

TOWN OF Herndon VIRGINIA



Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2018

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TOWN OF HERNDON, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED
JUNE 30, 2018

Prepared by the
Department of Finance

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**TOWN OF HERNDON, VIRGINIA
FINANCIAL REPORT**

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INTRODUCTORY SECTION

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TOWN COUNCIL
Lisa C. Merkel, Mayor
Jennifer K. Baker, Vice Mayor
Grace Wolf Cunningham
Jeffrey L. Davidson
Signe Friedrichs
Bill McKenna
Sheila A. Olem

November 26, 2018

The Honorable Mayor, Members of the Town Council and Citizens of the Town of Herndon, Virginia

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the Town of Herndon, Virginia (town), for the fiscal year ended June 30, 2018. The Herndon Town Charter, Section 4.2 (f), requires that the Town Manager arrange for an annual audit by a certified public accountant. In addition, Section 15.2-2511 of the Code of Virginia requires that all counties, cities and towns with populations greater than 3,500 as well as all towns with a separate school system, regardless of size, have their accounts and records audited annually as of June 30 by an independent certified public accountant in accordance with the specifications furnished by the Auditor of Public Accounts of the Commonwealth of Virginia. This report is formally submitted to you in fulfillment of those requirements.

The financial statements included in this report, which have earned an unmodified audit opinion, conform to the standards of financial reporting as prescribed by the Governmental Accounting Standards Board (GASB), the Government Finance Officers Association of the United States and Canada (GFOA), and the Auditor of Public Accounts.

Town management is responsible for the accuracy, fairness and completeness of the information, including all disclosures that are presented in this report. To the best of our knowledge, the enclosed data is believed to be accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the various funds of the town. All necessary disclosures have been included to enable the reader to gain a thorough understanding of the town's financial affairs. For additional information regarding the basic financial statements and the town's financial position, please refer to Management's Discussion and Analysis (MD&A) which appears in the financial section of the report.

Town management is also responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the town are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America.

The town's financial statements have been audited by Brown Edwards & Company, LLP, a certified public accounting firm. The goal of the independent audit was to provide reasonable assurance that the financial statements of the town for the fiscal year ended June 30, 2018 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by town management; and evaluating the overall financial statement presentation. The independent auditors' report is presented as the first component of the report's financial section.

Profile of the Town

The Town of Herndon, Virginia is located in the northwest quadrant of Fairfax County about 23 miles west of Washington DC. The town has a land area of 4.25 square miles and was incorporated in 1879. The local economy originally centered on dairy farming and the railroad. The town was at one time in the heart of Northern Virginia's important dairy farming community. And, until about sixty years ago, it remained essentially a quiet country village where well-to-do Washingtonians rode the railroad to summer vacation homes. Since that time, the town's economic and demographic makeup has changed dramatically. The 2017 U.S. Census estimates the population at 24,532 persons. If the town is developed according to the currently adopted comprehensive master plan, it is anticipated that the 2030 population will increase to approximately 27,138.

The town is organized under the council/manager form of government. The Town Council, in its role as governing body, formulates policies for the proper administration of the town. The Mayor and six members of the Council are elected simultaneously for two-year terms. The Council appoints a Town Manager to be the administrative head of the town. The manager is charged with directing all business affairs of the town.

The town provides the usual general governmental services for its citizens that are typical of towns in Virginia. These include public works and utilities, parks and recreation, police protection, community development, and other administrative services. In Virginia, incorporated towns are an integral part of the county in which they are located. The citizens of the town, therefore, pay Fairfax County property taxes (real estate and personal property), in addition to town taxes. In exchange, Fairfax County provides public education, certain technical and special education, libraries, health and human services, mental health assistance, fire and ambulance services, judicial services, correctional facilities and additional recreation activities and facilities.

The Town Manager is required by the Code of Virginia to prepare and present to the Town Council a proposed budget no later than April 1 of each year. The Town Council is required to adopt a budget prior to July 1 and shall fix a tax rate for the budget year at that time. The annual budget serves as the foundation for the town's financial planning and control. The town initiates its budget process for the upcoming fiscal year in October and the Town Council determines goals, objectives, and priorities between November and December. Departments submit their budget requests which are then reviewed by the Town Manager between January and February. A brief synopsis of the budget as proposed by the Town Manager is published at least once in a newspaper with general circulation within the town. The public hearing provides citizens of the town an opportunity to comment on the recommended budget. Activities of the General Fund, Capital Projects Fund, and Special Revenue Fund are included in the annual appropriations resolution and adopted budget.

The level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is established by individual fund. Management control is maintained at the department level with all departments having on-line access to expenditure account information. Encumbered amounts lapse at year end, with the exception of capital projects, grants, and certain restricted funds; however, after review, they generally are re-appropriated as part of the following year's budget.

Local Economic Conditions and Outlook

Situated in the Washington, D.C. metropolitan area, Herndon's economy remains healthy and vibrant. Located prominently in the center of the Dulles Technology Corridor, the town has a significant corporate presence that includes Amazon Web Services; Boeing; Booz Allen Hamilton; Fannie Mae; Northwest Federal Credit Union; Peraton and Serco. The town's office vacancy rate as of June 2018 was 12.3 percent, which is lower than the overall Fairfax County office vacancy rate of 15.5 percent. According to the American Community Survey, the town's median household income in 2016 was \$104,204. In August 2018, the local unemployment rate in Fairfax County, was 2.5 percent and the national unemployment rate was 3.9 percent, according to the Bureau of Labor Statistics. As many of the town's revenue streams are dependent upon consumption, these healthy statistics are positive signs of economic vitality.

The town continues to attract new restaurants, commercial businesses and infill residential development. The second phase of the Silver Line, which will include a stop in Herndon has spurred strong redevelopment interest in the metro area. The first project underway in the metro area is the redevelopment of 625 Herndon Parkway, which is being replaced by Metro Square a community of 64 condominiums being developed by Stanley Martin homes. Also, the town has seen strong reinvestment in its existing commercial core with the redevelopment of the Herndon Centre which will include several new national and regional tenants to include LA Fitness, Lotte Plaza Market and Sprout's Farmers Market. The town's overall economic outlook assumes modest growth in property values with other local tax sources remaining flat.

Long-term Financial Planning

The Town Council adopted Vision for Herndon focuses on five major tenets: Honoring People, Celebrating Community Spirit, Enriching Lives through Arts and Entertainment, Championing Business and Technology, and Cultivating a sustainable Environment. The 2035 Vision's five tenets form the cornerstone upon which all town initiatives are built. In addition, the Council adopted specific goals and a strategic plan which advances the Vision Plan.

The town's 2030 Comprehensive Plan addresses the redevelopment of the areas surrounding access to the Herndon Metro station at the southern edge of the town. This transit station is part of Phase 2 of Dulles Rail, a project that will bring the Washington area Metrorail system (dubbed the "Silver Line") to the Herndon area. The Silver Line's current terminus is at the Wiehle-Reston metro station. It is expected to be completed by 2020. The connection by rail of the town and its commercial districts to the entire metropolitan Washington region creates a vastly enhanced marketplace that will likely have broad appeal to businesses. The town continues to focus on planning for development and redevelopment at the future Herndon Metrorail area. The concepts provide for large scale transit-oriented mixed use in the vicinity of the future Station. Also envisioned is redevelopment of existing low-rise office and back office areas resulting in approximately 6.9 million square feet of high quality office, residential, hotel and retail space.

In fiscal year 2018, the town began the planning process to amend the comprehensive plan for S. Elden Street, to develop a vision for the redevelopment of this corridor.

The town continued its long-term plan of developing the downtown and cultivating a sustainable environment by issuing \$11.135 million in general obligation public improvement bonds in September 2018. The bond proceeds will be used for various capital projects to develop and improve the downtown area and purchase additional capacity for the water system for anticipated growth.

Long-term Financial Planning (continued)

The town's close proximity to Washington Dulles International Airport provides a major stimulus for commercial development. The airport itself has completed a multi-billion-dollar capital construction program resulting in a redesigned facility capable of accommodating significant increases in passenger traffic and airport operations. In fact, the entire Dulles Corridor, in which the town is centrally located, has entered an era of new growth. Over the next 20 years, population in the Dulles Corridor is expected to increase by 45 percent and job growth by 63 percent. This growth potential, along with steady increases in the number of new information system technology and security-related businesses, will have a positive influence on the town and its economic vitality.

Relevant Financial Policies

Financial policies are a key component of the town's annual budgetary planning process, which highlights the organization's commitment to fiscal integrity and sound financial management. These policies relate primarily to capital planning and debt management, and provide annual budget guidelines covering operating revenues and expenditures. Included in the policies are strategies which support the adoption of an annual balanced budget; require recurring costs to be supported by recurring revenues; and limit combined outstanding and proposed debt such that the total is no greater than the town's maximum debt capacities. The policies also address minimum General Fund unassigned fund balance requirements and revenue stabilization fund balance guidance. The town's financial policies were updated based on advice from town's financial advisors and were adopted by the Town Council as part of the town's fiscal year 2019 budget. See Management's Discussion and Analysis in the Financial Section of this report for the financial highlights for fiscal year 2018.

Major Initiatives

Downtown Redevelopment

Progress toward a vibrant, mixed-use development in Herndon's downtown advanced significantly during fiscal year 2018 and into early fiscal year 2019. On October 24, 2017, the Town Council voted to enter into a Comprehensive Agreement between Comstock Herndon Venture, LC, and the Town of Herndon for the redevelopment of approximately 4.675 acres of land as a mixed-use town center, Arts Center, and associated parking.

The redevelopment of downtown Herndon calls for four-story (mixed-use/residential) and three-story (mixed-use/commercial) structures, a jointly-funded public/private parking structure, and an 18,000 square foot Arts Center, among other features. The town's additional financial obligations include \$3.6 million in payments to Comstock during the construction phase of the project, and approximately \$2.5 to \$3.5 million for the design and construction of the Arts Center. In June, Fairfax County committed to investing \$1.2 million in the Herndon Downtown Redevelopment and the Arts Center. The remaining obligations will be funded through a combination of debt financing and cash. Ground breaking is anticipated to begin during the second quarter of 2019. Projected annual town tax revenues of three hundred thousand dollars is anticipated when the project is completed. More detailed information about the downtown redevelopment project can be found in the comprehensive agreement on the town's website.

Major Initiatives (continued)

Junction Square

The construction of this 55,000 square foot mixed-use development, consisting of fifteen urban townhomes, five condominiums, and 5,500 square feet of retail/restaurant space, is nearly complete as of the date of this letter. The residential portion of the project is 75 percent sold with full completion expected by the end of 2018. Projected annual town tax revenues of approximately thirty thousand dollars are anticipated when the project is completed.

Awards and Acknowledgements

Tree City USA - The Community Forestry Division of the Department of Community Development received a Tree City USA award from the National Arbor Day Foundation. This is the 29th consecutive year that the town has achieved this award, confirming the town's commitment to its tree canopy and environmental stewardship.

Recreation - Herndon's recreational events and programs continued to attract throngs of attendees, with 40,300 people attending the Herndon Festival during one of the wettest years on record, 6,500 attending the 4th of July celebration and more than 1,800 attending the Labor Day Festival.

Golf Course - By continuing its tradition of providing high quality playing conditions, value and service, Herndon Centennial remains one of the premier public golf courses in the Northern Virginia metropolitan area. Herndon Centennial continued its focus on environmental stewardship in FY 2018 through the use of Organic Material Review Institute-approved products, implementation of procedures aligned with stormwater management, environmental soil testing and pest management, and the purchase of a hybrid greens mower. Also, during the fiscal year, the course maintained its designation as a "Certified Audubon Cooperative Sanctuary", one of less than 900 in the world so designated.

Public Safety - The Herndon Police Department participates in the annual "Law Enforcement Challenge" sponsored by the Virginia Association of Chiefs of Police to highlight enforcement efforts to promote traffic safety by reducing accidents and targeting impaired driving, speeding, distracted driving and other roadway safety issues. The Herndon Police Department has won the first-place award in the competition for the last three consecutive years. In addition, the department successfully achieved recertification as a Certified Crime Prevention Community in 2016. All 19 elements were maintained, and the next recertification process will begin in April 2019.

AAA Credit Rating - In June 2018, the town received a AAA credit rating, the highest credit rating possible for a local government, for the first time from all three credit agencies: Fitch Investor Service, Moody's Investors Service, Inc. and Standard and Poor's Corporation.

Distinguished Budget Presentation Award - The Government Finance Officers Association of the United States and Canada (GFOA) has awarded the town with the prestigious Distinguished Budget Presentation Award for the fiscal year beginning July 1, 2017. This is the 27th consecutive year that the town has achieved this honor. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communication device. In July 2018, the town's budget documents for the fiscal year beginning July 1, 2018 were submitted to GFOA for consideration of another Distinguished Budget Presentation Award.

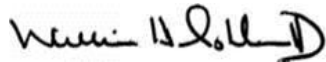
Awards and Acknowledgements (continued)

Certificate of Achievement for Excellence in Financial Reporting – The GFOA has also awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Herndon, Virginia, for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017. This was the 43rd consecutive year that the town has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The current report is designed and prepared to conform to the Certificate of Achievement Program requirements, and it will be submitted to the GFOA to determine its eligibility for another certificate.

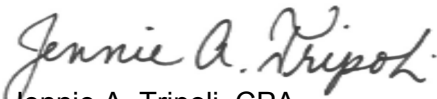
The Town of Herndon continues to maintain a stable financial position through responsible progressive management of financial operations combined with sound accounting and financial reporting practices. The timely preparation of this report could not have been accomplished without the effort of the entire staff of the Department of Finance and the town's independent auditors. We wish to express our appreciation to all who assisted in its preparation and to commend them for the professionalism they displayed throughout the year.

We would also like to express our appreciation to the Mayor and the members of the Town Council for their interest and continued support in planning and conducting the financial operations of the town in responsible and progressive manner.

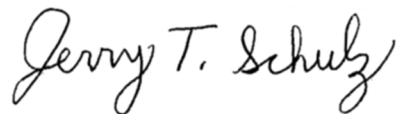
Respectfully submitted,



William H. Ashton II
Town Manager



Jennie A. Tripoli, CPA
Director of Finance



Jerry T. Schulz, CPA
Deputy Director of Finance



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Town of Herndon
Virginia**

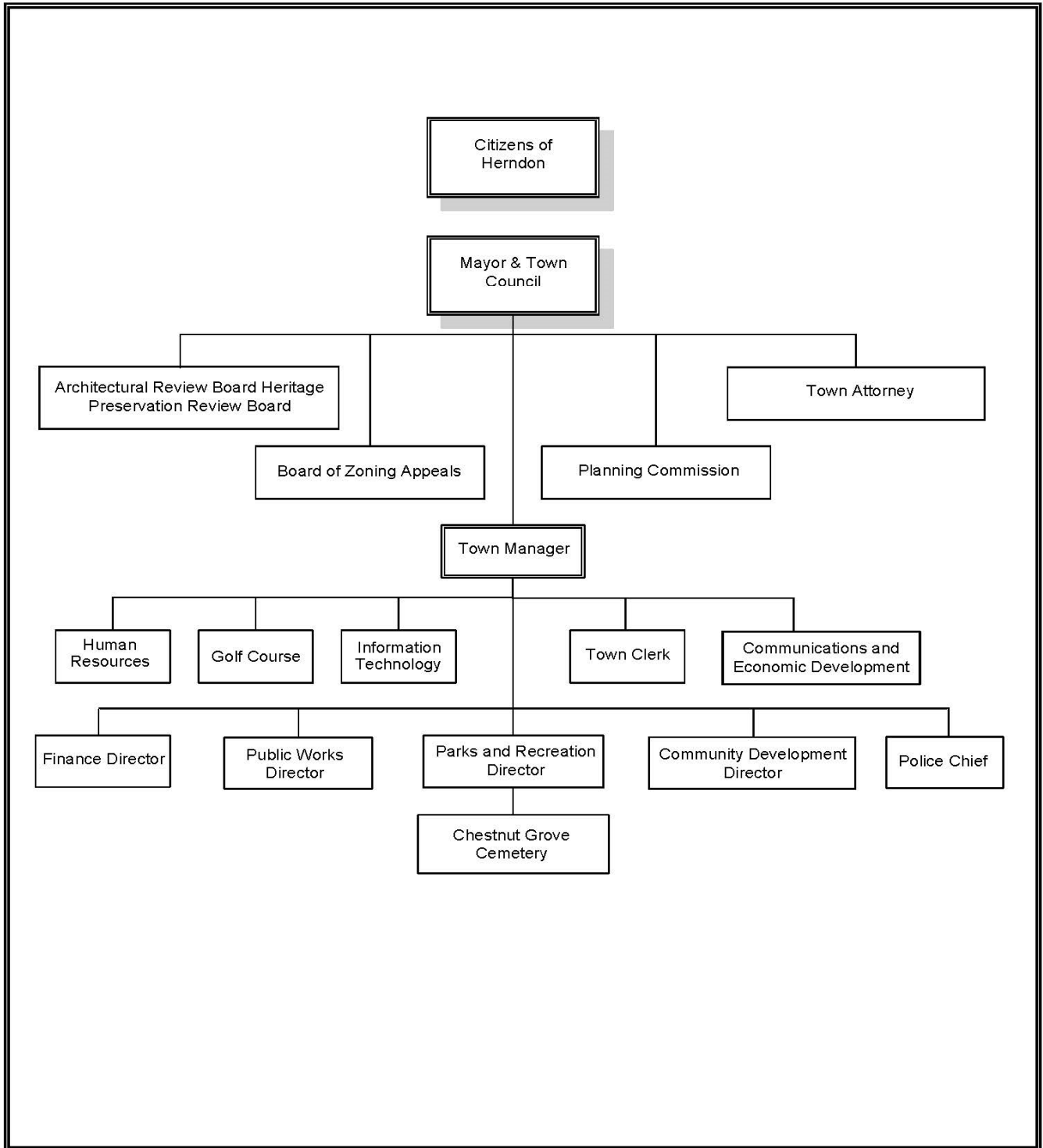
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morill

Executive Director/CEO

TOWN OF HERNDON, VIRGINIA
TOWN ORGANIZATION CHART





Comprehensive Annual Financial Report
Year Ended June 30, 2018

Directory of Officials

Lisa C. Merkel
Mayor

TOWN COUNCIL

Jennifer K. Baker – Vice Mayor
Grace Wolf Cunningham
Jeffrey L. Davidson
Signe V. Friedrichs
William J. McKenna
Sheila A. Olem

MANAGEMENT TEAM

William H. Ashton II
Town Manager

Lesia J. Yeatts
Town Attorney

Anne P. Curtis
Maggie A. DeBoard
Gene A. Fleming
Elizabeth M. Gilleran
Page Kalapasev
Tanya J. Kendrick
Cynthia S. Roeder
Dana Singer
Jennie A. Tripoli
Viki L. Wellershaus

Chief Communications Officer
Chief of Police
Director of Golf Course Operations
Director of Community Development
Director of Information Technology
Director of Human Resources
Director of Parks and Recreation
Director of Public Works
Director of Finance
Town Clerk

Independent Auditor
Brown, Edwards & Company, L.L.P.

Prepared by the Department of Finance

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of Town Council
Town of Herndon, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Herndon, Virginia (the "town"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the town'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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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, each major fund, and the aggregate remaining fund information of the town, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 17 to the financial statements, in 2018, the town adopted new accounting guidance, *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the town's basic financial statements. The introductory section, other supplementary information and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the basic financial statements.

The other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us in the audit of the financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Matters (Continued)

Other Information (Continued)

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Report on Summarized Comparative Information

We have previously audited the financial statements of the town as of June 30, 2017, and we expressed an unmodified opinion on those statements in our report dated November 27, 2017. The 2017 financial information, included in Exhibits A-11 and A-12, is provided for comparative purposes only.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2018, on our consideration of the town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the town's internal control over financial reporting and compliance.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 26, 2018

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TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Town of Herndon, Virginia's (town) financial statements provides an overview of the town's financial performance for the fiscal year ended June 30, 2018. Please read it in conjunction with the transmittal letter found on page i in the introductory section of this report and the town's basic financial statements which follow this discussion and analysis.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2018

- The town's total assets and deferred outflows of resources exceeded its total liabilities and deferred inflows of resources at the close of the current fiscal year by \$117.0 million (*total net position*). Of this amount, \$26.2 million in unrestricted net position may be used to meet the town's ongoing obligations to citizens and creditors. It is important to note that the adoption of GASB No. 75, Accounting and Financial Reporting of Postemployment Benefits Other Than Pensions resulted in a restatement of the beginning balance of total net position to \$112.9 million from \$114.9 million. See Table 1 for more information.
- On a governmental activities basis, net position increased by \$3.3 million as total revenues outpaced total expenses. Total revenues were up \$0.6 million when compared to the prior year driven mainly by transportation-related capital grants and contributions. Total expenses were lower by \$1.3 million, driven mainly by overall expense decreases in Public Works. With the restatement of beginning net position due to GASB No. 75, governmental activities net position increased by \$1.5 million. See Table 2 for more information.
- On a business-type activities basis, net position increased by \$0.8 million before restatement of beginning net position due to GASB No. 75. With the restatement of beginning net position, the business-type funds' total net position increased by \$0.5 million. Unrestricted net position for the Water and Sewer Fund had an increase of \$0.5 million, Chestnut Grove Cemetery and Downtown Parking funds each had an increase of \$0.1 million while the Golf Course Fund decreased by \$0.1 million. See Tables 1 and 2 for more information.
- As of the close of the current fiscal year, the town's governmental funds reported combined ending fund balances of \$23.3 million, an increase of \$1.6 million from the previous fiscal year. The main driver of this increase was a \$1.3 million increase in the General Fund as revenues exceeded expenditures and transfers out. Also contributing to the increase was restricted bond proceeds not yet spent of \$0.3 million. The Capital Projects fund balance decreased marginally, while non-major governmental fund balances increased by \$0.3 million between interest earnings and transfers in. See Table 3 for more information.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$10.2 million, or approximately 30 percent of total General Fund expenditures. Unassigned fund balance increased \$0.9 million from the prior year as revenues outpaced expenditures. General Fund unassigned fund balance is available for spending at the town's discretion and it represents approximately 44 percent of total governmental fund balance. See Table 3 for more information.
- For the current fiscal year end, general fund total revenues were \$1.4 million more than amended budget amounts, driven mainly by business licenses, while actual total expenditures and transfers out were less than the amended budget amounts by \$3.0 million. See Table 4 for more information.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2018 (CONTINUED)

- Government-wide net capital assets decreased \$0.3 million from the prior fiscal year as the \$4.8 million increase in accumulated depreciation outpaced net new investments of \$4.5 million. See Table 5 for more information.
- The town's total outstanding debt is \$11.8 million, which is a decrease of \$0.6 million, driven mainly by debt service payments during the normal course of business, which were partially offset by the addition of \$0.8 million in taxable General Obligation bonds during FY 2018. See Table 6 for more information.

USING THE FINANCIAL SECTION OF THIS ANNUAL FINANCIAL REPORT

Management's discussion and analysis is intended to serve as an introduction to the town's basic financial statements. The basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) the notes to financial statements. This report also includes required supplementary information and other supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide a broad overview of the town's finances, in a manner similar to private-sector companies.

The *Statement of Net Position* presents information on all of the town's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, using the accrual basis of accounting, with the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the town is improving or declining. In addition, nonfinancial factors, such as a change in the town's real estate assessment values or the condition of the town's facilities and infrastructure, should be considered in assessing the overall financial health of the town.

The *Statement of Activities* presents information showing how the town's net position changed during the most recent fiscal year. Changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of when the cash is actually received or paid (accrual basis of accounting). Thus, certain revenues and expenses are reported in this statement for items that will result in cash flows for future periods (e.g., uncollected taxes and earned but unused employee annual leave).

Both government-wide financial statements segregate functions of the town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a substantial portion of their expenses through user fees and charges (business-type activities). The government-wide financial statements are segregated as follows:

Governmental Activities - Many of the activities, programs and services traditionally identified with government are reported here. These activities and services are Legislative, Administration, Town Attorney, Parks and Recreation, Finance, Community Development, Police and Public Works. These activities are financed primarily through property taxes, other local taxes, charges for services, and intergovernmental revenues (federal, state and local grants).

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Government-Wide Financial Statements (Continued)

Business-type Activities - The town has four business-type activities, which are the Water and Sewer Fund (provides customers with water distribution and sewer conveyance); the Golf Course Fund (provides customers with recreational golfing opportunities); the Chestnut Grove Cemetery Fund (operates and manages the Chestnut Grove Cemetery); and the Downtown Parking Fund (operates and manages the town's Downtown Public Shared Parking program). These funds charge a variety of user fees which are dedicated to support a majority, if not all, of respective fund's expenses.

Fund Financial Statements

The fund financial statements provide more detailed information about the town's more significant funds. A "fund" is a grouping of related accounts that is used to maintain control over resources which have been segregated for specific activities or purposes. The town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the town can be divided into three categories: governmental funds, proprietary funds, and fiduciary 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 be readily converted to cash flow in and out, and (2) the balances remaining at fiscal year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader in determining whether there are more or fewer financial resources that can be spent in the near future to finance the town's programs.

Proprietary Funds – These funds are used to account for the operations that are financed in a manner similar to private business enterprises in which costs are recovered primarily through user charges. Proprietary fund financial statements, like the government-wide financial statements, provide both short-term and long-term financial information. The town uses *enterprise funds* (one type of proprietary fund) to account for the activities of the Water and Sewer Fund, Golf Course Fund, Chestnut Grove Cemetery Fund, and Downtown Parking Fund.

Fiduciary Funds – These funds are used to account for resources held for the benefit of parties outside of town government. The town is responsible for ensuring the assets reported in the fund are used for their intended purposes. The town's fiduciary activities are reported in a separate statement of fiduciary net position. The town excludes these activities from the town government-wide financial statements because the town cannot use these assets to finance its programs. The town's fiduciary fund accounts for the Police Supplemental Retirement Trust Fund.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements immediately follow the basic financial statements.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

Statement of Net Position:

The following table presents a condensed Statement of Net Position (Exhibit A-1) in comparative format:

**Table 1
Summary Statement of Net Position
As of June 30
(in thousands)**

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 38,898	\$ 32,042	\$ 18,256	\$ 18,035	\$ 57,154	\$ 50,077
Capital assets, net	81,607	81,578	18,340	18,717	99,947	100,295
Total assets	120,505	113,620	36,596	36,752	157,101	150,372
Deferred outflows of resources	1,306	2,740	215	373	1,521	3,113
Current and other liabilities	4,176	4,830	1,318	1,871	5,494	6,701
Non-current liabilities	18,565	22,229	2,807	3,346	21,372	25,575
Total liabilities	22,741	27,059	4,125	5,217	26,866	32,276
Deferred inflows of resources	14,419	6,151	315	59	14,734	6,210
Net Position:						
Net investment in capital assets	71,886	71,246	16,650	16,771	88,536	88,017
Restricted	2,132	1,618	162	151	2,294	1,769
Unrestricted	10,633	10,286	15,559	14,927	26,192	25,213
Total net position	\$ 84,651	\$ 83,150	\$ 32,371	\$ 31,849	\$ 117,022	\$ 114,999

Net position may serve over time as a useful indicator of the town's financial position. Before accounting for the restatement of beginning net position due to the implementation of GASB No. 75, Accounting and Financial Reporting of Postemployment Benefits Other than Pensions, for the most recently concluded fiscal year, the town's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$117.0 million representing an increase of \$2.0 million from the net position as of June 30, 2017. About 22 percent of the town's net position is unrestricted and available to meet the town's ongoing obligations to citizens and creditors. The larger net position sub-component, labeled "Net investment in capital assets," reflects the town's investment in capital assets (e.g., land, infrastructure, buildings, improvements, machinery and equipment, intangible assets and construction in progress), net of accumulated depreciation and amortization and outstanding debt associated with acquisitions. The town uses its capital assets in providing services to its citizens; consequently, these assets are not readily available for future spending. Although the town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets would not likely be used to liquidate these liabilities.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Activities:

The following table summarizes the changes in net position (Exhibit A-2) in comparative format:

**Table 2
Summary of Changes in Net Position
For the Fiscal Years Ended June 30
(in thousands)**

	Governmental		Business-type		Total	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 4,572	\$ 4,489	\$ 9,275	\$ 8,921	\$ 13,847	\$ 13,410
Operating grants and contributions	1,951	1,926	-	-	1,951	1,926
Capital grants and contributions	2,766	2,168	-	-	2,766	2,168
Total program revenues	9,289	8,583	9,275	8,921	18,564	17,504
General revenues:						
General property taxes	11,416	11,218	-	-	11,416	11,218
Other local taxes	14,465	14,177	-	-	14,465	14,177
Use of money and property	689	910	133	68	822	978
Intergovernmental non-categorical aid	1,584	2,067	-	-	1,584	2,067
Miscellaneous	452	300	616	518	1,068	818
Total general revenues	28,606	28,672	749	586	29,355	29,258
Total revenues	37,895	37,255	10,024	9,507	47,919	46,762
Expenses:						
General government administration	6,046	6,149	-	-	6,046	6,149
Parks and recreation	4,880	5,013	-	-	4,880	5,013
Community development	1,700	1,672	-	-	1,700	1,672
Police	10,242	10,079	-	-	10,242	10,079
Public works	11,337	12,595	-	-	11,337	12,595
Interest	258	258	-	-	258	258
Water and sewer	-	-	6,999	7,607	6,999	7,607
Golf course	-	-	1,572	1,560	1,572	1,560
Chestnut Grove cemetery	-	-	669	708	669	708
Downtown parking	-	-	134	112	134	112
Total expenses	34,463	35,766	9,374	9,987	43,837	45,753
Change in net position before transfers	3,432	1,489	650	(480)	4,082	1,009
Transfers	(145)	(156)	145	156	-	-
Change in net position	3,287	1,333	795	(324)	4,082	1,009
Net position, July 1, as restated	81,364	81,817	31,576	32,173	112,940	113,990
Net position, June 30	\$84,651	\$83,150	\$32,371	\$31,849	\$117,022	\$114,999

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Activities: (Continued)

Governmental Activities

During the current fiscal year, governmental-type activities increased the town's net position by \$3.3 million as revenues exceeded expenditures and transfers out. The adoption of GASB No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions caused governmental-type activities beginning net position to be restated \$1.8 million lower.

Revenues: For the current fiscal year ended, revenues for governmental activities totaled \$37.9 million which is an increase of \$0.6 million or 1.7% from the prior fiscal year.

General property taxes, the town's single largest revenue source, increased by \$0.2 million from the prior fiscal year due to the increase in assessments of taxable real property. The 2017 taxable assessed value of real property within the town was \$4,321,456,532. When compared to the total taxable assessed values for the 2016 assessment year, this amount represents a combined increase of 3.02 percent, with residential properties increasing approximately four percent and commercial properties increasing slightly over one percent. The town's real estate tax rate remained at \$0.265 per \$100 of assessed value.

Other local taxes, the town's largest combined revenue source, increased by \$0.3 million primarily due to the \$0.2 million increase in business license (BPOL) fees. Other local taxes such as transient occupancy (hotel/motel) tax, meals tax, motor vehicle registration tax and local sales tax experienced slight increases compared to the prior fiscal year.

Operating and capital grants and contributions increased \$0.6 million compared to the prior year, driven primarily by transportation-related grants from federal, state, and local sources. Intergovernmental non-categorical aid declined by \$0.5 million compared to the prior year. The miscellaneous revenues increase of \$0.2 million was offset by the \$0.2 million decline in use of money and property compared to the prior year.

Expenses: For the current fiscal year ended, expenses for governmental activities totaled \$34.5 million which is a decrease of \$1.3 million or 3.6% from the prior fiscal year.

The Public Works program accounts for the majority of the decrease as Public Works decreased \$1.3 million from the prior year. Decreased operations and maintenance spending in the Streets and Refuse divisions for road repaving expenses and refuse expenses related to the automated refuse packer account for \$0.5 million of the decrease. Road repaving encumbrances were carryforward into fiscal year 2019. The remaining decrease of \$0.8 million from the prior year is due to many items of which each item is less than \$0.2 million each.

The town's three largest and highest priority programs (other than general government administration, which actually represents four functional areas) are police, public works and parks and recreation. These three programs comprise 77 percent of total governmental expenses.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Activities: (Continued)

Business-type Activities

During the current fiscal year, business-type activities increased the town's net position by \$0.8 million as charges for services, miscellaneous revenues and transfers in were less than total expenses. The adoption of GASB No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions caused business-type activities beginning net position to be restated \$0.3 million lower. Both total revenues and total expenses were favorable from the prior fiscal year as revenues increased by \$0.5 million and expenses decreased by \$0.6 million.

Charges for services revenue increased by \$0.4 million from the prior year with the Water and Sewer and Chestnut Grove Cemetery funds showing increases of \$0.4 and \$0.1 while the Golf Course Fund decreased by 0.1 million. Miscellaneous revenues were also up \$0.1 million from the prior year.

The \$0.6 million decrease in total expenses is primarily from lower expenses in the Water and Sewer Fund since all the other enterprise fund's expenses were relatively flat compared to the prior year. A 27 percent rate decrease for sewer service from Fairfax County caused sewer service charges to be \$0.8 million lower than the prior year. A slight water rate increase from Fairfax Water caused wholesale water expenses to increase \$0.2 million from the prior year.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Governmental funds - The General Fund is the major governmental fund of the town. The town's other governmental funds are the Capital Projects Fund and two non-major governmental funds (1) Information Systems Improvement Fund, and (2) Chestnut Grove Cemetery Perpetual Care Fund. See Note 1 in the notes to financial statements section for more fund information.

The following table summarizes governmental fund balances (Exhibit A-3) in comparative format:

**Table 3
Governmental Fund Analysis of Fund Balance
As of June 30
(in thousands)**

	General		Capital Projects		Non-Major Governmental		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Non-spendable	\$ 252	\$ 338	\$ 25	\$ 25	\$ -	\$ -	\$ 277	\$ 363
Restricted	310	3	459	146	1,673	1,618	2,442	1,767
Committed	1,400	1,200	-	-	-	-	1,400	1,200
Assigned	2,869	2,859	5,491	5,824	845	686	9,205	9,369
Unassigned	10,197	9,346	-	-	(207)	(331)	9,990	9,015
Total fund balances	\$ 15,028	\$ 13,746	\$ 5,975	\$ 5,995	\$ 2,311	\$ 1,973	\$ 23,314	\$ 21,714

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (Continued)

As of the end of the current fiscal year, the town's total ending governmental fund balance increased by \$1.6 million to \$23.3 million from the prior fiscal year. The main driver of this increase was the town's General Fund total fund balance which increased \$1.3 million from the prior fiscal year due to several factors. Unassigned general fund balance increased \$0.9 million as General Fund revenues exceeded expenditures and transfers out by \$1.3 million, offset by increases in the revenue stabilization fund (committed fund balance) and reserves for future debt service (assigned fund balance). The unassigned general fund balance of \$10.2 million represents approximately 30 percent of the General Fund's expenditures (excluding transfers out) for fiscal year 2018. Also contributing to the increase in total General Fund balance was restricted bond proceeds not yet spent of \$0.3 million.

The Capital Projects fund balance decreased marginally, from the prior fiscal year. During the year revenues of approximately \$2.1 million and transfers in of approximately \$0.7 million were about equal to the capital outlays of \$2.8 million.

Non-Major Governmental fund balances increased \$0.3 million from the prior fiscal year. This increase is primarily attributable to a \$0.2 million transfer in from the general fund which was set aside in assigned fund balance of the Information Systems Improvement Fund for future police radio equipment purchases.

Proprietary funds - The town's enterprise funds, which are a type of proprietary fund, provide the same type of information found in the government-wide financial statements for business-type activities, but in greater detail. Before accounting for the restatement of beginning net position due to GASB 75 implementation, total unrestricted net position increased by \$0.6 million from the prior year. Unrestricted net position for each of the four enterprise funds increased or (decreased) from the prior year as follows:

- Water and Sewer Fund \$0.5 million to \$10.6 million
- Golf Course Fund (\$0.1) million to \$0.4 million
- Chestnut Grove Cemetery Fund \$0.1 million to \$0.6
- Downtown Parking Fund \$0.1 million to \$4.0 million

On an operating basis, only the Chestnut Grove Cemetery Fund had operating income while the other three proprietary funds had an operating loss during fiscal year 2018 as show on page one of Exhibit A-9. Availability fees and net investment earnings offset the Water and Sewer fund's operating loss and provided almost a \$0.5 million increase in net position. Also, a 27 percent sewer rate decrease from Fairfax County contributed to the increase net position. For the Chestnut Grove Cemetery Fund, increased revenues from cemetery sites and interment services provided for the increase in net position. The Golf Course Fund decreased slightly since total operating expenses exceeded total operating revenues; net nonoperating expense was insignificant. The Downtown Parking Fund's unrestricted net position increased slightly since the transfer in from the General Fund exceeded the fund's net loss operating loss for the fiscal year. See Exhibits A-8 and A-9 for further details.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL FUND BUDGETARY HIGHLIGHTS

The following table summarizes General Fund budget to actual (Exhibit A-7) variances:

**Table 4
General Fund Budget to Actual
(in thousands)**

	Fiscal Year 2018			Over / (Under)
	Original Budget	Amended Budget	Actual	
Taxes	\$ 24,304	\$ 24,304	\$ 25,831	\$ 1,527
Intergovernmental	4,482	4,595	4,581	(14)
Other	5,298	5,477	5,342	(135)
Total revenues	34,084	34,376	35,754	1,378
Expenditures	34,599	36,740	33,961	(2,779)
Transfers out & other	304	765	511	(254)
Total expenditures	34,903	37,505	34,472	(3,033)
Change in fund balance	(819)	(3,129)	1,282	4,411
Fund balance, beginning	13,746	13,746	13,746	-
Fund balance, ending	\$ 12,927	\$ 10,617	\$ 15,028	\$ 4,411

The amended budget for revenues exceeded the original budget by \$0.3 million. This was primarily due to the anticipation of greater intergovernmental grant reimbursements and charges for services for the Herndon Festival carnival. The final amended budget appropriations, which include expenditures and transfers out, exceeded the original budget by \$2.6 million. During the fiscal year, the town enacted the first budget amendment for \$0.7 million plus \$0.8 million for carry-over appropriations for encumbrances outstanding at the end of the prior fiscal year. The town authorized a mid-year budget amendment of \$1.1 million for various capital improvement projects, various grant funded expenditures, finance attorney and advisor fees, and the Herndon Festival carnival.

At the conclusion of the fiscal year, total revenues were almost \$1.4 million more than amended budget amounts while actual expenditures and transfers out were less than the amended budget amounts by \$3.0 million. Highlights of the comparison of amended budget to actual figures for the fiscal year ended June 30, 2018 include the following:

- The \$1.5 million budget surplus in taxes is primarily attributable to business license taxes exceeding budget by \$1.4 million. A \$0.1 million budgetary shortfall in the town's share of local sales tax was offset by transient occupancy taxes beating budget by \$0.1 million.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL FUND BUDGETARY HIGHLIGHTS (Continued)

- All the other local taxes (e.g., motor vehicle registration taxes, meals tax, bank stock taxes, consumer utility tax, and cigarette taxes) were \$0.1 million higher than budget with each tax having modest positive or negative variances. General property taxes were in-line with budget.
- Intergovernmental revenues were in-line with the amended budget as the variance is only fourteen thousand dollars.
- The \$0.1 million shortfall in other revenues is the result of decreases in fines and forfeitures of \$0.1 million and use of money and property of \$0.2 million, offset by increases in permits, privilege fees and regulatory licenses of \$0.1 million and charges for services of \$0.1 million. Use of money and property was under budget primarily due to increased interest rates in the bond market which caused a decrease in the fair market value of the town's investment portfolio of \$0.2 million.
- Total expenditures excluding transfers out and other financing sources came in under budget by \$2.8 million. Expenditure amounts for most operating departments (with the exception of police and grants) were less than the amended budgets. Personnel costs including employee benefits were \$0.6 million favorable to budget which is mostly due to employee vacancy savings throughout the fiscal year. Operating and maintenance expenditures were \$1.0 million favorable to budget, of which \$0.7 million in encumbrances at the end of fiscal year 2018 were authorized for carryforward to fiscal year 2019.
- The debt service budget included funding of \$0.8 million to issue bonds and leases during the fiscal year and make the first semi-annual debt service and lease payments on proposed issues. The town issued taxable General Obligation bonds during FY 2018 of \$0.8 million to finance the acquisition of various vehicles and equipment. Debt service on that bond will begin in FY 2019.
- Transfers out and other financing sources were \$0.3 million under the amended budget since the bonds proceeds for the vehicle financing was increased \$0.3 million to include financing for fiscal year 2019 vehicles. The unspent bonds proceeds are shown as restricted fund balance on Exhibit A-3.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS

As of June 30, 2018, the town had invested approximately \$100.0 million in a variety of capital assets as reflected in the following table, which represents a net decrease of \$0.3 million from the prior fiscal year. More detailed information on capital assets can be found in Note 6 of the notes to the financial statements.

**Table 5
Summary of Capital Assets
As of June 30
(in thousands)**

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 24,709	\$ 24,698	\$ 3,506	\$ 3,506	\$ 28,215	\$ 28,204
Infrastructure	82,195	82,195	-	-	82,195	82,195
Buildings	41,732	41,177	3,545	3,485	45,277	44,662
Improvements other than buildings	14,834	13,124	34,790	33,870	49,624	46,994
Machinery and equipment	11,321	10,360	3,230	3,070	14,551	13,430
Intangibles	1,237	1,255	266	265	1,503	1,520
Furniture and fixtures	1,074	969	202	202	1,276	1,171
Construction in progress	4,080	3,833	84	303	4,164	4,136
Accumulated depreciation	(99,575)	(96,033)	(27,283)	(25,984)	(126,858)	(122,017)
Total capital assets, net	\$ 81,607	\$ 81,578	\$ 18,340	\$ 18,717	\$ 99,947	\$ 100,295

The net decrease in the town's capital asset investment is attributable to the increase in accumulated depreciation of \$4.8 million exceeding net new investments of \$4.5 million. The new investments in capital assets were primarily in improvements other than buildings and machinery and equipment as each increased \$2.6 million and \$1.1 million, respectively.

Major capital assets transactions incurred during the fiscal year in both governmental and business-type activities are as follows:

- In the improvements other than buildings category, the town completed the Bready Park soccer field improvement, Park Avenue sidewalk improvements, and Lynn Street sidewalk improvements. The Water and Sewer Fund completed the Virginia Avenue and Vine Street water main replacements.
- New investments in machinery and equipment include five new police vehicles with related accessories, four new dump trucks, snow plows, and a Bobcat steer loader. The Water and Sewer Fund purchased a heavy duty full-size pickup truck. The Golf Course Fund purchased seven new gas golf carts and a hybrid greens mower while the Cemetery Fund added a new Bobcat excavator.
- The increase in the buildings category was primarily from the completion of the Herndon Municipal Center garage sprinkler system replacement and the 397 Herndon Parkway building variable air volume replacement. The Cemetery Fund added two columbaria during the year.
- The downtown streetscape improvements and utility undergrounding projects were in progress.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT’S DISCUSSION AND ANALYSIS

CAPITAL ASSETS (Continued)

During the fiscal year, significant design and specifications, right-of-way acquisition and utility relocation efforts have progressed on critical capital projects such as vehicular and pedestrian access to the future Herndon Metro rail station; Herndon Parkway and Van Buren Street intersection improvements; Van Buren Complete Streets; Utility Undergrounding; Downtown Streetscapes; Elden and Monroe streets intersection improvement; and Elden and Center streets intersection improvements. More detailed information on future capital improvements can be found in the town’s adopted six-year Capital Improvement Program (CIP).

LONG-TERM DEBT

At the end of fiscal year 2018, the town had \$11.8 million in outstanding long-term general obligations bonds and premiums, as reflected in the following table. This represents a decrease of \$0.6 million from the prior fiscal year, driven mainly by debt service payments during the normal course of business, which were partially offset by the addition of \$0.8 million in taxable General Obligation bonds during fiscal year 2018.

As of the end of fiscal year 2018, the town had the following issuer ratings from the three credit ratings agencies: AAA from Fitch Investor Service, Aaa from Moody’s Investor Service, Inc., and AAA from Standard and Poor’s Corporation. Subsequent to fiscal year end 2018, the town issued \$11.135 million in general obligation bonds which were rated AAA by all three credit rating agencies. More detailed information on long-term debt can be found in Note 8 of the notes to the financial statements.

**Table 6
Summary of General Obligation Bonds and Notes Payable
As of June 30
(in thousands)**

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
General obligation (GO) bonds	\$ 9,966	\$ 10,175	\$ 1,747	\$ 2,004	\$ 11,713	\$ 12,179
GO bonds - premiums	66	78	25	33	91	111
Notes payable	-	79	-	-	-	79
Total long-term outstanding debt	\$ 10,032	\$ 10,332	\$ 1,772	\$ 2,037	\$ 11,804	\$ 12,369

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

As noted earlier, other than business licenses, the town’s revenues from taxes performed as expected compared to budget in fiscal year 2018. As such, the fiscal year 2019 budget anticipates no significant revenue growth over the fiscal year 2018. The approved fiscal year 2019 budget reflects an increase of nearly 3.0 percent in assessed property tax values and maintains the town’s real estate tax rate of \$0.265 per \$100 of assessed value. All excise taxes are maintained at their current rates.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES (Continued)

The total adopted fiscal year 2019 budget (all funds), including inter-fund transfers, is \$60.2 million which is about 17.6 percent more than the original budget for fiscal year 2018. Most of the increase is in the Capital category (15.6 million) and is related to bonding for large capital projects in the Water and Sewer Fund and the Downtown Parking Fund. General Fund expenditures total \$36.2 million which is about 1.7 percent more than the original budget for fiscal year 2018.

The June 2018 unemployment rate in Fairfax County (which includes the Town of Herndon) is estimated at 2.7 percent compared to the actual rate of 3.2 percent in June 2017. In comparison, Virginia's unemployment rate for June 2018 is 3.3 percent, and the U.S. unemployment rate is estimated at 4.2 percent.

CURRENTLY KNOWN FACTS EXPECTED TO AFFECT FINANCIAL POSITION

Following months of review and significant input from the public, in the fall of 2017 the Herndon Town Council adopted a resolution to enter into a comprehensive agreement with Comstock Partners for the redevelopment of 4.675 acres in Herndon's downtown. The town's additional financial obligations include \$3.6 million in payments to Comstock Partners during the construction phase of the project, and between \$2.5 and \$3.5 million for the design and construction of the Arts Center component of the project. These financial obligations will likely be funded through a combination of debt financing and cash. Ground breaking is anticipated to begin during calendar year 2019. More detailed information about the downtown redevelopment project can be found in the comprehensive agreement on the town's website.

Subsequent to fiscal year end 2018, the town issued \$11.135 million in general obligation bonds to fund various capital projects for governmental and business-type activities. The Water and Sewer Fund purchased additional water capacity for \$6.128 million from Fairfax Water. This bond issuance was rated AAA/Aaa by all three credit rating agencies. For more information see Note 18 in the notes to the financial statements.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

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 financial information should be directed to the Director of Finance, Town of Herndon, Department of Finance, 777 Lynn St., Herndon, VA 20170. The telephone number is (703) 435-6810 or visit the town's web site at www.herndon-va.gov.

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www.herndon-va.gov

BASIC FINANCIAL STATEMENTS

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TOWN OF HERNDON, VIRGINIA

Exhibit A-1

STATEMENT OF NET POSITION

June 30, 2018

	Governmental Activities	Business-type Activities	Totals
ASSETS			
Cash, cash equivalents and investments (Note 2)	\$ 23,077,188	\$ 12,920,063	\$ 35,997,251
Cash and investments with fiscal agent (Note 2)	144	-	144
Receivables, net:			
Property taxes (Note 3)	11,515,711	-	11,515,711
Trade and other accounts (Note 3)	570,193	1,556,994	2,127,187
Accrued interest	129,435	46,039	175,474
Due from other governments (Note 3)	901,481	-	901,481
Inventories	216,742	30,889	247,631
Prepaid costs	60,444	-	60,444
Cash, cash equivalents and investments - restricted (Note 2)	2,426,026	161,671	2,587,697
Notes receivable (Note 5)	-	71,146	71,146
Land held for sale	-	3,469,456	3,469,456
Capital assets: (Note 6)			
Nondepreciable	28,789,579	3,589,862	32,379,441
Depreciable, net	52,817,642	14,750,191	67,567,833
Total assets	<u>120,504,585</u>	<u>36,596,311</u>	<u>157,100,896</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	-	81,317	81,317
Deferred outflows related to pensions (Notes 9 and 13)	1,125,513	116,347	1,241,860
Deferred outflows related to other postemployment benefits (Notes 11,12 and 13)	180,678	17,189	197,867
Total deferred outflows of resources	<u>1,306,191</u>	<u>214,853</u>	<u>1,521,044</u>
LIABILITIES			
Accounts payable	818,082	993,422	1,811,504
Accrued payroll	279,013	48,971	327,984
Accrued liabilities - other	964,404	54,685	1,019,089
Accrued interest	92,211	23,060	115,271
Unearned revenue (Note 7)	242,915	39,993	282,908
Customer deposits	1,779,377	157,810	1,937,187
Noncurrent liabilities:			
Due within one year (Note 8)	1,758,824	299,179	2,058,003
Due in more than one year (Note 8)	10,525,588	1,768,982	12,294,570
Net pension liability (Notes 9 and 13)	2,198,951	160,496	2,359,447
Net other postemployment benefit liability (Notes 11, 12 and 13)	4,081,227	578,225	4,659,452
Total liabilities	<u>22,740,592</u>	<u>4,124,823</u>	<u>26,865,415</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions (Notes 9 and 13)	2,869,562	301,009	3,170,571
Deferred inflows related to other postemployment benefits (Notes 11, 12 and 13)	137,651	14,349	152,000
Property taxes (Note 7)	11,412,029	-	11,412,029
Total deferred inflows of resources	<u>14,419,242</u>	<u>315,358</u>	<u>14,734,600</u>
NET POSITION			
Net investment in capital assets	71,885,582	16,649,854	88,535,436
Restricted:			
Lateral program	-	161,671	161,671
Capital projects	458,992	-	458,992
Cemetery Perpetual Care Fund - expendable	1,673,085	-	1,673,085
Unrestricted	10,633,283	15,559,458	26,192,741
Total net position	<u>\$ 84,650,942</u>	<u>\$ 32,370,983</u>	<u>\$ 117,021,925</u>

The Notes to Financial Statements are an integral part of this Statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-2

STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Governmental activities:							
Legislative	\$ 706,048	\$ -	\$ -	\$ -	\$ (706,048)		\$ (706,048)
Administration	3,017,512	35,976	-	-	(2,981,536)		(2,981,536)
Town attorney	612,209	-	-	-	(612,209)		(612,209)
Parks and recreation	4,879,803	2,767,916	-	-	(2,111,887)		(2,111,887)
Finance	1,710,148	588,333	-	-	(1,121,815)		(1,121,815)
Community development	1,699,935	-	40,000	-	(1,659,935)		(1,659,935)
Police	10,242,016	430,685	864,195	-	(8,947,136)		(8,947,136)
Public works	11,337,194	749,504	1,046,761	2,765,821	(6,775,108)		(6,775,108)
Interest	257,963	-	-	-	(257,963)		(257,963)
Total governmental activities	<u>34,462,828</u>	<u>4,572,414</u>	<u>1,950,956</u>	<u>2,765,821</u>	<u>(25,173,637)</u>		<u>(25,173,637)</u>
Business-type activities:							
Water and sewer	6,999,142	6,935,184	-	-		\$ (63,958)	(63,958)
Golf course	1,572,043	1,372,186	-	-		(199,857)	(199,857)
Chestnut Grove cemetery	668,944	967,731	-	-		298,787	298,787
Downtown parking	133,985	-	-	-		(133,985)	(133,985)
Total business-type activities	<u>9,374,114</u>	<u>9,275,101</u>	<u>-</u>	<u>-</u>		<u>(99,013)</u>	<u>(99,013)</u>
Total government	<u>\$ 43,836,942</u>	<u>\$ 13,847,515</u>	<u>\$ 1,950,956</u>	<u>\$ 2,765,821</u>	<u>(25,173,637)</u>	<u>(99,013)</u>	<u>(25,272,650)</u>
General Revenues:							
Taxes:							
General property					11,416,010	-	11,416,010
Business licenses					5,732,161	-	5,732,161
Transient occupancy					2,286,397	-	2,286,397
Meals					2,266,761	-	2,266,761
Local sales					1,818,023	-	1,818,023
Consumer utility					795,461	-	795,461
Other local taxes					1,565,922	-	1,565,922
Revenues not restricted to specific programs					102,243	-	102,243
Intergovernmental, non-categorical aid					1,583,697	-	1,583,697
Use of money and property					688,957	132,979	821,936
Gain on sale of capital assets					-	33,556	33,556
Miscellaneous and lease income					350,137	582,445	932,582
Transfers					(144,987)	144,987	-
Total general revenues and transfers					<u>28,460,782</u>	<u>893,967</u>	<u>29,354,749</u>
Change in net position					3,287,145	794,954	4,082,099
Net position, July 1, as restated (Note 17)					<u>81,363,797</u>	<u>31,576,029</u>	<u>112,939,826</u>
Net position, June 30					<u>\$ 84,650,942</u>	<u>\$ 32,370,983</u>	<u>\$ 117,021,925</u>

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-3
Page 1

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash, cash equivalents and investments	\$ 16,987,176	\$ 5,427,376	\$ 662,636	\$ 23,077,188
Cash and investments with fiscal agent	101	43	-	144
Receivables (net of allowance for doubtful accounts):				
Property taxes	11,515,711	-	-	11,515,711
Trade and other accounts	570,193	-	-	570,193
Accrued interest	84,942	28,442	16,051	129,435
Due from other governments	679,856	221,625	-	901,481
Inventories	216,742	-	-	216,742
Prepaid costs	35,444	25,000	-	60,444
Cash, cash equivalents and investments - restricted	<u>310,000</u>	<u>458,992</u>	<u>1,657,034</u>	<u>2,426,026</u>
Total assets	<u>\$ 30,400,165</u>	<u>\$ 6,161,478</u>	<u>\$ 2,335,721</u>	<u>\$ 38,897,364</u>

(Continued)

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-3
Page 2

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 730,198	\$ 63,475	\$ 24,409	\$ 818,082
Accrued payroll	279,013	-	-	279,013
Accrued liabilities - other	841,031	123,373	-	964,404
Unearned revenue	242,915	-	-	242,915
Customer deposits	1,779,377	-	-	1,779,377
Total liabilities	3,872,534	186,848	24,409	4,083,791
Deferred inflows of resources:				
Unavailable revenue - property taxes	11,499,269	-	-	11,499,269
Total deferred inflows of resources	11,499,269	-	-	11,499,269
Fund Balances:				
Nonspendable:				
Inventories	216,742	-	-	216,742
Prepaid costs	35,444	25,000	-	60,444
Restricted:				
Bond proceeds not yet spent	310,000	-	-	310,000
Cemetery perpetual care	-	-	1,673,085	1,673,085
Stormwater grant	-	349,992	-	349,992
Brownfields grant	-	109,000	-	109,000
Committed:				
Revenue stabilization	1,400,000	-	-	1,400,000
Assigned:				
Operating & capital costs	726,179	-	4,725	730,904
Future debt service costs	1,264,800	-	-	1,264,800
Future police radio system costs	-	-	630,000	630,000
BPOL reserve	547,800	-	-	547,800
Subsequent years' expenditures for:				
General Fund	330,618	-	-	330,618
Capital Projects Fund	-	5,490,638	210,000	5,700,638
Unassigned:				
General Fund	10,196,779	-	-	10,196,779
Other Governmental Funds	-	-	(206,498)	(206,498)
Total fund balances	15,028,362	5,974,630	2,311,312	23,314,304
Total liabilities, deferred inflows of resources and fund balances	\$ 30,400,165	\$ 6,161,478	\$ 2,335,721	\$ 38,897,364

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-4

**RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2018**

Total Fund Balances - Governmental Funds		\$ 23,314,304
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.</p>		81,607,221
<p>Unavailable revenue represents amounts that were not available to fund current expenditures, and, therefore, is not reported as revenue in the governmental funds.</p>		87,240
<p>Financial statement elements related to other postemployment benefits and pensions are applicable to future periods and, therefore, are not reported in the funds.</p>		
Deferred outflows related to:		
Pensions	1,125,513	
Other postemployment benefits	180,678	1,306,191
Deferred inflows related to:		
Pensions	(2,869,562)	
Other postemployment benefits	(137,651)	(3,007,213)
Net pension liability		(2,198,951)
Net other post employment benefits liability		(4,081,227)
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.</p>		
Bonds payable, including unamortized premiums and discounts	(10,031,639)	
Compensated absences	(2,252,773)	
Interest payable	(92,211)	(12,376,623)
Net position of governmental activities		\$ 84,650,942

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-5
Page 1

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2018

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
General property taxes	\$ 11,367,365	\$ -	\$ -	\$ 11,367,365
Other local taxes	14,463,451	-	-	14,463,451
Permits, privilege fees and regulatory licenses	603,773	-	-	603,773
Fines and forfeitures	452,965	-	-	452,965
Use of money and property	638,323	51,004	(370)	688,957
Charges for services	3,619,194	-	-	3,619,194
Miscellaneous	27,806	322,331	-	350,137
Intergovernmental	4,581,413	1,719,060	-	6,300,473
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	35,754,290	2,092,395	(370)	37,846,315
Expenditures:				
Current:				
Legislative	699,202	-	-	699,202
Administration	2,863,707	-	-	2,863,707
Town attorney	489,362	-	-	489,362
Parks and recreation	4,449,527	-	-	4,449,527
Finance	1,716,122	-	-	1,716,122
Community development	1,736,736	-	-	1,736,736
Police	10,074,661	-	-	10,074,661
Public works	10,239,065	-	-	10,239,065
Grants	151,977	-	-	151,977
Capital outlay	-	2,826,613	283,317	3,109,930
Debt service:				
Principal	1,256,739	-	-	1,256,739
Interest and fiscal charges	283,989	-	-	283,989
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	33,961,087	2,826,613	283,317	37,071,017
	<hr/>	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues over expenditures	1,793,203	(734,218)	(283,687)	775,298

(Continued)

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-5
Page 2

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2018

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Other financing sources (uses):				
Bond proceeds	\$ 969,000	\$ -	\$ -	\$ 969,000
Transfers in	-	714,000	621,013	1,335,013
Transfers out	(1,480,000)	-	-	(1,480,000)
Total other financing sources (uses), net	(511,000)	714,000	621,013	824,013
Net change in fund balances	1,282,203	(20,218)	337,326	1,599,311
Fund balances, July 1	13,746,159	5,994,848	1,973,986	21,714,993
Fund balances, June 30	\$ 15,028,362	\$ 5,974,630	\$ 2,311,312	\$ 23,314,304

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2018**

Net change in fund balances - total governmental funds \$ 1,599,311

Reconciliation of amounts reported for governmental activities
in the Statement of Activities:

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 and reported as depreciation and amortization expense. This is the amount by which capital outlays exceeded depreciation and amortization in the current period.

Expenditure for capital assets	\$ 3,752,903	
Less depreciation and amortization expense	(3,701,957)	
Excess of capital outlay over depreciation and amortization		50,946

The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins and donations) is to decrease net position:

Loss on disposal of capital assets		(21,801)
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Change in unavailable revenue		48,645
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Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the Statement of Net Position.

Issuance of debt		(969,000)
Principal repayments:		
General obligation debt and notes payable		1,256,738

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

Employer pension contributions		1,125,513
Pension expense		19,955

Governmental funds report employer other postemployment benefit contributions as expenditures. However, in the statement of activities the cost of these benefits earned, net of employee contributions, is reported as other postemployment benefit expense.

Employer other postemployment benefit contributions		167,999
Other postemployment benefit expense		(78,026)

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.

Accrued interest	13,335	
Compensated absences	60,839	
Amortization of premiums and discounts	12,691	
		86,865

Change in net position of governmental activities		<u>\$ 3,287,145</u>
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The Notes to the Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-7
Page 1

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
General property taxes	\$ 11,355,719	\$ 11,355,719	\$ 11,367,365	\$ 11,646
Other local taxes	12,948,700	12,948,700	14,463,451	1,514,751
Permits, privilege fees and regulatory licenses	536,000	536,000	603,773	67,773
Fines and forfeitures	568,000	568,000	452,965	(115,035)
Use of money and property	800,000	800,000	638,323	(161,677)
Charges for services	3,363,833	3,538,833	3,619,194	80,361
Miscellaneous	30,000	33,645	27,806	(5,839)
Intergovernmental	4,481,875	4,595,350	4,581,413	(13,937)
Total revenues	34,084,127	34,376,247	35,754,290	1,378,043
Expenditures:				
Current:				
Legislative	711,359	714,438	699,202	15,236
Administration	2,992,184	3,200,429	2,863,707	336,722
Town attorney	488,496	502,125	489,362	12,763
Parks and recreation	4,374,502	4,598,193	4,449,527	148,666
Finance	1,484,358	1,838,738	1,716,122	122,616
Community development	1,818,235	2,278,335	1,736,736	541,599
Police	9,935,818	9,997,811	10,074,661	(76,850)
Public works	10,585,010	11,273,897	10,239,065	1,034,832
Grants, contingency	-	49,020	151,977	(102,957)
Debt service:				
Principal	1,839,708	1,916,308	1,256,739	659,569
Interest and fiscal charges	369,457	370,582	283,989	86,593
Total expenditures	34,599,127	36,739,876	33,961,087	2,778,789
Excess (deficiency) of revenues over expenditures	(515,000)	(2,363,629)	1,793,203	4,156,832

(Continued)

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-7
Page 2

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Other financing sources (uses):				
Proceeds from sale of capital assets	\$ 20,000	\$ 20,000	\$ -	\$ (20,000)
Bond proceeds	695,000	695,000	969,000	274,000
Transfers out	(1,019,000)	(1,480,000)	(1,480,000)	-
Total other financing uses, net	(304,000)	(765,000)	(511,000)	254,000
Net change in fund balance	\$ (819,000)	\$ (3,128,629)	\$ 1,282,203	\$ 4,410,832

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-8
Page 1

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2018

	Business-type Activities - Enterprise Funds				Totals
	Major Funds				
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking	
ASSETS					
Current Assets:					
Cash, cash equivalents and investments	\$ 10,785,136	\$ 894,703	\$ 748,366	\$ 491,858	\$ 12,920,063
Receivables (net of allowance for doubtful accounts):					
Trade and other accounts	1,553,994	3,000	-	-	1,556,994
Accrued interest	21,583	7,676	-	16,780	46,039
Inventories	8,969	21,920	-	-	30,889
Cash, cash equivalents and investments - restricted	161,671	-	-	-	161,671
Current notes receivable (net of allowance for doubtful accounts)	-	-	-	11,858	11,858
Total current assets	<u>12,531,353</u>	<u>927,299</u>	<u>748,366</u>	<u>520,496</u>	<u>14,727,514</u>
Noncurrent Assets:					
Notes receivable (net of allowance for doubtful accounts)	-	-	-	59,288	59,288
Land held for sale	-	-	-	3,469,456	3,469,456
Capital assets:					
Land	200,000	1,621,574	718,500	966,109	3,506,183
Buildings	-	2,240,527	1,304,717	-	3,545,244
Improvements other than buildings	29,722,297	3,157,597	1,450,064	460,045	34,790,003
Machinery and equipment	2,298,132	755,829	176,287	-	3,230,248
Furniture and fixtures	194,919	-	6,720	-	201,639
Intangibles	265,608	-	-	-	265,608
Construction in progress	83,679	-	-	-	83,679
Less accumulated depreciation and amortization	<u>(20,609,786)</u>	<u>(4,684,868)</u>	<u>(1,532,159)</u>	<u>(455,738)</u>	<u>(27,282,551)</u>
Total capital assets (net of accumulated depreciation and amortization)	<u>12,154,849</u>	<u>3,090,659</u>	<u>2,124,129</u>	<u>970,416</u>	<u>18,340,053</u>
Total noncurrent assets	<u>12,154,849</u>	<u>3,090,659</u>	<u>2,124,129</u>	<u>4,499,160</u>	<u>21,868,797</u>
Total assets	<u>24,686,202</u>	<u>4,017,958</u>	<u>2,872,495</u>	<u>5,019,656</u>	<u>36,596,311</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on refunding	-	-	81,317	-	81,317
Pension related deferred outflows	56,338	43,366	16,643	-	116,347
OPEB related deferred outflows	10,206	5,107	1,876	-	17,189
Total deferred outflows of resources	<u>66,544</u>	<u>48,473</u>	<u>99,836</u>	<u>-</u>	<u>214,853</u>

(Continued)

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-8

Page 2

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 June 30, 2018

	Business-type Activities - Enterprise Funds				
	Major Funds				Totals
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking	
LIABILITIES					
Current Liabilities:					
Accounts payable	\$ 975,906	\$ 13,461	\$ 3,663	\$ 392	\$ 993,422
Accrued payroll	21,054	20,593	7,324	-	48,971
Accrued liabilities - other	55,332	11,379	11,034	-	77,745
Compensated absences	20,527	5,892	5,797	-	32,216
Unearned revenue	39,993	-	-	-	39,993
Customer deposits	157,810	-	-	-	157,810
Current general obligation bonds payable	-	109,017	157,946	-	266,963
Total current liabilities	1,270,622	160,342	185,764	392	1,617,120
Noncurrent Liabilities:					
Compensated absences	93,838	153,201	17,390	-	264,429
Net other post employment benefit liability	297,503	198,099	82,623	-	578,225
Net pension liability	52,408	79,787	28,301	-	160,496
Long-term general obligation bonds payable, net	-	523,294	981,259	-	1,504,553
Total noncurrent liabilities	443,749	954,381	1,109,573	-	2,507,703
Total liabilities	1,714,371	1,114,723	1,295,337	392	4,124,823
DEFERRED INFLOWS OF RESOURCES					
Pension related deferred inflows	141,289	112,674	47,046	-	301,009
OPEB related deferred inflows	6,916	5,381	2,052	-	14,349
Total deferred inflows of resources	148,205	118,055	49,098	-	315,358
NET POSITION					
Net Position:					
Net investment in capital assets	12,154,849	2,458,348	1,066,241	970,416	16,649,854
Restricted, lateral program	161,671	-	-	-	161,671
Unrestricted	10,573,650	375,305	561,655	4,048,848	15,559,458
Total net position	\$ 22,890,170	\$ 2,833,653	\$ 1,627,896	\$ 5,019,264	\$ 32,370,983

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-9

Page 1

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2018**

	Business-type Activities - Enterprise Funds				Totals
	Major Funds				
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking	
Operating revenues:					
Sale of water	\$ 2,736,152	\$ -	\$ -	\$ -	\$ 2,736,152
Sewer service charges	3,412,416	-	-	-	3,412,416
Late payment charges	70,389	-	-	-	70,389
Sale of commodities	11,142	-	-	-	11,142
Rents and leases	358,673	40,575	-	-	399,248
Greens fees	-	953,161	-	-	953,161
Golf cart revenue	-	278,969	-	-	278,969
Golf pro shop sales	-	61,353	-	-	61,353
Driving range fees	-	78,703	-	-	78,703
Cemetery sites	-	-	550,125	-	550,125
Interment services	-	-	250,600	-	250,600
Merchandise sales	-	-	167,006	-	167,006
Miscellaneous	19,331	17,006	49,015	97,845	183,197
Total operating revenues	6,608,103	1,429,767	1,016,746	97,845	9,152,461
Operating expenses:					
Finance	237,566	-	-	-	237,566
Water main maintenance	2,038,128	-	-	-	2,038,128
Sewer service charge	3,205,979	-	-	-	3,205,979
Contractual services	535,497	-	-	-	535,497
Golf course operations	-	680,550	-	-	680,550
Golf course club house	-	575,771	-	-	575,771
Cemetery operations	-	-	493,120	-	493,120
Downtown parking	-	-	-	129,563	129,563
Nondepartmental:					
Depreciation and amortization	947,881	233,572	112,129	4,422	1,298,004
Miscellaneous	34,091	57,053	22,308	-	113,452
Total operating expenses	6,999,142	1,546,946	627,557	133,985	9,307,630
Operating income (loss)	(391,039)	(117,179)	389,189	(36,140)	(155,169)

(Continued)

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-9
Page 2

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2018

	Business-type Activities - Enterprise Funds				Totals
	Major Funds				
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking	
Nonoperating revenues (expenses):					
Investment earnings, net	\$ 104,478	\$ 12,466	\$ 9,297	\$ 6,738	\$ 132,979
Interest expense	-	(25,097)	(41,387)	-	(66,484)
Gain on disposal of capital assets	27,431	6,125	-	-	33,556
Total nonoperating revenues (expenses), net	131,909	(6,506)	(32,090)	6,738	100,051
Income (loss) before capital contributions, availability fees and transfers	(259,130)	(123,685)	357,099	(29,402)	(55,118)
Availability fees	705,085	-	-	-	705,085
Transfers in	-	-	-	200,000	200,000
Transfers out	-	-	(55,013)	-	(55,013)
Total availability fees and transfers	705,085	-	(55,013)	200,000	850,072
Change in net position	445,955	(123,685)	302,086	170,598	794,954
Total net position, July 1, as restated	22,444,215	2,957,338	1,325,810	4,848,666	31,576,029
Total net position, June 30	\$ 22,890,170	\$ 2,833,653	\$ 1,627,896	\$ 5,019,264	\$ 32,370,983

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-10
Page 1

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2018

	Business-type Activities - Enterprise Funds				
	Major Funds				
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking	Totals
Operating Activities:					
Receipts from customers	\$ 6,501,531	\$ 1,426,767	\$ 1,016,746	\$ 24,867	\$ 8,969,911
Payments to suppliers for goods and services	(5,609,948)	(408,813)	(193,478)	(139,147)	(6,351,386)
Payments to employees for services	(1,103,874)	(896,563)	(345,766)	-	(2,346,203)
Net cash provided by (used in) operating activities	<u>(212,291)</u>	<u>121,391</u>	<u>477,502</u>	<u>(114,280)</u>	<u>272,322</u>
Noncapital Financing Activities:					
Transfers in from other funds	-	-	-	200,000	200,000
Transfers out to other funds	-	-	(55,013)	-	(55,013)
Repayment of advances from other funds	-	-	(101,320)	-	(101,320)
Interest paid on advances from other funds	-	-	(3,947)	-	(3,947)
Net cash provided by (used in) noncapital financing activities	<u>-</u>	<u>-</u>	<u>(160,280)</u>	<u>200,000</u>	<u>39,720</u>
Capital and Related Financing Activities:					
Availability fees	705,085	-	-	-	705,085
Acquisition and construction of capital assets	(749,133)	(86,791)	(83,074)	-	(918,998)
Proceeds from the sale of capital assets	27,431	6,125	-	-	33,556
Principal paid on bonds	-	(103,977)	(154,079)	-	(258,056)
Interest paid on bonds	-	(26,802)	(29,106)	-	(55,908)
Net cash used in capital and related financing activities	<u>(16,617)</u>	<u>(211,445)</u>	<u>(266,259)</u>	<u>-</u>	<u>(494,321)</u>
Investing Activities:					
Principal received on note receivable	-	-	-	28,148	28,148
Interest received on note receivable	-	-	-	7,516	7,516
Interest received on investment securities	118,727	7,650	13,636	2,525	142,538
Net cash provided by (used in) investing activities	<u>118,727</u>	<u>7,650</u>	<u>13,636</u>	<u>38,189</u>	<u>178,202</u>
Net increase (decrease) in cash, cash equivalents and investments	<u>(110,181)</u>	<u>(82,404)</u>	<u>64,599</u>	<u>123,909</u>	<u>(4,077)</u>
Cash, Cash Equivalents and Investments:					
Beginning	11,056,988	977,107	683,767	367,949	13,085,811
Ending	<u>\$ 10,946,807</u>	<u>\$ 894,703</u>	<u>\$ 748,366</u>	<u>\$ 491,858</u>	<u>\$ 13,081,734</u>
Cash, Cash Equivalents and Investments is comprised of the following:					
Cash, cash equivalents and investments - unrestricted	\$ 10,785,136	\$ 894,703	\$ 748,366	\$ 491,858	\$ 12,920,063
Cash, cash equivalents and investments - restricted	161,671	-	-	-	161,671
Total	<u>\$ 10,946,807</u>	<u>\$ 894,703</u>	<u>\$ 748,366</u>	<u>\$ 491,858</u>	<u>\$ 13,081,734</u>

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-10
Page 2

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2018

	Business-type Activities - Enterprise Funds				
	Major Funds				
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking	Totals
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ (391,039)	\$ (117,179)	\$ 389,189	\$ (36,140)	\$ (155,169)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	947,881	233,572	112,129	4,422	1,298,004
Pension expense net of employer contributions	(57,321)	(44,149)	(16,971)	-	(118,441)
Other postemployment benefit expense net of employer contributions	(3,728)	(759)	(72)	-	(4,559)
Other nonoperating expenses	-	27,430	-	-	27,430
Changes in assets and liabilities:					
(Increase) decrease in:					
Receivables	(120,762)	(3,000)	-	(73,978)	(197,740)
Inventories	3,784	16,283	-	-	20,067
Prepaid costs and other assets	-	880	-	1,000	1,880
Increase (decrease) in:					
Accounts payable, accrued liabilities and compensated absences	(604,131)	8,313	(6,773)	(9,584)	(612,175)
Deposits	13,025	-	-	-	13,025
Net cash provided by (used in) operating activities	<u>\$ (212,291)</u>	<u>\$ 121,391</u>	<u>\$ 477,502</u>	<u>\$ (114,280)</u>	<u>\$ 272,322</u>
Schedule of Noncash Capital and Related Financing Activities:					
Capital assets acquired through accounts payable	<u>\$ 29,669</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,669</u>

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-11

STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUND
 June 30, 2018
 (With Comparative Amounts for 2017)

	Police Supplemental Retirement Trust Fund	
	2018	2017
<hr/>		
ASSETS		
Mutual funds	\$ 3,999,647	\$ 3,749,545
Accounts Receivable	<u>7,881</u>	<u>9,698</u>
Total assets	<u>4,007,528</u>	<u>3,759,243</u>
NET POSITION		
Held in trust for benefits	<u>\$ 4,007,528</u>	<u>\$ 3,759,243</u>

TOWN OF HERNDON, VIRGINIA

Exhibit A-12

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUND
 Year Ended June 30, 2018
 (With Comparative Amounts for 2017)

	Police Supplemental Retirement Trust Fund	
	2018	2017
Additions:		
Employer contributions	\$ 194,479	\$ 539,686
Rollovers from prior employers	631	3,576
Total contributions	195,110	543,262
Investment income:		
Net increase in the fair market value of investments	322,503	390,968
Total additions, net	517,613	934,230
Deductions:		
Benefit payments	269,328	-
Change in net position	248,285	934,230
Net position, July 1	3,759,243	2,825,013
Net position, June 30	\$ 4,007,528	\$ 3,759,243

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 1. Summary of Significant Accounting Policies

A. The Financial Reporting Entity

The Town of Herndon, Virginia (the “town”), located in the County of Fairfax, Virginia, was incorporated in 1879 under the provisions of the constitution and general statutes of the Commonwealth of Virginia.

The town is governed under the Town Manager-Council form of government. The town engages in a comprehensive range of municipal services, including general government administration; public safety and administration of justice; refuse collection; street and sidewalk maintenance; street lighting; zoning enforcement; education, health, welfare, and human service programs; planning, community development and recreation; and cultural and historic activities. Other municipal services including public education; technical and special education services; health and social services; mental health assistance; fire and ambulance services; judicial services; correctional facilities; and additional recreation services and facilities are provided by the County of Fairfax, Virginia. As required by GAAP, these financial statements present the town’s financial position. The town does not have any component units, entities for which the town is considered to be financially accountable or blended component units, legally separate entities which are in substance part of the town’s operations.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements:

The Statement of Net Position and the Statement of Activities display information about the town. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Interfund services provided and used are not eliminated in the process of consolidation. These statements distinguish between the government and business-type activities of the town. *Governmental activities* generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. *Business-type activities* are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the town and for each function of the town’s governmental activities. *Direct expenses* are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. *Program revenues* include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as *general revenues*.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

Fund Financial Statements:

The fund financial statements provide information about the town's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, of which each is displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each part receives and gives up essentially equal values. Nonoperating revenues, such as investment earnings, result from nonexchange transactions.

Operating expenses include cost of services, administrative expenses, and depreciation and amortization on capital assets. All expenses not meeting this definition are reported as nonoperating expenses.

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

Government-wide, Proprietary, and Fiduciary Fund Financial Statements: The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Fiduciary funds account for assets held by the town in a trustee capacity or as agent or custodian for individuals and utilize the accrual basis of accounting. These funds include the Police Retirement Plan fund which is reported using the economic resources measurement focus.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

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

Governmental Fund Financial Statements: Governmental funds are reported using *the current financial resources measurement focus* and the *modified accrual basis of accounting*. Under this method, revenues are recognized when measurable and available. The town considers all revenues reported in the governmental funds to be available if the revenues are collected within 75 days after year-end, except property taxes which are recognized as revenue if they have been collected within the town's availability period, which is 45 days. All taxes and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The town reports the following major governmental funds:

The *General Fund* is the general operating fund of the town. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund.

The *Capital Projects Fund* accounts for all financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or the Information Systems Improvement Fund.

The town reports the following major proprietary funds:

The *Water and Sewer Fund* accounts for services to the general public, which are financed primarily by charges to users of those services.

The *Golf Course Fund* accounts for the operation and maintenance of the golf course.

The *Chestnut Grove Cemetery Fund* accounts for operations of the cemetery.

The *Downtown Parking Fund* accounts for the operation and maintenance of the town's Downtown Public Shared Parking Program.

Additionally, the town reports the *Police Supplemental Retirement Trust Fund*. The purpose of this fund is to provide retirement benefits in addition to the benefits provided by the Virginia Retirement System and Social Security. The town has contracted with various financial institutions and insurance carriers to provide fiscal agent services including the accounting, investment, and disbursement services related to this fund.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets and Budgetary Accounting

The *Code of Virginia* makes a clear distinction between budgets and appropriations. Budgets are for informational and fiscal planning purposes, whereas appropriations are authorizations to incur expenditures.

Prior to April 1, the Town Manager submits to the Town Council a proposed operating budget for the fiscal year commencing the following July 1. Annual budgets for the General Fund, and the enterprise funds are adopted at the department level. Capital projects are budgeted on a project basis. The operating and capital budgets include proposed expenditures and the means of financing them. A brief synopsis of the proposed budget is published at least once in a newspaper with general circulation within the town. Additionally, notice is given of one or more public hearings at least ten days prior to the public hearing. The public hearing provides any citizen the opportunity to comment on the budget.

Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution. This resolution appropriates all budgeted amounts. The Appropriations Resolution places legal restrictions on expenditures for each department or category level. The Town Manager is authorized to transfer budgeted amounts of up to \$30,000. Transfers exceeding \$30,000 must be authorized by the Town Council. All increases or decreases to the approved budget must be approved by the Town Council before being made. During the year, the Town Council approves additional appropriations, as needed, in the form of Budget Amendments. During the year ended June 30, 2018, budget revisions to the general fund were made, which resulted in a \$1,848,629 increase in budgeted expenditures.

All budgets are adopted on a basis consistent with GAAP. Appropriations lapse June 30 unless specifically encumbered, committed, or assigned. At year-end, the Town Council meets to encumber these appropriations for the next fiscal year.

All budget data presented in the accompanying financial statements is the revised budget as of June 30 and includes the budget revisions disclosed previously. Unfavorable variances reported herein should not be interpreted to represent violations of laws as the legal level of fiscal control is based on total appropriated expenditures by fund.

E. Deposits and Investments

Cash resources of the governmental and proprietary funds are combined to form a pool of deposits and investments to maximize interest earnings potential. The pool consists primarily of certificates of deposit, repurchase agreements, government securities, and a local government investment pool. The government securities are stated at fair value based on quoted market prices and the investment in the local government investment pool is reported at the pool's share price in accordance with GASB Statement 79.

For purposes of the Statement of Cash Flows, the town's enterprise funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

F. Fair Value Measurements

The government categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Level 2 investments are valued using a matrix pricing technique, which is based on the investments' benchmark quoted prices.

G. 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 portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are shown as a nonspendable fund balance in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

Water and sewer receivables are shown net of an allowance for uncollectibles and consist of billed and unbilled utility receivables. Unbilled receivables are an estimate of utility services provided but not billed by year end.

Allowances for uncollectible accounts receivable (real estate taxes and utility billings) are calculated using historical collection data, specific account analysis, and management's judgment.

The town levies real estate taxes, as of January 1, on all real property in the town on a calendar year basis at a rate enacted by Town Council. The levies are based on the assessed value of property as determined by the Director of Real Estate Assessments of Fairfax County. All property is assessed at 100 percent of appraised value and reassessed each year as of January 1. Real estate taxes are collected in equal installments due July 28 and December 5. Lien dates are 190 days after the due date. The tax rate during 2018 per \$100 of assessed value was \$.265. No discounts are allowed. A late penalty of ten percent is charged after July 28 and December 5. Interest of ten percent on tax and penalty is charged from August 1 for the first half real estate taxes and from January 1 for second half real estate taxes.

The town reports real estate taxes (net of allowances) assessed for calendar year 2018 as receivables, net of payments received in advance of the due date, and deferred tax revenue because the town has an enforceable legal claim to these resources at June 30, 2018; however, these resources will not be available to the town until fiscal year 2019.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

G. Receivables and Payables (Continued)

The town did not assess personal property taxes during fiscal year 2018.

The portion of taxes receivable that is not collected within 45 days after June 30 is shown as unavailable revenue.

H. Inventories

Inventories in the proprietary funds are recorded at the lower of cost (first-in, first-out) or net realizable value. These inventories consist primarily of parts held for consumption.

Inventory in the General Fund consists of expendable supplies held for consumption and is recorded at cost (determined on a first-in, first-out basis). The cost is recorded as an expenditure when consumed.

I. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements using the consumption method.

J. Restricted Cash

In accordance with the agreements resulting in the issuance of debt, the General Fund and Capital Projects Fund has a portion of its cash balance restricted and shown as "Cash with fiscal agent" on the Governmental Funds' Balance Sheet and the Statement of Net Position. This restriction on cash balances is due to the intended use, as prescribed in the applicable bond covenants. Amounts also consist of funds to be used for future capital projects and amounts accumulated for use in the Chestnut Grove Cemetery Perpetual Care Fund.

K. Deferred Outflows and Inflows of Resources

In addition to assets, the statements that present net position report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The town has the following items that qualify for reporting in this category:

- Deferred loss on refunding. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Due to the relationship with outstanding debt, these deferred outflows are included in the calculation of net position, net investment in capital assets.

(Continued)

TOWN OF HERNDON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

K. Deferred Outflows and Inflows of Resources (Continued)

- Contributions subsequent to the measurement date for pensions and OPEB; this will be applied to the net pension liability in the next fiscal year.

In addition to liabilities, the statements which present financial position report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The town has the following items that qualify for reporting in this category:

- One item occurs only under the modified accrual basis of accounting; this item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes and other receivables not collected within 45 days of year end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- The second item represents taxes billed and, in some cases, collected before the period they are eligible for use.
- Differences between expected and actual experience for economic/demographic factors and changes of assumptions in the measurement of the total pension and OPEB liability. These differences will be recognized in pension or OPEB expense over the average expected remaining service lives of all employees provided with benefits.
- Changes in proportionate share that will be recognized in the pension or OPEB expense over the average expected remaining service lives of all employees provided with benefits.
- Difference between projected and actual earnings on pension and OPEB plan investments. This difference will be recognized in pension or OPEB expense over the closed five year period and may be reported as a deferred outflow or inflow as appropriate.

L. Capital Assets

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Interest incurred during construction on governmental activities' capital assets is not capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Capitalized interest is amortized using the straight-line method over the useful life of the asset. No interest was capitalized during the year.

Capital assets and infrastructure are defined by the town as assets with an initial, individual cost of more than \$5,000 and \$20,000, respectively, and an estimated useful life in excess of two years. The town has included all infrastructure assets of the town, including assets acquired before June 30, 1980.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

L. Capital Assets (Continued)

The town's intangible assets consist of land easements and software, which were previously recorded and classified as machinery and equipment. Land easements have indefinite useful lives and thus are not subject to amortization.

Capital assets are depreciated or amortized using the straight-line method over the following estimated useful lives:

Infrastructure	20-50 years
Buildings	10-50 years
Improvements other than buildings	5-50 years
Machinery and equipment	2-20 years
Furniture and fixtures	10-20 years
Intangibles	5 years

Maintenance, repairs, and minor renewals are charged to operations when incurred. Expenses which materially increase values, change capacities, or extend useful lives are capitalized.

M. Land Held for Sale

Property held for sale is valued at the lower of cost or market. These assets are evaluated on an annual basis for impairment and a loss is recognized if the carrying amount exceeds the fair value. In May 2015, the Town Council entered into a contract to purchase 1.67 acres of land from a private owner. The sale was completed in September, 2015 with a purchase price of \$3,469,000. This land, along with other parcels, will be transferred to Comstock Herndon Venture, LC once the comprehensive agreement for the Herndon Downtown Redevelopment project is signed.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

N. Compensated Absences

Vacation can be accumulated up to 37.5 days for all employees except department heads who can accumulate 40 days. Unused accumulated vacation is paid upon termination, death or retirement. Employees may utilize their sick leave benefit to the extent sickness causes employees to be absent. Upon retirement under the VRS, employees are considered 25% vested in sick leave benefits and are paid the vested portion up to \$10,000. Upon termination of employment except for dismissals, non-probationary full-time employees are considered 25% vested in sick leave benefits and are paid the vested portion up to \$2,500. A prorated amount shall be paid to non-probationary part-time employees. The vested amount is accrued in compensated absences.

Compensated absences are accrued when incurred in the entity-wide and proprietary funds statements and reported as a fund liability. The General Fund is responsible for paying the liability for compensated absences for General Government employees and has been used in prior years to liquidate the Governmental Funds' liability.

Compensated absences that are expected to be liquidated with expendable available resources are reported as expenditures and fund liabilities of the governmental fund that will pay it. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

O. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Position. Bond premiums, discounts, and deferred losses on refundings are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

P. Fund Balance

In the fund financial statements, governmental funds report classifications of fund balance as follows:

- **Nonspendable** – amounts that are not in a spendable form or are required to be maintained intact (such as prepaid items, inventory, and advances between funds).
- **Restricted** – amounts constrained to specific purposes by their providers (such as grantors, creditors, or laws and regulations of other governments), or by law through constitutional provisions or enabling legislation.
- **Committed** – amounts constrained to specific purposes by the Town Council. To be reported as committed, amounts cannot be used for any other purpose unless the Town Council takes the action to remove or change the constraint.
- **Assigned** – amounts constrained by the town's intent but are neither restricted nor committed. Encumbrances outstanding at year-end are designated by management, as allowed by the town's financial policies. Re-appropriations are then formally adopted by the Town Council in the following fiscal year through a budget amendment. Amounts designated for subsequent years' expenditures are adopted by a resolution of the Town Council which is retroactive to fiscal year-end. The action normally takes place during the month of July, which is after fiscal year-end. These amounts are also formally re-appropriated by the Town Council in the following fiscal year through a budget amendment.
- **Unassigned** – residual balance of the General Fund that has not been restricted, committed, or assigned to specific purposes within the General Fund.

Town Council, as the highest level of authority within the town, establishes the commitment of fund balance to purposes through the approval of the annual budget plan by resolution, in conjunction with the resolutions associated with the establishment of fee and tax rates, and acceptance or appropriation of funds. All subsequent changes to the budget plan to add, reduce, or redirect resources to other purposes are also accomplished by Council resolution. As a result, all unrestricted amounts directed toward a purpose are shown as committed. Balances shown as assigned in the General Fund represent encumbrances which would otherwise be unassigned.

The town considers restricted balances to be expended first in cases where both restricted and unrestricted amounts are available. When utilizing unrestricted balances, committed balances are applied first, followed by assigned then unassigned balances.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

Q. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Significant encumbrances as of June 30, 2018 include \$726,179 in the general fund and \$1,476,163 in the general capital project fund.

R. Pensions and Other Post-employment Benefits (OPEB)

For purposes of measuring all financial elements related to pensions and OPEB, information about the fiduciary net position of the town's Plans and the additions to or deductions from the town's Plans 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.

S. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Deposits and Investments

The town maintains a cash and investment pool that is available for use by all funds, except the Pension Trust Fund. Investment income is allocated to certain designated funds based on the percentage of the fund's cash and investments at month-end to the total pool. The Capital Projects Fund and the Water and Sewer Fund have specific designated investments as well as having equity in pooled cash 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.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 2. Deposits and Investments (Continued)

Custodial Credit Risk

This is the risk that in the event of a bank failure, the town's deposits may not be returned to it. The town's investment policy requires all deposits to be insured under FDIC or comply with the Act. At year end, none of the town's deposits were exposed to custodial credit risk.

Investments

Investment Policy:

The State Treasurer's Local Government Investment Pool (LGIP) is a professionally managed money market fund which invests in qualifying obligations and securities as permitted by Virginia statutes. Pursuant to Section 2.2-4605 of the *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings. The fair value of the position of the LGIP is the same as the value of the pool shares, i.e., the LGIP maintains a stable net asset value of \$1 per share and is reported based on guidance in GASB Statement 79.

State statutes and the town's policy authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, "prime-quality" commercial paper and certain corporate notes, bankers acceptances, repurchase agreements, open-end investment funds (mutual funds), certificates of deposit, and the LGIP. The town has investments in the LGIP, and the maturity of the LGIP is less than one year and is rated AAAM by Standard & Poor's.

The town's investment policy establishes the maximum percentages of the portfolio permitted in each of the following instruments:

U. S. Treasury Obligations	100% maximum
U. S. Government Agency Securities and Instruments of Government Sponsored Corporations	100% maximum
Open-End Investment Funds (Mutual Funds)	100% maximum
Bankers' Acceptances	50% maximum
Repurchase Agreements	25% maximum
Certificate of Deposits – Virginia Qualified Commercial Banks, Savings and Loan Associations	75% maximum
Commercial Paper	35% maximum
Local Government Investment Pool	100% maximum

Further, of the total portfolio, no more than 25% can be invested with any one institution for Bankers' Acceptances, 10% with any one institution for Repurchase Agreements, 33% with any one institution for Certificates of Deposit, and no more than 5% with any one institution for Commercial Paper.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 2. Deposits and Investments (Continued)

Interest Rate Risk:

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting exposure to fair value losses arising from rising interest rates, the town's policy limits the investment of operating funds to investments with a stated maturity of no more than five years from the date of purchase, except for investments of capital projects, long-term reserve and other escrow funds that will be timed to meet contractors' payments, debt service or other anticipated financial obligations. In such cases, the town may invest reserve and escrow funds in securities maturing up to ten years from the date of purchase.

As of June 30, 2018, the town's investments consisted of the following:

Type	Value	S & P Credit Rating	Weighted Average Maturity*
LGIP	\$ 15,147,928	AAAm	0.23
Federal Agency Bonds and Notes	11,426,501	AA- to AAA	0.31
Corporate Notes	3,457,609	AA+	0.50
Mutual Funds	3,999,647	Various	N/A
Total investments	<u>\$ 34,031,685</u>		

* - Average Maturity in Years

Concentration of Credit Risk:

Concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. If certain investments in any one issuer represent 5% of total investments, there must be a disclosure for the amount and issuer. At June 30, 2018, the portion of the town's portfolio that exceed 5% of the total portfolio are as follows:

LGIP	45%
Federal Agency Bonds and Notes	34%
Corporate Notes	10%
Mutual Funds	11%

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 2. Deposits and Investments (Continued)

Fair Value:

The town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The town has the following recurring fair value measurements as of June 30, 2018:

	Level 1	Level 2	Level 3	Total
Mutual funds – Police Retirement Plan				
DFA Emerging Markets Core Equity I	\$ 29,279	\$ -	\$ -	\$ 29,279
DFA International Core Equity I	94,761	-	-	94,761
DFA US Core Equity 2 I	141,758	-	-	141,758
Federated Capital Preservation	4,873	-	-	4,873
I-Shares I-Boxx \$ High Yield Corporate Bd	28,761	-	-	28,761
Vanguard Total Bond Market Index Adm	64,533	-	-	64,533
Vanguard Target Retirement 2055 Inv	19,656	-	-	19,656
Vanguard 500 Index Admiral	251,686			251,686
Vanguard Target Retirement 2050 Inv	120,948	-	-	120,948
Vanguard Target Retirement 2040 Inv	681,460	-	-	681,460
Vanguard REIT Index Adm	31,627	-	-	31,627
Vanguard Growth Index Adm	170,470	-	-	170,470
Vanguard Mid Cap Index Adm	34,158	-	-	34,158
Vanguard Target Retirement 2030 Inv	342,039	-	-	342,039
Vanguard Target Retirement Income Inv	1,711	-	-	1,711
Vanguard Target Retirement 2045 Inv	148,862	-	-	148,862
Vanguard Target Retirement 2035 Inv	814,113	-	-	814,113
Vanguard Target Retirement 2025 Inv	774,253	-	-	774,253
Vanguard Target Retirement 2020	242,490	-	-	242,490
Vanguard Target Retirement 2015	2,095	-	-	2,095
Other	114	-	-	114
Debt securities:				
Federal Agency Bonds and Notes	-	11,426,501	-	11,426,501
Corporate bonds	-	3,457,609	-	3,457,609
	<u>\$ 3,999,647</u>	<u>\$ 14,884,110</u>	<u>\$ -</u>	<u>\$ 18,883,757</u>

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 2. Deposits and Investments (Continued)

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Federal agency notes and corporate bonds are classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Total assets of the Police Retirement plan also include \$114 of forfeiture funds not yet invested in the plan.

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

Deposits and investments:	
Deposits	\$ 8,553,054
Investments	30,032,038
Investments held in trust	3,999,647
	<u>\$ 42,584,739</u>
Statement of Net Position:	
Cash and investments	\$ 35,997,251
Cash and investments with fiscal agent	144
Cash and investments – restricted	2,587,697
Fiduciary fund cash and investments	3,999,647
	<u>\$ 42,584,739</u>

Cash with fiscal agent and other restricted cash and investments:

Restricted investments consist of unspent bond proceeds related to bond issuances as well as cash restricted for future capital projects and funds accumulated for use in the Chestnut Grove Cemetery Perpetual Care Fund.

TOWN OF HERNDON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 3. Receivables and Due from Other Governments

Receivables are as follows:

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Total</u>
Property tax	\$ 11,515,711	\$ -	\$ 11,515,711
Meal tax	193,031	-	193,031
Transient occupancy tax	172,900	-	172,900
Fines and forfeitures	46,189	-	46,189
Trade and other accounts	165,891	1,566,449	1,732,340
Gross receivables	<u>12,093,722</u>	<u>1,566,449</u>	<u>13,660,171</u>
Less: allowance for uncollectible	(7,818)	(9,455)	(17,273)
Receivables, net	<u>\$ 12,085,904</u>	<u>\$ 1,556,994</u>	<u>\$ 13,642,898</u>

Due from other governments:

Federal government	\$ 188,809	\$ -	\$ 188,809
Commonwealth of Virginia	581,529	-	581,529
Counties	107,428	-	107,428
Northern Virginia Cigarette Tax Board	23,715		23,715
Total due from other governments	<u>\$ 901,481</u>	<u>\$ -</u>	<u>\$ 901,481</u>

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 4. Interfund Receivables, Payables, and Transfers (Continued)

A summary of interfund transfer activity is presented as follows:

	General Fund	Chestnut Grove Cemetery Fund	Total Transferred In
Transferred to Fund:			
Primary government:			
Governmental activities:			
Capital projects Fund	\$ 714,000	\$ -	\$ 714,000
Other nonmajor governmental funds	566,000	55,013	621,013
Business-type activities:			
Downtown Parking Fund	200,000	-	200,000
Total Transferred Out	\$ 1,480,000	\$ 55,013	\$ 1,535,013

The transfers from the General Fund to the Capital Projects Fund, Other nonmajor governmental funds and the Downtown Parking Fund are for capital project expenditures.

The transfer from the Chestnut Grove Cemetery Fund to Other nonmajor governmental funds is for cemetery site sales.

Note 5. Notes Receivable

Notes receivable in the Downtown Parking Enterprise fund consist of the following:

4.515% note, due in annual installments of \$11,858, plus interest through October 2023	\$ 71,146
	<u>71,146</u>
Less current maturities	<u>(11,858)</u>
Long-term portion, net	<u>\$ 59,288</u>

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 6. Capital Assets

Capital asset activity for the year ended June 30 is as follows:

Governmental Activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital asset, not depreciated:				
Land	\$ 24,689,717	\$ -	\$ -	\$ 24,689,717
Easements	8,584	11,096	-	19,680
Construction in progress	3,832,852	2,506,108	(2,258,778)	4,080,182
	<u>28,531,153</u>	<u>2,517,204</u>	<u>(2,258,778)</u>	<u>28,789,579</u>
Total capital assets not depreciated				
Capital assets, depreciated:				
Infrastructure	82,194,945	-	-	82,194,945
Buildings	41,176,787	555,378	-	41,732,165
Improvements other than buildings	13,124,896	1,792,925	(84,126)	14,833,695
Machinery and equipment	10,359,977	1,035,203	(73,993)	11,321,187
Intangibles	1,254,947	-	(18,080)	1,236,867
Furniture and fixtures	968,835	110,971	(5,583)	1,074,223
	<u>149,080,387</u>	<u>3,494,477</u>	<u>(181,782)</u>	<u>152,393,082</u>
Total capital assets				
Less accumulated depreciation:				
Infrastructure	(62,533,282)	(1,280,103)	-	(63,813,385)
Buildings	(17,730,389)	(1,079,659)	-	(18,810,048)
Improvements other than buildings	(8,297,245)	(495,922)	84,126	(8,709,041)
Machinery and equipment	(6,001,614)	(754,260)	52,192	(6,703,682)
Intangibles	(1,126,923)	(44,161)	18,080	(1,153,004)
Furniture and fixtures	(344,011)	(47,852)	5,583	(386,280)
	<u>(96,033,464)</u>	<u>(3,701,957)</u>	<u>159,981</u>	<u>(99,575,440)</u>
Total accumulated depreciation				
Total capital assets, depreciated, net	<u>53,046,923</u>	<u>(207,480)</u>	<u>(21,801)</u>	<u>52,817,642</u>
Governmental activities capital assets, net	<u>\$ 81,578,076</u>	<u>\$ 2,309,724</u>	<u>\$ (2,280,579)</u>	<u>\$ 81,607,221</u>

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 6. Capital Assets (Continued)

Business-type activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital asset, not depreciated:				
Land	\$ 3,506,183	\$ -	\$ -	\$ 3,506,183
Construction in progress	302,809	727,805	(946,935)	83,679
Total capital assets not depreciated	<u>3,808,992</u>	<u>727,805</u>	<u>(946,935)</u>	<u>3,589,862</u>
Capital assets, depreciated:				
Buildings	3,485,035	60,209	-	3,545,244
Improvements other than buildings	33,870,499	919,504	-	34,790,003
Machinery and equipment	3,069,593	160,655	-	3,230,248
Furniture and fixtures	201,639	-	-	201,639
Intangibles	265,608	-	-	265,608
Total capital assets	<u>40,892,374</u>	<u>1,140,368</u>	<u>-</u>	<u>42,032,742</u>
Less accumulated depreciation:				
Buildings	(1,839,476)	(101,415)	-	(1,940,891)
Improvements other than buildings	(21,865,566)	(1,080,812)	-	(22,946,378)
Machinery and equipment	(1,833,065)	(113,217)	-	(1,946,282)
Furniture and fixtures	(200,659)	(336)	-	(200,995)
Intangibles	(245,781)	(2,224)	-	(248,005)
Total accumulated depreciation	<u>(25,984,547)</u>	<u>(1,298,004)</u>	<u>-</u>	<u>(27,282,551)</u>
Total capital assets, depreciated, net	<u>14,907,827</u>	<u>(157,636)</u>	<u>-</u>	<u>14,750,191</u>
Business-type activities capital assets, net	<u>\$ 18,716,819</u>	<u>\$ 570,169</u>	<u>\$ (946,935)</u>	<u>\$ 18,340,053</u>

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 6. Capital Assets (Continued)

Primary Government

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
Legislative	\$ 38,772
Administration	232,513
Parks and Recreation	669,625
Finance	40,239
Community Development	38,780
Police	498,581
Public Works	2,033,649
Town Attorney	<u>149,798</u>
	<u>\$ 3,701,957</u>
Business-type activities:	
Water and Sewer	\$ 947,881
Golf Course	233,572
Chestnut Grove Cemetery	112,129
Downtown Parking Enterprise	<u>4,422</u>
	<u>\$ 1,298,004</u>

Note 7. Unavailable and Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unavailable revenue and unearned revenue were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property tax receivable	\$ 87,240	\$ -
Advance billing of 2018-2019 taxes	11,412,029	11,412,029
Intergovernmental	-	242,915
Other	<u>-</u>	<u>39,993</u>
	<u>\$ 11,499,269</u>	<u>\$ 11,694,937</u>

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 8. Long-Term Debt

Primary Government

The following is a summary of the long-term debt activity for the year ended June 30:

	Beginning Balance	Increases	Decreases	Ending Balance	Due within One Year
Governmental Activities:					
Bonds and notes payable:					
General obligation bonds	\$ 10,175,147	\$ 969,000	\$ 1,177,944	\$ 9,966,203	\$ 1,344,287
Notes Payable	78,794	-	78,794	-	-
Plus deferred amount for bond premiums	78,127	-	12,691	65,436	-
Total	10,332,068	969,000	1,269,429	10,031,639	1,344,287
Compensated absences	2,313,612	486,502	547,341	2,252,773	414,537
	<u>\$ 12,645,680</u>	<u>\$ 1,455,502</u>	<u>\$ 1,816,770</u>	<u>\$ 12,284,412</u>	<u>\$ 1,758,824</u>
 Business-type Activities:					
Serial bonds	\$ 2,004,353	\$ -	\$ 258,056	\$ 1,746,297	\$ 266,963
Plus deferred amount for bond premiums	32,393	-	7,174	25,219	-
Compensated absences	<u>316,695</u>	<u>7,027</u>	<u>27,077</u>	<u>296,645</u>	<u>32,216</u>
	<u>\$ 2,353,441</u>	<u>\$ 7,027</u>	<u>\$ 292,307</u>	<u>\$ 2,068,161</u>	<u>\$ 299,179</u>

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 8. Long-Term Debt (continued)

Primary Government (Continued)

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

Fiscal Year	Governmental Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 1,344,287	\$ 239,778	\$ 266,963	\$ 47,234	\$ 1,611,250	\$ 287,012
2020	1,368,246	217,114	273,754	38,574	1,642,000	255,688
2021	1,406,945	181,295	282,555	30,715	1,689,500	212,010
2022	1,235,994	143,800	140,506	22,238	1,376,500	166,038
2023	1,267,184	112,625	144,316	18,745	1,411,500	131,370
2024-2028	3,031,097	214,700	560,903	43,864	3,592,000	258,564
2029-2033	312,450	16,832	77,300	3,446	389,750	20,278
	<u>\$ 9,966,203</u>	<u>\$ 1,126,144</u>	<u>\$ 1,746,297</u>	<u>\$ 204,186</u>	<u>\$ 11,712,500</u>	<u>\$ 1,330,960</u>

Details of Long-term Indebtedness

	Interest Rates	Date Issued	Maturity Date	Amount of Original Issue	Governmental Activities	Business-Type Activities
General Obligation Build America and Recovery Zone Bonds	3.00 – 6.07	2010	2030	\$ 2,875,000	\$ 1,619,700	\$ 345,300
General Obligation Public Improvement and Refunding Bonds	3.25 – 4.00	2010	2021	3,015,000	597,576	422,424
General Obligation Public Improvement and Refunding Bonds	2.15	2012	2023	4,999,000	3,461,500	-
General Obligation Public Improvement and Refunding Bonds	2.10	2014	2026	5,221,000	3,318,427	978,573
General Obligation Public Improvement and Refunding Bonds	2.20	2018	2025	969,000	969,000	
					<u>\$ 9,966,203</u>	<u>\$ 1,746,297</u>

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 9. Defined Benefit Pension Plan

Plan Description

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

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

Plan 1 – Plan 1 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

- **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.
- **Retirement Contributions** – Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.
- **Creditable Service** – Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member’s total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **Vesting** – Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.
- **Calculating the Benefit** – The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.
- **Average Final Compensation** – A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier** – 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%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.
- **Normal Retirement Age** – Age 65 or age 60 for hazardous duty employees.
- **Earliest Unreduced Retirement Eligibility** – Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service for hazardous duty employees.
- **Earliest Reduced Retirement Eligibility** – Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. Age 50 with at least five years of creditable service for hazardous duty employees.
- **Cost-of-Living Adjustment (COLA) in Retirement** – The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

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

- **Eligibility** – For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.
- **Exceptions to COLA Effective Dates** – The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:
 - The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
 - The member retires on disability.
 - The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
 - The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
 - The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.
- **Disability Coverage** – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
- **Purchase of Prior Service** – Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 2 – Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for 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.
- **Retirement Contributions** – Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016.
- **Creditable Service** – Same as Plan 1.
- **Vesting** – Same as Plan 1.
- **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** – Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013. Sheriffs, regional jail superintendents, and hazardous duty employees are same as Plan 1.
- **Normal Retirement Age** – Normal Social Security retirement age. Hazardous duty employees are the same as Plan 1.
- **Earliest Unreduced Retirement Eligibility** – Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. Hazardous duty employees are the same as Plan 1.
- **Earliest Reduced Retirement Eligibility** – Age 60 with at least five years (60 months) of creditable service. Hazardous duty employees are the same as Plan 1.

(Continued)

TOWN OF HERNDON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 2 (Continued)

- **Cost-of-Living Adjustment (COLA) in Retirement** – The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.
 - **Eligibility** – Same as Plan 1.
- **Cost-of-Living Adjustment (COLA) in Retirement (Continued)**
 - **Exceptions to COLA Effective Dates** – Same as Plan 1.
- **Disability Coverage** – Same as Plan 1 except that the retirement multiplier is 1.65%.
- **Purchase of Prior Service** – Same as Plan 1.

Hybrid Retirement Plan – The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. The defined benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

- **Eligible Members** – Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes political subdivision employees; members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through 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.
- **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.

(Continued)

TOWN OF HERNDON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Creditable Service –**
 - **Defined Benefit Component –** Under the defined benefit component of the plan, creditable service includes active service. Members earn credible service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional credible service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.
 - **Defined Contributions Component –** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
- **Vesting –**
 - **Defined Benefit Component –** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.
 - **Defined Contributions Component –** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. After two years, a member is 50% vested and may withdraw 50% of employer contributions. After three years, a member is 75% vested and may withdraw 75% of employer contributions. After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
- **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 for the defined benefit component of the plan.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Service Retirement Multiplier** – 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. This is not applicable to sheriffs, regional jail superintendents, or hazardous duty employees.
- **Normal Retirement Age** –
 - **Defined Benefit Component** – Same as Plan 2, however, not applicable for hazardous duty employees.
 - **Defined Contribution Component** – Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Unreduced Retirement Eligibility** –
 - **Defined Benefit Component** – Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. This is not applicable to hazardous duty employees.
 - **Defined Contribution Component** – Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Reduced Retirement Eligibility** –
 - **Defined Benefit Component** – Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. This is not applicable to hazardous duty employees.
 - **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 2.
 - **Exceptions to COLA Effective Dates** – Same as Plan 1 and 2.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

- **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.
 - The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.
 - Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.
 - **Defined Contribution Component** – Not Applicable.

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	113
Inactive members:	
Vested inactive members	41
Non-vested inactive members	58
Inactive members active elsewhere in VRS	32
Total inactive members	131
Active members	233
Total covered employees	477

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 9. Defined Benefit Pension Plan (Continued)

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The political subdivision's contractually required contribution rate for the year ended June 30, 2018 was 7.38% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$1,241,860 and \$1,256,634 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability

The political subdivision's net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 9. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions

The total pension liability for General Employees in the Political Subdivision’s Retirement Plan was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.50%
General Employees – Salary increases, including inflation	3.50 – 5.35%
Public Safety Employees – Salary increases, including inflation	3.50 – 4.75%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

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

Mortality rates: General employees – 14% of deaths are assumed to be service related. Public Safety Employees – 60% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2000 Mortality Table Projected to 2020 with various set backs or set forwards for both males and females.

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

General Employees – Largest 10 – Non-Hazardous Duty and All Others (Non 10 Largest): Update mortality table; lowered retirement rates at older ages, changed final retirement from 70 to 75; lowered disability rates, no change to salary scale, increased rate of line of duty disability from 14% to 20%.

Public Safety Employees – Largest 10 – Hazardous Duty and All Others (Non 10 Largest): Update mortality table; adjustment to rates of retirement by increasing rate at 50 and lowering rate at older ages; adjusted rates of withdrawal and disability to better fit experience; changes to line of duty rates, and no changes to salary scale.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 9. Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return

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

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

* The above allocation provides for a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.5%.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 9. Defined Benefit Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2016, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed 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, 2016	\$ 74,971,218	\$ 67,043,416	\$ 7,927,802
Changes for the year:			
Service cost	1,780,019	-	1,780,019
Interest	5,143,537	-	5,143,537
Change of assumptions	(521,761)		(521,761)
Differences between expected and actual experience	(1,706,344)	-	(1,706,344)
Contributions – employer	-	1,256,634	(1,256,634)
Contributions – employee	-	876,797	(876,797)
Net investment income	-	8,184,878	(8,184,878)
Benefit payments, including refunds of employee contributions	(2,984,230)	(2,984,230)	-
Administrative expenses	-	(47,240)	47,240
Other changes	-	(7,263)	7,263
Net changes	1,711,221	7,279,576	(5,568,355)
Balances at June 30, 2017	\$ 76,682,439	\$ 74,322,992	\$ 2,359,447

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 9. Defined Benefit Pension Plan (Continued)

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Political subdivision's net pension liability (asset)	\$ 12,567,503	\$ 2,359,447	\$ (6,136,990)

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the political subdivision recognized pension income of \$(37,318). At June 30, 2018, the political subdivision 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	\$ -	\$ 1,676,616
Change in assumptions	-	391,970
Net difference between projected and actual earnings on pension plan investments	-	1,101,985
Employer contributions subsequent to the measurement date	1,241,860	-
Total	\$ 1,241,860	\$ 3,170,571

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 9. Defined Benefit Pension Plan (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The \$1,241,860 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2019. 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 Ending June 30,	Increase (Reduction) to Pension Expense
2019	\$ (1,477,228)
2020	(383,505)
2021	(594,048)
2022	(715,790)
	<u>\$ (3,170,571)</u>

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

At June 30, 2018, approximately \$220,000 was payable to the Virginia Retirement System for the legally required contributions related to June 2018 payroll.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 10. Defined Contribution Plan – Police Retirement

Plan Description

The Town of Herndon Police Supplemental Retirement Plan (Plan) is a defined contribution plan established by the town to provide retirement benefits, supplemental to VRS, for town police officers. The Plan is administered by the town. The town contributes an amount equal to four percent of the officer’s wages; the officers make no contribution. The Plan was established by Town Council and any amendments to the plan must be approved by the Council. The Plan does not issue a stand-alone financial report.

The town’s police officers are enrolled in the Law Enforcement Officers retirement program within the VRS. The police officers are provided benefits equivalent to those provided for State police officers as set out in Section 51.1-138 of the *Code of Virginia*.

There were 112 participants in the Plan at June 30, 2018. The Plan has eight distribution options available to the officers upon retirement, separation from service, death, disability, or termination of the Plan. Town contributions recorded as pension expenditure totaled \$194,479 for the fiscal year ended June 30, 2018. Data concerning the value of vested and nonvested benefits as of June 30, 2018 is as follows:

Vested benefits	\$	3,831,994
Nonvested benefits		167,653
	\$	3,999,647

Vesting

Contributions by the town will vest to the benefit of the officer for which they are made according to the following schedule:

Years of Service as Herndon Police Officer	Vested Percentage
Fewer than 3 years	None
3 years but fewer than 4	20
4 years but fewer than 5	40
5 years but fewer than 6	60
6 years but fewer than 7	80
7 years or more	100

Significant Accounting Policies

Basis of Accounting: The Plan financial statements are prepared using the accrual basis of accounting.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 10. Defined Contribution Plan – Police Retirement (Continued)

Significant Accounting Policies (Continued)

Reporting: The Plan is accounted for as a trust fund of the town.

Investment Valuation and Income Recognition: Shares of registered investment companies (mutual funds) are reported at fair value based on the quoted market price of the mutual fund, which represents the net asset value of the shares held by the Plan.

Payment of Benefits: Benefits are recorded when paid.

In addition, State statutes authorize the town to purchase other investments for pension funds that meet the standard of judgment and care set forth in the *Code of Virginia*. These additional investments may include obligations of other states, political subdivisions thereof, or mutual funds.

Concentrations

At June 30, 2018, Plan assets were comprised of mutual funds investing in stocks, bonds, guaranteed investment contracts, and U. S. government securities. Single investments representing more than 5% of the Plan's net assets as of June 30, 2018 are separately identified in the fair value measurements table in Note 2.

Note 11. Other Post-Employment Benefits – Local Plan

Plan Description

Other postemployment benefits (OPEB) provided by the town include a single-employer, defined benefit retiree health insurance premium plan.

A retiree, eligible for the plan, is defined as a full-time employee who is participating in the employer's medical and dental program, and may elect coverage if the employee is (a) eligible for VRS retirement (i.e. General Employees: earlier of age 50 and 10 years of service or age 55 and 5 years of service; Hazardous Duty Employees: age 50 and 7 years of service, or (b) disabled employees who qualify for VRS disability (no age or service requirement in VRS). The plan was established by Town Council and any amendments to the plan must be approved by the Council. The plan does not issue stand-alone financial reports.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 11. Other Post-Employment Benefits – Local Plan (Continued)

Benefits Provided

Benefits include medical, dental, and vision insurance. Participating retirees pay monthly premiums to continue with the Town’s insurance plans. Benefits end at the earlier of the retiree’s death or attainment of age 65.

Employees Covered by Benefit Terms

The number of participants at July 1, 2017 was as follows:

Retirees currently receiving benefits	64	
Active employees	167	
Total		231

Total OPEB Liability

The Town’s total OPEB liability of \$3,297,453 was measured as of July 1, 2017 and was determined based on an actuarial valuation performed as of July 1, 2017.

Actuarial Assumptions and other inputs

The total OPEB liability was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate		3.56%
Salary increases, including inflation	2.5%, plus productivity component of 1.25%	
Healthcare cost trend rates		7.00% Initial, 5.00% Ultimate
Retirees’ share of benefit-related costs		Same as Health Care Trend
Actuarial cost method		Entry Age Actuarial Cost Method

Mortality rates: RP-2014 Combined Annuitant Mortality Table for males and females.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 11. Other Post-Employment Benefits – Local Plan (Continued)

Changes in the Total OPEB Liability

	Total OPEB Liability
Balances at June 30, 2017	<u>\$ 3,228,918</u>
Changes for the year:	
Service cost	127,334
Interest	116,391
Contributions – employer	-
Benefit payments, including refunds of employee contributions	<u>(175,191)</u>
Net changes	<u>68,534</u>
Balances at June 30, 2018	<u>\$ 3,297,452</u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.56%) or one percentage point higher (4.56%) than the current discount rate:

	1.00% Decrease (2.56%)	Current Discount Rate (3.56%)	1.00% Increase (4.56%)
Total OPEB liability	<u>\$ 3,554,864</u>	<u>\$ 3,297,452</u>	<u>\$ 3,063,135</u>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 11. Other Post-Employment Benefits – Local Plan (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability, as well as what the Town’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (-1.00%) or one percentage point higher (1.00%) than the current healthcare cost trend rates:

	1.00% Decrease (-1.00%)	Current Healthcare Cost Trend Rates (0.00%)	1.00% Increase (1.00%)
	<u> </u>	<u> </u>	<u> </u>
Total OPEB liability	\$ 3,038,404	\$ 3,297,452	\$ 3,600,109

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the Town recognized OPEB expense of \$243,726. At June 30, 2018, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Employer contributions subsequent to the measurement date	\$ 95,969	\$ -
Total	<u>\$ 95,969</u>	<u>\$ -</u>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans

In addition to their participation in the pension plans offered through the Virginia Retirement System (VRS), the Town also participates in a cost-sharing multiple employer other postemployment benefit plan, described as follows.

Plan Descriptions

Group Life Insurance Program

All full-time employees of political subdivisions are automatically covered by the VRS Group Life Insurance (GLI) Program upon employment.

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 GLI Program OPEB.

Specific information for the GLI is available at <https://www.varetire.org/members/benefits/life-insurance/basic-group-life-insurance.asp>.

GLI is administered by the VRS along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia and is considered a multiple employer, cost sharing plan.

Contributions

Contributions to the VRS OPEB programs were based on actuarially determined rates from actuarial valuations as of June 30, 2015. The actuarially determined rates were expected to finance the cost of benefits earned by employees during the year, with an additional amount to fund any unfunded accrued liability. Specific details related to the contributions for the VRS OPEB program is as follows:

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Group Life Insurance Program

Governed by:	<i>Code of Virginia</i> 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.
Total rate:	1.31% of covered employee compensation. Rate allocated 60/40; 0.79% employee and 0.52% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2018 Contribution	\$87,898
June 30, 2017 Contribution	\$86,801

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

The net OPEB liabilities were measured as of June 30, 2017 and the total OPEB liabilities used to calculate the net OPEB liabilities were determined by actuarial valuations as of that date. The covered employer's proportion of the net OPEB liabilities, were based on the covered employer's actuarially determined employer contributions for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program

June 30, 2018 proportionate share of liability	\$ 1,362,000
June 30, 2017 proportion	0.09050%
June 30, 2016 proportion	0.08953%
June 30, 2018 expense	\$ 18,000

Since there was a change in proportionate share between measurement dates, a portion of the OPEB expense above was related to deferred amount from changes in proportion.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

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

Group Life Insurance Program (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (31,000)
Change in assumptions	-	(70,000)
Net difference between projected and actual earnings		
on OPEB plan investments	-	(51,000)
Changes in proportionate share	14,000	
Employer contributions subsequent to the measurement date	87,898	-
Total	\$ 101,898	\$ (152,000)

The deferred outflows of resources related to OPEB resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2019	\$ (28,424)
2020	(28,424)
2021	(28,424)
2022	(28,426)
2023	(16,760)
Thereafter	(7,542)

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2016, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017:

Inflation	2.50%
Salary increases, including inflation:	
• Locality – general employees	3.50 – 5.35%
• Locality – hazardous duty employees	3.50 – 4.75%
Healthcare cost trend rates:	
• Under age 65	7.75 – 5.00%
• Ages 65 and older	5.75 – 5.00%
Investment rate of return, net of expenses, including inflation*	GLI: 7.00%

* 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 rate for GASB purposes of slightly more than the assumed percent above. However, since the difference was minimal, and a more conservative 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 the percent noted above to simplify preparation of OPEB liabilities.

Mortality rates used for the various VRS OPEB plans are the same as those used for the actuarial valuations of the VRS pension plans. The mortality rates are discussed in detail at Note 9.

TOWN OF HERNDON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Net OPEB Liabilities

The net OPEB liabilities represent each program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, net OPEB liability amounts for the group life insurance programs is as follows (amounts expressed in thousands):

	Group Life Insurance Program
Total OPEB Liability	\$ 2,942,426
Plan fiduciary net position	1,437,586
Employers' net OPEB liability (asset)	1,504,840
Plan fiduciary net position as a percentage of total OPEB liability	48.86%

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

Long-Term Expected Rate of Return

Group Life Insurance Programs

The long-term expected rate of return on VRS 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 OPEB 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:

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)
Long-Term Expected Rate of Return (Continued)

Group Life Insurance Programs (Continued)

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

*Expected arithmetic nominal return

* The above allocation provides for a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.5%.

Discount Rate

The discount rate used to measure the GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the OPEB liabilities will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the OPEB plans' 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 OPEB liability.

TOWN OF HERNDON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

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

The following presents the net OPEB liabilities of the Town, as well as what the Town's net OPEB liabilities would be if it were calculated using a discount rate that is one percentage point lower (GLI/6%) or one percentage point higher (GLI/8%) than the current discount rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
GLI Net OPEB liability	\$ 1,761,607	\$ 1,362,000	\$ 1,038,058

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 13. Summary of Pension and Other Post Employment Benefit Elements

	Governmental Activities	Business-Type Activities	Total Primary Government
Deferred outflows of resources – Pension			
Employer contributions subsequent to the measurement date			
VRS	\$ 1,125,513	\$ 116,347	\$ 1,241,860
Total deferred outflows of resources - pensions	\$ 1,125,513	\$ 116,347	\$ 1,241,860
Deferred outflows of resources – OPEB			
Employer contributions subsequent to the measurement date			
Local plan	\$ 88,399	\$ 7,570	\$ 95,969
VRS GLI	79,600	8,298	87,898
Change in Proportionate Share			
VRS GLI	12,679	1,321	14,000
Total deferred outflows of resources - OPEB	\$ 180,678	\$ 17,189	\$ 197,867

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 13. Summary of Pension and Other Post Employment Benefit Elements (Continued)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
Net pension liability			
VRS	\$ 2,198,951	\$ 160,496	\$ 2,359,447
Total net pension liability	<u>\$ 2,198,951</u>	<u>\$ 160,496</u>	<u>\$ 2,359,447</u>
Net OPEB liability			
Local plan	\$ 2,847,800	\$ 449,652	\$ 3,297,452
VRS GLI	1,233,427	128,573	1,362,000
Total net OPEB liability	<u>\$ 4,081,227</u>	<u>\$ 578,225</u>	<u>\$ 4,659,452</u>
Deferred inflows of resources – Pensions			
Difference between expected and actual experience			
VRS	\$ 1,517,441	\$ 159,175	\$ 1,676,616
Change in assumptions			
VRS	354,757	37,213	391,970
Net difference between projected and actual investment earnings on pension plan investments			
VRS	997,364	104,621	1,101,985
Total deferred inflows of resources - pensions	<u>\$ 2,869,562</u>	<u>\$ 301,009</u>	<u>\$ 3,170,571</u>
Deferred inflows of resources – OPEB			
Difference between expected and actual experience			
VRS GLI	\$ 28,074	\$ 2,926	\$ 31,000
Net difference between projected and actual investment earnings on OPEB plan investments			
VRS GLI	46,186	4,814	51,000
Change in assumptions			
VRS GLI	63,391	6,609	70,000
Total deferred inflows of resources - OPEB	<u>\$ 137,651</u>	<u>\$ 14,349</u>	<u>\$ 152,000</u>

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 14. 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 others; and natural disasters. To reduce insurance costs and the need for self-insurance, the town has joined with other municipalities in the Commonwealth of Virginia in several public entity risk pools that operate as common risk management and insurance programs for member municipalities. The town is not self-insured.

The town has coverage with the Virginia Municipal League Insurance Program (the "Pool") for all insurable risks identified by the town. Each Pool member jointly and severally agrees to assume, pay and discharge any liability. The town pays the Pool contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the Pool and claims and awards are to be paid. 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 contributes to carry commercial insurance for all other risks of losses. Settled claims from these risks have not exceeded commercial coverage in any of the last three fiscal years.

Note 15. Commitments and Contingencies

Federal and State-Assisted Programs

The town has received proceeds from several federal and state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

Litigation:

The town is contingently liable with respect to lawsuits and other claims, which arise in the ordinary course of operations. It is the opinion of town management that any losses not covered by insurance, which may ultimately be incurred as a result of the suits and claims, will not be material to the financial position of the town.

TOWN OF HERNDON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 16. Rentals Under Operating Leases

The town has twelve leases to telecommunication companies for the placement of antennas on the town's water tanks. Lease terms vary by lessee and expire at various dates through July, 2033. Total rental income for 2018 was \$399,001.

2019	\$	367,758
2020		378,790
2021		386,678
2022		358,896
2023		369,117
Thereafter		<u>1,523,650</u>
Total	\$	<u>3,384,889</u>

Note 17. Adoption of New Standard and Prior Period Restatement

In the current year the Town adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This standard replaces the requirements of GASB Statement No. 45 as it relates to governments that provide postemployment benefits other than pensions. The new Statement requires governments providing defined benefit postemployment benefits to recognize the long-term obligation for those benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of other postemployment benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the plans are determined, and assumptions and methods used to calculate the liability. Comparative prior year information, to the extent presented, has not been restated because the necessary information is not available.

The following is a summary of the restatements of opening fund balance and net position:

	Funds			Governmental Activities	Business-Type Activities
	Water & Sewer Fund	Golf Course Fund	Chestnut Grove Cemetery Fund		
Net Position June 30, 2017, as previously stated	\$ 22,575,341	\$ 3,059,528	\$ 1,365,639	\$ 83,150,458	\$ 31,849,174
Restatement due to recognition of other postemployment benefit related liabilities and related deferred outflows/inflows in accordance with GASB No. 75	<u>(131,126)</u>	<u>(102,190)</u>	<u>(39,829)</u>	<u>(1,786,661)</u>	<u>(273,145)</u>
Net Position June 30, 2017, as restated	<u>\$ 22,444,215</u>	<u>\$ 2,957,338</u>	<u>\$ 1,325,810</u>	<u>\$ 81,363,797</u>	<u>\$ 31,576,029</u>

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 18. Subsequent Events

In September 2018, the Town issued approximately \$11 million in General Obligation Bonds with interest rates ranging from 2% to 5% with a maturity date of February 2050. The purposes of the bonds is to fund various capital projects.

Note 19. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective.

The GASB issued **Statement No. 83**, Certain Asset Retirement Obligations in November 2016. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The requirements of this Statement are effective for periods beginning after June 15, 2018.

The GASB issued **Statement No. 84**, Fiduciary Activities in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2018.

The GASB issued **Statement No. 87**, Leases in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for periods beginning after December 15, 2019.

The GASB issued **Statement No. 88**, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements in March 2018. This Statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The requirements of this Statement are effective for periods beginning after June 15, 2018.

The GASB issued **Statement No. 89**, Accounting for Interest Cost Incurred before the End of a Construction Period in June 2018. This Statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for periods beginning after December 15, 2019. The requirements of this Statement should be applied prospectively.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 19. New Accounting Standards (Continued)

The GASB issued **Statement No. 90**, *Majority Equity Interests*, an amendment of *GASB Statements No. 14 and No. 61* in August 2018. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

Management has not determined the effects these new GASB Statements may have on prospective financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

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TOWN OF HERNDON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
 Year Ended June 30, 2018

	<u>Plan Year 2017</u> <u>Local Plan</u>
Total OPEB Liability	
Service cost	\$ 127,334
Interest on total OPEB liability	116,391
Changes in benefit terms	-
Difference between actual and expected experience	-
Changes of assumptions	-
Benefit payments	<u>(175,191)</u>
Net change in total OPEB liability	68,534
Total OPEB liability (beginning)	<u>3,228,918</u>
Total OPEB liability (ending)	<u><u>\$ 3,297,452</u></u>
Plan fiduciary net position as a percentage of total OPEB liability	<u>0.00%</u>
Covered payroll	<u>\$ 10,855,369</u>
Net OPEB liability as a percentage of covered employee payroll	<u>30.38%</u>

This schedule is intended to show information for 10 years. Since fiscal year 2018 (plan year 2017) is the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

TOWN OF HERNDON, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB CONTRIBUTIONS
June 30, 2018

Entity Fiscal Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
VRS Group Term Life Insurance					
2018	\$ 87,898	\$ 87,898	-	\$ 16,718,150	0.53%

Schedule is intended to show information for 10 years. Since 2018 was the first year for this presentation, only one year of data is available. Additional years will be included as they become available.

The covered payroll amounts above are for the entity's fiscal year - i.e. the covered payroll on which required contributions were based for the same year.

TOWN OF HERNDON, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
June 30, 2018

Plan Fiscal Year Ended June 30	Employer's Proportion of the Net OPEB Liability (Asset)	Employer's Proportionate Share of the Net OPEB Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
VRS Group Term Life Insurance					
2017	0.09%	\$ 1,362,000	\$ 16,663,134	8.17%	48.86%

Schedule is intended to show information for 10 years. Since 2018 was the first year for this presentation, only one year of data is available. Additional years will be included as they become available.

The covered payroll amounts above are for the plan's fiscal year - i.e. the covered payroll on which required contributions were based for the same year.

TOWN OF HERNDON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Year Ended June 30, 2018

	Plan Year			
	2017	2016	2015	2014
Total Pension Liability				
Service cost	\$ 1,780,019	\$ 1,775,184	\$ 1,780,620	\$ 1,821,327
Interest on total pension liability	5,143,537	4,887,085	4,664,075	4,385,197
Benefit payments, including refunds of employee contributions	(2,984,230)	(2,474,947)	(2,406,002)	(2,039,114)
Difference between actual and expected experience	(1,706,344)	(269,073)	(818,369)	-
Changes of assumptions	(521,761)	-	-	-
Net change in total pension liability	1,711,221	3,918,249	3,220,324	4,167,410
Total pension liability (beginning)	74,971,218	71,052,969	67,832,645	63,665,235
Total pension liability (ending)	\$ 76,682,439	\$ 74,971,218	\$ 71,052,969	\$ 67,832,645
Plan Fiduciary Net Position				
Contributions - employer	\$ 1,256,634	\$ 1,548,518	\$ 1,562,827	\$ 1,603,624
Contributions - employee	876,797	800,721	807,614	832,188
Net investment income	8,184,878	1,164,925	2,907,557	8,612,262
Benefit payments, including refunds of employee contributions	(2,984,230)	(2,474,947)	(2,406,002)	(2,039,114)
Administrative expenses	(47,240)	(40,637)	(39,225)	(45,658)
Other	(7,263)	(490)	(616)	454
Net change in plan fiduciary net position	7,279,576	998,090	2,832,155	8,963,756
Plan fiduciary net position - beginning	67,043,416	66,045,326	63,213,171	54,249,415
Plan fiduciary net position - ending	\$ 74,322,992	\$ 67,043,416	\$ 66,045,326	\$ 63,213,171
Net pension liability - ending	\$ 2,359,447	\$ 7,927,802	\$ 5,007,643	\$ 4,619,474
Plan fiduciary net position as a percentage of total pension liability	96.92%	89.43%	92.95%	93.19%
Covered payroll	\$ 16,663,134	\$ 16,563,441	\$ 15,901,012	\$ 16,413,756
Net pension liability as a percentage of covered payroll	14.16%	47.86%	31.49%	28.14%

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year - i.e., plan year 2017 information was presented in the entity's fiscal year 2018 financial report.

Schedule is intended to show information for 10 years. Since fiscal year (plan year 2014) 2015 was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

TOWN OF HERNDON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PENSION CONTRIBUTIONS
 June 30, 2018

Fiscal Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
Primary Government					
2018	\$ 1,241,860	\$ 1,241,860	-	\$ 16,835,121	7.38 %
2017	1,256,634	1,256,634	-	16,663,134	7.54
2016	1,573,635	1,573,635	-	16,563,441	9.50
2015	1,564,778	1,564,778	-	15,901,012	9.84

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, only four years of data is available. However, additional years will be included as they become available.

TOWN OF HERNDON, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2018

Note 1. Changes of Benefit Terms

Pension

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

Other Postemployment Benefits (OPEB)

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

Note 2. Changes of Assumptions

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

Largest 10 – Non-Hazardous Duty:

- Update mortality table
- Lowered in rates of service retirement
- Update withdrawal rates to better fit experience
- Lowered in rates of disability retirement
- No changes to salary rates
- Increase Line of Duty Disability rates
- Applicable to: Pension and GLI OPEB

Largest 10 – Hazardous Duty/Public Safety Employees:

- Update mortality table
- Lowered rates of retirement at older ages
- Update withdrawal rates to better fit experience
- Increased disability rates
- No changes to salary rates

(Continued)

TOWN OF HERNDON, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2018

Note 2. Changes of Assumptions (Continued)

Largest 10 – Hazardous Duty/Public Safety Employees: (Continued)

- Increased Line of Duty disability rates
- Applicable to: Pension and GLI OPEB

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

- Update mortality table
- Lowered rates of retirement at older ages and changed final retirement from 70 to 75
- Update withdrawal rates to better fit experience
- Lowered disability rates
- No changes to salary rates
- Increased Line of Duty disability rates from 14% to 15%
- Applicable to: Pension and GLI OPEB

All Others (Non 10 Largest) – Hazardous Duty/Public Safety Employees:

- Update mortality table
- Increased retirement rate at age 50 and lowered rates at older ages
- Update withdrawal rates to better fit experience
- Update disability rates to better fit experience
- No changes to salary rates
- Lowered Line of Duty rate from 60% to 45%
- Applicable to: Pension and GLI OPEB

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OTHER SUPPLEMENTARY INFORMATION

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Nonmajor Governmental Funds

Special Revenue Fund

Special revenue funds are used to account for specific revenues that are legally committed by legislative imposition by the Herndon Town Council to expenditure for particular purposes. The town's special revenue fund is the Chestnut Grove Cemetery Perpetual Care Fund.

Capital Projects Fund

Capital projects funds are generally used to account for the acquisition and construction of major capital projects other than those financed by proprietary funds and trust funds. The Information Systems Improvement Fund accounts for the town's acquisition of telecommunications equipment, computer hardware and software, and other automated systems.

TOWN OF HERNDON, VIRGINIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2018

Exhibit B-1

	Special Revenue Chestnut Grove Cemetery Perpetual Care Fund	Capital Projects Information Systems Improvement Fund	Total Nonmajor Governmental Funds
ASSETS			
Cash, cash equivalents and investments	\$ -	\$ 662,636	\$ 662,636
Accrued interest	16,051	-	16,051
Cash, cash equivalents and investments - restricted	1,657,034	-	1,657,034
Total assets	\$ 1,673,085	\$ 662,636	\$ 2,335,721
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ 24,409	\$ 24,409
Fund balances:			
Restricted:			
Cemetery perpetual care	1,673,085	-	1,673,085
Committed to:			
Assigned:			
Prior year reserve for encumbrances		4,725	4,725
Police radio replacements		630,000	630,000
Subsequent years' expenditures for Information Systems Improvement Fund	-	210,000	210,000
Unassigned	-	(206,498)	(206,498)
Total fund balances	1,673,085	638,227	2,311,312
Total liabilities and fund balances	\$ 1,673,085	\$ 662,636	\$ 2,335,721

TOWN OF HERNDON, VIRGINIA

Exhibit B-2

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2018

	Special Revenue Chestnut Grove Cemetery Perpetual Care Fund	Capital Projects Information Systems Improvement Fund	Total Nonmajor Governmental Funds
Revenues:			
Revenue from local sources:			
Use of money and property	\$ (370)	\$ -	\$ (370)
Total revenues	<u>(370)</u>	<u>-</u>	<u>(370)</u>
Expenditures:			
Capital outlay	<u>-</u>	<u>283,317</u>	<u>283,317</u>
Deficiency of revenues over expenditures	<u>(370)</u>	<u>(283,317)</u>	<u>(283,687)</u>
Other financing sources:			
Transfers in	<u>55,013</u>	<u>566,000</u>	<u>621,013</u>
Total other financing sources, net	<u>55,013</u>	<u>566,000</u>	<u>621,013</u>
Net change in fund balances	54,643	282,683	337,326
Fund balances, July 1	<u>1,618,442</u>	<u>355,544</u>	<u>1,973,986</u>
Fund balances, June 30	<u>\$ 1,673,085</u>	<u>\$ 638,227</u>	<u>\$ 2,311,312</u>

TOWN OF HERNDON, VIRGINIA

Exhibit B-3

**GENERAL FUND
BALANCE SHEET
June 30, 2018
(With Comparative Amounts for 2017)**

	2018	2017
ASSETS		
Cash, cash equivalents and investments	\$ 16,987,176	\$ 15,459,311
Cash and investments with fiscal agent	101	3,228
Receivables (net of allowance for doubtful accounts):		
Property taxes	11,515,711	5,575,175
Accounts and other services	570,193	669,977
Accrued interest	84,942	99,521
Due from other governments	679,856	791,077
Inventories	216,742	198,469
Prepaid costs	35,444	38,304
Advances to other funds	-	101,320
Cash, cash equivalents and investments - restricted	310,000	-
	<u>310,000</u>	<u>-</u>
Total assets	<u>\$ 30,400,165</u>	<u>\$ 22,936,382</u>
LIABILITIES		
Liabilities:		
Accounts payable	\$ 730,198	\$ 776,344
Accrued payroll	279,013	482,044
Accrued liabilities - other	841,031	268,695
Unearned revenue	242,915	321,510
Deposits	1,779,377	1,738,750
	<u>1,779,377</u>	<u>1,738,750</u>
Total liabilities	<u>3,872,534</u>	<u>3,587,343</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenues - property taxes	<u>11,499,269</u>	<u>5,602,880</u>
FUND BALANCE		
Fund Balances:		
Nonspendable:		
Inventories	216,742	198,469
Prepaid costs	35,444	38,304
Loan to Cemetery Fund	-	101,320
Restricted:		
Bond proceeds not yet spent	310,000	3,228
Committed:		
Revenue stabilization	1,400,000	1,200,000
Assigned to:		
Operating and capital	726,179	836,095
Future debt service costs	1,264,800	818,300
BPOL reserve	547,800	547,800
Subsequent years' expenditures	330,618	656,807
Unassigned	10,196,779	9,345,836
	<u>10,196,779</u>	<u>9,345,836</u>
Total fund balances	<u>15,028,362</u>	<u>13,746,159</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 30,400,165</u>	<u>\$ 22,936,382</u>

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 1

GENERAL FUND
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue from local sources:				
General property taxes:				
Real estate taxes	\$ 11,076,426	\$ 11,076,426	\$ 10,993,614	\$ (82,812)
Elderly tax relief exemption	(108,000)	(108,000)	-	108,000
Public service corporation taxes	332,293	332,293	330,950	(1,343)
Penalties and interest	55,000	55,000	42,801	(12,199)
Total general property taxes	11,355,719	11,355,719	11,367,365	11,646
Other local taxes:				
Consumer utility tax	790,000	790,000	795,461	5,461
Right of way use fees	115,020	115,020	144,534	29,514
Cigarette tax	330,000	330,000	271,983	(58,017)
Transient occupancy tax	2,186,650	2,186,650	2,286,397	99,747
Bank stock tax	395,000	395,000	407,637	12,637
Cable T.V. franchise fees	209,000	209,000	190,038	(18,962)
Business licenses tax	4,300,000	4,300,000	5,732,161	1,432,161
Utility consumption tax	90,000	90,000	91,039	1,039
Motor vehicle licenses	390,000	390,000	459,417	69,417
Local sales tax	1,918,000	1,918,000	1,818,023	(99,977)
Meals tax	2,225,030	2,225,030	2,266,761	41,731
Total other local taxes	12,948,700	12,948,700	14,463,451	1,514,751
Permits, privilege fees and regulatory licenses:				
Planning fees	140,000	140,000	130,446	(9,554)
Building inspection fees and permits	357,000	357,000	445,926	88,926
State stormwater management fees	9,000	9,000	9,024	24
Residential parking permits	-	-	1,275	1,275
Right of way permit fees	30,000	30,000	17,102	(12,898)
Total permits, privilege fees and regulatory licenses	536,000	536,000	603,773	67,773
Fines and forfeitures:				
Court fines and costs	98,000	98,000	80,216	(17,784)
Court fees - Fairfax County	435,000	435,000	338,902	(96,098)
Court maintenance fees	11,000	11,000	11,567	567
E-Summons fees	20,000	20,000	23,786	3,786
Zoning fines	4,000	4,000	(1,506)	(5,506)
Total fines and forfeitures	568,000	568,000	452,965	(115,035)

(Continued)

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 2

GENERAL FUND
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue from local sources: (Continued)				
Use of money and property:				
Interest on investments	\$ 275,000	\$ 275,000	\$ 178,292	\$ (96,708)
Rental income	525,000	525,000	460,031	(64,969)
Total use of money and property	800,000	800,000	638,323	(161,677)
Charges for services:				
Franchise lease	96,000	96,000	102,243	6,243
Commercial refuse collection	17,000	17,000	25,216	8,216
Recycling collection	100,000	100,000	99,510	(490)
Recreation program fees	1,604,500	1,604,500	1,665,513	61,013
Admission fees	391,500	391,500	404,870	13,370
Park operation	12,000	12,000	22,258	10,258
Herndon festival	200,000	375,000	308,894	(66,106)
Concession	19,000	19,000	14,906	(4,094)
Rental income - parks & recreation	100,500	100,500	106,162	5,662
Tennis/multi-use facility	215,000	215,000	245,313	30,313
Sale of recyclable materials	20,000	20,000	35,976	15,976
Quasi - external revenue - charges for administration, personnel and other services:				
Chestnut Grove Cemetery fund	17,136	17,136	17,136	-
Golf course fund	35,700	35,700	35,700	-
Water and sewer fund	535,497	535,497	535,497	-
Total charges for services	3,363,833	3,538,833	3,619,194	80,361
Miscellaneous	30,000	33,645	27,806	(5,839)
Total revenue from local sources	29,602,252	29,780,897	31,172,877	1,391,980
Intergovernmental:				
County of Fairfax:				
Pro-rata share of stormwater district tax collections	195,000	195,000	-	(195,000)
Contribution toward tourism and economic development	40,000	40,000	40,000	-
Total from County of Fairfax	235,000	235,000	40,000	(195,000)

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 3

GENERAL FUND
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Intergovernmental: (Continued)				
Other Local Governments:				
NOVA regional Gang Task Force grant	\$ 25,000	\$ 34,000	\$ 30,713	\$ (3,287)
Commonwealth:				
Non-categorical aid:				
Police reimbursement (Section 599)	569,000	569,000	566,368	(2,632)
Communications sales and use tax	1,600,320	1,600,320	1,575,464	(24,856)
Vehicle rental taxes	1,000	1,000	8,233	7,233
Total non-categorical aid	2,170,320	2,170,320	2,150,065	(20,255)
Categorical aid:				
Fire fund program	74,000	74,000	77,868	3,868
Litter control grant	6,000	6,000	5,649	(351)
Dept. of Criminal Justice Service - NOVA regional ICAC grant	35,000	40,400	30,420	(9,980)
VDOT highway revenue sharing grant	-	-	(6,161)	(6,161)
VDEM reimbursement	14,000	14,000	14,452	452
Forestry grant	1,000	1,000	1,250	250
Street and highway maintenance allocation	1,886,555	1,886,555	1,970,043	83,488
Total categorical aid	2,016,555	2,021,955	2,093,521	71,566
Total from the Commonwealth	4,186,875	4,192,275	4,243,586	51,311
Federal government:				
Categorical aid:				
Dept. of Transportation/ National Highway Safety Administration - Selective Enforcement Grant	35,000	35,000	48,968	13,968
US Dept. of Justice/ Criminal Division Office Equitable Sharing Program	-	99,075	99,797	722
Byrne Justice Assistance (JAG) Grant	-	-	18,377	18,377
Bullet Proof Vest Grant	-	-	1,439	1,439
FEMA Reimbursement	-	-	98,533	98,533
Total from the Federal government	35,000	134,075	267,114	133,039
Total intergovernmental revenue	4,481,875	4,595,350	4,581,413	(13,937)
Other financing sources:				
Proceeds from sale of surplus property	20,000	20,000	-	(20,000)
Bond proceeds	695,000	695,000	969,000	274,000
Total other financing sources (uses)	715,000	715,000	969,000	254,000
Total General Fund revenues	\$ 34,799,127	\$ 35,091,247	\$ 36,723,290	\$ 1,632,043

TOWN OF HERNDON, VIRGINIA

Exhibit B-5
Page 1

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Legislative:				
Personnel services	\$ 412,034	\$ 406,234	\$ 384,533	\$ 21,701
Operations and maintenance	299,325	308,204	314,669	(6,465)
Total legislative	711,359	714,438	699,202	15,236
Administration:				
Communications & Economic Development:				
Personnel services	357,076	357,076	324,802	32,274
Operations and maintenance	88,200	146,504	117,109	29,395
	445,276	503,580	441,911	61,669
Town manager:				
Personnel services	451,815	451,815	448,884	2,931
Operations and maintenance	116,424	119,124	40,673	78,451
	568,239	570,939	489,557	81,382
Human resources:				
Personnel services	483,442	483,442	484,083	(641)
Operations and maintenance	103,300	157,261	127,879	29,382
	586,742	640,703	611,962	28,741
Information services:				
Personnel services	760,227	699,727	692,568	7,159
Operations and maintenance	631,700	780,180	622,597	157,583
Capital outlay	-	5,300	5,112	188
	1,391,927	1,485,207	1,320,277	164,930
Total administration	2,992,184	3,200,429	2,863,707	336,722
Town attorney:				
Personnel services	354,696	354,696	358,887	(4,191)
Operations and maintenance	133,800	147,429	130,475	16,954
Total town attorney	488,496	502,125	489,362	12,763

TOWN OF HERNDON, VIRGINIA

Exhibit B-5
Page 2

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Parks and recreation:				
Administration:				
Personnel services	\$ 591,005	\$ 591,005	\$ 613,844	\$ (22,839)
Operations and maintenance	136,100	136,497	128,967	7,530
	<u>727,105</u>	<u>727,502</u>	<u>742,811</u>	<u>(15,309)</u>
Recreation programs:				
Personnel services	820,226	820,226	989,975	(169,749)
Operations and maintenance	544,095	759,518	565,376	194,142
	<u>1,364,321</u>	<u>1,579,744</u>	<u>1,555,351</u>	<u>24,393</u>
Community center operations:				
Personnel services	994,994	994,994	918,124	76,870
Operations and maintenance	226,400	226,400	203,197	23,203
	<u>1,221,394</u>	<u>1,221,394</u>	<u>1,121,321</u>	<u>100,073</u>
Aquatics programs and operations:				
Personnel services	725,615	725,615	684,789	40,826
Operations and maintenance	153,900	154,107	146,126	7,981
Capital outlay	-	7,200	6,135	1,065
	<u>879,515</u>	<u>886,922</u>	<u>837,050</u>	<u>49,872</u>
Park operations and development:				
Personnel services	78,797	78,797	90,861	(12,064)
Operations and maintenance	80,150	80,614	78,913	1,701
Capital outlay	23,220	23,220	23,220	-
	<u>182,167</u>	<u>182,631</u>	<u>192,994</u>	<u>(10,363)</u>
Total parks and recreation	<u>4,374,502</u>	<u>4,598,193</u>	<u>4,449,527</u>	<u>148,666</u>

TOWN OF HERNDON, VIRGINIA

Exhibit B-5
Page 3

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Finance:				
Administration:				
Personnel services	\$ 214,299	\$ 214,299	\$ 239,778	\$ (25,479)
Operations and maintenance	218,300	575,330	475,655	99,675
	<u>432,599</u>	<u>789,629</u>	<u>715,433</u>	<u>74,196</u>
Accounting:				
Personnel services	609,403	609,403	579,545	29,858
Operations and maintenance	30,475	33,525	31,972	1,553
	<u>639,878</u>	<u>642,928</u>	<u>611,517</u>	<u>31,411</u>
Revenue:				
Personnel services	236,319	229,919	212,761	17,158
Operations and maintenance	61,600	62,050	63,944	(1,894)
	<u>297,919</u>	<u>291,969</u>	<u>276,705</u>	<u>15,264</u>
Procurement:				
Personnel services	108,262	108,262	106,155	2,107
Operations and maintenance	5,700	5,950	6,312	(362)
	<u>113,962</u>	<u>114,212</u>	<u>112,467</u>	<u>1,745</u>
Total finance	<u>1,484,358</u>	<u>1,838,738</u>	<u>1,716,122</u>	<u>122,616</u>
Community development:				
Administration:				
Personnel services	1,432,967	1,528,467	1,356,360	172,107
Operations and maintenance	85,400	471,179	212,134	259,045
	<u>1,518,367</u>	<u>1,999,646</u>	<u>1,568,494</u>	<u>431,152</u>
Community inspections:				
Personnel services	290,018	267,518	160,355	107,163
Operations and maintenance	9,850	11,171	7,887	3,284
	<u>299,868</u>	<u>278,689</u>	<u>168,242</u>	<u>110,447</u>
Total community development	<u>1,818,235</u>	<u>2,278,335</u>	<u>1,736,736</u>	<u>541,599</u>

TOWN OF HERNDON, VIRGINIA

Exhibit B-5
Page 4

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Police:				
Field operations:				
Personnel services	\$ 5,113,298	\$ 5,113,298	\$ 5,009,628	\$ 103,670
Operations and maintenance	148,500	170,610	189,052	(18,442)
Capital outlay	219,300	246,166	258,765	(12,599)
	<u>5,481,098</u>	<u>5,530,074</u>	<u>5,457,445</u>	<u>72,629</u>
Support services:				
Personnel services	3,846,420	3,808,420	4,047,413	(238,993)
Operations and maintenance	567,300	588,317	550,495	37,822
Capital outlay	41,000	71,000	19,308	51,692
	<u>4,454,720</u>	<u>4,467,737</u>	<u>4,617,216</u>	<u>(149,479)</u>
Total police	<u>9,935,818</u>	<u>9,997,811</u>	<u>10,074,661</u>	<u>(76,850)</u>
Public Works:				
Administration:				
Personnel services	899,105	899,105	806,646	92,459
Operations and maintenance	48,300	48,667	31,758	16,909
	<u>947,405</u>	<u>947,772</u>	<u>838,404</u>	<u>109,368</u>
Engineering:				
Personnel services	553,315	553,315	526,215	27,100
Operations and maintenance	75,900	103,005	54,590	48,415
	<u>629,215</u>	<u>656,320</u>	<u>580,805</u>	<u>75,515</u>
Program management:				
Personnel services	327,517	327,517	197,441	130,076
Operations and maintenance	5,400	5,400	-	5,400
	<u>332,917</u>	<u>332,917</u>	<u>197,441</u>	<u>135,476</u>
Building inspections:				
Personnel services	496,797	496,797	473,043	23,754
Operations and maintenance	81,900	85,869	93,097	(7,228)
	<u>578,697</u>	<u>582,666</u>	<u>566,140</u>	<u>16,526</u>
Building maintenance:				
Personnel services	556,463	556,463	542,664	13,799
Operations and maintenance	798,000	957,757	901,489	56,268
Capital outlay	6,000	6,000	3,409	2,591
	<u>1,360,463</u>	<u>1,520,220</u>	<u>1,447,562</u>	<u>72,658</u>

TOWN OF HERNDON, VIRGINIA

Exhibit B-5
Page 5

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Public Works: (Continued)				
Grounds maintenance:				
Personnel services	\$ 683,985	\$ 683,985	\$ 649,255	\$ 34,730
Operations and maintenance	248,437	300,410	237,175	63,235
Capital outlay	35,000	35,000	34,251	749
	<u>967,422</u>	<u>1,019,395</u>	<u>920,681</u>	<u>98,714</u>
Street maintenance:				
Personnel services	760,282	745,782	394,649	351,133
Operations and maintenance	907,800	1,161,622	1,896,886	(735,264)
Capital outlay	572,000	616,020	594,644	21,376
	<u>2,240,082</u>	<u>2,523,424</u>	<u>2,886,179</u>	<u>(362,755)</u>
Refuse/recycling:				
Personnel services	973,112	973,112	820,661	152,451
Operations and maintenance	503,900	511,044	452,074	58,970
Capital outlay	195,000	201,000	111,810	89,190
	<u>1,672,012</u>	<u>1,685,156</u>	<u>1,384,545</u>	<u>300,611</u>
Vehicle and equipment maintenance:				
Personnel services	814,517	814,517	746,119	68,398
Operations and maintenance	308,900	313,491	37,693	275,798
Capital outlay	75,000	99,026	91,802	7,224
	<u>1,198,417</u>	<u>1,227,034</u>	<u>875,614</u>	<u>351,420</u>
Traffic engineering:				
Personnel services	223,648	223,648	190,178	33,470
Operations and maintenance	119,600	221,313	20,894	200,419
Capital outlay	22,000	40,900	36,068	4,832
	<u>365,248</u>	<u>485,861</u>	<u>247,140</u>	<u>238,721</u>
Right of way inspections:				
Personnel services	282,432	282,432	286,461	(4,029)
Operations and maintenance	10,700	10,700	8,093	2,607
	<u>293,132</u>	<u>293,132</u>	<u>294,554</u>	<u>(1,422)</u>
Total public works	<u>10,585,010</u>	<u>11,273,897</u>	<u>10,239,065</u>	<u>1,034,832</u>

TOWN OF HERNDON, VIRGINIA

Exhibit B-5
Page 6

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Grants and contingency:				
Operations	\$ -	\$ 49,020	\$ 151,977	\$ (102,957)
Total grants and contingency	<u>-</u>	<u>49,020</u>	<u>151,977</u>	<u>(102,957)</u>
Debt service:				
Principal	1,839,708	1,916,308	1,256,739	659,569
Interest and fiscal charges	<u>369,457</u>	<u>370,582</u>	<u>283,989</u>	<u>86,593</u>
Total debt service	<u>2,209,165</u>	<u>2,286,890</u>	<u>1,540,728</u>	<u>746,162</u>
Other financing uses:				
Transfers out	<u>1,019,000</u>	<u>1,480,000</u>	<u>1,480,000</u>	<u>-</u>
Total other financing sources (uses)	<u>1,019,000</u>	<u>1,480,000</u>	<u>1,480,000</u>	<u>-</u>
Total General Fund expenditures	<u>\$ 35,618,127</u>	<u>\$ 38,219,876</u>	<u>\$ 35,441,087</u>	<u>\$ 2,778,789</u>

TOWN OF HERNDON, VIRGINIA

Exhibit B-6

GOVERNMENTAL FUND TYPE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
CAPITAL PROJECTS FUND AND INFORMATION SYSTEMS IMPROVEMENT FUND
Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Use of money and property	\$ 30,000	\$ 30,000	\$ 51,004	\$ 21,004
Miscellaneous	18,000	18,000	322,331	304,331
Intergovernmental	3,189,000	3,465,000	1,719,060	(1,745,940)
Total revenues	3,237,000	3,513,000	2,092,395	(1,420,605)
Capital Outlay:				
Parks and recreation	-	444,336	204,168	240,168
Public works:				
Buildings and grounds	300,000	1,319,324	330,727	988,597
Streets, sidewalks and trails	3,701,000	19,118,648	2,235,911	16,882,737
Other infrastructure	40,000	4,317,140	55,807	4,261,333
Information systems improvements	235,000	501,416	283,317	218,099
Total expenditures	4,276,000	25,700,864	3,109,930	22,590,934
Revenues under expenditures	(1,039,000)	(22,187,864)	(1,017,535)	21,170,329
Other financing sources:				
Issuance of debt	220,000	220,000	-	(220,000)
Transfers in	819,000	949,000	1,280,000	331,000
Total other financing sources	1,039,000	1,169,000	1,280,000	111,000
Net change in fund balance	\$ -	\$ (21,018,864)	\$ 262,465	\$ 21,281,329

TOWN OF HERNDON, VIRGINIA

Exhibit B-7

PROPRIETARY FUND TYPE
 SCHEDULE OF REVENUES, EXPENSES AND
 CHANGES IN NET POSITION - BUDGET AND ACTUAL
 WATER AND SEWER FUND
 Year Ended June 30, 2018

	Final Budget	Actual	Variance Positive (Negative)
Operating revenues:			
Sale of water	\$ 2,704,000	\$ 2,736,152	\$ 32,152
Sewer service charges	3,052,000	3,412,416	360,416
Late payment charges	55,000	70,389	15,389
Sale of commodities	11,000	11,142	142
Rents and leases	355,000	358,673	3,673
Miscellaneous	21,900	19,331	(2,569)
Total operating revenues	6,198,900	6,608,103	409,203
Operating expenses:			
Finance	314,212	237,566	76,646
Water main maintenance	1,951,051	2,038,128	(87,077)
Sewer service charge	4,272,654	3,205,979	1,066,675
Contractual services	530,300	535,497	(5,197)
Nondepartmental:			
Depreciation and amortization	-	947,881	(947,881)
Miscellaneous	49,300	34,091	15,209
Total operating expenses	7,117,517	6,999,142	118,375
Operating loss	(918,617)	(391,039)	527,578
Nonoperating revenues (expenses):			
Investment earnings	215,000	104,478	(110,522)
Availability fees	958,000	705,085	(252,915)
Gain on disposal of capital assets	500	27,431	26,931
Total nonoperating revenues, net	1,173,500	836,994	(336,506)
Change in net position	\$ 254,883	445,955	\$ 191,072
Total net position, July 1, as restated		22,444,215	
Total net position, June 30		\$ 22,890,170	

TOWN OF HERNDON, VIRGINIA

Exhibit B-8

PROPRIETARY FUND TYPE
 SCHEDULE OF REVENUES, EXPENSES AND
 CHANGES IN NET POSITION - BUDGET AND ACTUAL
 GOLF COURSE FUND
 Year Ended June 30, 2018

	Final Budget	Actual	Variance Positive (Negative)
Operating revenues:			
Rents and leases	\$ 43,600	\$ 40,575	\$ (3,025)
Greens fees	970,600	953,161	(17,439)
Golf cart revenue	281,600	278,969	(2,631)
Golf pro shop sales	65,700	61,353	(4,347)
Driving range fees	69,400	78,703	9,303
Miscellaneous	19,300	17,006	(2,294)
Total operating revenues	<u>1,450,200</u>	<u>1,429,767</u>	<u>(20,433)</u>
Operating expenses:			
Golf course operations	715,081	680,550	34,531
Golf course club house	574,896	575,771	(875)
Nondepartmental:			
Depreciation and amortization	-	233,572	(233,572)
Miscellaneous	56,100	57,053	(953)
Total operating expenses	<u>1,346,077</u>	<u>1,546,946</u>	<u>(200,869)</u>
Operating income (loss)	<u>104,123</u>	<u>(117,179)</u>	<u>(221,302)</u>
Nonoperating revenues (expenses):			
Investment earnings, net	25,000	12,466	(12,534)
Interest expense	(26,500)	(25,097)	1,403
Gain on disposal of capital assets	-	6,125	6,125
Total nonoperating revenues (expenses), net	<u>(1,500)</u>	<u>(6,506)</u>	<u>(5,006)</u>
Income (loss)	<u>102,623</u>	<u>(123,685)</u>	<u>(226,308)</u>
Change in net position	<u>\$ 102,623</u>	<u>(123,685)</u>	<u>\$ (226,308)</u>
Total net position, July 1, as restated		<u>2,957,338</u>	
Total net position, June 30		<u>\$ 2,833,653</u>	

TOWN OF HERNDON, VIRGINIA

Exhibit B-9

PROPRIETARY FUND TYPE
 SCHEDULE OF REVENUES, EXPENSES, AND
 CHANGES IN NET POSITION - BUDGET AND ACTUAL
 CHESTNUT GROVE CEMETERY FUND
 Year Ended June 30, 2018

	Final Budget	Actual	Variance Positive (Negative)
Operating revenues:			
Cemetery sites	\$ 452,800	\$ 550,125	\$ 97,325
Interment services	190,900	250,600	59,700
Merchandise sales	94,600	167,006	72,406
Miscellaneous	3,500	49,015	45,515
Total operating revenues	741,800	1,016,746	274,946
Operating expenses:			
Cemetery operations	547,345	493,120	54,225
Nondepartmental:			
Depreciation and amortization	-	112,129	(112,129)
Miscellaneous	22,600	22,308	292
Total operating expenses	569,945	627,557	(57,612)
Operating income	171,855	389,189	217,334
Nonoperating revenues (expenses):			
Investment earnings	11,200	9,297	(1,903)
Interest expense	(33,400)	(41,387)	(7,987)
Total nonoperating revenues (expenses), net	(22,200)	(32,090)	(9,890)
Income before transfers	149,655	357,099	207,444
Transfers in	36,000	-	(36,000)
Transfers out	(43,100)	(55,013)	(11,913)
Change in net position	\$ 142,555	302,086	\$ 159,531
Total net position, July 1, as restated		1,325,810	
Total net position, June 30		\$ 1,627,896	

TOWN OF HERNDON, VIRGINIA

Exhibit B-10

PROPRIETARY FUND TYPE
 SCHEDULE OF REVENUES, EXPENSES AND
 CHANGES IN NET POSITION - BUDGET AND ACTUAL
 DOWNTOWN PARKING FUND
 Year Ended June 30, 2018

	Final Budget	Actual	Variance Positive (Negative)
Operating revenues:			
Miscellaneous	\$ 26,900	\$ 97,845	\$ 70,945
Total operating revenues	<u>26,900</u>	<u>97,845</u>	<u>70,945</u>
Operating expenses:			
Downtown parking	110,000	129,563	(19,563)
Depreciation and amortization	-	4,422	(4,422)
Total operating expenses	<u>110,000</u>	<u>133,985</u>	<u>(23,985)</u>
Operating loss	<u>(83,100)</u>	<u>(36,140)</u>	<u>46,960</u>
Nonoperating revenues:			
Investment earnings	4,700	6,738	2,038
Total nonoperating revenues	<u>4,700</u>	<u>6,738</u>	<u>2,038</u>
Income (loss) before transfers	<u>(78,400)</u>	<u>(29,402)</u>	<u>48,998</u>
Transfers in	200,000	200,000	-
Change in net position	<u>\$ 121,600</u>	<u>170,598</u>	<u>\$ 48,998</u>
Total net position, July 1, as restated		<u>4,848,666</u>	
Total net position, June 30		<u>\$ 5,019,264</u>	

TOWN OF
Herndon
VIRGINIA

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STATISTICAL SECTION

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**TOWN OF HERNDON, VIRGINIA
STATISTICAL SECTION**

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Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

TOWN OF HERNDON, VIRGINIA

Table 1

**NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(accrual basis of accounting)
(Unaudited)**

	Fiscal Year June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Governmental activities:										
Net investment in capital assets	\$ 72,604,103	\$ 72,888,823	\$ 71,869,483	\$ 70,770,618	\$ 67,773,944	\$ 66,964,850	\$ 69,544,673	\$ 70,494,388	\$ 71,246,008	\$ 71,885,582
Restricted	1,298,335	1,331,216	-	-	3,156,244	3,156,490	2,400,979	3,985,488	1,618,442	2,132,077
Unrestricted	11,187,939	11,136,298	12,710,197	13,453,945	12,982,159	13,031,542	5,849,529	7,336,877	8,499,347	10,633,283
Total governmental activities net position	\$ 85,090,377	\$ 85,356,337	\$ 84,579,680	\$ 84,224,563	\$ 83,912,347	\$ 83,152,882	\$ 77,795,181	\$ 81,816,753	\$ 81,363,797	\$ 84,650,942
Business-type activities:										
Net investment in capital assets	\$ 15,947,667	\$ 14,723,720	\$ 15,029,325	\$ 14,333,960	\$ 14,277,687	\$ 14,409,510	\$ 14,601,815	\$ 16,773,326	\$ 16,771,452	\$ 16,649,854
Restricted									151,114	151,114
Unrestricted	13,837,158	15,190,726	14,896,236	15,810,683	15,838,128	17,747,172	17,347,462	15,399,987	14,653,463	15,570,015
Total business-type activities net position	\$ 29,784,825	\$ 29,914,446	\$ 29,925,561	\$ 30,144,643	\$ 30,115,815	\$ 32,156,682	\$ 31,949,277	\$ 32,173,313	\$ 31,576,029	\$ 32,370,983
Primary government:										
Net investment in capital assets	\$ 88,551,770	\$ 87,612,543	\$ 86,898,808	\$ 85,104,578	\$ 82,051,631	\$ 81,374,360	\$ 84,146,488	\$ 87,267,714	\$ 88,017,460	\$ 88,535,436
Restricted	1,298,335	1,331,216	-	-	3,156,244	3,156,490	2,400,979	3,985,488	1,769,556	2,283,191
Unrestricted	25,025,097	26,327,024	27,606,433	29,264,628	28,820,287	30,778,714	23,196,991	22,736,864	23,152,810	26,203,298
Total primary government net position	\$ 114,875,202	\$ 115,270,783	\$ 114,505,241	\$ 114,369,206	\$ 114,028,162	\$ 115,309,564	\$ 109,744,458	\$ 113,990,066	\$ 112,939,826	\$ 117,021,925

Source:
Town of Herndon Finance Department - Exhibit A-1

- Notes:
- (1) Beginning in Fiscal Year 2011, the town reclassified the Cemetery Perpetual Care Fund to unrestricted.
 - (2) Fiscal Year 2014 net position was restated for the implementation of GASB Statement No. 68 which reduced net position by \$7,812,196.
 - (3) Fiscal Year 2016 unrestricted net position was restated by \$726,240 due to the recognition of various fees (Lateral Sewer fees, Stormwater fees, and BPOL reserve) previously reported as deferred or unearned. net position by \$7,812,196.
 - (4) Fiscal Year 2017 net position was restated for the implementation of GASB Statement No. 75 which reduced net position by \$2,059,806.

TOWN OF HERNDON, VIRGINIA

Table 2

**CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(accrual basis of accounting)
(Unaudited)**

	Fiscal Year June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Expenses:										
Governmental activities:										
Legislative	\$ 654,002	\$ 633,438	\$ 623,912	\$ 583,204	\$ 640,816	\$ 627,221	\$ 602,274	\$ 677,277	\$ 745,753	\$ 706,048
Administration	3,226,320	2,164,235	2,259,326	2,644,089	2,744,129	4,043,656	2,965,744	2,691,531	3,304,796	3,017,512
Town attorney	519,437	532,305	587,992	475,518	497,761	539,332	522,777	556,236	606,758	612,209
Parks and recreation	4,658,971	4,310,670	4,363,722	4,359,512	4,608,079	4,659,976	4,732,787	4,839,122	5,012,560	4,879,803
Finance	1,348,980	1,288,960	1,215,584	1,291,803	1,379,724	1,320,493	1,321,326	1,485,207	1,492,031	1,710,148
Community development	1,950,546	2,353,844	2,346,085	2,138,936	2,127,055	1,980,462	1,804,660	1,682,901	1,672,244	1,699,935
Police	9,257,315	9,009,339	8,548,326	8,834,312	9,465,667	9,548,043	9,174,389	10,021,992	10,079,277	10,242,016
Public works	11,229,645	10,817,176	10,493,058	11,861,291	11,488,561	11,530,515	11,501,379	11,665,946	12,594,496	11,337,194
Interest	813,800	765,523	807,330	938,843	533,155	443,213	511,089	287,036	258,075	257,963
Total governmental activities	33,659,016	31,875,490	31,245,335	33,127,508	33,484,947	34,692,911	33,136,425	33,907,248	35,765,990	34,462,828
Business-type activities:										
Water and sewer	6,836,413	6,615,960	6,715,723	7,173,978	7,064,425	7,589,406	6,869,506	7,044,675	7,606,887	6,999,142
Golf course	1,530,464	1,561,787	1,476,713	1,531,506	1,595,145	1,554,011	1,567,919	1,506,117	1,559,749	1,572,043
Chestnut Grove cemetery	704,690	714,927	698,361	686,962	729,837	707,836	697,207	710,164	708,383	668,944
Downtown parking	65,844	44,814	77,374	29,473	29,390	32,945	28,283	72,623	111,913	133,985
Total business-type activities	9,137,411	8,937,488	8,968,171	9,421,919	9,418,797	9,884,198	9,162,915	9,333,579	9,986,932	9,374,114
Total government expenses	42,796,427	40,812,978	40,213,506	42,549,427	42,903,744	44,577,109	42,299,340	43,240,827	45,752,922	43,836,942
Program revenue:										
Governmental activities:										
Charges for services:										
Administration	20,650	12,827	28,242	20,573	19,606	34,762	24,327	9,675	41,075	35,976
Parks and recreation	2,551,346	2,720,621	2,848,308	2,837,304	2,826,309	2,762,453	2,785,759	2,710,943	2,767,730	2,767,916
Finance	421,790	442,880	465,020	488,270	512,690	533,200	549,600	560,500	571,700	588,333
Police	579,682	544,060	543,607	583,820	498,279	469,812	543,901	447,552	397,691	430,685
Public works	466,595	495,331	498,571	421,503	687,130	646,287	634,681	762,796	710,671	749,504
Operating grants and contributions:										
Administration	195,616	112,141	114,732	29,348	-	-	-	-	-	-
Community development	-	130,958	87,289	129,380	130,823	130,000	130,000	40,000	40,000	40,000
Police	1,045,779	954,847	898,306	707,317	627,749	751,934	671,045	666,752	707,588	864,195
Public works	739,287	1,097,785	864,727	806,055	890,712	862,301	936,748	953,146	1,178,505	1,046,761
Capital grants and contributions:										
Police	-	-	5,000	-	-	-	-	-	-	-
Public works	1,164,938	1,645,234	1,233,410	2,570,040	1,881,507	1,610,482	1,955,113	3,244,961	2,168,349	2,765,821
Total governmental activities program revenue	7,185,683	8,156,684	7,587,212	8,593,610	8,074,805	7,801,231	8,231,174	9,396,325	8,583,309	9,289,191

TOWN OF HERNDON, VIRGINIA

Table 2
Page 2

**CHANGES IN NET POSITION
LAST TEN FISCAL YEARS (1)
(accrual basis of accounting)
(Unaudited)**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Program revenues (Continued):										
Business-type activities:										
Charges for services:										
Water and sewer	\$ 4,898,322	\$ 5,667,631	\$ 5,928,243	\$ 6,207,789	\$ 6,285,282	\$ 6,445,760	\$ 6,303,140	\$ 6,127,359	\$ 6,506,438	\$ 6,935,184
Golf course	1,469,522	1,396,993	1,279,442	1,419,051	1,392,960	1,365,597	1,309,211	1,401,722	1,497,289	1,372,186
Chestnut Grove cemetery	536,054	568,783	596,106	639,107	695,230	806,521	725,182	783,598	890,165	967,731
Downtown parking	-	-	-	-	-	-	-	-	26,903	-
Capital grants and contributions:										
Water and sewer	75,420	78,291	314,121	50,512	119,085	-	-	-	-	-
Golf course	-	-	-	-	61,160	154,239	16,670	-	-	-
Total business-type activities program revenues	6,979,318	7,711,698	8,117,912	8,316,459	8,553,717	8,772,117	8,354,203	8,312,679	8,920,795	9,275,101
Total government program revenues	14,165,001	15,868,382	15,705,124	16,910,069	16,628,522	16,573,348	16,585,377	17,709,004	17,504,104	18,564,292
Net (expense) revenue:										
Governmental activities	(26,473,333)	(23,718,806)	(23,658,123)	(24,533,898)	(25,410,142)	(26,891,680)	(24,905,251)	(24,510,923)	(27,182,681)	(25,173,637)
Business-type activities	(2,158,093)	(1,225,790)	(850,259)	(1,105,460)	(865,080)	(1,112,081)	(808,712)	(1,020,900)	(1,066,137)	(99,013)
Total government net expense	(28,631,426)	(24,944,596)	(24,508,382)	(25,639,358)	(26,275,222)	(28,003,761)	(25,713,963)	(25,531,823)	(28,248,818)	(25,272,650)
General revenues and other changes in net position:										
Governmental activities:										
Taxes:										
General property	11,305,328	10,417,959	9,117,669	9,484,072	10,153,920	10,482,821	10,963,925	11,040,763	11,218,438	11,416,010
Business license	3,458,908	3,395,732	3,788,311	3,928,098	4,481,963	4,750,718	4,860,528	4,868,291	5,569,516	5,732,161
Transient occupancy	2,493,698	2,202,096	2,212,811	2,235,969	2,088,149	2,091,900	2,187,198	2,169,852	2,199,410	2,286,397
Meals	1,103,744	1,086,649	1,154,577	1,991,460	2,008,529	2,046,307	2,121,519	2,173,102	2,215,677	2,266,761
Local sales	1,511,792	1,413,606	1,488,959	1,601,032	1,668,325	1,703,517	1,848,993	1,871,189	1,798,728	1,818,023
Other local taxes	3,785,126	4,013,468	2,317,896	2,264,521	2,195,384	2,258,268	2,300,406	2,290,371	2,393,966	2,361,383
Revenues not restricted to specific programs	89,937	92,844	193,634	-	82,940	85,328	87,940	90,539	93,362	102,243
Intergovernmental, non-categorical aid	42,626	29,026	1,827,856	1,790,631	1,957,744	1,937,785	1,815,751	1,868,193	2,067,279	1,583,697
Use of money and property	1,406,066	1,216,859	725,320	899,551	451,965	1,111,136	801,986	1,027,152	909,502	688,957
Gain on sale of capital assets	-	-	-	-	-	-	-	14,927	-	-
Miscellaneous and lease income	439,355	144,995	64,412	201,030	184,899	1,984,086	77,560	708,184	206,101	350,137
Transfers	(46,252)	(28,468)	(9,979)	(217,583)	(175,892)	(2,109,986)	(386,638)	(174,904)	(155,593)	(144,987)
Total governmental activities	25,590,328	23,984,766	22,881,466	24,178,781	25,097,926	26,341,880	26,679,168	27,947,659	28,516,386	28,460,782

TOWN OF HERNDON, VIRGINIA

**CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(accrual basis of accounting)
(Unaudited)**

**Table 2
Page 3**

	Fiscal Year June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General revenues and other changes in net position: (Continued)										
Business-type activities:										
Use of money and property	\$ 1,014,947	\$ 835,100	\$ 291,614	\$ 547,645	\$ 80,894	\$ 487,345	\$ 276,557	\$ 325,396	\$ 68,405	\$ 132,979
Gain on sale of capital assets	-	-	-	-	-	-	-	-	6,370	33,556
Miscellaneous	367,475	491,843	559,781	559,314	579,466	615,068	618,690	603,232	511,630	582,445
Transfers	46,252	28,468	9,979	217,583	175,892	2,109,986	386,638	174,904	155,593	144,987
Total business-type activities	1,428,674	1,355,411	861,374	1,324,542	836,252	3,212,399	1,281,885	1,103,532	741,998	893,967
Total primary government	27,019,002	25,340,177	23,742,840	25,503,323	25,934,178	29,554,279	27,961,053	29,051,191	29,258,384	29,354,749
Changes in net position:										
Governmental activities	(883,005)	265,960	(776,657)	(355,117)	(312,216)	(549,800)	1,773,917	3,436,736	1,333,705	3,287,145
Business-type activities	(729,419)	129,621	11,115	219,082	(28,828)	2,100,318	473,173	82,632	(324,139)	794,954
Total primary government	\$ (1,612,424)	\$ 395,581	\$ (765,542)	\$ (136,035)	\$ (341,044)	\$ 1,550,518	\$ 2,247,090	\$ 3,519,368	\$ 1,009,566	\$ 4,082,099

Source:
Town of Herndon Finance Department - Exhibit A-2

Note:
(1) Net (expense) revenue is the difference between the expenses and program revenues. This difference indicates the degree to which a function or program is supported with its own fees and program-specific grants versus its reliance upon funding from taxes and other general revenues. Numbers in a parentheses are net expenses indicating that expenses were greater than program revenues, and the revenues were needed to finance that function or program. Numbers without parentheses are net revenues, demonstrating that program revenues were more than sufficient to cover expenses.

TOWN OF HERNDON, VIRGINIA

Table 3

**FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Unaudited)**

	Fiscal Year June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General Fund:										
Nonspendable	\$ 696,928	\$ 521,699	\$ 465,104	\$ 437,038	\$ 396,781	\$ 319,403	\$ 274,029	\$ 291,196	\$ 338,093	\$ 252,186
Restricted	-	-	-	-	-	-	3,716	3,170	3,228	310,000
Committed	-	-	-	200,000	400,000	600,000	800,000	1,000,000	1,200,000	1,400,000
Assigned	1,547,148	1,330,286	1,447,107	1,275,540	1,478,176	1,494,774	2,108,853	2,898,995	2,859,002	2,869,397
Unassigned	5,572,879	5,830,035	6,269,345	6,899,792	7,109,184	8,164,509	8,454,408	9,084,025	9,345,836	10,196,779
Total General Fund	\$ 7,816,955	\$ 7,682,020	\$ 8,181,556	\$ 8,812,370	\$ 9,384,141	\$ 10,578,686	\$ 11,641,006	\$ 13,277,386	\$ 13,746,159	\$ 15,028,362
All Other Governmental Funds:										
Nonspendable	\$ -	\$ -	\$ -	\$ 400	\$ -	\$ -	\$ -	\$ 25,000	\$ 25,000	\$ 25,000
Restricted	-	-	-	1,401,996	4,600,626	4,654,446	3,935,728	4,019,354	1,764,513	2,132,077
Committed	1,298,335	1,331,216	1,364,493	-	-	-	-	-	-	-
Assigned	6,283,685	8,714,791	9,094,285	9,073,286	5,466,901	5,045,594	3,252,034	3,942,806	6,510,193	6,335,363
Unassigned	-	-	-	-	-	-	-	(16,879)	(330,872)	(206,498)
Total all other governmental funds	\$ 7,582,020	\$ 10,046,007	\$ 10,458,778	\$ 10,475,682	\$ 10,067,527	\$ 9,700,040	\$ 7,187,762	\$ 7,970,281	\$ 7,968,834	\$ 8,285,942

Source:
Town of Herndon Finance Department - Exhibit A-3

Note:
(1) In Fiscal Year 2011, the town adopted GASB 54 which changed fund balance classifications. Fiscal Years 2009 and 2010 are restated to reflect the new classifications.

TOWN OF HERNDON, VIRGINIA

Table 4

**CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Unaudited)**

	Fiscal Year June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenues:										
General property taxes	\$ 11,315,372	\$ 10,397,197	\$ 9,121,061	\$ 9,469,904	\$ 10,166,799	\$ 10,500,239	\$ 10,970,320	\$ 11,029,513	\$ 11,214,419	\$ 11,367,365
Other local taxes	12,353,268	12,111,551	10,962,554	12,021,080	12,442,350	12,850,710	13,318,644	13,372,805	14,177,297	14,463,451
Permits, privilege fees and regulatory licenses	361,280	398,453	394,406	307,471	576,155	532,695	522,048	630,218	559,488	603,773
Fines and forfeitures	593,631	546,486	525,648	586,607	491,067	632,491	547,939	463,312	423,335	452,965
Use of money and property	1,406,066	1,216,859	725,320	899,551	451,965	1,111,136	801,986	1,027,152	909,502	688,957
Charges for services	3,158,288	3,344,974	3,540,621	3,553,684	3,550,572	3,525,332	3,556,221	3,488,475	3,599,406	3,619,194
Miscellaneous	318,482	122,619	45,613	173,216	156,708	33,485	77,560	708,184	206,101	350,137
Intergovernmental	3,017,100	3,036,075	4,914,716	5,601,971	5,020,623	5,338,235	5,508,657	6,773,052	6,161,721	6,300,473
Total revenues	32,523,487	31,174,214	30,229,939	32,613,484	32,856,239	34,524,323	35,303,375	37,492,711	37,251,269	37,846,315
Expenditures:										
Legislative	651,245	621,490	621,830	574,002	633,519	622,325	626,639	654,549	698,951	699,202
Administration	2,443,752	1,794,756	1,875,307	2,039,372	2,249,139	2,319,175	2,457,281	2,582,772	3,131,313	2,863,707
Town attorney	522,946	533,800	580,099	465,714	494,245	535,633	545,434	476,792	476,844	489,362
Parks and recreation	3,896,866	3,588,867	3,637,139	3,615,552	3,851,099	3,985,756	4,055,755	4,136,245	4,288,848	4,449,527
Finance	1,291,102	1,237,706	1,159,375	1,236,659	1,302,849	1,267,040	1,307,771	1,427,806	1,518,192	1,716,122
Community development	1,853,933	2,258,153	2,060,965	2,069,278	2,051,139	1,891,352	1,857,171	1,598,172	1,686,329	1,736,736
Police	8,662,952	8,605,850	8,164,952	8,829,067	9,053,956	9,097,892	9,126,841	9,848,958	9,603,136	10,074,661
Public works	9,049,695	9,071,074	8,460,778	8,534,908	9,172,971	9,453,015	9,512,357	10,014,006	10,735,437	10,239,065
Grants	169,494	112,375	56,077	52,544	38,171	102,305	26,042	46,618	74,628	151,977
Capital outlay	1,354,695	1,713,889	1,117,577	2,313,599	1,699,472	2,242,162	4,805,785	3,296,422	3,040,310	3,109,930
Debt service:										
Principal	1,714,623	1,804,517	1,755,837	1,458,640	1,505,093	1,540,720	1,681,126	1,102,539	1,090,629	1,256,739
Interest and fiscal charges	800,142	808,155	838,530	695,817	494,954	481,073	573,790	313,792	283,733	283,989
Total expenditures	32,411,445	32,150,632	30,328,466	31,885,152	32,546,607	33,538,448	36,575,992	35,498,671	36,628,350	37,071,017
Excess of revenues over (under) expenditures	112,042	(976,418)	(98,527)	728,332	309,632	985,875	(1,272,617)	1,994,040	622,919	775,298
Other financing sources (uses):										
Transfers in	551,856	1,255,981	755,777	666,003	584,487	1,048,074	1,043,888	1,474,921	1,535,807	1,335,013
Transfers out	(598,108)	(1,284,449)	(765,756)	(883,586)	(760,379)	(3,158,060)	(1,430,526)	(1,649,825)	(1,691,400)	(1,480,000)
Issuance of debt	-	3,240,000	902,500	97,500	-	-	-	-	-	969,000
Proceeds of refunding bonds	-	-	1,766,365	4,999,000	-	-	4,032,000	-	-	-
Payment to refunded bond escrow agent	-	-	(1,760,506)	(4,986,906)	-	-	(3,822,703)	-	-	-
Premium (discount) on issuance debt	-	71,562	92,459	-	-	-	-	-	-	-
Proceeds from sale of property	120,873	22,376	19,995	27,375	29,876	1,951,169	-	14,927	-	-
Total other financing sources (uses), net	74,621	3,305,470	1,010,834	(80,614)	(146,016)	(158,817)	(177,341)	(159,977)	(155,593)	824,013
Net changes in fund balances	\$ 186,663	\$ 2,329,052	\$ 912,307	\$ 647,718	\$ 163,616	\$ 827,058	\$ (1,449,958)	\$ 1,834,063	\$ 467,326	\$ 1,599,311

TOWN OF HERNDON, VIRGINIA

**CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Unaudited)**

**Table 4
Page 2**

	Fiscal Year June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Debt service as a percentage of noncapital expenditures:										
Total debt service	\$ 2,514,765	\$ 2,612,672	\$ 2,594,367	\$ 2,154,457	\$ 2,000,047	\$ 2,021,793	\$ 2,254,916	\$ 1,416,331	\$ 1,374,362	\$ 1,540,728
Total expenditures	\$ 32,411,445	\$ 32,150,632	\$ 30,328,466	\$ 31,885,152	\$ 32,546,607	\$ 33,538,448	\$ 36,575,992	\$ 35,498,671	\$ 36,628,350	\$ 37,071,017
Less: capital outlay	(1,236,989)	(2,115,568)	(920,817)	(1,325,046)	(1,784,169)	(2,464,081)	(4,496,172)	(3,549,414)	(3,370,996)	(3,752,903)
Noncapital expenditures	\$ 31,174,456	\$ 30,035,064	\$ 29,407,649	\$ 30,560,106	\$ 30,762,438	\$ 31,074,367	\$ 32,079,820	\$ 31,949,257	\$ 33,257,354	\$ 33,318,114
Debt service as a percentage of noncapital expenditures	8.07%	8.70%	8.82%	7.05%	6.50%	6.51%	7.03%	4.43%	4.13%	4.62%

Source:
Town of Herndon Finance Department - Exhibit A-5

TOWN OF HERNDON, VIRGINIA

Table 5

**TAX REVENUES BY SOURCE, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Unaudited)**

Fiscal Year June 30,	General Property Including Interest and Penalty	Business License	Transient Occupancy	Local Sales	Meals (1)	Cigarette (2)	Motor Vehicle	Consumer Utility and Consumption	5% Communications Sales and Use (3)	Other (4)	Total
2009	\$ 11,315,372	\$ 3,458,908	\$ 2,493,698	\$ 1,511,792	\$ 1,103,744	\$ 307,047	\$ 285,356	\$ 878,034	\$ 1,796,554	\$ 518,135	\$ 23,668,640
2010	10,397,197	3,395,732	2,202,096	1,413,606	1,086,649	293,592	290,313	899,685	1,853,246	676,632	22,508,748
2011	9,121,061	3,788,311	2,212,811	1,488,959	1,154,577	390,163	373,933	884,483	-	669,317	20,083,615
2012	9,469,904	3,928,098	2,235,969	1,601,032	1,991,460	364,975	386,712	882,544	-	630,290	21,490,984
2013	10,166,799	4,481,963	2,088,149	1,668,325	2,008,529	333,869	373,415	888,993	-	599,107	22,609,149
2014	10,500,239	4,750,718	2,091,900	1,703,517	2,046,307	337,783	371,325	895,793	-	653,367	23,350,949
2015	10,970,320	4,860,528	2,187,198	1,848,993	2,121,519	323,517	365,163	891,319	-	720,407	24,288,964
2016	11,029,513	4,868,291	2,169,852	1,871,189	2,173,102	330,796	358,906	872,267	-	728,402	24,402,318
2017	11,214,419	5,569,516	2,199,410	1,798,728	2,215,677	288,484	431,639	876,765	-	797,078	25,391,716
2018	11,367,364	5,732,161	2,286,397	1,818,023	2,266,761	271,983	459,417	886,500	-	742,209	25,830,815
Change 2009-2018	0.46%	65.72%	-8.31%	20.26%	105.37%	-11.42%	61.00%	0.96%	N/A	43.25%	9.14%

Source: Town of Herndon Finance Department and Exhibit B-4.

Notes:

(1) Town adopted a meals tax was 1.5 percent for the fiscal years prior to 2012. Rate was increased to 2.5 percent beginning in fiscal year 2012.

(2) Cigarette tax rate was \$0.50 per pack effective for fiscal years prior to 2011. Rate was increased to \$0.75 per pack beginning in fiscal year 2011.

(3) State communications sales and use tax became effective January 1, 2007. This tax replaced three locally assessed town taxes which are the consumer utility tax on telecommunication services, the mobile telecommunications (cell phone) tax and the 5 percent portion of the town's cable TV franchise fee. Beginning in fiscal year 2011, this tax is now accounted for as state intergovernmental revenue.

(4) Includes right of way use fees, bank stock taxes and cable TV franchise fees.

TOWN OF HERNDON, VIRGINIA

Table 6

**ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
(Unaudited)**

Assessment Year	Residential Property	Non-Residential Property	Public Service Corporation	Exempt (Nontaxable)	Total Assessed Value (1)	Total Taxable Assessed Value	Percent Growth	Total Direct Tax Rate	Actual Taxable Value	Value as a Percentage of Assessed Value
2009	\$ 2,370,955,949	\$ 2,212,843,650	\$ 148,261,544	\$ 235,205,540	\$ 4,967,266,683	\$ 4,732,061,143	(0.38)%	\$ 0.2400	\$ 4,732,061,143	100.00%
2010	1,679,450,917	2,174,409,910	137,947,029	222,736,840	4,214,544,696	3,991,807,856	(15.64)%	0.2600	3,991,807,856	100.00%
2011	1,596,765,065	1,684,423,215	134,591,895	202,647,500	3,618,427,675	3,415,780,175	(14.43)%	0.2675	3,415,780,175	100.00%
2012	1,708,242,740	1,747,193,177	119,532,778	204,073,885	3,779,042,580	3,574,968,695	4.66%	0.2650	3,574,968,695	100.00%
2013	1,801,509,810	1,925,923,584	116,081,340	205,388,122	4,048,902,856	3,843,514,734	7.51%	0.2650	3,843,514,734	100.00%
2014	1,980,265,471	1,883,749,270	81,935,902	208,716,740	4,154,667,383	3,945,950,643	2.67%	0.2650	3,945,950,643	100.00%
2015	2,173,438,731	1,859,709,194	112,355,453	214,819,800	4,360,323,178	4,145,503,378	5.06%	0.2650	4,145,503,378	100.00%
2016	2,256,968,560	1,823,038,660	114,688,984	220,801,220	4,415,497,424	4,194,696,204	1.19%	0.2650	4,194,696,204	100.00%
2017	2,348,465,120	1,848,104,770	124,886,642	239,891,960	4,561,348,492	4,321,456,532	3.02%	0.2650	4,321,456,532	100.00%
2018	2,430,186,400	1,890,348,960	120,127,421	241,876,120	4,682,538,901	4,440,662,781	2.76%	0.2650	4,440,662,781	100.00%

Sources:

Town of Herndon Finance Department
County of Fairfax Department of Tax Administration (Real Estate Division)

Notes:

- (1) Higher assessed values in 2009 correspond to rapid increases in residential and commercial values, coupled with extensive residential and commercial building construction, which began in 1999.
- (2) Declines in assessments noted for 2010 and 2011, especially in the residential sector, reflect the rapid decline in property values during that time for the Washington DC housing market. Years 2012 through 2018 portray a steady, albeit slow, recovery of assessment values.

TOWN OF HERNDON, VIRGINIA

Table 7

**DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS
(Unaudited)**

Assessment Tax Year	Tax Rates - Town		Tax Rates - County		Tax Rates - Combined	
	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property
2009	\$ 0.2400	\$ -	\$ 0.9200	\$ 4.5700	\$ 1.1600	\$ 4.5700
2010	0.2600	-	1.0400	4.5700	1.3000	4.5700
2011	0.2675	-	1.0900	4.5700	1.3575	4.5700
2012	0.2650	-	1.0750	4.5700	1.3400	4.5700
2013	0.2650	-	1.0850	4.5700	1.3500	4.5700
2014	0.2650	-	1.0900	4.5700	1.3550	4.5700
2015	0.2650	-	1.0900	4.5700	1.3550	4.5700
2016	0.2650	-	1.1300	4.5700	1.3950	4.5700
2017	0.2650	-	1.1300	4.5700	1.3950	4.5700
2018	0.2650	-	1.1500	4.5700	1.4150	4.5700

Source:
Town of Herndon Finance Department

- Notes:
- (1) These rates are per \$100 of assessed value for real estate and personal property.
 - (2) A town assessed levy on personal property ceased in fiscal year 1989.

TOWN OF HERNDON, VIRGINIA

Table 8

**PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO
(Unaudited)**

Taxpayer	2018			%	2009		
	Taxable Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value		Taxable Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value
BP New Dominion Technology	\$ 74,566,060	1	1.68		\$ 110,621,910	1	2.51
Worldgate Centre Owner LLC	70,738,370	2	1.59		70,020,550	5	1.59
GSG Residential Westerly AT	67,353,790	3	1.52		-	-	-
New Dominion	66,813,250	4	1.50		86,051,450	4	1.95
GSG Residential Townes AT	60,776,280	5	1.37		-	-	-
Rreef America Reit II Corp VVV	58,858,330	6	1.33		64,403,950	6	1.46
MIVPO LLC	54,705,170	7	1.23		61,888,550	7	1.40
Inland America Herndon Worldgate LLC	49,284,910	8	1.11		90,674,730	3	2.06
Washreit Monument II LLC	43,321,680	9	0.98		-	-	-
Realty Associates Fund IX LP	39,447,350	10	0.89		-	-	-
Washington Real Estate	-	-	-		57,635,750	8	1.31
EQR - Worldgate LLC	-	-	-		104,635,620	2	2.37
Monument One LLC	-	-	-		50,587,620	9	1.15
EQR - Herndon LLC	-	-	-		49,848,660	10	1.13
Total	\$ 585,865,190		13.19	%	\$ 746,368,790		16.93

Sources:
Town of Herndon Finance Department
County of Fairfax Department of Tax Administration (Real Estate Division)

TOWN OF HERNDON, VIRGINIA

Table 9

**REAL PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(Unaudited)**

Assessment Tax Year	Taxes Levied for the Tax Year (1)	Collected Within the Tax Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2008	\$ 11,033,590	\$ 10,982,504	99.54%	\$ 51,081	\$ 11,033,585	100.00%
2009	11,001,119	10,961,629	99.64%	39,351	11,000,980	100.00%
2010	10,019,464	9,970,734	99.51%	48,730	10,019,464	100.00%
2011	8,709,325	8,657,610	99.41%	51,540	8,709,150	100.00%
2012	9,160,086	9,104,251	99.39%	55,444	9,159,695	100.00%
2013	9,880,992	9,845,894	99.64%	34,681	9,880,575	100.00%
2014	10,299,028	10,272,232	99.74%	26,796	10,299,028	100.00%
2015	10,705,433	10,674,237	99.71%	31,196	10,705,433	100.00%
2016	10,805,027	10,767,440	99.65%	30,926	10,798,366	99.94%
2017	11,019,662	10,999,443	99.82%	5,066	11,004,509	99.86%

Source:
Town of Herndon Finance Department.

Note:
(1) Abatements and supplements which relate to prior years are recorded as revenue collections (or refunds) in year of receipt. Records do not exist which separate current fiscal year levy collections from prior tax year abatements and supplements.

TOWN OF HERNDON, VIRGINIA

Table 10

**RATIOS OF OUTSTANDING DEBT BY TYPE AND GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS
(Unaudited)**

Fiscal Year June 30,	Governmental Activities		Business-Type Activities	Total Primary Government	Percentage of Per Capita Personal Income	Debt Per Capita	General Bonded Debt Outstanding	Percentage of Actual Taxable Value of Property	General Bonded Debt Outstanding
	General Obligation Bonds	Capital Leases and Notes	Revenue Bonds				General Obligation Bonds		Debt Per Capita
2009	\$ 17,207,449	\$ 195,000	\$ 3,121,892	\$ 20,524,341	1.37	874	\$ 17,207,449	0.36	\$ 733
2010	18,046,007	865,000	3,478,783	22,389,790	1.45	953	18,046,007	0.45	768
2011	16,382,491	1,767,500	3,364,163	21,514,154	1.30	911	16,382,491	0.48	694
2012	15,388,576	1,730,000	3,166,900	20,285,476	1.19	861	15,388,576	0.43	653
2013	14,009,445	1,590,513	2,961,603	18,561,561	1.13	787	14,009,445	0.36	594
2014	12,594,199	1,451,514	2,747,420	16,793,133	0.98	712	12,594,199	0.32	534
2015	12,464,958	87,397	2,609,488	15,161,843	0.85	642	12,464,958	0.30	528
2016	11,353,283	83,158	2,355,385	13,791,826	0.76	583	11,353,283	0.27	480
2017	10,175,147	78,796	2,004,353	12,258,296	0.66	516	10,175,147	0.24	429
2018	9,966,203	-	1,746,297	11,712,500	0.63	492	9,966,203	0.22	419

Source:
Town of Herndon Finance Department

- Notes:
- (1) Details regarding the town's outstanding debt may be found in the notes to the basic financial statements.
 - (2) Population and personal income data can be found in table 15.
 - (3) See table 7 for taxable value of property.

TOWN OF HERNDON, VIRGINIA

Table 11

**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
JUNE 30, 2018
(Unaudited)**

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt (2)
Fairfax County, Virginia	\$ 2,474,658,782	1.7539%	\$ 43,403,819
Town Direct Debt (3)			<u>9,966,203</u>
Total direct and overlapping debt			<u><u>\$ 53,370,022</u></u>

Sources:

County of Fairfax Finance Department and Town of Herndon Finance Department.

Notes:

(1) The estimated percentage of overlapping debt applicable is determined using taxable assessed property values. The Town of Herndon is located within the geographic boundaries of the County of Fairfax.

(2) Amounts for bonds are reported net of premiums and/or discounts.

(3) The town's direct debt is also presented in Table 11.

TOWN OF HERNDON, VIRGINIA

Table 12

**LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(Unaudited)**

	Fiscal Year June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Debt limit	\$ 458,379,960	\$ 385,386,083	\$ 328,121,001	\$ 345,568,950	\$ 372,773,329	\$ 386,401,474	\$ 403,314,793	\$ 408,000,722	\$ 419,656,989	\$ 432,053,536
Total debt applicable to limit	17,402,449	18,911,007	18,149,991	17,118,576	15,599,958	14,045,713	12,466,973	11,436,441	10,332,068	10,031,639
Available legal debt margin	<u>\$ 440,977,511</u>	<u>\$ 366,475,076</u>	<u>\$ 309,971,010</u>	<u>\$ 328,450,374</u>	<u>\$ 357,173,371</u>	<u>\$ 372,355,761</u>	<u>\$ 390,847,820</u>	<u>\$ 396,564,281</u>	<u>\$ 409,324,921</u>	<u>\$ 422,021,897</u>
Total debt applicable to the limit as a percentage of debt limit	3.80%	4.91%	5.53%	4.95%	4.18%	3.64%	3.09%	2.80%	2.46%	2.32%

Legal Debt Margin Calculation for Fiscal Year 2018:

Assessed value of real estate	<u>\$ 4,320,535,360</u>
Debt limit (10% of assessed value) (1)	432,053,536
Total Debt applicable to limit:	<u>10,031,639</u>
Available legal debt margin	<u>\$ 422,021,897</u>

Summary of Outstanding Debt:

2010 general obligation bonds	1,619,700
2010 refunding bonds	597,576
2012 refunding bonds	3,461,500
2014 refunding bonds	3,318,427
2018 general obligation bonds	969,000
Deferred bond premiums	65,436
	<u>\$ 10,031,639</u>

Source:
Town of Herndon Finance Department

Notes:
(1) Under the Constitution of Virginia, the town may not issue bonds in excess of 10% of assessed valuation. Self-supporting debt is not included in this calculation, therefore, debt from the business-type activities is excluded.

TOWN OF HERNDON, VIRGINIA

Table 13

**PLEDGED REVENUE COVERAGE
LAST TEN FISCAL YEARS
(Unaudited)**

Golf Course Fund							
Fiscal Year June 30,	Gross Revenues (1)	Operating Expenses (2)	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
2009	\$ 1,518,889	\$ 1,270,943	\$ 247,946	\$ 55,152	\$ 43,559	\$ 98,711	2.51
2010	1,512,540	1,306,977	205,563	59,091	41,353	100,444	2.05
2011	1,369,871	1,188,595	181,276	87,059	59,284	146,343	1.24
2012	1,496,295	1,252,292	244,003	83,044	46,623	129,667	1.88
2013	1,467,555	1,331,920	135,635	85,670	44,298	129,968	1.04
2014	1,462,861	1,298,157	164,704	89,146	42,294	131,440	1.25
2015	1,366,093	1,295,926	70,167	93,085	39,014	132,099	0.53
2016	1,502,549	1,238,349	264,200	96,562	34,538	131,100	2.02
2017	1,510,009	1,298,643	211,366	100,501	30,848	131,349	1.61
2018	1,442,234	1,313,374	128,860	103,977	26,802	130,779	0.99

Chestnut Grove Cemetery Fund							
Fiscal Year June 30,	Gross Revenues (1)	Operating Expenses (2)	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
2009	\$ 573,029	\$ 447,881	\$ 125,148	\$ 90,225	\$ 104,730	\$ 194,955	0.64
2010	616,522	466,123	150,399	96,392	101,412	197,804	0.76
2011	635,207	459,127	176,080	107,104	99,529	206,633	0.85
2012	686,149	475,324	210,825	103,316	89,108	192,424	1.10
2013	744,741	524,940	219,801	108,724	85,348	194,072	1.13
2014	851,041	514,028	337,013	114,133	81,210	195,343	1.73
2015	814,677	540,926	273,751	116,406	56,725	173,131	1.58
2016	839,852	539,973	299,879	146,638	42,140	188,778	1.59
2017	899,125	552,130	346,995	207,234	36,166	243,400	1.43
2018	1,026,042	515,428	510,614	154,079	29,106	183,185	2.79

Source:
Town of Herndon Finance Department

- Notes:
- (1) Gross revenues includes all revenues of the fund except gains on sale of capital assets and capital grant revenue.
 - (2) Operating expenses do not include depreciation and amortization, interest expense and losses on sale of capital assets.
 - (3) See Note 8 in the Notes to the Financial Statements for detailed information regarding the the bonds issued by the Golf Course and Chestnut Grove Cemetery Funds under Business-Type Activities.

TOWN OF HERNDON, VIRGINIA

Table 14

**DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN CALENDAR YEARS
(Unaudited)**

Calendar Year	Population (1)	Per Capita Personal Income (2)	Personal Income (000) (1) * (2)	Public School Enrollment (3)	Unemployment Rates (%) (4)
2009	23,476	\$ 63,650	\$ 1,494,247	169,538	4.8
2010	23,496	65,873	1,547,752	172,391	5.1
2011	23,620	69,910	1,651,274	174,933	4.9
2012	23,556	72,200	1,700,743	177,918	4.2
2013	23,572	69,637	1,641,483	181,259	4.3
2014	23,592	73,000	1,722,216	183,895	4.2
2015	23,612	75,756	1,788,751	185,914	4.0
2016	23,666	76,213	1,803,657	185,979	3.3
2017	23,734	78,376	1,860,176	186,842	3.2
2018	23,809	78,376	1,866,054	188,403	2.7

Sources:

(1) Town of Herndon, Community Development Annual Population Estimate memo January 2018.

(2) www.bea.gov Tools>Interactive Data> Regional Data>GDP & Personal Income>Local Area Personal Income and Employment (CA1)>Fairfax County - updated Nov. 15,2018

(3) Enrollment is obtained from FCPS Approved Budget Book at www.fcps.edu.

(4) Virginia Employment Commission, Labor Market Information Unemployment Rates by Local Workforce Development Area - Northern Virginia June (not seasonally adjusted).

TOWN OF HERNDON, VIRGINIA

Table 15

**PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO
(Unaudited)**

Employer	2018			2009	
	Number of Employees (1)	Rank	Percentage of Total Town Employment (2)	Number of Employees (3)	Rank
Amazon Web Services	1,000-1,249	1	5.99%	-	
Booz Allen Hamilton, Inc.	500-749	2	3.80%	-	
Fannie Mae	500-749	3	2.98%	-	
Northwest Federal Union	250-499	4	2.65%	-	
Navy Federal Credit Union	250-499	5	2.61%	-	
Peraton	250-499	6	2.17%	-	
Serco	250-499	7	1.90%	100-249	7
Boeing Corporation	250-499	8	1.59%	-	
Town of Herndon	250-499	9	1.40%	250-499	2
Airline Pilots Association	100-249	10	1.19%	-	
ITT Industrires Inc.	-	-	-	250-499	1
REI Systems	-	-	-	100-249	3
Clear Wireless Broadband	-	-	-	100-249	4
DRS Technical Services, Inc.	-	-	-	100-249	5
Lafarge Corporation	-	-	-	100-249	6
Guiden Technologies, Inc.	-	-	-	100-249	8
Total			<u>26.28%</u>		

Sources:

- (1) Town of Herndon Communications & Economic Development and Finance Departments
- (2) Fairfax County Economic Development Authority provides total town employment
- (3) Town of Herndon 2009 CAFR

Note:

- (1) Percentage of total town employment for fiscal year 2009 is not available.

**FULL-TIME TOWN GOVERNMENT EQUIVALENT EMPLOYEES BY FUNCTION / PROGRAM
LAST TEN FISCAL YEARS
(Unaudited)**

Function/Program	Fiscal Year June 30, 2018									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Legislative	4.0	4.0	4.0	4.0	4.0	4.0	3.5	3.0	3.9	3.1
Administration:										
Communications & economic development	1.5	1.5	1.5	1.5	1.6	2.4	2.7	2.8	2.8	2.9
Town manager	2.0	2.0	2.0	2.0	2.0	2.0	2.1	2.8	3.0	3.0
Human resources	3.3	3.5	3.5	3.4	3.4	3.1	3.5	3.6	3.7	3.8
Information services	6.0	5.7	5.3	6.0	6.0	6.1	5.9	6.1	5.5	5.9
Neighborhood resources (1)	3.5	-	-	-	-	-	-	-	-	-
Town attorney	3.0	2.6	2.6	2.8	2.8	2.6	2.6	2.5	2.7	2.7
Parks and recreation:										
Administration	4.6	3.9	4.2	4.6	4.9	4.0	5.1	5.7	5.8	5.8
Recreation programs (2)	19.3	17.7	16.9	15.3	15.1	15.1	14.8	16.3	15.9	16.4
Community center operations	17.0	15.4	16.2	16.6	16.9	16.7	16.6	16.0	16.4	15.7
Aquatics programs and operations	13.6	13.4	13.3	13.7	13.3	13.1	13.8	12.1	13.4	13.9
Park operation and development	1.1	1.2	1.4	1.3	1.6	1.6	1.1	0.8	1.5	2.2
Finance:										
Administration	2.0	2.0	2.0	2.0	2.0	2.0	1.0	1.0	1.1	2.0
Accounting	5.0	5.0	5.0	5.0	4.9	4.7	5.8	5.8	6.3	6.2
Revenue (2)	3.8	3.2	2.8	2.8	2.8	2.8	2.8	2.7	2.8	2.4
Procurement	1.0	1.0	1.0	1.0	1.0	1.0	0.6	1.0	0.8	1.0
Community development (1), (2)	21.5	22.0	22.3	21.5	19.2	18.7	18.2	14.8	15.5	14.5
Police:										
Field operations	45.6	45.4	44.1	49.9	48.9	48.4	46.6	45.1	47.1	42.2
Support services	33.7	35.0	33.9	29.8	31.9	33.4	35.4	34.8	35.0	35.3
Public works:										
Administration	8.2	8.1	6.1	6.9	7.0	7.0	7.0	6.9	6.5	6.5
Engineering	5.0	5.0	5.0	5.0	4.9	4.4	4.7	3.9	4.9	4.8
Program management	2.8	3.0	3.0	3.0	2.9	2.8	2.0	1.5	1.3	1.8
Building inspections	5.2	4.8	4.0	4.9	4.8	4.9	4.4	4.6	4.9	4.6
Building maintenance	8.3	8.4	8.3	8.4	8.5	8.0	7.2	7.2	7.0	7.0
Grounds maintenance	10.4	10.5	7.8	9.0	11.0	11.0	11.6	12.3	12.6	11.7
Street maintenance	10.3	8.8	10.3	8.7	9.8	11.0	9.8	10.3	10.2	9.7
Refuse/recycling	17.4	16.9	17.0	16.6	17.0	16.8	16.6	16.9	15.2	13.9
Vehicle and equipment replacement	10.1	10.5	10.3	9.2	9.4	9.4	10.5	10.5	10.0	8.9
Traffic engineering (2)	3.8	3.5	3.1	3.0	3.1	3.2	3.2	2.6	3.1	3.0
Right-of-way inspections	3.1	3.2	3.1	3.1	3.0	3.1	3.1	3.1	3.0	3.0

TOWN OF HERNDON, VIRGINIA

Table 16
Page 2

FULL-TIME TOWN GOVERNMENT EQUIVALENT EMPLOYEES BY FUNCTION / PROGRAM
LAST TEN FISCAL YEARS
(Unaudited)

Function/Program	Fiscal Year June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Water and Sewer:										
Customer service	3.7	3.8	3.8	3.9	4.1	4.0	4.3	3.5	4.3	3.1
Sewer service and maintenance (2)	5.6	6.4	5.7	3.3	4.4	5.3	5.2	5.1	4.8	5.2
Water supply and maintenance	6.4	6.7	5.6	8.1	7.7	7.3	8.3	7.7	7.4	6.7
Golf Course:										
Maintenance (2)	8.1	7.6	7.2	7.2	7.2	7.5	7.3	6.8	7.3	6.7
Clubhouse	6.3	6.0	5.7	5.8	5.7	5.8	6.1	5.4	5.5	5.5
Chestnut Grove Cemetery:										
Administration	4.9	5.0	4.9	5.0	4.8	4.8	4.9	4.3	4.7	4.7
Total	311.0	302.5	292.9	294.4	297.9	298.0	298.3	289.6	296.0	285.8

Source:

Town of Herndon, Finance Department Munis report Payroll>Employee History>History Inquiry

Notes:

(1) As part of the fiscal year 2010 budget, Neighborhood Resources division was transferred from Administration to Community Development.

(2) Due to economic recession, starting in fiscal year 2010 several positions in the larger departments were either "frozen" or, in some cases, eliminated.

TOWN OF HERNDON, VIRGINIA

Table 17

**OPERATING INDICATORS BY FUNCTION / PROGRAM
LAST TEN FISCAL YEARS
(Unaudited)**

Function/Program	Fiscal Year June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Police:										
Calls for service (1)	33,800	27,700	28,100	27,700	30,900	28,990	36,230	35,520	21,967	24,253
Human Resources:										
Recruitments requests (1)	93	78	105	89	60	56	65	64	43	67
Building safety:										
Total building permits (2)	168	342	308	247	226	241	230	263	237	298
Total inspections performed (1)	3,766	3,446	3,421	2,928	2,628	2,613	2,844	3,496	3,433	3,340
Public service:										
Refuse collected (tons) (1)	5,655	5,868	5,948	5,860	5,248	5,670	6,250	6,410	6,537	6,309
Recycle collected (residential - tons) (1)	1,427	1,473	1,501	1,518	1,517	1,625	1,673	1,711	1,752	1,803
Parks and Recreation:										
Class and program attendance (1)	16,703	17,842	17,368	16,954	12,000	11,500	11,200	11,600	13,700	12,300
Herndon Festival attendance (1)	83,000	79,000	82,000	69,000	82,000	82,000	83,000	78,500	81,500	40,300
Water and sewer:										
New utility accounts (2)	24	10	50	78	15	25	20	35	26	75
Average daily water consumption (mgd) (2)	2.28	2.09	2.15	2.17	2.02	2.00	2.15	2.13	2.24	2.28
Average daily sewage treatment (mgd) (2)	2.40	2.57	2.50	2.47	2.24	2.66	2.46	2.44	2.67	2.88
Golf Course:										
Rounds played (18 and 9 hole) (1)	32,781	32,110	30,098	33,435	31,766	31,421	30,368	33,112	33,029	31,369
Cemetery:										
Interment rights for sites sold (1)	147	184	163	204	180	184	136	132	148	171
Interments performed (1)	133	174	117	138	124	129	139	140	133	161

Sources:

(1) Town of Herndon Town Manager's Annual Reports.

(2) Town of Herndon Department of Public Works.

TOWN OF HERNDON, VIRGINIA

Table 18

**CAPITAL ASSET STATISTICS BY FUNCTION / PROGRAM
LAST TEN FISCAL YEARS
(Unaudited)**

Function/Program	Fiscal Year June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Police:										
Stations (1)	1	1	1	1	1	1	1	1	1	1
Vehicles (1)	38	39	39	42	42	45	45	47	47	47
Refuse Collection:										
Collection trucks (2)	8	9	9	9	9	9	9	10	10	10
Other public works:										
Vehicles/equipment maintained (2)	374	375	374	378	379	385	424	429	533	567
Streets:										
Primary (miles) (2)	29.9	29.9	29.9	31.3	31.3	31.3	31.3	31.3	31.3	41.6
Secondary (miles) (2)	98.1	98.1	98.5	98.4	98.4	98.4	98.4	98.4	98.4	88.4
Parks & Recreation:										
Parks - number of acres (3)	97	97	97	97	97	97	97	97	137	137
Swimming pools (3)	1	1	1	1	1	1	1	1	1	1
Parks with playground equipment (3)	7	7	7	7	7	7	7	7	7	7
Community centers (3)	1	1	1	1	1	1	1	1	1	1
Water:										
Water lines (miles) (2)	88.7	89.3	89.3	89.3	89.3	83.4	84.7	84.7	84.7	84.9
Storage capacity (million gallons) (2)	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	2.0	2.0
Wastewater:										
Sanitary sewers (miles) (2)	81.3	81.8	81.8	81.8	81.8	81.8	81.8	81.8	81.8	81.9

Sources:

- (1) Town of Herndon Police Department
- (2) Town of Herndon Department of Public Works
- (3) Town of Herndon Park & Recreation

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COMPLIANCE SECTION

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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 Honorable Members of Town Council
Town of Herndon, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Herndon (the "town"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the town's basic financial statements, and have issued our report thereon dated November 26, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of town's internal control. Accordingly, we do not express an opinion on the effectiveness of the town'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's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs, as Items 2018-001 and 2018-002.**

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.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 26, 2018

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE**

To the Honorable Members of Town Council
Town of Herndon, Virginia

Report on Compliance for Each Major Federal Program

We have audited the Town of Herndon, Virginia's (the "town") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the town's major federal program for the year ended June 30, 2018. The town's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, the terms, and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the town's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the town's compliance.

Opinion on Each Major Federal Program

In our opinion, the town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the town's internal control over compliance with the types of requirements that could have a direct and material effect the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the town's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 26, 2018

TOWN OF HERNDON, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2018

As more fully described in the 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*, we performed tests of the town’s compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Budget and Appropriation Laws
Cash and Investment Laws
Conflicts of Interest Act
Local Retirement Systems
Debt Provisions
Procurement Laws
Uniform Disposition of Unclaimed Property Act

State Agency Requirements

Urban Highway Maintenance

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal programs selected for testing.

TOWN OF HERNDON, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

A. SUMMARY OF AUDITOR’S RESULTS

1. The auditor’s report expresses an **unmodified opinion** on the financial statements.
2. **No significant deficiencies** relating to the audit of the financial statements were reported in the 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*.
3. **No instances of noncompliance** material to the financial statements were disclosed during the audit.
4. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Independent Auditor’s Report on Compliance For Each Major Program and on Internal Control over Compliance Required By the Uniform Guidance.
5. The auditor’s report on compliance for the major federal award programs expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings relating to major programs**.
7. The major program of the town is:

Name of Program	<u>CFDA #</u>
Highway Planning and Construction	20.205

8. The **threshold for** distinguishing Type A and B programs was **\$750,000**.
9. The Town of Herndon was not determined to be a **low-risk auditee**.

TOWN OF HERNDON, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Year Ended June 30, 2018**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

D. FINDINGS – COMMONWEALTH OF VIRGINIA

2018-001: Commonwealth of Virginia Disclosure Statements

Condition:

During our audit, we noted one individual did not file the required conflict of interest statement in compliance with the Virginia State Code before the deadline. We recommend the town adopt a policy that mandates all conflict of interest statements be submitted timely in accordance with the requirements of the Virginia State Code.

Recommendation:

Steps should be taken to ensure that these statements are filed by all required individuals in a timely manner.

Management's Response:

The auditee concurs with this recommendation.

2018-002: Weldon Cooper Report

Condition:

During our audit, we noted an expenditure was inadvertently included twice in the Weldon Cooper Report submitted to the APA.

Recommendation:

We recommend the Weldon Cooper Report be reconciled to the general ledger in order to ensure no expenditures are duplicated.

Management's Response:

The auditee has contacted the appropriate individuals notifying them of the mistake and requesting the report be corrected. Additionally, the auditee has made adjustments to the Weldon Cooper spreadsheet to ensure this occurrence does not happen again.

Town of Herndon, Virginia

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018**

<u>Federal Grantor/Pass - Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Justice:			
Direct Payments:			
Equitable Sharing Program	16.922	N/A	\$ 99,797
Ballistic vests	16.607	N/A	1,439
Pass Through Payments:			
Department of Criminal Justice Services:			
Office of Justice Programs (OJP)	16.738	Grant # 17-P1047LO16	2,921
Edward Byrne Memorial Justice Assistance Grant Program	16.738	Grant # 18-A4381AD14	<u>15,456</u>
Total U.S. Department of Justice			<u>119,612</u>
Department of Transportation:			
Pass Through Payments:			
Virginia Department of Transportation:			
Highway Planning and Construction	20.205	N/A	1,159,029
State & Community Highway Safety	20.600		14,683
National Highway Safety Administration	20.607		<u>34,285</u>
Total Department of Transportation			<u>1,207,997</u>
Department of Homeland Security:			
Direct Payments:			
FEMA	97.036		<u>98,533</u>
Total Department of Homeland Security			98,533
Total Expenditures of Federal Awards			<u>\$ 1,426,143</u>

NOTE 1 - BASIS OF PRESENTATION:

The accompanying schedule of federal expenditures includes the activity of all federally assisted programs of the Town of Herndon, Virginia and is presented on the modified accrual basis of accounting, as described in Note 1 to the Town of Herndon, Virginia's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on this schedule.

NOTE 2 - DE MINIMIS INDIRECT COST RATE:

The entity did not elect to use the 10% de minimis indirect cost rate.