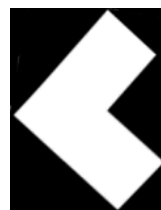


***Town of Kenbridge, Virginia***  
***Comprehensive Annual Financial Report***  
***Year Ended June 30, 2019***



***Creedle, Jones***  
***& Associates, P.C.***  
***Certified Public Accountants***

## Town of Kenbridge, Virginia

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## FINANCIAL SECTION





**Creedle  
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## **INDEPENDENT AUDITOR'S REPORT**

To the Town Council  
Town of Kenbridge, Virginia

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Kenbridge, Virginia, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town of Kenbridge, Virginia's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Kenbridge, Virginia, as of June 30, 2019, and the respective changes in financial position, and 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, budgetary comparison information, and schedules related to pension and OPEB funding on pages 1–8, 65-67, and on pages 68-78 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.

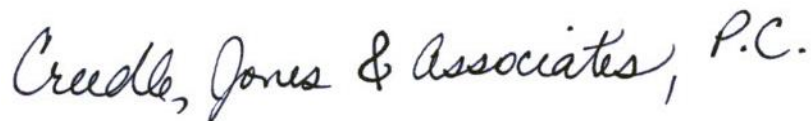
### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Kenbridge, Virginia's basic financial statements. The combining nonmajor fund financial statements and component unit statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements and component unit statements are the responsibility of management and were derived from and relate 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 combining nonmajor fund financial statements and component unit statements are 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 January 27, 2020, on our consideration of the Town of Kenbridge, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Town of Kenbridge, Virginia's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Kenbridge, Virginia's internal control over financial reporting and compliance.



Creedle, Jones & Associates, P.C.  
Certified Public Accountants

South Hill, Virginia  
January 27, 2020

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Town of Kenbridge, Virginia presents the following discussion and analysis as an overview of the Town of Kenbridge, Virginia's financial activities for the fiscal year ending June 30, 2019. We encourage readers to read this discussion and analysis in conjunction with the Town's basic financial statements.

### Financial Highlights

- At the close of the fiscal year, the assets and deferred outflows of resources of the Town's governmental activities exceeded its liabilities and deferred inflows of resources by \$1,841,101. Of this amount, \$299,765 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors. For the business-type activities, the assets and deferred outflows of resources exceeded the liabilities and deferred inflows of resources by \$4,785,193 with an unrestricted balance of \$96,739.
- The Town's total net position decreased by \$495,698 during the current fiscal year. Of this amount, a decrease of \$194,272 is related to governmental activities and a decrease of \$301,426 is attributed to business-type activities.
- As of June 30, 2019, the Town's Governmental Funds reported combined ending fund balances of \$319,836, an increase of \$118,674 in comparison with the prior year. Approximately 92.77% of this amount is available for spending at the Town's discretion (unassigned fund balance).
- At the end of fiscal year 2019, the General Fund unassigned fund balance was \$296,705, or approximately 13.20% of total general fund expenditures.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

#### Government-Wide Financial Statements

The government-wide financial statements report information about the Town as a whole using accounting methods similar to those found in the private sector. They also report the Town's net position and how they have changed during the fiscal year.

Statement of Net Position: presents information on all of the Town's assets and liabilities. The difference between a) assets and deferred outflows of resources and b) liabilities and deferred inflows of resources can be used as one way to measure the Town's financial health or financial condition. Over time, increases or decreases in the net position can be one indicator of whether the Town's financial condition is improving or deteriorating. Other nonfinancial factors will also need to be considered, such as changes in the Town's property tax base and the condition of Town facilities.

Statement of Activities: presents information using the accrual basis accounting method and shows how the Town's net position changed during the fiscal year. All of the current year's revenues and expenses are shown in the Statement of Activities, regardless of when cash is received or paid.

The government-wide financial statements distinguish governmental activities from business-type activities identified as the primary government. The governmental activities of the Town include general government administration, public safety, public works, parks, recreation and cultural, and community development. Public utilities represent the business-type activities.

Furthermore, the government-wide financial statements include a legally separate entity, the Industrial Development Authority of the Town of Kenbridge, Virginia, for which the Town is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

### **Fund Financial Statements**

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Town uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the Town's most significant funds rather than the Town as a whole. Major funds are separately reported.

The Town has three types of funds:

*Governmental Funds* - Most of the Town's basic services are included in Governmental Funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances remaining at year end that are available for spending. The Governmental Funds financial statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. Because this information does not encompass the long-term focus of the government-wide statements, additional information is provided with the fund's financial statements to explain the relationship (or differences). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund. Data from the other Town non-major funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements presented later in this report.

*Proprietary Funds* – The Town uses Enterprise Funds which operate in a manner similar to private business enterprises. Costs are recovered primarily through user charges. Proprietary Fund financial statements provide both long and short-term financial information.

*Fiduciary Funds* – The Town is the trustee, or fiduciary, for the Town's agency funds. Agency funds utilize the accrual basis of accounting described in the Governmental Fund presentation. Since by definition, these assets are being held for the benefit of a third party and cannot be used to support activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

### **Notes to the Basic Financial Statements**

The accompanying notes to the basic financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

### **Other**

In addition to the basic financial statements and accompanying notes, this report also presents certain required and other supplementary information such as budgetary comparison schedules and combining financial statements.



## FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

### Statement of Net Position

The following table reflects the condensed Statement of Net Position:

#### Summary of Net Position

As of June 30, 2019 and 2018

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<b>Assets</b>						
Current and other assets	\$ 813,295	\$ 743,482	\$ 263,921	\$ 323,565	\$ 1,077,216	\$ 1,067,047
Capital assets (net)	<u>3,141,374</u>	<u>3,324,120</u>	<u>8,116,958</u>	<u>8,408,925</u>	<u>11,258,332</u>	<u>11,733,045</u>
Total Assets	<b>3,954,669</b>	4,067,602	<b>8,380,879</b>	8,732,490	<b>12,335,548</b>	12,800,092
<b>Deferred Outflows of Resources</b>	<u>64,007</u>	<u>27,215</u>	<u>37,171</u>	<u>16,479</u>	<u>101,178</u>	<u>43,694</u>
Total Assets and Deferred Outflows of Resources	<u><b>\$4,018,676</b></u>	<u>\$ 4,094,817</u>	<u><b>\$ 8,418,050</b></u>	<u>\$ 8,748,969</u>	<u><b>\$ 12,436,726</b></u>	<u>\$ 12,843,786</u>
<b>Liabilities</b>						
Pooled cash deficit	\$ -	\$ -	\$ 119,425	\$ 25,909	\$ 119,425	\$ 25,909
Other liabilities	16,053	20,749	42,383	91,772	58,436	112,521
Long-term liabilities	<u>1,916,966</u>	<u>1,807,008</u>	<u>3,465,151</u>	<u>3,533,685</u>	<u>5,382,117</u>	<u>5,340,693</u>
Total Liabilities	<b>1,933,019</b>	1,827,757	<b>3,626,959</b>	3,651,366	<b>5,559,978</b>	5,479,123
<b>Deferred Inflows of Resources</b>	<b>244,556</b>	231,687	<b>5,898</b>	10,984	<b>250,454</b>	242,671
<b>Net Position</b>						
Net investment in capital assets	<b>1,541,336</b>	1,728,666	<b>4,688,454</b>	4,916,986	<b>6,229,790</b>	6,645,652
Unrestricted	<u>299,765</u>	<u>306,707</u>	<u>96,739</u>	<u>169,633</u>	<u>396,504</u>	<u>476,340</u>
Total Net Position	<u><b>1,841,101</b></u>	<u>2,035,373</u>	<u><b>4,785,193</b></u>	<u>5,086,619</u>	<u><b>6,626,294</b></u>	<u>7,121,992</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u><b>\$4,018,676</b></u>	<u>\$ 4,094,817</u>	<u><b>\$ 8,418,050</b></u>	<u>\$ 8,748,969</u>	<u><b>\$ 12,436,726</b></u>	<u>\$ 12,843,786</u>

## Statement of Activities

The following table summarizes revenues and expenses for the primary government:

### Summary of Changes in Net Position

For the Fiscal Years Ended June 30, 2019 and 2018

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<b>Revenues</b>						
<b>Program Revenues</b>						
Charges for services	\$ 127,619	\$ 122,934	\$ 565,336	\$ 619,742	\$ 692,955	\$ 742,676
Operating grants and contributions	43,440	151,077	2,186	86,513	45,626	237,590
<b>General Revenues</b>						
General property taxes, real and personal	462,481	442,111	-	-	462,481	442,111
Other taxes	303,781	286,781	-	-	303,781	286,781
Grants and contributions not restricted to specific programs	72,042	74,121	-	-	72,042	74,121
Unrestricted revenues from use of money and property	13,375	71,229	1,966	1,263	15,341	72,492
Miscellaneous	4,664	16,084	5,276	5,270	9,940	21,354
Total Revenues	<u>1,027,402</u>	<u>1,164,337</u>	<u>574,764</u>	<u>712,788</u>	<u>1,602,166</u>	<u>1,877,125</u>
<b>Expenses</b>						
General government administration	256,680	238,216	-	-	256,680	238,216
Public safety	445,204	424,493	-	-	445,204	424,493
Public works	357,786	347,931	-	-	357,786	347,931
Parks, recreation, and cultural	28,389	29,330	-	-	28,389	29,330
Community development	8,698	6,190	-	-	8,698	6,190
Water and sewer	-	-	762,024	867,200	762,024	867,200
Interest on long-term debt	169,822	31,132	69,261	70,516	239,083	101,648
Total Expenses	<u>1,266,579</u>	<u>1,077,292</u>	<u>831,285</u>	<u>937,716</u>	<u>2,097,864</u>	<u>2,015,008</u>
Change in Net Position Before Transfers	(239,177)	87,045	(256,521)	(224,928)	(495,698)	(137,883)
<b>Transfers</b>	<u>44,905</u>	<u>33,696</u>	<u>(44,905)</u>	<u>(33,696)</u>	<u>-</u>	<u>-</u>
Change in Net Position	(194,272)	120,741	(301,426)	(258,624)	(495,698)	(137,883)
Beginning Net Position	<u>2,035,373</u>	<u>1,914,632</u>	<u>5,086,619</u>	<u>5,345,243</u>	<u>7,121,992</u>	<u>7,259,875</u>
Ending Net Position	<u>\$ 1,841,101</u>	<u>\$ 2,035,373</u>	<u>\$ 4,785,193</u>	<u>\$ 5,086,619</u>	<u>\$ 6,626,294</u>	<u>\$ 7,121,992</u>

Governmental activities decreased the Town's net position by \$194,272 for fiscal year 2019. Revenues from governmental activities totaled \$1,027,402. Other taxes comprise the largest source of these revenues, totaling \$303,781 or 29.57% of all governmental activities revenue.

The total cost of all governmental activities for this fiscal year was \$1,266,579. Public safety was the Town's largest program with expenses totaling \$445,204. Public works, which totals \$357,786, represents the second largest expense.

For the Town's governmental activities, the net expense (total cost less fees generated by the activities and program-specific governmental aid) is illustrated in the following table:

### Net Cost of Governmental Activities

For the Fiscal Years Ended June 30, 2019 and 2018

	<u>2019</u>		<u>2018</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
General government administration	\$ 256,680	\$ (255,505)	\$ 238,216	\$ (237,716)
Public safety	445,204	(392,175)	424,493	(377,421)
Public works	357,786	(240,931)	347,931	(225,338)
Parks, recreation, and cultural	28,389	(28,389)	29,330	74,516
Community development	8,698	(8,698)	6,190	(6,190)
Interest on long-term debt	<u>169,822</u>	<u>(169,822)</u>	<u>31,132</u>	<u>(31,132)</u>
Total	<u>\$1,266,579</u>	<u>\$ (1,095,520)</u>	<u>\$ 1,077,292</u>	<u>\$ (803,281)</u>

### FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. Unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year. The Town's governmental funds reported combined ending fund balances of \$319,836. The combined governmental fund balance increased \$118,674 from the prior year.

The General Fund is the main operating fund of the Town. At the end of the current fiscal year, the General Fund had an unassigned fund balance of \$296,705. The General Fund's liquidity can be measured by comparing unassigned fund balance to total fund expenditures. Unassigned fund balance represents 13.20% of total fund expenditures.

### BUDGETARY HIGHLIGHTS

#### General Fund

The following table provides a comparison of original budget, final budget, and actual revenues and expenditures in the General Fund:

## Budgetary Comparison

### General Fund

For the Fiscal Years Ended June 30, 2019 and 2018

	<u>2019</u>			<u>2018</u>		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
<b>Revenues</b>						
General property taxes	\$ 400,600	\$ 400,600	\$ 473,518	\$ 413,211	\$ 420,211	\$ 425,666
Other	484,191	486,691	498,883	467,699	534,578	546,703
Intergovernmental	<u>130,840</u>	<u>130,840</u>	<u>115,482</u>	<u>122,750</u>	<u>122,750</u>	<u>121,352</u>
Total	1,015,631	1,018,131	1,087,883	1,003,660	1,077,539	1,093,721
<b>Expenditures</b>	<u>991,911</u>	<u>991,282</u>	<u>2,247,298</u>	<u>1,003,660</u>	<u>972,531</u>	<u>1,166,430</u>
Excess (Deficiency) of Revenues over Expenditures	23,720	26,849	(1,159,415)	-	105,008	(72,709)
<b>Other Financing Sources (Uses)</b>						
Issuance of debt	-	-	1,231,037	-	-	121,200
Operating transfers in (out)	<u>(23,720)</u>	<u>(26,849)</u>	<u>44,905</u>	<u>-</u>	<u>(105,008)</u>	<u>49,941</u>
Total	<u>(23,720)</u>	<u>(26,849)</u>	<u>1,275,942</u>	<u>-</u>	<u>(105,008)</u>	<u>171,141</u>
Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 116,527</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 98,432</u>

Actual revenues were more than final budget amounts by \$69,752, or 6.85%, while actual expenditures were \$1,256,016, or 126.71% more than final budget amounts due to a refinancing that occurred during the year.

## CAPITAL ASSETS AND LONG-TERM DEBT

### Capital Assets

As of June 30, 2019, the Town's governmental activities net capital assets total \$3,141,374, which represents a net decrease of \$182,746 or 5.50% over the previous fiscal year-end balance. The business-type activities net capital assets total \$8,116,958, a decrease of \$291,967 or 3.47% over the previous fiscal year.

## Change in Capital Assets

### Governmental Activities

	<u>Balance July 1, 2018</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2019</u>
Land, land improvements, and easements	\$ 166,160	\$ -	\$ 166,160
Buildings and improvements	2,640,536	-	2,640,536
Infrastructure	1,152,257	-	1,152,257
Furniture, equipment, and vehicles	<u>1,322,178</u>	<u>-</u>	<u>1,322,178</u>
Total Capital Assets	5,281,131	-	5,281,131
Less: Accumulated depreciation	<u>(1,957,011)</u>	<u>(182,746)</u>	<u>(2,139,757)</u>
Total Capital Assets, Net	<u>\$ 3,324,120</u>	<u>\$ (182,746)</u>	<u>\$ 3,141,374</u>

### Business-Type Activities

	<u>Balance July 1, 2018</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2019</u>
Land, land improvements, and easements	\$ 65,589	\$ -	\$ 65,589
Infrastructure	10,994,135	-	10,994,135
Furniture, equipment, and vehicles	<u>171,582</u>	<u>-</u>	<u>171,582</u>
Total Capital Assets	11,231,306	-	11,231,306
Less: Accumulated depreciation	<u>(2,822,381)</u>	<u>(291,967)</u>	<u>(3,114,348)</u>
Total Capital Assets, Net	<u>\$ 8,408,925</u>	<u>\$ (291,967)</u>	<u>\$ 8,116,958</u>

## Long-Term Debt

As of June 30, 2019, the Town's long-term obligations total \$5,347,117.

	<u>Balance July 1, 2018</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2019</u>
<b>Governmental Activities</b>			
General Fund	<u>\$ 1,785,248</u>	<u>\$ 109,318</u>	<u>\$ 1,894,566</u>
Total Governmental Activities	1,785,248	109,318	1,894,566
<b>Business-Type Activities</b>			
Water and Sewer Fund	<u>3,521,445</u>	<u>(68,894)</u>	<u>3,452,551</u>
Total Business-Type Activities	<u>3,521,445</u>	<u>(68,894)</u>	<u>3,452,551</u>
Total Primary Government	<u>\$ 5,306,693</u>	<u>\$ 40,424</u>	<u>\$ 5,347,117</u>

More detailed information on the Town's long-term obligations is presented in Note 8 to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

- The average unemployment rate for the Town of Kenbridge, Virginia in June 2019, which uses Lunenburg County's rate, was 3.3%, a decrease of .2% from June 2018. This compares unfavorably to the state's rate of 2.9% and favorable to the national rate of 3.8%.
- According to the 2010 U.S. Census, the population in the Town of Kenbridge, Virginia was 1,257, with no changes, since the 2000 U.S. Census.
- The per capita income in the Town of Kenbridge, Virginia was \$17,624, compared to \$27,705 for the state, according to the 2010 U.S. Census data.

The fiscal year 2020 adopted budget anticipates General Fund revenues and expenditures to be \$1,068,841, a 5.24% increase over the fiscal year 2019 original budget.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. Questions concerning this report or requests for additional information should be directed to Anthony J. "Tony" Matthews, Town Manager, Town of Kenbridge, Virginia, 511 East Fifth Avenue, P.O. Box 478, Kenbridge, Virginia 23944, telephone 434-676-2452 or visit the Town's website at [www.kenbridgeva.net](http://www.kenbridgeva.net).

# BASIC FINANCIAL STATEMENTS



## Town of Kenbridge, Virginia

## Statement of Net Position

At June 30, 2019

## Primary Government

	Governmental Activities	Business-Type Activities	Total	Component Unit - IDA
<b>Assets</b>				
Cash and investments	\$ 297,640	\$ 41,397	\$ 339,037	\$ 233,101
Cash - restricted	-	110,645	110,645	-
Receivables, net	449,000	84,867	533,867	-
Inventory	18,629	-	18,629	-
<b>Capital Assets</b>				
Land, land improvements, and easements	166,160	65,589	231,749	-
Other capital assets, net of accumulated depreciation	2,975,214	8,051,369	11,026,583	-
Capital Assets, Net	3,141,374	8,116,958	11,258,332	-
<b>Other Assets</b>				
Net pension	47,737	26,850	74,587	-
Net other post employment benefits - HIC	289	162	451	-
Total Other Assets	48,026	27,012	75,038	-
Total Assets	3,954,669	8,380,879	12,335,548	233,101
<b>Deferred Outflows of Resources</b>				
Deferred outflows - pension	60,878	35,034	95,912	-
Deferred outflows - OPEB	3,129	2,137	5,266	-
Total Deferred Outflows of Resources	64,007	37,171	101,178	-
Total Assets and Deferred Outflows of Resources	\$ 4,018,676	\$ 8,418,050	\$ 12,436,726	\$ 233,101
<b>Liabilities</b>				
Pooled cash deficit	\$ -	\$ 119,425	\$ 119,425	\$ -
Accounts payable and accrued expenses	16,053	22,781	38,834	-
Customer deposits	-	19,602	19,602	-
<b>Long-Term Liabilities</b>				
<i>Due within one year</i>				
Bonds, loans, and capital leases payable	301,106	64,528	365,634	-
<i>Due in more than one year</i>				
Bonds, loans, and capital leases payable	1,511,634	3,363,976	4,875,610	-
Compensated absences	81,826	24,047	105,873	-
Other post employment benefits liability - GLI	22,400	12,600	35,000	-
Total Liabilities	1,933,019	3,626,959	5,559,978	-
<b>Deferred Inflows of Resources</b>				
Deferred inflows - pension	8,357	4,700	13,057	-
Deferred inflows - OPEB	2,130	1,198	3,328	-
Unavailable revenue - property taxes	234,069	-	234,069	-
Total Deferred Inflows of Resources	244,556	5,898	250,454	-
<b>Net Position</b>				
Net investment in capital assets	1,541,336	4,688,454	6,229,790	-
Unrestricted	299,765	96,739	396,504	233,101
Total Net Position	1,841,101	4,785,193	6,626,294	233,101
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 4,018,676	\$ 8,418,050	\$ 12,436,726	\$ 233,101

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



**Town of Kenbridge, Virginia**  
Statement of Activities  
For the Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position			Component Unit - IDA
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total	
Primary Government							
Governmental Activities							
General government administration	\$ 256,680	\$ 1,175	\$ -	\$ (255,505)		\$ (255,505)	
Public safety	445,204	9,589	43,440	(392,175)		(392,175)	
Public works	357,786	116,855	-	(240,931)		(240,931)	
Parks, recreation, and cultural	28,389	-	-	(28,389)		(28,389)	
Community development	8,698	-	-	(8,698)		(8,698)	
Interest on long-term debt	169,822	-	-	(169,822)		(169,822)	
Total Governmental Activities	1,266,579	127,619	43,440	(1,095,520)		(1,095,520)	
Business-Type Activities							
Enterprise Funds	831,285	565,336	2,186		\$ (263,763)	(263,763)	
Total Business-Type Activities	831,285	565,336	2,186		(263,763)	(263,763)	
Component Unit - IDA							
Expenses	-	-	-	-	-		\$ -
Total Component Unit - IDA	-	-	-	-	-		-
Total Primary Government	\$ 2,097,864	\$ 692,955	\$ 45,626	(1,095,520)	(263,763)	(1,359,283)	-
General Revenues							
Taxes							
General property taxes, real and personal				462,481	-	462,481	-
Other local taxes				303,781	-	303,781	-
Grants and contributions not restricted to specific programs				72,042	-	72,042	-
Unrestricted revenues from use of money and property				13,375	1,966	15,341	931
Miscellaneous				4,664	5,276	9,940	-
Transfers in (out)				44,905	(44,905)	-	-
Total General Revenues and Transfers				901,248	(37,663)	863,585	931
Change in Net Position				(194,272)	(301,426)	(495,698)	931
Net Position - Beginning of Year				2,035,373	5,086,619	7,121,992	232,170
Net Position - End of Year				\$ 1,841,101	\$ 4,785,193	\$ 6,626,294	\$ 233,101

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

**Town of Kenbridge, Virginia**

Balance Sheet

Governmental Funds

At June 30, 2019

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and investments	\$ 274,509	\$ 23,131	\$ 297,640
Property taxes receivable, net	423,137	-	423,137
Accounts receivable	25,863	-	25,863
Inventory	<u>18,629</u>	<u>-</u>	<u>18,629</u>
Total Assets	<u>\$ 742,138</u>	<u>\$ 23,131</u>	<u>\$ 765,269</u>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	<u>\$ 16,053</u>	<u>\$ -</u>	<u>\$ 16,053</u>
Total Liabilities	16,053	-	16,053
<b>Deferred Inflows of Resources</b>			
Unavailable revenue - property taxes	<u>429,380</u>	<u>-</u>	<u>429,380</u>
Total Deferred Inflows of Resources	429,380	-	429,380
<b>Fund Balance</b>			
Restricted	-	18,548	18,548
Assigned	-	4,583	4,583
Unassigned	<u>296,705</u>	<u>-</u>	<u>296,705</u>
Total Fund Balance	<u>296,705</u>	<u>23,131</u>	<u>319,836</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 742,138</u>	<u>\$ 23,131</u>	<u>\$ 765,269</u>

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

Town of Kenbridge, Virginia

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

At June 30, 2019

Total Fund Balances for Governmental Funds	\$ 319,836
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**Total net position reported for governmental activities in the Statement of Net Position is different because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

Land, land improvements, and easements	\$ 166,160
Buildings and improvements, net of accumulated depreciation	1,872,122
Infrastructure, net of accumulated depreciation	723,765
Furniture, equipment, and vehicles, net of accumulated depreciation	<u>379,327</u>

Total Capital Assets	3,141,374
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Other assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds statement.

Unavailable revenue - property taxes	195,311
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Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Deferred outflows of resources related to pensions	60,878
Deferred inflows of resources related to pensions	(8,357)
Deferred outflows of resources related to OPEB	3,129
Deferred inflows of resources related to OPEB	<u>(2,130)</u>

Total Deferred Outflows and Inflows of Resources	53,520
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Liabilities applicable to the Town's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities.

Balances of long-term liabilities affecting net position are as follows:

Bonds and notes payable	(1,812,740)
Net pension (liability) asset	47,737
OPEB (obligation) asset	(22,111)
Compensated absences	<u>(81,826)</u>

Total	<u>(1,868,940)</u>
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Total Net Position of Governmental Activities	<u><u>\$ 1,841,101</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

**Town of Kenbridge, Virginia**

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2019

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>			
Property taxes	\$ 473,518	\$ -	\$ 473,518
Other local taxes	303,781	-	303,781
Fines and forfeitures	9,589	-	9,589
Permits, fees, and licenses	1,175	-	1,175
Use of money and property	12,975	400	13,375
Charges for services	116,855	-	116,855
Miscellaneous	2,204	2,460	4,664
Recovered costs	52,304	-	52,304
<i>Intergovernmental</i>			
Revenue from the Commonwealth of Virginia	115,482	-	115,482
Revenue from the Federal Government	-	-	-
Total Revenues	1,087,883	2,860	1,090,743
<b>Expenditures</b>			
General government administration	234,840	-	234,840
Public safety	389,054	-	389,054
Public works	298,124	-	298,124
Parks, recreation, and cultural	9,481	713	10,194
Community development	8,698	-	8,698
Debt service	1,307,101	-	1,307,101
Total Expenditures	2,247,298	713	2,248,011
Excess (Deficiency) of Revenues Over Expenditures	(1,159,415)	2,147	(1,157,268)
<b>Other Financing Sources (Uses)</b>			
Issuance of debt	1,231,037	-	1,231,037
Operating transfers in (out)	44,905	-	44,905
Total Other Financing Sources (Uses)	1,275,942	-	1,275,942
Net Change in Fund Balance	116,527	2,147	118,674
Fund Balance - Beginning of Year	180,178	20,984	201,162
Fund Balance - End of Year	<u>\$ 296,705</u>	<u>\$ 23,131</u>	<u>\$ 319,836</u>

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

Town of Kenbridge, Virginia

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances  
of Governmental Funds to the Statement of Activities

Year Ended June 30, 2019

Net Change in Fund Balances - Total Governmental Funds \$ 118,674

**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 allocated over their estimated useful lives as depreciation expense.

Capitalized assets	\$ -	
Depreciation	<u>(182,746)</u>	(182,746)

Revenue in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (11,037)

Bond and capital lease proceeds are reported as financing sources in Governmental Funds and thus contribute to the change in fund balance. In the Statement of Net Position, however, issuing debt increases the long-term liabilities and does not affect the Statement of Activities. Similarly, the repayment of principal is an expenditure in the Governmental Funds but reduces the liability in the Statement of Net Position.

Issuance of long-term debt	(1,231,037)	
Repayments on debt (less conduit debt of IDA)	<u>1,137,279</u>	
Net Adjustment		(93,758)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. Changes in the following accounts are as follows:

Net pension asset	(54,920)	
Deferred inflows - pension	8,358	
Deferred inflows - OPEB	(681)	
Deferred outflows - pension	35,274	
Deferred outflows - OPEB	1,484	
Other postemployment benefits	<u>640</u>	
Net Adjustment		(9,845)

Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following:

Compensated absences	<u>(15,560)</u>	
Net Adjustment		<u>(15,560)</u>

Change in Net Position of Governmental Activities \$ (194,272)

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

## Town of Kenbridge, Virginia

## Statement of Net Position

## Proprietary Funds

At June 30, 2019

	<u>Business-Type Activities - Enterprise Funds</u>				
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Pump Station Fund</u>	<u>Sewer Project Fund</u>	<u>Total</u>
<b>Assets</b>					
<b>Current Assets</b>					
Cash	\$ 32,969	\$ 7,856	\$ 497	\$ 75	\$ 41,397
Cash - restricted	-	110,645	-	-	110,645
Accounts receivable (net of allowance for bad debts)	32,556	52,311	-	-	84,867
Total Current Assets	65,525	170,812	497	75	236,909
<b>Capital Assets</b>					
Land, land improvements, and easements	4,010	61,579	-	-	65,589
Infrastructure and equipment	712,200	10,453,517	-	-	11,165,717
Less: Accumulated depreciation	(473,095)	(2,641,253)	-	-	(3,114,348)
Total Capital Assets	243,115	7,873,843	-	-	8,116,958
<b>Other Assets</b>					
Net pension	13,425	13,425	-	-	26,850
Net other post employment benefits - HIC	81	81	-	-	162
Total Other Assets	13,506	13,506	-	-	27,012
Total Assets	322,146	8,058,161	497	75	8,380,879
<b>Deferred Outflows of Resources</b>					
Deferred outflows - pension	16,640	18,394	-	-	35,034
Deferred outflows - OPEB	1,041	1,096	-	-	2,137
Total Deferred Outflows of Resources	17,681	19,490	-	-	37,171
Total Assets and Deferred Outflows of Resources	<u>\$ 339,827</u>	<u>\$ 8,077,651</u>	<u>\$ 497</u>	<u>\$ 75</u>	<u>\$ 8,418,050</u>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Pooled cash deficit	\$ 61,152	\$ 58,273	\$ -	\$ -	\$ 119,425
Accounts payable and accrued liabilities	21,836	945	-	-	22,781
Current portion of long-term debt	-	64,528	-	-	64,528
Total Current Liabilities	82,988	123,746	-	-	206,734
<b>Noncurrent Liabilities</b>					
Compensated absences	9,453	14,594	-	-	24,047
Customer deposits	19,602	-	-	-	19,602
Other post employment benefits liability - GLI	6,300	6,300	-	-	12,600
General obligation bonds	-	3,363,976	-	-	3,363,976
Total Noncurrent Liabilities	35,355	3,384,870	-	-	3,420,225
Total Liabilities	118,343	3,508,616	-	-	3,626,959
<b>Deferred Inflows of Resources</b>					
Deferred inflows - pension	2,350	2,350	-	-	4,700
Deferred inflows - OPEB	599	599	-	-	1,198
Total Deferred Inflows of Resources	2,949	2,949	-	-	5,898
<b>Net Position</b>					
Net investment in capital assets	243,115	4,445,339	-	-	4,688,454
Unrestricted	(24,580)	120,747	497	75	96,739
Total Net Position	218,535	4,566,086	497	75	4,785,193
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 339,827</u>	<u>\$ 8,077,651</u>	<u>\$ 497</u>	<u>\$ 75</u>	<u>\$ 8,418,050</u>

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

## Town of Kenbridge, Virginia

## Statement of Revenues, Expenses, and Changes in Fund Net Position

## Proprietary Funds

Year Ended June 30, 2019

	<u>Business-Type Activities - Enterprise Funds</u>				
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Pump Station Fund</u>	<u>Sewer Project Fund</u>	<u>Total</u>
<b>Operating Revenues</b>					
Charges for services	\$ 165,071	\$ 384,422	\$ -	\$ -	\$ 549,493
Penalties	15,843	-	-	-	15,843
Other operating grants - state	2,186	-	-	-	2,186
<b>Total Operating Revenues</b>	<b>183,100</b>	<b>384,422</b>	<b>-</b>	<b>-</b>	<b>567,522</b>
<b>Operating Expenses</b>					
Salaries and wages	68,676	105,502	-	-	174,178
Fringe benefits	30,561	34,867	-	-	65,428
Utilities and telephone	21,268	32,396	-	-	53,664
Materials and maintenance	45,381	84,391	-	-	129,772
Insurance	4,807	4,810	-	-	9,617
Depreciation	21,497	270,470	-	-	291,967
Chemicals, lab testing and engineering fees	22,669	3,535	-	-	26,204
Contingencies and miscellaneous	4,756	3,583	2,855	-	11,194
<b>Total Operating Expenses</b>	<b>219,615</b>	<b>539,554</b>	<b>2,855</b>	<b>-</b>	<b>762,024</b>
Operating Income (Loss)	(36,515)	(155,132)	(2,855)	-	(194,502)
<b>Nonoperating Revenues (Expenses)</b>					
Insurance reimbursements	955	4,321	-	-	5,276
Interest income	490	1,474	2	-	1,966
Interest expense	-	(69,261)	-	-	(69,261)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>1,445</b>	<b>(63,466)</b>	<b>2</b>	<b>-</b>	<b>(62,019)</b>
Income (Loss) Before Operating Transfers	(35,070)	(218,598)	(2,853)	-	(256,521)
Operating Transfers In (Out)	(21,025)	(21,025)	(2,855)	-	(44,905)
<b>Net Operating Transfers</b>	<b>(21,025)</b>	<b>(21,025)</b>	<b>(2,855)</b>	<b>-</b>	<b>(44,905)</b>
Change in Net Position	(56,095)	(239,623)	(5,708)	-	(301,426)
Total Net Position - Beginning of Year	274,630	4,805,709	6,205	75	5,086,619
Total Net Position - End of Year	<u>\$ 218,535</u>	<u>\$ 4,566,086</u>	<u>\$ 497</u>	<u>\$ 75</u>	<u>\$ 4,785,193</u>

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

## Town of Kenbridge, Virginia

Statement of Cash Flows  
Proprietary Funds

Year Ended June 30, 2019

	<b>Business-Type Activities - Enterprise Funds</b>				
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Pump Station Fund</b>	<b>Sewer Project Fund</b>	<b>Total</b>
<b>Cash Flows from Operating Activities</b>					
Receipts from customers	\$ 179,861	\$ 381,018	\$ -	\$ -	\$ 560,879
Other operating grants	2,186	-	2,855	-	5,041
Payments to personnel and related expenses	(98,785)	(140,739)	-	-	(239,524)
Payments to suppliers	(63,192)	(121,702)	(2,855)	-	(187,749)
Net Cash Provided by (Used in) Operating Activities	20,070	118,577	-	-	138,647
<b>Cash Flows from Noncapital Financing Activities</b>					
Transfer from (to) other funds	(21,025)	(21,025)	(2,855)	-	(44,905)
Net Cash Provided by (Used in) Noncapital Financing Activities	(21,025)	(21,025)	(2,855)	-	(44,905)
<b>Cash Flows from Capital and Related Financing Activities</b>					
Insurance reimbursements	955	4,321	-	-	5,276
Principal paid on capital debt	-	(63,435)	-	-	(63,435)
Interest paid on capital debt	-	(69,261)	-	-	(69,261)
Net Cash Provided by (Used in) Capital and Related Financing Activities	955	(128,375)	-	-	(127,420)
<b>Cash Flows from Investing Activities</b>					
Interest income	490	1,474	2	-	1,966
Net Cash Provided by Investing Activities	490	1,474	2	-	1,966
Net Increase (Decrease) in Cash	490	(29,349)	(2,853)	-	(31,712)
Cash - Beginning of Year	32,479	147,850	3,350	75	183,754
Cash - End of Year	<u>\$ 32,969</u>	<u>\$ 118,501</u>	<u>\$ 497</u>	<u>\$ 75</u>	<u>\$ 152,042</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>					
Operating income (loss)	\$ (36,515)	\$ (155,132)	\$ (2,855)	\$ -	\$ (194,502)
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</i>					
Depreciation expense	21,497	270,470	-	-	291,967
<i>Changes in assets and liabilities</i>					
Receivables, net	(2,478)	(3,404)	2,855	-	(3,027)
Accounts payable and accrued expenses	446	(51,260)	-	-	(50,814)
Pooled cash deficit	35,243	58,273	-	-	93,516
Customer deposits	1,425	-	-	-	1,425
Compensated absences	(2,319)	(3,140)	-	-	(5,459)
Deferred outflows - pension liability	(9,921)	(9,921)	-	-	(19,842)
Deferred outflows - OPEB	(425)	(425)	-	-	(850)
Net pension asset	15,447	15,447	-	-	30,894
Net OPEB	213	213	-	-	426
Deferred inflows - pension liability	(2,351)	(2,351)	-	-	(4,702)
Deferred inflows - OPEB	(192)	(193)	-	-	(385)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 20,070</u>	<u>\$ 118,577</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 138,647</u>

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



## Town of Kenbridge, Virginia

### Notes to the Financial Statements

Year Ended June 30, 2019

## 1 Summary of Significant Accounting Policies

### **Narrative Profile**

The Town of Kenbridge, Virginia (the "Town"), which was founded in 1937, has a population of approximately 1,257 living within an area of 2.0 square miles. The Town is located in the southern end of Lunenburg County, Virginia. The Town is governed by a Town Manager, a Town Mayor, and a six-member Town Council with each serving administrative and legislative functions.

The Town engages in a comprehensive range of municipal services, including general government administration, public safety, public works, parks, recreation, and cultural, and community development activities.

The financial statements of the Town have been prepared in conformity with the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board. The more significant of the government's accounting policies are described below:

### **1-A. Financial Reporting Entity**

The basic criterion for determining whether a governmental department, agency, institution, commission, public authority, or other governmental organization should be included in a primary governmental unit's reporting entity for the basic financial statements is financial accountability. Financial accountability includes the appointment of a voting majority of the organization's governing body and the ability of the primary government to impose its will on the organization or if there is a financial benefit/burden relationship. In addition, an organization which is fiscally dependent on the primary government should be included in its reporting entity. These financial statements present the Town of Kenbridge, Virginia (the primary government) and its component unit. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government.

### **Individual Component Unit Disclosures**

#### **Discretely Presented Component Unit**

##### *Industrial Development Authority of the Town of Kenbridge, Virginia*

The Authority is a separate and distinct entity from the Town of Kenbridge, Virginia and is, in accordance with the Act, a political subdivision of the Commonwealth of Virginia.

The Board who is appointed by the Town Council of the Town of Kenbridge, Virginia governs the Authority. The directors are to serve staggered terms of four years each.

The Authority is a component unit of the financial reporting entity of the Town of Kenbridge, Virginia.

## Exclusions from the Reporting Entity

### Jointly Governed Organizations

Jointly governed organizations are regional governments or other multi-governmental arrangements that are governed by representation from each of the governments that create the organizations, and the participants do not retain an ongoing financial interest or responsibility in the organization.

There are no jointly governed organizations at this time.

### 1-B. Financial Reporting Model

The Town's Comprehensive Annual Financial Report includes management's discussion and analysis, the basic financial statements, and required and other supplementary information, described as follows:

**Management's Discussion and Analysis** – The basic financial statements are accompanied by a narrative introduction as well as an analytical overview of the Town's financial activities.

**Government-wide Financial Statements** – The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements report financial information for the Town as a whole. The primary government and the component unit are presented separately within these financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and grants and the Town's general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. The fiduciary funds of the primary government are not included in the government-wide financial statements.

The Statement of Net Position presents the financial position of the governmental and business-type activities of the Town and its discretely presented component unit at year end.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities and for each identifiable activity of the business-type activities of the Town. Direct expenses are those that are specifically associated with a function and, therefore, clearly identifiable to that particular function. The Town does not allocate indirect expenses to functions in the Statement of Activities.

The Statement of Activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees and other charges to users of the Town's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. For identifying to which function program revenue pertains, the determining factor for *charges for services* is which function *generates* the revenue. For *grants and contributions*, the determining factor is to which function the revenues are *restricted*.

Other revenue sources not considered to be program revenues are reported as general revenues of the Town. The comparison of direct expenses with program revenues identifies the extent to which each governmental function and each identifiable business activity is self-financing or draws from the general revenues of the Town.

**Fund Financial Statements** – During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at this more detailed level. Fund financial statements are provided for governmental, proprietary, and fiduciary funds.

Major individual governmental and proprietary funds are reported in separate columns.

**Reconciliation of Government-wide and Fund Financial Statements** – Since the governmental funds financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements, a summary reconciliation of the difference between total fund balances as reflected on the governmental funds balance sheet and total governmental activities net position as shown on the government-wide Statement of Net Position is presented. In addition, a summary reconciliation of the difference between the total net change in fund balances as reflected on the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances, and the change in net position of governmental activities as shown on the government-wide Statement of Activities is presented.

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

**GASB-Required Supplementary Pension** – GASB issued Statement No. 68– *Accounting and Financial Reporting for Pensions—an amendment of GASB No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions.

**GASB-Required Supplementary OPEB** – GASB issued Statement No. 75– *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB).

#### **1-C. Financial Statement Presentation**

In the fund financial statements, financial transactions and accounts of the Town are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The following is a brief description of the funds reported by the Town in each of its fund types in the financial statements:

- **Governmental Funds** – Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources.

Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The Town reports the difference between its governmental fund assets and deferred outflows of resources and its liabilities and deferred inflows of resources as fund balance. The following are the Town's major governmental funds:

- **General Fund** – The General Fund is the primary operating fund of the Town and accounts for all revenues and expenditures applicable to the general operations of the Town which are not accounted for in other funds. Revenues are derived primarily from property and other local taxes, licenses, permits, charges for services, use of money and property, and intergovernmental grants.
- **Special Revenue Funds** – Special Revenue Funds account for the proceeds of specific revenue sources (other than those derived from special assessments, expendable trusts, or dedicated for major capital projects) requiring separate accounting due to legal or regulatory provisions or administrative action. Special Revenue Funds include the following:
  - Industrial Park Fund, Equipment Reserve Fund, Farmers Market Fund, and Town Park Fund
- **Capital Projects Funds** – The Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds. The Town has no Capital Projects Funds at this time.
- **Proprietary Funds** – Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The Town has four enterprise funds, the Water, Sewer, Pump Station, and Sewer Project Funds, which account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the Town is that the cost of providing services to the general public be financed or recovered through user charges.
- **Fiduciary Funds (Agency Funds)** – Fiduciary funds account for assets held by the Town in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds. These funds include Agency Funds. Agency funds utilize the accrual basis of accounting. 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 government-wide financial statements. The Town has no Fiduciary Funds at this time.

#### 1-D. Measurement Focus and Basis of Accounting

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

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

The government-wide Statement of Activities reflects both the gross and net cost per functional category (general government administration, public safety, public works, etc.) which are otherwise being supported by general government revenues, (property taxes, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (general government administration, public safety, public works, etc.) or a business-type activity.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Town's fiduciary funds are presented in the fund financial statements by type. 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 government-wide statements.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year end are reflected as unavailable revenues. Sales and utility taxes, which are collected by the state or utilities and, subsequently, remitted to the Town, are recognized as revenues and receivables upon collection by the state or utility, which is generally within two months preceding receipt by the Town.

Licenses, permits, fines, and rents 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 the specific expenditures. Revenues from general purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

## **1-E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity**

### **1-E-1 Cash and Cash Equivalents**

The Town operates a cash and investment pool which the general, water and sewer funds utilize. All other funds have separate bank accounts and investments. The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

The Town allocates investment earnings of the cash and investment pool to each participating fund on a monthly basis in accordance with that fund's average equity balance in the pool for that month.

### **1-E-2 Investments**

Investments are stated at fair value which approximates market; no investments are valued at cost. Certificates of deposit and short-term repurchase agreements are reported in the accompanying financial statements as cash and cash equivalents.

State statutes which, in general, allow the Town to invest in obligations of the United States or United States government sponsored corporations, in shares or other interests in any custodial arrangement, pool, or no-load, open-end management type investment company or investment trust (as defined), or in obligations of any State or political subdivision rated within the top two rating categories of any nationally recognized rating service.

### **1-E-3 Receivables and Payables**

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

All trade and property tax receivables are shown net of an allowance for uncollectibles. The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. There is no allowance amount at this time.

### ***Real and Personal Property Tax Data***

The tax calendars for real and personal property taxes are summarized below:



	<u>Real Property</u>	<u>Personal Property</u>
Lewy	January 1	January 1
Due Date	July 15	July 15
Due Date	December 15	December 15
Lien Date	January 1	January 1

The Town bills and collects its own property taxes.

A ten percent penalty is levied on all taxes not collected on or before their due date. An interest charge of ten percent per annum is also levied on such taxes beginning on July 16 and December 16.

#### **1-E-4 Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30 are recorded as prepaid items using the consumption method by recording an asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed. At the fund reporting level, an equal amount of fund balance is reported as nonspendable as this amount is not available for general appropriation.

#### **1-E-5 Capital Assets**

General capital assets are those capital assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in governmental funds. The Town reports these assets in the governmental activities column of the government-wide Statement of Net Position but does not report these assets in the governmental fund financial statements. Capital assets utilized by enterprise funds are reported both in the business-type activities column of the government-wide Statement of Net Position and in the enterprise funds' Statement of Net Position.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Town's infrastructure consists primarily of water and sewer systems. Improvements to capital assets are capitalized; however, the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Description</u>	<u>Estimated Lives</u>
Buildings and improvements	10 to 50 years
Infrastructure	10 to 40 years
Furniture, equipment and vehicles	3 to 25 years

At the inception of capital leases at the governmental fund reporting level, expenditures and an "other financing source" of an equal amount are reported at the net present value of future minimum lease payments.

#### **1-E-6 Deferred Outflows/Inflows of Resources**

The Statement of Net Position includes a separate section for Deferred Outflows of Resources. This represents the usage of net position applicable to future periods and will be recognized as expenditures in the future period to which it applies. This category also includes amounts related to pensions for certain actuarially determined differences between projected and actual investment earnings.

The Statement of Net Position also includes a separate section for Deferred Inflows of Resources. This represents the acquisition of net position applicable to future periods and will be recognized as revenue in the future period to which it applies. Currently, this category includes revenue received in advance, and amounts related to pensions for certain actuarially determined differences between projected and actual experience.

Deferred Inflows of Resources in the Governmental Funds Balance Sheet include unavailable revenue. Unavailable revenue consists primarily of special assessment, loans, and notes receivable. The Town considers revenues available if they are collected within 60 days of the end of the fiscal year.

#### **1-E-7 Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Town will compensate the employees for the benefits through paid time off or some other means.

All compensated absence liabilities include salary-related payments, where applicable.

The total compensated absence liability is reported on the government-wide financial statements. Proprietary funds report the total compensated absence liability in each individual fund at the fund reporting level. Governmental funds report the compensated absence liability at the fund reporting level when paid.

#### **1-E-8 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.

#### **1-E-9 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 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.



### **1-E-10 Health Insurance Credit Program**

The Political Subdivision Health Insurance Credit Program is a multiple-employer, agent defined benefit plan that provides a credit toward the cost of health insurance coverage for retired political subdivision employees of participating employers. The Political Subdivision Health Insurance Credit Program was established pursuant to §51.1-1400 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. For purposes of measuring the net Political Subdivision Health Insurance Credit Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Political Subdivision Health Insurance Credit Program OPEB, and the Political Subdivision Health Insurance Credit Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Political Subdivision Health Insurance Credit Program; and the additions to/deductions from the VRS Political Subdivision Health Insurance Credit Program's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### **1-E-11 Fund Equity**

Fund equity at the governmental fund financial reporting level is classified as fund balance. Fund equity for all other reporting is classified as net position.

**Governmental Fund Balances** – Generally, governmental fund balances represent the difference between the current assets and deferred outflows of resources, and current liabilities and deferred inflows of resources. Governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which resources can be spent. Fund balances are classified as follows:

Nonspendable – amounts that cannot be spent either because they are in non-spendable 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 constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level of action to remove or change the constraint.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes.

Unassigned – all amounts not classified as nonspendable, restricted, committed, or assigned.

**Net Position** – Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of cost of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. This net investment in capital assets amount also is adjusted by any bond issuance deferral amounts. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net position is reported as unrestricted.

#### **1-E-12 Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Town, these revenues are charges for services for utilities. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All

other items that do not directly relate to the principal and usual activity of the fund are recorded as nonoperating revenues and expenses. These items include investment earnings and gains or losses on the disposition of capital assets.

#### **1-E-13 Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after the non-operating revenues/expenses section in proprietary funds.

#### **1-E-14 Long-Term Obligations**

The Town reports long-term debt of Governmental Funds at face value in the general long-term debt account group. The face value of the debt is believed to approximate fair value. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group. Long-term debt and other obligations financed by Proprietary Funds are reported as liabilities in the appropriate funds.

#### **1-E-15 Adoption of New GASB Statements**

The Town did not adopt any new GASB statements during the fiscal year ended June 30, 2019.

### **1-F. Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

## **2 Stewardship, Compliance, and Accountability**

### **Budgets and Budgetary Accounting**

The Town Council annually adopts budgets for the various funds of the primary government. All appropriations are legally controlled at the department level for the primary Governmental Funds. Unexpended appropriations lapse at the end of each fiscal year.

### *Budgetary Data*

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

1. Prior to June, the Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing July 1. The operating budget and capital budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to July 1, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the fund, function, and departmental level. These appropriations for each fund, function, and department can be revised only by the Town Council.
5. Formal budgetary integration is employed as a management control device during the year and budgets are legally adopted for all major funds.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Supplemental Appropriations are adopted if necessary during the fiscal year.

Expenditures exceeded appropriations in the General Fund at June 30, 2019.

### **Fund Deficits**

No funds had fund deficits.

## **3 Deposits and Investments**

### *Deposits*

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

### *Investments*

Town policy for eligible investments are governed by State statutes which, in general, allow the Town to invest in obligations of the United States or United States government sponsored corporations, in shares or other interests in any custodial arrangement, pool, or no-load, open-end management type investment company or investment trust (as defined), or in obligations of any State or political subdivision rated within the top two rating categories of any nationally recognized rating service. Investment income is recorded in the fund in which it is earned.

The Town does not have a formal investment policy.

### *Custodial Credit Risk*

This is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town does not have custodial credit risk policies for investments.

### *Interest Rate Risk*

This is the risk of changes in market interest rates which will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Information about the exposure of the Town's debt type investments to this risk, using the segmented time distribution model is as follows:

<u>Type of Investment</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>Over 10 Years</u>
Pooled Fixed Income	\$ 95,005	\$ -	\$ 95,005	\$ -	\$ -

### *Credit Risk*

Generally, credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. U.S. Government securities or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk exposure. Presented below is the minimum rating required for each type debt investment.

<u>Average Rating</u>	<u>Pooled Fixed Income</u>
AAA	\$ 95,005

The following is a summary of cash and investments:

<u>Asset Type</u>	<u>Balance</u> <u>June 30, 2019</u>
Petty cash	\$ 174
Deposit accounts	159,117
<b>Investments</b>	
Infinex	170,966
Total Cash and Investments	\$ 330,257

The following is a summary and reconciliation of the pooled cash and investments at June 30, 2019:

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>	<u>Component</u> <u>Unit - IDA</u>
<b>Primary Government</b>				
Cash and investments	\$ 297,640	\$ (78,028)	\$ 219,612	\$ 233,101
Restricted cash	-	110,645	110,645	-
Total	\$ 297,640	\$ 32,617	\$ 330,257	\$ 233,101

## 4 Receivables

Receivables at June 30, 2019 consist of the following:

	<u>Primary Government</u>			
	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>	<u>Business-Type Activities</u>
Property taxes	\$ 423,137	\$ -	\$ 423,137	\$ -
Other	10,713	-	10,713	-
Garbage	15,150	-	15,150	-
Water and sewer	-	-	-	84,867
Total	<u>\$ 449,000</u>	<u>\$ -</u>	<u>\$ 449,000</u>	<u>\$ 84,867</u>

## 5 Interfund Transfers

Interfund transfers for the year ended June 30, 2019 consisted of the following:

### Primary Government

	<u>Transfer (To)</u>	<u>Transfer From</u>
<b>General Fund</b>		
From Water Fund for debt service and operating costs	\$ -	\$ 21,025
From Sewer Fund for debt service and operating costs	-	21,025
From Pump Station Fund for reimbursement	-	2,855
Total General Fund	-	44,905
<b>Water Fund</b>		
To General Fund for debt service and operating costs	21,025	-
Total Water Fund	21,025	-
<b>Sewer Fund</b>		
To General Fund for debt service and operating costs	21,025	-
Total Sewer Fund	21,025	-
<b>Pump Station Fund</b>		
To General Fund for reimbursement	2,855	-
Total Pump Station Fund	2,855	-
Total Transfers	<u>\$ 44,905</u>	<u>\$ 44,905</u>

## 6 Capital Assets

The following is a summary of changes in capital assets:

### Governmental Activities

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019
<b>Capital Assets Not Being Depreciated</b>				
Land, land improvements, and easements	\$ 166,160	\$ -	\$ -	\$ 166,160
Total Capital Assets Not Being Depreciated	166,160	-	-	166,160
<b>Other Capital Assets</b>				
Buildings and improvements	2,640,536	-	-	2,640,536
Infrastructure	1,152,257	-	-	1,152,257
Furniture, equipment, and vehicles	1,322,178	-	-	1,322,178
Total Other Capital Assets	5,114,971	-	-	5,114,971
<b>Less: Accumulated depreciation for</b>				
Buildings and improvements	713,891	54,523	-	768,414
Infrastructure	405,215	23,277	-	428,492
Furniture, equipment, and vehicles	837,905	104,946	-	942,851
Total Accumulated Depreciation	1,957,011	182,746	-	2,139,757
Other Capital Assets, Net	3,157,960	(182,746)	-	2,975,214
Net Capital Assets	\$ 3,324,120	\$ (182,746)	\$ -	\$ 3,141,374

Depreciation expense was allocated as follows:

General government administration	\$ 18,341
Public safety	90,740
Public works	55,470
Parks, recreation, and cultural	18,195
Total Depreciation Expense	\$ 182,746

## Business-Type Activities

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019
<b>Capital Assets Not Being Depreciated</b>				
Land, land improvements, and easements	\$ 65,589	\$ -	\$ -	\$ 65,589
Total Capital Assets Not Being Depreciated	65,589	-	-	65,589
<b>Other Capital Assets</b>				
Infrastructure	10,994,135	-	-	10,994,135
Furniture, equipment, and vehicles	171,582	-	-	171,582
Total Other Capital Assets	11,165,717	-	-	11,165,717
<b>Less: Accumulated depreciation for</b>				
Infrastructure	2,758,663	274,826	-	3,033,489
Furniture, equipment, and vehicles	63,718	17,141	-	80,859
Total Accumulated Depreciation	2,822,381	291,967	-	3,114,348
Other Capital Assets, Net	8,343,336	(291,967)	-	8,051,369
Net Capital Assets	\$ 8,408,925	\$ (291,967)	\$ -	\$ 8,116,958

## 7 Compensated Absences

Per the Town's policy, with the exception of the police department, 25% of accumulated sick leave is paid upon separation. The police department receives 100% of sick leave upon separation. Each employee may carryover a maximum of 80 hours of annual leave. Upon separation, 100% of unused annual leave is paid. The Town has outstanding compensated absences totaling \$81,826 in the governmental activities and \$24,047 in the business-type activities.

## 8 Long-Term Debt

### PRIMARY GOVERNMENT

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

Year(s) Ended June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2020	\$ 301,106	\$ 61,218	\$ 64,528	\$ 68,168
2021	159,757	57,958	66,017	66,679
2022	82,340	52,323	67,350	65,346
2023	85,248	49,232	68,709	63,987
2024	75,444	46,199	68,925	62,771
2025-2029	423,806	184,410	372,107	291,373
2030-2034	365,144	102,539	411,222	252,258
2035-2039	319,895	25,891	454,450	209,030
2040-2044	-	-	502,147	161,333
2045-2049	-	-	555,041	108,439
2050-2054	-	-	613,391	50,090
2055-2056	-	-	184,617	2,750
Compensated absences	81,826	-	24,047	-
	<u>\$ 1,894,566</u>	<u>\$ 579,770</u>	<u>\$ 3,452,551</u>	<u>\$ 1,402,224</u>

## Changes in Long-Term Debt

The following is a summary of changes in long-term obligations of the Town for the year ended June 30, 2019:

	<u>Balance</u> <u>July 1, 2018</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2019</u>	<u>Due Within</u> <u>One Year</u>
<b>Primary Government</b>					
<b>Governmental Activities</b>					
<b>General Fund</b>					
The Town has a five-year balloon loan with Benchmark Community Bank for the purpose of constructing an addition to the existing firehouse. The loan was refinanced for \$125,984 payable in 4 annual installments of \$14,961 and a balloon payment of \$82,987 due on June 15, 2021. Interest is 3.25%.	\$ 103,896	\$ -	\$ 11,594	\$ 92,302	\$ 11,909
The Town issued General Obligation Public Improvement Refunding Bond, Series 2019A to refund the General Obligation Series 2007 bond. Installments of interest payable monthly commencing March 1, 2019, and installments of principal payable monthly commencing July 1, 2019. The bond is due and payable on August 1, 2037. Interest is 4.00%.	-	791,164	-	791,164	28,343
The Town issued General Obligation Public Improvement Refunding Bond, Series 2019B to refund the General Obligation Series 2007 bond. Installments of interest payable monthly commencing March 1, 2019, and installments of principal payable monthly commencing July 1, 2019. The bond is due and payable on August 1, 2037. Interest is 4.30%.	-	349,873	-	349,873	12,154
The Town issued a general obligation public improvement bond for \$205,000 for park improvements. Interest only of 5.0% is payable in semiannual installments of \$5,125 until 2035 when principal will be paid in increments of \$30,000, \$85,000, and \$90,000, plus semiannual interest payments.	205,000	-	205,000	-	-
The Town issued a general obligation public improvement bond for \$1,100,000 for the municipal building. Interest varies from 5.125% to 6.25% which is payable semiannually. Principal ranging from \$15,000 to \$75,000 through 2035 is payable annually.	885,000	-	885,000	-	-
The Town has a loan with Rural Development. The original balance of \$28,000 was used to purchase a utility truck. The loan is payable over 7 years at 2.875% interest with monthly principal and interest payments of \$369.	20,518	-	3,889	16,629	4,001
The Town has a note with First Citizens Bank to purchase a new fire truck for \$400,000. It is payable over 15 years with annual installments of \$35,208. Interest is 3.40 percent.	341,158	-	23,426	317,732	24,235
The Town has a loan with Rural Development. The original balance of \$54,400 was used to purchase two police cars. The loan is payable over 7 years at 2.875% interest with monthly principal and interest payments of \$716.	39,882	-	7,544	32,338	7,762
The Town has a line of credit with Benchmark Community Bank up to \$350,000 with an interest rate of 2.83%.	123,528	90,000	826	212,702	212,702
Compensated absences	<u>66,266</u>	<u>15,560</u>	<u>-</u>	<u>81,826</u>	<u>-</u>
Total Governmental Activities	1,785,248	1,246,597	1,137,279	1,894,566	301,106



	<u>Balance July 1, 2018</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2019</u>	<u>Due Within One Year</u>
<b>Business-Type Activities</b>					
<b>Enterprise Funds</b>					
<i>Water Fund</i>					
Compensated absences	<u>11,772</u>	-	2,319	<u>9,453</u>	-
Total	<u>11,772</u>	-	2,319	<u>9,453</u>	-
<i>Sewer Fund</i>					
The Town issued general obligation sewer bonds Series 2015 with Rural Development with a combined amount of \$3,590,000 to refinance loans #92-01, 92-03, 92-04, 92-05 and finance the rehabilitation of the Town's sewer pump stations. Interest only is due November 2016 then monthly payments will be \$11,058 at a stated interest rate of 2.0% for 40 years. Loan is split between funds.					
	3,491,939	-	63,435	<u>3,428,504</u>	64,528
Compensated absences	<u>17,734</u>	-	3,140	<u>14,594</u>	-
Total	<u>3,509,673</u>	-	66,575	<u>3,443,098</u>	64,528
Total Business-Type Activities	<u>3,521,445</u>	-	68,894	<u>3,452,551</u>	64,528
Total Primary Government	<u>\$ 5,306,693</u>	<u>\$ 1,246,597</u>	<u>\$ 1,206,173</u>	<u>\$ 5,347,117</u>	<u>\$ 365,634</u>

### Current Refunding – January 2019

The Town issued \$1,141,037 of G.O. public improvement refunding bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the government-wide financial statements. The reacquisition price equaled the net carrying amount of the old debt. This refunding was undertaken to reduce total debt service payments over the next 20 years by \$120,563 and resulted in an economic gain of \$114,768.

## 9 Line of Credit

The Town renewed their line of credit with Benchmark Community Bank on July 20, 2018 in the amount of \$350,000. As of June 30, 2019, this line has a balance of \$212,702.

## 10 Net Investment in Capital Assets

The "net investment in capital assets" amount reported on the government-wide Statement of Net Position as of June 30, 2019 is determined as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
<b>Net Investment in Capital Assets</b>		
Cost of capital assets	\$ 5,281,131	\$ 11,231,306
Less: Accumulated depreciation	<u>(2,139,757)</u>	<u>(3,114,348)</u>
Book value	3,141,374	8,116,958
Less: Capital related debt	<u>(1,600,038)</u>	<u>(3,428,504)</u>
Net Investment in Capital Assets	<u>\$ 1,541,336</u>	<u>\$ 4,688,454</u>

## 11 Deferred Inflows of Resources

Deferred inflows of resources from unavailable property taxes are comprised of the following:

### Primary Government

#### General Fund

Delinquent taxes not collected within 60 days	\$ 195,311
Prepaid property taxes - property taxes paid in advance	6,243
Second half property tax assessments	<u>227,826</u>

Total Deferred Inflows of Resources - Governmental Funds	<u>\$ 429,380</u>
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## 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. The Town joined together with other local governments in Virginia to form the Virginia Municipal Liability Pool, a public entity risk pool currently operating as a common risk management and insurance program for participating local governments. The Town pays an annual premium to the pool for substantially all of its insurance coverage. In the event of a loss deficit and depletion of all available excess insurance, the pool may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

The Town continues to carry commercial insurance for all other risks of loss, including employee dishonesty and employee health and accident insurance. The Component Unit IDA carries commercial insurance for all risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Surety bond coverage is as follows:

### Selective Insurance Company of Virginia

Chairman  
Town Treasurer  
Deputy Treasurer  
Mayor  
Vice Mayor  
IDA Treasurer

## 13 Commitments and Contingencies

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

## 14 Litigation

At June 30, 2019, there were no matters of litigation involving the Town which would materially affect the Town's financial position should any court decisions or pending matters not be favorable to such entities.

## 15 Legal Compliance

The Virginia Public Finance Act contains state law for issuance of long-term and short-term debt. The Act states, in part, that no municipality may issue bonds or other interest-bearing obligations, including existing indebtedness, which will at any time exceed ten percent of the assessed valuation on real estate as shown by the last preceding assessment for taxes. Short-term revenue anticipation bonds/notes, general obligation bonds approved in a referendum, revenue bonds, and contract obligations for publically owned or regional projects should not be included in the debt limitation.

### *Computation of Legal Debt Margin*

Total Assessed Value of Taxed Real Property	\$ <u>78,589,166</u>
Debt Limits per Constitution of Virginia - 10% Assessed Value	\$ 7,858,917
<i>Amount of Debt Applicable to Debt Limit</i>	
Gross debt	<u>1,812,740</u>
Legal Debt Margin - June 30, 2019	\$ <u>6,046,177</u>

**NOTE:** Includes all long-term general obligation bonded debt. Excludes compensated absences.

## 16 Pension Plan

### *Plan Description*

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

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

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## RETIREMENT PLAN PROVISIONS

### PLAN 1

#### *About Plan 1*

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

#### *Eligible Members*

Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.

#### *Hybrid Opt-In Election*

VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

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

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

Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.

### PLAN 2

#### *About Plan 2*

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

#### *Eligible Members*

Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

#### *Hybrid Opt-In Election*

Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

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

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

Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.

### HYBRID RETIREMENT PLAN

#### *About the Hybrid Retirement Plan*

The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.

- The defined benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula.
- The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
- 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.

#### *Eligible Members*

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

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

#### *\*Non-Eligible Members*

Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

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

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.

### **PLAN 1**

#### ***Retirement Contributions***

Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

#### ***Creditable Service***

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

#### ***Vesting***

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

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

### **PLAN 2**

#### ***Retirement Contributions***

Same as Plan 1.

#### ***Creditable Service***

Same as Plan 1.

#### ***Vesting***

Same as Plan 1.

### **HYBRID RETIREMENT PLAN**

#### ***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.

#### ***Creditable Service***

##### **Defined Benefit Component:**

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

##### **Defined Contributions Component:**

Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

#### ***Vesting***

##### **Defined Benefit Component:**

Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

##### **Defined Contributions Component:**

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

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

## PLAN 1

### *Calculating the Benefit*

The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.

An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

### *Average Final Compensation*

A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

### *Service Retirement Multiplier*

**VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.

**Sheriffs and regional jail superintendents:** The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.

**Political subdivision hazardous duty employees:** The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.

## PLAN 2

### *Calculating the Benefit*

See definition under Plan 1.

### *Average Final Compensation*

A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.

### *Service Retirement Multiplier*

**VRS:** Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. For non-hazardous duty members, the retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013.

**Sheriffs and regional jail superintendents:** Same as Plan 1.

**Political subdivision hazardous duty employees:** Same as Plan 1.

## HYBRID RETIREMENT PLAN

Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

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

Distribution is not required by law until age 70 1/2.

### *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*

Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

### *Service Retirement Multiplier*

#### **Defined Benefit Component:**

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

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

**Sheriffs and regional jail superintendents:** Not applicable.

**Political subdivision hazardous duty employees:** Not applicable.

#### **Defined Contribution Component**

Not applicable.

**PLAN 1**  
***Normal Retirement Age***

**VRS:** Age 65.

**Political subdivisions hazardous duty employees:**  
Age 60.

***Earliest Unreduced Retirement Eligibility***

**VRS:** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.

**Political subdivisions hazardous duty employees:**  
Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

***Earliest Reduced Retirement Eligibility***

**VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.

**Political subdivisions hazardous duty employees:**  
Age 50 with at least five years of creditable service.

***Cost-of-Living Adjustment (COLA) in Retirement***

The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.

***Eligibility:***

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

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

**PLAN 2**  
***Normal Retirement Age***

**VRS:** Normal Social Security retirement age.

**Political subdivisions hazardous duty employees:**  
Same as Plan 1.

***Earliest Unreduced Retirement Eligibility***

**VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.

**Political subdivisions hazardous duty employees:**  
Same as Plan 1.

***Earliest Reduced Retirement Eligibility***

**VRS:** Age 60 with at least five years (60 months) of creditable service.

**Political subdivisions hazardous duty employees:**  
Same as Plan 1.

***Cost-of-Living Adjustment (COLA) in Retirement***

The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.

***Eligibility:***

Same as Plan 1

**HYBRID  
RETIREMENT PLAN**  
***Normal Retirement Age***

**Defined Benefit Component:**

**VRS:** Same as Plan 2.

**Political subdivisions hazardous duty employees:**  
Not applicable.

**Defined Contribution Component:**

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

***Earliest Unreduced Retirement Eligibility***

**Defined Benefit Component:**

**VRS:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

**Political subdivisions hazardous duty employees:**  
Not applicable.

**Defined Contribution Component:**

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

***Earliest Reduced Retirement Eligibility***

**Defined Benefit Component:**

**VRS:** Age 60 with at least five years (60 months) of creditable service.

**Political subdivisions hazardous duty employees:**  
Not applicable

**Defined Contribution Component:**

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

***Cost-of-Living Adjustment (COLA) in Retirement***

**Defined Benefit Component:**

Same as Plan 2

**Defined Contribution Component:**

Not applicable

***Eligibility:***

Same as Plan 1 and Plan 2



### **PLAN 1**

#### *Exceptions to COLA Effective Dates:*

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

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability 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.

#### ***Disability Coverage***

Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted.

#### ***Purchase of Prior Service***

Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts towards 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.

### **PLAN 2**

#### *Exceptions to COLA Effective Dates:*

Same as Plan 1

#### ***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.

#### ***Purchase of Prior Service***

Same as Plan 1

### **HYBRID RETIREMENT PLAN**

#### *Exceptions to COLA Effective Dates:*

Same as Plan 1 and Plan 2

#### ***Disability Coverage***

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

Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

#### ***Purchase of Prior Service***

##### **Defined Benefit Component:**

Same as Plan 1, with the following exceptions:

- Hybrid Retirement Plan members are ineligible for ported service.

##### **Defined Contribution Component:**

Not applicable



### ***Employees Covered by Benefit Terms***

As of the June 30, 2017 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	8
Inactive members:	
Vested inactive members	3
Non-vested inactive members	5
LTD	0
Inactive members active elsewhere in VRS	<u>12</u>
Total inactive members	20
Active members	<u>11</u>
Total covered employees	<u>39</u>

### ***Contributions***

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

**If the employer used the certified rate:** The political subdivision's contractually required contribution rate for the year ended June 30, 2019 was 5.02% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$23,496 and \$21,110 for the years ended June 30, 2019 and June 30, 2018, respectively.

### ***Net Pension Liability***

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For political subdivisions, the net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2017 rolled forward to the measurement date of June 30, 2018.

### ***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, 2017, 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, 2018.

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

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

#### Mortality rates:

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

#### Pre-Retirement:

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

#### Post-Retirement:

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

#### 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, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70-75
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%

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%

**Actuarial Assumptions – Public Safety Employees**

The total pension liability for Public Safety employees in the Political Subdivision Retirement Plan was based on an actuarial valuation as of June 30, 2017, 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, 2018.

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

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

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

**Post-Disablement:**

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

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

**Pre-Retirement:**

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

**Post-Retirement:**

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

**Post-Disablement:**

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

The actuarial assumptions used in the June 30, 2017 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%

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

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

***Long-Term Expected Rate of Return***

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

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

\*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

### ***Discount Rate***

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. 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, 2018, the alternate rate was the employer contribution rate used in FY 2012 or 90% of the actuarially determined employer contribution rate from the June 30, 2015, actuarial valuations, whichever was greater. From July 1, 2018 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the Long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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### ***Changes in Net Pension Liability***

		<b>Total Pension Liability (a)</b>	<b>Increase (Decrease) Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) - (b)</b>
Balances at June 30, 2017	\$	1,205,356	\$ 1,365,758	\$ (160,402)
<b>Changes for the Year</b>				
Service cost		42,108	-	42,108
Interest		81,264	-	81,264
Benefit changes		-	-	-
Assumption changes		-	-	-
Differences between expected and actual experience		113,827	-	113,827
Contributions - employer		-	19,569	(19,569)
Contributions - employee		-	33,955	(33,955)
Net investment income		-	98,814	(98,814)
Benefit payments, including refunds of employee contributions		(88,884)	(88,884)	-
Administrative expenses		-	(864)	864
Other changes		-	(89)	89
Net Changes		<u>148,315</u>	<u>62,501</u>	<u>85,814</u>
Balances at June 30, 2018	\$	<u>1,353,671</u>	\$ <u>1,428,259</u>	\$ <u>(74,588)</u>

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

The following presents the net pension liability of the political subdivision using the discount rate of 7.00%, 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 (6.00%) or one percentage point higher (8.00%) than the current rate:

	<b>1.00% Decrease (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1.00% Increase (8.00%)</b>
Political subdivision's Net Pension Liability (Asset)	\$ 95,429	\$ (74,588)	\$ (214,489)

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

For the year ended June 30, 2019, the political subdivision recognized pension expense of \$39,592. At June 30, 2019, 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	\$ 72,416	\$ -
Change in assumptions	-	2,480
Net difference between projected and actual earnings on pension plan investments	-	10,577
Employer contributions subsequent to the measurement date	<u>23,496</u>	<u>-</u>
Total	<u>\$ 95,912</u>	<u>\$ 13,057</u>

\$23,496 reported as deferred outflows of resources related to pensions resulting from the political subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the Fiscal Year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year Ended June 30,</u>	
2020	\$ 54,356
2021	19,692
2022	(13,791)
2023	(898)
2024	-
Thereafter	-

#### ***Pension Plan Data***

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

#### ***Payables to the Pension Plan***

The political subdivision recognizes \$3,618 of payables to a defined benefit pension plan outstanding at the end of the reporting period. This amount represents the June 2019 legally required contributions to the pension plan due by July 10 per VRS reporting requirements.

## **17 Other Post-Employment Benefits - Group Life Insurance Program**

#### ***Plan Description***

All full-time, salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This plan is administered by the Virginia Retirement System (the System), along with pensions and other 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><b>Eligible Employees</b></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"> <li>• City of Richmond</li> <li>• City of Portsmouth</li> <li>• City of Roanoke</li> <li>• City of Norfolk</li> <li>• Roanoke City Schools Board</li> </ul> <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><b>Benefit Amounts</b></p> <p>The benefits payable under the Group Life Insurance Program have several components.</p> <ul style="list-style-type: none"> <li>• <b>Natural Death Benefit</b> – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.</li> <li>• <b>Accidental Death Benefit</b> – The accidental death benefit is double the natural death benefit.</li> <li>• <b>Other Benefit Provisions</b> – 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"> <li>Accidental dismemberment benefit</li> <li>Safety belt benefit</li> <li>Repatriation benefit</li> <li>Felonious assault benefit</li> <li>Accelerated death benefit option</li> </ul> </li> </ul>
<p><b>Reduction in Benefit Amounts</b></p> <p>The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.</p>
<p><b>Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)</b></p> <p>For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and was increased to \$8,279 effective July 1, 2018.</p>

### **Contributions**

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer



component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2019 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the Group Life Insurance Program from the entity were \$2,434 and \$2,292 for the years ended June 30, 2019 and June 30, 2018, 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, 2019, the entities reported a liability of \$35,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2018 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the participating employer's proportion was .00232% as compared to .00227% at June 30, 2017.

For the year ended June 30, 2019, the participating employer recognized GLI OPEB expense of \$1,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2019, 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	\$ 2,000	\$ 1,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	1,000
Change in assumptions	-	1,000
Changes in proportion	-	-
Employer contributions subsequent to the measurement date	<u>2,434</u>	<u>-</u>
Total	<u>\$ 4,434</u>	<u>\$ 3,000</u>

\$2,434 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

**Year Ended  
June 30,**

2020	\$ (1,000)
2021	-
2022	-
2023	-
2024	-
Thereafter	-

**Actuarial Assumptions**

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2017, 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, 2018.

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

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

**Mortality rates – General State Employees**

**Pre-Retirement:**

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

**Post-Retirement:**

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

**Post-Disablement:**

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70-75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 25%

### **Mortality rates – Teachers**

#### **Pre-Retirement:**

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

#### **Post-Retirement:**

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

#### **Post-Disablement:**

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

### **Mortality rates – SPORS Employees**

#### **Pre-Retirement:**

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

#### **Post-Retirement:**

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

#### **Post-Disablement:**

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

#### **Mortality rates – VaLORS Employees**

**Pre-Retirement:**

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

**Post-Retirement:**

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

**Post-Disablement:**

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

#### **Mortality rates – JRS Employees**

**Pre-Retirement:**

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

**Post-Retirement:**

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

**Post-Disablement:**

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

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

**Pre-Retirement:**

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

**Post-Retirement:**

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

**Post-Disablement:**

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

**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, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

#### **Mortality rates – Largest Ten Locality Employers – Hazardous Duty Employees**

**Pre-Retirement:**

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

**Post-Retirement:**

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

**Post-Disablement:**

RP-2014 Disability 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, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

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

**Pre-Retirement:**

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

**Post-Retirement:**

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

**Post-Disablement:**

RP-2014 Disability 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, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

### **Net GLI OPEB Liability**

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2018, NOL amounts for the Group Life Insurance Program are as follows (amounts expressed in thousands):

	<b>Group Life Insurance OPEB Program</b>
Total GLI OPEB Liability	\$ 3,113,508
Plan Fiduciary Net Position	<u>1,594,773</u>
Employers' Net GLI OPEB Liability (Asset)	<u><u>\$ 1,518,735</u></u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	51.22%

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

### **Long-Term Expected Rate of Return**

The long-term expected rate of return on the System's investments was determined using a lognormal 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	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	<u>15.00%</u>	9.53%	<u>1.43%</u>
Total	<u>100.00%</u>		<u>4.80%</u>
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.30%</u>

\* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

### ***Discount Rate***

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, 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% of the actuarially determined contribution rate. From July 1, 2018 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

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

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

	<u>1.00% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1.00% Increase (8.00%)</u>
Employer's Proportionate Share of the Group Life Insurance Program			
Net OPEB Liability	\$ 46,000	\$ 35,000	\$ 26,000

### ***Group Life Insurance Program Fiduciary Net Position***

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.



### **Payables to the VRS Group Life Insurance OPEB Plan**

The political subdivision recognizes \$511 of payables to the VRS Group Life Insurance OPEB Plan outstanding at the end of the reporting period. This amount represents June 2019 legally required contributions to the plan due by July 10 per VRS reporting requirements.

## **18 Other Post-Employment Benefits - Health Insurance Credit Program**

### **Plan Description**

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

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

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

### **Employees Covered by Benefit Terms**

As of the June 30, 2017 actuarial valuation, the following employees were covered by the benefit terms of the HIC OPEB plan:

	<u><b>Number</b></u>
Inactive members or their beneficiaries currently receiving benefits	3
Inactive members:	
Vested	-
Non-vested	-
Active elsewhere in VRS	-
Total inactive members	3
Active members	11
Total covered employees	14

### **Contributions**

The contribution requirement for active employees is governed by §51.1-1402(E) of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. The political subdivision's contractually required employer contribution rate for the year ended June 30, 2019 was .13% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the political subdivision to the Political Subdivision Health Insurance Credit Program were \$608 and \$529 for the years ended June 30, 2019 and June 30, 2018, respectively.

### **Net HIC OPEB Liability**

The political subdivision's net Health Insurance Credit OPEB liability was measured as of June 30, 2018. The total Health Insurance Credit OPEB liability was determined by an actuarial valuation performed as of June 30, 2017, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

### **Actuarial Assumptions**

The total HIC OPEB liability was based on an actuarial valuation as of June 30, 2017, 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, 2018.

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	7.0 percent, net of investment investment expenses, including inflation *

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

### **Mortality rates – Largest Ten Locality Employers - General Employees**

#### **Pre-Retirement:**

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

#### **Post-Retirement:**

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

#### **Post-Disablement:**

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

#### **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, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

#### **Mortality rates – Largest Ten Locality Employers – Hazardous Duty Employees**

##### **Pre-Retirement:**

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

##### **Post-Retirement:**

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

##### **Post-Disablement:**

RP-2014 Disability 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, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

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

##### **Pre-Retirement:**

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

##### **Post-Retirement:**

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

##### **Post-Disablement:**

RP-2014 Disability 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, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

#### **Long-Term Expected Rate of Return**

The long-term expected rate of return on the System's investments was determined using a lognormal 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	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	<u>15.00%</u>	9.53%	<u>1.43%</u>
Total	<u>100.00%</u>		<u>4.80%</u>
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.30%</u>

\* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

### **Discount Rate**

The discount rate used to measure the total HIC OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the entity for the HIC OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2018 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the HIC OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total HIC OPEB liability.

### **Changes in Net HIC OPEB Liability:**

	<b>Increase (Decrease)</b>		
	<b>Total HIC OPEB Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net HIC OPEB Liability (a) - (b)</b>
Balances at June 30, 2017	\$ 11,337	\$ 11,969	\$ (632)
<b>Changes for the Year</b>			
Service cost	540	-	540
Interest	747	-	747
Benefit changes	-	-	-
Assumption changes	-	-	-
Differences between expected and actual experience	187	-	187
Contributions - employer	-	529	(529)
Net investment income	-	848	(848)
Benefit payments, including refunds of employee contributions	(1,320)	(1,320)	-
Administrative expenses	-	(19)	19
Other changes	-	(65)	65
Net Changes	154	(27)	181
Balances at June 30, 2018	\$ 11,491	\$ 11,942	\$ (451)

### **Sensitivity of the Political Subdivision Health Insurance Credit Net OPEB Liability to Changes in the Discount Rate**

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Political subdivision's Net HIC OPEB Liability	\$ 588	\$ (451)	\$ (1,348)

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

For the year ended June 30, 2019, the political subdivision recognized Health Insurance Credit Program OPEB expense \$499. At June 30, 2019, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to the Political Subdivision Health Insurance Credit Program from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 159	\$ -
Change in assumptions	65	-
Net difference between projected and actual earnings on HIC OPEB plan investments	-	328
Employer contributions subsequent to the measurement date	608	-
Total	<u>\$ 832</u>	<u>\$ 328</u>

\$608 reported as deferred outflows of resources related to the HIC OPEB resulting from the political subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net HIC OPEB Liability in the Fiscal Year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIC OPEB will be recognized in the HIC OPEB expense in future reporting periods as follows:

Year Ended June 30,	
2020	\$ (65)
2021	(65)
2022	(66)
2023	32
2024	41
Thereafter	19

***Health Insurance Credit Program Plan Data***

Information about the VRS Political Subdivision Health Insurance Credit Program is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-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 Health Insurance Credit OPEB Plan***

The political subdivision recognizes \$51 of payables to the VRS Health Insurance Credit OPEB Plan outstanding at the end of the reporting period. This amount represents June 2019 legally required contributions to the plan due by July 10 per VRS reporting requirements.

## 19 Fund Balances – Governmental Funds

As of June 30, 2019, fund balances are composed of the following:

	<u>Primary Government</u>				
	<u>Industrial Park Fund</u>	<u>Equipment Reserve Fund</u>	<u>Farmers Market Fund</u>	<u>Town Park Fund</u>	<u>Total Governmental Funds</u>
<b>Restricted for</b>					
Industrial park improvements	\$ 2,510	\$ -	\$ -	\$ -	\$ 2,510
Equipment purchases	-	16,038	-	-	16,038
<b>Assigned for</b>					
Farmers Market	-	-	836	-	836
Town Park improvements	-	-	-	3,747	3,747
Total Fund Balances	<u>\$ 2,510</u>	<u>\$ 16,038</u>	<u>\$ 836</u>	<u>\$ 3,747</u>	<u>\$ 23,131</u>

## 20 Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to June 30, 2019 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2019. Management has performed their analysis through January 27, 2020.

# REQUIRED SUPPLEMENTARY INFORMATION





Town of Kenbridge, Virginia

Budgetary Comparison Schedule

Year Ended June 30, 2019

General Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
<b>Revenues</b>				
<b>General Property Taxes</b>				
Real property taxes	\$ 290,000	\$ 290,000	\$ 343,973	\$ 53,973
Personal property taxes	87,000	87,000	91,027	4,027
Delinquent taxes - real estate	-	-	12,078	12,078
Delinquent taxes - personal property	-	-	1,014	1,014
Interest on taxes	8,600	8,600	13,690	5,090
Penalties on taxes	15,000	15,000	11,736	(3,264)
Total General Property Taxes	400,600	400,600	473,518	72,918
<b>Other Local Taxes</b>				
Local sales and use taxes	26,000	26,000	28,780	2,780
Utility taxes	38,600	38,600	39,279	679
Business license taxes	55,250	55,250	72,932	17,682
Meals tax	78,093	78,093	81,423	3,330
Franchise taxes	5,100	5,100	5,540	440
Motor vehicle licenses	30,000	30,000	23,969	(6,031)
Bank stock tax	50,637	50,637	51,858	1,221
Total Other Local Taxes	283,680	283,680	303,781	20,101
<b>Fines and Forfeitures</b>	6,000	6,000	9,589	3,589
<b>Permits, Fees, and Licenses</b>	425	425	1,175	750
<b>Revenue from Use of Money and Property</b>				
Revenue from use of money	700	700	1,005	305
Revenue from use of property	6,000	8,500	11,970	3,470
Total Revenue from Use of Money and Property	6,700	9,200	12,975	3,775
<b>Charges for Services</b>				
Garbage collection	118,162	118,162	116,855	(1,307)
Total Charges for Services	118,162	118,162	116,855	(1,307)
<b>Recovered Costs</b>				
Fire Department	65,224	65,224	50,169	(15,055)
DMV stop pay	2,000	2,000	2,135	135
Total Recovered Costs	67,224	67,224	52,304	(14,920)
<b>Miscellaneous</b>	2,000	2,000	2,204	204
<b>Intergovernmental</b>				
<i>Revenue from the Commonwealth of Virginia</i>				
<i>Noncategorical Aid</i>				
Communication tax	33,000	33,000	26,679	(6,321)
Personal Property Tax Relief Act	46,400	46,400	45,363	(1,037)
Total Noncategorical Aid	79,400	79,400	72,042	(7,358)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
<i>Categorical Aid</i>				
State aid law enforcement	37,440	37,440	33,440	(4,000)
Fire program fund	10,000	10,000	10,000	-
Total Categorical Aid	47,440	47,440	43,440	(4,000)
 Total Revenue from the Commonwealth of Virginia	 126,840	 126,840	 115,482	 (11,358)
<i>Revenue from the Federal Government</i>				
Byrne grant	4,000	4,000	-	(4,000)
Total Revenue from the Federal Government	4,000	4,000	-	(4,000)
 Total Intergovernmental Revenue	 130,840	 130,840	 115,482	 (15,358)
 Total Revenues	 1,015,631	 1,018,131	 1,087,883	 69,752
<b>Expenditures</b>				
<b>General Government Administration</b>				
Mayor, Vice Mayor, and Town Council	10,860	10,860	9,825	1,035
Professional fees	16,424	16,424	21,561	(5,137)
Town Manager	83,725	83,725	83,296	429
Treasurer	113,296	114,296	120,158	(5,862)
Total General Government Administration	224,305	225,305	234,840	(9,535)
<b>Public Safety</b>				
Police Department	289,372	290,572	315,932	(25,360)
Fire Department	52,154	52,154	51,317	837
Rescue Squad	19,600	19,600	21,805	(2,205)
Total Public Safety	361,126	362,326	389,054	(26,728)
<b>Public Works</b>				
Maintenance of highways, streets, bridges, and sidewalks	16,000	16,000	30,351	(14,351)
Refuse collection and disposal	197,111	194,263	202,119	(7,856)
Maintenance of buildings and grounds	55,180	55,699	65,654	(9,955)
Total Public Works	268,291	265,962	298,124	(32,162)
<b>Parks, Recreation, and Cultural</b>				
Library	8,265	8,265	8,265	-
Town park and recreation	2,500	2,000	1,216	784
Total Parks, Recreation, and Cultural	10,765	10,265	9,481	784

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
<b>Community Development</b>				
Airport	1,500	1,500	1,500	-
Bus service	<u>4,200</u>	<u>4,200</u>	<u>7,198</u>	<u>(2,998)</u>
Total Community Development	5,700	5,700	8,698	(2,998)
<b>Debt Service</b>	<u>121,724</u>	<u>121,724</u>	<u>1,307,101</u>	<u>(1,185,377)</u>
Total Expenditures	<u>991,911</u>	<u>991,282</u>	<u>2,247,298</u>	<u>(1,256,016)</u>
Excess (Deficiency) of Revenues Over Expenditures	23,720	26,849	(1,159,415)	(1,186,264)
<b>Other Financing Sources (Uses)</b>				
Issuance of debt	-	-	1,231,037	1,231,037
Operating transfers in (out)	<u>(23,720)</u>	<u>(26,849)</u>	<u>44,905</u>	<u>71,754</u>
Total Other Financing Sources (Uses)	<u>(23,720)</u>	<u>(26,849)</u>	<u>1,275,942</u>	<u>1,302,791</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	116,527	<u>\$ 116,527</u>
Fund Balance - Beginning of Year			<u>180,178</u>	
Fund Balance - End of Year			<u>\$ 296,705</u>	

# Town of Kenbridge, Virginia

## Schedule of Changes in the Political Subdivision's Net Pension Liability and Related Ratios

For the Plan Years Ended June 30, 2014-2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total pension liability</b>					
Service cost	\$ 42,108	\$ 41,168	\$ 49,654	\$ 41,981	\$ 44,982
Interest	81,264	77,671	72,184	70,693	67,912
Changes of assumptions	-	(10,230)	-	-	-
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience	113,827	19,893	21,149	(29,285)	-
Changes in assumptions	-	-	-	-	-
Benefit Payments, including refunds of employee contributions	(88,884)	(65,466)	(63,746)	(60,408)	(85,943)
<b>Net change in total pension liability</b>	<b>148,315</b>	<b>63,036</b>	<b>79,241</b>	<b>22,981</b>	<b>26,951</b>
<b>Total pension liability - beginning</b>	<b>1,205,356</b>	<b>1,142,320</b>	<b>1,063,079</b>	<b>1,040,098</b>	<b>1,013,147</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 1,353,671</b>	<b>\$ 1,205,356</b>	<b>\$ 1,142,320</b>	<b>\$ 1,063,079</b>	<b>\$ 1,040,098</b>
<b>Plan fiduciary net position</b>					
Contributions - employer	\$ 19,569	\$ 18,935	\$ 24,346	\$ 23,175	\$ 20,926
Contributions - employee	33,955	19,928	19,780	18,760	16,958
Net investment income	98,814	150,517	21,424	54,852	167,496
Benefit Payments, including refunds of employee contributions	(88,884)	(65,466)	(63,746)	(60,408)	(85,943)
Administrative expense	(864)	(878)	(775)	(758)	(932)
Other	(89)	(133)	(9)	(12)	9
<b>Net change in plan fiduciary net position</b>	<b>62,501</b>	<b>122,903</b>	<b>1,020</b>	<b>35,609</b>	<b>118,514</b>
<b>Plan fiduciary net position - beginning</b>	<b>1,365,758</b>	<b>1,242,855</b>	<b>1,241,835</b>	<b>1,206,226</b>	<b>1,087,712</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 1,428,259</b>	<b>\$ 1,365,758</b>	<b>\$ 1,242,855</b>	<b>\$ 1,241,835</b>	<b>\$ 1,206,226</b>
<b>Political subdivision's net pension liability - ending (a) - (b)</b>	<b>\$ (74,588)</b>	<b>\$ (160,402)</b>	<b>\$ (100,535)</b>	<b>\$ (178,756)</b>	<b>\$ (166,128)</b>
<b>Plan fiduciary net position as a percentage of the total Pension liability</b>	<b>-5.51%</b>	<b>-13.31%</b>	<b>-8.80%</b>	<b>-16.81%</b>	<b>-15.97%</b>
<b>Covered payroll</b>	<b>\$ 440,831</b>	<b>\$ 419,206</b>	<b>\$ 415,844</b>	<b>\$ 380,391</b>	<b>\$ 338,266</b>
<b>Political subdivision's net pension liability as a percentage of covered payroll</b>	<b>-591.02%</b>	<b>-261.35%</b>	<b>-413.63%</b>	<b>-212.80%</b>	<b>-203.62%</b>

## Town of Kenbridge, Virginia

### Schedule of Employer Contributions - Pension

For the Years Ended June 30, 2010 through 2019

Date	Contributions in Relation to			Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
	Contractually Required Contribution (1)	Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)		
<b>2019</b>	<b>\$ 23,496</b>	<b>\$ 23,496</b>	<b>\$ -</b>	<b>\$ 468,046</b>	<b>5.02%</b>
2018	21,110	21,110	-	440,831	4.79%
2017	20,122	20,828	(706)	419,206	4.97%
2016	25,616	24,972	644	415,844	6.01%
2015	23,432	23,321	111	380,391	6.13%
2014	20,871	21,149	(278)	338,266	6.25%
2013	22,582	24,181	(1,599)	366,001	6.61%
2012	16,820	15,712	1,108	411,241	3.82%
2011	14,191	13,579	612	346,970	3.91%
2010	18,123	19,666	(1,543)	344,545	5.71%

**For Reference Only:**

Column 1 - Employer contribution rate multiplied by the employer's covered payroll.

Column 2 - Actual employer contribution remitted to VRS.

Column 4 - Employer's covered payroll amount for the fiscal year.

## Town of Kenbridge, Virginia

### Notes to Required Supplementary Information

For the Year Ended June 30, 2019

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

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

Largest 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 70-75
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%

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%

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%

All Others (Non 10 Largest) – Hazardous Duty:

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

## Town of Kenbridge, Virginia

### Schedule of Employer's Share of Net OPEB Liability Group Life Insurance Program

For the Measurement Dates of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Employer's Proportion of the Net GLI OPEB Liability (Asset)	<b>0.00232%</b>	0.00227%
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset)	<b>\$ 35,000</b>	\$ 34,000
Employer's Covered Payroll	<b>\$ 440,831</b>	\$ 419,206
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered Payroll	<b>7.94%</b>	8.11%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	<b>51.22%</b>	48.86%

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

#### For Reference Only

The Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability for the VRS Group Life Insurance Program for each year is presented on page 121 of the VRS 2018 Comprehensive Annual Financial Report (CAFR).



## Town of Kenbridge, Virginia

### Schedule of Employer Contributions for OPEB Group Life Insurance Program

For the Years Ended June 30, 2010 through 2019

Date	Contributions in Relation to			Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Payroll (5)
	Contractually Required Contribution (1)	Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)		
2019	\$ 2,434	\$ 2,434	\$ -	\$ 468,046	0.52%
2018	2,292	2,292	-	440,831	0.52%
2017	2,180	2,180	-	419,206	0.52%
2016	1,977	1,977	-	411,904	0.48%
2015	1,827	1,827	-	380,558	0.48%
2014	1,628	1,628	-	339,156	0.48%
2013	1,881	1,881	-	391,918	0.48%
2012	1,076	1,076	-	384,151	0.28%
2011	930	930	-	331,997	0.28%
2010	777	777	-	373,881	0.21%

#### For Reference Only:

Column 1 - Employer contribution rate multiplied by the employer's covered payroll.

Column 2 - Actual employer contribution remitted to VRS.

Column 4 - Employer's covered payroll amount for the fiscal year.

## Town of Kenbridge, Virginia

### Notes to Required Supplementary Information – GLI OPEB

For the Year Ended June 30, 2019

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

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

#### General State Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70-75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 25%

#### Teachers

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

#### SPORS Employees

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

#### VaLORS Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

**JRS Employees**

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

**Largest Ten Locality Employers – General Employees**

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

**Non-Largest Ten Locality Employers – General Employees**

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

**Largest Ten Locality Employers – Hazardous Duty Employees**

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

**Non-Largest Ten Locality Employers – Hazardous Duty Employees**

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

## Town of Kenbridge, Virginia

### Schedule of Changes in the Political Subdivision's Net HIC OPEB Liability and Related Ratios

For the Measurement Dates of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Total HIC OPEB liability</b>		
Service cost	\$ 540	\$ 489
Interest	747	731
Changes of benefit terms	-	-
Differences between expected and actual experience	187	-
Changes in assumptions	-	91
Benefit Payments	<u>(1,320)</u>	<u>(833)</u>
<b>Net change in total HIC OPEB liability</b>	<b>154</b>	<b>478</b>
<b>Total HIC OPEB liability - beginning</b>	<b><u>11,337</u></b>	<b><u>10,859</u></b>
<b>Total HIC OPEB liability - ending (a)</b>	<b><u>\$ 11,491</u></b>	<b><u>\$ 11,337</u></b>
 <b>Plan fiduciary net position</b>		
Contributions - employer	\$ 529	\$ 503
Net investment income	848	1,251
Benefit Payments	(1,320)	(833)
Administrative expense	(19)	(20)
Other	<u>(65)</u>	<u>65</u>
<b>Net change in plan fiduciary net position</b>	<b>(27)</b>	<b>966</b>
<b>Plan fiduciary net position - beginning</b>	<b><u>11,969</u></b>	<b><u>11,003</u></b>
<b>Plan fiduciary net position - ending (b)</b>	<b><u>\$ 11,942</u></b>	<b><u>\$ 11,969</u></b>
 <b>Political subdivision's net HIC OPEB liability - ending (a) - (b)</b>	<b><u>\$ (451)</u></b>	<b><u>\$ (632)</u></b>
 <b>Plan fiduciary net position as a percentage of the total HIC OPEB liability</b>	<b>103.92%</b>	<b>105.57%</b>
 <b>Covered payroll</b>	<b>\$ 440,831</b>	<b>\$ 419,206</b>
 <b>Political subdivision's net HIC OPEB liability as a percentage of covered payroll</b>	<b>-0.10%</b>	<b>-0.15%</b>

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

## Town of Kenbridge, Virginia

### Schedule of Employer Contributions - HIC OPEB

For the Years Ended June 30, 2010 through 2019

Date	Contributions in Relation to					Contributions	
	Contractually Required Contribution (1)	Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)		as a % of Covered Payroll (5)	
<b>2019</b>	<b>\$ 608</b>	<b>\$ 608</b>	<b>\$ -</b>	<b>\$ 468,046</b>		<b>0.13%</b>	
2018	529	529	-	440,831		0.12%	
2017	503	503	-	419,206		0.12%	
2016	453	453	-	411,904		0.11%	
2015	419	419	-	380,558		0.11%	
2014	814	814	-	339,156		0.24%	
2013	941	941	-	391,918		0.24%	
2012	768	768	-	384,151		0.20%	
2011	664	664	-	331,997		0.20%	
2010	1,496	1,496	-	373,881		0.40%	

#### For Reference Only:

Column 1 - Employer contribution rate multiplied by the employer's covered payroll.

Column 2 - Actual employer contribution remitted to VRS.

Column 4 - Employer's covered payroll amount for the fiscal year.

## Town of Kenbridge, Virginia

### Notes to Required Supplementary Information – HIC OPEB

For the Year Ended June 30, 2019

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

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

#### **Largest Ten Locality Employers - General Employees**

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

#### **Non-Largest Ten Locality Employers - General Employees**

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

#### **Largest Ten Locality Employers – Hazardous Duty Employees**

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

#### **Non-Largest Ten Locality Employers – Hazardous Duty Employees**

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

## OTHER SUPPLEMENTARY INFORMATION



## Town of Kenbridge, Virginia

Combining Balance Sheet

Other Governmental Funds

At June 30, 2019

	Industrial Park Fund #90	Equipment Reserve Fund #40	Farmers Market Fund #43	Town Park Fund #57	Total Other Governmental Funds
<b>Assets</b>					
Cash and investments	\$ 2,510	\$ 16,038	\$ 836	\$ 3,747	\$ 23,131
Total Assets	<u>\$ 2,510</u>	<u>\$ 16,038</u>	<u>\$ 836</u>	<u>\$ 3,747</u>	<u>\$ 23,131</u>
<b>Liabilities</b>	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Fund Balance</b>					
Restricted	2,510	16,038	-	-	18,548
Assigned	<u>-</u>	<u>-</u>	<u>836</u>	<u>3,747</u>	<u>4,583</u>
Total Fund Balance	<u>2,510</u>	<u>16,038</u>	<u>836</u>	<u>3,747</u>	<u>23,131</u>
Total Liabilities and Fund Balance	<u>\$ 2,510</u>	<u>\$ 16,038</u>	<u>\$ 836</u>	<u>\$ 3,747</u>	<u>\$ 23,131</u>



## Town of Kenbridge, Virginia

## Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

## Other Governmental Funds

At June 30, 2019

	Industrial Park Fund #90	Equipment Reserve Fund #40	Farmers Market Fund #43	Town Park Fund #57	Total Other Governmental Funds
<b>Revenues</b>					
Use of money and property	\$ 10	\$ 40	\$ 350	\$ -	\$ 400
Miscellaneous	-	-	-	2,460	2,460
Total Revenues	10	40	350	2,460	2,860
<b>Expenditures</b>	-	-	539	174	713
Total Expenditures	-	-	539	174	713
Excess (Deficiency) of Revenues over Expenditures	10	40	(189)	2,286	2,147
<b>Other Financing Sources (Uses)</b>					
Transfers	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-
Net Change in Fund Balances	10	40	(189)	2,286	2,147
Fund Balance - Beginning of Year	2,500	15,998	1,025	1,461	20,984
Fund Balance - End of Year	<u>\$ 2,510</u>	<u>\$ 16,038</u>	<u>\$ 836</u>	<u>\$ 3,747</u>	<u>\$ 23,131</u>

**Town of Kenbridge, Virginia**

Component Unit - Industrial Development Authority of Town of Kenbridge, Virginia

## Statement of Net Position

June 30, 2019

**Assets****Current Assets**

Cash	\$ 233,101
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Total Assets	\$ 233,101
--------------	------------

**Liabilities and Net Position**

<b>Liabilities</b>	\$ -
--------------------	------

Total Liabilities	-
-------------------	---

**Net Position**

Unrestricted	233,101
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Total Net Position	233,101
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Total Liabilities and Net Position	\$ 233,101
------------------------------------	------------

## Town of Kenbridge, Virginia

Component Unit - Industrial Development Authority of Town of Kenbridge, Virginia

## Statement of Activities

Year Ended June 30, 2019

<b>Operating Income</b>	\$ <u>          -</u>
<b>Operating Expenses</b>	<u>                  -</u>
Operating Income	-
<b>Non-Operating Revenues (Expenses)</b>	
Interest income	<u>          931</u>
Non-Operating Revenues (Expenses)	<u>          931</u>
Change in Net Position	931
Total Net Position - Beginning of Year	<u>      232,170</u>
Total Net Position - End of Year	<u><u>      \$ 233,101</u></u>

# **Town of Kenbridge, Virginia**

Component Unit - Industrial Development Authority of Town of Kenbridge, Virginia

## Statement of Cash Flows

Year Ended June 30, 2019

<b>Cash Flows from Operating Activities</b>	\$ -
Net Cash Provided by Operating Activities	-
<b>Cash Flows from Investing Activities</b>	
Interest income	931
Net Cash Provided by Investing Activities	931
Net Increase in Cash and Cash Equivalents	931
Cash and Cash Equivalents - Beginning of Year	232,170
Cash and Cash Equivalents - End of Year	\$ 233,101
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating income	\$ -
<i>Adjustments to reconcile operating income to net cash provided by operating activities</i>	
Changes in assets and liabilities	-
Net Cash Provided by Operating Activities	\$ -

# COMPLIANCE SECTION





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

To the Town Council  
Town of Kenbridge, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Kenbridge, Virginia, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town of Kenbridge, Virginia's basic financial statements, and have issued our report thereon dated January 27, 2020.

**Internal Control Over Financial Reporting**

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

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

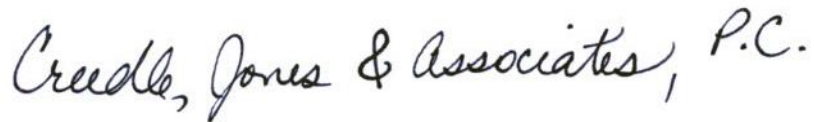
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

## Compliance and Other Matters

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

## 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.

A handwritten signature in black ink that reads "Creedle, Jones & Associates, P.C." in a cursive script.

Creedle, Jones & Associates, P.C.  
Certified Public Accountants

South Hill, Virginia  
January 27, 2020