net position:										
Governmental activities:										
Taxes:										
General property	10,482,821	10,963,925	11,040,763	11,218,438	11,416,010	11,690,750	12,255,705	12,837,288	12,868,724	13,723,835
Business license	4,750,718	4,860,528	4,868,291	5,569,516	5,732,161	4,930,755	5,871,507	6,786,720	5,881,836	6,523,651
Transient occupancy	2,091,900	2,187,198	2,169,852	2,199,410	2,286,397	2,345,943	1,607,031	855,309	1,512,110	1,681,394
Meals	2,046,307	2,121,519	2,173,102	2,215,677	2,266,761	2,308,551	2,975,487	2,876,751	3,590,406	4,203,292
Local sales	1,703,517	1,848,993	1,871,189	1,798,728	1,818,023	1,871,909	1,897,945	2,033,030	2,326,918	2,391,096
Other local taxes	2,258,268	2,300,406	2,290,371	2,393,966	2,361,383	2,293,183	2,127,774	2,154,418	2,223,106	2,348,815
Revenues not restricted to specific programs	85,328	87,940	90,539	93,362	102,243	66,330	58,203	73,470	70,798	72,926
Intergovernmental, non-categorical aid	1,937,785	1,815,751	1,868,193	2,067,279	1,583,697	1,482,539	1,460,834	1,304,101	1,281,151	1,248,438
Use of money and property	1,111,136	801,986	1,027,152	909,502	688,957	1,355,800	1,078,968	555,187	548,544	2,666,203
Gain on sale of capital assets	-	-	14,927	-	-	65,954	19,727	80,168	60,312	57,512
Miscellaneous and lease income	1,984,086	77,560	708,184	206,101	350,137	481,258	101,558	104,917	120,117	715,221
Transfers	(2,109,986)	(386,638)	(174,904)	(155,593)	(144,987)	(218,825)	(12,302)	5,196,589	71,568	(7,345)
Total governmental activities	26,341,880	26,679,168	27,947,659	28,516,386	28,460,782	28,674,147	29,442,437	34,857,948	30,555,590	35,625,038

TOWN OF HERNDON, VIRGINIA

**CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(accrual basis of accounting)
(Unaudited)**

**Table 2
Page 3**

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
General revenues and other changes in net position: (Continued)										
Business-type activities:										
Intergovernmental, non-categorical aid	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 449,725	\$ 14,220	\$ 1,373	\$ -
Use of money and property	487,345	276,557	325,396	68,405	132,979	369,224	224,571	22,505	60,622	630,914
Gain on sale of capital assets	-	-	-	6,370	33,556	12,904	10,800	-	60,760	20,079
Miscellaneous	615,068	618,690	603,232	511,630	582,445	639,807	564,904	562,910	611,448	628,531
Transfers	2,109,986	386,638	174,904	155,593	144,987	218,825	12,302	(5,196,589)	(71,568)	7,345
Total business-type activities	3,212,399	1,281,885	1,103,532	741,998	893,967	1,240,760	1,262,302	(4,596,954)	662,635	1,286,869
Total primary government	29,554,279	27,961,053	29,051,191	29,258,384	29,354,749	29,914,907	30,704,739	30,260,994	31,218,225	36,911,907
Changes in net position:										
Governmental activities	(549,800)	1,773,917	3,436,736	1,333,705	3,287,145	2,734,833	3,468,616	8,652,054	10,971,824	12,266,087
Business-type activities	2,100,318	473,173	82,632	(324,139)	794,954	298,313	661,377	(4,925,087)	671,966	2,272,901
Total primary government	\$ 1,550,518	\$ 2,247,090	\$ 3,519,368	\$ 1,009,566	\$ 4,082,099	\$ 3,033,146	\$ 4,129,993	\$ 3,726,967	\$ 11,643,790	\$ 14,538,988

Source:
Town of Herndon Finance Department - Exhibit A-2

Note:
(1) Net (expense) revenue is the difference between the expenses and program revenues. This difference indicates the degree to which a function or program is supported with its own fees and program-specific grants versus its reliance upon funding from taxes and other general revenues. Numbers in a parentheses are net expenses indicating that expenses were greater than program revenues, and the revenues were needed to finance that function or program. Numbers without parentheses are net revenues, demonstrating that program revenues were more than sufficient to cover expenses.

TOWN OF HERNDON, VIRGINIA

Table 3

FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS

(modified accrual basis of accounting)

(Unaudited)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
General Fund:										
Nonspendable	\$ 319,403	\$ 274,029	\$ 291,196	\$ 338,093	\$ 252,186	\$ 211,510	\$ 166,659	\$ 258,029	\$ 354,739	\$ 289,246
Restricted	-	3,716	3,170	3,228	310,000	-	2,224	1,095,266	1,097,996	1,053,197
Committed	600,000	800,000	1,000,000	1,200,000	1,400,000	-	-	-	-	-
Assigned	1,494,774	2,108,853	2,898,995	2,859,002	2,869,397	5,581,134	5,338,176	6,114,606	10,606,684	11,541,956
Unassigned	8,164,509	8,454,408	9,084,025	9,345,836	10,196,779	10,537,670	13,293,488	19,560,379	16,999,208	17,357,274
Total General Fund	\$ 10,578,686	\$ 11,641,006	\$ 13,277,386	\$ 13,746,159	\$ 15,028,362	\$ 16,330,314	\$ 18,800,547	\$ 27,028,280	\$ 29,058,627	\$ 30,241,673
All Other Governmental Funds:										
Nonspendable	\$ -	\$ -	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ -	\$ -	\$ 5,000	\$ 5,000
Restricted	4,654,446	3,935,728	4,019,354	1,764,513	2,132,077	6,073,939	6,293,607	6,353,031	6,307,965	3,668,703
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	5,045,594	3,252,034	3,942,806	6,510,193	6,335,363	6,944,452	5,308,565	4,640,086	2,955,830	5,768,212
Unassigned	-	-	(16,879)	(330,872)	(206,498)	-	-	-	-	-
Total all other governmental funds	\$ 9,700,040	\$ 7,187,762	\$ 7,970,281	\$ 7,968,834	\$ 8,285,942	\$ 13,043,391	\$ 11,602,172	\$ 10,993,117	\$ 9,268,795	\$ 9,441,915

Source:

Town of Herndon Finance Department - Exhibit A-3

TOWN OF HERNDON, VIRGINIA

Table 4

CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Unaudited)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenues:										
General property taxes	\$ 10,500,239	\$ 10,970,320	\$ 11,029,513	\$ 11,214,419	\$ 11,367,365	\$ 11,691,186	\$ 12,241,266	\$ 12,822,398	\$ 12,914,409	\$ 13,805,589
Other local taxes	12,850,710	13,318,644	13,372,805	14,177,297	14,463,451	13,750,341	14,212,059	14,562,162	15,128,514	17,468,036
Permits, privilege fees, and regulatory licenses	532,695	522,048	630,218	559,488	603,773	1,057,412	585,191	457,719	613,968	572,280
Fines and forfeitures	632,491	547,939	463,312	423,335	452,965	485,008	353,593	281,512	359,468	342,056
Use of money and property	1,111,136	801,986	1,027,152	909,502	688,957	1,355,800	1,078,968	555,187	548,544	2,666,203
Charges for services	3,525,332	3,556,221	3,488,475	3,599,406	3,619,194	3,662,069	2,248,267	1,525,312	2,157,122	2,356,037
Miscellaneous	33,485	77,560	708,184	206,101	350,137	258,073	51,691	9,985	58,915	400,765
Intergovernmental	5,338,235	5,508,657	6,773,052	6,161,721	6,300,473	6,006,287	10,171,781	8,054,541	14,149,839	14,738,259
Total revenues	34,524,323	35,303,375	37,492,711	37,251,269	37,846,315	38,266,176	40,942,816	38,268,816	45,930,779	52,349,225
Expenditures:										
Legislative	622,325	626,639	654,549	698,951	699,202	713,209	500,752	507,091	507,879	613,312
Administration	2,319,175	2,457,281	2,582,772	3,131,313	2,863,707	3,006,360	2,978,610	2,775,022	3,111,207	3,357,954
Parks and recreation	3,985,756	4,055,755	4,136,245	4,288,848	4,449,527	4,675,180	3,934,039	2,665,348	3,569,187	3,961,843
Finance	1,267,040	1,307,771	1,427,806	1,518,192	1,716,122	1,532,617	1,508,139	1,477,878	1,517,999	1,646,904
Community development	1,891,352	1,857,171	1,598,172	1,686,329	1,736,736	1,947,330	2,102,628	1,912,361	2,019,189	2,671,606
Police	9,097,892	9,126,841	9,848,958	9,603,136	10,074,661	10,222,766	10,328,678	9,849,301	9,730,969	10,601,772
Public works	9,453,015	9,512,357	10,014,006	10,735,437	10,239,065	9,767,767	10,432,212	9,225,472	11,022,952	13,122,731
Town attorney	535,633	545,434	476,792	476,844	489,362	471,179	676,293	726,639	776,886	833,754
Grants	102,305	26,042	46,618	74,628	151,977	69,523	84,490	278,570	43,525	8,363
Non-departmental	-	-	-	-	-	-	457,223	377,676	58,646	68,781
Capital outlay	2,242,162	4,805,785	3,296,422	3,040,310	3,109,930	1,755,189	5,220,582	1,522,495	12,201,731	13,322,378
Debt service:										
Principal	1,540,720	1,681,126	1,102,539	1,090,629	1,256,739	1,344,287	1,189,054	5,877,930	1,015,683	1,236,103
Interest and fiscal charges	481,073	573,790	313,792	283,733	283,989	457,264	558,394	396,744	261,940	247,829
Total expenditures	33,538,448	36,575,992	35,498,671	36,628,350	37,071,017	35,962,671	39,971,094	37,592,527	45,837,793	51,693,330
Excess of revenues over (under) expenditures	985,875	(1,272,617)	1,994,040	622,919	775,298	2,303,505	971,722	676,289	92,986	655,895
Other financing sources (uses):										
Transfers in	1,048,074	1,043,888	1,474,921	1,535,807	1,335,013	827,525	234,281	1,816,456	819,463	2,461,548
Transfers out	(3,158,060)	(1,430,526)	(1,649,825)	(1,691,400)	(1,480,000)	(1,046,350)	(246,583)	(141,416)	(747,895)	(2,468,893)
Issuance of debt	-	-	-	-	969,000	3,686,266	-	-	1,538	-
Proceeds of refunding bonds	-	4,032,000	-	-	-	-	-	5,087,915	-	-
Payment to refunded bond escrow agent	-	(3,822,703)	-	-	-	-	-	-	-	-
Proceeds from sale of property	1,951,169	-	14,927	-	-	65,954	19,727	84,502	78,731	306,273
Issuance of leases and subscriptions	-	-	-	-	-	-	-	-	-	86,887
Insurance recoveries	-	-	-	-	-	222,501	49,867	94,932	61,202	314,456
Total other financing sources (uses), net	(158,817)	(177,341)	(159,977)	(155,593)	824,013	3,755,896	57,292	6,942,389	213,039	700,271
Net changes in fund balances	\$ 827,058	\$ (1,449,958)	\$ 1,834,063	\$ 467,326	\$ 1,599,311	\$ 6,059,401	\$ 1,029,014	\$ 7,618,678	\$ 306,025	\$ 1,356,166

TOWN OF HERNDON, VIRGINIA

**CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Unaudited)**

**Table 4
Page 2**

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Debt service as a percentage of noncapital expenditures:										
Total debt service	\$ 2,021,793	\$ 2,254,916	\$ 1,416,331	\$ 1,374,362	\$ 1,540,728	\$ 1,801,551	\$ 1,747,448	\$ 6,274,674	\$ 1,277,623	\$ 1,483,932
Total expenditures	\$ 33,538,448	\$ 36,575,992	\$ 35,498,671	\$ 36,628,350	\$ 37,071,017	\$ 35,962,671	\$ 39,971,094	\$ 37,592,527	\$ 45,837,793	\$ 51,693,330
Less: capital outlay	(2,464,081)	(4,496,172)	(3,549,414)	(3,370,996)	(3,752,903)	(1,678,206)	(5,293,568)	(1,322,688)	(11,909,025)	(13,137,562)
Noncapital expenditures	\$ 31,074,367	\$ 32,079,820	\$ 31,949,257	\$ 33,257,354	\$ 33,318,114	\$ 34,284,465	\$ 34,677,526	\$ 36,269,839	\$ 33,928,768	\$ 38,555,768
Debt service as a percentage of noncapital expenditures	6.51%	7.03%	4.43%	4.13%	4.62%	5.25%	5.04%	17.30%	3.77%	3.85%

Source:
Town of Herndon Finance Department - Exhibit A-5
Exhibit A-6 for capital outlay

TOWN OF HERNDON, VIRGINIA

Table 5

TAX REVENUES BY SOURCE, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Unaudited)

Fiscal Year June 30,	Property	Business License	Meals	Transient Occupancy	Local Sales	Bank Franchise	Motor Vehicle	Cigarette	Consumer Utility and Consumption	Other (1)	Total
2014	\$ 10,500,239	\$ 4,750,718	\$ 2,046,307	\$ 2,091,900	\$ 1,703,517	\$ 285,490	\$ 371,325	\$ 337,783	\$ 895,793	\$ 367,877	\$ 23,350,949
2015	10,970,320	4,860,528	2,121,519	2,187,198	1,848,993	374,316	365,163	323,517	891,319	346,091	24,288,964
2016	11,029,513	4,868,291	2,173,102	2,169,852	1,871,189	394,486	358,906	330,796	872,267	333,916	24,402,318
2017	11,214,419	5,569,516	2,215,677	2,199,410	1,798,728	402,719	431,639	288,484	876,765	394,359	25,391,716
2018	11,367,364	5,732,161	2,266,761	2,286,397	1,818,023	407,637	459,417	271,983	886,500	334,572	25,830,815
2019	11,691,186	4,930,755	2,308,551	2,345,943	1,871,909	386,039	461,004	254,081	888,455	303,604	25,441,527
2020	12,241,266	5,767,393	2,845,607	1,573,340	1,897,945	288,186	455,175	209,757	874,759	299,897	26,453,325
2021	12,822,398	6,680,365	2,805,350	888,999	2,033,030	406,526	432,593	178,772	867,110	269,417	27,384,560
2022	12,914,409	5,863,537	3,447,384	1,267,569	2,326,918	483,622	430,872	175,432	870,086	263,094	28,042,923
2023	13,805,589	6,460,183	4,347,841	1,920,100	2,391,096	606,024	466,540	167,255	894,923	214,074	31,273,625
Change 2014-2023	31.48%	35.98%	112.47%	-8.21%	40.36%	112.28%	25.64%	-50.48%	-0.10%	-41.81%	33.93%

Source: Town of Herndon Finance Department and Exhibit B-3

Notes:

(1) Includes right-of-way use fees and cable TV franchise fees.

TOWN OF HERNDON, VIRGINIA

Table 6

**ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
(Unaudited)**

Assessment Year	Residential Property	Commercial Property	Public Service Corporation	Tax-Exempt (Nontaxable)	Total Assessed Value (1)	Total Taxable Assessed Value	Percent Growth	Total Direct Tax Rate (1)	Actual Taxable Value	Value as a Percentage of Actual Value
2014	\$ 1,980,265,471	\$ 1,883,749,270	\$ 81,935,902	\$ 208,716,740	\$ 4,154,667,383	\$ 3,945,950,643	2.7%	\$ 0.2650	\$ 3,945,950,643	100.00%
2015	2,173,438,731	1,859,709,194	112,355,453	214,819,800	4,360,323,178	4,145,503,378	5.1%	0.2650	4,145,503,378	100.00%
2016	2,256,968,560	1,823,038,660	114,688,984	220,801,220	4,415,497,424	4,194,696,204	1.2%	0.2650	4,194,696,204	100.00%
2017	2,348,465,120	1,848,104,770	124,886,642	239,891,960	4,561,348,492	4,321,456,532	3.0%	0.2650	4,321,456,532	100.00%
2018	2,430,186,400	1,890,348,960	119,777,904	241,876,120	4,682,189,384	4,440,313,264	2.8%	0.2650	4,440,313,264	100.00%
2019	2,546,334,900	1,971,459,740	122,069,304	252,749,430	4,892,613,374	4,639,863,944	4.5%	0.2650	4,639,863,944	100.00%
2020	2,631,535,050	2,098,506,390	123,604,788	260,867,840	5,114,514,068	4,853,646,228	4.6%	0.2650	4,853,646,228	100.00%
2021	2,742,953,080	2,051,179,410	117,428,156	255,179,930	5,166,740,576	4,911,560,646	1.2%	0.2650	4,911,560,646	100.00%
2022	3,040,609,020	2,134,122,810	120,470,511	271,536,580	5,566,738,921	5,295,202,341	7.8%	0.2650	5,295,202,341	100.00%
2023	3,222,879,610	2,110,160,790	122,445,557	288,379,870	5,743,865,827	5,455,485,957	3.0%	0.2600	5,455,485,957	100.00%

Sources:

Town of Herndon Finance Department

County of Fairfax Department of Tax Administration (Real Estate Division)

PSC Values from the State Corporation Commission, Certified every September

Notes:

(1) Rates are per \$100 of assessed value.

TOWN OF HERNDON, VIRGINIA

Table 7

**DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS
(Unaudited)**

Assessment Tax Year	Tax Rates - Town		Tax Rates - County		Tax Rates - Combined	
	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property
2014	\$ 0.2650	\$ -	\$ 1.0900	\$ 4.5700	\$ 1.3550	\$ 4.5700
2015	0.2650	-	1.0900	4.5700	1.3550	4.5700
2016	0.2650	-	1.1300	4.5700	1.3950	4.5700
2017	0.2650	-	1.1300	4.5700	1.3950	4.5700
2018	0.2650	-	1.1500	4.5700	1.4150	4.5700
2019	0.2650	-	1.1500	4.5700	1.4150	4.5700
2020	0.2650	-	1.1500	4.5700	1.4150	4.5700
2021	0.2650	-	1.1400	4.5700	1.4050	4.5700
2022	0.2650	-	1.1100	4.5700	1.3750	4.5700
2023	0.2600	-	1.0950	4.5700	1.3550	4.5700

Source:
Town of Herndon Finance Department

Notes:
(1) These rates are per \$100 of assessed value for real estate and personal property.

TOWN OF HERNDON, VIRGINIA

Table 8

**PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO
(Unaudited)**

Taxpayer	2023				2014			
	Taxable Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value		Taxable Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value	
USGBF 499 Grove Street LLC	\$ 87,902,210	1	1.61	%	\$ -	-	-	%
MREI V TOWNES LLC	84,543,930	2	1.55		-	-	-	
Westerly at Worldgate Owner LLC	74,032,360	3	1.36		-	-	-	
USGBF 399 Grove Street LLC	68,696,270	4	1.26		-	-	-	
MIVPO LLC	53,955,580	5	0.99		59,559,480	7	1.51	
Worldgate Centre Owner LLC	53,911,880	6	0.99		-	-	-	
38 WP2D1 Owner LLC	48,931,260	7	0.90		-	-	-	
Monument III Owner LLC	45,771,870	8	0.84		-	-	-	
661 Dulles Park Ct Owner	45,571,690	9	0.84		-	-	-	
Stuart Woods Project LLC	42,442,960	10	0.78		-	-	-	
BP New Dominion Technology	-	-	-		80,604,190	1	2.04	
New Dominion	-	-	-		71,051,990	2	1.80	
Inland American Herndon Worldgate	-	-	-		68,143,310	3	1.73	
GSG Residential Westerly at Worldgate	-	-	-		60,759,471	4	1.54	
Worldgate Centre LLC	-	-	-		60,153,520	5	1.52	
GSG Residential Townes at Herndon Centre LLC	-	-	-		59,870,330	6	1.52	
Federal National Mortgage Assoc.	-	-	-		58,781,640	8	1.49	
Realty Associates Fund PX LP	-	-	-		54,568,250	9	1.38	
Washington Real Estate Investment Trust	-	-	-		47,412,790	10	1.20	
Total	\$ 605,760,010		11.10	%	\$ 620,904,971		15.74	%

Sources:

County of Fairfax Department of Tax Administration (Real Estate Division)
Town of Herndon Finance Department (2014 ACFR)

TOWN OF HERNDON, VIRGINIA

Table 9

**REAL PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(Unaudited)**

Assessment Tax Year	Taxes Levied for the Tax Year (1)	Collected Within the Tax Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2013	\$ 9,880,992	\$ 9,845,894	99.64%	\$ 34,681	\$ 9,880,575	100.00%
2014	10,299,028	10,272,232	99.74%	26,796	10,299,028	100.00%
2015	10,705,433	10,674,237	99.71%	30,969	10,705,206	100.00%
2016	10,805,027	10,767,440	99.65%	37,587	10,805,027	100.00%
2017	11,019,662	10,999,443	99.82%	20,501	11,019,944	100.00%
2018	11,449,420	11,434,920	99.87%	14,501	11,449,421	100.00%
2019	11,965,659	11,794,199	98.57%	167,040	11,961,239	99.96%
2020	12,534,612	12,388,867	98.84%	138,539	12,527,406	99.94%
2021	12,704,453	12,617,454	99.32%	63,294	12,680,749	99.81%
2022	13,713,041	13,529,086	98.66%	96,002	13,625,088	99.36%

Source:

Town of Herndon Finance Department

Note:

- (1) Abatements and supplements which relate to prior years are recorded as revenue collections (or refunds) in year of receipt. Records do not exist which separate current fiscal year levy collections from prior tax year abatements and supplements.

TOWN OF HERNDON, VIRGINIA

Table 10

**RATIOS OF OUTSTANDING DEBT BY TYPE AND GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS
(Unaudited)**

Fiscal Year June 30,	Governmental Activities		Business-Type Activities		Total Primary Government	Percentage of Per Capita Personal Income	Debt Per Capita	General Bonded Debt Outstanding	Percentage of Actual Taxable Value of Property	General Bonded Debt Outstanding
	General Obligation Bonds	Leases Subscriptions and Notes	Revenue Bonds	Other Obligations				General Obligation Bonds		Debt Per Capita
2014	\$ 12,594,199	\$ 1,451,514	\$ 2,747,420	\$ -	\$ 16,793,133	0.98	712	\$ 12,594,199	32%	534
2015	12,464,958	87,397	2,609,488	-	15,161,843	0.85	642	12,464,958	30%	528
2016	11,353,283	83,158	2,355,385	-	13,791,826	0.76	583	11,353,283	27%	480
2017	10,253,274	78,794	2,036,746	-	12,368,814	0.66	521	10,253,274	24%	432
2018	10,031,639	-	1,771,516	-	11,803,155	0.63	496	10,031,639	23%	421
2019	12,354,914	-	9,352,703	3,681,872	25,389,489	1.35	1,060	12,354,914	27%	516
2020	10,947,964	-	8,817,990	3,419,303	23,185,257	1.17	964	10,947,964	23%	455
2021	11,106,525	-	7,660,345	3,178,614	21,945,484	1.06	912	11,106,525	23%	462
2022	10,125,610	80,027	7,492,099	2,934,891	20,632,627	0.96	857	10,125,610	19%	421
2023	9,125,112	426,387	7,318,437	2,279,146	19,149,082	0.83	784	9,125,112	17%	374

Source:
Town of Herndon Finance Department Analysis of Long-Term Debt

Notes:

- (1) Details regarding the town's outstanding debt may be found in the notes to the basic financial statements.
- (2) Population and personal income data can be found in table 14.
- (3) See table 6 for taxable value of property.
- (4) The Downtown Parking Fund debts were reclassified from business-type to governmental activities 2021.

TOWN OF HERNDON, VIRGINIA

Table 11

**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
JUNE 30, 2023
(Unaudited)**

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt (2)
Fairfax County, Virginia	\$ 2,719,585,203	1.7422%	\$ 47,379,541
Town Direct Debt (3)			<u>9,551,499</u>
Total direct and overlapping debt			<u><u>\$ 56,931,040</u></u>

Sources:

County of Fairfax Finance Department and Town of Herndon Finance Department

Notes:

(1) The estimated percentage of overlapping debt applicable is determined using taxable assessed property values.
The Town of Herndon is located within the geographic boundaries of the County of Fairfax.

(2) Amounts for bonds are reported net of premiums and/or discounts.

(3) The town's direct debt is also presented in Table 12.

TOWN OF HERNDON, VIRGINIA

Table 12

**LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(Unaudited)**

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Debt limit	\$ 386,401,474	\$ 403,314,793	\$ 408,000,722	\$ 419,656,989	\$ 432,053,536	\$ 451,779,464	\$ 473,004,144	\$ 479,413,249	\$ 517,473,183	\$ 533,304,040
Total debt applicable to limit	14,045,713	12,466,973	11,436,441	10,332,068	10,031,639	12,354,914	10,205,637	11,106,523	10,205,637	9,551,499
Available legal debt margin	\$ 372,355,761	\$ 390,847,820	\$ 396,564,281	\$ 409,324,921	\$ 422,021,897	\$ 439,424,550	\$ 462,798,507	\$ 468,306,726	\$ 507,267,546	\$ 523,752,541
Total debt applicable to the limit as a percentage of debt limit	3.64%	3.09%	2.80%	2.46%	2.32%	2.73%	2.16%	2.32%	1.97%	1.79%

Legal Debt Margin Calculation for Fiscal Year 2023:

Assessed value of real estate	<u>\$ 5,333,040,400</u>
Debt limit (10% of assessed value) (1)	533,304,040
Total Debt applicable to limit:	<u>9,551,499</u>
Available legal debt margin	<u>\$ 523,752,541</u>

Summary of Outstanding Debt:

2012 Refunding bonds	\$ 613,000
2018B General obligation bonds	4,150,000
2020A Refunding bonds (2010 GO & 2014 refund)	3,775,117
2020B Refunding bonds (2010 refund & 2018B GO)	464,445
Leases	52,708
Subscriptions	373,678
Deferred bond premiums	122,551
Total debt applicable to limit	<u>\$ 9,551,499</u>

Source:
Town of Herndon Finance Department

Notes:
(1) Under the Constitution of Virginia, the town may not issue bonds in excess of 10% of assessed valuation. Self-supporting debt is not included in this calculation, therefore, debt from the business-type activities is excluded.

TOWN OF HERNDON, VIRGINIA

Table 13

**PLEDGED REVENUE COVERAGE
LAST TEN FISCAL YEARS
(Unaudited)**

Water and Sewer Fund							
Fiscal Year June 30,	Gross Revenues (1)	Operating Expenses (2)	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
2020	\$ 7,389,157	\$ 5,966,717	\$ 1,422,440	\$ 284,450	\$ 246,885	\$ 531,335	2.68
2021	6,726,135	5,615,114	1,111,021	262,569	246,887	509,456	2.18
2022	7,380,676	6,741,392	639,284	388,600	241,302	629,902	1.01
2023	8,780,030	6,637,788	2,142,242	284,766	353,934	638,700	3.35
Golf Course Fund							
Fiscal Year June 30,	Gross Revenues (1)	Operating Expenses (2)	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
2014	\$ 1,462,861	\$ 1,298,157	\$ 164,704	\$ 89,146	\$ 42,294	\$ 131,440	1.04
2015	1,366,093	1,295,926	70,167	93,085	39,014	132,099	1.25
2016	1,502,549	1,238,349	264,200	96,562	34,538	131,100	2.02
2017	1,510,009	1,298,643	211,366	100,501	30,848	131,349	1.61
2018	1,442,234	1,313,374	128,860	103,977	26,802	130,779	0.99
2019	1,472,969	1,244,250	228,719	108,767	22,602	131,369	1.74
2020	1,247,685	1,269,174	(21,489)	111,993	22,783	134,776	(0.16)
2021	2,279,480	1,487,992	791,488	37,707	20,206	57,913	13.67
2022	2,403,318	1,423,777	979,541	19,639	3,965	23,604	41.50
2023	2,792,673	1,712,053	1,080,620	20,021	15,846	35,867	30.13
Chestnut Grove Cemetery Fund							
Fiscal Year June 30,	Gross Revenues (1)	Operating Expenses (2)	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
2014	\$ 851,041	\$ 514,028	\$ 337,013	\$ 114,133	\$ 81,210	\$ 195,343	1.13
2015	814,677	540,926	273,751	116,406	56,725	173,131	1.73
2016	839,852	539,973	299,879	146,638	42,140	188,778	1.59
2017	899,125	552,130	346,995	207,234	36,166	243,400	1.43
2018	1,026,042	515,428	510,614	154,079	29,106	183,185	2.79
2019	982,863	552,786	430,077	157,946	24,947	182,893	2.35
2020	879,318	531,954	347,364	161,511	23,014	184,525	1.88
2021	1,211,864	574,258	637,606	39,033	25,164	64,197	9.93
2022	1,401,415	626,039	775,376	28,607	5,226	33,833	22.92
2023	1,302,268	622,339	679,929	29,060	5,036	34,096	19.94
Downtown Parking Fund							
Fiscal Year June 30,	Gross Revenues (1)	Operating Expenses (2)	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
2020	\$ 36,486	\$ 24,383	\$ 12,103	\$ 5,000	\$ 38,975	\$ 43,975	0.28
2021 (4)	19,088	64,468	(45,380)	5,000	38,876	43,876	(1.03)

Source:

Town of Herndon Finance Department - Exhibits A-9 and A-10

Notes:

(1) Gross revenues includes all revenues of the fund except gains on sale of capital assets and capital grant revenue.

(2) Operating expenses do not include depreciation and amortization, interest expense and losses on sale of capital assets.

(3) See Note 8 in the Notes to the Financial Statements for detailed information regarding the bonds issued by these funds.

(4) The Downtown Parking Fund was closed at the end of fiscal year 2021.

TOWN OF HERNDON, VIRGINIA

Table 14

**DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN CALENDAR YEARS
(Unaudited)**

Calendar Year	Population (1)	Per Capita Personal Income (2)	Personal Income (000) (1) * (2)	Public School Enrollment (3)	Unemployment Rates (%) (4)
2014	23,592	\$ 73,000	\$ 1,722,216	183,895	4.2
2015	23,612	75,756	1,788,751	185,914	4.0
2016	23,666	76,213	1,803,657	185,979	3.3
2017	23,734	78,376	1,860,176	187,484	3.2
2018	23,809	78,376	1,866,054	188,403	2.7
2019	23,949	78,376	1,877,027	187,474	2.3
2020	24,042	82,441	1,982,047	188,355	7.8
2021	24,057	86,141	2,072,294	179,748	4.1
2022	24,069	88,971	2,141,443	178,421	2.5
2023	24,428	94,677	2,312,770	177,570	2.5

Sources:

(1) Town of Herndon, Community Development Annual Population Estimate memo

(2) www.bea.gov Tools>Interactive Data> Regional Data>GDP & Personal Income> Personal Income and Employment (CAINC)>Fairfax County - updated November 2022

(3) Actual enrollment is obtained from FCPS Approved Budget Book at www.fcps.edu

(4) Virginia Employment Commission, www.virginiaworks.com Employment>Local Area Unemployment Statistics (LAUS) - Fairfax County June (Unadjusted)

TOWN OF HERNDON, VIRGINIA

Table 15

**PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO
(Unaudited)**

Employer	2023			2014	
	Number of Employees (1)	Rank	Percentage of Total Town Employment (2)	Number of Employees (3)	Rank
Amazon Web Services	500-999	1	2.53%	-	-
Northwest Federal Union	250-499	2	2.28%	-	-
Serco	250-499	3	2.02%	-	-
Karsun Solutions	250-499	4	1.97%	-	-
Peraton	250-499	5	1.68%	100-250	7
Boeing Corporation	100-249	6	1.31%	-	-
Town of Herndon	100-249	7	1.15%	-	-
Forcepoint	100-249	8	0.88%	-	-
Tyler Solutions	100-249	9	0.79%	-	-
Expel	100-249	10	0.68%	-	-
Clear Wireless LLC	-	-	-	Over 500	1
Booz Allen Hamilton Inc.	-	-	-	Over 500	2
Exelis Inc.	-	-	-	Over 500	3
Amazon Corporation	-	-	-	249-499	4
Worldgate Sport & Health Club	-	-	-	249-499	5
Medical Transportation Services	-	-	-	100-250	6
Airline Pilots Association	-	-	-	100-250	8
CGI Federal	-	-	-	100-250	9
Segovia	-	-	-	100-250	10

Sources:

- (1) Town of Herndon Communications & Economic Development and Finance Departments
- (2) Fairfax County Economic Development Authority provides total town employment
- (3) Town of Herndon 2014 Annual Comprehensive Financial Report

Note:

Percentage of total town employment for fiscal year 2014 is not available.

TOWN OF HERNDON, VIRGINIA

**FULL-TIME TOWN GOVERNMENT EQUIVALENT EMPLOYEES BY FUNCTION / PROGRAM
LAST TEN FISCAL YEARS
(Unaudited)**

Table 16

Function/Program	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Legislative	4.0	3.5	3.0	3.9	3.1	2.9	3.4	3.6	3.2	2.9
Administration:										
Communications & economic development	2.4	2.7	2.8	2.8	2.9	3.0	2.7	2.8	2.8	2.7
Town manager	2.0	2.1	2.8	3.0	3.0	2.9	1.4	2.0	2.0	2.0
Human resources	3.1	3.5	3.6	3.7	3.8	3.7	3.8	3.8	4.3	4.6
Information services	6.1	5.9	6.1	5.5	5.9	6.3	6.2	5.2	5.4	6.1
Town attorney	2.6	2.6	2.5	2.7	2.7	2.8	4.1	4.6	4.6	4.6
Parks and recreation:										
Administration	4.0	5.1	5.7	5.8	5.8	5.8	5.6	5.6	5.4	5.2
Recreation programs	15.1	14.8	16.3	15.9	16.4	15.6	13.3	4.6	8.2	10.1
Community center operations	16.7	16.6	16.0	16.4	15.7	17.3	15.3	8.1	8.3	8.7
Aquatics programs and operations	13.1	13.8	12.1	13.4	13.9	14.0	11.1	4.8	8.8	10.3
Park operation and development	1.6	1.1	0.8	1.5	2.2	2.6	2.1	1.3	1.3	1.2
Finance Administration										
Finance Administration	2.0	1.0	1.0	1.1	2.0	1.9	2.5	2.3	2.1	12.0
Accounting	4.7	5.8	5.8	6.3	6.2	5.7	5.0	4.4	4.8	0.0
Revenue	2.8	2.8	2.7	2.8	2.4	2.8	3.2	4.2	4.1	0.0
Procurement	1.0	0.6	1.0	0.8	1.0	1.0	1.0	1.0	0.9	0.0
Community development	18.7	18.2	14.8	15.5	14.5	16.3	16.8	15.6	16.1	16.7
Police:										
Field operations	48.4	46.6	45.1	47.1	42.2	42.3	42.9	38.6	36.0	35.4
Support services	33.4	35.4	34.8	35.0	35.3	34.4	32.3	34.4	35.2	38.1
Public works:										
Administration	7.0	7.0	6.9	6.5	6.5	6.3	5.9	6.0	7.3	7.7
Engineering	4.4	4.7	3.9	4.9	4.8	5.3	5.1	6.0	6.3	7.0
Program management	2.8	2.0	1.5	1.3	1.8	1.8	2.0	2.0	2.2	2.5
Building inspections	4.9	4.4	4.6	4.9	4.6	4.3	4.9	4.3	5.0	5.0
Building maintenance	8.0	7.2	7.2	7.0	7.0	6.8	6.0	4.4	5.1	5.9
Grounds maintenance	11.0	11.6	12.3	12.6	11.7	11.7	11.6	11.9	11.0	10.5
Street maintenance	11.0	9.8	10.3	10.2	9.7	8.7	8.9	9.3	8.4	7.9
Refuse/recycling	16.8	16.6	16.9	15.2	13.9	14.5	14.1	14.9	14.5	15.8
Vehicle and equipment replacement	9.4	10.5	10.5	10.0	8.9	8.9	8.0	7.6	8.5	8.6
Traffic engineering	3.2	3.2	2.6	3.1	3.0	3.0	2.6	3.0	2.8	2.2
Right-of-way inspections	3.1	3.1	3.1	3.0	3.0	3.0	2.8	3.0	3.0	2.4

TOWN OF HERNDON, VIRGINIA

**FULL-TIME TOWN GOVERNMENT EQUIVALENT EMPLOYEES BY FUNCTION / PROGRAM
LAST TEN FISCAL YEARS
(Unaudited)**

Table 16 Page 2

Function/Program	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Water and Sewer:										
Customer service	4.0	4.3	3.5	4.3	3.1	2.9	2.9	2.4	2.8	2.2
Sewer service and maintenance	5.3	5.2	5.1	4.8	5.2	5.4	6.7	5.5	6.7	7.7
Water supply and maintenance	7.3	8.3	7.7	7.4	6.7	5.2	4.4	4.7	5.0	5.8
Golf Course:										
Maintenance	7.5	7.3	6.8	7.3	6.7	6.5	6.4	7.4	7.4	6.7
Clubhouse	5.8	6.1	5.4	5.5	5.5	5.1	4.5	6.0	5.1	6.3
Chestnut Grove Cemetery:										
Administration	4.8	4.9	4.3	4.7	4.7	5.0	4.4	4.8	4.9	4.6
Total	298.0	298.3	289.5	295.9	285.8	285.7	273.9	250.1	259.5	269.4

Source:

Town of Herndon, Finance Department Munis report Payroll>Employee History>History Inquiry

TOWN OF HERNDON, VIRGINIA

Table 17

**OPERATING INDICATORS BY FUNCTION / PROGRAM
LAST TEN FISCAL YEARS
(Unaudited)**

Function/Program	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Police:										
Calls for service (1)	28,990	36,230	35,520	21,967	24,253	23,246	23,102	22,332	24,020	25,518
Human Resources:										
Recruitments requests (2)	56	65	64	43	67	64	83	115	138	193
Building safety:										
Total building permits (3)	241	230	263	237	298	280	193	217	469	166
Total inspections performed (3)	2,613	2,844	3,496	3,433	3,340	4,460	3,096	2,217	2,293	2,393
Public service:										
Refuse collected (tons) (1)	5,670	6,250	6,410	6,537	6,309	6,358	6,179	6,801	5,357	5,354
Recycle collected (residential - tons) (1)	1,625	1,673	1,711	1,752	1,803	1,789	1,633	1,622	1,381	1,364
Parks and Recreation:										
Class and program attendance (4)	11,500	11,200	11,600	13,700	12,300	13,700	8,500	1,200	5,200	6,600
Herndon Festival attendance (4)	82,000	83,000	78,500	81,500	40,300	62,000	0	0	30,000	34,276
Water and sewer:										
New utility accounts (3)	25	20	35	26	75	3	3	2	3	0
Average daily water consumption (mgd) (3)	2.00	2.15	2.13	2.24	2.28	2.21	2.19	1.99	2.02	2.02
Average daily sewage treatment (mgd) (3)	2.66	2.46	2.44	2.67	2.88	3.36	3.02	2.95	2.86	2.82
Golf Course:										
Rounds played (18 and 9 hole) (5)	31,421	30,368	33,112	33,029	31,369	31,401	27,301	47,397	47,846	47,922
Cemetery:										
Interment rights for sites sold (1)	184	136	132	148	171	148	152	199	231	161
Interments performed (1)	129	139	140	133	161	140	153	175	183	162

Sources:

- (1) Town of Herndon Town Manager's Annual Reports
- (2) Town of Herndon Department of Human Resources
- (3) Town of Herndon Department of Public Works
- (4) Town of Herndon Parks & Recreation
- (5) Herndon Centennial Golf Course

TOWN OF HERNDON, VIRGINIA

Table 18

**CAPITAL ASSET STATISTICS BY FUNCTION / PROGRAM
LAST TEN FISCAL YEARS
(Unaudited)**

Function/Program	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Police:										
Stations (1)	1	1	1	1	1	1	1	1	1	1
Vehicles (1)	45	45	47	47	47	47	50	47	45	50
Refuse Collection:										
Collection trucks (2)	9	9	10	10	10	10	17	16	16	15
Other public works:										
Vehicles/equipment maintained (2)	385	424	429	533	567	552	514	553	527	506
Streets:										
Primary (miles) (2)	31.3	31.3	31.3	31.3	41.6	41.6	41.6	41.6	41.6	41.6
Secondary (miles) (2)	98.4	98.4	98.4	98.4	88.4	88.4	88.4	88.4	88.4	88.4
Parks & Recreation:										
Parks - number of acres (3)	97	97	97	137	137	137	137	137	137	137
Swimming pools (3)	1	1	1	1	1	1	1	1	1	1
Parks with playground equipment (3)	7	7	7	7	7	7	7	7	7	7
Community centers (3)	1	1	1	1	1	1	1	1	1	1
Water:										
Water lines (miles) (2)	83.4	84.7	84.7	84.7	84.9	85.0	85.0	85.0	85.0	85.0
Storage capacity (million gallons) (2)	3.3	3.3	3.3	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Wastewater:										
Sanitary sewers (miles) (2)	81.8	81.8	81.8	81.8	81.9	81.9	81.9	81.9	81.9	81.9

Sources:

- (1) Town of Herndon Police Department
- (2) Town of Herndon Department of Public Works
- (3) Town of Herndon Park & Recreation



www.herndon-va.gov

COMPLIANCE SECTION



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Herndon, Virginia (the “town”), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the town’s basic financial statements, and have issued our report thereon dated November 17, 2023.

Report on 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 the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of town’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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 that are required to be reported under *Government Auditing Standards*.**

Purpose of this Report

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

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 17, 2023

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

Opinion on Compliance for Each Major Program

We have audited the Town of Herndon, Virginia's (the "town") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the town's major federal programs for the year ended June 30, 2023. The town's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the Town of Herndon, Virginia, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Bases for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the town and to meet our ethical responsibilities, in accordance with relevant ethical requirements related to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal documentation of the town's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Town of Herndon, Virginia's federal programs.

Auditor's Responsibility for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the town's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the town's compliance the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the town's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the town's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the town's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. **Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.**

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 17, 2023

TOWN OF HERNDON, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2023

As more fully described in the 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*, we performed tests of the town's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Budget and Appropriation Laws

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Debt Provisions

Procurement Laws

Uniform Disposition of Unclaimed Property Act

Fire Programs Aid to Localities

State Agency Requirements

Urban Highway Maintenance

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal programs selected for testing.

TOWN OF HERNDON, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2023

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **No significant deficiencies and no material weaknesses** relating to the audit of the financial statements are reported in the 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 *Governmental Auditing Standards*.
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies and no material weaknesses** relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings relating to major programs**.
7. The major program of the town is:

<u>Name of Program</u>	<u>ALN #</u>
Coronavirus State and Local Fiscal Recovery Funds	21.027

8. The **threshold for** distinguishing Type A and B programs was **\$750,000**.
9. The Town of Herndon was determined to be a **low-risk auditee**.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

None

TOWN OF HERNDON, VIRGINIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2023

A. FINDINGS – FINANCIAL STATEMENT AUDIT

2022-001: Reimbursements related to grants, Significant Deficiency

Condition:

During the current audit, we noted certain reimbursement requests were not filed timely for expenditures eligible for reimbursement, resulting in a misstatement of revenue and receivables related to grants.

Criteria:

Internal controls should be in place to ensure such reimbursements are made timely and the related revenue and receivables are appropriately recorded.

Cause:

We noted that the town had not implemented a process to ensure the timely submission of reimbursement requests for grant-funded expenditures.

Effect:

Absent appropriate controls, misstatements of revenue and receivables for such expenditure-driven grants could occur.

Recommendation:

We recommend that reimbursement requests be completed more timely, on a monthly or quarterly basis to ensure proper recording of revenue and receivables related to grants.

Views of Responsible Officials and Planned Corrective Action:

The Finance department will continue to work with the departments responsible for reimbursement submission to improve the timeliness of the process.

Current Status: No longer applicable.

TOWN OF HERNDON, VIRGINIA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2023

B. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

2022-002: Coronavirus State and Local Fiscal Recovery Funds – ALN# 21.027, Reporting, Significant Deficiency

Condition:

During the current audit, we noted that the Project and Expenditure report was not reviewed prior to its submission. The report to Treasury was determined to be accurate and timely filed.

Criteria:

Internal controls should be in place to ensure the Project and Expenditure report is reviewed prior to its submission to the oversight agency.

Cause:

We noted that at the time of submission, the town had not implemented a process to ensure the Project and Expenditure report was reviewed prior to its submission.

Effect:

Absent appropriate controls, errors on the report filed or late submission of the Project and Expenditure report could occur.

Questioned Cost Amount:

N/A

Perspective Information:

N/A

Context:

N/A

Recommendation:

We recommend that management develop a system to ensure the Project and Expenditure report is reviewed by an individual other than the preparer to ensure its accuracy and the timeliness of its submission.

TOWN OF HERNDON, VIRGINIA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2023

B. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

2022-002: Coronavirus State and Local Fiscal Recovery Funds – ALN# 21.027, Reporting, Significant Deficiency (Continued)

Views of Responsible Officials and Planned Corrective Action:

Management concurs with the finding and has implemented procedures to ensure the appropriate controls are in place.

Current Status: No longer applicable.

TOWN OF HERNDON, VIRGINIA

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023**

Federal Grantor/Pass - Through Grantor/ Program or Cluster Title	Assistance Listing Number	Cluster Name	Pass-through Entity Identifying Number	Cluster Amounts	Federal Expenditures
U.S. Department of Housing and Urban Development:					
Pass-Through Payments:					
Fairfax County, Virginia:					
Community Development Block Grants:					
Entitlement Grants	14.218	CDBG-Entitlement Grants Cluster	N/A	\$ 126,080	\$ 126,080
Total U.S. Department of Housing and Urban Development					<u>126,080</u>
U.S. Department of Justice:					
Direct Payments:					
Bulletproof Vest Partnership Program	16.607	N/A	N/A		1,075
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	N/A		<u>2,945</u>
Total U.S. Department of Justice					<u>4,020</u>
Department of Transportation:					
Direct Payments:					
Highway Planning and Construction	20.205		N/A		329,000
Pass-Through Payments:					
Virginia Department of Transportation:					
State and Community Highway Safety Program	20.600	Highway Safety Cluster	N/A	9,317	9,317
Alcohol Open Container Requirements	20.607	N/A	N/A		<u>3,241</u>
Total Department of Transportation					<u>341,558</u>
Executive Office of the President:					
Direct Payments:					
High Intensity Drug Trafficking Areas Program	95.001	N/A	N/A		<u>2,490</u>
Total Executive Office of the President					<u>2,490</u>
Department of the Treasury:					
Direct Payments:					
Coronavirus State and Local Fiscal Recovery Recovery Funds	21.027	N/A	N/A		<u>4,181,511</u>
Total Expenditures of Federal Awards					<u>\$ 4,655,659</u>

NOTE 1 - BASIS OF PRESENTATION:

The accompanying Schedule of Federal Expenditures includes the activity of all federally assisted programs of the Town of Herndon, Virginia and is presented on the modified accrual basis of accounting, as described in Note 1 to the Town of Herndon, Virginia's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on this schedule.

NOTE 2 - DE MINIMIS INDIRECT COST RATE:

The entity did not elect to use the 10% de minimus indirect cost rate.

NOTE 3 - OUTSTANDING LOAN BALANCES:

At June 30, 2023, the Town had no outstanding loan balances requiring continuing disclosure.