

TOWN OF TIMBERVILLE, VIRGINIA
FINANCIAL AND COMPLIANCE REPORTS
JUNE 30, 2020

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INDEPENDENT AUDITORS' REPORT

To the Honorable Town Council
Town of Timberville
392 South Main Street
Timberville, VA 22853

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the fiduciary fund of the Town of Timberville, Virginia, as of June 30, 2020, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2020, on our consideration of the Town of Timberville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Timberville's internal control over financial reporting and compliance.

Young, Nicholas, Branner & Phillips, LLP

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Town of Timberville's financial performance provides an overview of the Town's financial activities for the year ended June 30, 2020. Please read it in conjunction with the Town's financial statements, which begin on page 12.

FINANCIAL HIGHLIGHTS

- The assets of the Town exceeded its liabilities by \$4,016,649 at the close of the most recent fiscal year.
- The Town's net position increased as a result of this year's operations. While net position of the business-type activities increased by \$189,547, net position of the governmental activities decreased by \$180,906.
- In the Town's business-type activities, revenues decreased by \$13,665 from the previous year while expenses increased by \$38,098.
- In the Town's governmental activities, revenues increased by \$43,046 from the previous year while expenses increased by \$78,332.
- Actual revenues were \$66,020 more than budgeted for the General Fund. General Fund expenditures were \$63,288 less than budgeted.
- Operating revenues and interest earned were \$30,075 more than budgeted for the Water and Sewer Fund. Water and Sewer Fund operating expenses, excluding depreciation, and interest expense were \$19,435 less than budgeted.
- The Town spent \$242,465 for capital outlays during the current fiscal year.
- The Town's long-term debt decreased by \$110,588 during the current fiscal year.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 11, 12 and 13) provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements start on page 14. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for the future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds.

Reporting the Town as a Whole

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

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

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

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

Reporting the Town's Most Significant Funds

The fund financial statements begin on page 14 and provide detailed information about the Town's funds-not the Town as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town uses fund accounting to ensure and reflect compliance (or noncompliance) with finance-related legal requirements, such as the budget ordinance. The Town's two kinds of funds-*governmental* and *proprietary*-use different accounting approaches.

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

THE TOWN AS TRUSTEE

The Town is the trustee, or fiduciary, for the EDA Fund. All of the Town's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position on pages 23 and 24. Since this fund is custodial in nature (i.e. assets equal liabilities) it does not involve the measurement of results of operations. We exclude these activities from the Town's other financial statements because the Town cannot use these assets to finance its operations. The Town is responsible for ensuring that the assets reported in this fund are used for their intended purposes.

THE TOWN AS A WHOLE

The Town's *combined* net position changed slightly from a year ago – *increasing* from \$4,008,008 to \$4,016,649. During the year, the net position of the governmental activities decreased by 13.0 percent and the business-type activities increased by 7.3 percent. Below is a summary of the net position as of June 30, 2020 and 2019.

	NET POSITION					
	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 575,144	\$ 726,879	\$ 1,398,700	\$ 1,349,994	\$ 1,973,844	\$ 2,076,873
Capital assets	<u>1,165,504</u>	<u>1,177,321</u>	<u>2,218,914</u>	<u>2,175,965</u>	<u>3,384,418</u>	<u>3,353,286</u>
Total assets	<u>\$ 1,740,648</u>	<u>\$ 1,904,200</u>	<u>\$ 3,617,614</u>	<u>\$ 3,525,959</u>	<u>\$ 5,358,262</u>	<u>\$ 5,430,159</u>
Total deferred outflow of resources	<u>\$ 276,801</u>	<u>\$ 277,935</u>	<u>\$ 53,633</u>	<u>\$ 50,456</u>	<u>\$ 330,434</u>	<u>\$ 328,391</u>
Long-term liabilities	\$ 380,247	\$ 315,067	\$ 772,405	\$ 865,675	\$ 1,152,652	\$ 1,180,742
Other liabilities	<u>101,165</u>	<u>103,831</u>	<u>76,133</u>	<u>71,407</u>	<u>177,298</u>	<u>175,238</u>
Total liabilities	<u>\$ 481,412</u>	<u>\$ 418,898</u>	<u>\$ 848,538</u>	<u>\$ 937,082</u>	<u>\$ 1,329,950</u>	<u>\$ 1,355,980</u>
Total deferred inflows of resources	<u>\$ 320,048</u>	<u>\$ 366,342</u>	<u>\$ 22,049</u>	<u>\$ 28,220</u>	<u>\$ 342,097</u>	<u>\$ 394,562</u>
Net position:						
Net investment in capital assets	\$ 980,504	\$ 987,323	\$ 1,474,362	\$ 1,325,824	\$ 2,454,866	\$ 2,313,147
Unrestricted	<u>235,485</u>	<u>409,572</u>	<u>1,326,298</u>	<u>1,285,289</u>	<u>1,561,783</u>	<u>1,694,861</u>
Total net position	<u>\$ 1,215,989</u>	<u>\$ 1,396,895</u>	<u>\$ 2,800,660</u>	<u>\$ 2,611,113</u>	<u>\$ 4,016,649</u>	<u>\$ 4,008,008</u>

The largest portion of the Town's net position (61.1 percent) reflects its investments in capital assets (e.g., land, buildings, equipment, and improvements), less any debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide service to citizens; consequently these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of unrestricted net position (\$1,561,783) may be used to meet the government's ongoing obligation to citizens and creditors.

The following is a summary of the change in net position for the governmental and business-type activities for the years ended June 30, 2020 and 2019.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Revenues						
Charges for services	\$ 191,417	\$ 200,574	\$ 700,630	\$ 714,295	\$ 892,047	\$ 914,869
General property taxes	237,823	226,821	-	-	237,823	226,821
Other local taxes	828,487	794,781	-	-	828,487	794,781
Intergovernmental	78,111	86,866	-	-	78,111	86,866
Miscellaneous	20,009	3,759	-	-	20,009	3,759
Total revenues	<u>\$ 1,355,847</u>	<u>\$ 1,312,801</u>	<u>\$ 700,630</u>	<u>\$ 714,295</u>	<u>\$ 2,056,477</u>	<u>\$ 2,027,096</u>
Program expenses						
General government	\$ 446,932	\$ 422,149	\$ -	\$ -	\$ 446,932	\$ 422,149
Public safety	611,258	564,335	-	-	611,258	564,335
Public works	361,277	331,251	-	-	361,277	331,251
Parks and recreation	24,469	47,869	-	-	24,469	47,869
Water and sewer	-	-	600,258	562,160	600,258	562,160
Total expenses	<u>\$ 1,443,936</u>	<u>\$ 1,365,604</u>	<u>\$ 600,258</u>	<u>\$ 562,160</u>	<u>\$ 2,044,194</u>	<u>\$ 1,927,764</u>
Operating income (loss)	<u>\$ (88,089)</u>	<u>\$ (52,803)</u>	<u>\$ 100,372</u>	<u>\$ 152,135</u>	<u>\$ 12,283</u>	<u>\$ 99,332</u>
Nonoperating						
Interest income	\$ 952	\$ 1,613	\$ 19,945	\$ 13,367	\$ 20,897	\$ 14,980
Interest expense	-	-	(21,632)	(23,515)	(21,632)	(23,515)
Gain (loss) on sale of equipment	-	(1,060)	(2,907)	-	(2,907)	(1,060)
Total nonoperating	<u>\$ 952</u>	<u>\$ 553</u>	<u>\$ (4,594)</u>	<u>\$ (10,148)</u>	<u>\$ (3,642)</u>	<u>\$ (9,595)</u>
Income (loss) before transfers	<u>\$ (87,137)</u>	<u>\$ (52,250)</u>	<u>\$ 95,778</u>	<u>\$ 141,987</u>	<u>\$ 8,641</u>	<u>\$ 89,737</u>
Transfers	<u>(93,769)</u>	<u>14,942</u>	<u>93,769</u>	<u>(14,942)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	<u>\$ (180,906)</u>	<u>\$ (37,308)</u>	<u>\$ 189,547</u>	<u>\$ 127,045</u>	<u>\$ 8,641</u>	<u>\$ 89,737</u>

The Town's total revenues increased by \$29,381 (1.4 percent). The total cost of all programs and services increased by \$116,430 (6.0 percent). Our analysis that follows separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenues for the Town's governmental activities increased by \$43,046 (3.3 percent) and expenses increased by \$78,332 (5.7 percent). The factors driving these results include:

Revenues

- *Other local taxes* overall increased by \$33,706. Sales tax, meals tax, and business and professional licenses increased by \$23,887, \$2,035, and \$6,704, respectively. Each of these categories increased due to some growth within the Town. Sales tax and meals tax also increased due to a new business opening in the Town. Cigarette tax increased by \$14,250 as a result of additional demand requiring vendors to purchase more of the stamps. Bank stock tax decreased by \$12,650 due to a decrease in bank assets during the year.
- *Miscellaneous revenue* overall increased by \$16,250. The most significant increase (\$10,000) is due to receiving a donation for the park development. Additional donations for specific programs included buddy benches, shop with a hero, and senior banners and signs for \$1,500, \$1,600, and \$4,854, respectively.

Expenses

- *General government* overall increased by \$24,783. The most significant increase was retirement, which increased by \$15,235, and is predominantly from calculations in the actuarial valuation related to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Workmen's compensation increased by \$3,091 due to an increase in rates. Legal fees increased by \$3,064 from additional services needed. Supplies increased by \$4,011 as a result of extra miscellaneous items required by the Town during the current year.
- *Public safety* overall increased by \$46,923. The most significant change was retirement, which increased by \$26,354, and is predominantly from calculations in the actuarial valuation related to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Workmen's compensation increased by \$5,216 due to an increase in rates. Police salaries increased by \$4,924 related to accrued compensated absences. Uniforms increased by \$4,310 as more uniforms were needed during the current year for a new officer replacing a retiring officer.
- *Public Works* overall increased by \$30,026. The most significant increase was the disposal contract, which increased by \$16,899, due to an increase in rates. Electricity also increased (by \$3,406) because of increased rates. Retirement increased by \$5,667 predominantly from calculations in the actuarial valuation related to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.
- *Parks and recreation* overall decreased by \$23,400. The pool permanently closed during the current fiscal year. Several prior year expenses including salaries (\$17,607) and social security taxes (\$1,347) were eliminated. Electricity and buildings and grounds maintenance decreased by \$4,876 and \$1,867, respectively as a result of the pool closure.

Business-Type Activities

Revenues for the Town's business-type activities decreased by \$13,665 (1.9 percent) and expenses increased by \$38,098 (6.8 percent). The factors driving these results include:

Revenues

- *Water and sewer revenues* overall decreased by \$13,665. The most significant change was connection fees which decreased by \$84,000 as a result of new development during the prior year in the Town. Water service charges and sewer service charges increased by \$19,468 and \$27,326, respectively, due to an increase in rates and growth experienced from the prior year development. The Town received a fluoride grant in the current year for \$26,930.

Expenses

- *Water and sewer expenses* overall increased by \$38,098. Water and sewer salaries together increased by \$13,356 as a result of an employee, hired in the prior year, working for a full year. The sewer disposal contract increased by \$5,840. This increase was due to increased sludge treatment efforts and higher than average biochemical oxygen demand during the fiscal year. Electricity increased by \$6,633 due to an increase in rates. Equipment repairs and maintenance increased by \$5,190 as a result of additional repairs required during the current year.

THE TOWN'S FUNDS

As the Town completed the year, its governmental fund (as presented in the balance sheet on page 14) reported a fund balance of \$210,068, which is a decrease of \$128,020 over last year's total of \$338,088. The primary reasons for the General Fund's decrease mirror the changes noted in the previous section under "governmental" activities. In addition, the Town expended \$96,215 on capital additions (see page 73), an increase of \$15,127 over the prior year.

As the Town completed the year, its proprietary fund (as presented in the statement of net position (on pages 18 and 19) reported net position of \$2,800,660 which is an increase of \$189,547 over last year's total of \$2,611,113. Significant changes in the change in net position are noted in the previous section under "business-type" activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Town Council did not make any revisions to the General Fund budget. The significant variations of actual results to the General Fund budget (original and final) are summarized as follows:

<u>Account</u>	<u>Variance Positive (Negative)</u>
Revenues	
Sales tax	\$ 18,522
Bank stock tax	(12,666)
Vehicle license fees	14,613
Other grants and donations	20,009
Expenditures	
<i>General Government</i>	
Clerk/Treasurer	8,434
Office Assistants	(9,826)
Workmen's compensation	(7,228)
<i>Public Safety</i>	
Police car – maintenance	(5,088)
Professional development	(5,325)
Capital outlay	5,936
<i>Public Works</i>	
Electricity	(6,526)
Disposal contract	(17,298)
<i>Parks and Recreation</i>	
Supplies	(4,729)
Capital outlay	96,030

Actual revenues exceeded the final budgeted amounts by \$66,020. Sales tax increased by more than expected due to a full year of a new business in Town and some growth during the year. Vehicle license fees also increased from the current year growth in the Town. Other grants and donations increased by more than expected as a result of local businesses and individuals donating to special projects like the development of the park, shop with a hero, and buddy benches. Bank stock taxes decreased due to a decrease in bank assets.

Actual expenditures exceeded the final budgeted amounts by \$63,288. Office Assistants were greater than budget due to a full year of an additional assistant. Workmen's compensation was more than budget due to rate increases. The Treasurer's salary was less than budget from the transition to a new Treasurer during the prior year. Professional development for the police department was greater than budget from a tuition reimbursement made to an officer. Police car maintenance increased as the vehicles are used heavily and starting to age. Capital outlays in the police department were less than the budget due to less capital items needed. Public works electricity exceeded the budget due to an increase in rates. The disposal contract increased by more than expected as the result of a jump in rates. Capital outlays for the park were less than budget as the Town is developing and implementing an overall park system master plan that includes various infrastructure improvements. The budgeted amounts not used during the fiscal year will be carried to future years as the implementation progresses.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2020, the Town had \$3.38 million invested in capital assets including public works and police equipment, buildings, park facilities, sidewalks, and the water and sewer system. (See table below.) This represents a net increase of \$31,130, or 0.9 percent, over last year.

	Governmental Activities		Business-Type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Land	\$ 278,430	\$ 278,430	\$ 43,900	\$ 43,900	\$ 322,330	\$ 322,330
Buildings	248,981	255,982	6,777	7,444	255,758	263,426
Infrastructure	409,169	413,071	-	-	409,169	413,071
Equipment	228,924	229,838	193,739	139,137	422,663	368,975
Utility system	-	-	1,974,498	1,985,484	1,974,498	1,985,484
Totals	<u>\$ 1,165,504</u>	<u>\$ 1,177,321</u>	<u>\$ 2,218,914</u>	<u>\$ 2,175,965</u>	<u>\$ 3,384,418</u>	<u>\$ 3,353,286</u>

This year's major additions included:

2020 Dodge Durango	\$ 41,263
Lone Pine water line	64,345
Fluoride analyzer	24,623
SCADA system	<u>55,764</u>
	<u>\$ 185,995</u>

Debt

At year-end, the Town had \$929,550 in outstanding loans compared to \$1,040,138 last year. This is a decrease of 10.6 percent as shown in the following table.

	Outstanding June 30,	
	<u>2020</u>	<u>2019</u>
Governmental Activities		
Loan payable, American Legion property	<u>\$ 185,000</u>	<u>\$ 190,000</u>
Business-Type Activities		
Water & Sewer Fund loans payable	<u>\$ 744,550</u>	<u>\$ 850,138</u>

No new debt was issued during the year ended June 30, 2020.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The FY 2020-2021 budget has decreased over the FY 2019-2020 budget by \$255,728. This is a 10.8 percent decrease in revenue over the prior year. The most significant decrease (\$254,710) is from transfers from savings. The savings consist of prior years' connection fees and are normally used to fund infrastructure improvements and other capital outlays. For the FY 2020-2021 budget, the transfers will not be made and infrastructure improvements and capital outlays have been put on hold due to the global pandemic.

There are some increases and decreases included in the FY 2020-2021 budget. These changes are mainly to align current year expectations with past performance. These increases and decreases mainly offset each other with a small overall difference. The Town is taking a wait and see approach during the global pandemic by retaining resources accumulated in prior years in order to fund operations if needed. The Town will reevaluate around mid-way through the fiscal year and determine if the budget can be amended to include capital outlays.

The Town continues the process of replacing all water meters with radio-read meters. The radio-read meters are saving time and labor during the data collection process. The Town estimates the installation is 90 percent to 95 percent complete.

The only capital outlay budgeted is \$20,000 for park improvements. A local business is donating the funds and requested the funds be used specifically for the park improvements. The Town has developed an overall park system master plan that includes various infrastructure improvements and the local business has partnered with the Town, over the long term, to promote community development.

Funds are allocated in the FY 2020-2021 budget for raises. A 3.0 percent pool of increases is distributed among personnel. The majority of employees received 3.0 percent raises. Three percent is consistent with the average cost-of-living increase for the Town.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Town Office at 392 South Main Street, Timberville, VA.

Government-Wide Financial Statements

TOWN OF TIMBERVILLE, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2020

	----- Primary Government -----		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 148,411	\$ 1,311,692	\$ 1,460,103
Receivables (net of allowance for uncollectibles):			
Property taxes	269,572	-	269,572
Utility taxes	4,177	-	4,177
Vehicle license fees	35,467	-	35,467
Meals and occupancy taxes	26,741	-	26,741
Accounts	30,209	107,911	138,120
Accrued interest	-	66	66
Container deposits	-	500	500
Due from other governmental units	17,350	-	17,350
Internal balances	28,462	(28,462)	-
Prepaid expenses	14,755	6,993	21,748
Capital assets:			
Non-depreciable	278,430	43,900	322,330
Depreciable, net of accumulated depreciation	<u>887,074</u>	<u>2,175,014</u>	<u>3,062,088</u>
Total assets	<u>\$ 1,740,648</u>	<u>\$ 3,617,614</u>	<u>\$ 5,358,262</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension amounts	\$ 264,851	\$ 51,431	\$ 316,282
Deferred OPEB amounts, life insurance	<u>11,950</u>	<u>2,202</u>	<u>14,152</u>
Total deferred outflows of resources	<u>\$ 276,801</u>	<u>\$ 53,633</u>	<u>\$ 330,434</u>
LIABILITIES			
Accounts payable	\$ 52,098	\$ 33,147	\$ 85,245
Renters' deposits	-	34,324	34,324
Accrued compensated absences	49,067	1,885	50,952
Accrued interest payable	-	2	2
Water and sewer hook-ups	-	6,775	6,775
Long-term liabilities:			
Long-term debt, due within one year	5,000	108,635	113,635
Long-term debt, due in more than one year	180,000	635,915	815,915
Net pension liability	151,892	19,866	171,758
Net OPEB liability, life insurance	<u>43,355</u>	<u>7,989</u>	<u>51,344</u>
Total liabilities	<u>\$ 481,412</u>	<u>\$ 848,538</u>	<u>\$ 1,329,950</u>

(Continued)

TOWN OF TIMBERVILLE, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2020

	----- Primary Government -----		
	Governmental Activities	Business-Type Activities	Total
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	\$ 246,679	\$ -	\$ 246,679
Deferred pension amounts	66,984	20,873	87,857
Deferred OPEB amounts, life insurance	<u>6,385</u>	<u>1,176</u>	<u>7,561</u>
Total deferred inflows of resources	<u>\$ 320,048</u>	<u>\$ 22,049</u>	<u>\$ 342,097</u>
NET POSITION			
Net investment in capital assets	\$ 980,504	\$ 1,474,362	\$ 2,454,866
Unrestricted	<u>235,485</u>	<u>1,326,298</u>	<u>1,561,783</u>
Total net position	<u>\$ 1,215,989</u>	<u>\$ 2,800,660</u>	<u>\$ 4,016,649</u>

See Notes to Financial Statements.

TOWN OF TIMBERVILLE, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2020

<u>Functions/ Programs</u>	<u>Expenses</u>	----- Program Revenues -----		
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>
			<u>Contributions</u>	<u>Contributions</u>
Primary Government:				
Governmental activities:				
General government administration	\$ 446,932	\$ 3,583	\$ -	\$ -
Public safety	611,258	11,704	76,849	-
Public works	361,277	175,280	4,906	-
Parks and recreation	<u>24,469</u>	<u>850</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 1,443,936</u>	<u>\$ 191,417</u>	<u>\$ 81,755</u>	<u>\$ -</u>
Business-type activities:				
Water and sewer	<u>\$ 621,890</u>	<u>\$ 700,630</u>	<u>\$ -</u>	<u>\$ -</u>
Total business-type activities	<u>\$ 621,890</u>	<u>\$ 700,630</u>	<u>\$ -</u>	<u>\$ -</u>
Total primary government	<u>\$ 2,065,826</u>	<u>\$ 892,047</u>	<u>\$ 81,755</u>	<u>\$ -</u>

General revenues:

General property taxes

Other local taxes

Unrestricted revenue from the use of money and property

Grants and contributions not restricted to specific programs

Gain (loss) on disposal of assets

Transfers

Total general revenues and transfers

Change in net position

Net position at beginning of year

Net position at end of year

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

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

Governmental Activities	Business-Type Activities	Total
\$ (443,349)	\$ -	\$ (443,349)
(522,705)	-	(522,705)
(181,091)	-	(181,091)
<u>(23,619)</u>	<u>-</u>	<u>(23,619)</u>
\$ <u>(1,170,764)</u>	\$ <u>-</u>	\$ <u>(1,170,764)</u>
 \$ -	 \$ 78,740	 \$ 78,740
 \$ -	 \$ 78,740	 \$ 78,740
 \$ <u>(1,170,764)</u>	 \$ <u>78,740</u>	 \$ <u>(1,092,024)</u>
 \$ 237,823	 \$ -	 \$ 237,823
828,487	-	828,487
952	19,945	20,897
16,365	-	16,365
-	(2,907)	(2,907)
<u>(93,769)</u>	<u>93,769</u>	<u>-</u>
\$ <u>989,858</u>	\$ <u>110,807</u>	\$ <u>1,100,665</u>
 \$ (180,906)	 \$ 189,547	 \$ 8,641
 <u>1,396,895</u>	 <u>2,611,113</u>	 <u>4,008,008</u>
 <u>\$ 1,215,989</u>	 <u>\$ 2,800,660</u>	 <u>\$ 4,016,649</u>

Fund Financial Statements

TOWN OF TIMBERVILLE, VIRGINIA

---GOVERNMENTAL FUND---

BALANCE SHEET

June 30, 2020

	General Fund
ASSETS	
Cash and cash equivalents	\$ 148,411
Receivables (net of allowance for uncollectibles):	
Property taxes	269,572
Utility taxes	4,177
Vehicle license fees	35,467
Meals and occupancy taxes	26,741
Accounts	30,209
Due from other governmental units	17,350
Prepaid expenses	14,755
Due from other funds	<u>28,462</u>
Total assets	<u>\$ 575,144</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 52,099
Accrued compensated absences	<u>8,949</u>
Total liabilities	<u>\$ 61,048</u>
Deferred Inflows of Resources	
Unavailable revenue	<u>\$ 304,028</u>
Total deferred inflows of resources	<u>\$ 304,028</u>
Fund Balance	
Nonspendable, prepaid expenses	\$ 14,755
Unassigned	<u>195,313</u>
Total fund balance	<u>\$ 210,068</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 575,144</u>

See Notes to Financial Statements.

TOWN OF TIMBERVILLE, VIRGINIA
----GOVERNMENTAL FUND----
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2020

FUND BALANCE-TOTAL GOVERNMENTAL FUND **\$ 210,068**

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

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

Governmental capital assets	\$ 2,203,068	
Less accumulated depreciation	<u>(1,037,564)</u>	1,165,504

Certain revenues not available to pay for current period expenditures are not reported in the governmental fund.

Deferred revenues	<u>\$ 57,349</u>	57,349
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Deferred outflows of resources for pension and OPEB amounts	<u>\$ 276,801</u>	276,801
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Deferred inflows of resources for pension and OPEB amounts	<u>\$ (73,369)</u>	(73,369)
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Certain liabilities, including notes payable, are not payable from current financial resources and therefore are not reported in the governmental fund.

Notes payable	\$ (185,000)	
Net pension liability	(151,892)	
Compensated absences	(40,117)	
Net OPEB liability, life insurance	<u>(43,355)</u>	<u>(420,364)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 1,215,989**

See Notes to Financial Statements.

TOWN OF TIMBERVILLE, VIRGINIA
----GOVERNMENTAL FUND----
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
Year Ended June 30, 2020

	<u>General Fund</u>
REVENUES	
General property taxes	\$ 237,797
Other local taxes	838,734
Permits, privilege fees, and regulatory licenses	3,333
Fines and forfeitures	11,704
Revenue from the use of money and property	952
Charges for services	176,130
Miscellaneous	20,259
Intergovernmental revenues:	
Commonwealth	76,367
Federal	<u>1,744</u>
Total revenues	<u>\$ 1,367,020</u>
 EXPENDITURES	
General government administration	\$ 435,217
Public safety	580,355
Public works	326,737
Parks and recreation	53,962
Debt service	<u>5,000</u>
Total expenditures	<u>\$ 1,401,271</u>
 Excess (deficiency) of revenues over expenditures	<u>\$ (34,251)</u>
 OTHER FINANCING SOURCES (USES)	
Transfers in	\$ 52,416
Transfers out	<u>(146,185)</u>
Total other financing sources (uses)	<u>\$ (93,769)</u>
 Net change in fund balance	\$ (128,020)
 FUND BALANCE AT BEGINNING OF YEAR	<u>338,088</u>
 FUND BALANCE AT END OF YEAR	<u><u>\$ 210,068</u></u>

See Notes to Financial Statements.

TOWN OF TIMBERVILLE, VIRGINIA

----GOVERNMENTAL FUND----

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN THE FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2020**

NET CHANGE IN FUND BALANCE-TOTAL GOVERNMENTAL FUND \$ (128,020)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over the estimated useful lives.

Expenditures for capital assets	\$ 96,215	
Less current year depreciation	<u>(108,032)</u>	(11,817)

Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the governmental fund.

Property taxes	\$ 25	
Vehicle license fees	<u>(10,248)</u>	(10,223)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund.

Difference between pension and OPEB expenditures and pension and OPEB expense	\$ (40,296)	
Change in long-term compensated absences	<u>4,450</u>	(35,846)

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

Principal repayments	\$ 5,000	<u>5,000</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (180,906)

See Notes to Financial Statements.

TOWN OF TIMBERVILLE, VIRGINIA

---PROPRIETARY FUND---
STATEMENT OF NET POSITION
June 30, 2020

	<u>Enterprise Fund</u> <u>Water & Sewer</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,277,368
Restricted cash and cash equivalents, renters' deposits	34,324
Accounts receivable, less allowance for doubtful accounts of \$9,653	107,911
Accrued interest receivable	66
Prepaid expenses	6,993
Container deposits	500
Total current assets	<u>\$ 1,427,162</u>
Noncurrent assets:	
Capital assets:	
Land	\$ 43,900
Buildings	28,623
Utility plants, distribution, and collection systems	3,928,572
Equipment	524,168
Less accumulated depreciation	<u>(2,306,349)</u>
Total noncurrent assets	<u>\$ 2,218,914</u>
Total assets	<u>\$ 3,646,076</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pension amounts	\$ 51,431
Deferred OPEB amounts, life insurance	<u>2,202</u>
Total deferred outflows of resources	<u>\$ 53,633</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 33,147
Renters' deposits	34,324
Accrued compensated absences	1,885
Accrued interest payable	2
Due to other funds	28,462
Water and sewer hook-ups	6,775
Bonds, notes and loans payable	108,635
Net pension liability	19,866
Net OPEB liability, life insurance	<u>7,989</u>
Total current liabilities	<u>\$ 241,085</u>
Noncurrent liabilities:	
Bonds, notes and loans payable	<u>\$ 635,915</u>
Total noncurrent liabilities	<u>\$ 635,915</u>
Total liabilities	<u>\$ 877,000</u>

(Continued)

TOWN OF TIMBERVILLE, VIRGINIA

---PROPRIETARY FUND---
STATEMENT OF NET POSITION
June 30, 2020

	Enterprise Fund Water & Sewer
DEFERRED INFLOWS OF RESOURCES	
Deferred pension amounts	\$ 20,873
Deferred OPEB amounts, life insurance	<u>1,176</u>
Total inflows of resources	<u>\$ 22,049</u>
NET POSITION	
Net investment in capital assets	\$ 1,474,362
Unrestricted	<u>1,326,298</u>
Total net position	<u>\$ 2,800,660</u>

See Notes to Financial Statements.

TOWN OF TIMBERVILLE, VIRGINIA
---PROPRIETARY FUND---
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
Year Ended June 30, 2020

	<u>Enterprise Fund</u> <u>Water & Sewer</u>
OPERATING REVENUES	
Water service charges	\$ 305,051
Sewer service charges	338,751
Connection fees	17,000
Penalties and interest	12,354
Flouride grant	26,930
Miscellaneous	544
Total operating revenues	<u>\$ 700,630</u>
OPERATING EXPENSES	
Water department	\$ 202,151
Sewer department	297,713
Depreciation	100,394
Total operating expenses	<u>\$ 600,258</u>
Operating income	<u>\$ 100,372</u>
NONOPERATING REVENUE (EXPENSE)	
Interest earned	\$ 19,945
Interest expense	(21,632)
Gain (loss) on disposal of equipment	(2,907)
Total nonoperating revenue (expense)	<u>\$ (4,594)</u>
Income before transfers	<u>\$ 95,778</u>
TRANSFERS	
Transfers in	\$ 146,185
Transfers out	(52,416)
Total transfers	<u>\$ 93,769</u>
Change in net position	\$ 189,547
NET POSITION AT BEGINNING OF YEAR	<u>2,611,113</u>
NET POSITION AT END OF YEAR	<u><u>\$ 2,800,660</u></u>

See Notes to Financial Statements.

TOWN OF TIMBERVILLE, VIRGINIA

---PROPRIETARY FUND---
STATEMENT OF CASH FLOWS
 Year Ended June 30, 2020

	Enterprise Fund Water & Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 697,193
Cash payments to suppliers of goods and services	(365,779)
Cash payments to employees	<u>(127,046)</u>
Net cash provided by (used in) operating activities	<u>\$ 204,368</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating transfers from other funds	\$ 146,185
Operating transfers to other funds	(52,416)
Payment to other fund	<u>(489)</u>
Net cash provided by (used in) noncapital financing activities	<u>\$ 93,280</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of property and equipment	\$ (146,250)
Principal payments on long-term borrowings	(105,588)
Interest expense	<u>(21,633)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (273,471)</u>

(Continued)

TOWN OF TIMBERVILLE, VIRGINIA

---PROPRIETARY FUND---
STATEMENT OF CASH FLOWS
 Year Ended June 30, 2020

	Enterprise Fund <u>Water & Sewer</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earned on investments	\$ 19,944
Net cash provided by (used in) investing activities	\$ 19,944
Net increase (decrease) in cash	\$ 44,121
Cash and cash equivalents:	
Beginning	<u>1,267,571</u>
Ending	<u>\$ 1,311,692</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	
Operating income	\$ 100,372
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:	
Pension costs (earnings)	4,167
Group life costs (earnings)	(1,198)
Depreciation	100,394
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(4,263)
(Increase) decrease in prepaid expenses	169
Increase (decrease) in accounts payable and accrued expenses	3,901
Increase (decrease) in renters' deposits	<u>826</u>
Net cash provided by (used in) operating activities	<u>\$ 204,368</u>

See Notes to Financial Statements.

TOWN OF TIMBERVILLE, VIRGINIA
---FIDUCIARY FUND---
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2020

	EDA <u>Fund (Agency)</u>
ASSETS	
Cash	\$ <u>11,820</u>
Total assets	<u><u>\$ 11,820</u></u>
LIABILITIES	
Amounts held for others	\$ <u>11,820</u>
Total liabilities	<u><u>\$ 11,820</u></u>

See Notes to Financial Statements.

TOWN OF TIMBERVILLE, VIRGINIA

---FIDUCIARY FUND---
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Year Ended June 30, 2020

	EDA <u>Fund (Agency)</u>
ADDITIONS	
Fees (revenues)	\$ 11,414
Total additions	<u>\$ 11,414</u>
DEDUCTIONS	
Expenses	\$ 4,250
Total deductions	<u>\$ 4,250</u>
Changes in net position	\$ 7,164
NET POSITION AT BEGINNING OF YEAR	<u>4,656</u>
NET POSITION AT END OF YEAR	<u><u>\$ 11,820</u></u>

See Notes to Financial Statements.

TOWN OF TIMBERVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

The financial statements of the Town of Timberville, Virginia, conform to generally accepted accounting principles (GAAP) applicable to government units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the most significant policies:

A. Reporting Entity

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

B. Governmental Accounting Standards

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

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

Government-Wide Financial Statements

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

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

Governmental Fund Financial Statements

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

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

Proprietary Fund Financial Statements

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

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

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

The Town reports the following major proprietary fund:

Water and Sewer Fund-accounts for the activities related to the provision of water and sewer services to the Town's businesses, residents, schools, and churches. It operates the water treatment plant, water distribution systems, sewer collection systems, and pump stations.

Fiduciary Fund Financial Statements

The Town's fiduciary fund is presented in the fund financial statements by type (agency). Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the governmental-wide financial statements.

Fiduciary funds are used to account for assets held by the town in a trustee capacity or as agent for individuals, private organizations, and other governments. The fiduciary fund of the Town is the Economic Development Authority (EDA) Fund. Since this fund is custodial in nature (i.e., assets equal liabilities), it does not involve the measurement of results of operations.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity

Cash and Cash Equivalents

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Receivables

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

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

Property Taxes

Real estate and personal property taxes are assessed annually by Rockingham County, Virginia, for all property of record as of January 1. Property taxes attach as an enforceable lien on property as of January 1. The Town collects real estate and personal property taxes on an annual basis with due dates of December 31, and February 28, respectively. The portion of the tax receivable that is not collected within 45 days after June 30, is shown as deferred inflows of resources in the fund financial statements. A penalty of 10 percent of the tax is assessed after the applicable payment date.

The taxes receivable balance at June 30, 2020, includes amounts not yet billed or received from the January 1, 2020, levy. These items are included in deferred inflows of resources since these taxes are restricted for use until fiscal year 2021. The real estate taxes will be due December 31, 2020, and the personal property taxes will be due February 28, 2021.

The Town calculates its allowance for uncollectible delinquent property tax accounts using historical collection data and specific account analysis. The allowance at June 30, 2020, amounted to \$16,832.

Prepaid Items

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

Interfund Receivables and Payables

During the course of operations, transactions occur that may result in amounts owed between funds. Those related to goods and service type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds are eliminated in the Statement of Net Position. The Town's General Fund has a due from the Water and Sewer Fund in the amount of \$28,462 at June 30, 2020.

Fixed Assets

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns. In general, the Town defines capital assets as assets with an initial, individual cost of more than \$1,000 (not rounded) and an estimated useful life in excess of one year. Capital assets are carried at historical cost except for donated capital assets that are recorded at their estimated fair value on the date received.

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

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

Buildings and Improvements	20-50 years
Utility System	25-50 years
Machinery and Equipment	5-15 years
Infrastructure	20-40 years

Fund Financial Statements

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

Long-Term Debt

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

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

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

Compensated Absences

It is the Town's policy to permit employees to accumulate earned but not used vacation and sick pay benefits. Vacation and sick pay are accrued when incurred in the government-wide and proprietary fund financial statements. A liability is reported for compensated absences in governmental funds only to the extent that it is expected to be liquidated with expendable available financial resources.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town currently has two items that qualify for reporting in this category. Those items include deferred pension amounts and deferred OPEB amounts for life insurance.

In addition to liabilities, the statement of net position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town currently has four items (property taxes, vehicle license billing, deferred pension amounts and deferred OPEB amounts for life insurance) that qualify for reporting in this category.

Equity Classifications

Government-Wide Statements

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

- a. Net investment in capital assets-consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- b. Restricted net position-consists of assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. These assets are reduced by liabilities and deferred inflows of resources related to those assets.
- c. Unrestricted-all other net position is reported in this category.

Fund Statements

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

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

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

F. Revenues, Expenditures, and Expenses

Governmental Fund Revenues

As mentioned above, governmental fund revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, property taxes not collected within 45 days after year-end are reflected as deferred revenues-uncollected property taxes. The Town recognizes sales and utility taxes remitted to the Town as revenues and receivables in the month preceding receipt. Licenses and permits are recorded as revenues when received. Intergovernmental revenues, consisting primarily of Federal, State and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of specific expenditure.

Operating Revenues and Expenses

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

Expenditures/Expenses

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

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

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

Interfund Transfers

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

Advertising

The Town expenses advertising production costs as they are incurred and advertising communication costs the first time the advertising takes place. Advertising expenditures in the General Fund were \$3,044, for the year ended June 30, 2020.

Fringe benefits

Fringe benefits of the Town include:

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

G. Estimates and Assumptions

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

H. Use of Restricted Resources

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

I. Pensions

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

J. Group Life Insurance

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Stewardship, Compliance, and Accountability**A. Budgetary Information**

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the General Fund. Below is a summary of budgeted information which is not included in the general Fund Statement of Revenues, expenditures, and Changes in Fund Balance – Budget and Actual:

	<u>Budget</u>	<u>Actual</u>
Carryover:		
Transfer from savings	\$ 143,000	\$ 143,000
	<u>\$ 143,000</u>	<u>\$ 143,000</u>

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

	<u>Budget</u>	<u>Actual</u>
WATER AND SEWER FUND		
Carryover:		
Transfer from savings	\$ 218,708	\$ 218,708
Principal payments on debt:		
Farmers and Merchants Bank	(105,718)	(105,588)
Capital outlay:		
Water department	(93,000)	(146,250)
Sewer department	<u>(49,000)</u>	<u>-</u>
	<u>\$ (29,010)</u>	<u>\$ (33,130)</u>

B. Excess of Expenditures Over Appropriations

For the year ended June 30, 2020, General Fund expenditures exceeded appropriations in General Government Administration by \$2,766, Public Safety by \$7,876, and Public Works by \$17,558. These over expenditures were funded by actual revenues and operating transfers into that fund.

Note 3. Cash and Cash EquivalentsDeposits

Below is a summary of the Town's accounts/deposits at June 30, 2020:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
<u>General</u>		
Checking (Farmers and Merchants Bank)	\$ 148,111	\$ 158,981
Petty cash	300	300
<u>Water and Sewer</u>		
Checking (Farmers and Merchants Bank)	101,806	103,739
Certificates of deposit (Farmers and Merchants Bank)	<u>1,209,886</u>	<u>1,209,886</u>
Total reporting entity	<u>\$ 1,460,103</u>	<u>\$ 1,472,906</u>

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Cash Equivalents (Continued)

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

Note 4. Receivables

Receivables as of June 30, 2020, for the government's individual major funds including the applicable allowances for uncollectible accounts, are as follows:

	General	Water and Sewer	Total
Receivables:			
Interest	\$ -	\$ 66	\$ 66
Property taxes	286,404	-	286,404
Other taxes:			
Utilities	4,177	-	4,177
Vehicle license fees	35,467	-	35,467
Meals and occupancy	26,741	-	26,741
Accounts	30,209	117,564	147,773
Container deposits	-	500	500
Gross receivables	\$ 382,998	\$ 118,130	\$ 501,128
Less: allowance for uncollectibles	(16,832)	(9,653)	(26,485)
Net total receivables	<u>\$ 366,166</u>	<u>\$ 108,477</u>	<u>\$ 474,643</u>

Note 5. Due from Other Governmental Units

Due from other governmental units consists of the following:

Commonwealth of Virginia:	
Department of Taxation, communications tax collected for the Town	\$ 4,455
County of Rockingham, Virginia:	
Sales tax collected for the Town	12,605
Court fines collected for the Town	<u>290</u>
	<u>\$ 17,350</u>

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 278,430	\$ -	\$ -	\$ 278,430
Total capital assets not being depreciated	\$ 278,430	\$ -	\$ -	\$ 278,430
Capital assets being depreciated				
Buildings	\$ 524,379	\$ 6,413	\$ -	\$ 530,792
Machinery and equipment	584,935	64,803	(8,550)	641,188
Infrastructure	727,659	24,999	-	752,658
Total capital assets being depreciated	\$ 1,836,973	\$ 96,215	\$ (8,550)	\$ 1,924,638
Less accumulated depreciation for				
Buildings	\$ 268,397	\$ 13,414	\$ -	\$ 281,811
Machinery and equipment	355,097	65,717	(8,550)	412,264
Infrastructure	314,588	28,901	-	343,489
Total accumulated depreciation	\$ 938,082	\$ 108,032	\$ (8,550)	\$ 1,037,564
Total capital assets being depreciated, net	\$ 898,891	\$ (11,817)	\$ -	\$ 887,074
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	\$ 1,177,321	\$ (11,817)	\$ -	\$ 1,165,504
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 43,900	\$ -	\$ -	\$ 43,900
Total capital assets not being depreciated	\$ 43,900	\$ -	\$ -	\$ 43,900
Capital assets being depreciated				
Utility system	\$ 3,913,276	\$ 64,345	\$ (49,049)	\$ 3,928,572
Buildings	28,623	-	-	28,623
Machinery and equipment	442,263	81,905	-	524,168
Total capital assets being depreciated	\$ 4,384,162	\$ 146,250	\$ (49,049)	\$ 4,481,363
Less accumulated depreciation for				
Utility system	\$ 1,927,792	\$ 72,424	\$ (46,142)	\$ 1,954,074
Buildings	21,179	667	-	21,846
Machinery and equipment	303,126	27,303	-	330,429
Total accumulated depreciation	\$ 2,252,097	\$ 100,394	\$ (46,142)	\$ 2,306,349
Total capital assets being depreciated, net	\$ 2,132,065	\$ 45,856	\$ (2,907)	\$ 2,175,014
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	\$ 2,175,965	\$ 45,856	\$ (2,907)	\$ 2,218,914

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets (Continued)

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

GOVERNMENTAL ACTIVITIES

General government administration	\$ 5,882
Public safety	58,211
Public works	29,462
Parks and recreation	<u>14,477</u>

Total depreciation expense-governmental activities	<u>\$ 108,032</u>
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BUSINESS-TYPE ACTIVITIES

Water and sewer	<u>\$ 100,394</u>
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Total depreciation expense-business-type activities	<u>\$ 100,394</u>
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Note 7. Unavailable Revenue

The following is a summary of unavailable revenue included in deferred inflows of resources by fund/activity at June 30, 2020:

Fund Statements

	<u>General Fund</u>
Unavailable revenue:	
Property taxes billed in fiscal year 2021	\$ 246,679
Uncollected property tax billing	22,381
Uncollected vehicle license billing	<u>34,968</u>
	<u>\$ 304,028</u>

Government-Wide Statements

	<u>Governmental Activities</u>
Unavailable revenue:	
Property taxes billed in fiscal year 2021	<u>\$ 246,679</u>

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Debt

A summary of long-term debt activity for the year ended June 30, 2020, is as follows. Additional detailed information is available below and on the following page.

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due within One Year</u>
<u>Governmental activities</u>					
<i>General Fund</i>					
Loan payable:					
The Community Foundation, Harrisonburg-Rockingham	\$ 190,000	\$ -	\$ 5,000	\$ 185,000	\$ 5,000
<u>Business-type activities</u>					
<i>Water and Sewer Fund</i>					
Loan payable:					
Farmers and Merchants Bank	\$ 819,916	\$ -	\$ 96,240	\$ 723,676	\$ 99,109
Caterpillar Financial Services Corp	30,222	-	9,348	20,874	9,526
	<u>\$ 850,138</u>	<u>\$ -</u>	<u>\$ 105,588</u>	<u>\$ 744,550</u>	<u>\$ 108,635</u>

The Town entered into a purchase money note agreement with Plains District American Legion Post 278 on December 14, 2017. Total proceeds were \$200,000 and exchanged for land, including a building, owned by the Plains District American Legion Post 278. The note was then assigned to The Community Foundation, Harrisonburg-Rockingham also on December 14, 2017. Total annual payments are \$5,000 with interest at the rate of zero percent. The note matures on December 1, 2056.

The Town signed a refinancing agreement with Farmers and Merchants Bank on March 29, 2017. Proceeds from the commercial loan agreement were used for infrastructure improvements in the Water and Sewer Fund. The loan bears interest at a rate of 2.65 percent and is secured by the assets of the Town. Total monthly loan payments are \$9,781. The loan matures on April 1, 2027. Total interest expense incurred by the Town on the loan for the year ended June 30, 2020 was \$21,141.

The Town signed a purchase agreement with Caterpillar Financial Services Corporation for the acquisition of a mini excavator. Total proceeds from the loan were \$46,900. The loan bears interest at a rate of 1.90 percent and is secured by the mini excavator. Total monthly loan payments are \$819. The loan matures on August 29, 2022. Total interest expense incurred by the Town on the loan for the year ended June 30, 2020 was \$491.

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Debt (Continued)

Debt Maturity

Annual requirements to amortize long-term debt and related interest at June 30, 2020, are as follows:

Principal:

	The Community Foundation Harrisonburg- Rockingham	Farmers and Merchants Bank	Caterpillar Financial Services Corporation	Total
2021	\$ 5,000	\$ 99,109	\$ 9,526	\$ 113,635
2022	5,000	101,808	9,709	116,517
2023	5,000	104,581	1,639	111,220
2024	5,000	107,429	-	112,429
2025	5,000	110,354	-	115,354
2026-2030	25,000	200,395	-	225,395
2031-2035	25,000	-	-	25,000
2036-2040	25,000	-	-	25,000
2041-2045	25,000	-	-	25,000
2046-2050	25,000	-	-	25,000
2051-2055	25,000	-	-	25,000
2056-2060	10,000	-	-	10,000
	<u>\$ 185,000</u>	<u>\$ 723,676</u>	<u>\$ 20,874</u>	<u>\$ 929,550</u>

Interest:

	The Community Foundation Harrisonburg- Rockingham	Farmers and Merchants Bank	Caterpillar Financial Services Corporation	Total
2021	\$ -	\$ 18,250	\$ 314	\$ 18,564
2022	-	15,551	131	15,682
2023	-	12,778	5	12,783
2024	-	9,930	-	9,930
2025	-	7,005	-	7,005
2026-2030	-	4,714	-	4,714
	<u>\$ -</u>	<u>\$ 68,228</u>	<u>\$ 450</u>	<u>\$ 68,678</u>

Note 9. Interfund Transfers

Interfund transfers during the year ended June 30, 2020, were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 52,416	\$ 146,185
Water and Sewer Fund	146,185	52,416
	<u>\$ 198,601</u>	<u>\$ 198,601</u>

NOTES TO FINANCIAL STATEMENTS

Note 9. Interfund Transfers (Continued)

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 10. Pension PlanPlan Description

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

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

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

NOTES TO FINANCIAL STATEMENTS

Note 10. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty-covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or VRS Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions Employees contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions Same as VRS Plan 1.</p>	<p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

NOTES TO FINANCIAL STATEMENTS

Note 10. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Service Credit Service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Service Credit Same as VRS Plan 1.</p>	<p>Service Credit <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contributions Component:</u> Under the defined contribution component, service credit is used to determine vesting for the employer contribution portion of the plan.</p>
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of service credit. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as VRS Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of service credit. Plan 1 or Plan 2 members with at least five years (60 months) of service credit who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required, except as governed by law.</p>

NOTES TO FINANCIAL STATEMENTS

Note 10. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Calculating the Benefit The basic benefit is determined using the average final compensation, service credit and plan multiplier. An early retirement reduction is applied to this amount if the member is retiring with a reduced benefit. In cases where the member has elected an optional form of retirement payment, an option factor specific to the option chosen is then applied.	Calculating the Benefit See definition under VRS Plan 1.	Calculating the Benefit Defined Benefit Component: See definition under Plan 1. Defined Contribution Component: The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.	Service Retirement Multiplier Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.	Service Retirement Multiplier Defined Benefit Component: The retirement multiplier for the defined benefit component is 1.0%. For members that opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. Not applicable to sheriffs, regional jail superintendents and political subdivision hazardous duty employees. Defined Contribution Component: Not applicable.
Normal Retirement Age VRS: Age 65. Political subdivisions hazardous duty employees: Age 60.	Normal Retirement Age VRS: Normal Social Security retirement age. Political subdivisions hazardous duty employees: Same as Plan 1.	Normal Retirement Age Defined Benefit Component: VRS: Same as Plan 2. Political subdivision hazardous duty employees: Not applicable. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of service credit or at age 50 with at least 30 years of service credit. Political subdivisions hazardous duty employees: Age 60 with at least five years of service credit or age 50 with at least 25 years of service credit.	Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age and with at least five years (60 months) of service credit or when their age plus service credit equals 90. Political subdivisions hazardous duty employees: Same as Plan 1.	Earliest Unreduced Retirement Eligibility Defined Benefit Component: VRS: Normal Social Security retirement age and have at least five years (60 months) of service credit or when their age plus service credit equals 90. Political subdivision hazardous duty employees: Not applicable. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

NOTES TO FINANCIAL STATEMENTS

Note 10. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of service credit or age 50 with at least 10 years of service credit.</p> <p>Political subdivisions hazardous duty employees: Age 50 with at least five years of service credit.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of service credit.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Reduced Retirement Eligibility Defined Benefit Component: VRS: Age 60 with at least five years (60 months) of service credit.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p>Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of service credit, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of service credit, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p>Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p>Eligibility: Same as Plan 1.</p> <p>Exceptions to COLA Effective Dates: Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement Defined Benefit Component: Same as Plan 2.</p> <p>Defined Contribution Component: Not applicable.</p> <p>Eligibility: Same as Plan 1 and VRS Plan 2.</p> <p>Exceptions to COLA Effective Dates: Same as Plan 1 and Plan 2.</p>

NOTES TO FINANCIAL STATEMENTS

Note 10. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.	Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.	Disability Coverage Employees of political subdivision (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as service credit in their plan. Prior service credit counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.	Purchase of Prior Service Same as Plan 1.	Purchase of Prior Service Defined Benefit Component: Same as Plan 1, with the following exception: <ul style="list-style-type: none"> Hybrid Retirement Plan members are ineligible for ported service. Defined Contribution Component: Not applicable.

Employees Covered by Benefit Terms

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

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	5
Inactive members:	
Vested inactive members	1
Non-vested inactive members	-
LTD	-
Inactive members active elsewhere in VRS	3
Total inactive members	<u>4</u>
Active members	<u>14</u>
Total covered employees	<u>23</u>

NOTES TO FINANCIAL STATEMENTS

Note 10. Pension Plan (Continued)Contributions

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

The political subdivision's contractually required contribution rate for the year ended June 30, 2020 was 16.56 percent of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by the employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$101,857 and \$96,931 for the years ended June 30, 2020 and June 30, 2019, respectively.

Net Pension (Asset) Liability

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

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2018, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent – 5.35 percent
Investment rate of return	6.75 percent, net of pension plan investment expense, including inflation*

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

NOTES TO FINANCIAL STATEMENTS

Note 10. Pension Plan (Continued)

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest 10 – Non-Hazardous Duty:

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

NOTES TO FINANCIAL STATEMENTS

Note 10. Pension Plan (Continued)

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

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

Actuarial Assumptions – Public Safety Employees with Hazardous Duty Benefits

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the Political Subdivision Retirement Plan was based on an actuarial valuation as of June 30, 2018, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent – 4.75 percent
Investment rate of return	6.75 percent, net of pension plan investment expense, including inflation*

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

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

NOTES TO FINANCIAL STATEMENTS

Note 10. Pension Plan (Continued)

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Hazardous Duty:

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

All Others (Non 10 Largest) – Hazardous Duty:

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

NOTES TO FINANCIAL STATEMENTS

Note 10. 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>Weighted Arithmetic Long-Term Expected Rate of Return</u>	<u>Average Long-Term Expected Rate of Return</u>
Public Equity	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS - Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP - Private Investment Partnership	3.00%	6.29%	0.19%
Total	<u>100.00%</u>		<u>5.13%</u>
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.63%</u>

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

Discount Rate

The discount rate used to measure the total pension liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2019, the alternate rate was the employer contribution rate used in FY 2012 or 100 percent of the actuarially determined employer contribution rate from the June 30, 2017, actuarial valuations, whichever was greater. From July 1, 2019 on, participating employers are assumed to contribute 100 percent of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

NOTES TO FINANCIAL STATEMENTS

Note 10. Pension Plan (Continued)

Changes in Net Pension (Asset) Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) – (b)
Balances at June 30, 2018	\$ 2,556,383	\$ 2,467,779	\$ 88,604
Changes for the year:			
Service cost	\$ 117,039	\$ -	\$ 117,039
Interest	172,887	-	172,887
Change of assumptions	84,040	-	84,040
Differences between expected and actual experience	614	-	614
Contributions - employer	-	96,825	(96,825)
Contributions - employee	-	31,904	(31,904)
Net investment income	-	164,405	(164,405)
Benefit payments, including refunds of employee contributions	(173,151)	(173,151)	-
Administrative expenses	-	(1,605)	1,605
Other changes	-	(103)	103
Net changes	\$ 201,429	\$ 118,275	\$ 83,154
Balances at June 30, 2019	\$ 2,757,812	\$ 2,586,054	\$ 171,758

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

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

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Political Subdivision's Net Pension (Asset) Liability	\$ 555,207	\$ 171,758	\$ (136,059)

NOTES TO FINANCIAL STATEMENTS

Note 10. Pension Plan (Continued)

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

For the year ended June 30, 2020, the political subdivision recognized pension expense of \$146,533. At June 30, 2020, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 147,606	\$ 54,467
Change in assumptions	66,819	10,887
Net difference between projected and actual earnings on pension plan investments	-	22,503
Employer contributions subsequent to the measurement date	<u>101,857</u>	<u>-</u>
Total	<u>\$ 316,282</u>	<u>\$ 87,857</u>

The amount of \$101,857 reported as deferred outflows of resources related to pensions resulting from the subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension (Asset) Liability in the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30</u>	
2021	\$ 46,208
2022	31,074
2023	32,675
2024	16,611
2025	-
Thereafter	-

Pension Plan Data

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

Payables to the Pension Plan

At June 30, 2020, the Town reported a payable of \$11,358 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2020.

NOTES TO FINANCIAL STATEMENTS

Note 11. Group Life InsurancePlan Description

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

Note 11. Group Life Insurance (Continued)

Reduction in benefit Amounts

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

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

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

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31 percent of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79 percent (1.31 percent X 60 percent) and the employer component was 0.52 percent (1.31 percent X 40 percent). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2020 was 0.52 percent of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Program from the entity were \$3,921 and \$3,835 for the years ended June 30, 2020 and June 30, 2019, respectively.

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

At June 30, 2020, the entity reported a liability of \$51,344 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2019 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2019 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the participating employer's proportion was 0.00338 percent as compared to 0.00341 percent at June 30, 2018.

For the year ended June 30, 2020, the participating employer recognized GLI OPEB expense of \$2,097. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

NOTES TO FINANCIAL STATEMENTS

Note 11. Group Life Insurance (Continued)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 3,658	\$ 713
Net difference between projected and actual earnings on GLI OPEB program investments	-	1,130
Change in assumptions	3,472	1,659
Changes in proportion	3,101	401
Employer contributions subsequent to the measurement date	<u>3,921</u>	<u>-</u>
Total	<u>\$ 14,152</u>	<u>\$ 3,903</u>

\$3,921 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

<u>Year ended June 30</u>	
2021	\$ 1,021
2022	1,021
2023	1,500
2024	1,441
2025	1,057
Thereafter	288

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2018, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019.

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

NOTES TO FINANCIAL STATEMENTS

Note 11. Group Life Insurance (Continued)

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

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

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

Post-Retirement:

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

Post-Disablement:

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

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

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

NOTES TO FINANCIAL STATEMENTS

Note 11. Group Life Insurance (Continued)Mortality rates – Non-Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

Net GLI OPEB Liability

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

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

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

NOTES TO FINANCIAL STATEMENTS

Note 11. Group Life Insurance (Continued)

Long-Term Expected Rate of Return

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

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

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

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100 percent of the actuarially determined contribution rate. From July 1, 2019 on, employers are assumed to contribute 100 percent of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

NOTES TO FINANCIAL STATEMENTS

Note 11. Group Life Insurance (Continued)Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

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

	1.00% Decrease <u>(5.75%)</u>	Current Discount <u>Rate (6.75%)</u>	1.00% Increase <u>(7.75%)</u>
Employer's proportionate share of the Group Life Insurance Program Net OPEB Liability	\$ 72,257	\$ 55,002	\$ 41,009

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2019 *Comprehensive Annual Financial Report* (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2019-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the VRS Group Life Insurance OPEB Plan

At June 30, 2020, the Town reported a payable of \$770 for the outstanding amount of contributions to the VRS Group Life Insurance OPEB Plan required for the year end June 30, 2020.

Note 12. Risk Management

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

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

Note 13. Transactions with Related Party

Ned Overton, Council Member during the period ended June 30, 2020, is a co-owner of A&M Electrical Services, LLC. The Town paid A&M Electrical Services, LLC \$6,452 for electrical contracting during the fiscal year.

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

TOWN OF TIMBERVILLE, VIRGINIA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2020

	Budget - Original & Final	Actual	Variance Positive (Negative)
REVENUES			
General property taxes	\$ 223,917	\$ 237,797	\$ 13,880
Other local taxes	802,950	838,734	35,784
Permits, privilege fees, and regulatory licenses	2,550	3,333	783
Fines and forfeitures	16,000	11,704	(4,296)
Revenue from the use of money and property	4,000	952	(3,048)
Charges for services	171,500	176,130	4,630
Miscellaneous	5,700	20,259	14,559
Intergovernmental revenues:			
Commonwealth	69,383	76,367	6,984
Federal	5,000	1,744	(3,256)
Total revenues	<u>\$ 1,301,000</u>	<u>\$ 1,367,020</u>	<u>\$ 66,020</u>
EXPENDITURES			
General government administration	\$ 432,451	\$ 435,217	\$ (2,766)
Public safety	572,479	580,355	(7,876)
Public works	309,179	326,737	(17,558)
Parks and recreation	145,450	53,962	91,488
Debt service	5,000	5,000	-
Total expenditures	<u>\$ 1,464,559</u>	<u>\$ 1,401,271</u>	<u>\$ 63,288</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (163,559)</u>	<u>\$ (34,251)</u>	<u>\$ 129,308</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ 20,559	\$ 52,416	\$ 31,857
Transfers out	<u>-</u>	<u>(146,185)</u>	<u>(146,185)</u>
Total other financing sources (uses)	<u>\$ 20,559</u>	<u>\$ (93,769)</u>	<u>\$ (114,328)</u>
Net change in fund balance	\$ (143,000)	\$ (128,020)	\$ 14,980
FUND BALANCE AT BEGINNING OF YEAR	<u>338,088</u>	<u>338,088</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u><u>\$ 195,088</u></u>	<u><u>\$ 210,068</u></u>	<u><u>\$ 14,980</u></u>

TOWN OF TIMBERVILLE, VIRGINIA

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability						
Service cost	\$ 117,039	\$ 112,300	\$ 101,137	\$ 84,445	\$ 68,563	\$ 65,718
Interest	172,887	157,551	131,688	133,779	118,928	109,329
Changes of benefit terms	-	-	-	-	-	-
Differences between expected and actual experience	614	73,023	230,423	(194,127)	75,685	-
Changes in assumptions	84,040	-	(26,898)	-	-	-
Benefit Payments, including refunds of employee contributions	(173,151)	(74,439)	(59,310)	(48,630)	(53,424)	(22,389)
Net change in total pension liability	<u>201,429</u>	<u>268,435</u>	<u>377,040</u>	<u>(24,533)</u>	<u>209,752</u>	<u>152,658</u>
Total pension liability - beginning	<u>2,556,383</u>	<u>2,287,948</u>	<u>1,910,908</u>	<u>1,935,441</u>	<u>1,725,689</u>	<u>1,573,031</u>
Total pension liability - ending (a)	<u>\$2,757,812</u>	<u>\$2,556,383</u>	<u>\$2,287,948</u>	<u>\$1,910,908</u>	<u>\$1,935,441</u>	<u>\$1,725,689</u>
Plan fiduciary net position						
Contributions – employer	\$ 96,825	\$ 65,248	\$ 61,338	\$ 51,731	\$ 44,011	\$ 67,887
Contributions - employee	31,904	31,573	29,594	26,000	22,131	31,332
Net investment income	164,405	169,569	247,326	35,165	85,502	246,879
Benefit payments, including refunds of employee contributions	(173,151)	(74,439)	(59,310)	(48,630)	(53,424)	(22,389)
Administrative expense	(1,605)	(1,418)	(1,369)	(1,175)	(1,140)	(1,250)
Other	(103)	(153)	(223)	(15)	(18)	13
Net change in plan fiduciary net Position	<u>118,275</u>	<u>190,380</u>	<u>277,356</u>	<u>63,076</u>	<u>97,062</u>	<u>322,472</u>
Plan fiduciary net position - beginning	<u>2,467,779</u>	<u>2,277,399</u>	<u>2,000,043</u>	<u>1,936,967</u>	<u>1,839,905</u>	<u>1,517,433</u>
Plan fiduciary net position - ending (b)	<u>\$2,586,054</u>	<u>\$2,467,779</u>	<u>\$2,277,399</u>	<u>\$2,000,043</u>	<u>\$1,936,967</u>	<u>\$1,839,905</u>
Political subdivision's net pension (asset) liability - ending (a) - (b)	<u>\$ 171,758</u>	<u>\$ 88,604</u>	<u>\$ 10,549</u>	<u>\$ (89,135)</u>	<u>\$ (1,526)</u>	<u>\$ (114,216)</u>
Plan fiduciary net position as a percentage of the total pension liability	93.77%	96.53%	99.54%	104.66%	100.08%	106.62%
Covered payroll	\$ 662,139	\$ 648,156	\$ 599,959	\$ 520,006	\$ 442,601	\$ 476,126
Political subdivision's net pension (asset) liability as a percentage of covered payroll	25.94%	13.67%	1.76%	(17.14%)	(0.34%)	(23.99%)

TOWN OF TIMBERVILLE, VIRGINIA

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Years Ended June 30, 2015 through 2020

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2020	\$ 101,857	\$ 101,857	\$ -	\$ 701,087	14.53%
2019	96,931	96,931	-	662,139	14.64%
2018	66,464	66,464	-	648,156	10.25%
2017	61,916	61,916	-	599,959	10.32%
2016	51,845	51,845	-	520,006	9.97%
2015	44,127	44,127	-	442,601	9.97%

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

Notes to Required Supplemental Information For the Year Ended June 30, 2020

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

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

Largest 10 – Non-Hazardous Duty:

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

TOWN OF TIMBERVILLE, VIRGINIA

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

Notes to Required Supplemental Information For the Year Ended June 30, 2020 (continued)

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

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

Largest 10 – Hazardous Duty:

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

All Others (Non 10 Largest) – Hazardous Duty:

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

TOWN OF TIMBERVILLE, VIRGINIA

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

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Employer's Proportion of the Net GLI OPEB Liability (Asset)	0.00338%	0.00341%	0.00325%
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset)	\$ 55,002	\$ 52,000	\$ 49,000
Employer's Covered Payroll	\$ 662,139	\$ 648,156	\$ 599,959
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered Payroll	8.31%	8.02%	8.17%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	52.00%	51.22%	48.86%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
Years Ended June 30, 2018 through 2020**

<u>Date</u>	<u>Contractually Required Contribution (1)</u>	<u>Contributions in Relation to Contractually Required Contribution (2)</u>	<u>Contribution Deficiency (Excess) (3)</u>	<u>Employer's Covered Payroll (4)</u>	<u>Contributions as a % of Covered Payroll (5)</u>
2020	\$ 3,921	\$ 3,921	\$ -	\$ 701,087	0.559%
2019	3,835	3,835	-	662,139	0.579%
2018	3,370	3,370	-	648,156	0.520%

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

TOWN OF TIMBERVILLE, VIRGINIA

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

Notes to Required Supplemental Information For the Year Ended June 30, 2020

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

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

Non-Largest Ten Locality Employers – General Employees

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

Non-Largest Ten Locality Employers – Hazardous Duty Employees

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

Other Supplementary Information

TOWN OF TIMBERVILLE, VIRGINIA

GENERAL FUND
STATEMENT OF REVENUES, COMPARED TO BUDGET
Year Ended June 30, 2020

	Budget - Original & Final	Actual	Variance Positive (Negative)
GENERAL PROPERTY TAXES			
Real estate taxes	\$ 185,000	\$ 180,402	\$ (4,598)
Personal property taxes	33,917	39,104	5,187
Penalties and interest	2,500	6,663	4,163
Delinquent – real estate	2,500	6,329	3,829
– personal property	-	5,299	5,299
	<u>\$ 223,917</u>	<u>\$ 237,797</u>	<u>\$ 13,880</u>
OTHER LOCAL TAXES			
Sales tax	\$ 129,000	\$ 147,522	\$ 18,522
Utility taxes	49,450	50,843	1,393
Bank stock tax	123,500	110,834	(12,666)
Cigarette tax	70,000	71,250	1,250
Meals tax	245,000	251,791	6,791
Communications tax	30,000	27,153	(2,847)
Rental vehicle tax	-	1,874	1,874
Business and professional licenses	120,000	126,854	6,854
Vehicle license fees	36,000	50,613	14,613
	<u>\$ 802,950</u>	<u>\$ 838,734</u>	<u>\$ 35,784</u>
PERMITS, PRIVILEGE FEES AND REGULATORY LICENSES			
Zoning fees	\$ 2,500	\$ 3,333	\$ 833
Yard sale permits	50	-	(50)
	<u>\$ 2,550</u>	<u>\$ 3,333</u>	<u>\$ 783</u>
FINES AND FORFEITURES			
Court fines	\$ 16,000	\$ 11,704	\$ (4,296)
REVENUE FROM THE USE OF MONEY AND PROPERTY			
Sale of equipment	\$ 4,000	\$ -	\$ (4,000)
Interest earned	-	952	952
	<u>\$ 4,000</u>	<u>952</u>	<u>(3,048)</u>
CHARGES FOR SERVICES			
Trash collection fees	\$ 170,000	\$ 175,280	\$ 5,280
Parks and recreation:			
Rental fees	1,500	850	(650)
	<u>\$ 171,500</u>	<u>\$ 176,130</u>	<u>\$ 4,630</u>

(Continued)

TOWN OF TIMBERVILLE, VIRGINIA

GENERAL FUND
STATEMENT OF REVENUES, COMPARED TO BUDGET
Year Ended June 30, 2020

	Budget - Original & Final	Actual	Variance Positive (Negative)
MISCELLANEOUS			
Other	\$ 5,700	\$ 250	\$ (5,450)
Other, donations	-	10,000	10,000
Other, grants	-	10,009	10,009
	<u>\$ 5,700</u>	<u>\$ 20,259</u>	<u>\$ 14,559</u>
INTERGOVERNMENTAL REVENUES			
Commonwealth			
Rolling stock tax	\$ 2,300	\$ 2,282	\$ (18)
Law enforcement grant	41,000	45,096	4,096
VDOT winter storm assistance	3,000	4,906	1,906
Personal property tax reimbursement	14,083	14,083	-
Fire program grant	9,000	10,000	1,000
	<u>\$ 69,383</u>	<u>\$ 76,367</u>	<u>\$ 6,984</u>
Federal			
DMV grants – police	\$ 5,000	\$ 1,744	\$ (3,256)
Total revenues	<u>\$ 1,301,000</u>	<u>\$ 1,367,020</u>	<u>\$ 66,020</u>

TOWN OF TIMBERVILLE, VIRGINIA

GENERAL FUND
STATEMENT OF EXPENDITURES, COMPARED TO BUDGET
Year Ended June 30, 2020

	Budget - Original & Final	Actual	Variance Positive (Negative)
GENERAL GOVERNMENT			
ADMINISTRATION			
General Government			
Mayor and council fees	\$ 13,200	\$ 13,200	\$ -
Salary - Town Manager	78,167	81,890	(3,723)
- Clerk/Treasurer	54,116	45,682	8,434
- Office Assistants	68,145	77,971	(9,826)
Social security taxes	15,333	15,658	(325)
Workmen's compensation	260	7,488	(7,228)
Retirement	29,984	30,718	(734)
Advertising	2,000	3,044	(1,044)
Billing expense	-	36	(36)
Cigarette stamps	3,300	3,294	6
Donations	19,950	21,450	(1,500)
Dues, manuals, registration fees	2,830	2,874	(44)
Training and seminars	3,000	3,327	(327)
Cleaning	1,600	1,020	580
Miscellaneous	5,000	1,906	3,094
Computer maintenance and supplies	13,500	12,328	1,172
Office supplies	4,000	2,924	1,076
Other office expenses	10,600	8,864	1,736
Postage	4,800	2,264	2,536
Supplies	-	4,011	(4,011)
Planning and zoning	1,500	25	1,475
Insurance - general	9,500	11,037	(1,537)
- health/flex	30,376	28,694	1,682
- group	1,390	1,397	(7)
Professional - accounting	10,000	11,450	(1,450)
- legal	25,000	20,182	4,818
- planners	2,400	1,400	1,000
Telephone	11,500	10,101	1,399
Uniforms	2,500	-	2,500
	<u>\$ 423,951</u>	<u>\$ 424,235</u>	<u>\$ (284)</u>
Capital Outlay			
General government	<u>\$ 8,500</u>	<u>\$ 10,982</u>	<u>\$ (2,482)</u>
Total general government administration	<u>\$ 432,451</u>	<u>\$ 435,217</u>	<u>\$ (2,766)</u>

(Continued)

TOWN OF TIMBERVILLE, VIRGINIA

GENERAL FUND
STATEMENT OF EXPENDITURES, COMPARED TO BUDGET
Year Ended June 30, 2020

	Budget - Original & Final	Actual	Variance Positive (Negative)
PUBLIC SAFETY			
Police Department			
Police Chief salary	\$ 72,394	\$ 72,641	\$ (247)
Police salaries	256,671	254,090	2,581
Part-time officers' salaries	7,000	8,970	(1,970)
Social security taxes	25,510	25,168	342
Workmen's compensation	10,000	11,942	(1,942)
Retirement	47,732	47,138	594
Wireless air cards - laptops	2,500	2,468	32
Police car - gas and oil	10,000	6,897	3,103
- maintenance	4,000	9,088	(5,088)
Computer software maintenance	4,000	2,200	1,800
Line of Duty Act	5,000	4,386	614
Miscellaneous	500	3,344	(2,844)
Dues and subscriptions	4,600	4,749	(149)
Uniforms and cleaning	2,500	5,985	(3,485)
Supplies	6,000	6,081	(81)
Reimburse attorney fees	750	480	270
Translation services	150	-	150
Professional development	2,000	7,325	(5,325)
Community outreach	2,000	3,037	(1,037)
Insurance - health/flex	51,312	51,188	124
- group	1,660	1,914	(254)
	<u>\$ 516,279</u>	<u>\$ 529,091</u>	<u>\$ (12,812)</u>
Other			
Fire program funds	\$ 9,000	\$ 10,000	\$ (1,000)
Capital Outlay			
Public safety	\$ 47,200	\$ 41,264	\$ 5,936
Total public safety	<u>\$ 572,479</u>	<u>\$ 580,355</u>	<u>\$ (7,876)</u>
PUBLIC WORKS			
Buildings and Streets			
Maintenance supervisor salary	\$ 68,230	\$ 68,165	\$ 65
Social security taxes	5,220	4,918	302
Workmen's compensation	1,500	2,441	(941)
Retirement	10,207	10,207	-
Insurance - health/flex	11,472	11,472	-

(Continued)

TOWN OF TIMBERVILLE, VIRGINIA

GENERAL FUND
STATEMENT OF EXPENDITURES, COMPARED TO BUDGET
Year Ended June 30, 2020

	Budget - Original & Final	Actual	Variance Positive (Negative)
Buildings and grounds maintenance	\$ 8,000	\$ 5,932	\$ 2,068
Christmas lights expense	600	7	593
Vehicles - gas and oil	10,500	7,179	3,321
- maintenance	500	719	(219)
Equipment - repairs and maintenance	1,350	935	415
Electricity	38,200	44,726	(6,526)
Heat	1,300	1,395	(95)
Small tools	550	2,876	(2,326)
Supplies	3,000	2,819	181
Uniforms and rags	550	148	402
Snow removal	2,500	-	2,500
	<u>\$ 163,679</u>	<u>\$ 163,939</u>	<u>\$ (260)</u>
Sanitation			
Disposal contract	\$ 145,500	\$ 162,798	\$ (17,298)
Total public works	<u>\$ 309,179</u>	<u>\$ 326,737</u>	<u>\$ (17,558)</u>
PARKS & RECREATION			
General			
Electricity	\$ 1,850	\$ 163	\$ 1,687
R/M - buildings and grounds	3,000	4,206	(1,206)
- equipment	-	127	(127)
Supplies	500	5,229	(4,729)
Miscellaneous	100	267	(167)
	<u>\$ 5,450</u>	<u>\$ 9,992</u>	<u>\$ (4,542)</u>
Capital Outlay			
Parks & recreation	\$ 140,000	\$ 43,970	\$ 96,030
Total parks & recreation	<u>\$ 145,450</u>	<u>\$ 53,962</u>	<u>\$ 91,488</u>
DEBT SERVICE			
Principal on loan, American Legion building	\$ 5,000	\$ 5,000	\$ -
Total debt service	<u>\$ 5,000</u>	<u>\$ 5,000</u>	<u>\$ -</u>
Total expenditures	<u>\$ 1,464,559</u>	<u>\$ 1,401,271</u>	<u>\$ 63,288</u>

TOWN OF TIMBERVILLE, VIRGINIA

WATER AND SEWER FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION-
BUDGET AND ACTUAL
Year Ended June 30, 2020

	Budget - Original & Final	Actual	Variance Positive (Negative)
OPERATING REVENUES			
Water service charges	\$ 300,500	\$ 305,051	\$ 4,551
Sewer service charges	330,500	338,751	8,251
Connection fees	48,000	17,000	(31,000)
Penalties and interest	1,500	12,354	10,854
Fluoride grant	-	26,930	26,930
Miscellaneous	<u>-</u>	<u>544</u>	<u>544</u>
Total operating revenues	<u>\$ 680,500</u>	<u>\$ 700,630</u>	<u>\$ 20,130</u>
OPERATING EXPENSES			
Water department	\$ 204,027	\$ 202,151	\$ 1,876
Sewer department	315,272	297,713	17,559
Depreciation	<u>100,000</u>	<u>100,394</u>	<u>(394)</u>
Total operating expenses	<u>\$ 619,299</u>	<u>\$ 600,258</u>	<u>\$ 19,041</u>
Operating income	<u>\$ 61,201</u>	<u>\$ 100,372</u>	<u>\$ 39,171</u>
NONOPERATING REVENUE (EXPENSE)			
Interest earned	\$ 10,000	\$ 19,945	\$ 9,945
Interest expense	(21,632)	(21,632)	-
Gain (loss) on disposal of equipment	<u>-</u>	<u>(2,907)</u>	<u>(2,907)</u>
Total nonoperating revenue (expense)	<u>\$ (11,632)</u>	<u>\$ (4,594)</u>	<u>\$ 7,038</u>
Income before transfers	<u>\$ 49,569</u>	<u>\$ 95,778</u>	<u>\$ 46,209</u>
TRANSFERS			
Transfers in	\$ -	\$ 146,185	\$ 146,185
Transfers out	<u>(20,559)</u>	<u>(52,416)</u>	<u>(31,857)</u>
	<u>\$ (20,559)</u>	<u>\$ 93,769</u>	<u>\$ 114,328</u>
Change in net position	<u>\$ 29,010</u>	<u>\$ 189,547</u>	<u>\$ 160,537</u>
NET POSITION AT BEGINNING OF YEAR	<u>2,611,113</u>	<u>2,611,113</u>	<u>-</u>
NET POSITION AT END OF YEAR	<u>\$ 2,640,123</u>	<u>\$ 2,800,660</u>	<u>\$ 160,537</u>

TOWN OF TIMBERVILLE, VIRGINIA

WATER AND SEWER FUND
STATEMENT OF OPERATING EXPENSES, COMPARED TO BUDGET
Year Ended June 30, 2020

	Budget - Original & Final	Actual	Variance Positive (Negative)
WATER DEPARTMENT			
Salaries	\$ 67,287	\$ 60,078	\$ 7,209
Social security taxes	5,148	4,586	562
Retirement	7,673	8,823	(1,150)
Bad debts	800	2,272	(1,472)
Billing expense	6,550	4,452	2,098
Chemicals	4,100	7,337	(3,237)
Dues and manuals	1,500	450	1,050
Training schools, seminars	1,700	-	1,700
Electricity	15,400	21,207	(5,807)
Lab fees	9,250	6,583	2,667
Office supplies	4,000	5,970	(1,970)
Professional fees	10,300	5,725	4,575
Vehicle gas and oil	4,050	1,419	2,631
Uniforms and laundry	2,200	2,287	(87)
Telephone - filtration plant	2,500	2,319	181
Answering service	1,000	924	76
Water purchases	2,500	2,811	(311)
Workmen's compensation	1,900	2,172	(272)
Insurance - general	3,400	5,519	(2,119)
- health	8,552	7,752	800
- group (credit)	267	(257)	524
Repairs and maintenance:			
Equipment	36,200	44,788	(8,588)
Vehicles	600	2,712	(2,112)
Small tools	6,000	936	5,064
Supplies	750	1,004	(254)
Miss utility	400	282	118
	<u>\$ 204,027</u>	<u>\$ 202,151</u>	<u>\$ 1,876</u>
SEWER DEPARTMENT			
Salaries	\$ 66,050	\$ 66,987	\$ (937)
Social security taxes	5,053	5,020	33
Retirement	9,881	11,908	(2,027)
Billing expense	600	-	600
Lab fees	1,500	3,368	(1,868)
Professional fees	10,300	5,725	4,575
Vehicle gas and oil	2,025	111	1,914
Uniforms and laundry	600	650	(50)
Supplies	50	345	(295)
Telephone	-	1,637	(1,637)

(Continued)

TOWN OF TIMBERVILLE, VIRGINIA

WATER AND SEWER FUND
STATEMENT OF OPERATING EXPENSES, COMPARED TO BUDGET
Year Ended June 30, 2020

	Budget - Original & Final	Actual	Variance Positive (Negative)
Workmen's compensation	\$ 1,865	\$ 2,373	\$ (508)
Insurance - general	3,400	5,519	(2,119)
- health	17,104	15,504	1,600
- group (credit)	344	(331)	675
Repairs and maintenance:			
Buildings and grounds	7,500	1,045	6,455
Equipment	10,000	2,738	7,262
Vehicles	1,000	158	842
Electricity	3,000	2,402	598
Sewer disposal contract	175,000	172,554	2,446
	<u>\$ 315,272</u>	<u>\$ 297,713</u>	<u>\$ 17,559</u>
DEPRECIATION	<u>\$ 100,000</u>	<u>\$ 100,394</u>	<u>\$ (394)</u>
Total operating expenses	<u>\$ 619,299</u>	<u>\$ 600,258</u>	<u>\$ 19,041</u>

TOWN OF TIMBERVILLE, VIRGINIA

SCHEDULE OF CAPITAL OUTLAYS
Year Ended June 30, 2020**GENERAL FUND**

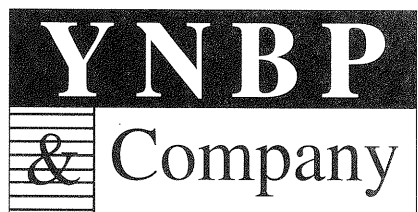
2020 Dodge Durango	\$ 41,263
Dell Poweredge T440 server	10,982
Stable improvements - door	3,233
Soil and seeding for shelter	3,179
PDMP parking lot fence	1,194
Dog park fence	6,393
LPDA park plans (PDMP)	8,706
LPDA park plans (ALP)	8,706
CAT rock crusher	8,114
Four swings (Helmuth Builders)	1,737
Two steel benches	504
Playground barriers	<u>2,204</u>

Total general fund \$ 96,215

WATER AND SEWER FUND

SCADA system	\$ 55,764
Lone Pine water line	64,345
Fluoride analyzer	24,623
Plow for 2019 Ford F-250	<u>1,518</u>

Total water and sewer fund \$ 146,250



David W. Black, CPA
Managing Partner

Christopher R. Montgomery, CPA
Tax Partner

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

To the Honorable Town Council
Town of Timberville
392 South Main Street
Timberville, VA 22853

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the fiduciary fund of the Town of Timberville, Virginia, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town of Timberville's basic financial statements, and have issued our report thereon dated September 25, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Timberville's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Timberville's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Timberville'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 were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, items 2020-1 through 2020-3, which we consider to be material weaknesses.

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

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

Compliance and Other Matters

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

Response to Findings

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

Purpose of this Report

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

Young, Nicholas, Branner & Phillips, LLP

Harrisonburg, VA
September 25, 2020

TOWN OF TIMBERVILLE, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2020

FINDINGS – FINANCIAL STATEMENT AUDIT

A. Material Weaknesses in Internal Control

2020-1 Segregation of Duties

Criteria: The criteria for internal control include adequate segregation of duties to prevent fraud or error. Duties should be divided among more than one person in the functions of authorization, custody, record keeping and reconciliation. In a perfect system, no one person should handle more than one type of function.

Condition: There is a lack of segregation of duties among Town personnel. Proper internal control is not always possible due to the relatively small number of persons involved in processing transactions.

The Town has segregated certain duties of its employees to help prevent or promptly detect errors in financial reporting. The employees appear to perform their duties in a structured and conscientious manner. The problem is that with a small staff, it is hard to totally divide the functions of executing a transaction, recording the transaction, and keeping custody of the assets.

Cause: There is a limited number of personnel for certain functions. This condition is primarily the result of staffing constraints typical of smaller governmental units.

Effect: The effect of not having adequately segregated duties is the government is exposed to increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented, or detected and corrected by management on a timely basis.

Recommendation: The recommendation is for government to continue to segregate employee duties as much as possible. We encourage the government to mitigate risk by requiring as much independent review, reconciliation and approval of accounting functions by qualified members of management as possible.

Management's response: In the future, the Town plans to continue to segregate employee duties as much as possible. The Town Council and Officials also plan to continue to be actively involved in overseeing the Town's financial operations.

2020-2 Accounting Assistance

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

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

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

TOWN OF BROADWAY, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2020

FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

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

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

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

2020-3 Financial Statement Presentation

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

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

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

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

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

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

B. Significant Deficiencies in Internal Control - None