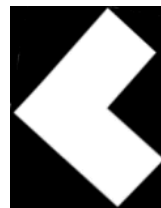


Town of Halifax, Virginia
Comprehensive Annual Financial Report
Year Ended June 30, 2019



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

Town of Halifax, Virginia

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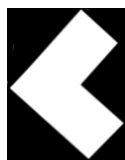
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FINANCIAL SECTION



**Creedle
Jones
& Associates**

A Professional Corporation

*Robin B. Jones, CPA, CFP
Denise C. Williams, CPA, CSEP
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American Institute of Certified Public Accountants
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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Halifax, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Town of Halifax, 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 Halifax, 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 and each major fund of the Town of Halifax, Virginia, as of June 30, 2019, and the respective changes in financial position, 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 1-10, 53, and 54-62 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2020, on our consideration of the Town of Halifax, 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 Halifax, 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 Halifax, Virginia's internal control over financial reporting and compliance.

Creedle, Jones & Associates, P.C.

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

South Hill, Virginia
March 12, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Town of Halifax, Virginia presents the following discussion and analysis as an overview of the Town of Halifax, 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 exceeded its liabilities and deferred inflows of resources by \$2,093,196. Of this amount, \$985,495 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net position increased by \$14,247 during the current fiscal year.
- As of June 30, 2019, the Town's Governmental Funds reported combined ending fund balances of \$676,596, a decrease of \$133,809 in comparison with the prior year. Approximately 98.00% of this amount is available for spending at the Town's discretion (unassigned fund balance).
- At the end of fiscal year 2019, the unassigned fund balance was \$663,021, or approximately 55.92% of total general fund expenditures
- For the fiscal year, general and program revenues of the Town's governmental activities were \$956,326 and expenses amounted to \$942,079.

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 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 governmental activities of the Town include general government administration, public safety, public works, parks, recreation and cultural, and community development.

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 utilizes one type of fund:

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.

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 supplementary information such as a budgetary comparison schedule.

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

	Governmental Activities	
	<u>2019</u>	<u>2018</u>
Assets		
Current and other assets	\$ 726,020	\$ 851,751
Capital assets	1,971,318	1,932,381
Other Assets		
Net pension asset	<u>396,593</u>	<u>288,171</u>
Total Assets	3,093,931	3,072,303
Deferred Outflows of Resources	<u>19,463</u>	<u>6,590</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 3,113,394</u>	<u>\$ 3,078,893</u>
Liabilities		
Other liabilities	\$ 49,424	\$ 41,345
Net OPEB group life	26,000	27,000
Long-term debt outstanding	877,193	848,974
Compensated absences	<u>31,213</u>	<u>28,731</u>
Total Liabilities	983,830	946,050
Deferred Inflows of Resources	36,368	53,894
Net Position		
Net investment in capital assets	1,094,126	1,083,407
Restricted for capital improvements	13,575	18,892
Unrestricted	<u>985,495</u>	<u>976,650</u>
Total Net Position	<u>2,093,196</u>	<u>2,078,949</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 3,113,394</u>	<u>\$ 3,078,893</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

	Governmental Activities	
	<u>2019</u>	<u>2018</u>
Revenues		
Program Revenues		
Grants and contributions	\$ 72,170	\$ 73,001
General Revenues		
Property taxes	383,834	374,572
Other local taxes	378,074	358,143
Other general revenue	77,772	120,729
Unrestricted revenues from use of money and property	<u>44,476</u>	<u>37,067</u>
Total Revenues	<u>956,326</u>	963,512
Program Expenses		
General government administration	265,521	358,228
Public safety	324,709	421,709
Public works	221,746	190,710
Municipal building	69,030	70,710
Parks, recreation, and cultural	31,286	-
Community development	14,197	-
Interest on long-term debt	<u>15,590</u>	<u>17,713</u>
Total Program Expenses	<u>942,079</u>	<u>1,059,070</u>
Increase (Decrease) in Net Position	14,247	(95,558)
Beginning Net Position	<u>2,078,949</u>	<u>2,174,507</u>
Ending Net Position	<u>\$ 2,093,196</u>	<u>\$ 2,078,949</u>

Governmental activities increased the Town's net position by \$14,247 for fiscal year 2019. Revenues from governmental activities totaled \$956,326. Property taxes comprise the largest source of these revenues, totaling \$383,834 or 40.14% of all governmental activities revenue.

The total cost of all governmental activities for this fiscal year was \$942,079. Public safety was the Town's largest program with expenses totaling \$324,709. General government administration, which totals \$265,521, 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

	2019		2018	
	<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	\$ 265,521	\$ (265,521)	\$ 358,228	\$ (353,728)
Public safety	324,709	(257,039)	421,709	(353,208)
Public works	221,746	(221,746)	190,710	(190,710)
Municipal building	69,030	(69,030)	70,710	(70,710)
Parks, Recreation and cultural	31,286	(26,786)	-	-
Community development	14,197	(14,197)	-	-
Interest on long-term debt	<u>15,590</u>	<u>(15,590)</u>	<u>17,713</u>	<u>(17,713)</u>
Total	<u>\$ 942,079</u>	<u>\$ (869,909)</u>	<u>\$ 1,059,070</u>	<u>\$ (986,069)</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 \$676,596. The combined governmental fund balance decreased \$133,809 from the prior year.

The General Fund is the only operating fund of the Town. At the end of the current fiscal year, the General Fund had an unassigned fund balance of \$663,021. The General Fund's liquidity can be measured by comparing unassigned fund balance to total fund expenditures. Unassigned fund balance represents 55.92% 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>
Revenues						
Taxes	\$ 367,000	\$ 367,000	\$ 383,834	\$ 364,000	\$ 369,000	\$ 374,572
Other local taxes	404,600	404,600	378,074	375,500	379,430	358,143
Permits and fees	1,200	1,200	605	2,400	2,400	2,600
Fines and forfeitures	70,000	70,000	51,792	79,000	79,000	62,977
Other general revenues	21,810	21,810	24,801	37,000	55,000	64,471
Unrestricted revenues from use of money and property	38,110	38,110	44,503	36,150	36,150	34,202
Intergovernmental	<u>114,072</u>	<u>114,072</u>	<u>75,231</u>	<u>85,600</u>	<u>250,311</u>	<u>73,001</u>
Total	1,016,792	1,016,792	958,840	979,650	1,171,291	969,966
Expenditures	<u>1,062,772</u>	<u>1,062,772</u>	<u>1,185,689</u>	<u>1,025,540</u>	<u>1,217,181</u>	<u>1,167,038</u>
Excess (Deficiency) of Revenues Over Expenditures	(45,980)	(45,980)	(226,849)	(45,890)	(45,890)	(197,072)
Other Financing Sources (Uses)						
Prior year surplus	45,980	45,980	-	45,890	45,890	-
Proceeds from loans	<u>-</u>	<u>-</u>	<u>93,040</u>	<u>-</u>	<u>-</u>	<u>498,000</u>
Total	<u>45,980</u>	<u>45,980</u>	<u>93,040</u>	<u>45,890</u>	<u>45,890</u>	<u>498,000</u>
Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (133,809)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 300,928</u>

Actual revenues were less than final budget amounts by \$57,952, or 5.70%, while actual expenditures were \$122,917, or 11.57%, more than final budget amounts.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

As of June 30, 2019, the Town's governmental activities net capital assets total \$1,971,318, which represents a net increase of \$38,937 or 2.02% over the previous fiscal year-end balance as summarized in the following table:

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	\$ 49,765	\$ -	\$ 49,765
Construction in progress	115,872	-	115,872
Building and improvements	2,275,321	75,196	2,350,517
Machinery, equipment, and vehicles	<u>651,710</u>	<u>30,343</u>	<u>682,053</u>
Total Capital Assets	3,092,668	105,539	3,198,207
Less: Accumulated depreciation and amortization	<u>(1,160,287)</u>	<u>(66,602)</u>	<u>(1,226,889)</u>
Total Capital Assets, Net	<u>\$ 1,932,381</u>	<u>\$ 38,937</u>	<u>\$ 1,971,318</u>

Long-Term Debt

As of June 30, 2019, the Town's long-term obligations total \$908,406.

	Governmental Activities	
	<u>2019</u>	<u>2018</u>
General obligation debt	\$ 877,193	\$ 848,974
Compensated absences	<u>31,213</u>	<u>28,731</u>
	<u>\$ 908,406</u>	<u>\$ 877,705</u>

More detailed information on the Town's long-term obligations is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- According to the 2010 U.S. Census, the population in the Town of Halifax, Virginia was 1,309.
- The per capita income in the Town of Halifax, Virginia was \$25,900 according to the 2010 U.S. Census data.

MANAGER'S STATEMENT

In an ongoing effort to invest in the future vitality of the Town of Halifax and to provide additional economic opportunities to the area, the Town has initiated the following projects:

Following the transfer of Water and Sewer service to the Halifax County Service Authority (HCSA) in 2008, the debt service was paid to the Town by the HCSA for General Obligation Sewer Bonds. In FY 2010-11, the Town conveyed to the HCSA all property and easements used in the water and sewer operations. The HCSA consolidated all locality bonds in FY 2011-12 and the post-audit balance sheets now reflect these changes going forward.

Working with the Virginia Department of Housing and Community Development (DHCD), the Southside Planning District Commission (SSPDC), Halifax County and the Halifax County Industrial Development Authority (IDA), 395 acres zoned for manufacturing/industrial and commercial uses within the town have been included in the amended Halifax County Enterprise Zone effective December 31, 2013. Halifax County's enterprise zone program offers a number of special state and local incentives to businesses and is designed to encourage job creation and investment within designated zones.

A Department of Historic Resources (DHR) cost-share grant to expand the boundary of the existing Mountain Road Historic District was completed in June 2015 to enhance preservation efforts throughout the significant historic footprint of the town and to bolster tax credit eligibility for new private investments. The former Halifax Elementary School was purchased from Halifax County by Halifax Lofts, LLC in April 2016 to convert the building into 30 market rate loft apartment units at an estimated construction cost of \$2.7 million which was opened for leasing in August 2017, and fully let by December 2017. The Town worked previously with DHR to complete historic district designation including the downtown central business district. This designation of the "Town of Halifax Court House Historic District" makes qualifying historic buildings eligible for tax credits.

The Town prepared a Master Plan of the former grocery property it owns at 209 South Main Street which is currently being utilized as a farmer's market and outdoor/indoor marketplace with 29 produce and craft vendors registered as well as a space available for limited special events, live music & civic fundraisers in a shell building. The plan identifies suitable and potential land uses and recommends appropriate development patterns including specific recommendations for business partners, project phasing, and funding opportunities. Currently, the "Halifax Marketplace Master Plan" is seen as a marketing tool to solicit private business investment and a strategic plan for implementing public components. Several investor/developer prospects have approached the Town regarding the purchase of a portion of the property or the building and parcel as a whole. Working with the Town Manager, the Town Council Finance Committee amortized the note for the 2006 purchase of the former grocery property starting in FY 2011-12 and then reissued a new bond at a reduced rate beginning in FY 2012-13. The Halifax Village Association (HVA) purchased a decorative clock in 2009 and through fundraising efforts, partnered with the Town to design and bid for the installation of a pedestrian plaza with seat walls, lighting and landscaping features to enhance the front of the Halifax Marketplace parcel. A commemoration of the project's completion occurred in April 2015 with the HVA securing donations to pay down the construction loan which was retired in May of 2018.

The Town received grant funding from VDOT to design and construct improvements for the Banister River Gateway Project to enhance the area adjacent to the new bridge constructed by VDOT on VA Scenic Byway 360. A dedication ceremony of the King's Bridge Landing and the naming of the James Stone Easley Memorial Bridge took place on April 24, 2015. The facility improvements include bridge streetlights, a gateway sign, and a wayside with lighted parking which will provide interpretive signage, a river overlook near the old King's Bridge stone piers, river access as part of the Southern Virginia Wild Blueway (SVWB) regional canoe trail system and future trailhead to the Tobacco Heritage Trail (THT). The Town negotiated with SunTrust Bank to secure a grant reimbursement loan for interim financing during the construction phase so as not to encumber regular operational costs and account balances. VDOT reimbursement of \$437,893 in construction was received before June 30, 2015 to pay down the SunTrust loan which matured on July 31, 2015. Town Council approved the use of reserve funds until the additional VDOT grant reimbursements were processed. Because VDOT funds had to be re-allocated to the project, and due to an extended post-construction review by VDOT, the drawdown/reimbursement, which was originally anticipated to be approximately \$147,000, was received in the FY 2018-19 budget year at a reduced amount of \$77,500, reflecting a change in reimbursement eligibility for certain expenditures after the construction costs were completed prior to project close-out.

Grant funds were awarded from the Virginia Department of Game and Inland Fisheries (VDGIF) to rehabilitate the Banister Lake Boat Landing on US Highway 501 which was transferred to the town from the county by the Halifax County Board of Supervisors in March 2015 to continue recreational improvements and eco-tourism activities throughout the SVWB region. A Request for Proposal (RFP) for a Banking Services Line of Credit agreement in the amount of \$250,000 was published for the purchase of products and services related to specific projects which will be repaid with monthly installments and under the terms of the agreement; Town Council approved the execution of the agreement with Benchmark Community Bank. Additional funding support was secured by the Virginia Tobacco Region Revitalization Commission (TRRC), the Dominion Foundation, through the Dan River Basin Association (DRBA), the Duke Energy Water Resources Fund (DWRf), and the Community Foundation of the Dan River Region (CFDRR) Riverbank Fund (RbF). Award of contract through a competitive, sealed bid process was authorized in August 2016 by Halifax Town Council totaling \$266,900, with the project being substantially completed in February 2017. The last of the major site amenities, including the new gateway pole sign, retaining wall, landscaping features, decorative benches, bike racks and trash receptacles, donated by the South Boston Rotary Club, were installed by December 2017 to accompany the three light posts with single arm Radial Wave fixtures as additional site enhancements to compliment the new courtesy pier, concrete retaining wall, boat ramp, steps and ADA compliant walkway connecting to the pier and stair-step launch so that the \$90,000 in DGIF grant funds were disbursed to the Town in March 2018. A grant sponsor recognition ceremony was conducted in April 2018 at the new boating facilities site. Administrative close-out and final payment to the contractor were finally approved by the project engineer in May 2019 and completed at the end of FY 2018-19.

The Town qualified for Federal Emergency Management Agency (FEMA) grant assistance for damage to the Banister Lake Boat Landing and King's Bridge Landing from heavy rain and flooding associated with Hurricane Michael in October 2018 (411DR-VA). Reimbursement for facilities repair, debris removal and administration have been allocated by FEMA in the award amount of \$47,850, which will be administered by the Virginia Department of Emergency Management (VDEM), once those eligible construction activities are completed in FY 2019-2020.

Working with Halifax County as the grant recipient utilizing Virginia Department of Transportation (VDOT) enhancement funds, the 1st Phase of the downtown utility relocation was completed in 2012 as part of the multifaceted Halifax Downtown Revitalization Project in which earlier construction of streetscape and building façade improvements began in 2006. VDOT approved Halifax County's use for the remaining balance of funds to perform engineering/design services from Hurt & Proffitt to extend decorative streetlights with streetscaping and landscaping surrounding the Halifax County War Memorial north of the historic Courthouse Square at the intersection of Mountain Road and Houston Street and continuing along North Main Street toward Church Street. Following the design phase, construction funding has been sought by the town with the assistance from the SSPDC utilizing MAP-21 grants through VDOT; \$164,844 in preliminary construction funds were awarded by VDOT in FY 2017. Another grant request, submitted in November 2017, received an additional award by VDOT of \$231,444 in FY 2018 which will allow the final construction plans to be developed for bid on the estimated \$495,361 project total. Smart Scale funds totaling \$739,000 were awarded by the Commonwealth Transportation Board (CTB) as part of the 2020-2026 Six Year Improvement Plan (SYIP) expended directly by VDOT to improve the turning radius at the intersection of North Main Street (US Hwy 501) and Mountain Road (VA Scenic Byway 360), next to the Halifax County War Memorial; the original scope included \$150,000 for engineering, \$391,607 for utility relocation and \$197,318 in roadway construction, but the SYIP timeline pushes preliminary engineering out to 2023 for construction to be completed by 2027. In June 2019, VDOT discovered construction activities overlapped in both grants. For these reasons, VDOT recommended merging the grants into one project. The Smart Scale funding, if approved by VDOT Central Office and the Federal Highway Administration (FHWA), to be advanced in 2020, will eliminate the utility relocation costs which cannot be performed within the accelerated schedule timeframe.

In regard to the above referenced public improvement projects, in May 2018 Halifax Town Council approved by ordinance and resolution the issuance of general obligation public improvement bonds in the maximum principal amount of \$498,000; the bonds are (a) to finance public facilities improvements, including (without limitation) the completion of the Banister River Gateway Project, the Banister Lake Boat Landing Project, and additional engineering services for construction associated with the Halifax Downtown Streetscape Extension Project and (b) to pay related costs of issuance. The Finance Committee recommended selecting Carter Bank & Trust for the aggregate \$498,000.00 General Obligation Bond with the accompanying resolution and ordinance reflecting a 2018 GO Bond Series A (Tax Exempt @ \$296,250) and a 2018 GO Bond Series B (Taxable @ \$201,750) Issuance equaling the aggregate amount.

According to the Halifax County Commissioner of Revenue's Office, the 2018 reassessment value of real estate within Town's corporate limits equaled \$98,424,648, a climb by 1.60% from the 2016 \$96,327,700 assessment, which reflected a 0.46% increase from the 2015 assessment of \$95,891,525, with 2014's property valuation of \$94,727,415 marking a 0.98% decrease from the 2012 assessment of \$96,065,118. The current assessment trend continues to indicate more favorable valuations for Town properties versus the County as a whole with the tax rate for Real Property remaining .175 per \$100 assessed value which has been in effect since 2010 following the revenue neutral reduction to .18 per \$100 assessed value in 2008 from .19 per \$100 assessed value when real estate was trending up prior to the "Great Recession." In the FY 2013-14 Budget, the Machine & Tool Tax was raised from .40 to .50 which is only the 2nd raise since 2000 from the original .30 rate where it remains very competitive compared to the Halifax County rate of \$1.26 per \$100 value for machine & tools (based on 50% of original capitalization costs). The tax on personal property holds at \$1.68 per \$100 assessed (compared to \$2.00 per \$100 in South Boston)

and this year the amount of relief to owners of eligible personal property remains at the current 0.5189 PPTRA rate. In FY 2015-16, the Finance Committee recommended an increase in Meal Tax from 3% to 4%, the first raise on the levy since it was enacted in 2003 (this compares to 4% in Halifax County and 6% in South Boston). For FY 2019-20, regular operational expenses in Public Safety return to typical levels with the Police Department recovering its roster of 5 full-time officers, including the Chief, while vehicular expenses in the Fire Department, Police Department and Sanitation Department increase due to fuel price hikes. Other operational cost increases have been factored into the Police Department, including a patrol vehicle replacement. The Halifax Library allocation is included in the FY 2019-20 Budget at the current FY amount (\$12,410). Town buildings are requiring more upkeep and repair. The Town's healthcare plan premium did not increase, after 3 upticks over the past six years, with the previous change to a slightly higher deductible, keeping the policy affordable without sacrificing benefits. The Mayor and the Finance Chair directed employee compensation adjustments up to 2.0% per department based on annual evaluations; all employees now pay the 5% contribution rate to the Virginia Retirement System (VRS) with enhanced hazardous duty benefits for Law Enforcement Officers (LEOs) becoming effective July 1, 2018.

While Halifax has strived to continue a very consumer friendly tax rate structure by utilizing additional revenues other than property taxes, increases in the cost of services, particularly in law enforcement, along with the highlighted capital improvement projects, may require rate adjustments in future budget cycles. The Finance Committee's strategy of reducing the tax burden on local residents and businesses during difficult economic times by diversifying income allocations, tightening operational costs, conserving resources and attracting increased visitation, sustainable business growth and private capital investments, has been successful to date. However, revenue growth has remained very marginal.

The Town's budget reflects a reasonable spending plan, with increases occurring in some operational costs while capital projects are ongoing. It continues the focus on expenditures which, if properly planned over the near term, will help bring back the economic vitality our residents expect and deserve. Momentum created by the Halifax Downtown Revitalization Project, the Banister River Gateway Project, the Banister Lake Boat Landing Project, the completion of the Halifax Lofts, and the anticipated coordination of the VDOT Smart Scale-Streetscape Extension Project with the ongoing Halifax County Courthouse Renovation Project continue to attract new economic opportunities and greater potential for additional private investment by embracing a shared community vision for the historic County Seat.

All of these factors were considered in preparing the Town's budget for the 2020 fiscal year.

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 the Town Treasurer at P. O. Box 627, Halifax, Virginia 24558. Phone 434-476-2343.

BASIC FINANCIAL STATEMENTS

Town of Halifax, Virginia

Statement of Net Position

June 30, 2019

	Governmental Activities
Assets	
Cash	\$ 634,909
<i>Receivables</i>	
Taxes, including penalties	28,462
Other	25,217
Prepaid expenses	23,857
<i>Restricted assets</i>	
Cash	13,575
Fixed assets (net of accumulated depreciation)	1,971,318
Other Assets	
Net pension asset	<u>396,593</u>
 Total Assets	 3,093,931
Deferred Outflows of Resources	
Deferred outflows - OPEB group life insurance	2,890
Deferred outflows - VRS pension	<u>16,573</u>
 Total Assets and Deferred Outflows of Resources	 <u><u>\$ 3,113,394</u></u>
Liabilities	
Accounts payable	\$ 39,920
Accrued expenses	9,504
Long-Term Obligations	
Due within one year	169,250
Due beyond one year	707,943
Compensated absences	31,213
Net OPEB group life liability	<u>26,000</u>
 Total Liabilities	 983,830
Deferred Inflows of Resources	
Deferred inflows - OPEB group life insurance	2,000
Deferred inflows - VRS pension	34,368
Net Position	
Net investment in capital assets	1,094,126
Restricted for capital improvements	13,575
Unrestricted	<u>985,495</u>
 Total Net Position	 <u><u>2,093,196</u></u>
 Total Liabilities, Deferred Inflows of Resources, and Net Position	 <u><u>\$ 3,113,394</u></u>

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

Town of Halifax, Virginia

Statement of Activities

For the Year Ended June 30, 2019

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Position</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government Governmental Activities</u>	<u>Total</u>
Primary Government						
Governmental Activities						
General government administration	\$ 265,521	\$ -	\$ -	\$ (265,521)	\$ (265,521)	\$ (265,521)
Public safety	324,709	-	67,670	(257,039)	(257,039)	(257,039)
Public works	221,746	-	-	(221,746)	(221,746)	(221,746)
Municipal building	69,030	-	-	(69,030)	(69,030)	(69,030)
Parks, recreation, and cultural	31,286	-	4,500	(26,786)	(26,786)	(26,786)
Community development	14,197	-	-	(14,197)	(14,197)	(14,197)
Interest on long-term debt	15,590	-	-	(15,590)	(15,590)	(15,590)
Total Governmental Activities	942,079	-	72,170	(869,909)	(869,909)	(869,909)
Total Primary Government	<u>\$ 942,079</u>	<u>\$ -</u>	<u>\$ 72,170</u>	<u>\$ (869,909)</u>	(869,909)	(869,909)
General Revenues						
Taxes						
General property taxes, real and personal					383,834	383,834
Other local taxes					378,074	378,074
Other general revenue					77,772	77,772
Unrestricted revenues from use of money and property					44,476	44,476
Total General Revenues					884,156	884,156
Change in Net Position					14,247	14,247
Net Position - Beginning of Year					2,078,949	2,078,949
Net Position - End of Year					<u>\$ 2,093,196</u>	<u>\$ 2,093,196</u>

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

Town of Halifax, Virginia

Balance Sheet

June 30, 2019

	Governmental Activities
Assets	
Cash	\$ 634,909
<i>Receivables</i>	
Taxes, including penalties	28,462
Other	25,217
Prepaid expenses	23,857
<i>Restricted assets</i>	
Cash	<u>13,575</u>
Total Assets	<u><u>\$ 726,020</u></u>
Liabilities and Fund Balances	
Liabilities	
Accounts payable	\$ 39,920
Accrued liabilities	<u>9,504</u>
Total Liabilities	49,424
Fund Balances	
<i>Restricted for</i>	
Capital improvements	13,575
Unassigned	<u>663,021</u>
Total Fund Balances	<u>676,596</u>
Total Liabilities and Fund Balances	<u><u>\$ 726,020</u></u>

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

Town of Halifax, Virginia

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

At June 30, 2019

Total Fund Balances for Governmental Funds	\$	676,596
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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	\$	49,765
Construction in progress		115,872
Buildings and improvements, net of accumulated depreciation		1,770,266
Furniture, equipment, and vehicles, net of accumulated depreciation		<u>35,415</u>

Total Capital Assets	1,971,318
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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	16,573
Deferred outflows of resources related to OPEB group life	2,890
Deferred inflows of resources related to pensions	(34,368)
Deferred inflows of resources related to OPEB group life	<u>(2,000)</u>

Total Deferred Outflows and Inflows of Resources	(16,905)
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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	(877,193)
Net pension asset	396,593
Net OPEB group life liability	(26,000)
Compensated absences	<u>(31,213)</u>

Total	<u>(537,813)</u>
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Total Net Position of Governmental Activities	<u>\$</u>	<u>2,093,196</u>
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The accompanying notes to the financial statements are an integral part of this statement.

Town of Halifax, Virginia

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2019

	General Fund
Revenues	
General property taxes	\$ 383,834
Other local taxes	378,074
Permits and fees	605
Fines and forfeitures	51,792
Other general revenue	24,801
Use of money and property	44,503
<i>Intergovernmental</i>	
Revenue from the Commonwealth of Virginia	50,926
Revenue from the Federal Government	<u>24,305</u>
Total Revenues	958,840
Expenditures	
Current	
General government administration	278,511
Public safety	420,904
Public works	313,060
Municipal building	47,731
Parks, recreation, and cultural	31,286
Community development	14,197
Debt service and fiscal charges	<u>80,000</u>
Total Expenditures	<u>1,185,689</u>
Excess (Deficiency) of Revenues Over Expenditures	(226,849)
Other Financing Sources (Uses)	<u>93,040</u>
Total Other Financing Sources (Uses)	<u>93,040</u>
Net Change in Fund Balance	(133,809)
Fund Balance - Beginning of Year	<u>810,405</u>
Fund Balance - End of Year	<u><u>\$ 676,596</u></u>

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

Town of Halifax, 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	\$ (133,809)
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**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	\$ 105,539	
Depreciation	<u>(66,602)</u>	
		38,937

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.

General long-term debt	<u>(28,219)</u>	
Net Adjustment		(28,219)

Governmental funds report pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.

Pension contributions	16,573	
Cost of benefits earned net of employee contributions	<u>120,066</u>	
		136,639

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:

Net OPEB group life insurance	3,211	
Compensated absences	<u>(2,512)</u>	
Net Adjustment		<u>699</u>

Change in Net Position of Governmental Activities	<u>\$ 14,247</u>
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The accompanying notes to the financial statements are an integral part of this statement.

Town of Halifax, Virginia

Notes to the Financial Statements

Year Ended June 30, 2019

1 Summary of Significant Accounting Policies

Narrative Profile

The Town of Halifax, Virginia (the "Town") is a municipal corporation governed by a seven-member council. The Town has a population of approximately 1,309 living within an area of 3.8 square miles. The Town is located in the southern piedmont of Virginia.

The Town engages in a comprehensive range of municipal services, including general government administration, public safety, and public works.

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 Halifax, Virginia (the primary government).

1-B. Financial Reporting Model

The Town's Comprehensive Annual Financial Report includes management's discussion and analysis, the basic financial statements, and required 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. These financial statements focus on the primary government; as such, individual funds are not displayed.

The Statement of Net Position is designed to display the financial position of the Primary Government. In addition to reporting current assets and deferred outflows of resources and liabilities and deferred inflows of resources, the Statement of Net Position includes both noncurrent assets and noncurrent liabilities of the Town (such as capital assets and long-term liabilities for various employee benefits).

The Net Position of the Town may be presented in three categories – (1) net investment in capital assets; (2) restricted; and (3) unrestricted. The Town generally first uses restricted resources for expenses incurred for which both restricted and unrestricted Net Position is available.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. 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 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, if any, 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. There are no Special Revenue Funds as of June 30, 2019.
 - *Capital Projects Funds* – The Capital Projects Fund accounts for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds. There are no Capital Projects Funds as of June 30, 2019.

- *Proprietary Funds* – Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The Proprietary Funds account for operations that are financed and operated in a manner similar to private business enterprises. The intent is that the cost of providing services to the general public be financed or recovered through user charges. There are no Enterprise Funds as of June 30, 2019.
- *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. 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. There are no Fiduciary Funds as of June 30, 2019.

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.).

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.

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 all funds utilize. 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 authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, State Treasurer's Local Government Investment Pool (LGIP), and the State Non-Arbitrage Program (SNAP).

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 in the governmental activities are reported in the government-wide financial statement as internal balances.

All trade and property tax receivables are shown net of allowance for uncollectibles. The Town calculates its allowance for uncollectible amounts using historical collection data and, in certain cases, specific account analysis. Management deems that no allowance amount is necessary 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>
Levy	January 1	January 1
Due Date	December 5	December 5
Due Date	June 5	N/A
Lien Date	January 1	January 1

The Town bills and collects its own property taxes.

A ten percent penalty or \$10 minimum 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 January 1.

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.

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 maintains a capitalization threshold of \$500. The Town's infrastructure consists primarily of building and improvements and roads and bridges. 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	20-50 years
Machinery and equipment	5-10 years
Improvements	10-20 years
Other infrastructure	10-50 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 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 City considers revenues available if they are collected within 45 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. 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 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-11 Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. 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. The Town has no proprietary funds as of June 30, 2019.

1-E-12 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.

1-E-13 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.

1-E-14 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 Government 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 April 1, the Town Mayor 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 June 30, 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 in Excess of Appropriations

Expenditures exceeded appropriations.

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

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

The Town does not have a formal investment policy addressing the various types of risks associated with investments.

The following is a summary of cash and cash equivalents:

<u>Asset Type</u>	<u>Balance June 30, 2019</u>
Petty cash	\$ 300
Deposit accounts	<u>648,184</u>
Total Cash and Cash Equivalents	<u>\$ 648,484</u>

4 Receivables

Receivables at June 30, 2019 consist of the following:

	<u>Governmental Activities General</u>
Property taxes receivable	\$ 28,462
Other receivables	<u>25,217</u>
Total Receivables	<u>\$ 53,679</u>

5 Capital Assets

The following is a summary of changes in capital assets:

Primary Government

	<u>Balance July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2019</u>
Capital Assets Not Being Depreciated				
Land	\$ 49,765	\$ -	\$ -	\$ 49,765
Construction in progress	<u>115,872</u>	<u>-</u>	<u>-</u>	<u>115,872</u>
Total Capital Assets Not Being Depreciated	165,637	-	-	165,637
Other Capital Assets				
Buildings and improvements	2,275,321	75,196	-	2,350,517
Equipment	<u>651,710</u>	<u>30,343</u>	<u>-</u>	<u>682,053</u>
Total Other Capital Assets	2,927,031	105,539	-	3,032,570
Less: Accumulated depreciation for				
Buildings and improvements	522,634	57,617	-	580,251
Equipment	<u>637,653</u>	<u>8,985</u>	<u>-</u>	<u>646,638</u>
Total Accumulated Depreciation	<u>1,160,287</u>	<u>66,602</u>	<u>-</u>	<u>1,226,889</u>
Net Capital Assets	<u>\$ 1,932,381</u>	<u>\$ 38,937</u>	<u>\$ -</u>	<u>\$ 1,971,318</u>

Depreciation expense was allocated as follows:

General government administration	\$ 8,026
Municipal building	21,325
Public works	14,777
Public safety	5,483
Community development	<u>16,991</u>
Total Depreciation Expense	<u>\$ 66,602</u>

6 Compensated Absences

Each Town employee earns vacation at the rate of a minimum of 6.68 hours per month up to 10 hours per month based on years of service. Sick leave is earned at the rate of 8 hours per month. Sick leave is paid based on 25 percent of unused sick leave up to a maximum of \$2,500. Accumulated vacation up to 240 hours is paid upon termination. The Town has outstanding compensated absences totaling \$31,213 for the governmental activities.

7 Long-Term Debt

PRIMARY GOVERNMENT

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

<u>Years Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 169,250	\$ 26,458
2021	76,363	18,161
2022	75,990	16,766
2023	69,911	13,281
2024	176,911	33,422
2025-2029	<u>308,768</u>	<u>25,634</u>
Subtotal	877,193	133,722
Compensated absences	<u>31,213</u>	<u>-</u>
Total	<u>\$ 908,406</u>	<u>\$ 133,722</u>

Changes in Long-Term Debt

The following is a summary of changes in long-term obligations of the Town:

	<u>Balance July 1, 2018</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2019</u>	<u>Due Within One Year</u>
Governmental Activities					
\$477,987 authorized and issued General Obligation Refunding Bond Series 2012 issued May 18, 2012. Payable in semiannual installments of \$24,851, which includes interest at the rate of 4.75%. The maturity date is May 10, 2025.	\$ 292,842	\$ -	\$ 36,165	\$ 256,677	\$ 37,947
Sovereign Bank NA Lease Payable to be paid in 7 annual installments of \$30,348.96 which includes interest at the rate of 2.96%. The maturity date is July 15, 2020.	58,105	-	28,629	29,476	29,477
Benchmark Community Bank Commercial Line of Credit with a credit limit of \$250,000. Interest at the rate of 2.250% per annum, with an expiration date of August 31, 2019.	27	67,040	27	67,040	67,040
\$296,250 authorized and issued General Obligation Refunding Bond Series 2018A issued May 24, 2018. Payable in semiannual installments of \$15,600 plus interest at the rate of 3.10% fixed for 5 years. After the 5 years, the rate will reset to the current 5-year treasury rate plus 45 basis points. The maturity date is January 1, 2038.	296,250	-	-	296,250	15,600
\$201,750 authorized and issued General Obligation Refunding Bond Series 2018B issued May 24, 2018. Payable in semiannual installments of \$10,625 plus interest at the rate of 3.10% fixed for 5 years. After the 5 years, the rate will reset to the current 5-year treasury rate plus 45 basis points. The maturity date is January 1, 2038.	201,750	-	-	201,750	10,625
Hometrust Bank note payable in the amount of \$27,000 payable in 3 annual payments of \$9,402.80 starting November 29, 2019 with interest at 3.19%. The note matures November 29, 2021.	-	26,000	-	26,000	8,561
	848,974	93,040	64,821	877,193	169,250
Compensated absences	28,731	2,482	-	31,213	-
Total Long-Term Indebtedness	<u>\$ 877,705</u>	<u>\$ 95,522</u>	<u>\$ 64,821</u>	<u>\$ 908,406</u>	<u>\$ 169,250</u>

8 Debt Refunding

General Obligation Refunding Bond Series 2012 were issued on May 18, 2012 in the amount of \$477,987 to Sun Trust Bank. The new bonds bear interest at the rate of 4.75% and are due in semiannual installments of \$24,851 through May 10, 2025. The new issue will mature May 10, 2025.

General Obligation Refunding Bond Series 2018A were issued on May 24, 2018 in the amount of \$296,250 to Carter Bank & Trust. The new bonds bear interest at the rate of 3.10% and are due in semiannual installments of \$15,600. The new issue will mature January 1, 2038.

General Obligation Refunding Bond Series 2018B were issued on May 24, 2018 in the amount of \$201,750 to Carter Bank & Trust. The new bonds bear interest at the rate of 3.10% and are due in semiannual installments of \$10,625. The new issue will mature January 1, 2038.

9 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:

	Governmental Activities
Net Investment in Capital Assets	
Cost of capital assets	\$ 3,198,208
Less: Accumulated depreciation	<u>(1,226,889)</u>
Book value	1,971,319
Less: Capital related debt	<u>(877,193)</u>
Net Investment in Capital Assets	<u><u>\$ 1,094,126</u></u>

10 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 Risk Sharing Association, 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. 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:

All employees and officers are insured through Virginia Municipal Liability Pool in the amount of \$100,000.

11 Commitments and Contingencies

If applicable, federal programs in which the Town participate s 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.

12 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.

13 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 Estate	\$ 98,424,648
Debt Limits per Constitution of Virginia - 10% Total Assessed Value	\$ 9,842,465
Amount of Debt Applicable to Debt Limit	
Gross debt	877,193
Legal Debt Margin	\$ 8,965,272

Note: Includes all long-term general obligation bonded debt loans. Excludes capital leases and compensated absences.

14 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:

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	11
Inactive members:	
Vested inactive members	2
Non-vested inactive members	6
LTD	0
Inactive members active elsewhere in VRS	<u>22</u>
Total inactive members	30
Active members	8
Total covered employees	<u>49</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 .70% 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 employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$16,573 and \$4,598 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 with Hazardous Duty Benefits

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

	Total Pension Liability (a)	<u>Increase (Decrease)</u> Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2017	\$ 1,515,763	\$ 1,803,934	\$ (288,171)
Changes for the Year			
Service cost	20,146	-	20,146
Interest	104,293	-	104,293
Benefit changes	-	-	-
Assumption changes	-	-	-
Differences between expected and actual experience	(70,993)	-	(70,993)
Contributions - employer	-	2,703	(2,703)
Contributions - employee	-	27,216	(27,216)
Net investment income	-	133,212	(133,212)
Benefit payments, including refunds	(51,724)	(51,724)	-
Refunds of employee contributions	-	-	-
Administrative expenses	-	(1,144)	1,144
Other changes	-	(119)	119
Net Changes	<u>1,722</u>	<u>110,144</u>	<u>(108,422)</u>
Balances at June 30, 2018	<u>\$ 1,517,485</u>	<u>\$ 1,914,078</u>	<u>\$ (396,593)</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:

	<u>1.00% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1.00% Increase (8.00%)</u>
Political subdivision's Net Pension Liability	\$ (185,763)	\$ (396,593)	\$ (568,602)

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 \$(121,932). 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	\$ -	\$ 18,792
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	15,576
Employer contributions subsequent to the measurement date	<u>16,573</u>	<u>-</u>
Total	<u>\$ 16,573</u>	<u>\$ 34,368</u>

\$16,573 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:

**Year Ended
June 30.**

2020	\$ (12,658)
2021	(1,475)
2022	(18,687)
2023	(1,548)
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.

15 Other Post-Employment Benefits - Group Life Insurance

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

Eligible Employees

The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:

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

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

Benefit Amounts

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

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

Reduction in Benefit Amounts

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

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

For covered members with at least 30 years of 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.

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 \$1,890 and \$1,679 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 \$26,000 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 0.00186% as compared to 0.00180% at June 30, 2017.

For the year ended June 30, 2019, the participating employer recognized GLI OPEB expense of \$2,000. 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	\$ 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>1,890</u>	<u>-</u>
Total	<u>\$ 2,890</u>	<u>\$ 2,000</u>

\$2,890 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):

	Group Life Insurance OPEB Program
Total GLI OPEB Liability	\$ 3,113,508
Plan Fiduciary Net Position	<u>1,594,773</u>
Employers' Net GLI OPEB Liability (Asset)	<u>\$ 1,518,735</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:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Employer's Proportionate Share of the Group Life Insurance Program Net OPEB Liability	\$ 34,000	\$ 26,000	\$ 19,000

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.

16 Fund Balances – Governmental Funds

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

	<u>Primary Government</u>
Restricted for	
Capital improvements	\$ <u>13,575</u>
Total Fund Balances	\$ <u>13,575</u>

17 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 March 12, 2020.

REQUIRED SUPPLEMENTARY INFORMATION

Town of Halifax, 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>
Revenues				
General property taxes	\$ 367,000	\$ 367,000	\$ 383,834	\$ 16,834
Other local taxes	404,600	404,600	378,074	(26,526)
Permits and fees	1,200	1,200	605	(595)
Fines and forfeitures	70,000	70,000	51,792	(18,208)
Other general revenues	21,810	21,810	24,801	2,991
Use of money and property	38,110	38,110	44,503	6,393
<i>Intergovernmental</i>				
Revenue from the Commonwealth of Virginia	50,072	50,072	50,926	854
Revenue from the Federal Government	<u>64,000</u>	<u>64,000</u>	<u>24,305</u>	<u>(39,695)</u>
Total Revenues	1,016,792	1,016,792	958,840	(57,952)
Expenditures				
General government administration	302,960	305,240	278,511	26,729
Public safety	402,450	397,950	420,904	(22,954)
Public works	215,888	218,108	313,060	(94,952)
Municipal building	37,950	37,950	47,731	(9,781)
Parks, recreation, and cultural	12,500	12,500	31,286	(18,786)
Community development	21,000	21,000	14,197	6,803
Debt service	<u>70,024</u>	<u>70,024</u>	<u>80,000</u>	<u>(9,976)</u>
Total Expenditures	<u>1,062,772</u>	<u>1,062,772</u>	<u>1,185,689</u>	<u>(122,917)</u>
Excess (Deficiency) of Revenues Over Expenditures	(45,980)	(45,980)	(226,849)	(180,869)
Other Financing Sources (Uses)				
Prior year surplus	45,980	45,980	-	(45,980)
Proceeds from loans	<u>-</u>	<u>-</u>	<u>93,040</u>	<u>93,040</u>
Total Other Financing Sources (Uses)	<u>45,980</u>	<u>45,980</u>	<u>93,040</u>	<u>47,060</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	(133,809)	<u>\$ (133,809)</u>
Fund Balance - Beginning of Year			<u>810,405</u>	
Fund Balance - End of Year			<u>\$ 676,596</u>	

Town of Halifax, 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>
Total pension liability					
Service cost	\$ 20,146	\$ 31,390	\$ 30,653	\$ 34,148	\$ 32,585
Interest	104,293	102,425	96,685	83,262	78,546
Changes of benefit terms	-	-	-	-	-
Changes in assumptions	-	(18,543)	-	-	-
Differences between expected and actual experience	(70,993)	(33,510)	9,269	122,657	-
Benefit payments, including refunds of employee contributions	(51,724)	(58,417)	(50,816)	(45,786)	(41,749)
Net change in total pension liability	1,722	23,345	85,791	194,281	69,382
Total pension liability - beginning	1,515,763	1,492,418	1,406,627	1,212,346	1,142,964
Total pension liability - ending (a)	\$ 1,517,485	\$ 1,515,763	\$ 1,492,418	\$ 1,406,627	\$ 1,212,346
 Plan fiduciary net position					
Contributions - employer	\$ 2,703	\$ 3,129	\$ 6,215	\$ 6,156	\$ 7,763
Contributions - employee	27,216	16,442	16,607	16,194	14,814
Net investment income	133,212	199,420	28,104	72,899	219,833
Benefit payments, including refunds of employee contributions	(51,724)	(58,417)	(50,816)	(45,786)	(41,749)
Administrative expense	(1,144)	(1,168)	(1,028)	(1,007)	(1,188)
Other	(119)	(176)	(12)	(14)	11
Net change in plan fiduciary net position	110,144	159,230	(930)	48,442	199,484
Plan fiduciary net position - beginning	1,803,934	1,644,704	1,645,634	1,597,192	1,397,708
Plan fiduciary net position - ending (b)	\$ 1,914,078	\$ 1,803,934	\$ 1,644,704	\$ 1,645,634	\$ 1,597,192
 Political subdivision's net pension liability - ending (a) - (b)	\$ (396,593)	\$ (288,171)	\$ (152,286)	\$ (239,007)	\$ (384,846)
 Plan fiduciary net position as a percentage of the total pension liability	126.13%	119.01%	110.20%	116.99%	131.74%
 Covered payroll	\$ 455,246	\$ 405,039	\$ 421,096	\$ 399,231	\$ 389,952
 Political subdivision's net pension liability as a percentage of covered payroll	-87.12%	-71.15%	-36.16%	-59.87%	-98.69%

Town of Halifax, Virginia

Schedule of Employer Contributions

For the Years Ended June 30, 2010 through 2019

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
2019	\$ 16,573	\$ 16,573	\$ -	\$ 434,526	3.81%
2018	4,598	4,598	-	455,246	1.01%
2017	5,141	5,141	-	405,039	1.27%
2016	7,479	7,479	-	421,096	1.78%
2015	11,868	11,868	-	399,231	2.97%
2014	13,832	13,832	-	389,952	3.55%
2013	13,588	13,588	-	287,200	4.73%
2012	12,994	12,994	-	235,550	5.52%
2011	15,182	15,182	-	301,156	5.04%
2010	16,149	16,149	-	304,122	5.31%

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 Halifax, 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 Halifax, 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)	0.00186%	0.00180%
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset)	\$ 26,000	\$ 27,000
Employer's Covered Payroll	\$ 323,008	\$ 332,667
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered Payroll	8.05%	8.12%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	51.22%	48.86%

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.

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 Halifax, Virginia

Schedule of Employer Contributions for OPEB Group Life Insurance Program

For the Years Ended June 30, 2010 through 2019

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
2019	\$ 1,890	\$ 1,890	\$ -	\$ 363,399	0.52%
2018	1,679	1,679	-	323,008	0.52%
2017	1,730	1,730	-	332,677	0.52%
2016	1,691	1,691	-	352,262	0.48%
2015	1,633	1,633	-	340,254	0.48%
2014	1,422	1,422	-	296,287	0.48%
2013	1,295	1,295	-	269,700	0.48%
2012	721	721	-	257,585	0.28%
2011	834	834	-	297,763	0.28%
2010	616	616	-	228,092	0.27%

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 Halifax, Virginia

Notes to Required Supplementary Information

OPEB Group Life Insurance Program

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%

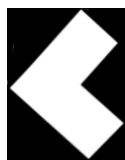
Largest Ten Locality Employers – Hazardous Duty Employees

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%

COMPLIANCE SECTION



**Creedle
Jones
& Associates**

A Professional Corporation

Robin B. Jones, CPA, CFP
Denise C. Williams, CPA, CSEP
Kimberly W. Jackson, CPA

Nadine L. Chase, CPA

Sherwood H. Creedle, Emeritus

Members of
American Institute of Certified Public Accountants
Virginia Society of Certified Public Accountants

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 Halifax, 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 and each major fund of the Town of Halifax, 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 Halifax, Virginia's basic financial statements, and have issued our report thereon dated March 12, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Halifax, 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 Halifax, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Halifax, 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.

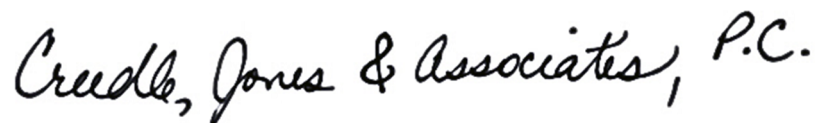
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Halifax, 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
March 12, 2020