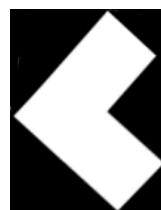


Town of Brookneal, Virginia
Comprehensive Annual Financial Report
Year Ended June 30, 2021



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

Town of Brookneal, Virginia

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Brookneal, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Brookneal, Virginia, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town of Brookneal, Virginia's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Brookneal, Virginia, as of June 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension and OPEB funding on pages 1-7, 61-63, and 64-74 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2022, on our consideration of the Town of Brookneal, 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 Brookneal, Virginia's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Brookneal, Virginia's internal control over financial reporting and compliance.

Creedle, Jones & Associates, P.C.

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

South Hill, Virginia
March 9, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Town of Brookneal, Virginia presents the following discussion and analysis as an overview of the Town of Brookneal, Virginia's financial activities for the fiscal year ending June 30, 2021. We encourage readers to read this discussion and analysis in conjunction with the Town's basic financial statements.

Financial Highlights

- At the close of the fiscal year, the assets and deferred outflows of resources of the Town's governmental activities exceeded its liabilities and deferred inflows of resources by \$1,616,173. Of this amount, \$1,046,490 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors. For the business-type activities, the assets and deferred outflows of resources exceeded the liabilities and deferred inflows of resources by \$5,680,753 with an unrestricted balance of \$237,623.
- The Town's total net position decreased by \$242,763 during the current fiscal year. Of this amount, an increase of \$57,292 is related to governmental activities and a decrease of \$300,055 is attributed to business-type activities.
- As of June 30, 2021, the Town's Governmental Funds reported combined ending fund balances of \$1,343,235, an increase of \$102,575 in comparison with the prior year. Approximately 97.93% of this amount is available for spending at the Town's discretion (unassigned fund balance).
- At the end of fiscal year 2021, the general fund unassigned fund balance was \$1,315,445, or approximately 142.62% of total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

The Town has two types of funds:

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

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

Notes to the Basic Financial Statements

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

Other

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

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

Summary of Net Position

As of June 30, 2021 and 2020

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Assets						
Current and other assets	\$ 1,808,470	\$ 1,263,804	\$ 512,245	\$ 549,588	\$ 2,320,715	\$ 1,813,392
Capital assets (net)	<u>569,683</u>	<u>575,413</u>	<u>6,361,370</u>	<u>6,566,300</u>	<u>6,931,053</u>	<u>7,141,713</u>
Total Assets	2,378,153	1,839,217	6,873,615	7,115,888	9,251,768	8,955,105
Deferred Outflows of Resources	<u>64,194</u>	<u>57,952</u>	<u>42,795</u>	<u>38,634</u>	<u>106,989</u>	<u>96,586</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 2,442,347</u>	<u>\$ 1,897,169</u>	<u>\$ 6,916,410</u>	<u>\$ 7,154,522</u>	<u>\$ 9,358,757</u>	<u>\$ 9,051,691</u>
Liabilities						
Other liabilities	\$ 458,079	\$ 15,408	\$ 75,530	\$ 19,719	\$ 533,609	\$ 35,127
Long-term liabilities	<u>366,583</u>	<u>304,234</u>	<u>1,159,694</u>	<u>1,142,039</u>	<u>1,526,277</u>	<u>1,446,273</u>
Total Liabilities	824,662	319,642	1,235,224	1,161,758	2,059,886	1,481,400
Deferred Inflows of Resources	1,512	18,646	433	11,956	1,945	30,602
Net Position						
Net investment in capital assets	<u>569,683</u>	575,413	<u>5,443,130</u>	5,631,415	<u>6,012,813</u>	6,206,828
Unrestricted	<u>1,046,490</u>	<u>983,468</u>	<u>237,623</u>	<u>349,393</u>	<u>1,284,113</u>	<u>1,332,861</u>
Total Net Position	<u>1,616,173</u>	<u>1,558,881</u>	<u>5,680,753</u>	<u>5,980,808</u>	<u>7,296,926</u>	<u>7,539,689</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 2,442,347</u>	<u>\$ 1,897,169</u>	<u>\$ 6,916,410</u>	<u>\$ 7,154,522</u>	<u>\$ 9,358,757</u>	<u>\$ 9,051,691</u>

Statement of Activities

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

Summary of Changes in Net Position

For the Fiscal Years Ended June 30, 2021 and 2020

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Revenues						
Program Revenues						
Charges for services	\$ 26,093	\$ 28,132	\$ 414,981	\$ 406,088	\$ 441,074	\$ 434,220
Operating grants and contributions	195,579	109,449	63,170	48,000	258,749	157,449
General Revenues						
General property taxes, real and personal	169,506	167,786	-	-	169,506	167,786
Other taxes	424,995	366,354	-	-	424,995	366,354
Grants and contributions not restricted to specific programs	47,356	50,937	-	-	47,356	50,937
Unrestricted revenues from use of money and property	19,357	21,222	15,536	12,236	34,893	33,458
Miscellaneous	16,334	7,094	143,118	8,339	159,452	15,433
Total Revenues	899,220	750,974	636,805	474,663	1,536,025	1,225,637
Expenses						
General government administration	234,757	218,729	-	-	234,757	218,729
Public safety	212,933	218,763	-	-	212,933	218,763
Public works	357,209	230,240	-	-	357,209	230,240
Parks, recreation, and cultural	34,941	27,734	-	-	34,941	27,734
Community development	-	14,819	-	-	-	14,819
Debt service	2,088	-	-	-	2,088	-
Water and sewer	-	-	936,860	660,985	936,860	660,985
Total Expenses	841,928	710,285	936,860	660,985	1,778,788	1,371,270
Change in net position before transfers	57,292	40,689	(300,055)	(186,322)	(242,763)	(145,633)
Transfers in (out)	-	-	-	-	-	-
Change in Net Position	57,292	40,689	(300,055)	(186,322)	(242,763)	(145,633)
Beginning Net Position	1,558,881	1,518,192	5,980,808	6,167,130	7,539,689	7,685,322
Ending Net Position	\$ 1,616,173	\$ 1,558,881	\$ 5,680,753	\$ 5,980,808	\$ 7,296,926	\$ 7,539,689

Governmental activities increased the Town's net position by \$57,292 for fiscal year 2021. Revenues from governmental activities totaled \$899,220. Other taxes comprise the largest source of these revenues, totaling \$424,995 or 47.26% of all governmental activities revenue. Operating grants and contributions are the second largest source of revenues, totaling \$195,579.

The total cost of all governmental activities for this fiscal year was \$841,928. Public works was the Town's largest program with expenses totaling \$357,209. General government administration, which totals \$234,757, represents the second largest expense.

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

Net Cost of Governmental Activities

For the Fiscal Years Ended June 30, 2021 and 2020

	<u>2021</u>		<u>2020</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
General government administration	\$ 234,757	\$ (234,757)	\$ 218,729	\$ (218,729)
Public safety	212,933	(90,651)	218,763	(173,605)
Public works	357,209	(257,819)	230,240	(202,636)
Parks, recreation, and cultural	34,941	(34,941)	27,734	(27,734)
Community development	-	-	14,819	50,000
Debt service	<u>2,088</u>	<u>(2,088)</u>	-	-
Total	<u>\$ 841,928</u>	<u>\$ (620,256)</u>	<u>\$ 710,285</u>	<u>\$ (572,704)</u>

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. Unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year. The Town's governmental funds reported combined ending fund balances of \$1,343,235. The combined governmental fund balance increased \$57,292 from the prior year.

The General Fund is the main operating fund of the Town. At the end of the current fiscal year, the General Fund had an unassigned fund balance of \$1,315,445. The General Fund's liquidity can be measured by comparing unassigned fund balance to total fund expenditures. Unassigned fund balance represents 142.62% of total fund expenditures.

BUDGETARY HIGHLIGHTS

General Fund

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

Budgetary Comparison

General Fund

For the Fiscal Years Ended June 30, 2021 and 2020

	<u>2021</u>			<u>2020</u>		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Revenues						
Taxes	\$ 196,114	\$ 169,201	\$ 170,235	\$ 198,389	\$ 198,389	\$ 170,365
Other	431,375	415,826	486,753	426,882	426,882	421,647
Intergovernmental	<u>52,400</u>	<u>243,319</u>	<u>242,935</u>	<u>52,207</u>	<u>52,207</u>	<u>160,386</u>
Total	679,889	828,346	899,923	677,478	677,478	752,398
Expenditures	<u>674,310</u>	<u>814,776</u>	<u>922,374</u>	<u>677,478</u>	<u>677,478</u>	<u>855,153</u>
Excess (Deficiency) of Revenues over Expenditures	5,579	13,570	(22,451)	-	-	(102,755)
Other Financing Sources (Uses)						
Contingency/surplus	(5,579)	(13,570)	-	-	-	-
Proceeds from loans	-	-	125,000	-	-	-
Total	<u>(5,579)</u>	<u>(13,570)</u>	<u>125,000</u>	-	-	-
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 102,549</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (102,755)</u>

There were budget amendments during the fiscal year.

Actual revenues were more than final budget amounts by \$71,577, or 8.64%, while actual expenditures were \$107,598, or 13.21% more than final budget amounts.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

As of June 30, 2021, the Town's governmental activities net capital assets total \$569,683, which represents a net decrease of \$5,730 or 1.00% over the previous fiscal year-end balance. The business-type activities net capital assets total \$6,361,370, a decrease of \$204,930 or 3.12% over the previous fiscal year as summarized in the following table:

Change in Capital Assets

Governmental Activities

	<u>Balance July 1, 2020</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2021</u>
Land	\$ 180,088	\$ -	\$ 180,088
Buildings and improvements	691,092	10,402	701,494
Machinery and equipment	765,010	(50,166)	714,844
Public domain infrastructure	<u>164,920</u>	<u>-</u>	<u>164,920</u>
Total Capital Assets	1,801,110	(39,764)	1,761,346
Less: Accumulated depreciation	<u>(1,225,697)</u>	<u>34,034</u>	<u>(1,191,663)</u>
Total Capital Assets, Net	<u>\$ 575,413</u>	<u>\$ (5,730)</u>	<u>\$ 569,683</u>

Business-Type Activities

	<u>Balance July 1, 2020</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2021</u>
Land	\$ 22,129	\$ -	\$ 22,129
Infrastructure	<u>10,385,023</u>	<u>(13,965)</u>	<u>10,371,058</u>
Total Capital Assets	10,407,152	(13,965)	10,393,187
Less: Accumulated depreciation and amortization	<u>(3,840,852)</u>	<u>(190,965)</u>	<u>(4,031,817)</u>
Total Capital Assets, Net	<u>\$ 6,566,300</u>	<u>\$ (204,930)</u>	<u>\$ 6,361,370</u>

Long-Term Debt

As of June 30, 2021, the Town's long-term obligations total \$939,431.

	<u>Balance July 1, 2020</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2021</u>
Governmental Activities			
Long-term debt	\$ 12,414	\$ 2,060	\$ 14,474
Business-Type Activities			
Long-term debt	<u>947,493</u>	<u>(22,536)</u>	<u>924,957</u>
Total Primary Government	<u>\$ 959,907</u>	<u>\$ (20,476)</u>	<u>\$ 939,431</u>

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Town's elected and appointed officials considered many factors when setting the fiscal-year 2022 budget.

The average unemployment rate for the Town of Brookneal, Virginia in June 2021 which uses Campbell County's rate, was 4.6%. This compares unfavorably to the state's rate of 4.5% and favorably to the national rate of 6.1%.

According to the 2020 U.S. Census, the population in the Town of Brookneal, Virginia was 1080.

These rates along with other indicators were taken into account when adopting the General Fund budget for 2022, which accounts for most of the Town's operational costs. The fiscal year 2022 adopted budget anticipates General Fund revenues and expenditures to be \$691,175, a 1.66% increase over the fiscal year 2021 original budget.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. Questions concerning this report or requests for additional information should be directed to Bobbie Waller, Clerk/Treasurer, Town of Brookneal, Virginia, P. O. Box 450, Brookneal, Virginia 24528, telephone 434-376-3124, or visit the Town's website at www.townofbrookneal.com.

BASIC FINANCIAL STATEMENTS

Town of Brookneal, Virginia

Statement of Net Position

At June 30, 2021

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 1,753,575	\$ 452,335	\$ 2,205,910
Receivables, net	48,695	59,910	108,605
Due from other governments	6,200	-	6,200
Capital Assets			
Land and land improvements	180,088	22,129	202,217
Other capital assets, net of accumulated depreciation	389,595	6,339,241	6,728,836
Capital Assets, Net	<u>569,683</u>	<u>6,361,370</u>	<u>6,931,053</u>
Total Assets	2,378,153	6,873,615	9,251,768
Deferred Outflows of Resources			
Pension	58,951	39,300	98,251
Other post-employment benefits - GLI	4,784	3,187	7,971
Other post-employment benefits - VLDP	459	308	767
Total Deferred Outflows of Resources	<u>64,194</u>	<u>42,795</u>	<u>106,989</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 2,442,347</u>	<u>\$ 6,916,410</u>	<u>\$ 9,358,757</u>
Liabilities			
Accounts payable and accrued expenses	\$ 27,957	\$ 29,075	\$ 57,032
Customer deposits	-	13,039	13,039
Unearned grants	430,122	33,416	463,538
Long-Term Liabilities			
<i>Due within one year</i>			
Bonds, loans, and other	1,447	17,392	18,839
<i>Due in more than one year</i>			
Bonds, loans, and capital leases payable	-	900,848	900,848
Compensated absences	13,027	6,717	19,744
Net pension liability	335,068	223,378	558,446
Other post-employment benefits	17,041	11,359	28,400
Total Liabilities	<u>824,662</u>	<u>1,235,224</u>	<u>2,059,886</u>
Deferred Inflows of Resources			
Unavailable revenue - property taxes	860	-	860
Pension	-	-	-
Other post-employment benefits - GLI	505	336	841
Other post-employment benefits - VLDP	147	97	244
Total Deferred Inflows of Resources	<u>1,512</u>	<u>433</u>	<u>1,945</u>
Net Position			
Net investment in capital assets	569,683	5,443,130	6,012,813
Unrestricted	1,046,490	237,623	1,284,113
Total Net Position	<u>1,616,173</u>	<u>5,680,753</u>	<u>7,296,926</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 2,442,347</u>	<u>\$ 6,916,410</u>	<u>\$ 9,358,757</u>

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

Town of Brookneal, Virginia

Statement of Activities

For the Year Ended June 30, 2021

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Governmental Activities	Business-Type Activities	Total
Primary Government						
Governmental Activities						
General government administration	\$ 234,757	\$ -	\$ -	\$ (234,757)		\$ (234,757)
Public safety	212,933	185	122,097	(90,651)		(90,651)
Public works	357,209	25,908	73,482	(257,819)		(257,819)
Parks, recreation, and cultural	34,941	-	-	(34,941)		(34,941)
Debt service	2,088	-	-	(2,088)		(2,088)
Total Governmental Activities	841,928	26,093	195,579	(620,256)		(620,256)
Business-Type Activities						
Water Fund	644,061	247,986	31,585		\$ (364,490)	(364,490)
Sewer Fund	292,799	166,995	31,585		(94,219)	(94,219)
Total Business-Type Activities	936,860	414,981	63,170		(458,709)	(458,709)
Total Primary Government	\$ 1,778,788	\$ 441,074	\$ 258,749			(1,078,965)
General Revenues						
Taxes						
General property taxes, real and personal				169,506	-	169,506
Other local taxes				424,995	-	424,995
Grants and contributions not restricted to specific programs				47,356	-	47,356
Unrestricted revenues from use of money and property				19,357	15,536	34,893
Miscellaneous				16,334	143,118	159,452
Transfers				-	-	-
Total General Revenues and Transfers				677,548	158,654	836,202
Change in Net Position				57,292	(300,055)	(242,763)
Net Position - Beginning of Year				1,558,881	5,980,808	7,539,689
Net Position - End of Year				\$ 1,616,173	\$ 5,680,753	\$ 7,296,926

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

Town of Brookneal, Virginia

Balance Sheet

Governmental Funds

At June 30, 2021

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 1,725,785	\$ 27,790	\$ 1,753,575
Property taxes receivable, net	8,822	-	8,822
Accounts receivable	39,873	-	39,873
Due from other governments	<u>6,200</u>	<u>-</u>	<u>6,200</u>
Total Assets	<u>\$ 1,780,680</u>	<u>\$ 27,790</u>	<u>\$ 1,808,470</u>
Liabilities			
Accounts payable and accrued liabilities	\$ 27,957	\$ -	\$ 27,957
Unearned grants	<u>430,122</u>	<u>-</u>	<u>430,122</u>
Total Liabilities	458,079	-	458,079
Deferred Inflows of Resources			
Property taxes	<u>7,156</u>	<u>-</u>	<u>7,156</u>
Total Deferred Inflows of Resources	7,156	-	7,156
Fund Balance			
Restricted	-	27,790	27,790
Unassigned	<u>1,315,445</u>	<u>-</u>	<u>1,315,445</u>
Total Fund Balance	<u>1,315,445</u>	<u>27,790</u>	<u>1,343,235</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 1,780,680</u>	<u>\$ 27,790</u>	<u>\$ 1,808,470</u>

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

Town of Brookneal, Virginia

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

At June 30, 2021

Total Fund Balances for Governmental Funds		\$ 1,343,235
Total net position reported for governmental activities in the Statement of Net Position is different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	\$ 180,088	
Buildings and improvements, net of accumulated depreciation	92,116	
Infrastructure, net of accumulated depreciation	364	
Furniture, equipment, and vehicles, net of accumulated depreciation	<u>297,115</u>	
Total Capital Assets		569,683
Other assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds financial statements.		
Unavailable revenue - taxes		6,296
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources related to pensions	58,951	
Deferred outflows of resources related to OPEB	5,243	
Deferred inflows of resources related to pensions	-	
Deferred inflows of resources related to OPEB	<u>(652)</u>	
Total Deferred Outflows and Inflows of Resources		63,542
Liabilities applicable to the Town's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities.		
Balances of long-term liabilities affecting net position are as follows:		
Compensated absences	(14,474)	
Net pension (liability) asset	(335,068)	
Net OPEB (obligation) asset	<u>(17,041)</u>	
		<u>(366,583)</u>
Total		<u>\$ 1,616,173</u>

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

Town of Brookneal, Virginia

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2021

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
Revenues			
Property taxes	\$ 170,235	\$ -	\$ 170,235
Other local taxes	424,995	-	424,995
Fines and forfeitures	185	-	185
Use of money and property	19,331	26	19,357
Charges for services	25,908	-	25,908
Miscellaneous	16,334	-	16,334
<i>Intergovernmental</i>			
Revenue from the Commonwealth of Virginia	99,929	-	99,929
Revenue from the Federal Government	<u>143,006</u>	<u>-</u>	<u>143,006</u>
Total Revenues	899,923	26	899,949
Expenditures			
General government administration	246,399	-	246,399
Public safety	216,329	-	216,329
Public works	297,617	-	297,617
Parks, recreation, and cultural	34,941	-	34,941
Debt service	<u>127,088</u>	<u>-</u>	<u>127,088</u>
Total Expenditures	<u>922,374</u>	<u>-</u>	<u>922,374</u>
Excess (Deficiency) of Revenues Over Expenditures	(22,451)	26	(22,425)
Other Financing Sources (Uses)			
Proceeds from loans	<u>125,000</u>	<u>-</u>	<u>125,000</u>
Total Other Financing Sources (Uses)	<u>125,000</u>	<u>-</u>	<u>125,000</u>
Net Change in Fund Balance	102,549	26	102,575
Fund Balance - Beginning of Year	<u>1,212,896</u>	<u>27,764</u>	<u>1,240,660</u>
Fund Balance - End of Year	<u>\$ 1,315,445</u>	<u>\$ 27,790</u>	<u>\$ 1,343,235</u>

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

Town of Brookneal, Virginia

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

Year Ended June 30, 2021

Net Change in Fund Balances - Total Governmental Funds \$ 102,575

**Amounts reported for governmental activities in the Statement of Activities
are different because:**

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Net capital outlays and dispositions of assets	\$ 55,099	
Depreciation	<u>(60,829)</u>	(5,730)

Revenue in the Statement of Activities that do not provide current financial resources are deferred in the fund statements. This amount represents the difference in the amounts deferred in the fund financial statement, but recognized in the Statement of Activities. (729)

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

Net pension liability	(58,378)	
Net other-post employment benefits liability	(1,911)	
Deferred inflows - pension	16,971	
Deferred inflows - OPEB	312	
Deferred outflows - pension	4,610	
Deferred outflows - OPEB	<u>1,632</u>	
Net Adjustment		(36,764)

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

Compensated absences	<u>(2,060)</u>	
Net Adjustment		<u>(2,060)</u>

Change in Net Position of Governmental Activities \$ 57,292

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

Town of Brookneal, Virginia

Statement of Net Position

Proprietary Funds

At June 30, 2021

	Business-Type Activities - Enterprise Funds		Total
	Water Fund	Sewer Fund	
Assets			
Current Assets			
Cash and investments	\$ 405,497	\$ 46,838	\$ 452,335
Receivables	35,946	23,964	59,910
Total Current Assets	441,443	70,802	512,245
Noncurrent Assets			
Capital assets, net	5,593,778	767,592	6,361,370
Total Noncurrent Assets	5,593,778	767,592	6,361,370
Total Assets	6,035,221	838,394	6,873,615
Deferred Outflows of Resources			
Pension	23,580	15,720	39,300
Other post-employment benefits - GLI	1,912	1,275	3,187
Other post-employment benefits - VLDP	185	123	308
Total Deferred Outflows of Resources	25,677	17,118	42,795
Total Assets and Deferred Outflows of Resources	\$ 6,060,898	\$ 855,512	\$ 6,916,410
Liabilities			
Current Liabilities			
Accounts payable and accrued expenses	\$ 17,446	\$ 11,629	\$ 29,075
Short-term portion of debt	17,392	-	17,392
Total Current Liabilities	34,838	11,629	46,467
Noncurrent Liabilities			
Customer deposits	13,039	-	13,039
Unearned grants	20,050	13,366	33,416
Compensated absences	3,546	3,171	6,717
Net pension liability	134,027	89,351	223,378
Other post-employment benefits	6,816	4,543	11,359
Long-term debt	900,848	-	900,848
Total Noncurrent Liabilities	1,078,326	110,431	1,188,757
Total Liabilities	1,113,164	122,060	1,235,224
Deferred Inflows of Resources			
Pension	-	-	-
Other post-employment benefits - GLI	202	134	336
Other post-employment benefits - VLDP	58	39	97
Total Deferred Inflows of Resources	260	173	433
Net Position			
Net investment in capital assets	4,675,538	767,592	5,443,130
Unrestricted (Deficit)	271,936	(34,313)	237,623
Total Net Position	4,947,474	733,279	5,680,753
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 6,060,898	\$ 855,512	\$ 6,916,410

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

Town of Brookneal, Virginia

Statement of Revenues, Expenses, and Changes in Net Position

Proprietary Funds

Year Ended June 30, 2021

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating Revenues			
Charges for services	\$ 242,974	\$ 161,983	\$ 404,957
Penalties and interest	5,012	5,012	10,024
Federal grants	7,585	7,585	15,170
Other	<u>6,344</u>	<u>3,624</u>	<u>9,968</u>
Total Operating Revenues	261,915	178,204	440,119
Operating Expenses			
Salaries	86,493	60,214	146,707
Fringe benefits	63,442	43,729	107,171
Contracted services	28,350	12,150	40,500
Testing	12,789	6,244	19,033
Professional fees	2,375	2,375	4,750
Other charges	7,852	7,206	15,058
Office	3,405	2,314	5,719
Repairs and maintenance	178,045	89,170	267,215
Supplies and chemicals	38,501	14,217	52,718
Utilities	16,871	11,047	27,918
Vehicle and equipment	6,548	3,147	9,695
Depreciation	<u>163,944</u>	<u>40,986</u>	<u>204,930</u>
Total Operating Expenses	<u>608,615</u>	<u>292,799</u>	<u>901,414</u>
Operating Loss	(346,700)	(114,595)	(461,295)
Nonoperating Revenues (Expenses)			
Interest expense	(35,446)	-	(35,446)
Insurance reimbursements	133,150	-	133,150
Interest income	7,768	7,768	15,536
Campbell County grant	<u>24,000</u>	<u>24,000</u>	<u>48,000</u>
Total Nonoperating Revenues (Expenses)	<u>129,472</u>	<u>31,768</u>	<u>161,240</u>
Change in Net Position	(217,228)	(82,827)	(300,055)
Total Net Position - Beginning of Year	<u>5,164,702</u>	<u>816,106</u>	<u>5,980,808</u>
Total Net Position - End of Year	<u>\$ 4,947,474</u>	<u>\$ 733,279</u>	<u>\$ 5,680,753</u>

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

Town of Brookneal, Virginia

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2021

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 254,741	\$ 168,243	\$ 422,984
Operating grants	27,635	20,951	48,586
Payments to personnel and related benefits	(139,166)	(96,096)	(235,262)
Payments to suppliers	(283,682)	(140,503)	(424,185)
Net Cash Used in Operating Activities	<u>(140,472)</u>	<u>(47,405)</u>	<u>(187,877)</u>
Cash Flows from Capital and Related Financing Activities			
Principal paid on capital debt	(16,645)	-	(16,645)
Interest paid on capital debt	(35,446)	-	(35,446)
Net Cash Used in Capital and Related Financing Activities	<u>(52,091)</u>	<u>-</u>	<u>(52,091)</u>
Cash Flows from Noncapital Financing Activities			
Insurance reimbursements	133,150	-	133,150
Campbell County grant received	24,000	24,000	48,000
Net Cash Provided by Noncapital Financing Activities	<u>157,150</u>	<u>24,000</u>	<u>181,150</u>
Cash Flows from Investing Activities			
Interest income	7,768	7,768	15,536
Net Decrease in Cash and Cash Equivalents	(27,645)	(15,637)	(43,282)
Cash and Cash Equivalents - Beginning of Year	<u>433,142</u>	<u>62,475</u>	<u>495,617</u>
Cash and Cash Equivalents - End of Year	<u>\$ 405,497</u>	<u>\$ 46,838</u>	<u>\$ 452,335</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities			
Operating loss	\$ (346,700)	\$ (114,595)	\$ (461,295)
<i>Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities</i>			
Depreciation expense	163,944	40,986	204,930
<i>Changes in assets and liabilities</i>			
Receivables	(3,563)	(2,376)	(5,939)
Accounts payable and accrued expenses	11,054	7,367	18,421
Customer deposits	3,974	-	3,974
Unearned grants	20,050	13,366	33,416
Compensated absences	(3,937)	(1,954)	(5,891)
Deferred outflows - pension	(1,843)	(1,229)	(3,072)
Deferred outflows - OPEB	(654)	(435)	(1,089)
Net pension liability	23,351	15,567	38,918
Net other post-employment benefits	765	508	1,273
Deferred inflows - OPEB	(125)	(84)	(209)
Deferred inflows - pension	(6,788)	(4,526)	(11,314)
Net Cash Used in Operating Activities	<u>\$ (140,472)</u>	<u>\$ (47,405)</u>	<u>\$ (187,877)</u>

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

Town of Brookneal, Virginia

Notes to the Financial Statements

Year Ended June 30, 2021

1 Summary of Significant Accounting Policies

Narrative Profile

The Town of Brookneal, Virginia (the "Town"), was established in 1802. It is a political subdivision of the Commonwealth of Virginia operating under the Council-Manager form of government. The Town Council consists of a mayor and six other council members. The Town is part of Campbell County and has taxing powers subject to statewide restrictions and tax limits.

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

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

1-A. Financial Reporting Entity

The basic criterion for determining whether a governmental department, agency, institution, commission, public authority, or other governmental organization should be included in a primary governmental unit's reporting entity for the basic financial statements is financial accountability. Financial accountability includes the appointment of a voting majority of the organization's governing body and the ability of the primary government to impose its will on the organization or if there is a financial benefit/burden relationship. In addition, an organization which is fiscally dependent on the primary government should be included in its reporting entity.

1-B. Financial Reporting Model

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

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

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

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

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

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

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

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

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

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

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

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

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

1-C. Financial Statement Presentation

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

Governmental Funds – Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The Town reports the difference between its governmental fund assets and deferred outflows of resources and its liabilities and deferred inflows of resources as fund balance. The following are the Town's major governmental funds:

- ***General Fund*** – The General Fund is the primary operating fund of the Town and accounts for all revenues and expenditures applicable to the general operations of the Town which are not accounted for in other funds. Revenues are derived primarily from property and other local taxes, licenses, permits, charges for services, use of money and property, and intergovernmental grants.
- ***Special Revenue Funds*** – Special Revenue Funds account for the proceeds of specific revenue sources (other than those derived from special assessments, expendable trusts, or dedicated for major capital projects) requiring separate accounting due to legal or regulatory provisions or administrative action. The Town's special revenue fund accounts for financial resources related to grants requiring separate accounting.
- ***Capital Projects Funds*** – The Capital Projects Fund accounts for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds. The Town does not have any capital projects funds at this time.
- ***Proprietary Funds*** – Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The Town has two enterprise funds, the Water Fund and Sewer Fund, which accounts for operations that are financed and operated in a manner similar to private business enterprises. The intent of the Town is that the cost of providing services to the general public be financed or recovered through user charges.

- ***Fiduciary Funds (Custodial Funds)*** – Fiduciary funds account for assets held by the Town in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds. Custodial funds utilize the accrual basis of accounting. Since by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements. The Town does not have any fiduciary funds at this time.

1-D. Measurement Focus and Basis of Accounting

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

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

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

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

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

Licenses, permits, fines, and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state, and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditures. Revenues from general purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

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

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

1-E-1 Cash and Cash Equivalents

The Town operates a cash and investment pool which all funds utilize with the exception of the capital projects fund, which has separate bank accounts and investments. The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

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

1-E-2 Investments

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

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

1-E-3 Receivables and Payables

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

All trade and property tax receivables are shown net of an allowance for uncollectibles. The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$6,380 at June 30 for property tax receivables.

General fund - taxes	\$ 15,202
Less: Allowance for uncollectible	<u>(6,380)</u>
General fund - taxes, net	<u>\$ 8,822</u>

Real and Personal Property Tax Data

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

	<u>Real Property</u>	<u>Personal Property</u>
Lewy	January 1	January 1
Due Date	December 5	December 5

The Town bills and collects its own property taxes. Personal property taxes do not create a lien on property; however, the Town utilizes the DMV Stop program for individuals having outstanding personal property taxes.

The annual assessment for real estate is based on 100% of the assessed fair market value. A penalty of 10% of the unpaid tax is due for late payment. Interest is accrued at 10% for the initial year of delinquency and thereafter at the maximum annual rate authorized by the Internal Revenue Code Section 6621(b). The effective tax rates per \$100 of assessed value for the year ended June 30 were as follows:

Real estate	\$ 0.17
Personal property	1.70
Machinery and tools	1.70

1-E-4 Prepaid Items

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

1-E-5 Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Town maintains a capitalization threshold of \$5,000. The Town's infrastructure consists of water distribution and wastewater collection systems. Improvements to capital assets are capitalized; however, the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

<u>Asset Description</u>	<u>Estimated Lives</u>
Buildings and improvements	20 - 40 years
Machinery and equipment	5 - 20 years
Water and sewer system	50 years
Public domain infrastructure	20 - 50 years

1-E-6 Deferred Outflows/Inflows of Resources

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

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

Deferred Inflows of Resources in the Governmental Funds Balance Sheet include unavailable revenue. Unavailable revenue consists primarily of special assessment, loans, and notes receivable. The Town considers revenues available if they are collected within 45 days of the end of the fiscal year.

1-E-7 Compensated Absences

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

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

The Town does not accrue compensated absences (annual leave benefits) since no carryover is allowed.

1-E-8 Pensions

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

1-E-9 Group Life Insurance

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

1-E-10 Political Subdivision Employee Virginia Local Disability Program

The Virginia Retirement System (VRS) Political Subdivision Employee Virginia Local Disability Program is a multiple-employer, cost-sharing plan. For purposes of measuring the net Political Subdivision Employee Virginia Local Disability Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Political Subdivision Employee Virginia Local Disability Program OPEB, and the Political Subdivision Employee Virginia Local Disability Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Political Subdivision Employee Virginia Local Disability Program; and the additions to/deductions from the VRS Political Subdivision Employee Virginia Local Disability Program's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

1-E-11 Fund Equity

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

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

Nonspendable – amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

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

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

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

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

1-E-12 Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Town, these revenues are charges for services for utilities. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All other items that do not directly relate to the principal and usual activity of the fund are recorded as nonoperating revenues and expenses. These items include investment earnings and gains or losses on the disposition of capital assets.

1-E-13 Interfund Activity

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

1-E-14 Long-Term Obligations

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

1-E-15 Adoption of New GASB Statements

The Town did not adopt any new GASB statements during the fiscal year ended June 30, 2021.

1-F. Estimates

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

2 Stewardship, Compliance, and Accountability

Budgets and Budgetary Accounting

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

Budgetary Data

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

1. Prior to May 30, the Budget committee submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating budget and capital budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budgets for the general and enterprise funds are legally enacted through passage of an Appropriations Resolution. Town Council may, from time to time, amend the budget, providing for additional expenditures and the means of financing them.
4. The Appropriations Resolution places legal restrictions on expenditures at the fund, function, and departmental level. These appropriations for each fund, function, and department can be revised only by the Town Council. The Budget Committee is authorized to transfer budgeted amounts within general government departments.
5. Formal budgetary integration is employed as a management control device during the year and budgets are legally adopted for all major funds.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30, for all Town units.

Expenditures in Excess of Appropriations

General fund expenditures did exceed appropriations.

Fund Deficits

No funds had fund deficits.

3 Deposits and Investments

Deposits

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

Investments

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

Custodial Credit Risk

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

Interest Rate Risk

This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The Town's investments consist of the following:

	<u>Fair Value</u>	<u>Investment Maturity (in Years)</u>
Certificates of deposit	\$ 687,685	3.5
Certificates of deposit	<u>902,907</u>	Less than 1 year
	<u>\$ 1,590,592</u>	

Credit Risk

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

The Town's investments by credit rating consist of the following:

Rating (Moody's or S&P)	Fair Value
Unrated	\$ 1,590,592
	<u>\$ 1,590,592</u>

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

	Governmental Activities	Business-Type Activities	Total
Deposits and Investments			
Cash on hand	\$ 200	\$ -	\$ 200
Demand deposits	1,024,278	(409,160)	615,118
Certificates of deposit	<u>729,097</u>	<u>861,495</u>	<u>1,590,592</u>
	<u>\$ 1,753,575</u>	<u>\$ 452,335</u>	<u>\$ 2,205,910</u>
Statement of Net Position			
Deposits and Investments			
Cash and cash equivalents	<u>\$ 1,753,575</u>	<u>\$ 452,335</u>	<u>\$ 2,205,910</u>
	<u>\$ 1,753,575</u>	<u>\$ 452,335</u>	<u>\$ 2,205,910</u>

4 Receivables

Receivables at June 30, 2021 consist of the following:

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Taxes	\$ 15,202	\$ -	\$ 15,202
Other	35,210	-	35,210
Waste collections	4,663	-	4,663
Water and sewer	<u>-</u>	<u>59,910</u>	<u>59,910</u>
Total Receivables	55,075	59,910	114,985
Less: Allowance for doubtful accounts	<u>(6,380)</u>	<u>-</u>	<u>(6,380)</u>
Net Receivables	<u>\$ 48,695</u>	<u>\$ 59,910</u>	<u>\$ 108,605</u>

5 Due from Other Governmental Units

Amounts due from other governmental units for the year ended June 30, 2021 consisted of the following:

Governmental Activities

Due from the Commonwealth of Virginia \$ 6,200

6 Capital Assets

The following is a summary of changes in capital assets:

Governmental Activities

	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021
Capital Assets Not Being Depreciated				
Land	\$ 180,088	\$ -	\$ -	\$ 180,088
Total Capital Assets Not Being Depreciated	180,088	-	-	180,088
Other Capital Assets				
Buildings and improvements	691,092	10,402	2,355	699,139
Infrastructure	164,920	-	-	164,920
Furniture, equipment and vehicles	765,010	64,741	112,552	717,199
Total Other Capital Assets	1,621,022	75,143	114,907	1,581,258
Less: Accumulated depreciation for				
Buildings and improvements	601,474	7,904	2,355	607,023
Infrastructure	163,934	622	-	164,556
Furniture, equipment and vehicles	460,289	52,303	92,508	420,084
Total Accumulated Depreciation	1,225,697	60,829	94,863	1,191,663
Other Capital Assets, Net	395,325	14,314	20,044	389,595
Net Capital Assets	<u>\$ 575,413</u>	<u>\$ 14,314</u>	<u>\$ 20,044</u>	<u>\$ 569,683</u>
Depreciation expense was allocated as follows:				
General government administration	\$ 7,904			
Public safety	26,701			
Public works	26,224			
Total Depreciation Expense	<u>\$ 60,829</u>			

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Business-Type Activities

	<u>Balance July 1, 2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2021</u>
Capital Assets Not Being Depreciated				
Land	\$ 22,129	\$ -	\$ -	\$ 22,129
Total Capital Assets Not Being Depreciated	22,129	-	-	22,129
Other Capital Assets				
Infrastructure	10,385,023	-	13,965	10,371,058
Total Other Capital Assets	10,385,023	-	13,965	10,371,058
Less: Accumulated depreciation for				
Infrastructure	3,840,852	204,930	13,965	4,031,817
Total Accumulated Depreciation	3,840,852	204,930	13,965	4,031,817
Other Capital Assets, Net	6,544,171	(204,930)	13,965	6,339,241
Net Capital Assets	<u>\$ 6,566,300</u>	<u>\$ (204,930)</u>	<u>\$ 13,965</u>	<u>\$ 6,361,370</u>
Depreciation expense		<u>\$ 204,930</u>		

7 Compensated Absences

New full-time employees while on probationary status will accrue four (4) hours annual leave per month. After completing twelve (12) calendar months of continuous service, annual leave of seven (7) hours per month will accrue. Full-time employees receive additional annual leave/vacation time for continuous service as follows: a) five (5) years: eight (8) hours per month; b) ten (10) years: nine (9) hours per month; and c) fifteen (15) years: ten (10) hours per month. Employees may accumulate one hundred sixty (160) hours of leave on an annual basis. At the end of each calendar year (December 31), any balance over one hundred sixty (160) hours will be lost. The Town has outstanding compensated absences totaling \$14,474 in the governmental activities and \$6,717 in the business-type activities.

8 Long-Term Debt

PRIMARY GOVERNMENT

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

<u>Year(s) Ended June 30,</u>	<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2022	\$ 17,392	\$ 34,700
2023	18,052	34,040
2024	18,644	33,448
2025	19,447	32,645
2026	20,188	31,904
2027-2031	113,034	147,426
2032-2036	136,441	124,019
2037-2041	165,066	95,394
2042-2046	199,824	60,636
2047-2051	210,152	18,624
Total	<u>\$ 918,240</u>	<u>\$ 612,836</u>

Changes in Long-Term Debt

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

	<u>Balance July 1, 2020</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2021</u>	<u>Due Within One Year</u>
Primary Government					
Governmental Activities					
Notes payable	\$ -	\$ 125,000	\$ 125,000	\$ -	\$ -
Compensated absences	12,414	2,060	-	14,474	1,447
Total Governmental Activities	<u>\$ 12,414</u>	<u>\$ 127,060</u>	<u>\$ 125,000</u>	<u>\$ 14,474</u>	<u>\$ 1,447</u>
Business-Type Activities					
General obligation bonds	\$ 934,885	\$ -	\$ 16,645	\$ 918,240	\$ 17,392
Compensated absences	12,608	-	5,891	6,717	672
Total Business-Type Activities	<u>947,493</u>	<u>-</u>	<u>22,536</u>	<u>924,957</u>	<u>18,064</u>
Total Primary Government	<u>\$ 959,907</u>	<u>\$ 127,060</u>	<u>\$ 147,536</u>	<u>\$ 939,431</u>	<u>\$ 19,511</u>

Details of long-term indebtedness are as follows:

	<u>Interest Rate</u>	<u>Date Issued</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding Governmental Activities</u>	<u>Business-Type Activities</u>
Notes payable	2.250%	2021	2030	\$ 125,000	\$ -	\$ -
General Obligation Bond	4.125%	2011	2051	866,000	-	770,458
General Obligation Bond	2.250%	2011	2051	175,000	-	147,782

9 Net Investment in Capital Assets

The "net investment in capital assets" amount reported on the government-wide Statement of Net Position as of June 30, 2021 is determined as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net Investment in Capital Assets		
Cost of capital assets	\$ 1,761,346	\$ 10,393,187
Less: Accumulated depreciation	<u>1,191,663</u>	<u>4,031,817</u>
Book value	569,683	6,361,370
Less: Capital related debt	-	918,240
Net Investment in Capital Assets	<u>\$ 569,683</u>	<u>\$ 5,443,130</u>

10 Deferred Inflows of Resources and Unearned Revenue

Deferred inflows of resources and unearned revenues are comprised of the following:

Primary Government - General Fund

Deferred Inflows of Resources

Delinquent taxes not collected within 60 days	\$ 6,296
Prepaid taxes	<u>860</u>

Total Deferred Inflows of Resources - Governmental Funds	<u>\$ 7,156</u>
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Unearned Revenues

Unearned grant revenue - Cares Act	<u>\$430,122</u>
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Business-Type Activities

Unearned grant revenue - COVID-19 Municipal Utility Relief Program	<u>\$ 33,416</u>
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11 Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town joined together with other local governments in Virginia to form the Virginia Risk Sharing Association, a public entity risk pool currently operating as a common risk management and insurance program for participating local governments. The Town pays an annual premium to the pool for substantially all of its insurance coverage. In the event of a loss deficit and depletion of all available excess insurance, the pool may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

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

12 Commitments and Contingencies

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

13 Litigation

At June 30, 2021, there were no matters of litigation involving the Town which would materially affect the Town's financial position should any court decisions or pending matters not be favorable to such entities.

14 Legal Compliance

The Virginia Public Finance Act contains state law for issuance of long-term and short-term debt. The Act states, in part, that no municipality may issue bonds or other interest-bearing obligations, including existing indebtedness, which will at any time exceed 10% of the assessed valuation on real estate as shown by the last preceding assessment for taxes. Short-term revenue anticipation bonds/notes, general obligation bonds approved in a referendum, revenue bonds, and contract obligations for publically owned or regional projects should not be included in the debt limitation.

Computation of Legal Debt Margin

Total Assessed Value of Taxed Real Property	\$ 52,461,027
Debt Limits per Constitution of Virginia - 10% of Assessed Value	5,246,103
<i>Amount of Debt Applicable to Debt Limit</i>	
Gross debt	<u>918,240</u>
Legal Debt Margin June 30, 2021	<u>\$ 4,327,863</u>

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

15 Pension Plan

Plan Description

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

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

RETIREMENT PLAN PROVISIONS

PLAN 1

About Plan 1

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

Eligible Members

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

Hybrid Opt-In Election

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

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

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

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

PLAN 2

About Plan 2

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

Eligible Members

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

Hybrid Opt-In Election

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

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

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

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

HYBRID RETIREMENT PLAN

About the Hybrid Retirement Plan

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

- The defined benefit is based on a member's age, service credit, and average final compensation at retirement using a formula.
- The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
- In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

Eligible Members

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

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

**Non-Eligible Members*

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

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

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

PLAN 1

Retirement Contributions

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

Service Credit

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

Vesting

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

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

PLAN 2

Retirement Contributions

Same as Plan 1.

Service Credit

Same as Plan 1.

Vesting

Same as Plan 1.

**HYBRID
RETIREMENT PLAN**

Retirement Contributions

A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Service Credit

Defined Benefit Component:

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

Defined Contributions Component:

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

Vesting

Defined Benefit Component:

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

Defined Contributions Component:

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

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

PLAN 1

Calculating the Benefit

The Basic Benefit is determined using the average final compensation, service credit, and plan multiplier. An early retirement reduction is applied to this amount if the member is retiring with a reduced benefit. In cases where the member has elected an optional form of retirement payment, an option factor specific to the option chosen is then applied.

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

Average Final Compensation

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

Service Retirement Multiplier

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

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

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

PLAN 2

Calculating the Benefit

See definition under Plan 1.

Average Final Compensation

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

Service Retirement Multiplier

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

Sheriffs and regional jail superintendents: Same as Plan 1.

Political subdivision hazardous duty employees: Same as Plan 1.

**HYBRID
RETIREMENT PLAN**

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

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

Distribution not required, except as governed by law .

Calculating the Benefit

Defined Benefit Component:

See definition under Plan 1.

Defined Contribution Component:

The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

Average Final Compensation

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

Service Retirement Multiplier

Defined Benefit Component:

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

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

Sheriffs and regional jail superintendents: Not applicable.

Political subdivision hazardous duty employees: Not applicable.

Defined Contribution Component

Not applicable.

PLAN 1

Normal Retirement Age

VRS: Age 65.

Political subdivisions hazardous duty employees:
Age 60.

Earliest Unreduced Retirement Eligibility

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

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

Earliest Reduced Retirement Eligibility

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

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

Cost-of-Living Adjustment (COLA) in Retirement

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

Eligibility:

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

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

PLAN 2

Normal Retirement Age

VRS: Normal Social Security retirement age.

Political subdivisions hazardous duty employees:
Same as Plan 1.

Earliest Unreduced Retirement Eligibility

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

Political subdivisions hazardous duty employees:
Same as Plan 1.

Earliest Reduced Retirement Eligibility

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

Political subdivisions hazardous duty employees:
Same as Plan 1.

Cost-of-Living Adjustment (COLA) in Retirement

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

Eligibility:

Same as Plan 1

**HYBRID
RETIREMENT PLAN**
Normal Retirement Age

Defined Benefit Component:

VRS: Same as Plan 2.

Political subdivisions hazardous duty employees:
Not applicable.

Defined Contribution Component:

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

Earliest Unreduced Retirement Eligibility

Defined Benefit Component:

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

Political subdivisions hazardous duty employees:
Not applicable.

Defined Contribution Component:

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

Earliest Reduced Retirement Eligibility

Defined Benefit Component:

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

Political subdivisions hazardous duty employees:
Not applicable

Defined Contribution Component:

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

Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component:

Same as Plan 2

Defined Contribution Component:

Not applicable

Eligibility:

Same as Plan 1 and Plan 2

PLAN 1

Exceptions to COLA Effective Dates:

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

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability.
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

Disability Coverage

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

Purchase of Prior Service

Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as service credit in their plan. Prior service credit counts towards vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.

PLAN 2

Exceptions to COLA Effective Dates:

Same as Plan 1

Disability Coverage

Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased, or granted.

Purchase of Prior Service

Same as Plan 1

**HYBRID
RETIREMENT PLAN**

Exceptions to COLA Effective Dates:

Same as Plan 1 and Plan 2

Disability Coverage

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

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

Purchase of Prior Service

Defined Benefit Component:

Same as Plan 1, with the following exceptions:

- Hybrid Retirement Plan members are ineligible for ported service.

Defined Contribution Component:

Not applicable

Employees Covered by Benefit Terms

As of the June 30, 2019 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	17
Inactive members:	
Vested inactive members	1
Non-vested inactive members	3
LTD	0
Inactive members active elsewhere in VRS	<u>11</u>
Total inactive members	15
Active members	<u>10</u>
Total covered employees	<u>42</u>

Contributions

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

If the employer used the certified rate: The Town of Brookneal, Virginia's contractually required contribution rate for the year ended June 30, 2021 was 13.13% 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 employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town of Brookneal, Virginia were \$42,184 and \$45,728 for the years ended June 30, 2021 and June 30, 2020, respectively.

Net Pension Liability

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For Town of Brookneal, Virginia, the net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2019 rolled forward to the measurement date of June 30, 2020.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2019 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, 2020.

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*

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

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 15%
Discount Rate	Decrease rate from 7.00% to 6.75%

Actuarial Assumptions – Public Safety Employees with Hazardous Duty Benefits

The total pension liability for Public Safety employees in the Political Subdivision Retirement Plan was based on an actuarial valuation as of June 30, 2019, 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, 2020.

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*

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

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

All Others (Non 10 Largest) – Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decrease rate from 60% to 45%
Discount Rate	Decrease rate from 7.00% to 6.75%

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Long-Term Target Asset Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	34.00%	4.65%	1.58%
Fixed Income	15.00%	0.46%	0.07%
Credit Strategies	14.00%	5.38%	0.75%
Real Assets	14.00%	5.01%	0.70%
Private Equity	14.00%	8.34%	1.17%
MAPS - Multi-Asset Public Strategies	6.00%	3.04%	0.18%
PIP - Private Investment Partnership	<u>3.00%</u>	6.49%	<u>0.19%</u>
Total	<u>100.00%</u>		4.64%
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.14%</u>

**The above allocation provides a one-year return of 7.14%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY2020 actuarial valuations provide a median return of 6.81%.*

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2020, 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. From July 1, 2020 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the Long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2019	\$ 2,080,253	\$ 1,619,103	\$ 461,150
Changes for the Year			
Service cost	31,506	-	31,506
Interest	123,068	-	123,068
Assumption changes	-	-	-
Differences between expected and actual experience	29,998	-	29,998
Contributions - employer	-	44,815	(44,815)
Contributions - employee	-	16,683	(16,683)
Net investment income	-	26,739	(26,739)
Benefit payments, including refunds of employee contributions	(105,427)	(105,427)	-
Administrative expenses	-	(930)	930
Other changes	-	(31)	31
Net Changes	<u>79,145</u>	<u>(18,151)</u>	<u>97,296</u>
Balances at June 30, 2020	<u>\$ 2,159,398</u>	<u>\$ 1,600,952</u>	<u>\$ 558,446</u>

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

The following presents the net pension liability of the Town of Brookneal, Virginia using the discount rate of 6.75%, as well as what the Town of Brookneal, Virginia'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:

	1.00% Decrease 5.75%	Current Discount Rate 6.75%	1.00% Increase 7.75%
Political subdivision's Net Pension Liability	\$ 775,208	\$ 558,446	\$ 375,906

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

For the year ended June 30, 2021, the Town of Brookneal, Virginia recognized pension expense of \$102,602. At June 30, 2021, the Town of Brookneal, Virginia reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 14,126	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	41,941	-
Employer contributions subsequent to the measurement date	<u>42,184</u>	<u>-</u>
Total	<u>\$ 98,251</u>	<u>\$ -</u>

\$42,184 reported as deferred outflows of resources related to pensions resulting from the Town of Brookneal, Virginia's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended	
<u>June 30,</u>	
2022	\$ 14,944
2023	13,274
2024	14,400
2025	13,449
2026	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2020 *Comprehensive Annual Financial Report* (Annual Report). A copy of the 2020 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2020-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Payables to the Pension Plan

The political subdivision recognizes \$3,729 of payables to a pension plan outstanding at the end of the reporting period. This amount represents the June 2021 legally required contributions to VRS due by July 10 per VRS reporting requirements.

16 Other Post-Employment Benefits - Group Life Insurance Program
Plan Description

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

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

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

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS

Eligible Employees

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

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

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

Benefit Amounts

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

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

Reduction in Benefit Amounts

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

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

For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute 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 \$8,616 as of June 30, 2021.

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.34% 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, 2021 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. Contribution to the Group Life Insurance Program from the entity were \$1,646 and \$1,811 for the years ended June 30, 2021 and June 30, 2020, respectively.

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

At June 30, 2021, the entities reported a liability of \$28,204 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2020 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of June 30, 2019, and rolled forward to the measurement date of June 30, 2020. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2020 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2020, the participating employer's proportion was .00169% as compared to .00153% at June 30, 2019.

For the year ended June 30, 2021, the participating employer recognized GLI OPEB expense of \$1,545. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2021, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,809	\$ 252
Net difference between projected and actual earnings on GLI OPEB program investments	847	-
Change in assumptions	1,410	589
Changes in proportionate share	2,259	-
Employer contributions subsequent to the measurement date	<u>1,646</u>	<u>-</u>
Total	<u>\$ 7,971</u>	<u>\$ 841</u>

\$1,646 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, 2022. 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>	
2022	\$ 894
2023	1,134
2024	1,352
2025	1,362
2026	634
Thereafter	108

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2019, 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, 2020.

Inflation	2.50%
Salary increases, including inflation -	
General state employees	3.50% - 5.35%
Teachers	3.50% - 5.95%
SPORS employees	3.50% - 4.75%
VaLORS employees	3.50% - 4.75%
JRS employees	4.50%
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*

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

Mortality rates – General State Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70-75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 25%
Discount Rate	Decrease rate from 7.00% to 6.75%

Mortality rates – Teachers

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70-75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Discount Rate	Decrease rate from 7.00% to 6.75%

Mortality rates – SPORS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%
Discount Rate	Decrease rate from 7.00% to 6.75%

Mortality rates – VaLORS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%
Discount Rate	Decrease rate from 7.00% to 6.75%

Mortality rates – JRS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change
Discount Rate	Decrease rate from 7.00% to 6.75%

Mortality rates – Largest Ten Locality Employers - General Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%
Discount Rate	Decrease rate from 7.00% to 6.75%

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%
Discount Rate	Decrease rate from 7.00% to 6.75%

Mortality rates – Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%
Discount Rate	Decrease rate from 7.00% to 6.75%

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%
Discount Rate	Decrease rate from 7.00% to 6.75%

Net GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2020, NOL amounts for the Group Life Insurance Program are as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program
Total GLI OPEB Liability	\$ 3,523,937
Plan Fiduciary Net Position	<u>1,855,102</u>
GLI Net OPEB Liability (Asset)	<u>\$ 1,668,835</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	52.64%

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

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Long-Term Target Asset Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	34.00%	4.65%	1.58%
Fixed Income	15.00%	0.46%	0.07%
Credit Strategies	14.00%	5.38%	0.75%
Real Assets	14.00%	5.01%	0.70%
Private Equity	14.00%	8.34%	1.17%
MAPS - Multi-Asset Public Strategies	6.00%	3.04%	0.18%
PIP - Private Investment Partnership	<u>3.00%</u>	6.49%	<u>0.19%</u>
Total	<u>100.00%</u>		4.64%
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u>7.14%</u>

** The above allocation provides a one-year return of 7.14%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY2020 actuarial valuations, provide a median return of 6.81%.*

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 member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2020, 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, 2020 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:

	1.00% Decrease (5.75%)	Current Discount Rate 6.75%	1.00% Increase (7.75%)
State Agency's Proportionate Share of the Group Life Insurance Plan Net OPEB Liability	\$ 37,076	\$ 28,204	\$ 20,999

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2020 *Comprehensive Annual Financial Report* (Annual Report). A copy of the 2020 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2020-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the VRS Group Life Insurance OPEB Plan

The political subdivision recognizes \$269 of payables to a group life insurance OPEB plan outstanding at the end of the reporting period. This amount represents the June 2021 legally required contributions to VRS due by July 10 per VRS reporting requirements.

17 Other Post-Employment Benefits - Political Subdivision Employee Virginia Local Disability Program

All full-time, salaried general employees; including local law enforcement officers, firefighters, or emergency medical technicians of political subdivisions who do not provide enhanced hazardous duty benefits; who are in the VRS Hybrid Retirement Plan benefit structure and whose employer has not elected to opt out of the VRS-sponsored program are automatically covered by the VRS Political Subdivision Employee Virginia Local Disability Program. This plan is administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for eligible public employer groups in the Commonwealth of Virginia. Political subdivisions are required by Title 51.1 of the *Code of Virginia*, as amended to provide short-term and long-term disability benefits for their Hybrid employees either through a local plan or through the Virginia Local Disability Program (VLDP).

The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

POLITICAL SUBDIVISION EMPLOYEE VIRGINIA LOCAL DISABILITY PROGRAM (VLDP) PLAN PROVISIONS

Eligible Employees

The Political Subdivision Employee Virginia Local Disability Program was implemented January 1, 2014 to provide short-term and long-term disability benefits for non-work-related and work-related disabilities for employees with Hybrid retirement benefits

Eligible employees are enrolled automatically upon employment, unless their employer has elected to provide comparable coverage. They include:

- Full-time general employees; including local law enforcement officers, firefighters, or emergency medical technicians who do not have enhanced hazardous duty benefits; of public political subdivisions covered under VRS.

Benefit Amounts

The Political Subdivision Employee Virginia Disability Local Program (VLDP) provides the following benefits for eligible employees:

Short-Term Disability:

- The program provides a short-term disability benefit beginning after a seven-calendar-day waiting period from the first day of disability. Employees become eligible for non-work-related short-term disability coverage after one year of continuous participation in VLDP with their current employer.
- During the first five years of continuous participation in VLDP with their current employer, employees are eligible for 60% of their pre-disability income if they go out on non-work-related or work-related disability.
- Once the eligibility period is satisfied, employees are eligible for higher income replacement levels

Long-Term Disability:

- The VLDP program provides a long-term disability benefit beginning after 125 workdays of short-term disability. Members are eligible if they are unable to work at all or are working fewer than 20 hours per week.
- Members approved for long-term disability will receive 60% of their pre-disability income. If approved for work-related long-term disability, the VLDP benefit will be offset by the workers' compensation benefit. Members will not receive a VLDP benefit if their workers' compensation benefit is greater than the VLDP benefit.

Virginia Local Disability Program Notes:

- Members approved for short-term or long-term disability at age 60 or older will be eligible for a benefit, provided they remain medically eligible.
- VLDP Long-Term Care Plan is a self-funded program that assists with the cost of covered long-term care services.

Contributions

The contribution requirement for active hybrid plan employees is governed by §51.1-1178(C) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to political subdivisions by the Virginia General Assembly. Each political subdivision's contractually required employer contribution rate for the year ended June 30, 2021 was 0.83% of covered employee compensation for employees in the VRS Political Subdivision Employee Virginia Local Disability Program. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the political subdivision to the VRS Political Subdivision Employee Virginia Local Disability Program were \$529 and \$526 for the years ended June 30, 2021 and June 30, 2020, respectively.

Political Subdivision Employee Virginia Local Disability Program OPEB Liabilities, Political Subdivision Employee Virginia Local Disability Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Political Subdivision Employee Virginia Local Disability Program OPEB

At June 30, 2021, the political subdivision reported a liability of \$196 for its proportionate share of the VRS Political Subdivision Employee Virginia Local Disability Program Net OPEB Liability. The Net VRS Political Subdivision Employee Virginia Local Disability Program OPEB Liability was measured as of June 30, 2020 and the total VRS Political Subdivision Employee Virginia Local Disability Program OPEB liability used to calculate the Net VRS Political Subdivision Employee Virginia Local Disability Program OPEB Liability was determined by an actuarial valuation as of June 30, 2019, and rolled forward to the measurement date of June 30, 2020. The political subdivision's proportion of the Net VRS Political Subdivision Employee Virginia Local Disability Program OPEB Liability was based on the political subdivision's actuarially determined employer contributions to the VRS Political Subdivision Employee Virginia Local Disability Program OPEB plan for the year ended June 30, 2020 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2020, the political subdivision's proportion of the VRS Political Subdivision Employee Virginia Local Disability Program was .01961% as compared to .01569% at June 30, 2019.

For the year ended June 30, 2021, the political subdivision recognized VRS Political Subdivision Employee Virginia Local Disability Program OPEB expense of \$571. Since there was a change in proportionate share between measurement dates a portion of the VRS Political Subdivision Employee Virginia Local Disability Program Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2021, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to the VRS Political Subdivision Employee Virginia Local Disability Program OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 159	\$ 231
Net difference between projected and actual earnings on Political Subdivision VLDP OPEB program investments	21	-
Change in assumptions	9	13
Changes in proportionate share	49	-
Employer contributions subsequent to the measurement date	<u>529</u>	<u>-</u>
Total	<u>\$ 767</u>	<u>\$ 244</u>

\$529 reported as deferred outflows of resources related to the Political Subdivision Employee VLDP OPEB resulting from the political subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Political Subdivision Employee VLDP OPEB Liability in the Fiscal Year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Political Subdivision Employee VLDP OPEB will be recognized in the Political Subdivision Employee VLDP OPEB expense in future reporting periods as follows:

**Year Ended
June 30,**

2022	\$	26
2023		25
2024		26
2025		23
2026		(23)
Thereafter		(83)

Actuarial Assumptions

The total Political Subdivision Employee VLDP OPEB liability for the VRS Political Subdivision Employee Virginia Local Disability Program was based on an actuarial valuation as of June 30, 2019, 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, 2020.

Inflation	2.50%
Salary increases, including inflation - Political subdivision employees	3.50% - 5.35%
Investment rate of return	6.75%, including inflation*

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

Mortality rates – Non-Largest Ten Locality Employers - General and Non-Hazardous Duty Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75.
Withdrawal Rates	Adjusted termination rates to better fit experience at each year age and service
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14 to 15%
Discount Rate	Decrease rate from 7.00% to 6.75%

Net Political Subdivision Employee VLDP OPEB Liability

The net OPEB liability (NOL) for the Political Subdivision Employee Virginia Local Disability Program represents the program’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2020, NOL amounts for the VRS Political Subdivision Employee Virginia Local Disability Program is as follows (amounts expressed in thousands):

	Political Subdivision Employee VLDP OPEB Plan	
Total Political Subdivision Employee VLDP OPEB Liability	\$	4,317
Plan Fiduciary Net Position		<u>3,317</u>
Political Subdivision Employee VLDP Net OPEB Liability (Asset)	\$	<u>1,000</u>
Plan Fiduciary Net Position as a Percentage of the Total Political Subdivision Employee VLDP OPEB Liability		76.84%

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

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Long-Term Target Asset Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	34.00%	4.65%	1.58%
Fixed Income	15.00%	0.46%	0.07%
Credit Strategies	14.00%	5.38%	0.75%
Real Assets	14.00%	5.01%	0.70%
Private Equity	14.00%	8.34%	1.17%
MAPS - Multi-Asset Public Strategies	6.00%	3.04%	0.18%
PIP - Private Investment Partnership	<u>3.00%</u>	6.49%	<u>0.19%</u>
Total	<u>100.00%</u>		4.64%
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.14%</u>

**The above allocation provides a one-year return of 7.14%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY2020 actuarial valuations, provide a median return of 6.81%.*

Discount Rate

The discount rate used to measure the total Political Subdivision Employee VLDP OPEB 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 at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2020, the rate contributed by the political subdivision for the VRS Political Subdivision Employee Virginia Local Disability Program 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, 2020 on, all agencies are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the Political Subdivision Employee VLDP OPEB 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 Political Subdivision Employee VLDP OPEB liability.

Sensitivity of the Political Subdivision's Proportionate Share of the Political Subdivision Employee VLDP Net OPEB Liability to Changes in the Discount Rate

The following presents the political subdivision's proportionate share of the VRS Political Subdivision Employee Virginia Local Disability Program net VLDP OPEB liability using the discount rate of 6.75%, as well as what the political subdivision's proportionate share of the net VLDP 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:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Covered Employers Proportionate Share of the VRS Political Subdivision Employee VLDP OPEB Plan Net OPEB Liability	\$ 262	\$ 196	\$ 137

Political Subdivision Employee VLDP OPEB Fiduciary Net Position

Detailed information about the VRS Political Subdivision Employee Virginia Local Disability Program’s Fiduciary Net Position is available in the separately issued VRS 2020 *Comprehensive Annual Financial Report* (Annual Report). A copy of the 2020 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2020-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the VRS VLDP OPEB Plan

The political subdivision recognizes \$16 of payables to a Virginia Local Disability Program OPEB plan outstanding at the end of the reporting period. This amount represents the June 2021 legally required contributions to VRS due by July 10 per VRS reporting requirements.

18 Fund Balances – Governmental Funds

As of June 30, 2021, fund balances are composed of the following:

	Special Revenue Fund
Restricted for community development	\$ <u>27,790</u>

19 Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to June 30, 2021 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2021. Management has performed their analysis through March 9, 2022.

REQUIRED SUPPLEMENTARY INFORMATION

Town of Brookneal, Virginia

Budgetary Comparison Schedule

Year Ended June 30, 2021

General Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues				
General Property Taxes				
Real property taxes	\$ 87,000	\$ 87,000	\$ 83,257	\$ (3,743)
Real property taxes - public service	13,814	13,814	11,755	(2,059)
Personal property taxes	83,000	56,087	54,237	(1,850)
Personal property taxes - public service	300	300	936	636
Machinery and tools	9,000	9,000	9,541	541
Delinquent taxes	-	-	7,493	7,493
Penalties and interest	3,000	3,000	3,016	16
Total General Property Taxes	196,114	169,201	170,235	1,034
Other Local Taxes				
Local sales and use taxes	55,000	55,000	80,686	25,686
Utility taxes	44,000	28,000	29,677	1,677
Business license taxes	58,350	58,350	61,500	3,150
Bank stock tax	48,000	48,000	51,947	3,947
Motor vehicle licenses	22,625	22,625	23,009	384
Meals tax	155,000	155,000	178,176	23,176
Total Other Local Taxes	382,975	366,975	424,995	58,020
Permits, Privilege Fees, and Regulatory Licenses				
Other permits, licenses, and fees	-	-	-	-
Total Permits, Privilege Fees, and Regulatory Licenses	-	-	-	-
Fines and Forfeitures				
	2,000	2,000	185	(1,815)
Revenue from Use of Money and Property				
Use of money	11,000	11,000	9,611	(1,389)
Use of property	4,600	4,600	9,720	5,120
Total Revenue from Use of Money and Property	15,600	15,600	19,331	3,731
Charges for Services				
Garbage fees	26,000	26,000	25,908	(92)
Total Charges for Services	26,000	26,000	25,908	(92)
Miscellaneous				
Miscellaneous	1,800	2,251	13,334	11,083
Income in lieu of taxes - County	3,000	3,000	3,000	-
Total Miscellaneous	4,800	5,251	16,334	11,083
Intergovernmental				
<i>Revenue from the Commonwealth of Virginia Noncategorical Aid</i>				
Personal property tax relief act	-	26,913	26,913	-
Mobile home titling tax	-	-	150	150
Auto rental tax	8,500	8,500	8,214	(286)
Communications tax	-	16,000	14,058	(1,942)
Total Noncategorical Aid	8,500	51,413	49,335	(2,078)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
<i>Categorical Aid</i>				
Fire Grant	10,000	15,000	15,000	-
Litter Grant	1,000	1,000	1,979	979
Police Grant	<u>32,900</u>	<u>32,900</u>	<u>33,615</u>	<u>715</u>
Total Categorical Aid	<u>43,900</u>	<u>48,900</u>	<u>50,594</u>	<u>1,694</u>
Total Revenue from the Commonwealth of Virginia	<u>52,400</u>	<u>100,313</u>	<u>99,929</u>	<u>(384)</u>
<i>Revenue from the Federal Government</i>				
CARES Act	-	<u>143,006</u>	<u>143,006</u>	-
Total Revenue from the Federal Government	-	<u>143,006</u>	<u>143,006</u>	-
Total Intergovernmental Revenue	<u>52,400</u>	<u>243,319</u>	<u>242,935</u>	<u>(384)</u>
Total Revenues	679,889	828,346	899,923	71,577
Expenditures				
General Government Administration				
Mayor and council fees	9,353	10,653	10,642	11
Salaries	99,082	108,064	107,992	72
Fringe benefits	36,536	37,223	36,170	1,053
Insurance	29,608	30,487	30,371	116
Office	7,800	7,800	7,388	412
Advertising	2,500	2,500	1,900	600
Dues and subscriptions	700	700	370	330
Capital outlay	1,250	1,250	22,240	(20,990)
Other administrative expenses	11,250	11,250	8,604	2,646
Professional and software fees	<u>12,000</u>	<u>17,641</u>	<u>20,722</u>	<u>(3,081)</u>
Total General Government Administration	210,079	227,568	246,399	(18,831)
Public Safety				
<i>Police Department</i>				
Salaries	124,121	132,026	98,253	33,773
Fringe benefits	52,157	52,761	34,823	17,938
Insurance	4,000	4,000	3,616	384
Supplies	4,000	4,000	3,361	639
Vehicle	14,100	14,100	6,269	7,831
Capital outlay	4,000	4,000	42,501	(38,501)
Other expenses	<u>13,550</u>	<u>13,909</u>	<u>12,506</u>	<u>1,403</u>
Total Police Department	<u>215,928</u>	<u>224,796</u>	<u>201,329</u>	<u>23,467</u>
<i>Fire Department</i>	<u>10,000</u>	<u>15,000</u>	<u>15,000</u>	-
Total Public Safety	<u>225,928</u>	<u>239,796</u>	<u>216,329</u>	<u>23,467</u>
Public Works				
<i>Maintenance of Streets</i>				
Salaries	24,895	29,168	31,229	(2,061)
Fringe benefits	15,629	17,636	15,796	1,840
Parts and maintenance	10,900	10,900	8,588	2,312
Street lights	<u>26,700</u>	<u>26,700</u>	<u>26,441</u>	<u>259</u>
Total Maintenance of Streets	<u>78,124</u>	<u>84,404</u>	<u>82,054</u>	<u>2,350</u>
<i>Buildings and Grounds</i>				
Salaries	46,449	52,289	52,367	(78)
Fringe benefits	17,107	17,439	17,180	259
Repairs and maintenance	6,700	22,857	22,599	258
Utilities	11,404	12,423	10,910	1,513
Other expenses	<u>1,240</u>	<u>3,090</u>	<u>3,024</u>	<u>66</u>
Total Buildings and Grounds	<u>82,900</u>	<u>108,098</u>	<u>106,080</u>	<u>2,018</u>
<i>Refuse Disposal</i>				
Salaries	27,623	31,944	30,145	1,799
Fringe benefits	3,980	4,311	2,788	1,523
Repairs and maintenance/capital outlay	4,000	59,494	69,095	(9,601)
Other expenses	<u>8,800</u>	<u>8,800</u>	<u>7,455</u>	<u>1,345</u>
Total Refuse Disposal	<u>44,403</u>	<u>104,549</u>	<u>109,483</u>	<u>(4,934)</u>
Total Public Works	205,427	297,051	297,617	(566)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Parks, Recreation, and Cultural				
Library	552	552	552	-
Airport	6,000	6,000	6,000	-
Recreation	26,324	33,324	28,389	4,935
Total Parks, Recreation, and Cultural	<u>32,876</u>	<u>39,876</u>	<u>34,941</u>	<u>4,935</u>
Debt Service				
	<u>-</u>	<u>10,485</u>	<u>127,088</u>	<u>(116,603)</u>
Total Expenditures	<u>674,310</u>	<u>814,776</u>	<u>922,374</u>	<u>(107,598)</u>
Excess (Deficiency) of Revenues Over Expenditures	5,579	13,570	(22,451)	(36,021)
Other Financing Sources (Uses)				
Contingency/surplus	(5,579)	(13,570)	-	13,570
Proceeds from loans	<u>-</u>	<u>-</u>	<u>125,000</u>	<u>125,000</u>
Total Other Financing Sources (Uses)	<u>(5,579)</u>	<u>(13,570)</u>	<u>125,000</u>	<u>138,570</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	102,549	<u>\$ 102,549</u>
Fund Balance - Beginning of Year			<u>1,212,896</u>	
Fund Balance - End of Year			<u>\$ 1,315,445</u>	

Town of Brookneal, Virginia

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

For the Plan Years Ended June 30

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability							
Service cost	\$ 31,506	\$ 22,513	\$ 26,267	\$ 22,474	\$ 20,132	\$ 22,591	\$ 24,950
Interest	123,068	119,921	116,853	115,281	112,887	106,536	105,181
Changes in benefit terms	-	-	-	-	-	-	-
Difference between expected and actual experience	29,998	23,874	2,999	(10,425)	(379)	59,900	-
Changes of assumptions	-	47,797	-	(4,739)	-	-	-
Benefit payments	<u>(105,427)</u>	<u>101,687</u>	<u>(101,978)</u>	<u>(98,274)</u>	<u>(98,611)</u>	<u>(98,001)</u>	<u>(123,534)</u>
Net change in total pension liability	79,145	315,792	44,141	24,317	34,029	91,026	6,597
Total pension liability - beginning	<u>2,080,253</u>	<u>1,764,461</u>	<u>1,720,320</u>	<u>1,696,003</u>	<u>1,661,974</u>	<u>1,570,948</u>	<u>1,564,351</u>
Total pension liability - ending (a)	<u>\$ 2,159,398</u>	<u>\$ 2,080,253</u>	<u>\$ 1,764,461</u>	<u>\$ 1,720,320</u>	<u>\$ 1,696,003</u>	<u>\$ 1,661,974</u>	<u>\$ 1,570,948</u>
Plan fiduciary net position							
Contributions - employer	\$ 44,815	\$ 38,933	\$ 42,067	\$ 42,305	\$ 35,396	\$ 37,877	\$ 30,438
Contributions - employee	16,683	14,526	14,066	14,099	12,411	13,244	13,384
Net investment income	26,739	89,756	96,760	146,287	20,533	55,854	175,213
Benefit payments	(105,427)	101,687	(101,978)	(98,274)	(98,611)	(98,001)	(123,534)
Administrator charges	(930)	(918)	(855)	(867)	(796)	(799)	(1,000)
Other	<u>(31)</u>	<u>(56)</u>	<u>(85)</u>	<u>(130)</u>	<u>(9)</u>	<u>(11)</u>	<u>9</u>
Net change in plan fiduciary net position	(18,151)	243,928	49,975	103,420	(31,076)	8,164	94,510
Plan fiduciary net position - beginning	<u>1,619,103</u>	<u>1,375,175</u>	<u>1,325,200</u>	<u>1,221,780</u>	<u>1,252,856</u>	<u>1,244,692</u>	<u>1,150,182</u>
Plan fiduciary net position - ending (b)	<u>\$ 1,600,952</u>	<u>\$ 1,619,103</u>	<u>\$ 1,375,175</u>	<u>\$ 1,325,200</u>	<u>\$ 1,221,780</u>	<u>\$ 1,252,856</u>	<u>\$ 1,244,692</u>
Political subdivision's net pension liability - ending (a) - (b)	<u>\$ 558,446</u>	<u>\$ 461,150</u>	<u>\$ 389,286</u>	<u>\$ 395,120</u>	<u>\$ 474,223</u>	<u>\$ 409,118</u>	<u>\$ 326,256</u>
Plan fiduciary net position as a percentage of the total Pension liability	74.14%	77.83%	77.94%	77.03%	72.04%	75.38%	79.23%
Covered payroll	\$ 348,272	\$ 300,208	\$ 291,922	\$ 298,877	\$ 264,144	\$ 234,124	\$ 271,762
Political subdivision's net pension liability as a percentage of covered payroll	160.35%	153.61%	133.35%	132.20%	179.53%	174.74%	120.05%

Town of Brookneal, Virginia

Schedule of Employer Contributions

Political Subdivisions Retirement Plan

For the Years Ended June 30, 2012 through 2021

Date	Contractually Required Contribution (1)	Contribution in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2021	\$ 42,184	\$ 42,184	\$ -	\$ 304,796	13.84%
2020	45,728	45,728	-	348,272	13.13%
2019	39,417	39,417	-	300,208	13.13%
2018	42,533	42,533	-	291,922	14.57%
2017	42,305	42,305	-	298,877	14.15%
2016	35,318	35,318	-	264,144	13.37%
2015	38,063	38,063	-	234,124	16.26%
2014	N/A	N/A	N/A	N/A	N/A
2013	N/A	N/A	N/A	N/A	N/A
2012	N/A	N/A	N/A	N/A	N/A

NOTE: Schedule should present 10 years of data; however, the information prior to fiscal year 2015 is not available.

For Reference Only:

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

Column 2 - Employer contributions as referenced in Covered Payroll & Contributions report on VRS website.

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

Town of Brookneal, Virginia

Notes to Required Supplementary Information

For the Year Ended June 30, 2021

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

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 15%
Discount Rate	Decrease rate from 7.00% to 6.75%

All Others (Non 10 Largest) – Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decrease rate from 60% to 45%
Discount Rate	Decrease rate from 7.00% to 6.75%

Town of Brookneal, Virginia

Schedule of Employer's Share of Net OPEB Liability Group Life Insurance Plan (GLI) For the Measurement Dates of June 30, 2020, 2019, 2018 and 2017

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Employer's Proportion of the Net GLI OPEB Liability (Asset)	0.00169%	0.00153%	0.00151%	0.00158%
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset)	\$ 28,204	\$ 24,898	\$ 23,000	\$ 23,000
Employer's Covered Payroll	\$ 348,272	\$ 300,208	\$ 288,075	\$ 290,771
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered Payroll	8.10%	8.29%	7.98%	7.91%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	52.64%	52.00%	51.22%	48.86%

Schedule is intended to show information for 10 years. Since 2020 was the fourth year of presentation, there are only four years available. However, additional years will be included as they become available.

For Reference Only

The Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability for the VRS Group Life Insurance Program for each year is presented on page 128 of the VRS 2020 Annual Report.

Town of Brookneal, Virginia

Schedule of Employer Contributions

Group Life Insurance OPEB Plan

For the Years Ended June 30, 2012 through 2021

Date	Contractually Required Contribution (1)	Contribution in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2021	\$ 1,646	\$ 1,646	-	\$ 304,796	0.54%
2020	1,811	1,811	-	348,272	0.52%
2019	1,561	1,561	-	300,208	0.52%
2018	1,498	1,498	-	288,075	0.52%
2017	1,512	1,512	-	290,771	0.52%
2016	1,216	1,216	-	253,414	0.48%
2015	1,304	1,304	-	271,585	0.48%
2014	1,314	1,314	-	273,761	0.48%
2013	1,299	1,299	-	270,635	0.48%
2012	743	743	-	265,505	0.28%

For Reference Only:

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

Column 2 - Employer contributions as reference in Covered Payroll & Contributions report on VRS website.

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

Town of Brookneal, Virginia

Notes to Required Supplementary Information – OPEB Group Life Insurance Plan

For the Year Ended June 30, 2021

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

General State Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70-75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 25%
Discount Rate	Decrease rate from 7.00% to 6.75%

Teachers

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70-75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Discount Rate	Decrease rate from 7.00% to 6.75%

SPORS Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%
Discount Rate	Decrease rate from 7.00% to 6.75%

VaLORS Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%
Discount Rate	Decrease rate from 7.00% to 6.75%

JRS Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change
Discount Rate	Decrease rate from 7.00% to 6.75%

Largest Ten Locality Employers – General Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%
Discount Rate	Decrease rate from 7.00% to 6.75%

Non-Largest Ten Locality Employers – General Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%
Discount Rate	Decrease rate from 7.00% to 6.75%

Largest Ten Locality Employers – Hazardous Duty Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%
Discount Rate	Decrease rate from 7.00% to 6.75%

Non-Largest Ten Locality Employers – Hazardous Duty Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%
Discount Rate	Decrease rate from 7.00% to 6.75%

Town of Brookneal, Virginia

Schedule of Employer's Share of Net OPEB Liability Virginia Local Disability Program (VLDP) - Political Subdivisions For the Measurement Dates of June 30, 2020, 2019, 2018 and 2017

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Employer's Proportion of the Net VLDP OPEB Liability (Asset)	0.01961%	0.01569%	0.01390%	0.02394%
Employer's Proportionate Share of the Net VLDP OPEB Liability (Asset)	\$ 196	\$ 318	\$ -	\$ -
Employer's Covered Payroll	\$ 73,070	\$ 48,485	\$ 33,738	\$ 43,964
Employer's Proportionate Share of the Net VLDP OPEB Liability (Asset) as a Percentage of its Covered Payroll	0.27%	0.66%	0.00%	0.00%
Plan Fiduciary Net Position as a Percentage of the Total VLDP OPEB Liability	76.84%	49.19%	51.22%	38.40%

Schedule is intended to show information for 10 years.

Since 2020 is the fourth year for this presentation, there are only four years available. However, additional years will be included as they become available.

For Reference Only

The Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability for the Virginia Local Disability (VLDP) for each year is presented on page 131 of the VRS 2020 Annual Report.

Town of Brookneal, Virginia

Schedule of Employer Contributions

Virginia Local Disability Program

For the Years Ended June 30, 2012 through 2021

Date	Contractually Required Contribution (1)	Contribution in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
2021	\$ 529	\$ 529	-	\$ 63,790	0.83%
2020	526	526	-	73,070	0.72%
2019	349	349	-	48,485	0.72%
2018	202	202	-	33,738	0.60%
2017	264	264	-	43,964	0.60%
2016	156	156	-	25,927	0.60%
2015	201	201	-	33,540	0.60%
2014	14	14	-	2,340	0.60%
2013	N/A	N/A	N/A	N/A	N/A
2012	N/A	N/A	N/A	N/A	N/A

For Reference Only:

- Column 1 - Employer contribution rate multiplied by the employer's covered payroll.
- Column 2 - Employer contributions as referenced in Covered Payroll & Contributions report on VRS website.
- Column 4 - Employer's covered payroll amount for the fiscal year.

Town of Brookneal, Virginia

Notes to Required Supplementary Information – OPEB VLDP

For the Year Ended June 30, 2021

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

Non-Largest Ten Locality Employers - General and Non-Hazardous Duty Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75.
Withdrawal Rates	Adjusted termination rates to better fit experience at each year age and service
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14 to 15%
Discount Rate	Decrease rate from 7.00% to 6.75%

COMPLIANCE SECTION



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

To the Town Council
Town of Brookneal, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Brookneal, Virginia, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town of Brookneal, Virginia's basic financial statements and have issued our report thereon dated March 9, 2022.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Brookneal, 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*.

Purpose of this Report

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

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

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

South Hill, Virginia
March 9, 2022