

TOWN OF LOVETTSVILLE, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2022

TOWN OF LOVETTSVILLE, VIRGINIA

DIRECTORY OF OFFICIALS

COUNCIL

Christopher M. Hornbaker, Mayor
Joy Pritz, Vice-Mayor

Buchanan Smith
Jennifer Reed
Brandon Davis

Robert Merhaut
David Earl

OFFICIALS

Jason Cournoyer

Town Manager

Tanya George

Treasurer

Elizabeth Fontaine

Town Clerk

TOWN OF LOVETTSVILLE, VIRGINIA

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Independent Auditors' Report

**To the Honorable Town Council
Town of Lovettsville, Virginia**

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Town of Lovettsville, Virginia, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund of Town of Lovettsville, Virginia, as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Change in Accounting Principle

As described in Note 15 to the financial statements, in 2022, the Town adopted new accounting guidance, GASB Statement Nos. 87, *Leases*, and 92, *Omnibus 2020*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Town of Lovettsville, Virginia's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Town of Lovettsville, Virginia's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension and OPEB funding, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Lovettsville, Virginia's basic financial statements. The other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2023, on our consideration of Town of Lovettsville, 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 Lovettsville, 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 Town of Lovettsville, Virginia's internal control over financial reporting and compliance.

Charlottesville, Virginia
February 23, 2023

Management's Discussion and Analysis

Our discussion and analysis of the Town of Lovettsville's financial performance provides an overview of the Town's financial activities for the year ended June 30, 2022. Please read it in conjunction with the Town's financial statements, which begin on page 13.

FINANCIAL HIGHLIGHTS

- The assets of the Town exceeded its liabilities by \$15,204,291 at the close of the most recent fiscal year.
- The Town's net position increased as a result of this year's operations. While net position of the business-type activities increased by \$138,755, net position of the governmental activities increased by \$609,779.
- In the Town's business-type activities, operating revenues increased by \$216,009 from the previous year while operating expenses increased by \$47,412. Nonoperating income increased by \$25,643.
- In the Town's governmental activities, operating revenues decreased by \$228,101 from the previous year while operating expenses decreased by \$918,628.
- Actual revenues were \$392,193 less than budgeted for the General Fund. General Fund expenditures were \$823,587 less than budgeted.
- The Town spent \$419,050 for capital additions during the current fiscal year.
- The Town's long-term debt decreased by \$455,049 during the current fiscal year.
- Through the American Rescue Plan Act of 2021 (ARPA), the Town received \$1,140,231 during the prior fiscal year intended to help respond to the COVID-19 emergency and bring back jobs. The unspent portion of ARPA funds is reflected as unearned revenue at the end of the fiscal year. The funding will be reflected in revenue in future periods as the funds are expended.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 13 and 14) provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements start on page 15. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for the future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds.

Reporting the Town as a Whole

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

USING THIS ANNUAL REPORT: (CONTINUED)

Reporting the Town as a Whole: (Continued)

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

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

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

Reporting the Town's Most Significant Funds

The fund financial statements begin on page 15 and provide detailed information about the Town's funds-not the Town as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town uses fund accounting to ensure and reflect compliance (or noncompliance) with finance-related legal requirements, such as the budget ordinance. The Town's two kinds of funds -*governmental* and *proprietary*- use different accounting approaches.

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

THE TOWN AS A WHOLE

The Town's combined net assets changed modestly from a year ago *increasing* from \$14,455,757 to \$15,204,291. During the year, the net assets of the governmental and business-type activities increased by 10.52 percent and increased by 1.62 percent, respectively. Below is a summary of the net assets as of June 30, 2022 and 2021.

NET ASSETS

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Totals</u> | |
|--------------------------------------|--------------------------------|---------------------|---------------------------------|----------------------|----------------------|----------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| Current and other assets | \$ 3,528,080 | \$ 3,769,036 | \$ 3,515,130 | \$ 2,761,034 | \$ 7,043,210 | \$ 6,530,070 |
| Capital assets | 5,236,835 | 5,172,477 | 7,976,667 | 8,184,545 | 13,213,502 | 13,357,022 |
| Total assets | <u>\$ 8,764,915</u> | <u>\$ 8,941,513</u> | <u>\$ 11,491,797</u> | <u>\$ 10,945,579</u> | <u>\$ 20,256,712</u> | <u>\$ 19,887,092</u> |
| Total deferred outflows of resources | \$ 56,089 | \$ 77,083 | \$ 92,562 | \$ 94,982 | \$ 148,651 | \$ 172,065 |
| Long-term liabilities | \$ 1,404,055 | \$ 1,547,691 | \$ 2,003,104 | \$ 2,267,355 | \$ 3,407,159 | \$ 3,815,046 |
| Other liabilities | 454,389 | 1,246,996 | 669,919 | 200,165 | 1,124,308 | 1,447,161 |
| Total liabilities | <u>\$ 1,858,444</u> | <u>\$ 2,794,687</u> | <u>\$ 2,673,023</u> | <u>\$ 2,467,520</u> | <u>\$ 4,531,467</u> | <u>\$ 5,262,207</u> |
| Total deferred inflows of resources | \$ 456,750 | \$ 336,878 | \$ 203,855 | \$ 4,315 | \$ 660,605 | \$ 341,193 |
| Net position: | | | | | | |
| Net investment in capital assets | \$ 3,879,987 | \$ 3,675,376 | \$ 6,044,724 | \$ 5,918,849 | \$ 9,924,711 | \$ 9,594,225 |
| Restricted | 94,119 | - | 77,077 | - | 171,196 | - |
| Unrestricted | 2,522,704 | 2,211,655 | 2,585,750 | 2,649,877 | 5,108,454 | 4,861,532 |
| Total net position | <u>\$ 6,496,810</u> | <u>\$ 5,887,031</u> | <u>\$ 8,707,551</u> | <u>\$ 8,568,726</u> | <u>\$ 15,204,361</u> | <u>\$ 14,455,757</u> |

A portion of the Town's net position (64.93 percent) reflects its investments in capital assets (e.g., land, buildings, equipment, improvements, and infrastructure), less any debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of unrestricted net assets (\$5,108,454) may be used to meet the government's ongoing obligation to citizens and creditors.

THE TOWN AS A WHOLE: (CONTINUED)

The following is a summary of the change in net position for the governmental and business-type activities for the years ended June 30, 2022 and 2021.

| | Governmental Activities | | Business-Type Activities | | Totals | |
|--|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Revenues | | | | | | |
| Charges for services | \$ 12,814 | \$ 9,052 | \$ 1,372,511 | \$ 1,266,046 | \$ 1,385,325 | \$ 1,275,098 |
| General property taxes | 757,101 | 694,513 | - | - | 757,101 | 694,513 |
| Other local taxes | 689,787 | 679,757 | - | - | 689,787 | 679,757 |
| Intergovernmental | 291,489 | 405,737 | 323,681 | - | 615,170 | 405,737 |
| Miscellaneous | 30,460 | 18,828 | 1,787 | - | 32,247 | 18,828 |
| Total revenues | <u>\$ 1,781,651</u> | <u>\$ 1,807,887</u> | <u>\$ 1,697,979</u> | <u>\$ 1,266,046</u> | <u>\$ 3,479,630</u> | <u>\$ 3,073,933</u> |
| Program expenses | | | | | | |
| General government | \$ 866,542 | \$ 1,054,633 | \$ - | \$ - | \$ 866,542 | \$ 1,054,633 |
| Public safety | 14,870 | 15,000 | - | - | 14,870 | 15,000 |
| Public works | 305,024 | 296,112 | - | - | 305,024 | 296,112 |
| Parks, recreation and cultural | 38,548 | 29,901 | - | - | 38,548 | 29,901 |
| Community development | 38,026 | 18,183 | - | - | 38,026 | 18,183 |
| Water and sewer | - | - | 1,433,712 | 1,314,554 | 1,433,712 | 1,314,554 |
| Total expenses | <u>\$ 1,263,010</u> | <u>\$ 1,413,829</u> | <u>\$ 1,433,712</u> | <u>\$ 1,314,554</u> | <u>\$ 2,696,722</u> | <u>\$ 2,728,383</u> |
| Operating income (loss) | <u>\$ 518,641</u> | <u>\$ 394,058</u> | <u>\$ 264,267</u> | <u>\$ (48,508)</u> | <u>\$ 782,908</u> | <u>\$ 345,550</u> |
| Nonoperating | | | | | | |
| Gain (loss) from disposal of equipment | \$ - | \$ - | \$ - | \$ (3,966) | \$ - | \$ (3,966) |
| Interest income | (5,267) | 2,343 | (5,512) | 10,073 | (10,779) | 12,416 |
| Interest expense | (23,595) | (81,168) | - | (81,199) | (23,595) | (162,367) |
| Total nonoperating | <u>\$ (28,862)</u> | <u>\$ (78,825)</u> | <u>\$ (5,512)</u> | <u>\$ (75,092)</u> | <u>\$ (34,374)</u> | <u>\$ (153,917)</u> |
| Income (loss) before contributions | \$ 489,779 | \$ 315,233 | \$ 258,755 | \$ (123,600) | \$ 748,534 | \$ 191,633 |
| Transfers | 120,000 | - | (120,000) | 355,885 | - | 355,885 |
| Increase in net position | <u>\$ 609,779</u> | <u>\$ 315,233</u> | <u>\$ 138,755</u> | <u>\$ 232,285</u> | <u>\$ 748,534</u> | <u>\$ 547,518</u> |

The Town's total revenues increased by \$502,675 (16.95 percent). The total cost of all programs and services increased by \$323,105 (13.43 percent). Capital contributions decreased by \$167,770. Our analysis that follows separately considers the operations of governmental and business-type activities.

THE TOWN AS A WHOLE: (CONTINUED)

Governmental Activities

Revenues for the Town's governmental activities decreased by \$26,236 (1.45 percent) and expenses decreased by \$150,819 (10.67 percent). The factors driving these results include:

Revenues

- *General property taxes* increased by \$62,588. This change is primarily related to the increase in real estate taxes.
- *Other local taxes* increased by \$10,030. Business licenses decreased by \$46,596.
- *Intergovernmental revenue* increased by \$305,043. This was due to the receipt of ARPA Act money of \$198,269.

Expenses

- *General government* decreased by \$188,091. This decrease is primarily a result of the expenditures related to the CARES Act funding of \$204,621 spent on non-capital outlay in the prior year.
- *Interest on long-term debt* decreased by \$57,573. The refinancing of the general obligation bonds in the prior year led to higher interest and financing expenses.

Business-Type Activities

Revenues for the Town's business-type activities increased by \$431,933 (34.12 percent) and expenses increased by \$119,158 (9.06 percent). The factors driving these results include:

Revenues

- *Water and sewer revenues* decreased overall by \$431,933. This is due primarily to the charges for services increasing by \$67,504, and intergovernmental revenues increasing \$323,681.

Expenses

- *Water and sewer expenses* increased overall by \$119,158. Personnel services increased by \$1,984. This also increased benefits and taxes. Contractual services increased by \$45,054 in the water and sewer fund. These increases were offset by the \$28,934 decrease in supplies and equipment.

The Town's business-type activities also included a decrease to interest income of \$15,585 and a decrease in interest expense of \$9,453. The decrease in interest income resulted from investment funds decrease in unrealized gains/losses. The decrease in interest expense is normal when no new debt is incurred.

Finally, contributions decreased in business-type activities by \$167,770 from the prior year.

THE TOWN'S FUNDS

As the Town completed the year, its governmental fund (as presented in the balance sheet on page 15) reported a fund balance of \$2,632,992, which is an increase of \$433,742 from last year's total of \$2,199,250. The primary reasons for the General Fund's increase mirror the changes noted in the previous section under "governmental" activities. Also, the Town expended \$744,809 in capital outlay for various projects throughout the Town in the prior year.

THE TOWN'S FUNDS: (CONTINUED)

As the Town completed the year, its proprietary funds (as presented in the statement of net position on pages 19 and 20) reported net assets of \$8,707,481, which is an increase of \$138,755 over last year's total of \$8,568,726. Significant changes in the change in net assets are noted in the previous section under "business-type" activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Town Council did not make any revisions to the General Fund budget. The significant variations of actual results to the General Fund budget are summarized below:

| Account | Variance Positive Negative |
|-------------------------------------|---|
| Revenues | |
| General property taxes | \$ 86,862 |
| Other local taxes | 173,787 |
| Miscellaneous | (241,447) |
| Intergovernmental revenue - Federal | (407,297) |
| Expenditures | |
| General Government Administration | \$ 544,201 |
| Community Development | 260,413 |

The Town's budget did not take into account the assessment increase half way through the year, causing the positive variance in real estate taxes. The County also combines commercial & industrial real estate taxes when remitting to the Town, causing a negative variance to the budget. Sales taxes and meals taxes exceeded expectations due to the continued growth of the Town. Motor vehicle licenses are also collected by the County, resulting in collected amounts higher than expected. Business licenses were more than budgeted because the previous year's deadline was extended and actual amounts include some from the prior fiscal year. Flagpole donations were not budgeted at all and other miscellaneous revenue was from higher than expected reimbursements. Event revenues were less than budgeted because both Oktoberfest and Mayfest were cancelled for the fiscal year. VDOT grant and transportation project funds were under budget because the additional CARES Act revenues reduced the necessity to apply for such grants.

The Town's payroll provider does not account for maintenance support; therefore, the actual is less than the budget. The other payroll related expenses (administrative salaries, payroll taxes, health insurance and YRS contribution) were less than budget due to positions not immediately being filled, and employees not being vested into benefit plans until later in the year. Legal fees and advertising were less than budgeted because various expected and planned events did not occur, primarily due to COVID-19 effects. Website expenses remained under budget as a result of a previous service no longer being used. Repairs/replacements were less as a result of the modular office being replaced by a brand new building. CARES Act expenditures were not budgeted, causing the negative variance. Both the consultant end engineering expenditures were less because initially discussed projects were either delayed or did not happen due to COVID-19. Similar to the revenue variance, event expenditures were budgeted; however, both Oktoberfest and Mayfest were cancelled for the fiscal year.

Capital outlays were budgeted for the targeted completion timing and amount; project delays resulted in less expenses than expected.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2022, the Town had \$13,213,502 invested in capital assets including land, buildings, equipment, infrastructure and the utility system. (See table that follows.) This represents a net decrease of \$143,520 of 1.07 percent, other last year.

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Totals</u> | |
|--------------------------|--------------------------------|---------------------|---------------------------------|---------------------|----------------------|----------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| Land | \$ 973,820 | \$ 973,820 | \$ 154,200 | \$ 154,200 | \$ 1,128,020 | \$ 1,128,020 |
| Construction in progress | 725,528 | 520,954 | 71,097 | 18,840 | 796,625 | 539,794 |
| Buildings | 942,257 | 968,123 | - | - | 942,257 | 968,123 |
| Improvements | 277,522 | 304,093 | - | - | 277,522 | 304,093 |
| Equipment | 44,127 | 56,619 | - | - | 44,127 | 56,619 |
| Infrastructure | 2,273,581 | 2,348,868 | - | - | 2,273,581 | 2,348,868 |
| Utility system | - | - | 7,751,370 | 8,011,505 | 7,751,370 | 8,011,505 |
| Totals | <u>\$ 5,236,835</u> | <u>\$ 5,172,477</u> | <u>\$ 7,976,667</u> | <u>\$ 8,184,545</u> | <u>\$ 13,213,502</u> | <u>\$ 13,357,022</u> |

This year's additions to be included on the depreciation schedule:

General Fund

| | |
|-----------------------------|-------------------|
| Broad way improvements | \$ 60,794 |
| Loudoun Street improvements | 80,000 |
| S Church improvements | 63,780 |
| Total general fund | <u>\$ 204,574</u> |

Water/Sewer Fund

| | |
|---------------------------------|-------------------|
| Town office expansion | \$ 39,700 |
| Water main replacements | 12,557 |
| Biosolids study | 27,600 |
| Wastewater treatment upgrades | 100,732 |
| Other water system improvements | 33,887 |
| Total general fund | <u>\$ 214,476</u> |

Debt

At year-end, the Town had \$3,404,159 in outstanding debt compared to \$3,859,208 last year. This is a decrease of 11.79 percent as shown in the following table.

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Totals</u> | |
|--------------------------|--------------------------------|---------------------|---------------------------------|---------------------|---------------------|---------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| Bonds Payable: | | | | | | |
| General obligation bonds | \$ 1,346,867 | \$ 1,475,886 | \$ 1,543,409 | \$ 1,475,886 | \$ 2,890,276 | \$ 2,951,772 |
| Compensated absences | 30,033 | - | 11,986 | - | 42,019 | - |
| Net OPEB liability | 14,174 | - | 12,953 | - | 27,127 | - |
| Equipment loans | - | - | 356,334 | - | 356,334 | - |
| Premium on bond issuance | 9,981 | 11,645 | 78,422 | 11,645 | 88,403 | 23,290 |
| Totals | <u>\$ 1,401,055</u> | <u>\$ 1,487,531</u> | <u>\$ 2,003,104</u> | <u>\$ 1,487,531</u> | <u>\$ 3,404,159</u> | <u>\$ 2,975,062</u> |

No new debt was issued during the year ended June 30, 2022.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Town anticipates continued growth in the upcoming fiscal year 2022- 2023 in real estate re-evaluation assessments and revenue deriving from business related consumer taxes such as Sales Tax, Meals Tax, and business licenses. The following is a summary of the Town of Lovettsville's budget for fiscal year 2022-2023.

The budgeted revenues are set to increase by approximately \$393,440 in the fiscal year ending June 30, 2023, for the general fund. The largest increase is due to the increased real estate re-evaluation assessments of 15.98% on average, a notable increase in revenue deriving from sales and use taxes and meals taxes, and an increase associated with the inter-fund transfer from the Utilities Fund for administrative overhead expenses. The remainder of the budgeted revenue is very similar to the previous fiscal budget.

The budgeted expenditures for the general fund are set to increase a commensurate \$393,440 in the fiscal year ending June 30, 2023. This increase is primarily attributable to personnel expenses, local funding required from general government projects in the Town's Capital Improvement Plan. The remainder of the budgeted expenses are very similar to the previous fiscal budget.

Fiscal year 2022-2023 is the first year that the General Government- Capital Projects Fund is budgeted separately from the General Fund. Budgeted capital expenses and revenues for general government projects total \$1,233,000 for fiscal year 2022-2023 and are primarily for on-going transportation capital projects on E. Broad Way, S. Locust Street and S. Loudoun Street, and S. Church Street and E. Pennsylvania Avenue.

The budgeted revenue in the utilities fund is expected to increase by approximately \$395,849 in the fiscal year ending June 30, 2023. This increase is primarily linked with an approved increase in water and sewer rates of three percent over the previous year rates, planned utilization of American Rescue Plan Act of 2021 funding for capital projects, and availability fees associated with anticipated new commercial development. The remainder of the budgeted revenue is very similar to the previous fiscal budget.

The budgeted operating expenses remain fairly steady in the utilities fund for the upcoming year. The budgeted expenses for the fiscal year ending June 30, 2023, are approximately \$2,344,486 in comparison with the budgeted expenses for the prior fiscal year of \$1,948,637 with the increase primarily being attributed to capital project expenses funded by American Rescue Plan Act of 2021 funding. The utilities capital projects are improvements to the water treatment infrastructure and waste water treatment plant including waterline replacements, inflow and infiltration repairs, utility truck replacement, and a ultra-violet basin replacement at the waste water treatment plant.

In conclusion, the proposed budget for fiscal year ending June 30, 2023 is balanced in accordance with state statutes, and revenues based on conservative estimates and utilization of American Rescue Plan Act of 2021 funding, while expenditures are based on historical data, as well as actual proposed costs.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Town Office at 6 East Pennsylvania Avenue, Lovettsville, VA.

Basic Financial Statements

Government-wide Financial Statements

Statement of Net Position
As of June 30, 2022

| | Governmental Activities | Business-type Activities | Total |
|---|----------------------------|-----------------------------|---------------|
| Assets: | | | |
| Cash and cash equivalents | \$ 2,713,022 | \$ 3,293,577 | \$ 6,006,599 |
| Receivables, net of allowance for uncollectibles | | | |
| Taxes receivables | 439,714 | - | 439,714 |
| Accounts receivables | 121,795 | 119,034 | 240,829 |
| Leases receivable | - | 111,982 | 111,982 |
| Due from other governments | 72,960 | - | 72,960 |
| Internal balances | 86,470 | (86,470) | - |
| Net pension asset | 94,119 | 77,007 | 171,126 |
| Capital assets: | | | |
| Land | 973,820 | 154,200 | 1,128,020 |
| Construction in progress | 725,528 | 71,097 | 796,625 |
| Other capital assets, net of accumulated depreciation | 3,537,487 | 7,751,370 | 11,288,857 |
| Capital assets, net | \$ 5,236,835 | \$ 7,976,667 | \$ 13,213,502 |
| Total assets | \$ 8,764,915 | \$ 11,491,797 | \$ 20,256,712 |
| Deferred Outflows of Resources: | | | |
| OPEB related items | \$ 5,287 | \$ 4,829 | \$ 10,116 |
| Pension related items | 50,802 | 41,511 | 92,313 |
| Deferred charges on refunding | - | 46,222 | 46,222 |
| Total deferred outflows of resources | \$ 56,089 | \$ 92,562 | \$ 148,651 |
| Liabilities: | | | |
| Accounts payable | \$ 3,788 | \$ 3,049 | \$ 6,837 |
| Accrued liabilities | 34,575 | 25,570 | 60,145 |
| Unearned revenue | 407,297 | 534,665 | 941,962 |
| Accrued interest | 8,729 | 22,203 | 30,932 |
| Customer deposits | - | 84,432 | 84,432 |
| Long-term liabilities: | | | |
| Due within one year: | | | |
| Loans payable | - | 24,483 | 24,483 |
| Bonds payable | 133,259 | 240,372 | 373,631 |
| Due in more than one year: | | | |
| Compensated absences | 33,033 | 11,986 | 45,019 |
| Net OPEB liability | 14,174 | 12,953 | 27,127 |
| Loans payable | - | 331,851 | 331,851 |
| Bonds payable | 1,223,589 | 1,381,459 | 2,605,048 |
| Total liabilities | \$ 1,858,444 | \$ 2,673,023 | \$ 4,531,467 |
| Deferred Inflows of Resources: | | | |
| OPEB related items | \$ 9,799 | \$ 8,955 | \$ 18,754 |
| Pension related items | 104,912 | 84,320 | 189,232 |
| Lease related items | - | 110,580 | 110,580 |
| Deferred revenue-property taxes | 351,039 | - | 351,039 |
| Total deferred inflows of resources | \$ 465,750 | \$ 203,855 | \$ 669,605 |
| Net Position: | | | |
| Net investment in capital assets | \$ 3,879,987 | \$ 6,044,724 | \$ 9,924,711 |
| Restricted: | | | |
| Net pension asset | 94,119 | 77,007 | 171,126 |
| Unrestricted | 2,522,704 | 2,585,750 | 5,108,454 |
| Total net position | \$ 6,496,810 | \$ 8,707,481 | \$ 15,204,291 |

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

Statement of Activities
Year Ended June 30, 2022

| Functions/Programs | Expenses | Program Revenues | | |
|-----------------------------------|---------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government: | | | | |
| Governmental activities: | | | | |
| General government administration | \$ 866,542 | \$ - | \$ 62,703 | \$ - |
| Public safety | 14,870 | - | 15,000 | - |
| Public works | 305,024 | 12,814 | 200,633 | - |
| Parks, recreation and cultural | 38,548 | - | 1,637 | - |
| Community development | 38,026 | - | - | - |
| Interest on long-term debt | 23,595 | - | - | - |
| Total governmental activities | \$ 1,286,605 | \$ 12,814 | \$ 279,973 | \$ - |
| Business-type activities: | | | | |
| Water & sewer | \$ 1,433,712 | \$ 1,372,511 | \$ 135,566 | \$ 188,115 |
| Total business-type activities | \$ 1,433,712 | \$ 1,372,511 | \$ 135,566 | \$ 188,115 |
| Total | \$ 2,720,317 | \$ 1,385,325 | \$ 415,539 | \$ 188,115 |

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

Statement of Activities
Year Ended June 30, 2022

| Functions/Programs | Net (Expense) Revenue and Changes in Net Position | | |
|--|---|-----------------------------|---------------|
| | Primary Government | | |
| | Governmental Activities | Business-type Activities | Total |
| Primary Government: | | | |
| Governmental activities: | | | |
| General government administration | \$ (803,839) | \$ - | \$ (803,839) |
| Public safety | 130 | - | 130 |
| Public works | (91,577) | - | (91,577) |
| Parks, recreation and cultural | (36,911) | - | (36,911) |
| Community development | (38,026) | - | (38,026) |
| Interest on long-term debt | (23,595) | - | (23,595) |
| Total governmental activities | \$ (993,818) | \$ - | \$ (993,818) |
| Business-type activities: | | | |
| Water & sewer | \$ - | \$ 262,480 | \$ 262,480 |
| Total business-type activities | \$ - | \$ 262,480 | \$ 262,480 |
| Total | \$ (993,818) | \$ 262,480 | \$ (731,338) |
| General Revenues: | | | |
| General real property taxes | \$ 757,101 | \$ - | \$ 757,101 |
| Local sales and use taxes | 301,950 | - | 301,950 |
| Business license tax | 63,806 | - | 63,806 |
| Cigarette tax | 22,365 | - | 22,365 |
| Bank franchise taxes | 22,356 | - | 22,356 |
| Utility tax | 14,906 | - | 14,906 |
| Meals tax | 213,460 | - | 213,460 |
| Motor vehicle licenses | 50,944 | - | 50,944 |
| Unrestricted revenues from the use of money | (5,267) | (5,512) | (10,779) |
| Grants and contributions not restricted to specific programs | 11,516 | - | 11,516 |
| Miscellaneous | 30,460 | 1,787 | 32,247 |
| Transfers | 120,000 | (120,000) | - |
| Total general revenues and transfers | \$ 1,603,597 | \$ (123,725) | \$ 1,479,872 |
| Change in net position | \$ 609,779 | \$ 138,755 | \$ 748,534 |
| Net position, beginning of year | 5,887,031 | 8,568,726 | 14,455,757 |
| Net position, end of year | \$ 6,496,810 | \$ 8,707,481 | \$ 15,204,291 |

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

Fund Financial Statements

Balance Sheet
 Governmental Fund
 As of June 30, 2022

| | General Fund | Capital Projects Fund | Total |
|---|---------------------|--------------------------|---------------------|
| Assets: | | | |
| Cash and cash equivalents | \$ 2,200,409 | \$ 512,613 | \$ 2,713,022 |
| Receivables (net of allowance for uncollectibles): | | | |
| Taxes including penalties | 439,714 | - | 439,714 |
| Accounts | 101,178 | 20,617 | 121,795 |
| Due from other governments | 72,960 | - | 72,960 |
| Due from other funds | 627,890 | - | 627,890 |
| Total assets | <u>\$ 3,442,151</u> | <u>\$ 533,230</u> | <u>\$ 3,975,381</u> |
| Liabilities: | | | |
| Accounts payable | \$ 3,788 | \$ - | \$ 3,788 |
| Accrued liabilities | 34,575 | - | 34,575 |
| Unearned revenue | 407,297 | - | 407,297 |
| Due to other funds | - | 541,420 | 541,420 |
| Total liabilities | <u>\$ 445,660</u> | <u>\$ 541,420</u> | <u>\$ 987,080</u> |
| Deferred Inflows of Resources: | | | |
| Unavailable revenue-property taxes | \$ 363,499 | \$ - | \$ 363,499 |
| Fund Balance: | | | |
| Restricted: | | | |
| Proffers | \$ 5,812 | \$ - | \$ 5,812 |
| Assigned: | | | |
| Debt service | 227,320 | - | 227,320 |
| Events | 45,479 | - | 45,479 |
| Capital asset replacement reserve | 523,686 | - | 523,686 |
| Unassigned | 1,830,695 | (8,190) | 1,822,505 |
| Total fund balance | <u>\$ 2,632,992</u> | <u>\$ (8,190)</u> | <u>\$ 2,624,802</u> |
| Total liabilities, deferred inflows of resources and fund balance | <u>\$ 3,442,151</u> | <u>\$ 533,230</u> | <u>\$ 3,975,381</u> |

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

Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position
As of June 30, 2022

Total net position reported for governmental activities in the statement of net position is different because:

| | | |
|--|----|-----------|
| Total fund balance for governmental fund (Exhibit 3) | \$ | 2,624,802 |
|--|----|-----------|

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

| | | | |
|---|----|------------------|-----------|
| Land | \$ | 973,820 | |
| Construction in progress | | 725,528 | |
| Depreciable capital assets, net of accumulated depreciation | | <u>3,537,487</u> | 5,236,835 |

| | | | |
|---|--|--|---------|
| Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. | | | (8,729) |
|---|--|--|---------|

Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds.

| | | | |
|------------------------------------|----|---------------|---------|
| Unavailable revenue-property taxes | \$ | 12,460 | |
| Net pension asset | | <u>94,119</u> | 106,579 |

Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds.

| | | | |
|-----------------------|----|--------------|--------|
| Pension related items | \$ | 50,802 | |
| OPEB related items | | <u>5,287</u> | 56,089 |

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

| | | | |
|--------------------------|----|--------------------|-------------|
| Compensated absences | \$ | (33,033) | |
| Net OPEB liability | | (14,174) | |
| Premium on bonds payable | | (9,981) | |
| Bonds payable | | <u>(1,346,867)</u> | (1,404,055) |

Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.

| | | | |
|-----------------------|----|----------------|-----------|
| Pension related items | \$ | (104,912) | |
| OPEB related items | | <u>(9,799)</u> | (114,711) |

| | | | |
|---|--|----|-------------------------|
| Total net position of governmental activities | | \$ | <u><u>6,496,810</u></u> |
|---|--|----|-------------------------|

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

Statement of Revenues, Expenditures, and Changes in Fund Balance
 Governmental Fund
 Year Ended June 30, 2022

| | General Fund | Capital Projects Fund | Total |
|---|---------------------|--------------------------|---------------------|
| Revenues: | | | |
| General property taxes | \$ 765,759 | \$ - | \$ 765,759 |
| Other local taxes | 689,787 | - | 689,787 |
| Permits, privilege fees and regulatory licenses | 7,750 | - | 7,750 |
| Revenue from use of money and property | (7,115) | 1,848 | (5,267) |
| Charges for services | 5,064 | - | 5,064 |
| Miscellaneous | 30,460 | - | 30,460 |
| Intergovernmental: | | | |
| Commonwealth | 28,153 | 200,633 | 228,786 |
| Federal | 62,703 | - | 62,703 |
| Total revenues | \$ 1,582,561 | \$ 202,481 | \$ 1,785,042 |
| Expenditures: | | | |
| Current: | | | |
| General government administration | \$ 767,904 | \$ 65,794 | \$ 833,698 |
| Public safety | 15,000 | - | 15,000 |
| Public works | 228,356 | 144,877 | 373,233 |
| Parks, recreation, and cultural | 38,548 | - | 38,548 |
| Community development | 36,845 | - | 36,845 |
| Capital outlay | 27,047 | - | 27,047 |
| Debt service | | | |
| Principal retirement | 129,019 | - | 129,019 |
| Interest and fiscal charges | 26,100 | - | 26,100 |
| Total expenditures | \$ 1,268,819 | \$ 210,671 | \$ 1,479,490 |
| Other financing sources (uses): | | | |
| Transfers in | \$ 120,000 | \$ - | \$ 120,000 |
| Total other financing sources (uses) | \$ 120,000 | \$ - | \$ 120,000 |
| Net change in fund balance | \$ 433,742 | \$ (8,190) | \$ 425,552 |
| Fund balances at beginning of year | 2,199,250 | - | 2,199,250 |
| Fund balances at end of year | <u>\$ 2,632,992</u> | <u>\$ (8,190)</u> | <u>\$ 2,624,802</u> |

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

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
of Governmental Fund to the Statement of Activities
Year Ended June 30, 2022

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

| | | |
|---|----|---------|
| Net change in fund balances - total governmental fund (Exhibit 5) | \$ | 425,552 |
|---|----|---------|

Governmental activities report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the depreciation exceeded capital outlays in the current year.

| | | | |
|----------------------|----|------------------|--------|
| Capital outlay | \$ | 204,574 | |
| Depreciation expense | | <u>(140,216)</u> | 64,358 |

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. The change in unavailable property taxes is reported as revenues in the governmental funds.

| | | | |
|----------------|--|--|---------|
| Property taxes | | | (8,658) |
|----------------|--|--|---------|

The issuance of long-term debt (e.g. bonds, leases, notes payable) provides current financial resources to governmental funds, while the repayment of the principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. A summary of items supporting this adjustment is as follows:

| | | | |
|-------------------------------------|----|--------------|---------|
| Principal retired on long-term debt | \$ | 129,019 | |
| Amortization of bond premium | | <u>1,664</u> | 130,683 |

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. The following is a summary of items supporting this adjustment:

| | | | |
|--------------------------------|----|------------|----------------|
| Change in compensated absences | \$ | (13,911) | |
| Pension expense | | 8,450 | |
| OPEB expense | | 2,464 | |
| Change in interest payable | | <u>841</u> | <u>(2,156)</u> |

| | | |
|---|----|-----------------------|
| Change in net position of governmental activities | \$ | <u><u>609,779</u></u> |
|---|----|-----------------------|

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

Statement of Net Position
 Proprietary Funds
 As of June 30, 2022

| | <u>Enterprise Funds</u> |
|---|-------------------------|
| | <u>Utilities Fund</u> |
| | <u>Totals</u> |
| Assets: | |
| Current assets: | |
| Cash and cash equivalents | \$ 3,293,577 |
| Receivables (net of allowance for uncollectibles) | 119,034 |
| Leases receivables | 64,840 |
| Due from other funds | 1,000 |
| Total current assets | <u>\$ 3,478,451</u> |
| Noncurrent assets: | |
| Net pension asset | \$ 77,007 |
| Leases receivables | 47,142 |
| Land | 154,200 |
| Construction in progress | 71,097 |
| Capital assets, net of accumulated depreciation | 7,751,370 |
| Total noncurrent assets | <u>\$ 8,100,816</u> |
| Total assets | <u>\$ 11,579,267</u> |
| Deferred Outflows of Resources: | |
| OPEB related items | \$ 4,829 |
| Pension related items | 41,511 |
| Deferred charges on refunding | 46,222 |
| Total deferred outflows of resources | <u>\$ 92,562</u> |
| Liabilities: | |
| Current liabilities: | |
| Accounts payable | \$ 3,049 |
| Accrued payroll and related liabilities | 25,570 |
| Accrued interest payable | 22,203 |
| Unearned revenue | 534,665 |
| Due to other funds | 87,470 |
| Customer deposits | 84,432 |
| Current portion of long-term debt | 264,855 |
| Total current liabilities | <u>\$ 1,022,244</u> |
| Noncurrent liabilities: | |
| Compensated absences | \$ 11,986 |
| Net OPEB liability | 12,953 |
| Long-term debt, net of current portion | 1,713,310 |
| Total noncurrent liabilities | <u>\$ 1,738,249</u> |
| Total liabilities | <u>\$ 2,760,493</u> |
| Deferred Inflows of Resources: | |
| OPEB related items | \$ 8,955 |
| Pension related items | 84,320 |
| Lease related items | 110,580 |
| Total deferred inflows of resources | <u>\$ 203,855</u> |
| Net Position: | |
| Net investment in capital assets | \$ 6,044,724 |
| Restricted for Frye Court Service Tax District | 12,736 |
| Unrestricted | 2,650,021 |
| Total net position | <u>\$ 8,707,481</u> |

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

Statement of Revenues, Expenses, and Changes in Net Position
 Proprietary Funds
 Year Ended June 30, 2022

| | <u>Enterprise Funds</u> |
|--|----------------------------|
| | <u>Utilities Fund</u> |
| | <u>Totals</u> |
| Operating revenues: | |
| Charges for services | \$ 1,206,277 |
| Late charges | 16,129 |
| Frye Court Service District tax | 9,071 |
| Bulkwater fees | 21,896 |
| Lease revenue | 119,138 |
| Miscellaneous | 1,787 |
| Total operating revenues | <u>\$ 1,374,298</u> |
| Operating expenses: | |
| Personnel services | \$ 407,673 |
| Contractual services | 116,318 |
| Repairs and maintenance | 222,843 |
| Utilities | 65,730 |
| Communications | 15,871 |
| Insurance | 23,277 |
| Miscellaneous | 41,768 |
| Supplies and equipment | 46,132 |
| Depreciation | 422,354 |
| Total operating expenses | <u>\$ 1,361,966</u> |
| Operating income (loss) | <u>\$ 12,332</u> |
| Nonoperating revenues (expenses): | |
| Interest revenue | \$ (5,512) |
| Federal grant | 135,566 |
| Interest expense | (71,746) |
| Total nonoperating revenues (expenses) | <u>\$ 58,308</u> |
| Income (loss) before contributions | <u>\$ 70,640</u> |
| Capital contributions | \$ 188,115 |
| Transfers out | (120,000) |
| Change in net position | <u>\$ 138,755</u> |
| Net position, beginning of year | <u>8,568,726</u> |
| Net position, end of year | <u><u>\$ 8,707,481</u></u> |

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

Statement of Cash Flows
 Proprietary Funds
 Year Ended June 30, 2022

| | Enterprise Funds |
|---|------------------|
| | Utilities Fund |
| | Totals |
| Cash flows from operating activities: | |
| Receipts from customers | \$ 1,475,187 |
| Payments to and for employees | (503,574) |
| Payments to suppliers | (574,991) |
| Net cash provided by (used for) operating activities | \$ 396,622 |
| Cash flows from capital and related financing activities: | |
| Purchase of capital assets | \$ (214,476) |
| Interest payments on long-term debt | (57,877) |
| Principal payments on long-term debt | (262,431) |
| Capital contributions received | 188,115 |
| Net cash provided by (used for) capital and related financing activities | \$ (346,669) |
| Cash flows from investing activities: | |
| Investment income | \$ (5,512) |
| Cash flows from noncapital financing activities: | |
| Net transfers from (to) other funds | \$ (134,958) |
| Federal grants received | 670,231 |
| Net cash provided (used) by noncapital and related financing activities | \$ 535,273 |
| Net increase (decrease) in cash and cash equivalents | \$ 579,714 |
| Cash and cash equivalents at beginning of year - including restricted | 2,713,863 |
| Cash and cash equivalents at end of year - including restricted | \$ 3,293,577 |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | |
| Operating income (loss) | \$ 12,332 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | |
| Depreciation | 422,354 |
| Changes in operating accounts: | |
| Accounts receivable | 19,436 |
| Leases receivable | 79,653 |
| Prepaid expenses | 10,129 |
| Deferred outflows - GLI OPEB | 435 |
| Deferred outflows - pension | (14,781) |
| Accounts payable and accrued liabilities | (42,052) |
| Compensated absences | (9,776) |
| Net OPEB liability | (10,154) |
| Net pension liability | (80,659) |
| Deferred inflows - GLI OPEB | 7,473 |
| Deferred inflows - pension | 81,487 |
| Deferred inflows - leases | (81,055) |
| Customer deposits | 1,800 |
| Net cash provided by (used for) operating activities | \$ 396,622 |

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

TOWN OF LOVETTSVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2022

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

The Town of Lovettsville, Virginia, is a municipality governed by a six-member Town Council and Mayor. Daily operations are conducted by the Town Manager. The financial statements of the Town of Lovettsville, Virginia have been prepared in conformity with the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board (GASB). The more significant of the government's accounting policies are described below.

B. Government-wide and Fund Financial Statements

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

The statement of net position is designed to display the financial position of the primary government (governmental and business-type activities) and its discretely presented component units. Governments will report all capital assets in the government-wide statement of net position and will report depreciation expense - the cost of "using up" capital assets - in the statement of activities. The net position of a government will be broken down into three categories - 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

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

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

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

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

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Government-Wide Financial Statements

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

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

Governmental Fund Financial Statements

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

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

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

The Capital Projects fund is a governmental fund used to account for capital projects of the general government.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Proprietary Fund Financial Statements

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

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

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses not meeting this definition are reported as non-operating expenses.

The Town reports the following major proprietary fund:

Utilities Fund—accounts for the activities related to the provision of water and sewer services to Town's businesses, residents, schools, and churches. The Town operates and maintains its wells and water distribution system, and its sewer treatment plant and sewer collection system.

D. Assets, Liabilities and Equity

Cash and Cash Equivalents

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

Receivables

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

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

TOWN OF LOVETTSVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2022 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Equity (Continued)

Property Taxes

Real estate taxes are assessed semi-annually by Loudoun County, Virginia, for all property of record as of January 1. Property taxes attach as an enforceable lien on property as of January 1. The Town collects real estate taxes on a semi-annual basis. The portion of the tax receivable that is not collected within 45 days after June 30 is shown as deferred revenue in the fund financial statements. The tax rate assessed for the year ended June 30, 2021, was \$.184 per \$100 valuation. A penalty of 10 percent of the tax is assessed after the applicable payment date.

The taxes receivable balance at June 30, 2022, consists of amounts billed before June 30, 2021. Amounts not yet billed or received Loudoun County, Virginia from the January 1, 2022, levy (due December 5, 2022), are included in due from other governmental units. These items are included in deferred revenue since these taxes are restricted for use until fiscal year 2023.

The Town calculates its allowance for uncollectible delinquent property tax accounts using historical collection data and specific account analysis. No allowance was deemed necessary at June 30, 2022.

Prepaid Items

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

Interfund Receivables and Payables

During the course of operations, transactions occur that may result in amounts owed between funds. Those related to goods and service type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds are eliminated in the Statement of Net Position so that only the net amount is included as internal balances in the governmental activities' column. The Town's General Fund has a due from the Utilities Fund in the amount of \$86,470, and amount due from the Capital Projects Fund of \$541,420 at June 30, 2022.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items owned by the Town), are reported in the applicable governmental or business-type activities columns. In general, the Town defines capital assets as assets with an initial, individual cost of more than \$5,000 (not rounded) and an estimated useful life in excess of one year. Capital assets are carried at historical cost except for donated capital assets that are recorded at their acquisition value at the date of donation.

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

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Equity (Continued)

Government-Wide Statements (Continued)

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

| | |
|----------------------------|-------------|
| Buildings and Improvements | 30-50 years |
| Land Improvements | 20 years |
| Utility System | 25-40 years |
| Machinery and Equipment | 5-10 years |
| Infrastructure | 20-40 years |

Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Compensated Absences

Vested or accumulated vacation leave is reported as an expense in the Statement of Activities and a long-term obligation in the Statement of Net Position. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that is estimated will be paid upon retirement, which is liquidated in the Town general fund. Sick leave is paid upon separation of employment with the Town up to an amount equal to 25 percent of the unused balance.

Unearned Revenue

Unearned revenue is recorded when asset recognition criteria (measurable) have been met, but revenue recognition (available) criteria have not been met.

Long-Term Debt

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

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

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Equity (Continued)

Fund Financial Statements (Continued)

Long-Term Debt (Continued)

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position or balance sheet includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has three items that qualify for reporting in this category. One item is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The other two items are deferred pension and OPEB amounts.

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

Net Position

Government-Wide Statements

Net position is comprised of three components:

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

TOWN OF LOVETTSVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2022 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Equity (Continued)

Fund Balance

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

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

E. Revenues, Expenditures, and Expenses

Governmental Fund Revenues

As mentioned above, governmental fund revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Accordingly, property taxes not collected within 45 days after year-end are reflected unavailable revenues. The Town recognizes sales and utility taxes remitted to the Town as revenues and receivables in the month preceding receipt. Licenses and permits are recorded as revenues when received. Intergovernmental revenues, consisting primarily of Federal, State and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of specific expenditure.

TOWN OF LOVETTSVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2022 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenues, Expenditures, and Expenses (Continued)

Operating Revenues and Expenses

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

Sewer and Water Availability Fees

Sewer and water availability fees are recorded as revenue when received. Fees recorded in the Utilities Fund are shown as capital contributions in the Statement of Revenues, Expenses and Changes in Fund Position. The same fees are presented in the government-wide Statement of Activities as capital grants and contributions. Council has designated that the sewer availability fees will be used to pay debt incurred in building the wastewater treatment plant and other sewer system improvements. The Council has also designated that the water availability fees will be used to pay for future water system improvements.

Expenditures/Expenses

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

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

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

Interfund Transfers

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

Advertising

The Town expenses advertising production costs as they are incurred and advertising communication costs the first time the advertising takes place. Non-reimbursable advertising expenditures in the General Fund were \$6,907, for the year ended June 30, 2022. Advertising expense in the Water and Sewer Fund was \$1,046 for the year ended June 30, 2022.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenues, Expenditures, and Expenses (Continued)

Fringe benefits

Fringe benefits of the Town include:

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

F. Use of Estimates

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

G. Flow Assumption

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

H. Pensions

The Virginia Retirement System (VRS) Political Subdivision Retirement Plan is a multi-employer, agent plan. For purposes of measuring the net pension asset, 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.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Other Postemployment Benefits

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

J. Leases

The Town leases various assets requiring recognition. A lease is a contract that conveys control of the right to use another entity's nonfinancial asset. Lease recognition does not apply to short-term leases, contracts that transfer ownership, leases of assets that are investments, or certain regulated leases.

Lessor

The Town recognizes leases receivable and deferred inflows of resources in the business-type activities fund. At commencement of the lease, the lease receivable is measured at the present value of lease payments expected to be received during the lease term, reduced by any provision for estimated uncollectible amounts. Subsequently, the lease receivable is reduced by principal portion of lease payments received. The deferred inflow of resources is measured at the initial amount of the lease receivable, less lease payments received from the lessee at or before the commencement of the lease term (less any lease incentives).

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Leases (continued)

Key Estimates and Judgements

Lease accounting includes estimates and judgements for determining the (1) rate used to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Town uses the interest rate stated in lease contracts. When the interest rate is not provided or the implicit rate cannot be readily determined, the Town uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease and certain period covered by options to extend to reflect how long the lease is expected to be in effect, with terms and conditions varying by the type of underlying asset.
- Fixed and certain variable payments as well as lease incentives and certain other payments are included in the measurement of the lease receivable.

The Town monitors changes in circumstances that would require a remeasurement or modification of its leases. The Town will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

NOTE 2—STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the General Fund. Amounts shown in the accompanying financial statements as "budget" represent the original and final operating budget for the fiscal year 2022.

B. Excess of Expenditures Over Appropriations

For the year ended June 30, 2022, General Fund expenditures exceeded appropriations in capital outlay by \$659. These over expenditures were funded by lower than anticipated expenditures in capital outlay in general government administration.

TOWN OF LOVETTSVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2022 (Continued)

NOTE 3-DEPOSITS AND INVESTMENTS

Deposits

Below is a summary of the Town's accounts/deposits at June 30, 2022:

| <u>Account</u> | <u>Bank</u> | <u>Carrying Amount</u> | <u>Bank Balance</u> |
|--------------------------------|--------------------------|----------------------------|-------------------------|
| General | | | |
| Checking | Truist | \$ 586,471 | \$ 635,128 |
| Unassigned fund balance | Virginia Investment Pool | 902,194 | 902,194 |
| Capital asset replacement fund | Virginia Investment Pool | 512,613 | 512,613 |
| General ARPA Funds | Virginia Investment Pool | 430,508 | 430,508 |
| General debt reserve | Virginia Investment Pool | 227,320 | 227,320 |
| Proffers reserve | Virginia Investment Pool | 5,812 | 5,812 |
| Checking - Oktoberfest | Truist | 22,417 | 22,746 |
| Events Fund | Virginia Investment Pool | 25,487 | 25,487 |
| Petty cash | N/A | 200 | - |
| Total general government | | <u>\$ 2,713,022</u> | <u>\$ 2,761,808</u> |
| Utilities | | | |
| Checking | Truist | \$ 456,410 | \$ 524,067 |
| Frye Ct District | Virginia Investment Pool | 12,736 | 12,736 |
| Three month reserve fund | Virginia Investment Pool | 375,798 | 375,798 |
| Utility ARPA Funds | Virginia Investment Pool | 573,636 | 573,636 |
| Unrestricted utility | Virginia Investment Pool | 1,561,550 | 1,561,550 |
| Utility debt reserve | Virginia Investment Pool | 313,447 | 313,447 |
| Total business-type | | <u>\$ 3,293,577</u> | <u>\$ 3,361,234</u> |
| Total reporting entity | | <u>\$ 6,006,599</u> | <u>\$ 6,123,042</u> |

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

TOWN OF LOVETTSVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2022 (Continued)

NOTE 3-DEPOSITS AND INVESTMENTS (Continued)

Investments

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper that has received at least two of the following ratings: P-1 by Moody’s Investors Service, Inc.; A-1 by Standard & Poor’s; or F1 by Fitch Ratings, Inc. (Section 2.2-4502), banker’s acceptances, repurchase agreements, and the State Treasurer’s Local Government Investment Pool (LGIP).

Credit Risk of Debt Securities

The Town limits the investments of funds to those with credit ratings of at least Aa3/AA-. The Town’s rated debt investments as of June 30, 2022 were rated by Standard & Poor’s and the ratings are presented below using Standard & Poor’s rating scale.

| Rated Debt Investments' Values | | |
|---|---------------------|---------------------|
| Investment Type | Value | AAAm |
| Virginia Investment Pool - Liquidity pool | \$ 4,941,100 | \$ 4,941,100 |
| Total | <u>\$ 4,941,100</u> | <u>\$ 4,941,100</u> |

Interest Rate Risk

The Town does not have a formal policy relating to interest rate risk.

| Investment Type | Fair Value | 1-3 Years |
|---|---------------------|---------------------|
| Virginia Investment Pool - Liquidity pool | \$ 4,941,100 | \$ 4,941,100 |
| Total | <u>\$ 4,941,100</u> | <u>\$ 4,941,100</u> |

Custodial Credit Risk

The Town’s investments are all insured, registered in the Town’s name and held in an account in the Town’s name, or invested in an external investment pool.

Fair Value Measurements:

Fair value of the Virginia Investment Pool is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Town has measured fair value of the above investments at the net asset value (NAV). The Virginia Investment Pool has a limit of two withdrawals per month.

TOWN OF LOVETTSVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2022 (Continued)

NOTE 4-RECEIVABLES

Receivables as of June 30, 2022, for the government's individual capital projects funds including the applicable allowances for uncollectible accounts, are as follows:

| | <u>General</u> | <u>Capital Projects</u> | <u>Utilities Sewer</u> | <u>Total</u> |
|-----------------------|-------------------|-----------------------------|----------------------------|-------------------|
| Receivables: | | | | |
| Utilities | \$ 1,118 | \$ - | \$ - | \$ 1,118 |
| Meals and occupancy | 14,625 | - | - | 14,625 |
| Accounts | <u>85,435</u> | <u>20,617</u> | <u>119,034</u> | <u>204,469</u> |
| Net total receivables | <u>\$ 101,178</u> | <u>\$ 20,617</u> | <u>\$ 119,034</u> | <u>\$ 220,212</u> |

NOTE 5-DUE FROM OTHER GOVERNMENTAL UNITS

Due from other governmental units consists of the following:

Governmental activities

Commonwealth of Virginia:

Department of Taxation, communication tax
collected for the Town \$ 779

County of Loudoun, Virginia:

Sales tax collected for the Town 67,443

Other taxes collected for the Town 4,534

Auto decals fees collected for the Town 204

Total \$ 72,960

TOWN OF LOVETTSVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2022 (Continued)

NOTE 6—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2022, was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decrease</u> | <u>Ending Balance</u> |
|---|------------------------------|---------------------|-----------------|---------------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 973,820 | \$ - | \$ - | \$ 973,820 |
| Construction in progress | 520,954 | 204,574 | - | 725,528 |
| Total capital assets not being depreciated | <u>\$ 1,494,774</u> | <u>\$ 204,574</u> | <u>\$ -</u> | <u>\$ 1,699,348</u> |
| Capital assets being depreciated | | | | |
| Buildings | \$ 1,060,664 | \$ - | \$ - | \$ 1,060,664 |
| Land improvements | 559,128 | - | - | 559,128 |
| Machinery and equipment | 132,169 | - | - | 132,169 |
| Infrastructure | 2,738,804 | - | - | 2,738,804 |
| Total capital assets being depreciated | <u>\$ 4,490,765</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,490,765</u> |
| Accumulated depreciation | | | | |
| Buildings | \$ 92,541 | \$ 25,866 | \$ - | \$ 118,407 |
| Land improvements | 255,035 | 26,571 | - | 281,606 |
| Machinery and equipment | 75,550 | 12,492 | - | 88,042 |
| Infrastructure | 389,936 | 75,287 | - | 465,223 |
| Total accumulated depreciation | <u>\$ 813,062</u> | <u>\$ 140,216</u> | <u>\$ -</u> | <u>\$ 953,278</u> |
| Total capital assets being depreciated, net | <u>\$ 3,677,703</u> | <u>\$ (140,216)</u> | <u>\$ -</u> | <u>\$ 3,537,487</u> |
| Governmental activities capital assets, net | <u>\$ 5,172,477</u> | <u>\$ 64,358</u> | <u>\$ -</u> | <u>\$ 5,236,835</u> |

TOWN OF LOVETTSVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2022 (Continued)

NOTE 6-CAPITAL ASSETS: (CONTINUED)

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decrease</u> | <u>Ending Balance</u> |
|--|------------------------------|----------------------------|--------------------|----------------------------|
| Business-type Activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 154,200 | \$ - | \$ - | \$ 154,200 |
| Construction in progress | 18,840 | 52,257 | - | 71,097 |
| Total capital assets not being depreciated | <u>\$ 173,040</u> | <u>\$ 52,257</u> | <u>\$ -</u> | <u>\$ 225,297</u> |
| Capital assets being depreciated | | | | |
| Utility system | \$ 14,511,498 | \$ 162,219 | \$ - | \$ 14,673,717 |
| Total capital assets being depreciated | <u>\$ 14,511,498</u> | <u>\$ 162,219</u> | <u>\$ -</u> | <u>\$ 14,673,717</u> |
| Accumulated depreciation | | | | |
| Utility system | \$ 6,499,993 | \$ 422,354 | \$ - | \$ 6,922,347 |
| Total accumulated depreciation | <u>\$ 6,499,993</u> | <u>\$ 422,354</u> | <u>\$ -</u> | <u>\$ 6,922,347</u> |
| Total capital assets being depreciated, net | <u>\$ 8,011,505</u> | <u>\$ (260,135)</u> | <u>\$ -</u> | <u>\$ 7,751,370</u> |
| Business-type activities capital assets, net | <u><u>\$ 8,184,545</u></u> | <u><u>\$ (207,878)</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 7,976,667</u></u> |

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

| | <u>Beginning Balance</u> |
|---|------------------------------|
| Governmental Activities | |
| General government administration | \$ 59,909 |
| Public works | 78,807 |
| Community development | 1,500 |
| Total depreciation expense - governmental activities | <u>\$ 140,216</u> |
| Business-type Activities | |
| Utilities | <u>\$ 422,354</u> |
| Total depreciation expense - business-type activities | <u><u>\$ 422,354</u></u> |

TOWN OF LOVETTSVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2022 (Continued)

NOTE 7-DEFERRED/UNAVAILABLE REVENUE

Unavailable/deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available.

Unavailable Property Tax Revenue - Unavailable revenue representing uncollected tax billings not available for funding of current expenditures totaled \$362,944 (including 2nd half tax billings of \$350,484 not due until December 5) at June 30, 2022.

Prepaid Property Taxes - Property taxes due subsequent to June 30, 2022, but paid in advance by the taxpayers totaled \$555 at June 30, 2022.

NOTE 8-LONG-TERM OBLIGATIONS

A summary of long-term debt activity for the year ended June 30, 2022, is as follows. Additional detailed information is available on the following pages.

| | <u>Beginning Balances</u> | <u>Issuances/ Additions</u> | <u>Retirements/ Reductions</u> | <u>Ending Balances</u> | <u>Due Within One Year</u> |
|--|-------------------------------|---------------------------------|------------------------------------|----------------------------|--------------------------------|
| <u>Government-type activities</u> | | | | | |
| General obligation bonds | \$ 1,475,886 | \$ - | \$ 129,019 | \$ 1,346,867 | \$ 131,595 |
| Premium on bond issuance | 11,645 | - | 1,664 | 9,981 | 1,664 |
| Compensated absences | 22,400 | 7,633 | - | 30,033 | - |
| Net pension liability | 34,872 | 73,178 | 108,050 | - | - |
| Net OPEB liability | 25,288 | 5,505 | 16,619 | 14,174 | - |
| | <u>\$ 1,570,091</u> | <u>\$ 86,316</u> | <u>\$ 255,352</u> | <u>\$ 1,401,055</u> | <u>\$ 133,259</u> |
| <u>Business-type activities</u> | | | | | |
| General obligation and revenue bonds | \$ 1,753,725 | \$ - | \$ 210,316 | \$ 1,543,409 | \$ 215,991 |
| Premium on bond issuance | 106,869 | - | 28,447 | 78,422 | 24,381 |
| Equipment loan | 380,002 | - | 23,668 | 356,334 | 24,483 |
| Compensated absences | 21,762 | - | 9,776 | 11,986 | - |
| Net pension liability | 3,652 | 73,558 | 77,210 | - | - |
| Net OPEB liability | 23,107 | 5,033 | 15,187 | 12,953 | - |
| | <u>\$ 2,289,117</u> | <u>\$ 78,591</u> | <u>\$ 364,604</u> | <u>\$ 2,003,104</u> | <u>\$ 264,855</u> |

TOWN OF LOVETTSVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2022 (Continued)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

Governmental-type activities

Details of long-term obligations:

| | <u>Total Amount</u> | <u>Amount Due Within One Year</u> |
|---|----------------------------|---|
| <u>Direct borrowings and placements</u> | | |
| <u>General Obligation Bond:</u> | | |
| \$1,263,000 General obligation bond issued November 3, 2020 payable in annual principal payments ranging from \$120,000 to \$130,000 and semi-annual interest payments at 1.57 percent with final payment due February 1, 2031. | \$ 1,139,069 | \$ 122,691 |
| | | |
| \$225,000 General obligation bond issued April 24, 2021 payable in semi-annual installments of \$7,487, bearing interest at 2.95 percent. Final payment due April 15, 2040. | <u>207,798</u> | <u>8,904</u> |
| | | |
| Total general obligation bonds | \$ <u>1,346,867</u> | \$ <u>131,595</u> |
| | | |
| Premium on bond issuance | \$ <u>9,981</u> | \$ <u>1,664</u> |
| | | |
| Compensated absences | \$ <u>30,033</u> | \$ <u>-</u> |
| | | |
| Net OPEB liability | \$ <u>14,174</u> | \$ <u>-</u> |
| | | |
| Total governmental activities obligations | \$ <u><u>1,401,055</u></u> | \$ <u><u>133,259</u></u> |

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

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> |
|----------------------------|----------------------------|--------------------------|
| 2023 | \$ 131,595 | \$ 23,953 |
| 2024 | 134,848 | 21,762 |
| 2025 | 137,694 | 19,516 |
| 2026 | 133,527 | 17,219 |
| 2027 | 134,292 | 14,990 |
| 2028-2032 | 569,061 | 40,459 |
| 2033-2037 | 63,322 | 11,547 |
| 2038-2041 | <u>42,528</u> | <u>2,391</u> |
| | | |
| Total | \$ <u><u>1,346,867</u></u> | \$ <u><u>151,837</u></u> |

TOWN OF LOVETTSVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2022 (Continued)

NOTE 8—LONG-TERM OBLIGATIONS (CONTINUED)

Business-type activities

Details of long-term obligations:

| | <u>Total Amount</u> | <u>Amount Due Within One Year</u> |
|--|----------------------------|---|
| <u>Direct borrowings and placements</u> | | |
| <u>General Obligation and Revenue Bonds:</u> | | |
| \$2,005,000 Series 2015A Refunding Revenue bonds issued through Virginia Resource Authority on May 28, 2015, bearing interest at 3.125 percent to 5.125 percent payable in semi-annual installments. Principal payable annually through October 1, 2027. | \$ 1,315,000 | \$ 190,000 |
| \$476,327 Virginia Resource Authority bond issued October 23, 2009, payable in semi-annual installments of \$17,284, bearing interest at 2.65 percent. Final payment due March 1, 2030. | <u>228,409</u> | <u>25,991</u> |
| Total general obligation and revenue bonds | \$ <u>1,543,409</u> | \$ <u>215,991</u> |
| Premium on bond issuance | \$ <u>78,422</u> | \$ <u>24,381</u> |
| <u>Equipment Loan</u> | | |
| \$425,000 Tax-Exempt Lease/Purchase Agreement made on February 15, 2019, payable in semi-annual installments of \$18,220, bearing interest at 3.414 percent. Final payment due February 15, 2034. | \$ <u>356,334</u> | \$ <u>24,483</u> |
| Compensated absences | \$ <u>11,986</u> | \$ <u>-</u> |
| Net OPEB liability | \$ <u>12,953</u> | \$ <u>-</u> |
| Total business-type activities | \$ <u><u>2,003,104</u></u> | \$ <u><u>264,855</u></u> |

TOWN OF LOVETTSVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2022 (Continued)

NOTE 8—LONG-TERM OBLIGATIONS (CONTINUED)

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

| <u>Year Ending June 30</u> | <u>General Obligation Bonds</u> | | <u>Equipment Loan</u> | |
|----------------------------|---------------------------------|-------------------|-----------------------|------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2023 | \$ 215,991 | \$ 63,507 | \$ 24,483 | \$ 11,958 |
| 2024 | 231,684 | 52,692 | 25,325 | 11,115 |
| 2025 | 237,396 | 41,345 | 26,197 | 10,243 |
| 2026 | 253,126 | 29,468 | 27,099 | 9,341 |
| 2027 | 268,877 | 16,802 | 28,033 | 8,408 |
| 2028-2032 | 336,335 | 8,110 | 155,323 | 26,880 |
| 2033-2036 | - | - | 69,874 | 3,007 |
| Total | \$ <u>1,543,409</u> | \$ <u>211,924</u> | \$ <u>356,334</u> | \$ <u>80,952</u> |

NOTE 9—FUND BALANCE AND NET ASSET DESIGNATIONS

Designations segregate portions of the fund balance and net assets that are earmarked for specific purposes. The Town Council and management establish the various designations.

Unassigned fund balance and unrestricted net assets in the Fund Financial Statements are designated as follows:

General Fund

Restricted:

Proffers \$ 5,812

Assigned:

Debt Service 227,320

Events 45,479

Capital asset replacement 523,686

Unassigned 1,830,695

Fund Balance, General Fund \$ 2,632,992

Utilities Fund

TOWN OF LOVETTSVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2022 (Continued)

NOTE 10–LEASES RECEIVABLE:

The Town leases properties to third parties. Lease revenue totaled \$79,653 for the business-type activities for the year ended June 30, 2022. Lease interest revenue totaled \$1,393 for the year ended June 30, 2022. Discount rates vary on lease receivables from 1.00% to 2.00%. The following summaries the balances related to these leases for the year ended June 30, 2022:

| | Business-type Activities |
|--|-------------------------------------|
| AT&T cell tower lease | \$ 6,419 |
| Verizon cell tower lease | 35,451 |
| Verizon cell tower lease (water tower) | 53,367 |
| Sprint cell tower lease | 16,745 |
| Total | <u>\$ 111,982</u> |

NOTE 11–COMPENSATED ABSENCES

The Town has accrued liabilities arising from compensated absences.

Town employees earn annual leave at various rates. Sick leave is paid upon separation of employment with the Town up to an amount equal to 25 percent of the unused balance. Accumulated vacation and annual leave is paid upon termination up to a maximum of 240 hours. The Town’s General fund has outstanding accrued leave pay totaling \$30,033 and the Water and Sewer Fund have outstanding accrued leave pay of \$11,986.

NOTE 12–RISK MANAGEMENT

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

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

NOTE 13—PENSION PLAN

Plan Description

All full-time, salaried permanent employees of the Town are automatically covered by a VRS Retirement Plan upon employment. This is an agent multiple-employer plan 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.

Benefit Structures

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, as detailed below.

- a. Employees with a membership date before July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of service credit or age 50 with at least 30 years of service credit. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit. Hazardous duty employees (law enforcement officers, firefighters, and sheriffs) are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of service credit.
- b. Employees with a membership date from July 1, 2010 to December 31, 2013, that have not taken a refund or employees with a membership date prior to July 1, 2010 and not vested before January 1, 2013, are covered under Plan 2, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit or when the sum of their age plus service credit equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit. Hazardous duty employees are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of service credit.
- c. Non-hazardous duty employees with a membership date on or after January 1, 2014 are covered by the Hybrid Plan combining the features of a defined benefit plan and a defined contribution plan. Plan 1 and Plan 2 members also had the option of opting into this plan during the election window held January 1 - April 30, 2014 with an effective date of July 1, 2014. Employees covered by this plan are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit, or when the sum of their age plus service credit equals 90. Employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit. For the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions.

TOWN OF LOVETTSVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2022 (Continued)

NOTE 13—PENSION PLAN (CONTINUED)

Average Final Compensation and Service Retirement Multiplier

The VRS defined benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the employee's average final compensation multiplied by the employee's total service credit. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.70% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents, and 1.70% or 1.85% for hazardous duty employees as elected by the employer. Under Plan 2, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the retirement multiplier is 1.65% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents, and 1.70% or 1.85% for hazardous duty employees as elected by the employer. Under the Hybrid Plan, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the multiplier 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.

Cost-of-Living Adjustment (COLA) in Retirement and Death and Disability Benefits

Retirees with an unreduced benefit or with a reduced benefit with at least 20 years of service credit are eligible for an annual COLA beginning July 1 after one full calendar year from the retirement date. Retirees with a reduced benefit and who have less than 20 years of service credit are eligible for an annual COLA beginning on July 1 after one calendar year following the unreduced retirement eligibility date. Under Plan 1, the COLA cannot exceed 5.00%. Under Plan 2 and the Hybrid Plan, the COLA cannot exceed 3.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia, as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

Employees Covered by Benefit Terms

As of the June 30, 2020 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

| | Primary Government |
|--|-------------------------------|
| Inactive members or their beneficiaries currently receiving benefits | 1 |
| Inactive members: | |
| Inactive members active elsewhere in VRS | 6 |
| Total inactive members | 6 |
| Active members | 9 |
| Total covered employees | 16 |

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.

TOWN OF LOVETTSVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2022 (Continued)

NOTE 13-PENSION PLAN (CONTINUED)

Contributions

The Town's contractually required employer contribution rate for the year ended June 30, 2022 was 7.24% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$36,922 and \$35,481 for the years ended June 30, 2022 and June 30, 2021, respectively.

Net Pension Asset

The net pension asset (NPA) 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. The Town's net pension asset was measured as of June 30, 2021. The total pension liabilities used to calculate the net pension asset were determined by an actuarial valuation performed as of June 30, 2020 and rolled forward to the measurement date of June 30, 2021.

Actuarial Assumptions - General Employees

The total pension liability for General Employees in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2020, 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, 2021.

| | |
|---------------------------------------|---|
| Inflation | 2.50% |
| Salary increases, including inflation | 3.50% - 5.35% |
| Investment rate of return | 6.75%, net of pension plan investment expenses, including inflation |

Mortality rates:

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

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

TOWN OF LOVETTSVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2022 (Continued)

NOTE 13-PENSION PLAN (CONTINUED)

Actuarial Assumptions - General Employees (Continued)

Mortality rates: (Continued)

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

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

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

| | |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020 |
| Retirement Rates | Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age |
| Withdrawal Rates | Adjusted rates to better fit experience at each age and service decrement through 9 years of service |
| Disability Rates | No change |
| Salary Scale | No change |
| Line of Duty Disability | No change |
| Discount Rate | No change |

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2020, 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, 2021.

| | |
|---------------------------------------|---|
| Inflation | 2.50% |
| Salary increases, including inflation | 3.50% - 4.75% |
| Investment rate of return | 6.75%, net of pension plan investment expenses, including inflation |

TOWN OF LOVETTSVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2022 (Continued)

NOTE 13-PENSION PLAN (CONTINUED)

Mortality rates:

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

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally with a Modified MP-2020 Improvement Scale; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally with a Modified MP-2020 Improvement Scale; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally with a Modified MP-2020 Improvement Scale; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally with a Modified MP-2020 Improvement Scale; 110% of rates for males and females set forward 2 years

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

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

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

| | |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020 |
| Retirement Rates | Adjusted rates to better fit experience and changed final retirement age from 65 to 70 |
| Withdrawal Rates | Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Largest 10 Hazardous Duty |
| Disability Rates | No change |
| Salary Scale | No change |
| Line of Duty Disability | No change |
| Discount Rate | No change |

TOWN OF LOVETTSVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2022 (Continued)

NOTE 13—PENSION PLAN (CONTINUED)

Long-Term Expected Rate of Return

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

| Asset Class (Strategy) | Long-Term Target Asset Allocation | Arithmetic Long-term Expected Rate of Return | Weighted Average Long-term Expected Rate of Return* |
|--------------------------------------|---|--|---|
| Public Equity | 34.00% | 5.00% | 1.70% |
| Fixed Income | 15.00% | 0.57% | 0.09% |
| Credit Strategies | 14.00% | 4.49% | 0.63% |
| Real Assets | 14.00% | 4.76% | 0.67% |
| Private Equity | 14.00% | 9.94% | 1.39% |
| MAPS - Multi-Asset Public Strategies | 6.00% | 3.29% | 0.20% |
| PIP - Private Investment Partnership | 3.00% | 6.84% | 0.21% |
| Total | 100.00% | | 4.89% |
| | | Inflation | 2.50% |
| | | Expected arithmetic nominal return* | 7.39% |

*The above allocation provides a one-year expected return of 7.39%. 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. These results provide a range of returns over various time periods that ultimately provide a median return of 6.94%, including expected inflation of 2.50%.

*On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75% which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; the Town and was also provided with an opportunity to use an alternative employer contribution rate. For the year ended June 30, 2021, the alternate rate was the employer contribution rate used in FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017 actuarial valuations, whichever was greater. Through the fiscal year ended June 30, 2021, the rate contributed

TOWN OF LOVETTSVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2022 (Continued)

NOTE 13—PENSION PLAN (CONTINUED)

Discount Rate

by the school division for the VRS Teacher Retirement Plan was 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, 2021 on, participating employers and school divisions are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset)

| | Primary Government | | |
|---|-----------------------------------|---------------------------------------|---|
| | Increase (Decrease) | | |
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (Asset) (a) - (b) |
| Balances at June 30, 2020 | \$ 598,384 | \$ 559,859 | \$ 38,525 |
| Changes for the year: | | | |
| Service cost | \$ 76,816 | \$ - | \$ 76,816 |
| Interest | 40,362 | - | 40,362 |
| Differences between expected and actual experience | (121,423) | - | (121,423) |
| Assumption changes | 15,535 | - | 15,535 |
| Contributions - employer | - | 34,474 | (34,474) |
| Contributions - employee | - | 23,804 | (23,804) |
| Net investment income | - | 162,986 | (162,986) |
| Benefit payments, including refunds | (860) | (860) | - |
| Administrative expenses | - | (339) | 339 |
| Other changes | - | 16 | (16) |
| Net changes | \$ 10,430 | \$ 220,081 | \$ (209,651) |
| Balances at June 30, 2021 | \$ 608,814 | \$ 779,940 | \$ (171,126) |

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

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

| | Rate | | |
|---------------------------------------|------------------------|-----------------------------|------------------------|
| | 1% Decrease (5.75%) | Current Discount (6.75%) | 1% Increase (7.75%) |
| Town Net Pension Liability (Asset) | \$ (65,330) | \$ (171,126) | \$ (255,888) |

TOWN OF LOVETTSVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2022 (Continued)

NOTE 13—PENSION PLAN (CONTINUED)

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

For the year ended June 30, 2022, the Town recognized pension expense of \$13,511. At June 30, 2022, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Primary Government | |
|--|---|--|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ 23,892 | \$ 93,924 |
| Change in assumptions | 21,236 | 1,705 |
| Net difference between projected and actual earnings on pension plan investments | - | 83,340 |
| Changes in proportion | 10,263 | 10,263 |
| Employer contributions subsequent to the measurement date | 36,922 | - |
| Total | <u>\$ 92,313</u> | <u>\$ 189,232</u> |

\$36,922 was reported as deferred outflows of resources related to pensions resulting from the Town's contributions, respectively, subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2023. 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 | Primary Government |
|---------------------------|-------------------------------|
| 2023 | \$ (37,027) |
| 2024 | (35,166) |
| 2025 | (38,365) |
| 2026 | (23,633) |
| 2027 | 350 |
| Thereafter | - |

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2021 Annual Comprehensive Financial Report (Annual Report). A copy of the 2021 VRS Annual Report may be downloaded from the VRS website at <https://www.varetire.org/pdf/publications/2021-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

NOTE 14–GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN)

Plan Description

The Group Life Insurance (GLI) Plan 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. All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS GLI Plan upon employment. This is a cost-sharing multiple-employer plan 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 GLI benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional GLI Plan. 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 plan, it is not included as part of the GLI Plan OPEB.

The specific information for GLI OPEB, including eligibility, coverage and benefits is described below:

Eligible Employees

The GLI Plan was established July 1, 1960, for state employees, teachers, and employees of political subdivisions that elect the plan. Basic GLI 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 GLI Plan is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the plan provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, seatbelt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts 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. For covered members with at least 30 years of service credit, the minimum benefit payable was set at \$8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$8,722 as of June 30, 2022.

NOTE 14—GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN) (CONTINUED)

Contributions

The contribution requirements for the GLI Plan 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 GLI Plan was 1.34% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.80% (1.34% x 60%) and the employer component was 0.54% (1.34% 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, 2022 was 0.54% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Plan from the entity were \$2,859 and \$2,578 for the years ended June 30, 2022 and June 30, 2021, respectively.

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

At June 30, 2022, the entity reported a liability of \$27,127 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2021 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2020, and rolled forward to the measurement date of June 30, 2021. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Plan for the year ended June 30, 2021, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2021, the participating employer's proportion was .00230% as compared to .00290% at June 30, 2020.

For the year ended June 30, 2022, the participating employer recognized GLI OPEB expense of \$176. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

TOWN OF LOVETTSVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2022 (Continued)

NOTE 14–GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN) (CONTINUED)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Plan OPEB (Continued)

At June 30, 2022, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ 3,094 | \$ 207 |
| Net difference between projected and actual earnings on GLI OPEB plan investments | - | 6,475 |
| Change in assumptions | 1,496 | 3,712 |
| Changes in proportionate share | 2,667 | 8,360 |
| Employer contributions subsequent to the measurement date | <u>2,859</u> | <u>-</u> |
| Total | <u>\$ 10,116</u> | <u>\$ 18,754</u> |

\$2,859 was 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, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

| <u>Year Ended June 30</u> | |
|---------------------------|------------|
| 2023 | \$ (2,272) |
| 2024 | (1,971) |
| 2025 | (1,958) |
| 2026 | (3,452) |
| 2027 | (1,844) |
| Thereafter | - |

TOWN OF LOVETTSVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2022 (Continued)

NOTE 14–GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN) (CONTINUED)

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2020, 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, 2021. The assumptions include several employer groups. Salary increases and mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS Annual Report.

| | |
|--|---|
| Inflation | 2.50% |
| Salary increases, including inflation: | |
| Teachers | 3.50%-5.95% |
| Locality - General employees | 3.50%-5.35% |
| Locality - Hazardous Duty employees | 3.50%-4.75% |
| Investment rate of return | 6.75%, net of investment expenses, including inflation |

Mortality Rates - Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; males set forward 2 years; 105% of rates for females set forward 3 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 95% of rates for males set forward 2 years; 95% of rates for females set forward 1 year

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 110% of rates for males set forward 3 years; 110% of rates for females set forward 2 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

TOWN OF LOVETTSVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2022 (Continued)

NOTE 14–GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN) (CONTINUED)

Actuarial Assumptions: (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - General Employees (Continued)

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

| | |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020 |
| Retirement Rates | Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all |
| Withdrawal Rates | Adjusted rates to better fit experience at each age and service decrement through 9 years of service |
| Disability Rates | No change |
| Salary Scale | No change |
| Line of Duty Disability | No change |
| Discount Rate | No change |

Mortality Rates - Non-Largest Ten Locality Employers - Hazardous Duty Employees

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

TOWN OF LOVETTSVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2022 (Continued)

NOTE 14–GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN) (CONTINUED)

Actuarial Assumptions: (Continued)

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

| | |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020 |
| Retirement Rates | Adjusted rates to better fit experience and changed final retirement age from 65 to 70 |
| Withdrawal Rates | Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Top 10 Hazardous Duty |
| Disability Rates | No change |
| Salary Scale | No change |
| Line of Duty Disability | No change |
| Discount Rate | No change |

NET GLI OPEB Liability

The net OPEB liability (NOL) for the GLI Plan represents the plan’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, 2021, NOL amounts for the GLI Plan are as follows (amounts expressed in thousands):

| | GLI OPEB Plan |
|--|--------------------------|
| Total GLI OPEB Liability | \$ 3,577,346 |
| Plan Fiduciary Net Position | 2,413,074 |
| GLI Net OPEB Liability (Asset) | <u>\$ 1,164,272</u> |
| Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability | 67.45% |

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.

TOWN OF LOVETTSVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2022 (Continued)

NOTE 14—GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN) (CONTINUED)

Long-Term Expected Rate of Return

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

| Asset Class (Strategy) | Long-Term Target Asset Allocation | Arithmetic Long-term Expected Rate of Return | Weighted Average Long-term Expected Rate of Return* |
|--------------------------------------|--|---|---|
| Public Equity | 34.00% | 5.00% | 1.70% |
| Fixed Income | 15.00% | 0.57% | 0.09% |
| Credit Strategies | 14.00% | 4.49% | 0.63% |
| Real Assets | 14.00% | 4.76% | 0.67% |
| Private Equity | 14.00% | 9.94% | 1.39% |
| MAPS - Multi-Asset Public Strategies | 6.00% | 3.29% | 0.20% |
| PIP - Private Investment Partnership | 3.00% | 6.84% | 0.21% |
| Total | 100.00% | | 4.89% |
| | | Inflation | 2.50% |
| | | Expected arithmetic nominal return* | 7.39% |

*The above allocation provides a one-year return of 7.39%. 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. These results provide a range of returns over various time periods that ultimately provide a median return of 6.94%, including expected inflation of 2.50%.

* On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

TOWN OF LOVETTSVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2022 (Continued)

NOTE 14—GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN) (CONTINUED)

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ended June 30, 2021, 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, 2021 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 6.75%, as well as what the employer’s proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

| | Rate | | |
|---|-------------|------------------|-------------|
| | 1% Decrease | Current Discount | 1% Increase |
| | (5.75%) | (6.75%) | (7.75%) |
| Town's proportionate share of the GLI Plan Net OPEB Liability | \$ 39,634 | \$ 27,127 | \$ 17,027 |

GLI Plan Fiduciary Net Position

Detailed information about the GLI Plan’s Fiduciary Net Position is available in the separately issued VRS 2021 Annual Comprehensive Financial Report (Annual Report). A copy of the 2021 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2021-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

TOWN OF LOVETTSVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2022 (Continued)

NOTE 15-ADOPTION OF ACCOUNTING PRINCIPLES

The Town implemented provisions of Governmental Accounting Standards Board Statement No. 87, Leases and 92, Omnibus 2020 during the fiscal year ended June 30, 2022. Statement No. 87, Leases requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Statement No. 92, Omnibus 2020 addresses a variety of topics, including leases. No restatement of beginning net position was required as a result of this implementation. Using the facts and circumstances that existed at the beginning of the year of implementation, the following balances were recognized as of July 1, 2021 related to the leases:

| | <u>Utilities Fund</u> |
|--|----------------------------------|
| Lessor activity: | |
| Lease receivable | \$ 191,635 |
| Deferred inflows of resources - leases | <u>\$ 191,635</u> |

Required Supplementary Information

Note to Required Supplementary Information:

Presented budgets were prepared in accordance with accounting principles generally accepted in the United States of America.

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 General Fund
 Year Ended June 30, 2022

| | Original Budget | Final Budget | Actual | Variance With Final Budget Positive (Negative) |
|---|---------------------|---------------------|---------------------|---|
| Revenues: | | | | |
| General property taxes | \$ 678,897 | \$ 678,897 | \$ 765,759 | \$ 86,862 |
| Other local taxes | 516,000 | 516,000 | 689,787 | 173,787 |
| Permits, privilege fees and regulatory licenses | 2,500 | 2,500 | 7,750 | 5,250 |
| Revenue from use of money and property | 5,700 | 5,700 | (7,115) | (12,815) |
| Charges for services | 3,550 | 3,550 | 5,064 | 1,514 |
| Miscellaneous | 271,907 | 271,907 | 30,460 | (241,447) |
| Intergovernmental: | | | | |
| Commonwealth | 26,200 | 26,200 | 28,153 | 1,953 |
| Federal | 470,000 | 470,000 | 62,703 | (407,297) |
| Total revenues | <u>\$ 1,974,754</u> | <u>\$ 1,974,754</u> | <u>\$ 1,582,561</u> | <u>\$ (392,193)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government administration | \$ 1,312,105 | \$ 1,312,105 | \$ 767,904 | \$ 544,201 |
| Public safety | 15,000 | 15,000 | 15,000 | - |
| Public works | 230,500 | 230,500 | 228,356 | 2,144 |
| Parks, recreation, and cultural | 44,075 | 44,075 | 38,548 | 5,527 |
| Community development | 297,258 | 297,258 | 36,845 | 260,413 |
| Capital outlay | 26,388 | 26,388 | 27,047 | (659) |
| Debt service | | | | |
| Principal retirement | 132,671 | 132,671 | 129,019 | 3,652 |
| Interest and fiscal charges | 34,409 | 34,409 | 26,100 | 8,309 |
| Total expenditures | <u>\$ 2,092,406</u> | <u>\$ 2,092,406</u> | <u>\$ 1,268,819</u> | <u>\$ 823,587</u> |
| Excess (deficiency) of revenues over expenditures | <u>\$ (117,652)</u> | <u>\$ (117,652)</u> | <u>\$ 313,742</u> | <u>\$ 431,394</u> |
| Other financing sources (uses): | | | | |
| Transfers in | \$ 120,000 | \$ 120,000 | \$ 120,000 | \$ - |
| Total other financing sources (uses) | <u>\$ 120,000</u> | <u>\$ 120,000</u> | <u>\$ 120,000</u> | <u>\$ -</u> |
| Net change in fund balances | \$ 2,348 | \$ 2,348 | \$ 433,742 | \$ 431,394 |
| Fund balances at beginning of year | <u>(2,348)</u> | <u>(2,348)</u> | <u>2,199,250</u> | <u>2,201,598</u> |
| Fund balances at end of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,632,992</u> | <u>\$ 2,632,992</u> |

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 Capital Projects Fund
 Year Ended June 30, 2022

| | Original Budget | Final Budget | Actual | Variance With Final Budget Positive (Negative) |
|---|--------------------|--------------------|-------------------|---|
| Revenues: | | | | |
| Revenue from use of money and property | \$ - | \$ - | \$ 1,848 | \$ 1,848 |
| Intergovernmental: | | | | |
| Commonwealth | 588,000 | 588,000 | 200,633 | (387,367) |
| Total revenues | <u>\$ 588,000</u> | <u>\$ 588,000</u> | <u>\$ 202,481</u> | <u>\$ (385,519)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government administration | \$ 365,000 | \$ 365,000 | \$ 65,794 | \$ 299,206 |
| Public works | 308,000 | 308,000 | 144,877 | 163,123 |
| Total expenditures | <u>\$ 673,000</u> | <u>\$ 673,000</u> | <u>\$ 210,671</u> | <u>\$ 462,329</u> |
| Excess (deficiency) of revenues over expenditures | <u>\$ (85,000)</u> | <u>\$ (85,000)</u> | <u>\$ (8,190)</u> | <u>\$ 76,810</u> |
| Other financing sources (uses): | | | | |
| Transfers in | <u>\$ 85,000</u> | <u>\$ 85,000</u> | <u>\$ -</u> | <u>\$ (85,000)</u> |
| Total other financing sources (uses) | <u>\$ 85,000</u> | <u>\$ 85,000</u> | <u>\$ -</u> | <u>\$ (85,000)</u> |
| Net change in fund balances | \$ - | \$ - | \$ (8,190) | \$ (8,190) |
| Fund balances at beginning of year | - | - | - | - |
| Fund balances at end of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (8,190)</u> | <u>\$ (8,190)</u> |

Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
Primary Government
For the Measurement Dates of June 30, 2014 through June 30, 2021

| | 2021 | 2020 | 2019 | 2018 |
|---|---------------------|-------------------|--------------------|--------------------|
| Total pension liability | | | | |
| Service cost | \$ 76,816 | \$ 78,085 | \$ 56,648 | \$ 55,068 |
| Interest | 40,362 | 32,553 | 26,999 | 21,824 |
| Differences between expected and actual experience | (121,423) | 11,468 | 59 | (2,901) |
| Changes of assumptions | 15,535 | - | 18,876 | - |
| Benefit payments | (860) | (11,969) | (68) | (68) |
| Net change in total pension liability | \$ 10,430 | \$ 110,137 | \$ 102,514 | \$ 73,923 |
| Total pension liability - beginning | 598,384 | 488,247 | 385,733 | 311,810 |
| Total pension liability - ending (a) | \$ 608,814 | \$ 598,384 | \$ 488,247 | \$ 385,733 |
| Plan fiduciary net position | | | | |
| Contributions - employer | \$ 34,474 | \$ 29,757 | \$ 29,476 | \$ 27,213 |
| Contributions - employee | 23,804 | 29,043 | 28,734 | 24,801 |
| Net investment income | 162,986 | 9,995 | 30,736 | 26,296 |
| Benefit payments | (860) | (11,969) | (68) | (68) |
| Administrator charges | (339) | (291) | (226) | (179) |
| Other | 16 | (13) | (20) | (26) |
| Net change in plan fiduciary net position | \$ 220,081 | \$ 56,522 | \$ 88,632 | \$ 78,037 |
| Plan fiduciary net position - beginning | 559,859 | 503,337 | 414,705 | 336,668 |
| Plan fiduciary net position - ending (b) | \$ 779,940 | \$ 559,859 | \$ 503,337 | \$ 414,705 |
| Town's net pension liability (asset) - ending (a) - (b) | \$ (171,126) | \$ 38,525 | \$ (15,090) | \$ (28,972) |
| Plan fiduciary net position as a percentage of the total pension liability | 128.11% | 93.56% | 103.09% | 107.51% |
| Covered payroll | \$ 490,074 | \$ 591,279 | \$ 585,180 | \$ 550,620 |
| Town's net pension liability (asset) as a percentage of covered payroll | -34.92% | 6.52% | -2.58% | -5.26% |

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
Primary Government
For the Measurement Dates of June 30, 2014 through June 30, 2021

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| Total pension liability | | | | |
| Service cost | \$ 51,718 | \$ 49,173 | \$ 39,110 | \$ 36,166 |
| Interest | 17,265 | 13,741 | 6,423 | 3,637 |
| Differences between expected and actual experience | 3,739 | (12,577) | 59,014 | - |
| Changes of assumptions | (7,545) | - | - | - |
| Benefit payments | (6) | - | - | - |
| Net change in total pension liability | <u>\$ 65,171</u> | <u>\$ 50,337</u> | <u>\$ 104,547</u> | <u>\$ 39,803</u> |
| Total pension liability - beginning | 246,639 | 196,302 | 91,755 | 51,952 |
| Total pension liability - ending (a) | <u><u>\$ 311,810</u></u> | <u><u>\$ 246,639</u></u> | <u><u>\$ 196,302</u></u> | <u><u>\$ 91,755</u></u> |
| Plan fiduciary net position | | | | |
| Contributions - employer | \$ 27,704 | \$ 30,137 | \$ 26,970 | \$ 23,007 |
| Contributions - employee | 25,290 | 23,400 | 21,041 | 32,974 |
| Net investment income | 34,012 | 5,026 | 7,499 | 15,109 |
| Benefit payments | (6) | - | - | - |
| Administrator charges | (140) | (85) | (53) | (34) |
| Other | (33) | (2) | (1) | 1 |
| Net change in plan fiduciary net position | <u>\$ 86,827</u> | <u>\$ 58,476</u> | <u>\$ 55,456</u> | <u>\$ 71,057</u> |
| Plan fiduciary net position - beginning | 249,841 | 191,365 | 135,909 | 64,852 |
| Plan fiduciary net position - ending (b) | <u><u>\$ 336,668</u></u> | <u><u>\$ 249,841</u></u> | <u><u>\$ 191,365</u></u> | <u><u>\$ 135,909</u></u> |
| Town's net pension liability (asset) - ending (a) - (b) | \$ (24,858) | \$ (3,202) | \$ 4,937 | \$ (44,154) |
| Plan fiduciary net position as a percentage of the total pension liability | 107.97% | 101.30% | 97.48% | 148.12% |
| Covered payroll | \$ 518,076 | \$ 500,141 | \$ 435,845 | \$ 317,750 |
| Town's net pension liability (asset) as a percentage of covered payroll | -4.80% | -0.64% | 1.13% | -13.90% |

Schedule of Employer Contributions
Pension Plans
Years Ended June 30, 2013 through June 30, 2022

| <u>Date</u> | <u>Contractually Required Contribution (1)*</u> | <u>Contributions in Relation to Contractually Required Contribution (2)*</u> | <u>Contribution Deficiency (Excess) (3)</u> | <u>Employer's Covered Payroll (4)</u> | <u>Contributions as a % of Covered Payroll (5)</u> |
|-------------|---|--|---|---|--|
| 2022 | \$ 36,922 | \$ 36,922 | \$ - | \$ 529,388 | 6.97% |
| 2021 | 35,481 | 35,481 | - | 490,074 | 7.24% |
| 2020 | 30,569 | 30,569 | - | 591,279 | 5.17% |
| 2019 | 30,254 | 30,254 | - | 585,180 | 5.17% |
| 2018 | 46,435 | 46,435 | - | 550,620 | 8.43% |
| 2017 | 44,781 | 44,781 | - | 518,076 | 8.64% |
| 2016 | 51,284 | 51,284 | - | 500,141 | 10.25% |
| 2015 | 27,720 | 27,720 | - | 435,845 | 6.36% |

*Excludes contributions (mandatory and match on voluntary) to the defined contribution portion of the Hybrid plan.

Schedule is intended to show information for 10 years. Since 2022 is the eighth year for this presentation, only eight years of data are available. However, additional years be will included as they become available.

Notes to Required Supplementary Information
 Pension Plans
 Year Ended June 30, 2022

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

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

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

| | |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020 |
| Retirement Rates | Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age |
| Withdrawal Rates | Adjusted rates to better fit experience at each age and service decrement through 9 years of service |
| Disability Rates | No change |
| Salary Scale | No change |
| Line of Duty Disability | No change |
| Discount Rate | No change |

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

| | |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020 |
| Retirement Rates | Adjusted rates to better fit experience and changed final retirement age from 65 to 70 |
| Withdrawal Rates | Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Largest 10 Hazardous Duty |
| Disability Rates | No change |
| Salary Scale | No change |
| Line of Duty Disability | No change |
| Discount Rate | No change |

Schedule of Town's Share of Net OPEB Liability
 Group Life Insurance (GLI) Plan
 For the Measurement Dates of June 30, 2017 through June 30, 2021

| Date (1) | Employer's Proportion of the Net GLI OPEB Liability (Asset) (2) | Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) (3) | Employer's Covered Payroll (4) | Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5) | Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6) |
|---------------------|--|---|---|--|--|
| 2021 | 0.0023% | \$ 27,127 | \$ 480,913 | 5.64% | 67.45% |
| 2020 | 0.0029% | 48,396 | 596,601 | 8.11% | 52.64% |
| 2019 | 0.0030% | 49,306 | 593,763 | 8.30% | 52.00% |
| 2018 | 0.0027% | 41,000 | 514,393 | 7.97% | 51.22% |
| 2017 | 0.0029% | 43,000 | 550,620 | 7.81% | 48.86% |

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

Schedule of Employer Contributions
 Group Life Insurance (GLI) Plan
 Years Ended June 30, 2018 through June 30, 2022

| Date | Contractually Required Contribution (1) | Contributions in Relation to Contractually Required Contribution (2) | Contribution Deficiency (Excess) (3) | Employer's Covered Payroll (4) | Contributions as a % of Covered Payroll (5) |
|-------------|--|---|---|---|--|
| 2022 | \$ 2,859 | \$ 2,859 | \$ - | \$ 529,388 | 0.54% |
| 2021 | 2,578 | 2,578 | - | 480,913 | 0.54% |
| 2020 | 3,126 | 3,126 | - | 596,601 | 0.52% |
| 2019 | 3,111 | 3,111 | - | 593,763 | 0.52% |
| 2018 | 2,675 | 2,675 | - | 514,393 | 0.52% |

Schedule is intended to show information for 10 years. Since 2022 is the fifth year for this presentation, only five years of data is available. However, additional years will be included as they become available.

Notes to Required Supplementary Information
 Group Life Insurance (GLI) Plan
 Year Ended June 30, 2022

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

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

Non-Largest Ten Locality Employers - General Employees

| | |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020 |
| Retirement Rates | Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all |
| Withdrawal Rates | Adjusted rates to better fit experience at each age and service decrement through 9 years of service |
| Disability Rates | No change |
| Salary Scale | No change |
| Line of Duty Disability | No change |
| Discount Rate | No change |

Non-Largest Ten Locality Employers - Hazardous Duty Employees

| | |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020 |
| Retirement Rates | Adjusted rates to better fit experience and changed final retirement age from 65 to 70 |
| Withdrawal Rates | Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Top 10 Hazardous Duty |
| Disability Rates | No change |
| Salary Scale | No change |
| Line of Duty Disability | No change |
| Discount Rate | No change |

Other Supplementary Information

Supporting Schedules

Schedule of Revenues - Budget and Actual
 General Fund
 Year Ended June 30, 2022

| Fund, Major and Minor Revenue Source | Original Budget | Final Budget | Actual | Variance with Final Budget- Positive (Negative) |
|--|--------------------|-------------------|-------------------|--|
| General Fund: | | | | |
| Revenue from local sources: | | | | |
| General property taxes: | | | | |
| Real property taxes | \$ 676,794 | \$ 676,794 | \$ 765,759 | \$ 88,965 |
| Penalties | 2,103 | 2,103 | - | (2,103) |
| Total general property taxes | <u>\$ 678,897</u> | <u>\$ 678,897</u> | <u>\$ 765,759</u> | <u>\$ 86,862</u> |
| Other local taxes: | | | | |
| Local sales and use taxes | \$ 223,000 | \$ 223,000 | \$ 301,950 | \$ 78,950 |
| Utility tax | 15,000 | 15,000 | 14,906 | (94) |
| Business license tax | 50,000 | 50,000 | 63,806 | 13,806 |
| Cigarette tax | 23,000 | 23,000 | 22,365 | (635) |
| Bank franchise taxes | 30,000 | 30,000 | 22,356 | (7,644) |
| Meals tax | 135,000 | 135,000 | 213,460 | 78,460 |
| Motor vehicle licenses | 40,000 | 40,000 | 50,944 | 10,944 |
| Total other local taxes | <u>\$ 516,000</u> | <u>\$ 516,000</u> | <u>\$ 689,787</u> | <u>\$ 173,787</u> |
| Permits, privilege fees and regulatory licenses: | | | | |
| Licenses and zoning permits | \$ 2,500 | \$ 2,500 | \$ 7,750 | \$ 5,250 |
| Revenue from use of money and property: | | | | |
| Revenue from use of money | \$ 1,700 | \$ 1,700 | \$ (7,515) | \$ (9,215) |
| Revenue from use of property | 4,000 | 4,000 | 400 | (3,600) |
| Total revenue from use of money and property | <u>\$ 5,700</u> | <u>\$ 5,700</u> | <u>\$ (7,115)</u> | <u>\$ (12,815)</u> |
| Charges for services: | | | | |
| Copier charges | \$ 50 | \$ 50 | \$ - | \$ (50) |
| Engineering | 1,000 | 1,000 | 2,985 | 1,985 |
| Zoning | 2,500 | 2,500 | 2,079 | (421) |
| Total charges for services | <u>\$ 3,550</u> | <u>\$ 3,550</u> | <u>\$ 5,064</u> | <u>\$ 1,514</u> |

Schedule of Revenues - Budget and Actual
 General Fund
 Year Ended June 30, 2022 (Continued)

| Fund, Major and Minor Revenue Source | Original Budget | Final Budget | Actual | Variance with Final Budget- Positive (Negative) |
|---|----------------------------|----------------------------|----------------------------|--|
| General Fund: (continued) | | | | |
| Revenue from local sources: (continued) | | | | |
| Miscellaneous: | | | | |
| Miscellaneous income | \$ 269,197 | \$ 269,197 | \$ 21,994 | \$ (247,203) |
| Donations | 2,710 | 2,710 | 8,466 | 5,756 |
| Total revenue from miscellaneous revenue | <u>\$ 271,907</u> | <u>\$ 271,907</u> | <u>\$ 30,460</u> | <u>\$ (241,447)</u> |
| Total revenue from local sources | <u>\$ 1,478,554</u> | <u>\$ 1,478,554</u> | <u>\$ 1,491,705</u> | <u>\$ 13,151</u> |
| Intergovernmental: | | | | |
| Revenue from the Commonwealth: | | | | |
| Noncategorical aid: | | | | |
| Communication taxes | \$ 12,500 | \$ 12,500 | \$ 9,525 | \$ (2,975) |
| Auto rental | 2,500 | 2,500 | 1,946 | (554) |
| Rolling stock tax | 200 | 200 | 45 | (155) |
| Total noncategorical aid | <u>\$ 15,200</u> | <u>\$ 15,200</u> | <u>\$ 11,516</u> | <u>\$ (3,684)</u> |
| Categorical aid: | | | | |
| Litter control grant | \$ 1,000 | \$ 1,000 | \$ 1,637 | \$ 637 |
| Fire funds | 10,000 | 10,000 | 15,000 | 5,000 |
| Total categorical aid | <u>\$ 11,000</u> | <u>\$ 11,000</u> | <u>\$ 16,637</u> | <u>\$ 5,637</u> |
| Total revenue from the Commonwealth | <u>\$ 26,200</u> | <u>\$ 26,200</u> | <u>\$ 28,153</u> | <u>\$ 1,953</u> |
| Revenue from the Federal government: | | | | |
| Categorical aid: | | | | |
| ARPA funds | \$ 470,000 | \$ 470,000 | \$ 62,703 | \$ (407,297) |
| Total revenue from the Federal government | <u>\$ 470,000</u> | <u>\$ 470,000</u> | <u>\$ 62,703</u> | <u>\$ (407,297)</u> |
| Total General Fund | <u><u>\$ 1,974,754</u></u> | <u><u>\$ 1,974,754</u></u> | <u><u>\$ 1,582,561</u></u> | <u><u>\$ (392,193)</u></u> |

Schedule of Expenditures - Budget and Actual
 General Fund
 Year Ended June 30, 2022

| Fund, Function, Activity and Elements | Original Budget | Final Budget | Actual | Variance with Final Budget- Positive (Negative) |
|---------------------------------------|---------------------|---------------------|-------------------|--|
| General Fund: | | | | |
| General government administration: | | | | |
| Administration: | | | | |
| Administrative salaries | \$ 434,000 | \$ 434,000 | \$ 413,306 | \$ 20,694 |
| Maintenance support | 7,250 | 7,250 | 2,343 | 4,907 |
| Council salaries | 16,000 | 16,000 | 16,207 | (207) |
| Payroll taxes | 35,068 | 35,068 | 35,498 | (430) |
| Health insurance | 72,000 | 72,000 | 32,215 | 39,785 |
| Retirement | 32,970 | 32,970 | 32,913 | 57 |
| Audit | 12,650 | 12,650 | 12,650 | - |
| Legal | 47,100 | 47,100 | 22,191 | 24,909 |
| Consultants | 28,570 | 28,570 | 19,479 | 9,091 |
| Advertising | 8,000 | 8,000 | 6,907 | 1,093 |
| Telephone | 6,600 | 6,600 | 4,441 | 2,159 |
| Postage | 892 | 892 | 617 | 275 |
| Software | 15,950 | 15,950 | 6,116 | 9,834 |
| Website | 28,386 | 28,386 | 23,347 | 5,039 |
| Copier | 5,800 | 5,800 | 3,683 | 2,117 |
| Books and subscriptions | 108 | 108 | 108 | - |
| Office | 17,649 | 17,649 | 17,149 | 500 |
| Snow removal | 1,825 | 1,825 | 1,810 | 15 |
| Landscaping | 5,050 | 5,050 | 4,556 | 494 |
| Repairs and maintenance | 15,562 | 15,562 | 14,339 | 1,223 |
| Education and training | 8,510 | 8,510 | 3,699 | 4,811 |
| Miscellaneous | 2,816 | 2,816 | 2,537 | 279 |
| Total administration | <u>\$ 802,756</u> | <u>\$ 802,756</u> | <u>\$ 676,111</u> | <u>\$ 126,645</u> |
| Buildings and grounds: | | | | |
| Electricity | \$ 5,600 | \$ 5,600 | \$ 5,130 | \$ 470 |
| Utilities | 1,200 | 1,200 | 972 | 228 |
| Total buildings and grounds | <u>\$ 6,800</u> | <u>\$ 6,800</u> | <u>\$ 6,102</u> | <u>\$ 698</u> |
| Other general government: | | | | |
| Bank fees | \$ 1,500 | \$ 1,500 | \$ 1,273 | \$ 227 |
| Tourism and branding | 5,425 | 5,425 | 4,420 | 1,005 |
| Dues | 4,200 | 4,200 | 2,668 | 1,532 |
| Insurance | 13,250 | 13,250 | 13,094 | 156 |
| Code enforcement | 4,000 | 4,000 | 132 | 3,868 |
| Refunds | 1,000 | 1,000 | - | 1,000 |
| Hospitality | 1,500 | 1,500 | 1,401 | 99 |
| ARPA expenses | 471,674 | 471,674 | 62,703 | 408,971 |
| Total other general government | <u>\$ 502,549</u> | <u>\$ 502,549</u> | <u>\$ 85,691</u> | <u>\$ 416,858</u> |
| Total general government | <u>\$ 1,312,105</u> | <u>\$ 1,312,105</u> | <u>\$ 767,904</u> | <u>\$ 544,201</u> |

Schedule of Expenditures - Budget and Actual
General Fund
Year Ended June 30, 2022

| Fund, Function, Activity and Elements | Original Budget | Final Budget | Actual | Variance with Final Budget- Positive (Negative) |
|---------------------------------------|--------------------|-----------------|------------|--|
| General Fund: (Continued) | | | | |
| Public safety: | | | | |
| Other public safety: | | | | |
| Fire fund allocation | \$ 15,000 | \$ 15,000 | \$ 15,000 | \$ - |
| Total public safety | \$ 15,000 | \$ 15,000 | \$ 15,000 | \$ - |
| Public works: | | | | |
| Street lights: | | | | |
| Electricity - street lights | \$ 21,300 | \$ 21,300 | \$ 17,035 | \$ 4,265 |
| Street and road cleaning: | | | | |
| Street signs | \$ 1,200 | \$ 1,200 | \$ 190 | \$ 1,010 |
| Sanitation and waste removal: | | | | |
| Refuse services | \$ 208,000 | \$ 208,000 | \$ 211,131 | \$ (3,131) |
| Total public works | \$ 230,500 | \$ 230,500 | \$ 228,356 | \$ 2,144 |
| Parks, recreation and cultural: | | | | |
| Maintenance | \$ 8,375 | \$ 8,375 | \$ 5,466 | \$ 2,909 |
| Litter grant | 325 | 325 | - | 325 |
| Utilities | 6,200 | 6,200 | 5,213 | 987 |
| Tree support | 3,675 | 3,675 | 3,672 | 3 |
| Supplies and beautification | 25,200 | 25,200 | 23,519 | 1,681 |
| Tools and equipment | 300 | 300 | 678 | (378) |
| Total parks, recreation and cultural | \$ 44,075 | \$ 44,075 | \$ 38,548 | \$ 5,527 |
| Community development: | | | | |
| Planning: | | | | |
| Asset management plan | \$ 10,000 | \$ 10,000 | \$ - | \$ 10,000 |
| Engineering | 19,000 | 19,000 | 6,970 | 12,030 |
| Planning commission salaries | 8,400 | 8,400 | 6,577 | 1,823 |
| Events | 247,583 | 247,583 | 15,342 | 232,241 |
| Miscellaneous | 3,775 | 3,775 | 1,075 | 2,700 |
| Training | 3,000 | 3,000 | 2,200 | 800 |
| Total planning | \$ 291,758 | \$ 291,758 | \$ 32,164 | \$ 259,594 |
| Events: | | | | |
| Love America | \$ 500 | \$ 500 | \$ 402 | \$ 98 |
| Love summer | 3,580 | 3,580 | 2,859 | 721 |
| Love winter | 1,420 | 1,420 | 1,420 | - |
| Total events | \$ 5,500 | \$ 5,500 | \$ 4,681 | \$ 819 |
| Total community development | \$ 297,258 | \$ 297,258 | \$ 36,845 | \$ 260,413 |

Schedule of Expenditures - Budget and Actual
 General Fund
 Year Ended June 30, 2022

| Fund, Function, Activity and Elements | Original Budget | Final Budget | Actual | Variance with Final Budget- Positive (Negative) |
|---|----------------------------|----------------------------|----------------------------|--|
| <u>General Fund: (Continued)</u> | | | | |
| Capital outlay: | | | | |
| Town office expansion | \$ 10,000 | \$ 10,000 | \$ 9,949 | \$ 51 |
| Flagpole project | 825 | 825 | 825 | - |
| Transportation master plan | 563 | 563 | 553 | 10 |
| Grant assistance | 15,000 | 15,000 | 15,720 | (720) |
| Total capital outlay | <u>\$ 26,388</u> | <u>\$ 26,388</u> | <u>\$ 27,047</u> | <u>\$ (659)</u> |
| Debt service: | | | | |
| Principal | \$ 132,671 | \$ 132,671 | \$ 129,019 | \$ 3,652 |
| Interest | 34,409 | 34,409 | 26,100 | 8,309 |
| Total debt service | <u>\$ 167,080</u> | <u>\$ 167,080</u> | <u>\$ 155,119</u> | <u>\$ 11,961</u> |
| Total General Fund | <u><u>\$ 2,092,406</u></u> | <u><u>\$ 2,092,406</u></u> | <u><u>\$ 1,268,819</u></u> | <u><u>\$ 823,587</u></u> |
| <u>Capital Projects Fund:</u> | | | | |
| General government administration: | | | | |
| Town Square Improvements | \$ 5,000 | \$ 5,000 | \$ 5,000 | \$ - |
| Broad Way Improvements | 360,000 | 360,000 | 60,794 | 299,206 |
| Total general government administration | <u>\$ 365,000</u> | <u>\$ 365,000</u> | <u>\$ 65,794</u> | <u>\$ 299,206</u> |
| Public works: | | | | |
| Street lights: | | | | |
| VDOT | \$ - | \$ - | \$ 1,097 | \$ (1,097) |
| Loudoun Street Improvements | 80,000 | 80,000 | 80,000 | - |
| S Church Street Improvements | 228,000 | 228,000 | 63,780 | 164,220 |
| Total public works | <u>\$ 308,000</u> | <u>\$ 308,000</u> | <u>\$ 144,877</u> | <u>\$ 163,123</u> |
| Total Capital Projects Fund | <u><u>\$ 673,000</u></u> | <u><u>\$ 673,000</u></u> | <u><u>\$ 210,671</u></u> | <u><u>\$ 462,329</u></u> |

Compliance



Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

**To the Honorable Town Council
Town of Lovettsville, Virginia**

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the financial statements of the governmental activities, the business-type activities, and each major fund of Town of Lovettsville, Virginia, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Town of Lovettsville, Virginia's basic financial statements, and have issued our report thereon dated February 23, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Lovettsville, Virginia's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Lovettsville, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Lovettsville, 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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2022-001 and 2022-002 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Lovettsville, 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Lovettsville, Virginia's Response to Findings

Town of Lovettsville, Virginia's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Town of Lovettsville, Virginia's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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

Charlottesville, Virginia
February 23, 2023

TOWN OF LOVETTSVILLE, VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2022

FINDINGS - FINANCIAL STATEMENT

A. Material Weaknesses in Internal Control

2022-001 Accounting Assistance

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

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

Cause: The cause of this condition is the Town did not employ any full-time employees skilled in governmental accounting standards during the fiscal year.

Effect: There is a reasonable possibility that a misstatement of the entity's financial statements would not have been prevented or detected and corrected by the Town's internal controls over financial reporting.

Recommendation: The recommendation is for the Town to employ a full-time employee or consultant to provide basic accounting assistance such as reconciling certain accounts, maintaining depreciation schedules, and proposing journal entries.

Management's response: Management has hired a full-time Treasurer to provide basic accounting assistance such as reconciling certain accounts, maintaining depreciation schedules, and proposing journal entries.

2022-002 Financial Statement Presentation

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

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

Cause: The cause of this condition is the Town did not employ any full-time employees skilled in preparing the financial statements in accordance with generally accepted accounting standards.

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

Recommendation: The recommendation is for the Town to employ a full-time employee or consultant to provide knowledge and expertise in preparing the Town's financial statements in accordance with generally accepted accounting principles.

Management's response: Management has hired a full-time Treasurer to assist in preparing the Town's financial statements.