

TOWN OF Herndon VIRGINIA



Annual Comprehensive Financial Report Fiscal Year Ended June 30, 2022

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TOWN OF HERNDON, VIRGINIA
ANNUAL COMPREHENSIVE FINANCIAL REPORT
FISCAL YEAR ENDED
JUNE 30, 2022

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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William H. Ashton II
TOWN MANAGER
T (703) 787-7368
Bill.ashton@herndon-va.gov

TOWN COUNCIL
Sheila A. Olem, Mayor
Cesar del Aguila
Naila Alam
Pradip Dhakal
Signe Friedrichs
Sean M. Regan
Jasbinder Singh

November 17, 2022

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

We are pleased to present to you the Annual Comprehensive Financial Report of the Town of Herndon, Virginia (town), for the fiscal year ended June 30, 2022. 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 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 are 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, 2022, 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, incorporated in 1879 is located in the northwest quadrant of Fairfax County about 23 miles west of Washington DC and two miles east of the Washington Dulles International Airport and is considered to be part of the Northern Virginia and Washington Metropolitan areas. The town has a land area of 4.25 square miles. The local economy originally centered around the railroad made it popular for distributing milk to nearby Washington D.C. Since that time, the town's economic and demographic makeup has changed dramatically. The census.gov annual population estimate (2021) for the town is 24,339; if the town is developed according to the currently adopted comprehensive master plan, it is anticipated that the increase to approximately 28,200 in 2030.

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 chief administrative officer of the town. The Town Manager is charged with directing all business affairs of the town.

The town provides general governmental services for its citizens that are typical of towns in Virginia. These include public works and utilities, parks and recreation, police 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 Enterprise Funds (Water and Sewer, Cemetery and Golf Course) 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. The town also maintains an encumbrance accounting system as one technique to accomplishing budgetary control. Encumbered amounts lapse at year end, except for 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

Located in Fairfax County the center of the Dulles Technology Corridor, Herndon enjoys a significant corporate presence that includes Amazon Web Services; Beacon Roofing Supply; Boeing; Booz Allen Hamilton; Karsun Solutions; Northwest Federal Credit Union; Peraton; Physician Transport Systems and Serco. According to the American Community Survey, the town's median household income in 2020 was \$112,644. According to the Virginia Employment Commission, in August 2022, the unemployment rate for Fairfax County, was 2.7 percent. According to the Bureau of Labor Statistics, in September 2022, the unemployment rate for the Commonwealth of Virginia rate was 2.6 percent; and the national rate was 3.5 percent.

In FY 2022, Herndon's economy continued to recover from the impacts of the COVID-19 pandemic. The community faced several challenges to include the highest level of inflation in 30 years, supply chain issues, and a challenging labor market. The overall economic outlook assumes a slowdown in growth of residential property values and a continuation of flat commercial property values in the near-term; the town anticipates a flat hotel occupancy tax due to the conversion of an existing hotel to an alternate use. The meals tax should have a modest increase as workers return to offices.

The town continues to attract interest in redevelopment of older commercial properties. The second phase of the Silver Line, which will include a stop in Herndon, has spurred strong redevelopment interest in Herndon's Metro area. A highly impactful redevelopment proposal was submitted in the past year, Parkview Executive Center; this project will redevelop an existing office building adjacent to the Metro Station into a mixed-use development comprised of residential, office and retail uses.

The town also approved the repurposing of the Residence Inn into a multifamily housing project, with 50 percent of the units dedicated to work force housing.

During FY 2022, planning for the Transit-Related Growth Area (TRG) began. This plan establishes a vision for redevelopment of the TRG with mixed land uses, potentially higher densities, new transportation connections and open spaces, and thoughtful urban design appropriate for its adjacency to the Herndon Metrorail Station.

Additional information on the town's economic development activities can be found in the annual report online at <https://www.herndon-va.gov/government/town-manager/annual-report>.

Long-term Financial Planning

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, slated to open in November 2022. 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.

The town's close proximity to Washington Dulles International Airport provides a major stimulus for future commercial development.

Financial Policies

The Mayor and Town Council adopted the Updated Financial & Internal Administrative Policies resolution in May 2018 which provides accounting, budgeting, and financial management directives. These financial policies were updated based on advice from town's financial advisors. 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. To maintain sound financial management, the policy states the General Fund unassigned fund balance should be maintained at a minimum of 20 percent of total General Fund operating expenditures. Further, the policy establishes guidelines for the revenue stabilization fund, contingency fund, and capital reserve fund. The policies also place limits on how much long-term debt the town can incur so that the total of combined outstanding and proposed debt is no greater than the town's maximum debt capacities.

Major Initiatives

The town has three major development focus areas that will significantly impact its economy in the coming years: the Herndon Metrorail station area, redevelopment of downtown Herndon, and the Transit Related Growth area plan.

The Herndon Metrorail station slated to open in November 2022 as part of Phase 2 of the Washington Metro Silver Line project. The town continues to focus on the implementation of the Herndon Transit-Oriented Core (HTOC) plan adopted by the Town Council in 2012, that focuses on redevelopment of 38 acres near the future station. The plan calls for the transformation of the existing low-rise office space into transit-oriented development to include office, residential, hotel and retail space.

The Herndon Downtown Redevelopment Project, a partnership between the town and Comstock Herndon Venture LC, has been delayed due to the developer exercising its right to a market pause for two years due to market conditions related to an increase in construction and labor costs. This project is approved for 273 apartments, 17,000 sf of retail space, an 16,265 sf Arts Center, and a 726-space parking garage. Additional downtown developments include the completion of Aslin Brewery's new restaurant; the proposed redevelopment of a former ironworks site on Center Street into a restaurant/beer garden; and the renovation of a new restaurant at the site of the former Icehouse Café.

In the upcoming year the town will create and adopt a small-area plan for the area adjacent to the HTOC to be named the Transit Related Growth area. This area is a strategic location for redevelopment as the area is within walking distance to the future Metro station and is currently comprised of aging low density commercial structures.

Awards and Acknowledgements

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. 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.

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 33rd consecutive year that the town has achieved this award, confirming the town’s commitment to its tree canopy and environmental stewardship.

AAA Credit Rating – The town maintained its “triple, triple” credit rating, the highest credit rating possible for a local government, from all three credit agencies: Moody’s Investors Service, Inc. (Aaa), Standard and Poor’s Corporation (AAA), and Fitch Investor Service (AAA). The town’s 2018B series general obligation bond issuance during this fiscal year was also rated Aaa/AAA.

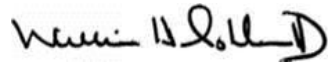
Distinguished Budget Presentation Award - The Government Finance Officers Association of the United States and Canada (GFOA) has awarded the town with the prestigious Distinguished Budget Presentation Award for the fiscal year beginning July 1, 2021. This is the 31st consecutive year that the town has 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. The town’s budget documents for the fiscal year beginning July 1, 2022, were submitted to GFOA for consideration for another Distinguished Budget Presentation Award.

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 Annual Comprehensive Financial Report for the fiscal year ended June 30, 2021. This was the 47th 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 annual comprehensive 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 it to the GFOA to determine its eligibility for another certificate.

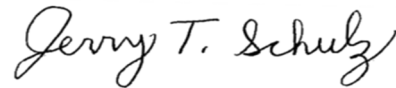
The Town of Herndon continues to maintain a stable financial position through responsible progressive management of financial operations combined with sound accounting and financial reporting practices. The timely preparation of this report could not have been accomplished without the effort of the entire 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,

A handwritten signature in black ink, appearing to read "William H. Ashton II". The signature is written in a cursive style with a large, stylized initial 'W'.

William H. Ashton II
Town Manager

A handwritten signature in black ink, appearing to read "Jerry T. Schulz". The signature is written in a cursive style with a large, stylized initial 'J'.

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**

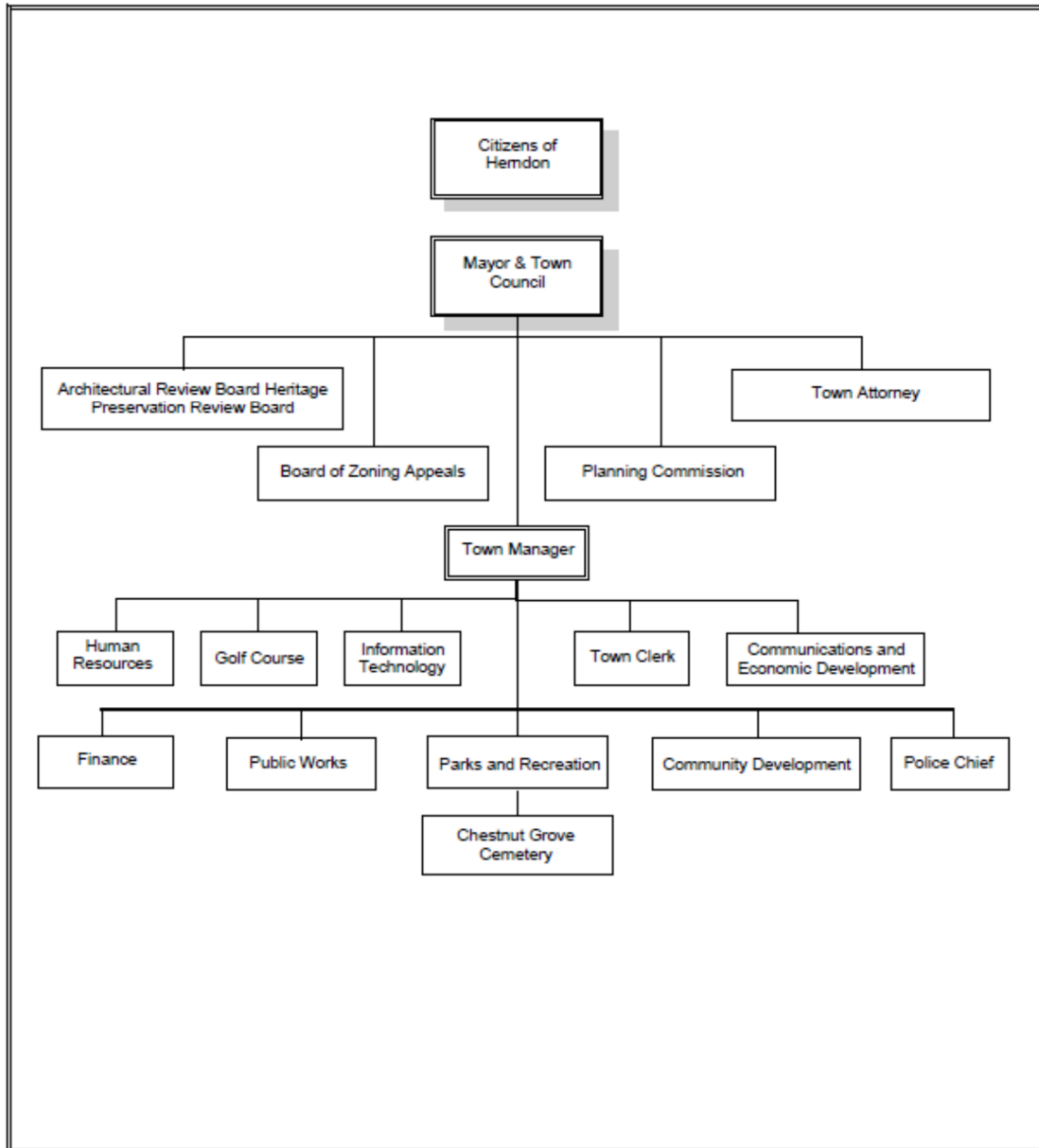
For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2021

Christopher P. Morill

Executive Director/CEO

**TOWN OF HERNDON, VIRGINIA
ORGANIZATION CHART**





Annual Comprehensive Financial Report
Year Ended June 30, 2022

Directory of Officials

Sheila A. Olem
Mayor

TOWN COUNCIL

Cesar del Aguila – Vice Mayor
Naila Alam
Pradip Dhakal
Signe Friedrichs
Sean M. Regan
Jasbinder Singh

MANAGEMENT TEAM

William H. Ashton II
Town Manager

Anne P. Curtis
Maggie A. DeBoard
Mike Mueller
Elizabeth M. Gilleran
Page Kalapasev
Tanya J. Kendrick
Cynthia S. Roeder
Scott Robinson
Robert Tang (to 9/1/22)
Viki L. Wellershaus (to 8/31/22)

Lesa J. Yeatts
Town Attorney

Chief Communications Officer
Chief of Police
General Manager
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

Opinions

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, 2022, and the related notes to the financial statements, which collectively comprise the town's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2022, 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.

Basis for Opinions

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

Change in Accounting Principle

As described in Notes 4, 7 and 9, to the financial statements, in 2022, the town adopted new accounting guidance, *GASB Statement No. 87, Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other 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.

Supplementary 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 other supplementary information is 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 Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Summarized Comparative Information

We have previously audited the financial statements of the Town as of June 30, 2021, and we expressed an unmodified opinion on those statements in our report dated November 19, 2021. The 2021 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 17, 2022, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 17, 2022

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, 2022. Please read it in conjunction with the transmittal letter located 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 2022

- 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 \$139.6 million (*total net position*). Of this amount, \$33.3 million in unrestricted net position may be used to meet the town's ongoing obligations to citizens and creditors. See Table 1 for more information.
- The town's governmental activities net position increased by \$11.0 million in fiscal year 2022 versus \$8.7 million in fiscal year 2021. The \$2.3 million increase was driven by increased program revenues as total expenses remained relatively the same. Fiscal year 2021 included transfers of \$5.2 million for transferring the Downtown Parking Fund from business-type activities to governmental activities. See Table 2 for more information.
- For the town's business-type activities, net position increased by \$0.7 million in fiscal year 2022 versus a decrease of \$4.9 million in fiscal year 2021. The fiscal year 2022 increase is primarily due to the favorable operating performance at the Golf Course and Chestnut Grove Cemetery. The fiscal year 2021 decrease was primarily due to the transfer of the Downtown Parking Fund to government activities. See Table 2 for more information.
- As of the close of the current fiscal year, the town's governmental funds reported combined ending fund balances of \$38.3 million, an increase of \$0.3 million from the previous fiscal year. This change was comprised of an increase in the General Fund balance of \$2.0 million and an increase of \$0.1 million to other governmental fund balance which was offset by \$1.8 million decrease in the Capital Projects Fund balances. The General Fund balance increase was driven by revenues exceeding expenditures with business license and meals tax revenues exceeding expectations as businesses have returned to more normal levels seen prior to the pandemic. The town's operating department expenditures were less than expected as employee vacancies continued during this fiscal year due to the tight labor market. The Capital Projects Fund balance decreased by \$1.8 million, due primarily to the change in assigned fund balance driven by the town's contribution to several capital projects. Other governmental fund balance increased by \$0.1 million due to a slight increase in the Cemetery Perpetual Care Fund assets. See Table 3 for more information.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund decreased \$2.6 million to \$17.0 million because \$3.0 was moved to assigned fund balance for the downtown redevelopment project. The General Fund's unassigned fund balance is available for spending at the town's discretion and represents approximately 51 percent of total General Fund expenditures and 44 percent of the total fund balance of the governmental funds. See Table 3 for more information.
- For the current fiscal year end, General Fund total revenues exceeded amended budget by approximately \$2.7 million. Other local taxes, which include meals tax and business license tax were the main reason revenues exceeded the amended budget. Parks and Recreation's charges for services continued to be lower than budget due to the COVID-19 pandemic. Total expenditures and transfers out were less than the amended budget amounts by \$4.1 million, mostly due to non-departmental expenditures related to the downtown redevelopment project not materializing during the fiscal year because the developer exercised a pause to construction due to market conditions or other matters. See Table 4 for more information.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2022 (Continued)

- The town's net capital assets increased by \$7.4 million from the prior fiscal year, with new investments of \$12.0 million coming mostly from five street infrastructure improvement projects that were in the construction phase when the fiscal year ended. See Table 5 for more information.
- The town's total outstanding debt is \$20.6 million, which is a decrease of \$1.5 million, driven mainly by debt service payments during the normal course of business. 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 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 like private-sector business. The statements provide readers with an insight in short term and long-term financial position for the town during the fiscal year.

The *Statement of Net Position* presents information on all 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 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 – These activities are intended to recover all or a significant portion of their expenditures through charge for services or user fees. At the end of the fiscal year, the town has three business-type activities funds: 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).

Fund Financial Statements

The fund financial statements provide more detailed information about the town's most 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 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 like 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 and Chestnut Grove Cemetery 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 Pension 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 can be found in the section titled "Notes to the Financial Statements" of this report which 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 version of Exhibit A-1, Statement of Net Position, in comparative format:

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

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Current and other assets	\$ 77,232	\$ 67,342	\$ 20,126	\$ 16,307	\$ 97,358	\$ 83,650
Capital assets, net	91,301	82,926	24,415	25,313	115,716	108,239
Total assets	168,533	150,269	44,541	41,621	213,074	191,889
Deferred outflows of resources	5,669	6,579	575	656	6,244	7,234
Current and other liabilities	18,860	16,266	1,712	1,241	20,572	17,507
Non-current liabilities	18,207	27,306	11,195	12,409	29,402	39,715
Total liabilities	37,067	43,572	12,907	13,650	49,974	57,222
Deferred inflows of resources	26,657	13,769	3,133	221	29,790	13,990
Net Position:						
Net investment in capital assets	85,163	76,256	14,191	14,819	99,354	91,075
Restricted	6,311	1,847	559	161	6,870	2,008
Unrestricted	19,004	21,403	14,328	13,426	33,332	34,829
Total net position	\$ 110,478	\$ 99,506	\$ 29,078	\$ 28,406	\$ 139,556	\$ 127,912

Net position may serve over time as a useful indicator of the town's financial position. The town's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$139.6 million, representing an increase of \$11.6 million from the prior year. About 24 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 to provide 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 Exhibit A-2, Changes in Net Position, in comparative format:

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

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenues:						
Program revenues:						
Charges for services	\$ 3,057	\$ 2,224	\$ 10,496	\$ 9,704	\$ 13,553	\$ 11,928
Operating grants and contributions	1,964	4,583	-	-	1,964	4,583
Capital grants and contributions	10,905	2,167	130	-	11,035	2,167
Total program revenues	15,926	8,974	10,626	9,704	26,552	18,678
General revenues:						
General property taxes	12,869	12,837	-	-	12,869	12,837
Other local taxes	15,534	14,706	-	-	15,534	14,706
Use of money and property	549	555	61	23	610	578
Intergovernmental non-categorical aid	1,281	1,304	1	14	1,282	1,318
Miscellaneous	252	259	672	563	924	822
Total general revenues	30,485	29,661	734	600	31,219	30,261
Total revenues	46,411	38,635	11,360	10,304	57,771	48,939
Expenses:						
General government administration	6,060	6,580	-	-	6,060	6,580
Parks and recreation	4,025	3,313	-	-	4,025	3,313
Community development	1,578	2,319	-	-	1,578	2,319
Police	10,013	10,802	-	-	10,013	10,802
Public works	13,589	11,861	-	-	13,589	11,861
Interest	245	305	-	-	245	305
Water and sewer	-	-	8,224	7,461	8,224	7,461
Golf course	-	-	1,634	1,685	1,634	1,685
Chestnut Grove cemetery	-	-	759	784	759	784
Downtown parking	-	-	-	102	-	102
Total expenses	35,510	35,180	10,617	10,032	46,127	45,212
Change in net position before transfers	10,901	3,455	743	272	11,644	3,727
Transfers	71	5,197	(71)	(5,197)	-	-
Change in net position	10,972	8,652	672	(4,925)	11,644	3,727
Net position, July 1	99,506	90,854	28,406	33,331	127,912	124,185
Net position, June 30	110,478	99,506	\$29,078	\$28,406	\$139,556	\$127,912

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 \$11.0 million as revenues exceeded expenses and transfers.

Revenues: For the current fiscal year ended June 30, 2022, revenues for governmental activities totaled \$46.4 million, an increase of \$7.8 million or 20.1 percent increase from the prior fiscal year. Total program revenues increased by \$7.0 million and total general revenues increased by \$0.8 million.

The increase in total program revenues consists of a \$8.7 million increase in capital grants and contributions, a \$0.8 increase in charges for services, and a \$2.6 million decrease in operating grants and contributions. Capital grants and contributions increased by \$8.7 million primarily due to five street grants and the American Rescue Plan Act grant (ARPA). ARPA accounted for \$2.3 million of the increase as shown in Exhibit B-6.

Charges for services for governmental activities is mainly comprised of revenues generated by Parks and Recreation programs and services. The \$0.8 million increase in charge for services is due to Parks and Recreation opening some of its programs that were closed in response to the COVID-19 pandemic in the previous fiscal year.

Operating grants decreased by \$2.6 million because during the prior fiscal year \$2.4 million of CARES Act funding was recognized into revenue while the current fiscal year had no such revenue.

Total general revenues increased by \$0.8 million from the prior fiscal year, driven primarily by increases in other local taxes.

General property taxes, the town's single largest revenue source, was \$12.8 million which is at the same level as the prior fiscal year. The taxable assessed value of real property within the town, including Public Service Corporations (PSCs), for calendar year 2021 (fiscal year 2022) was \$4.9 billion, an increase of 1.2 percent over the prior year's taxable assessed values. Residential property values increased by 4.2 percent and commercial property values declined by 2.3 percent. Assessed values for PSCs decreased by 5.0 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 at \$15.5 million, increased by \$0.8 million from prior fiscal year. Meals tax, transient occupancy tax, local sales tax, and bank stock tax all increased because businesses have adapted to the pandemic resulting in business activity picking up from the COVID-19 pandemic lows of the prior fiscal. Business license tax revenue decreased from the prior year because in the prior year a business experienced a significant one-time increase in gross receipts.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Activities: (Continued)

Expenses: For the current fiscal year ended, expenses for governmental activities totaled \$35.5 million, an increase of \$0.3 million or 0.9 percent from the prior fiscal year.

The town's three largest programs, other than general government administration, are public safety, public works, and parks and recreation. These three programs comprise 78 percent of total governmental expenses.

Expenses related to public works increased by \$1.7 million driven by operation and maintenance costs increasing \$1.1 million for repaving, concrete repair and building maintenance that was delayed due to the pandemic, and personnel cost increased \$0.5 million. Parks and recreation expenses increased by \$0.7 million, driven primarily by the resuming some of programs and events that were closed during the prior fiscal year. Public Safety, Community Development and General Government Administration all decreased due to the tight labor market and strict spending requirements put in place.

Business-Type Activities

During the current fiscal year, business-type activities net position increased by \$0.7 million primarily due to the favorable operating performance at the Golf Course and Chestnut Grove Cemetery. See the proprietary fund financial analysis for more details below Table 3. This compares to the prior year \$0.3 million increase for business-type activities whereby total revenue exceeded expenditures excluding transfers that were related to the transfer of the Downtown Parking Fund to governmental activities.

Charges for services for business-type activities includes customer-paid fees for water and sewer, cemetery, and golf services. Charges for services revenue increased by \$0.9 million as the Water and Sewer, Golf and Chestnut Grove Cemetery funds experienced increasing revenues from the prior year. The Water and Sewer Fund was up about \$0.6 million primarily due to increased rates and increased consumption of water and sewage treatment as businesses and residents have adapted to the pandemic during the fiscal year. Chestnut Grove Cemetery and Golf revenues were up slightly at \$0.2 million and \$0.1 million due to increased business volume, respectively.

The \$0.6 million increase in total expenses was driven primarily by the \$0.8 million increase in the Water and Sewer fund expenses. The primary reason Water and Sewer expenses increased is due to a 27% wholesale sewer rate increase from Fairfax County over the prior year rate. Golf and Chestnut Grove Cemetery expenses were relatively flat compared to the prior year.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT’S DISCUSSION AND ANALYSIS

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, American Rescue Plan Act (ARPA) fund and one non-major governmental fund - the Chestnut Grove Cemetery Perpetual Care Fund. See Note 1 in the notes to financial statements section for more fund information.

The following table summarizes the fund balance section of Exhibit A-3, Governmental Fund Balances, in comparative format:

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

	General		Capital Projects		Other Governmental		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
Non-spendable	\$ 355	\$ 258	\$ 5	\$ -	\$ -	\$ -	\$ 360	\$ 258
Restricted	1,098	1,095	4,384	4,506	1,955	1,847	7,437	7,448
Committed	-	-	-	-	-	-	-	-
Assigned	10,607	6,115	2,924	4,640	-	-	13,531	10,755
Unassigned	16,999	19,560	-	-	-	-	16,999	19,560
Total fund balances	\$29,059	\$27,028	\$ 7,313	\$ 9,146	\$1,955	\$1,847	\$38,327	\$38,021

As of the end of the current fiscal year, the town’s total governmental fund balance increased by 0.8% to \$38.3 million from the prior fiscal year. The main driver of this increase was the General Fund, which increased by \$2.0 million, partially offset by a decrease in the Capital Projects Fund at \$1.8 million and a slight increase in Cemetery Perpetual Care fund balance at \$0.1 million. The General Fund Unassigned Fund Balance decreased by \$2.6 million as \$3.0 million was moved to assigned fund balance for the downtown redevelopment project. The General Fund Unassigned Fund Balance of \$17.0 million represents approximately 51 percent of the General Fund’s expenditures, excluding transfers out, for fiscal year 2022.

The Capital Projects Fund restricted fund balance is comprised mainly of stormwater taxes collected by Fairfax County on real property within the town’s limit, to be spent only on qualifying stormwater projects and bond proceeds from the Town’s refunding of past debt issuance. Capital Project’s assigned fund balance decreased \$1.7 million primarily as a result of total FY 2022 expenditures exceeding total revenues and transfer in by \$1.8 million.

Other Governmental fund balances increased \$0.1 million from the prior fiscal year. This slight increase is primarily attributable to the small increase in assets of the Cemetery Perpetual Care Fund.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (Continued):

Proprietary funds - The financial statements for 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. The enterprise funds' total net position of the three funds increased by \$0.7 million from the prior year as shown in Exhibit A-9. Unrestricted net position, shown in Exhibit A-8, for each of the three enterprise funds increased or decreased from the prior year as follows:

- Water and Sewer Fund Decreased to \$10.9 million from \$11.1 million
- Golf Course Fund Increased to \$1.5 million from \$1.0 million
- Chestnut Grove Cemetery Fund Increased to \$1.9 million from \$1.3 million

For fiscal year 2022, the combined operating income of all the proprietary funds was \$0.7 million. The Water and Sewer fund posted a loss of \$0.7 million while the Golf Fund and Chestnut Grove Cemetery Funds posted operating income of \$0.8 million and \$0.6 million, respectively as shown on Exhibit A-9.

The Water and Sewer Fund's operating loss is primarily attributable to a 27% wholesale sewer rate increase at the start of the fiscal year from Fairfax County for sewage flows. Net non-operating expenses outweighed non-operating revenues at \$0.2 million due to higher interest expense costs.

Operating income and net position in the Golf Fund increased \$0.8 million, as the golf course continued to see higher interest in golf as the number of rounds played was 449 higher than the previous year. Golf rounds have continued to increase since the end of the COVID-19 shutdown in fiscal year 2020 as shown in Statistical Table 17.

The Cemetery Fund's increase in operating income and posted net position increase of \$0.6 million is primarily due increased interment rights sold and interments performed as shown in Statistical Table 17. See Exhibits A-8 and A-9 for further details for each fund's financial statement line items.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT’S DISCUSSION AND ANALYSIS

GENERAL FUND BUDGETARY HIGHLIGHTS

The following table summarizes information found in Exhibit A-7, Statement of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual – General Fund:

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

	Fiscal Year 2022			Over / (Under)
	Original Budget	Amended Budget	Actual	
Taxes	\$ 24,722	\$ 24,722	\$ 28,043	\$ 3,321
Intergovernmental	4,323	4,326	4,391	65
Other	4,300	4,330	3,669	(661)
Total revenues	33,345	33,378	36,103	2,725
Expenditures	35,305	40,605	33,470	(7,135)
Other financing (sources) & Transfers out (in)	(60)	(2,413)	602	3,015
Total expenditures	35,245	38,192	34,072	(4,120)
Change in fund balance	(1,900)	(4,814)	2,031	6,845
Fund balance, beginning	27,028	27,028	27,028	-
Fund balance, ending	\$ 25,128	\$ 22,214	\$ 29,059	\$ 6,845

The final amended budget appropriations, which include expenditures and transfers out, exceeded the original budget by \$2.9 million in fiscal year 2022.

At the conclusion of the fiscal year, total revenues exceeded the amended budget amount by \$2.7 million which was led by other local taxes exceeding budget by \$3.3 million. Actual expenditures and transfers out were lower than the amended budget amounts by \$4.1 million. This was primarily due to \$4.0 million budgeted for the downtown redevelopment project, but the actual expenditure did not occur in fiscal year 2022 because in April 2022 the developer exercised its right to pause construction commencement for up to 24 months due to market conditions or other matters. Highlights of the comparison of amended budget to actual figures for the fiscal year ended June 30, 2022, include the following:

- Tax revenues exceeded expectations with business license, meals, transient occupancy, and local sales taxes coming in with higher actuals by \$1.6 million, \$0.6 million, \$0.5, and \$0.4 million respectively. Business license tax was collected in the second half of fiscal year 2022 totaled nearly \$5.9 million, as shown in Statistical Table 5. General property taxes and intergovernmental taxes were in line with budget. These gains were slight offset by other revenues underperforming budget by \$0.7 million primarily due to Parks and Recreation charges for services being lower than budget by \$0.5 million.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL FUND BUDGETARY HIGHLIGHTS (Continued)

- Intergovernmental revenues were in line with budget with actuals being almost \$4.4 million.
- The \$0.7 million variance between budget and actuals in the other revenues line item is primarily due to charges for services revenues underperforming budget by \$0.9 million. Parks and Recreation services was the largest underperforming department at \$0.5 million. While the Herndon Community Center programs, classes, festivals, and events have increased over the prior fiscal year, they have yet to return to the levels observed prior to the COVID-19 pandemic. Permits were up \$0.2 million while fines and forfeitures, use of money and property, and miscellaneous revenues were in line with final budget.
- Total expenditures excluding transfers out and other financing uses came in under amended budget by \$7.1 million. Expenditure amounts for most of the operating departments were less than the amended budgets by a sum of \$2.3 million which is driven mostly by personnel costs including employee benefits which accounts for \$1.3 million of this variance. Lower personnel costs are mostly due to employee vacancy savings throughout the fiscal year. Non-departmental came in under budget by \$4.8 million primary due to \$4.0 million budgeted for the downtown redevelopment project, but the actual expenditure did not occur in fiscal year 2022 because in April 2022 the developer exercised its right to pause construction commencement for up to 24 months due to market conditions or other matters.
- Other financing sources and transfers out were \$3.0 million unfavorable to the amended budget. The town budgeted \$2.3 million for the issuance of bonds; however, bond financing was not needed during FY 2022. All transfers out from the General Fund of \$0.7 million were to the Capital Projects Fund to provide the town's contribution to various capital projects including sidewalks and minor trails, Elden/Center Street intersection project, Herndon Parkway/Van Buren Street intersection project, Vehicular and Pedestrian Access to Herndon Metrorail Station project, and stream restoration.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT’S DISCUSSION AND ANALYSIS

CAPITAL ASSETS

As of June 30, 2022, the town had invested approximately \$115.6 million, an increase of \$7.4 million from the prior fiscal year, in a variety of capital assets as reflected in the following table. 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	
	2022	2021	2022	2021	2022	2021
Land	\$ 27,702	\$ 26,800	\$ 2,540	\$ 2,540	\$ 30,242	\$ 29,340
Construction in progress	19,575	9,699	729	320	20,304	10,019
Infrastructure	82,563	82,563	-	-	82,563	82,563
Buildings	42,224	42,176	3,552	3,552	45,776	45,728
Improvements other than buildings	17,215	17,215	36,115	36,115	53,330	53,330
Machinery and equipment	12,197	11,444	4,078	4,035	16,275	15,479
Machinery and equipment - Leases	122	121	25	25	147	146
Intangibles and purchased capacity	1,137	1,137	16,166	16,166	17,303	17,303
Furniture and fixtures	1,135	1,135	195	195	1,330	1,330
Accumulated depreciation	(112,569)	(109,243)	(38,984)	(37,610)	(151,553)	(146,853)
Total capital assets, net	\$ 91,301	\$ 83,047	\$ 24,416	\$ 25,338	\$ 115,717	\$ 108,385

The net increase in the town’s capital asset investment is attributable to the increase in new investments of \$12.0 million exceeding accumulated depreciation of \$4.7 million. Significant changes include land increasing by \$0.9 million, construction in progress increasing by \$10.3 million, and machinery and equipment increasing by \$0.8 million.

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

- The \$0.9 million increase in the land category was primarily in governmental activities from the land that was acquired to perform street improvements on Van Buren Street between Herndon Parkway and Spring Street.
- Most of the increase in construction in progress can be attributable to five street infrastructure improvement projects that were in the construction phase when the fiscal year ended. These five projects account for \$8.3 million of the total increase. The street improvement projects are Elden/Monroe Street intersection, Elden/Center Street intersection, Herndon Parkway/Van Buren Street intersection, Van Buren Complete Streets, and Vehicular and Pedestrian Access to Herndon Metrorail Station project. Construction on these projects continued into fiscal year 2023.
- Most of the increase in machinery and equipment is from the purchase of a new refuse truck and a street sweeper which cost \$0.6 million.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS (continued)

- Several other smaller projects were in progress during the fiscal year, while the downtown redevelopment and downtown utility undergrounding projects were on hold due to market conditions or other matters. In the Water and Sewer fund, several water line and sewer line improvement projects were in progress.

During the fiscal year, significant design and specifications, right-of-way acquisition, and utility relocation efforts progressed on other critical transportation projects including the East Elden, East Spring Street, and Trails to Metro projects. Also, significant non-transportation projects with design progress include Tennis Bubble rehabilitation, Cemetery Expansion, and Sugarland Run Stream restoration. More detailed information on future capital improvements can be found in the town's adopted six-year Capital Improvement Program (CIP).

LONG-TERM DEBT

The following table summarizes information found in Note 9, Long-Term Debt in the notes to the financial statements.

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

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
	General obligation (GO) bonds	\$ 9,996	\$ 10,968	\$ 7,492	\$ 7,660	\$ 17,488
Fairfax Water obligations	-	-	2,916	3,179	2,916	3,179
GO bonds - premiums	130	138	-	-	130	138
Leases	80	120	19	25	99	145
Total long-term outstanding debt	\$ 10,206	\$ 11,226	\$ 10,427	\$ 10,864	\$ 20,633	\$ 22,090

At the end of fiscal year 2022, the town had \$20.6 million in outstanding long-term general obligations bonds, other obligations, and premiums, as reflected in the above table. This represents a decrease of \$1.5 million from the prior fiscal year, driven by debt service payments during the normal course of business.

As of the end of fiscal year 2022, the town's issuer rating from the three credit ratings agencies remained as follows: AAA from Fitch Investor Service, AAA from Moody's Investor Service, Inc., and AAA from Standard and Poor's Corporation. More detailed information on long-term debt can be found in Note 9 of the notes to the financial statements.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The town's economic and demographic conditions in many ways benefit from the relative stability, high income, and low unemployment characteristics of the Washington, D.C. region. Today, thanks in part to the diversity of the town's businesses, the town's commercial environment has been able to withstand downturns in the economies over time and has weathered the impact of the pandemic. As of September 2022, the unemployment rate in Washington metropolitan area was 3.6 percent compared to 4.1 percent in September 2021. In comparison, the September 2022 unemployment rates for the Commonwealth of Virginia and the United States were 2.6 percent and 3.5 percent, respectively, according to the Bureau of Labor Statistics.

The Town of Herndon is the third largest town in the Commonwealth of Virginia. Amidst a 21st-century Northern Virginia landscape of high-rise buildings, industrial complexes and transportation hubs, Herndon maintains a small-town charm that is evident in its downtown, its neighborhoods and its commercial areas. The town boasts a unique synergy between its powerful sense of community and its stature as a 21st-century business center at the hub of the region's high-tech corridor, resulting in a blending of the old and the new into a foundation that provides solid support for small, medium, and large businesses. Businesses have cited the highly qualified workforce available in the town, proximity to Dulles International Airport and the nation's capital, and transit accessibility as reasons for choosing to relocate or expand in the Town of Herndon.

The total adopted fiscal year 2023 budget (all funds), including inter-fund transfers, is \$57.3 million which is about 2.9 percent higher than the original budget for fiscal year 2022. This increase is the result of additions in the General Fund and Capital Projects fund \$1.9 and \$3.4 million, respectively, offset by a \$3.7 million decrease in the proprietary funds. The town maintained its real estate tax rate of \$0.265 per \$100 of assessed value for fiscal year 2023. All other excise taxes and fees town-wide remain unchanged from fiscal year 2022. Due to significant increased operating costs in the Water & Sewer Fund, the Town Council adopted increases in the charges for services in the Water & Sewer Fund by increasing the utility billing rates in the fiscal year 2023 budget.

CURRENTLY KNOWN FACTS LIKELY TO IMPACT FINANCIAL CONDITION

In addition to the unprecedented financial uncertainty wrought by the COVID-19 pandemic, other factors expected to affect the town's financial position include the downtown redevelopment project, rising cost due to the supply chain market shortages and American Rescue Plan Act funding the town received.

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 Herndon Venture, LC 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 Herndon Venture, LC 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. This project has experienced delays since the signing of the comprehensive agreement.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

CURRENTLY KNOWN FACTS LIKELY TO FUTURE FINANCIAL CONDITION (Continued)

In Fiscal Year 2021, the Herndon Town Council approved a resolution that amended the comprehensive agreement with Comstock, to advance the project on November 17, 2020. This amendment allowed continued interim use by the town of the property for the existing ArtSpace and provides for public shared parking. Also, it established a date by which Comstock must have the project under construction which is December 31, 2021. The town transferred the development site to Comstock on December 15, 2020, per the amended comprehensive agreement.

Also, the town approved several incentives for the project via the town's Arts District ordinance. This will be done by utilizing fee reductions and refunding the town's portion of property taxes on the completed project for up to 10 years. The fee reductions are 50% for Water Availability fees of \$950,000; Sewer Availability fees of \$1,300,000; and Base Building Permit fees of \$100,000 for a total fee reduction of \$2,350,000. Town property taxes are proposed to be refunded for up to ten years valued at \$1,908,000. In addition, the town is deferring the recreational proffer of \$491,000 for ten years and eliminating the Arts Center mezzanine valued at \$250,000.

The town has an appropriation of \$3.6 million as part of this agreement for the project. In return, the town will be receiving public parking, an arts center shell, public improvements, temporary parking, arts center, and environmental upgrades that accumulate to about \$16.6 million in value.

In April 2022 Comstock exercised its right in the amended comprehensive agreement to pause construction commencement for up to 24 months, due to market conditions or other matters, including delays as a result of the COVID-19 pandemic. ArtSpace will continue to use their existing space and the town will continue to use the development site for public shared parking. More detailed information about the downtown redevelopment project can be found in the comprehensive agreement on the town's website.

The town is anticipating increasing costs in expenditures as departments such as public works, parks and recreation, police, community development, information technology are experience increasing costs in all their expenditures due to the supply chain market that is affecting the economy currently due to the effects of the Covid-19 pandemic. The inflation rate continues to remain high at 8.2% for the twelve months ended September 2022 which is a significant increase compared to September 2021 where inflation was at 5.4%. Also, department personnel expenditures are expected to increase as inflation is impacting the cost to attract and fill open positions throughout the town.

The town did receive additional funding from the US Treasury as part of the American Rescue Plan Act. The town received two installments of \$12.7 million each with the first installment of the funds received at the end of fiscal year 2021 and the second installment of funds was received at the beginning of fiscal year 2023. The funds will help with operational maintenance back log items and help relieve some of the budgetary constraints on the capital projects that were halted in fiscal year 2020 and fiscal year 2021 due to the COVID-19 pandemic.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

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) 435-6898 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, 2022

	Governmental Activities	Business-type Activities	Totals
ASSETS			
Cash, cash equivalents and investments (Note 2)	\$ 43,047,362	\$ 15,711,096	\$ 58,758,458
Cash and investments with fiscal agent (Note 2)	4,068,095	-	4,068,095
Receivables, net:			
Property taxes (Note 3)	13,647,869	-	13,647,869
Trade and other accounts (Note 3)	1,568,198	1,816,946	3,385,144
Accrued interest	18,309	1,652	19,961
Due from other governments (Note 3)	6,953,461	-	6,953,461
Inventories	299,299	55,540	354,839
Prepaid costs	36,725	3,155	39,880
Cash, cash equivalents and investments - restricted (Note 2)	1,923,792	202,728	2,126,520
Notes receivable (Note 6)	23,715	-	23,715
Leases receivable (Note 4)	1,258,194	1,885,973	3,144,167
Capital assets: (Note 7)			
Nondepreciable	47,277,123	3,269,414	50,546,537
Depreciable, net	44,023,725	21,146,030	65,169,755
Net pension asset (Notes 10 and 14)	4,387,206	448,772	4,835,978
Total assets	168,533,073	44,541,306	213,074,379
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions (Notes 10 and 14)	4,503,024	463,842	4,966,866
Deferred outflows related to other postemployment benefits (Notes 12, 13, and 14)	1,165,868	111,450	1,277,318
Total deferred outflows of resources	5,668,892	575,292	6,244,184
LIABILITIES			
Accounts payable	5,251,912	1,291,479	6,543,391
Accrued payroll	416,969	107,104	524,073
Accrued liabilities - other	866,137	97,521	963,658
Accrued interest	92,729	-	92,729
Unearned revenue (Note 8)	10,576,879	-	10,576,879
Customer deposits	1,655,014	215,399	1,870,413
Noncurrent liabilities:			
Due within one year (Note 9)	1,401,451	502,092	1,903,543
Due in more than one year (Note 9)	11,337,579	10,206,806	21,544,385
Net other postemployment benefit liability (Notes 12, 13, and 14)	5,468,165	485,891	5,954,056
Total liabilities	37,066,835	12,906,292	49,973,127
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions (Notes 10 and 14)	10,825,372	1,107,339	11,932,711
Deferred inflows related to other postemployment benefits (Notes 12, 13, and 14)	1,009,983	177,288	1,187,271
Lease related deferred inflows	1,245,287	1,848,127	3,093,414
Property taxes (Note 8)	13,576,219	-	13,576,219
Total deferred inflows of resources	26,656,861	3,132,754	29,789,615
NET POSITION			
Net investment in capital assets	85,163,306	14,191,182	99,354,488
Restricted:			
Lateral program	-	110,049	110,049
Cemetery Perpetual Care Fund - expendable	1,923,792	-	1,923,792
Pensions	4,387,206	448,772	4,835,978
Unrestricted	19,003,965	14,327,549	33,331,514
Total net position	\$ 110,478,269	\$ 29,077,552	\$ 139,555,821

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, 2022

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	\$ 521,966	\$ -	\$ -	\$ -	\$ (521,966)		\$ (521,966)
Administration	3,253,326	52,176	-	-	(3,201,150)		(3,201,150)
Town attorney	822,127	-	-	-	(822,127)		(822,127)
Parks and recreation	4,024,864	1,603,104	-	-	(2,421,760)		(2,421,760)
Finance	1,462,517	-	-	-	(1,462,517)		(1,462,517)
Community development	1,578,231	-	40,000	-	(1,538,231)		(1,538,231)
Police	10,013,133	335,707	778,758	-	(8,898,668)		(8,898,668)
Public works	13,588,564	1,066,314	1,145,267	10,904,664	(472,319)		(472,319)
Interest	245,028	-	-	-	(245,028)		(245,028)
Total governmental activities	35,509,756	3,057,301	1,964,025	10,904,664	(19,583,766)		(19,583,766)
Business-type activities:							
Water and sewer	8,224,221	6,861,887	-	130,228		(1,232,106)	(1,232,106)
Golf course	1,633,991	2,335,733	-	-		701,742	701,742
Chestnut Grove cemetery	758,540	1,298,235	-	-		539,695	539,695
Total business-type activities	10,616,752	10,495,855	-	130,228		9,331	9,331
Total government	\$ 46,126,508	\$ 13,553,156	\$ 1,964,025	\$ 11,034,892	(19,583,766)	9,331	(19,574,435)
General Revenues:							
Taxes:							
General property					12,868,724	-	12,868,724
Business licenses					5,881,836	-	5,881,836
Transient occupancy					1,512,110	-	1,512,110
Meals					3,590,406	-	3,590,406
Local sales					2,326,918	-	2,326,918
Consumer utility					786,539	-	786,539
Bank stock tax					483,622	-	483,622
Motor vehicle licenses					430,872	-	430,872
Other local taxes					522,073	-	522,073
Revenues not restricted to specific programs					70,798	-	70,798
Intergovernmental, non-categorical aid					1,281,151	1,373	1,282,524
Use of money and property					548,544	60,622	609,166
Gain on sale of capital assets					60,312	60,755	121,067
Miscellaneous and lease income					120,117	611,453	731,570
Transfers					71,568	(71,568)	-
Total general revenues and transfers					30,555,590	662,635	31,218,225
Change in net position					10,971,824	671,966	11,643,790
Net position, July 1					99,506,445	28,405,586	127,912,031
Net position, June 30					\$ 110,478,269	\$ 29,077,552	\$ 139,555,821

TOWN OF HERNDON, VIRGINIA

Exhibit A-3
Page 1

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2022**

	General	Capital Projects Fund	ARPA Fund	Nonmajor Governmental Fund	Total Governmental Funds
ASSETS					
Cash, cash equivalents and investments	\$ 30,333,745	\$ 1,615,350	\$ 11,098,267	\$ -	\$ 43,047,362
Cash and investments with fiscal agent	1,007,746	3,060,349	-	-	4,068,095
Receivables (net of allowance for doubtful accounts):					
Property taxes	13,647,869	-	-	-	13,647,869
Trade and other accounts	1,568,198	-	-	-	1,568,198
Notes	23,715	-	-	-	23,715
Leases	1,258,194	-	-	-	1,258,194
Accrued interest	14,128	4,181	-	-	18,309
Due from other governments	674,868	6,278,593	-	-	6,953,461
Inventories	299,299	-	-	-	299,299
Prepaid costs	31,725	5,000	-	-	36,725
Cash, cash equivalents and investments - restricted	-	-	-	1,923,792	1,923,792
Total assets	\$ 48,859,487	\$ 10,963,473	\$ 11,098,267	\$ 1,923,792	\$ 72,845,019

(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, 2022

	General	Capital Projects Fund	ARPA Fund	Nonmajor Governmental Fund	Total Governmental Funds
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 1,061,299	\$ 3,632,683	\$ 557,930	\$ -	\$ 5,251,912
Accrued payroll	416,969	-	-	-	416,969
Accrued liabilities - other	848,637	17,500	-	-	866,137
Accrued Interest - leases	25	-	-	-	25
Unearned revenue	68,255	-	10,508,624	-	10,576,879
Customer deposits	1,655,014	-	-	-	1,655,014
Total liabilities	4,050,199	3,650,183	11,066,554	-	18,766,936
Deferred inflows of resources:					
Unavailable revenue - property taxes	13,646,667	-	-	-	13,646,667
Unavailable revenue - other	858,707	-	-	-	858,707
Leases related deferred inflows	1,245,287	-	-	-	1,245,287
Total deferred inflows of resources	15,750,661	-	-	-	15,750,661
Fund Balances:					
Nonspendable:					
Inventories	299,299	-	-	-	299,299
Prepaid costs	31,725	5,000	-	-	36,725
Notes receivable	23,715	-	-	-	23,715
Restricted:					
Bond proceeds not yet spent	1,007,746	3,060,349	-	-	4,068,095
Cemetery perpetual care	-	-	-	1,923,792	1,923,792
Stormwater	-	1,323,824	-	-	1,323,824
Brownfields grant	90,250	-	-	-	90,250
Assigned:					
Revenue stabilization	1,900,000	-	-	-	1,900,000
Operating & capital costs	1,274,662	2,924,117	-	-	4,198,779
Capital reserve	3,338,462	-	-	-	3,338,462
Contingency reserve	900,000	-	-	-	900,000
e-Summons	38,960	-	-	-	38,960
Downtown Parking	3,000,000	-	-	-	3,000,000
Subsequent years' expenditures for:					
General Fund	154,600	-	-	-	154,600
ARPA Fund	-	-	31,713	-	31,713
Unassigned:					
General Fund	16,999,208	-	-	-	16,999,208
Total fund balances	29,058,627	7,313,290	31,713	1,923,792	38,327,422
Total liabilities, deferred inflows of resources and fund balances	\$ 48,859,487	\$ 10,963,473	\$ 11,098,267	\$ 1,923,792	\$ 72,845,019

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, 2022**

Total fund balances - governmental funds		\$ 38,327,422
<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>		91,300,848
<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>		929,155
<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	4,503,024	
Other postemployment benefits	1,165,868	5,668,892
Deferred inflows related to:		
Pensions	(10,825,372)	
Other postemployment benefits	(1,009,983)	(11,835,355)
Net pension asset		4,387,206
Net other post employment benefits liability		(5,468,165)
<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 and leases payable, including unamortized premiums and discounts	(10,205,638)	
Compensated absences	(2,533,392)	
Interest payable	(92,704)	(12,831,734)
Net position of governmental activities		\$ 110,478,269

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, 2022

	General	Capital Projects Fund	ARPA Fund	Nonmajor Governmental Fund	Total Governmental Funds
Revenues:					
General property taxes	\$ 12,914,408	\$ -	\$ -	\$ -	\$ 12,914,408
Other local taxes	15,128,514	-	-	-	15,128,514
Permits, privilege fees and regulatory licenses	613,968	-	-	-	613,968
Fines and forfeitures	359,468	-	-	-	359,468
Use of money and property	516,756	(4,808)	31,713	4,883	548,544
Charges for services	2,157,122	-	-	-	2,157,122
Miscellaneous	19,749	39,166	-	-	58,915
Intergovernmental	4,390,442	7,506,048	2,253,349	-	14,149,839
Total revenues	36,100,427	7,540,406	2,285,062	4,883	45,930,778
Expenditures:					
Current:					
Legislative	508,117	-	-	-	508,117
Administration	3,111,415	-	-	-	3,111,415
Town attorney	776,886	-	-	-	776,886
Parks and recreation	3,569,187	-	-	-	3,569,187
Finance	1,517,999	-	-	-	1,517,999
Community development	2,019,189	-	-	-	2,019,189
Police	9,730,969	-	-	-	9,730,969
Public works	11,022,505	-	-	-	11,022,505
Grants	43,525	-	-	-	43,525
Non-departmental	(110,414)	-	169,060	-	58,646
Capital outlay	1,538	10,115,904	2,084,289	-	12,201,731
Debt service:					
Principal	1,015,683	-	-	-	1,015,683
Interest and fiscal charges	261,940	-	-	-	261,940
Total expenditures	33,468,539	10,115,904	2,253,349	-	45,837,792
Excess (deficiency) of revenues over expenditures	2,631,888	(2,575,498)	31,713	4,883	92,986

(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, 2022

	General	Capital Projects Fund	ARPA Fund	Nonmajor Governmental Fund	Total Governmental Funds
Other financing sources (uses):					
Proceeds from sale of capital assets	\$ 78,731	\$ -	\$ -	\$ -	\$ 78,731
Issuance of leases	1,538	-	-	-	1,538
Insurance recoveries	61,202	-	-	-	61,202
Transfers in	-	743,012	-	76,451	819,463
Transfers out	(743,012)	-	-	(4,883)	(747,895)
	<u>(601,541)</u>	<u>743,012</u>	<u>-</u>	<u>71,568</u>	<u>213,039</u>
Total other financing sources (uses), net					
Net change in fund balances	2,030,347	(1,832,486)	31,713	76,451	306,025
Fund balances, July 1	<u>27,028,280</u>	<u>9,145,776</u>	<u>-</u>	<u>1,847,341</u>	<u>38,021,397</u>
Fund balances, June 30	<u>\$ 29,058,627</u>	<u>\$ 7,313,290</u>	<u>\$ 31,713</u>	<u>\$ 1,923,792</u>	<u>\$ 38,327,422</u>

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, 2022**

Net change in fund balances - total governmental funds		\$	306,025
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	\$	11,909,025	
Less depreciation and amortization expense		<u>(3,636,884)</u>	
Excess of capital outlay over depreciation and amortization			8,272,141
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			(18,419)
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			357,718
Bond proceeds provide current financial resources to governmental funds, both 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 leases			(1,538)
Principal repayments			1,015,683
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			1,264,918
Pension expense			144,035
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			202,532
Other postemployment benefit expense			(463,839)
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		9,256	
Compensated absences		(124,347)	
Amortization of premiums and discounts		<u>7,659</u>	<u>(107,432)</u>
Change in net position of governmental activities			<u>\$ 10,971,824</u>

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, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
General property taxes	\$ 12,970,000	\$ 12,970,000	\$ 12,914,408	\$ (55,592)
Other local taxes	11,752,317	11,752,317	15,128,514	3,376,197
Permits, privilege fees and regulatory licenses	351,250	351,250	613,968	262,718
Fines and forfeitures	354,000	354,000	359,468	5,468
Use of money and property	544,500	548,800	516,756	(32,044)
Charges for services	3,041,694	3,067,694	2,157,122	(910,572)
Miscellaneous	8,000	8,000	19,749	11,749
Intergovernmental	4,322,826	4,325,440	4,390,442	65,002
Total revenues	33,344,587	33,377,501	36,100,427	2,722,926
Expenditures:				
Current:				
Legislative	533,027	537,058	508,117	28,941
Administration	3,074,363	3,164,803	3,111,415	53,388
Town attorney	758,661	776,821	778,424	(1,603)
Parks and recreation	4,382,906	4,442,038	3,569,187	872,851
Finance	1,465,752	1,625,335	1,517,999	107,336
Community development	1,890,776	1,961,213	2,019,189	(57,976)
Police	9,591,465	9,862,898	9,730,969	131,929
Public works	11,469,119	12,274,850	11,022,505	1,252,345
Grants	150,000	7,400	43,525	(36,125)
Non-departmental	710,000	4,718,000	(110,414)	4,828,414
Debt service:				
Principal	938,254	973,254	1,015,683	(42,429)
Interest and fiscal charges	340,264	261,301	261,940	(639)
Total expenditures	35,304,587	40,604,971	33,468,539	7,136,432
Excess (deficiency) of revenues over expenditures	(1,960,000)	(7,227,470)	2,631,888	9,859,358

(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, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Other financing sources (uses):				
Proceeds from sale of capital assets	\$ 50,000	\$ 100,000	\$ 78,731	\$ (21,269)
Issuance of leases	-	-	1,538	1,538
Issuance of bonds	-	2,300,000	-	(2,300,000)
Insurance recoveries	10,000	12,745	61,202	48,457
Transfers out	-	-	(743,012)	(743,012)
Total other financing uses, net	60,000	2,412,745	(601,541)	(3,014,286)
Net change in fund balance	\$ (1,900,000)	\$ (4,814,725)	\$ 2,030,347	\$ 6,845,072

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, 2022

	Business-type Activities - Enterprise Funds			
	Major Funds			Totals
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	
ASSETS				
Current Assets:				
Cash, cash equivalents and investments	\$ 11,294,664	\$ 2,298,055	\$ 2,118,377	\$ 15,711,096
Receivables (net of allowance for doubtful accounts):	1,816,468	478	-	1,816,946
Accrued interest	1,646	6	-	1,652
Inventories	25,021	30,519	-	55,540
Prepaid costs	1,080	-	2,075	3,155
Leases receivable - current portion	428,221	17,977	-	446,198
Cash, cash equivalents and investments - restricted	202,728	-	-	202,728
Total current assets	13,769,828	2,347,035	2,120,452	18,237,315
Noncurrent Assets:				
Leases receivable	1,439,775	-	-	1,439,775
Capital assets:				
Land	200,000	1,621,574	718,500	2,540,074
Buildings	-	2,240,527	1,311,437	3,551,964
Improvements other than buildings	31,300,796	3,157,597	1,656,239	36,114,632
Machinery and equipment	2,798,254	1,107,503	171,957	4,077,714
Machinery and equipment - leases	24,876	-	-	24,876
Furniture and fixtures	194,919	-	-	194,919
Intangibles	16,166,154	-	-	16,166,154
Construction in progress	670,087	-	59,253	729,340
Less accumulated depreciation and amortization	(31,418,891)	(5,570,060)	(1,995,278)	(38,984,229)
Total capital assets (net of accumulated depreciation and amortization)	19,936,195	2,557,141	1,922,108	24,415,444
Net pension asset	202,717	175,478	70,577	448,772
Total noncurrent assets	21,578,687	2,732,619	1,992,685	26,303,991
Total assets	35,348,515	5,079,654	4,113,137	44,541,306
DEFERRED OUTFLOWS OF RESOURCES				
Pension related deferred outflows	218,443	171,431	73,968	463,842
OPEB related deferred outflows	48,524	54,938	7,988	111,450
Total deferred outflows of resources	266,967	226,369	81,956	575,292

(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, 2022

	Business-type Activities - Enterprise Funds			
	Major Funds			Totals
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 1,160,665	\$ 86,734	\$ 44,080	\$ 1,291,479
Accrued payroll	53,242	34,608	19,254	107,104
Accrued liabilities - other	88,207	5,843	3,471	97,521
Due to other governments	284,450	-	-	284,450
Compensated absences	20,503	4,889	12,545	37,937
Customer deposits	214,849	550	-	215,399
Current obligations payable	131,044	19,901	28,760	179,705
Total current liabilities	1,952,960	152,525	108,110	2,213,595
Noncurrent Liabilities:				
Compensated absences	102,516	127,118	14,337	243,971
Due to other governments	2,631,596	-	-	2,631,596
Net other post employment benefit liability	180,229	270,845	34,817	485,891
Long-term obligations payable, net	6,252,801	334,793	743,645	7,331,239
Total noncurrent liabilities	9,167,142	732,756	792,799	10,692,697
Total liabilities	11,120,102	885,281	900,909	12,906,292
DEFERRED INFLOWS OF RESOURCES				
Pension related deferred inflows	500,201	432,990	174,148	1,107,339
OPEB related deferred inflows	102,712	49,077	25,499	177,288
Leases related deferred inflows	1,830,182	17,945	-	1,848,127
Total deferred inflows of resources	2,433,095	500,012	199,647	3,132,754
NET POSITION				
Net Position:				
Net investment in capital assets	10,839,032	2,202,447	1,149,703	14,191,182
Restricted, lateral program	110,049	-	-	110,049
Restricted, pension	202,717	175,478	70,577	448,772
Unrestricted	10,910,487	1,542,805	1,874,257	14,327,549
Total net position	\$ 22,062,285	\$ 3,920,730	\$ 3,094,537	\$ 29,077,552

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, 2022

	Business-type Activities - Enterprise Funds			
	Major Funds			
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Totals
Operating revenues:				
Sale of water	\$ 2,961,349	\$ -	\$ -	\$ 2,961,349
Sewer service charges	3,821,190	-	-	3,821,190
Late payment charges	75,512	-	-	75,512
Sale of commodities	3,836	-	-	3,836
Rents and leases	448,159	41,239	-	489,398
Greens fees	-	1,689,418	-	1,689,418
Golf cart revenue	-	433,439	-	433,439
Golf pro shop sales	-	89,757	-	89,757
Driving range fees	-	123,119	-	123,119
Cemetery sites	-	-	762,809	762,809
Interment services	-	-	290,120	290,120
Merchandise sales	-	-	245,306	245,306
Miscellaneous	19,532	21,813	79,164	120,509
Total operating revenues	7,329,578	2,398,785	1,377,399	11,105,762
Operating expenses:				
Finance	248,423	-	-	248,423
Water services	1,592,290	-	-	1,592,290
Sewer services	4,331,091	-	-	4,331,091
Contractual services	530,094	41,400	22,400	593,894
Golf course operations	-	798,736	-	798,736
Golf course club house	-	552,529	-	552,529
Cemetery operations	-	-	597,725	597,725
Nondepartmental:				
Depreciation and amortization	1,243,747	206,326	124,253	1,574,326
Miscellaneous	39,494	31,112	5,914	76,520
Total operating expenses	7,985,139	1,630,103	750,292	10,365,534
Operating income (loss)	(655,561)	768,682	627,107	740,228

(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, 2022

	Business-type Activities - Enterprise Funds			Totals
	Major Funds			
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	
Nonoperating revenues (expenses):				
Investment earnings, net	\$ 51,098	\$ 4,533	\$ 4,991	\$ 60,622
Interest expense	(239,082)	(3,888)	(8,248)	(251,218)
Intergovernmental revenues	-	1,373	-	1,373
Insurance recoveries	796	-	750	1,546
Gain on disposal of capital assets	33,250	8,480	19,025	60,755
Total nonoperating revenues (expenses), net	(153,938)	10,498	16,518	(126,922)
Income (loss) before availability fees and transfers	(809,499)	779,180	643,625	613,306
Availability fees	130,228	-	-	130,228
Transfers in	-	-	4,883	4,883
Transfers out	-	-	(76,451)	(76,451)
Total availability fees and transfers	130,228	-	(71,568)	58,660
Change in net position	(679,271)	779,180	572,057	671,966
Total net position, July 1	22,741,556	3,141,550	2,522,480	28,405,586
Total net position, June 30	\$ 22,062,285	\$ 3,920,730	\$ 3,094,537	\$ 29,077,552

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, 2022

	Business-type Activities - Enterprise Funds			Totals
	Major Funds			
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	
Operating Activities:				
Receipts from customers	\$ 7,142,688	\$ 2,413,091	\$ 1,377,399	\$ 10,933,178
Payments to suppliers for goods and services	(5,244,683)	(456,041)	(185,887)	(5,886,611)
Payments to employees for services	(1,289,345)	(919,630)	(428,125)	(2,637,100)
Net cash provided by operating activities	608,660	1,037,420	763,387	2,409,467
Noncapital Financing Activities:				
Intergovernmental revenues	-	1,373	-	1,373
Transfers in from other funds	-	-	4,883	4,883
Transfers out to other funds	-	-	(76,451)	(76,451)
Net cash provided by (used in) noncapital financing activities	-	1,373	(71,568)	(70,195)
Capital and Related Financing Activities:				
Availability fees	130,228	-	-	130,228
Acquisition and construction of capital assets	(306,171)	(212,186)	(59,253)	(577,610)
Proceeds from the sale of capital assets	34,046	8,480	19,774	62,300
Principal paid on bonds and leases	(126,031)	(19,639)	(28,607)	(174,277)
Principal paid to Fairfax Water	(262,569)	-	-	(262,569)
Interest paid on bonds	(241,302)	(3,965)	(5,226)	(250,493)
Net cash used in capital and related financing activities	(771,799)	(227,310)	(73,312)	(1,072,421)
Investing Activities:				
Interest received on investment securities	49,452	4,527	4,991	58,970
Net cash provided by investing activities	49,452	4,527	4,991	58,970
Net increase (decrease) in cash, cash equivalents and investments	(113,687)	816,010	623,498	1,325,821
Cash, Cash Equivalents and Investments:				
Beginning	11,611,079	1,482,045	1,494,879	14,588,003
Ending	\$ 11,497,392	\$ 2,298,055	\$ 2,118,377	\$ 15,913,824
Cash, Cash Equivalents and Investments is comprised of the following:				
Cash, cash equivalents and investments - unrestricted	\$ 11,294,664	\$ 2,298,055	\$ 2,118,377	\$ 15,711,096
Cash, cash equivalents and investments - restricted	202,728	-	-	202,728
Total	\$ 11,497,392	\$ 2,298,055	\$ 2,118,377	\$ 15,913,824

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, 2022

	Business-type Activities - Enterprise Funds			
	Major Funds			Totals
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (655,561)	\$ 768,682	\$ 627,107	\$ 740,228
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization	1,243,747	206,326	124,253	1,574,326
Pension expense net of employer contributions	(74,068)	(31,088)	(21,848)	(127,004)
Other postemployment benefit expense net of employer contributions	(14,159)	18,983	(2,374)	2,450
Changes in assets and liabilities:				
(Increase) decrease in:				
Receivables	(158,524)	14,337	-	(144,187)
Lease receivables	410,522	35,857	-	446,379
Inventories	3,928	(12,783)	-	(8,855)
Prepaid costs and other assets	(1,080)	-	(2,075)	(3,155)
Increase (decrease) in:				
Accounts payable, accrued liabilities and compensated absences	-	72,995	-	72,995
Leases related deferred inflows	292,743	-	38,324	331,067
Deposits	(448,336)	(35,889)	-	(484,225)
Net cash provided by operating activities	<u>9,448</u>	<u>-</u>	<u>-</u>	<u>9,448</u>
	<u>\$ 608,660</u>	<u>\$ 1,037,420</u>	<u>\$ 763,387</u>	<u>\$ 2,409,467</u>
 Schedule of Noncash Capital and Related Financing Activities:				
Capital assets acquired through accounts payable	<u>\$ 74,073</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,073</u>

TOWN OF HERNDON, VIRGINIA

Exhibit A-11

STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUND
 June 30, 2022
 (With Comparative Amounts for 2021)

	Pension Trust Fund Police Supplemental Retirement Pension Trust Fund	
	2022	2021
Money Market (Note 2)	\$ 17,205	\$ -
Mutual funds (Note 2)	3,332,831	3,930,531
Total assets	<u>3,350,036</u>	<u>3,930,531</u>
NET POSITION		
Restricted:		
Net position restricted for pensions	<u>\$ 3,350,036</u>	<u>\$ 3,930,531</u>

TOWN OF HERNDON, VIRGINIA

Exhibit A-12

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUND
 Year Ended June 30, 2022
 (With Comparative Amounts for 2021)

	Pension Trust Fund Police Supplemental Retirement Pension Trust Fund	
	<u>2022</u>	<u>2021</u>
Additions:		
Employer contributions	\$ 207,604	\$ 204,518
Investment income:		
Net increase (decrease) in the fair value of investments	<u>(566,362)</u>	<u>1,115,781</u>
Total additions, net	<u>(358,758)</u>	<u>1,320,299</u>
Deductions:		
Benefit payments	<u>221,737</u>	<u>1,517,121</u>
Change in net position	(580,495)	(196,822)
Net position, July 1	<u>3,930,531</u>	<u>4,127,353</u>
Net position, June 30	<u>\$ 3,350,036</u>	<u>\$ 3,930,531</u>

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

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

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, 2022

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 party 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 Supplemental Retirement Pension Trust fund which is reported using the economic resources measurement focus.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

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.

The *ARPA Fund* accounts for the uses of American Rescue Plan Act funding received by the town.

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.

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, 2022

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.

Department heads and directors are authorized to transfer/reallocate/redistribute any amount, up to \$100,000, of the approved operations, maintenance and capital funding between approved expenditure accounts within their respective departments in the General Fund and Enterprise Funds only, except for salary and benefit accounts. Proposed transfers from salary or benefits accounts of any amount must be submitted to the town manager for review and approval. Requirements in excess of \$100,000 must be submitted to the town manager for review, and to Town Council for approval. The town manager is authorized to approve the transfer/reallocation/redistribution of General Fund, ARPA Fund, Water & Sewer Fund, Golf Course Fund, Chestnut Grove Cemetery Fund, and the Capital Projects Funds monies within a department or between departments in the same fund. Actions may be within or between the personnel, operations and maintenance and capital outlays/projects accounts. The total amount of each approval shall not exceed \$100,000 and multiple transfers to the same account cannot exceed a total of \$100,000. Requirements in excess of \$100,000 must be submitted by resolution to the Town Council for approval. The dollar limitation effectively lowers the legal level of budgetary control to the department level. 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, 2022, budget revisions to the general fund were made, which resulted in an approximate \$5,300,000 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.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets and Budgetary Accounting (Continued)

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.

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.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 1. Summary of Significant Accounting Policies (Continued)

G. Receivables and Payables (Continued)

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 2022 per \$100 of assessed value was \$.2650. 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 2022 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, 2022; however, these resources will not be available to the town until fiscal year 2023.

The town did not assess personal property taxes during fiscal year 2022.

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, Capital Projects Fund, and the Water and Sewer Fund have a portion of their cash balance restricted and shown as "Cash with fiscal agent" or restricted cash 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.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 1. Summary of Significant Accounting Policies (Continued)

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 assets that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

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 assets that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

- Contributions subsequent to the measurement date for pensions and OPEB; this will be applied to the net pension liability and net OPEB liability in the next fiscal year.
- 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. Another 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. This may be reported as a deferred outflow or inflow as appropriate.
- Changes in proportionate share that will be recognized in the OPEB expense over the average expected remaining service lives of all employees provided with benefits. This may be reported as a deferred outflow or inflow as appropriate.
- 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.
- Lease-related amounts are recognized at the inception of leases in which the town is the lessor. The deferred inflow of resources is recorded in an amount equal to the corresponding lease receivable plus certain additional amounts received from the lessee at or before the commencement of the lease term that related to future periods, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term. The inflow of resources is recognized in a systematic and rational manner over the term of the lease.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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.

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.

Lease assets are amortized over the shorter of the lease term or useful life of the underlying asset. In leases where a purchase option is reasonably certain of being exercised the asset is amortized over the useful life, unless the underlying asset is nondepreciable, in which the leased asset is not amortized.

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 and purchased capacity	5-40 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.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 1. Summary of Significant Accounting Policies (Continued)

M. 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.

N. 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, 2022

Note 1. Summary of Significant Accounting Policies (Continued)

O. 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, 2022

Note 1. Summary of Significant Accounting Policies (Continued)

O. Fund Balance (Continued)

Town council established a Revenue Stabilization Fund in 2012 within the assigned portion of the General Fund Balance. At the close of each audited fiscal year, after certifying that the Unassigned Fund Balance is in compliance with these policies, the Revenue Stabilization Fund shall receive a minimum of 25 percent of the prior year's surplus, if any, as calculated in the prior fiscal year audit. Balances in the Revenue Stabilization Fund will be allowed to accumulate until they reach an amount equal to 5.0 percent of General Fund Operating Revenues. Transfers to the Revenue Stabilization Fund may also be made as part of the adopted operating budget.

Withdrawals from the Revenue Stabilization Fund can only be considered if there is an unexpected General Fund recurring revenue decline of at least three percent below the original budget projections for the current fiscal year.

No more than half of the Revenue Stabilization Fund can be withdrawn in any one fiscal year except in the event that using no more than half of the balance would result in Unassigned Fund Balance falling below the 20 percent threshold noted herein. In such an instance, the withdrawal shall be the lesser of the amount needed to maintain the 20 percent Unassigned Fund Balance policy level or the remaining balance in the Revenue Stabilization Fund.

P. 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, 2022 include \$1,274,662 in the general fund and \$2,924,117 in the general capital project fund and \$31,713 in the ARPA fund.

Q. 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.

TOWN OF HERNDON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 1. Summary of Significant Accounting Policies (Continued)

R. 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. 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 General Fund, Perpetual Care Fund and Capital Projects 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.

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.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 2. Deposits and Investments (Continued)

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, the Virginia State Non-Arbitrage Program (SNAP); 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 has invested bond proceeds subject to rebate of arbitrage earnings in the SNAP (a 2a-7 like pool), which is an open-ended management investment company registered with the SEC designed to assist local governments in complying with the arbitrage rebate requirements of the Tax Reform Act of 1986. This program provides comprehensive investment management, accounting, and arbitrage rebate calculation services for proceeds of tax-exempt financing.

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
Virginia State Non-Arbitrage Program	100% maximum

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 2. Deposits and Investments (Continued)

Investment Policy: (Continued)

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.

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, 2022, the town's investments consisted of the following:

Type	Value	S & P Credit Rating	Weighted Average Maturity*
LGIP	\$ 57,276,941	AAAm	0.23
SNAP	4,270,823	AAAm	0.10
Federal Agency Bonds and Notes	1,292,849	AA+	1.27
Money Market	17,205	N/A	N/A
Mutual Funds	3,332,831	Various	N/A
Total investments	<u>\$ 66,190,649</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, 2022, the portion of the town's portfolio that exceed 5% of the total portfolio are as follows:

LGIP	87%
SNAP	6%
Federal Agency Bonds and Notes	2%
Mutual Funds	5%

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

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, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds – Police Retirement Plan:				
DFA Emerging Markets Core Equity I	\$ 30,725	\$ -	\$ -	\$ 30,725
DFA International Core Equity I	59,083	-	-	59,083
DFA US Core Equity 2 I	106,221	-	-	106,221
Fidelity Advisor Total Bond Z	41,685	-	-	41,685
Fidelity Mid Cap	9,254	-	-	9,254
Fidelity Large Cap	200,291	-	-	200,291
Fidelity 500 Index	153,749	-	-	153,749
Fidelity US Bond Index	2,093	-	-	2,093
WT CIT III for Metlife GAC 25554 CL J	11,926	-	-	11,926
Vanguard Target Retirement 2055 Inv	65,947	-	-	65,947
Vanguard Target Retirement 2050 Inv	117,103	-	-	117,103
Vanguard Target Retirement 2040 Inv	781,386	-	-	781,386
Vanguard REIT Index Adm	31,159	-	-	31,159
Vanguard Target Retirement 2030 Inv	299,981	-	-	299,981
Vanguard Target Retirement Income Inv	206	-	-	206
Vanguard Target Retirement 2045 Inv	267,408	-	-	267,408
Vanguard Target Retirement 2035 Inv	697,950	-	-	697,950
Vanguard Target Retirement 2060 Inv	16,924	-	-	16,924
Vanguard Target Retirement 2025 Inv	429,260	-	-	429,260
Vanguard Target Retirement 2020	8,261	-	-	8,261
Vanguard Target Retirement 2015	2,219	-	-	2,219
Debt securities:				
Federal Agency Bonds and Notes	-	1,292,849	-	1,292,849
	<u>\$ 3,332,831</u>	<u>\$ 1,292,849</u>	<u>\$ -</u>	<u>\$ 4,625,680</u>

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 2. Deposits and Investments (Continued)

Fair Value: (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 bonds are classified in Level 2 of the fair value hierarchy and are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

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

Deposits and investments:	
Deposits	\$ 2,112,460
Investments	62,840,613
Investments held in trust	3,350,036
	<u>\$ 68,303,109</u>
Statement of Net Position:	
Cash and investments	\$ 58,758,458
Cash and investments with fiscal agent	4,068,095
Cash and investments – restricted	2,126,520
Fiduciary fund cash and investments	3,350,036
	<u>\$ 68,303,109</u>

Cash with fiscal agent and other restricted cash and investments:

Restricted cash and 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, 2022

Note 3. Receivables and Due from Other Governments

Receivables are as follows:

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Total</u>
Receivables:			
Property tax	\$ 13,647,869	\$ -	\$ 13,647,869
Meal tax	463,618	-	463,618
Transient occupancy tax	258,671	-	258,671
Trade and other accounts	859,554	1,823,272	2,682,826
Gross receivables	<u>15,229,712</u>	<u>1,823,272</u>	<u>17,052,984</u>
Less: allowance for uncollectible	(13,645)	(6,326)	(19,971)
Receivables, net	<u>\$ 15,216,067</u>	<u>\$ 1,816,946</u>	<u>\$ 17,033,013</u>
Due from other governments:			
Federal government	\$ 2,547,314	\$ -	\$ 2,547,314
Commonwealth of Virginia	583,684	-	583,684
Counties	3,822,463	-	3,822,463
Total due from other governments	<u>\$ 6,953,461</u>	<u>\$ -</u>	<u>\$ 6,953,461</u>

Note 4. Leases Receivable

The town is the lessor of three buildings in the general fund with lease terms that expire through 2027. The water and sewer and the golf course funds include leased equipment, water tower space and land and buildings with varying lease terms that expire through 2033.

The lease receivables are due as follows:

Year Ending	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 360,866	\$ 10,372	\$ 446,198	\$ 18,617
2024	274,351	7,567	394,733	14,586
2025	282,716	4,841	317,859	10,773
2026	291,276	2,032	308,801	7,233
2027	48,985	60	219,721	4,107
Thereafter	-	-	198,661	2,954
	<u>\$ 1,258,194</u>	<u>\$ 24,872</u>	<u>\$ 1,885,973</u>	<u>\$ 58,270</u>

Lease and interest revenue in the general fund was \$428,735 and \$13,248 respectively, and \$484,225 and \$22,297 in the business-type activities, respectively, for 2022.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 5. Interfund Receivables, Payables, and Transfers

A summary of interfund transfer activity is presented as follows:

	<u>General Fund</u>	<u>Nonmajor Governmental Fund</u>	<u>Chestnut Grove Cemetery Fund</u>	<u>Total Transferred In</u>
Transferred out:				
Primary government:				
Governmental activities:				
Capital projects	\$ 743,012	\$ -	\$ -	\$ 743,012
Other nonmajor governmental funds	-	-	76,451	76,451
Business-type activities:				
Chestnut Grove Cemetery Fund	-	4,883	-	4,883
Total Transferred Out	<u>\$ 743,012</u>	<u>\$ 4,883</u>	<u>\$ 76,451</u>	<u>\$ 824,346</u>

The transfer from the General Fund is for capital project expenditures.

The transfers from the Other nonmajor governmental funds are for capital project expenditures.

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

Note 6. Note Receivable

Note receivable in the General fund consists of the following:

4.515% note, due in annual installments of \$11,858, plus interest through October 2023	<u>\$ 23,715</u>
Less current maturities	<u>23,715</u>
Long-term portion, net	<u>\$ -</u>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 7. Capital Assets

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

Governmental Activities:	Beginning Balance*	Increases/ Transfers	Decreases/ Transfers	Ending Balance
Capital asset, not depreciated:				
Land	\$ 22,960,869	\$ 862,943	\$ -	\$ 23,823,812
Easements	3,839,256	38,951	-	3,878,207
Construction in progress	9,699,517	10,824,912	(949,325)	19,575,104
Total capital assets not depreciated	36,499,642	11,726,806	(949,325)	47,277,123
Capital assets, depreciated and amortized:				
Infrastructure	82,562,809	-	-	82,562,809
Buildings	42,176,496	47,431	-	42,223,927
Improvements other than buildings	17,215,090	-	-	17,215,090
Machinery and equipment	11,444,102	1,082,577	(329,550)	12,197,129
Machinery and equipment - Leases	120,919	1,538	-	122,457
Intangibles	1,136,517	-	-	1,136,517
Furniture and fixtures	1,135,003	-	-	1,135,003
Total capital assets	155,790,936	1,131,546	(329,550)	156,592,932
Less accumulated depreciation and amortization:				
Infrastructure	(67,675,484)	(1,266,015)	-	(68,941,499)
Buildings	(22,210,669)	(1,142,454)	-	(23,353,123)
Improvements other than buildings	(10,444,797)	(528,349)	-	(10,973,146)
Machinery and equipment	(7,257,907)	(603,593)	311,131	(7,550,369)
Machinery and equipment - Leases	-	(42,481)	-	(42,481)
Intangibles	(1,128,516)	(7,545)	-	(1,136,061)
Furniture and fixtures	(526,081)	(46,447)	-	(572,528)
Total accumulated depreciation and amortization	(109,243,454)	(3,636,884)	311,131	(112,569,207)
Total capital assets, depreciated and amortized, net	46,547,482	(2,505,338)	(18,419)	44,023,725
Governmental activities capital assets, net	\$ 83,047,124	\$ 9,221,468	\$ (967,744)	\$ 91,300,848

* Amounts have been restated to include items related to the implementation of GASB Statement 87, *Leases*.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 7. Capital Assets (Continued)

Business-type Activities:	Beginning Balance*	Increases/ Transfers	Decreases/ Transfers	Ending Balance
Capital asset, not depreciated:				
Land	\$ 2,540,074	\$ -	\$ -	\$ 2,540,074
Construction in progress	319,807	409,533	-	729,340
Total capital assets not depreciated	2,859,881	409,533	-	3,269,414
Capital assets, depreciated and amortized:				
Buildings	3,551,964	-	-	3,551,964
Improvements other than buildings	36,114,632	-	-	36,114,632
Machinery and equipment	4,035,583	242,146	(200,015)	4,077,714
Machinery and equipment - Leases	24,876	-	-	24,876
Furniture and fixtures	194,919	-	-	194,919
Intangibles and purchased capacity	16,166,154	-	-	16,166,154
Total capital assets	60,088,128	242,147	(200,015)	60,130,259
Less accumulated depreciation and amortization:				
Buildings	(2,237,015)	(82,744)	-	(2,319,759)
Improvements other than buildings	(25,857,128)	(1,013,053)	-	(26,870,181)
Machinery and equipment	(2,566,625)	(266,030)	200,015	(2,632,640)
Machinery and equipment - Leases	-	(6,020)	-	(6,020)
Furniture and fixtures	(194,919)	-	-	(194,919)
Intangibles and purchased capacity	(6,754,232)	(206,478)	-	(6,960,710)
Total accumulated depreciation and amortization	(37,609,919)	(1,574,326)	200,015	(38,984,229)
Total capital assets, depreciated and amortized, net	22,478,209	(1,332,179)	-	21,146,030
Business-type activities capital assets, net	\$ 25,338,090	\$ (922,646)	\$ -	\$24,415,444

* Amounts have been restated to include items related to the implementation of GASB Statement 87, *Leases*.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 7. Capital Assets (Continued)

Primary Government

Depreciation and amortization expense was charged to functions/programs as follows:

Governmental activities:	
Legislative	\$ 38,772
Administration	114,917
Parks and Recreation	554,771
Finance	42,010
Community Development	41,445
Police	437,119
Public Works	2,220,676
Town Attorney	148,160
Non-Departmental	<u>39,014</u>
	<u>\$ 3,636,884</u>
Business-type activities:	
Water and Sewer	\$ 1,243,747
Golf Course	206,326
Chestnut Grove Cemetery	<u>124,253</u>
	<u>\$ 1,574,326</u>

The town purchased water capacity rights from Fairfax Water in 1994 and 1999 totaling \$9,772,920. Purchased water capacity is recognized as an asset and is amortized in the water and sewer fund over the life of the agreements.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 8. 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:

	Unavailable	Unearned
Delinquent property tax receivable	\$ 70,448	\$ -
Advance billing of 2021-2022 taxes	13,576,219	13,576,219
Intergovernmental	-	68,255
ARPA funding	-	10,508,624
Unavailable - other	858,707	-
	\$ 14,505,374	\$ 24,153,098

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 9. 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:					
General obligation bonds	\$ 10,968,655	\$ -	\$ (973,254)	\$ 9,995,401	\$ 992,839
Plus deferred amount for bond premiums	137,868	-	(7,659)	130,209	-
Leases	120,918	1,538	(42,429)	80,027	39,947
	<u>11,227,441</u>	<u>1,538</u>	<u>(1,023,342)</u>	<u>10,205,637</u>	<u>1,032,786</u>
Compensated absences	2,409,046	124,347	-	2,533,393	368,665
	<u>\$ 13,636,487</u>	<u>\$ 125,885</u>	<u>\$ (1,023,342)</u>	<u>\$ 12,739,030</u>	<u>\$ 1,401,451</u>
Business-type Activities:					
General obligation bonds	\$ 7,660,345	\$ -	\$ (168,246)	\$ 7,492,099	\$ 173,661
Fairfax Water	3,178,615	-	(262,569)	2,916,046	284,450
Leases	24,876	-	(6,031)	18,845	6,044
	<u>10,863,836</u>	<u>-</u>	<u>(436,846)</u>	<u>10,426,990</u>	<u>464,155</u>
Compensated absences	264,601	56,466	(39,159)	281,908	37,937
	<u>\$ 11,128,437</u>	<u>\$ 56,466</u>	<u>\$ (476,005)</u>	<u>\$ 10,708,898</u>	<u>\$ 502,092</u>

* Amounts have been restated to include items related to the implementation of GASB Statement 87, *Leases*.

For the governmental activities, compensated absences, pension liabilities, and OPEB liabilities are generally liquidated by the general fund.

The town is subject to a legal debt margin based on the Constitution of Virginia. Based upon the Fairfax County valuation, the direct debt limit is \$491,156,065. With total exempt debt of \$10,125,610 the town has a legal debt margin of \$481,030,455.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 9. Long-Term Debt (Continued)

Primary Government (Continued)

Annual requirements to amortize long-term debt, the related interest and other obligations are as follows:

Fiscal Year	Governmental Activities				Business-Type Activities Total			
	General Obligations		Lease Liabilities		General Obligations		Lease Liabilities	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$ 992,839	\$ 237,896	\$ 39,947	\$ 398	\$ 458,111	\$ 246,948	\$ 6,044	\$ 151
2024	1,019,919	213,915	36,595	153	441,650	240,172	6,098	98
2025	926,507	195,840	3,155	7	562,062	233,142	4,508	48
2026	917,785	178,461	330	2	595,784	224,417	2,195	8
2027	873,809	160,614	-	-	587,760	215,213	-	-
2028-2032	3,139,542	538,451	-	-	2,250,127	929,486	-	-
2033-2037	1,470,000	247,469	-	-	1,615,885	738,988	-	-
2038-2042	655,000	32,175	-	-	1,411,767	558,131	-	-
2043-2047	-	-	-	-	1,475,000	334,069	-	-
2048-2052	-	-	-	-	1,009,999	71,575	-	-
	<u>\$ 9,995,401</u>	<u>\$ 1,804,821</u>	<u>\$ 80,027</u>	<u>\$ 560</u>	<u>\$ 10,408,145</u>	<u>\$ 3,792,141</u>	<u>\$ 18,845</u>	<u>\$ 305</u>

Details of Long-term Indebtedness

	Interest Rates	Date Issued	Maturity Date	Amount of Original Issue	Governmental Activities	Business-Type Activities
General Obligation Public Improvement and Refunding	2.15	2012	2023	\$ 4,999,000	\$ 1,210,500	\$ -
General Obligation Public Improvement Bonds	2.00-5.00	2018	2050	11,135,000	4,320,000	6,365,000
General Obligation Public Refunding Bonds	1.04	2020	2033	5,229,000	3,893,608	1,035,392
General Obligation Public Refunding Bonds	1.16	2020	2026	1,111,000	571,293	91,707
Fairfax Water 1994 Agreement	0.00	1994	2029	5,298,720	-	1,059,744
Fairfax Water 1999 Agreement	0.00	1999	2039	4,474,200	-	1,856,302
					<u>\$ 9,995,401</u>	<u>\$ 10,408,145</u>
Leases for equipment	Various	2020	2026	147,333	\$ 80,027	\$ 18,845

The town uses its estimated incremental borrowing rate as the discount rate for leases.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 10. Defined Benefit Pension Plan

Plan Description

All full-time, salaried permanent employees of the Town of Herndon, (the “Political Subdivision”) are automatically covered by the VRS Retirement Plan upon employment. This multi-employer agent 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 a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are available at

- <https://www.varetire.org/members/benefits/defined-benefit/plan1.asp>,
- <https://www.varetire.org/members/benefits/defined-benefit/plan2.asp>,
- <https://www.varetirement.org/hybrid.html>.

Employees Covered by Benefit Terms

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

	Number
Inactive members or their beneficiaries currently receiving benefits	152
Inactive members:	
Vested inactive members	55
Non-vested inactive members	75
Active members active elsewhere in VRS	39
Total inactive members	169
Active members	238
Total covered employees	559

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 10. 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.

The political subdivision's contractually required contribution rate for the year ended June 30, 2022 was 8.37% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$1,397,530 and \$1,357,946 for the years ended June 30, 2022 and June 30, 2021, respectively.

Net Pension Liability

The net pension liability is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For political subdivisions, the net pension liability was measured as of June 30, 2021. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2020 rolled forward to the measurement date of June 30, 2021.

Actuarial Assumptions

The total pension liability for General Employees and Public Safety Employees with Hazardous Duty benefits in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2020, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2021.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 10. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions (Continued)

Inflation	2.50%
General Employees – Salary increases, including inflation	3.50 – 5.35%
Public Safety Employees with hazardous duty benefits – Salary increases, including inflation	3.50 – 4.75%
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Mortality rates: General employees – 15 to 20% of deaths are assumed to be service related. Public Safety Employees – 45% to 70% of deaths are assumed to be service related. Mortality is projected using the applicable Pub-2010 Mortality Table with various set backs or set forwards for both males and females.

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

General Employees – Largest 10 – Non-Hazardous Duty and All Others (Non 10 Largest): Update mortality table; adjusted retirement rates; adjusted withdrawal rates to better fit experience at each year age and service through 9 years of service; no change to disability rates, no change to salary scale, no change to line of duty disability; and no change to discount rate.

Public Safety Employees – Largest 10 – Hazardous Duty and All Others (Non 10 Largest): Updated mortality table; adjusted retirement rate to better fit experience and increased final retirement age to 70; adjusted rates of withdrawal; no change to disability rates; no changes to salary scale; no change to line of duty disability; and no change to discount rate.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 10. 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	34.00 %	5.00 %	1.70 %
Fixed Income	15.00	0.57	0.09
Credit Strategies	14.00	4.49	0.63
Real Assets	14.00	4.76	0.67
Private Equity	14.00	9.94	1.39
MAPS – Multi-Asset Public Strategies	6.00	3.29	0.20
PIP – Private Investment Partnership	3.00	6.84	0.21
Total	100.00 %		<u>4.89 %</u>
	Inflation		<u>2.50 %</u>
			<u>7.39 %</u>

*Expected arithmetic nominal return

*The above allocation provides for a one-year return of 7.39%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected 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 6.94%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 10. Defined Benefit Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions, political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2021, the alternate rate was the employer contribution rate used in the FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017, actuarial valuations, whichever is greater. From July 1, 2021 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset)

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (Asset) (a) – (b)</u>
Balances at June 30, 2020	\$ 91,241,304	\$ 81,844,429	\$ 9,396,875
Changes for the year:			
Service cost	1,929,833	-	1,929,833
Interest	6,017,056	-	6,017,056
Changes of assumptions	3,457,423	-	3,457,423
Differences between expected and actual experience	(1,098,497)	-	(1,098,497)
Contributions – employer	-	1,376,014	(1,376,014)
Contributions – employee	-	937,873	(937,873)
Net investment income	-	22,278,449	(22,278,449)
Benefit payments, including refunds of employee contributions	(4,199,471)	(4,199,471)	-
Administrative expenses	-	(55,765)	55,765
Other changes	-	2,097	(2,097)
Net changes	<u>6,106,344</u>	<u>20,339,197</u>	<u>(14,232,853)</u>
Balances at June 30, 2021	<u>\$ 97,347,648</u>	<u>\$ 102,183,626</u>	<u>\$ (4,835,978)</u>

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 10. Defined Benefit Pension Plan (Continued)

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

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

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Political subdivision's net pension liability (asset)	\$ 7,949,235	\$ (4,835,978)	\$ (15,419,525)

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

For the year ended June 30, 2022, the political subdivision recognized pension expense of \$(120,359). At June 30, 2022, 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	\$ 634,713	\$ 869,810
Changes of assumptions	2,934,623	-
Net difference between projected and actual earnings on pension plan investments	-	11,062,901
Employer contributions subsequent to the measurement date	1,397,530	-
Total	\$ 4,966,866	\$ 11,932,711

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 10. Defined Benefit Pension Plan (Continued)

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

The \$1,397,530 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 (Asset) in the fiscal year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Reduction to Pension Expense</u>
2023	\$ (1,092,227)
2024	(1,607,606)
2025	(2,299,662)
2026	(3,363,880)
2027	-
Thereafter	-

Pension Plan Data

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

Payables to the Pension Plan

At June 30, 2022, approximately \$197,539 was payable to the Virginia Retirement System for the legally required contributions related to June 2022 payroll.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 11. 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 116 participants in the Plan at June 30, 2022. 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 \$207,604 for the fiscal year ended June 30, 2022. Data concerning the value of vested and nonvested benefits as of June 30, 2022 is as follows:

Vested benefits	\$ 3,155,529
Nonvested benefits	<u>177,302</u>
	<u>\$ 3,332,831</u>

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, 2022

Note 11. 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, 2022, 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, 2022 are separately identified in the fair value measurements table in Note 2.

Note 12. 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. No assets are accumulated in a trust to pay benefits to the 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.

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.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 12. Other Post-Employment Benefits Liability– Local Plan (Continued)

Employees Covered by Benefit Terms

As of the July 1, 2020 actuarial valuation, the following employees were covered by the benefit terms of the plan:

	Number
Inactive employees or beneficiaries:	
Currently receiving benefits	70
Entitled to but not yet receiving benefits	-
Total inactive employees	70
Active plan members	215
	285

Total OPEB Liability

The town's total OPEB liability of \$4,949,290 was measured as of July 1, 2021 and was determined based on an actuarial valuation performed as of July 1, 2020.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 12. Other Postemployment Benefits Liability – Local Plan (Continued)

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	1.92%
Salary increases, including inflation	2.5%, plus productivity component of 1.25%
Healthcare cost trend rates	3.33-5.00%
Retirees' share of benefit-related costs	Same as Health Care Trend

Mortality rates: RP-2014 Mortality Table, fully generational with base year 2006, projected using two-dimensional mortality improvement scale MP-2021

The actuarial assumptions used in the July 1, 2020 valuation were based on the results of an actuarial experience study for the period from July 1, 2019 through June 30, 2020.

Changes in the Total OPEB Liability

Balance at June 30, 2021	<u>\$ 4,230,471</u>
Changes for the year:	
Service cost	255,058
Interest	107,304
Differences between expected and actual experience	112,727
Assumption or other input changes	456,570
Benefit payments	<u>(212,840)</u>
Net changes	<u>718,819</u>
Balance at June 30, 2022	<u><u>\$ 4,949,290</u></u>

Benefit payments above represent amounts paid by the town sufficient to satisfy benefit payment requirements to participants.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 12. Other Postemployment Benefits Liability – Local Plan (Continued)

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

The following presents the total OPEB liability of the Town, 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 (0.92%) or one percentage point higher (2.92%) than the current discount rate:

	1.00% Decrease	Current Discount Rate	1.00% Increase
	(0.92%)	(1.92%)	(2.92%)
Total OPEB liability	<u>\$ 5,394,336</u>	<u>\$ 4,949,290</u>	<u>\$ 4,544,471</u>

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

The following presents the total OPEB liability of the Town, 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 (2.33%) or one percentage point higher (4.33%) than the current healthcare cost trend rates:

	1.00% Decrease	Current Healthcare Cost Trend Rates	1.00% Increase
	(2.33%)	(3.33%)	(4.33%)
Total OPEB liability	<u>\$ 4,420,373</u>	<u>\$ 4,949,290</u>	<u>\$ 5,575,191</u>

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 12. Other Postemployment Benefits Liability – Local Plan (Continued)

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

For the year ended June 30, 2022, the town recognized OPEB expense of \$536,345. At June 30, 2022, the town 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
Differences between expected and actual experience	\$ 358,075	\$ 741,574
Change in assumptions	588,355	15,631
Employer contributions subsequent to the measurement date	53,859	-
Total	\$ 1,000,289	\$ 757,205

The \$53,859 reported as 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 OPEB Liability in the year ended June 30, 2023. 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
2023	\$ 166,283
2024	(24,370)
2025	(57,249)
2026	104,561
2027	-
Thereafter	-

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 13. 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 teachers and 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>

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

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

**Note 13. Other Postemployment Benefits Liability – Virginia Retirement System Plans
(Continued)**

Contributions

Contributions to the VRS OPEB programs were based on actuarially determined rates from actuarial valuations as of June 30, 2019. 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 programs are as follows:

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:	1.34% of covered employee compensation. Rate allocated 60/40; 0.80% employee and 0.54% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2022 Contribution	\$99,538
June 30, 2021 Contribution	\$96,206

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

The net OPEB liabilities were measured as of June 30, 2020 and the total OPEB liabilities used to calculate the net OPEB liabilities was determined by an actuarial valuation performed as of June 30, 2019 and rolled forward to the measurement date of June 30, 2020. 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, 2020 relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program

June 30, 2022 proportionate share of liability	\$1,004,766
June 30, 2021 proportion	0.08630%
June 30, 2020 proportion	0.08799%
June 30, 2022 expense	\$32,515

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

**Note 13. Other Postemployment Benefits Liability – Virginia Retirement System Plans
(Continued)**

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

At June 30, 2022, the town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

Group Life Insurance Program

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 114,597	\$ 7,655
Changes of assumptions	55,392	137,473
Net difference between projected and actual earnings on OPEB plan investments	-	239,816
Changes in proportion	7,502	45,122
Employer contributions subsequent to the measurement date	<u>99,538</u>	<u>-</u>
Total	<u>\$ 277,029</u>	<u>\$ 430,066</u>

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

**Note 13. 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)

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 Fiscal Year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in future reporting periods as follows:

Year Ending June 30,	Decrease to OPEB Expense
2023	\$ (58,147)
2024	(48,356)
2025	(46,322)
2026	(80,939)
2027	(18,811)
Thereafter	-

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

**Note 13. Other Postemployment Benefits Liability – Virginia Retirement System Plans
(Continued)**

**OPEB Liabilities, OPEB Expense and Deferred Inflows and Outflows of Resources
Related to OPEB (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, 2020, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2021:

Inflation	2.5%
Salary increases, including inflation:	
• Locality – general employees	3.5 – 5.35%
• Locality – hazardous duty employees	3.5 – 4.75%
Healthcare cost trend rates:	
• Under age 65	7.00 – 4.75%
• Ages 65 and older	5.375 – 4.75%
Investment rate of return, net of expenses, including inflation	GLI: 6.75%

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

**Note 13. Other Postemployment Benefits Liability – Virginia Retirement System Plans
(Continued)**

Actuarial Assumptions and Other Inputs (Continued)

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 10.

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, 2021, net OPEB liability amounts for the various VRS OPEB programs are as follows (amounts expressed in thousands):

	Group Life Insurance Program
Total OPEB Liability	\$ 3,577,346
Plan fiduciary net position	\$ 2,413,074
Employers’ net OPEB liability (asset)	\$ 1,164,272
Plan fiduciary net position as a percentage of total OPEB liability	67.45%

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.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

**Note 13. Other Postemployment Benefits Liability – Virginia Retirement System Plans
(Continued)**

Long-Term Expected Rate of Return

Group Life Insurance

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:

<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	34.00 %	5.00 %	1.70 %
Fixed Income	15.00	0.57	0.09
Credit Strategies	14.00	4.49	0.63
Real Assets	14.00	4.76	0.67
Private Equity	14.00	9.94	1.39
MAPS – Multi-Asset Public Strategies	6.00	3.29	0.20
PIP – Private Investment Partnership	3.00	6.84	0.21
Total	100.00 %		<u>4.89 %</u>
	Inflation	2.50 %	
	*Expected arithmetic nominal return	<u>7.39 %</u>	

* The above allocation provides for a one-year return of 7.39%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected 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 7.11%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11, including inflation of 2.50%

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

**Note 13. Other Postemployment Benefits Liability – Virginia Retirement System Plans
(Continued)**

Discount Rate

The discount rate used to measure the GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2020, the rate contributed by the 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, 2020 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.

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 (5.75% GLI) or one percentage point higher (7.75% GLI) than the current discount rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
GLI Net OPEB liability	\$ 1,468,000	\$ 1,004,766	\$ 630,684

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 13. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2021 Annual Comprehensive Financial Report (Annual Report). A copy of the 2021 VRS may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2021-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 14. Summary of Pension and Other Post Employment Benefit Elements

	Governmental Activities	Business-Type Activities	Total Primary Government
Deferred outflows of resources - OPEB			
Local plan	\$ 914,754	\$ 85,535	\$ 1,000,289
VRS GLI	251,114	25,915	277,029
Total deferred outflows of resources - OPEB	\$ 1,165,868	\$ 111,450	\$ 1,277,318
Net OPEB liability			
Local plan	\$ 4,556,640	\$ 392,650	\$ 4,949,290
VRS GLI	911,525	93,241	1,004,766
Total net OPEB liability	\$ 5,468,165	\$ 485,891	\$ 5,954,056
Deferred inflows of resources - OPEB			
Local plan	\$ 619,826	\$ 137,379	\$ 757,205
VRS GLI	390,157	39,909	430,066
Total deferred inflows of resources - OPEB	\$ 1,009,983	\$ 177,288	\$ 1,187,271
Pension expense			
VRS	\$ (109,190)	\$ (11,169)	\$ (120,359)
Total pension expense	\$ (109,190)	\$ (11,169)	\$ (120,359)
OPEB expense			
Local plan	\$ 525,311	\$ 11,034	\$ 536,345
VRS GLI	29,497	3,018	32,515
Total OPEB expense	\$ 554,808	\$ 14,052	\$ 568,860

(Continued)

TOWN OF HERNDON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

Note 15. 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 Risk Sharing Association 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 16. 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.

(Continued)

TOWN OF HERNDON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 17. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective. The effective dates below are updated based on **Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*** due to the COVID-19 pandemic.

In May 2019, the GASB issued **Statement No. 91, *Conduit Debt Obligations***. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

In March 2020, the GASB issued **Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements***. This Statement improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

In May 2020, the GASB issued **Statement No. 96, *Subscription-Based Information Technology Arrangements***. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

In April 2022, the GASB issued **Statement No. 99, *Omnibus 2022***. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 17. New Accounting Standards (Continued)

In June 2022, the GASB issued **Statement No. 100**, *Accounting Changes and Error Corrections*. This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

In June 2022, the GASB issued **Statement No. 101**, *Compensated Absences*. This statement updates the recognition and measurement guidance for compensated absences and amends certain previously required disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023.

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 - LOCAL PLAN
Year Ended June 30, 2022

	<u>2021</u>	<u>2020</u>	<u>Plan Year 2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability					
Service cost	\$ 255,058	\$ 235,451	\$ 205,822	\$ 132,301	\$ 127,335
Interest on total OPEB liability	107,304	161,075	172,343	120,406	116,391
Difference between actual and expected experience	112,727	(1,201,366)	(73,408)	1,209,950	-
Changes of assumptions	456,570	238,046	201,946	(70,475)	-
Benefit payments	(212,840)	(225,137)	(77,967)	(95,969)	(175,191)
Net change in total OPEB liability	718,819	(791,931)	428,736	1,296,213	68,535
Total OPEB liability (beginning)	<u>4,230,471</u>	<u>5,022,402</u>	<u>4,593,666</u>	<u>3,297,453</u>	<u>3,228,918</u>
Total OPEB liability (ending)	<u>\$ 4,949,290</u>	<u>\$ 4,230,471</u>	<u>\$ 5,022,402</u>	<u>\$ 4,593,666</u>	<u>\$ 3,297,453</u>
Plan fiduciary net position as a percentage of total OPEB liability	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Covered employee payroll	<u>\$ 16,823,189</u>	<u>\$ 16,823,189</u>	<u>\$ 17,382,513</u>	<u>\$ 17,382,513</u>	<u>\$ 10,855,369</u>
Net OPEB liability as a percentage of of covered employee payroll	<u>29.42%</u>	<u>25.15%</u>	<u>28.89%</u>	<u>26.43%</u>	<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, 2022

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					
2022	\$ 99,538	\$ 99,538	\$ -	\$ 18,433,108	0.54%
2021	96,206	96,206	-	17,816,619	0.54%
2020	94,122	94,122	-	18,385,923	0.51%
2019	91,104	91,104	-	17,518,246	0.52%
2018	87,898	87,898	-	16,718,150	0.53%

This schedule is intended to show information for 10 years. Since fiscal year 2018 was the first year for this presentation, no earlier 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, 2022

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					
2021	0.09%	\$ 1,004,766	\$ 17,816,619	5.64%	67.45%
2020	0.09%	1,468,409	18,385,923	7.99%	52.64%
2019	0.09%	1,454,124	17,518,246	8.30%	52.00%
2018	0.09%	1,350,000	16,718,150	8.08%	51.22%
2017	0.09%	1,362,000	16,663,134	8.17%	48.86%

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

The covered payroll amounts above are for the measurement period, which is the twelve months prior to the entity's fiscal year, 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, 2022

	Plan Year							
	2021	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability								
Service cost	\$ 1,929,833	\$ 1,915,044	\$ 1,796,601	\$ 1,723,180	\$ 1,780,019	\$ 1,775,184	\$ 1,780,620	\$ 1,821,327
Interest on total pension liability	6,017,056	5,681,425	5,501,837	5,263,541	5,143,537	4,887,085	4,664,075	4,385,197
Benefit payments, including refunds of employee contributions	(4,199,471)	(3,945,737)	(3,592,462)	(2,978,005)	(2,984,230)	(2,474,947)	(2,406,002)	(2,039,114)
Difference between actual and expected experience	(1,098,497)	1,448,447	(482,342)	(297,252)	(1,706,344)	(269,073)	(818,369)	-
Changes of assumptions	3,457,423	-	2,524,588	-	(521,761)	-	-	-
Net change in total pension liability	6,106,344	5,099,179	5,748,222	3,711,464	1,711,221	3,918,249	3,220,324	4,167,410
Total pension liability (beginning)	<u>91,241,304</u>	<u>86,142,125</u>	<u>80,393,903</u>	<u>76,682,439</u>	<u>74,971,218</u>	<u>71,052,969</u>	<u>67,832,645</u>	<u>63,665,235</u>
Total pension liability (ending)	<u>\$ 97,347,648</u>	<u>\$ 91,241,304</u>	<u>\$ 86,142,125</u>	<u>\$ 80,393,903</u>	<u>\$ 76,682,439</u>	<u>\$ 74,971,218</u>	<u>\$ 71,052,969</u>	<u>\$ 67,832,645</u>
Plan Fiduciary Net Position								
Contributions - employer	\$ 1,376,014	\$ 1,126,210	\$ 1,062,239	\$ 1,239,811	\$ 1,256,634	\$ 1,548,518	\$ 1,562,827	\$ 1,603,624
Contributions - employee	937,873	859,817	842,610	813,625	876,797	800,721	807,614	832,188
Net investment income	22,278,449	1,554,123	5,217,554	5,485,075	8,184,878	1,164,925	2,907,557	8,612,262
Benefit payments, including refunds of employee contributions	(4,199,471)	(3,945,737)	(3,592,462)	(2,978,005)	(2,984,230)	(2,474,947)	(2,406,002)	(2,039,114)
Administrative expenses	(55,765)	(53,891)	(52,294)	(47,214)	(47,240)	(40,637)	(39,225)	(45,658)
Other	2,097	(1,845)	(3,286)	(4,893)	(7,263)	(490)	(616)	454
Net change in plan fiduciary net position	20,339,197	(461,323)	3,474,361	4,508,399	7,279,576	998,090	2,832,155	8,963,756
Plan fiduciary net position - beginning	<u>81,844,429</u>	<u>82,305,752</u>	<u>78,831,391</u>	<u>74,322,992</u>	<u>67,043,416</u>	<u>66,045,326</u>	<u>63,213,171</u>	<u>54,249,415</u>
Plan fiduciary net position - ending	<u>\$ 102,183,626</u>	<u>\$ 81,844,429</u>	<u>\$ 82,305,752</u>	<u>\$ 78,831,391</u>	<u>\$ 74,322,992</u>	<u>\$ 67,043,416</u>	<u>\$ 66,045,326</u>	<u>\$ 63,213,171</u>
Net pension liability - ending	<u>\$ (4,835,978)</u>	<u>\$ 9,396,875</u>	<u>\$ 3,836,373</u>	<u>\$ 1,562,512</u>	<u>\$ 2,359,447</u>	<u>\$ 7,927,802</u>	<u>\$ 5,007,643</u>	<u>\$ 4,619,474</u>
Plan fiduciary net position as a percentage of total pension liability	<u>104.97%</u>	<u>89.70%</u>	<u>95.55%</u>	<u>98.06%</u>	<u>96.92%</u>	<u>89.43%</u>	<u>92.95%</u>	<u>93.19%</u>
Covered payroll	<u>\$ 17,816,619</u>	<u>\$ 18,385,923</u>	<u>\$ 17,501,069</u>	<u>\$ 16,835,121</u>	<u>\$ 16,663,134</u>	<u>\$ 16,563,441</u>	<u>\$ 15,901,012</u>	<u>\$ 16,413,756</u>
Net pension liability as a percentage of covered payroll	<u>-27.14% #</u>	<u>51.11%</u>	<u>21.92%</u>	<u>9.28%</u>	<u>14.16%</u>	<u>47.86%</u>	<u>31.49%</u>	<u>28.14%</u>

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 2015 (plan year 2014) 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, 2022

Fiscal Year Ended June 30	Contracturally Determined Contribution	Contributions in Relation to Contracturally Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
Primary Government					
2022	\$ 1,397,530	\$ 1,397,530	\$ -	\$ 18,433,108	7.58 %
2021	1,357,946	1,357,946	-	17,816,619	7.62
2020	1,124,256	1,124,256	-	18,385,923	6.11
2019	1,062,239	1,062,239	-	17,501,069	6.07
2018	1,239,811	1,239,811	-	16,835,121	7.36
2017	1,256,634	1,256,634	-	16,663,134	7.54
2016	1,548,518	1,573,635	-	16,563,441	9.50
2015	1,562,827	1,562,827	-	15,901,012	9.83

This schedule is intended to show information for 10 years. Since fiscal year 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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2022

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.

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

Largest 10 – Non-Hazardous Duty:

- Update mortality table to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020.
- Adjusted retirement rates to better fit experience for Plan 1; set separate rates based on experience for Plan2/Hybrid; changed final retirement age from 75 to 80 for all.
- Adjusted withdrawal rates to better fit experience at each year and service through 9 years of service.
- No change to disability rates.
- No change to salary scale.
- No change to line of duty rates.
- No change to discount rate.

Largest 10 – Hazardous Duty/Public Safety Employees:

- Update mortality table to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Scale MP-2020.
- Adjusted retirement rates to better fit experience and changed final retirement age from 65 to 70.
- Decreased withdrawal rates.
- No change to disability rates.
- No change to salary scale.
- No change to line of duty rates.
- No change to discount rate.

(Continued)

TOWN OF HERNDON, VIRGINIA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2022**

Note 2. Changes of Assumptions (Continued)

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

- Update mortality table to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Scale MP-2020.
- Adjusted retirement rates to better fit experience for Plan 1; set separate rates based on experience for Plan2/Hybrid; changed final retirement age from 75 to 80 for all.
- Adjusted withdrawal rates to better fit experience at each year and service through 9 years of service.
- No change to disability rates.
- No changes to salary scale.
- No change to line of duty rates.
- No change to discount rate.

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

- Update mortality table to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Scale MP-2020.
- Adjusted retirement rates to better fit experience and changed final retirement age from 65 to 70.
- Decreased withdrawal rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Largest 10 Hazardous Duty.
- No change to disability rates.
- No change to salary scale.
- No change to line of duty rates.
- No change to discount rate.

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**OTHER SUPPLEMENTARY
INFORMATION**

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Nonmajor Governmental Fund

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.

TOWN OF HERNDON, VIRGINIA

Exhibit B-1

BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND
June 30, 2022

	<u>Special Revenue</u>
	Chestnut
	Grove Cemetery
	Perpetual
	<u>Care Fund</u>
ASSETS	
Cash, cash equivalents and investments - restricted	\$ 1,923,792
Total assets	<u>\$ 1,923,792</u>
LIABILITIES AND FUND BALANCES	
Fund balances:	
Restricted:	
Cemetery perpetual care	1,923,792
Total fund balances	<u>1,923,792</u>
Total fund balances	<u>\$ 1,923,792</u>

TOWN OF HERNDON, VIRGINIA

Exhibit B-2

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND
Year Ended June 30, 2022**

	Special Revenue
	Chestnut Grove Cemetery Perpetual Care Fund
Revenues:	
Revenue from local sources:	
Use of money and property	\$ 4,883
Total revenues	4,883
Expenditures:	
Capital outlay	-
Excess/(Deficiency) of revenues over expenditures	4,883
Other financing sources (uses):	
Transfers in	76,451
Transfers out	(4,883)
Total other financing sources, net	71,568
Net change in fund balances	76,451
Fund balances, July 1	1,847,341
Fund balances, June 30	\$ 1,923,792

TOWN OF HERNDON, VIRGINIA

Exhibit B-3
Page 1

GENERAL FUND
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
Year Ended June 30, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue from local sources:				
General property taxes:				
Real estate taxes	\$ 12,700,000	\$ 12,700,000	\$ 12,658,400	\$ (41,600)
Public service corporation taxes	320,000	320,000	311,188	(8,812)
Elderly tax relief exemption	(110,000)	(110,000)	(123,327)	(13,327)
Penalties and interest	60,000	60,000	68,147	8,147
Total general property taxes	12,970,000	12,970,000	12,914,408	(55,592)
Other local taxes:				
Consumer utility tax	770,000	770,000	786,539	16,539
Right of way use fees	120,000	120,000	107,210	(12,790)
Cigarette tax	190,000	190,000	175,432	(14,568)
Transient occupancy tax	750,000	750,000	1,267,569	517,569
Meals tax	2,800,000	2,800,000	3,447,384	647,384
Bank stock tax	320,000	320,000	483,622	163,622
Cable TV franchise tax	170,000	170,000	155,884	(14,116)
Business licenses (BPOL)	4,232,317	4,232,317	5,863,537	1,631,220
Utility consumption tax	85,000	85,000	83,547	(1,453)
Motor vehicle licenses	415,000	415,000	430,872	15,872
Local sales tax	1,900,000	1,900,000	2,326,918	426,918
Total other local taxes	11,752,317	11,752,317	15,128,514	3,376,197
Permits, privilege fees and regulatory licenses:				
Residential parking permits	250	250	440	190
Planning fees	130,000	130,000	157,233	27,233
State stormwater management fees	6,000	6,000	842	(5,158)
Building inspection fees	200,000	200,000	441,150	241,150
Right of way permit fees	15,000	15,000	14,303	(697)
Total permits, privilege fees and regulatory licenses	351,250	351,250	613,968	262,718
Fines and forfeitures:				
Paking fines	50,000	50,000	37,772	(12,228)
Court fees - Fairfax County	275,000	275,000	293,803	18,803
Court maintenance fees	8,000	8,000	4,132	(3,868)
E-Summons fees	20,000	20,000	21,561	1,561
Zoning fines	1,000	1,000	2,200	1,200
Total fines and forfeitures	354,000	354,000	359,468	5,468

(Continued)

TOWN OF HERNDON, VIRGINIA

Exhibit B-3
Page 2

GENERAL FUND
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
Year Ended June 30, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenue from local sources: (Continued)				
Use of money and property:				
Interest on investments	\$ 98,000	\$ 102,300	\$ 81,948	\$ (20,352)
Rental income	446,500	446,500	6,073	(440,427)
	-	-	428,735	428,735
Total use of money and property	544,500	548,800	516,756	(32,044)
Charges for services:				
Franchise lease	66,000	66,000	70,798	4,798
Special refuse collection	20,000	20,000	24,530	4,530
Recycling collection	364,000	364,000	406,514	42,514
Recreation program fees	1,153,400	1,153,400	886,369	(267,031)
Admission fees	170,700	170,700	172,872	2,172
Park operation	18,800	18,800	27,969	9,169
Herndon festival	369,000	369,000	260,395	(108,605)
Concession	4,000	4,000	5,639	1,639
Rental income - parks & recreation	49,000	49,000	87,753	38,753
Tennis/multi-use facility	242,000	242,000	162,107	(79,893)
Sale of recyclable materials	-	13,000	38,526	25,526
Annual parking space maint fee	-	13,000	13,650	650
Quasi - external revenue - charges for administration, personnel and other services:				
Water and sewer fund	530,094	530,094	-	(530,094)
Chestnut grove cemetery fund	22,400	22,400	-	(22,400)
Golf course fund	32,300	32,300	-	(32,300)
Total charges for services	3,041,694	3,067,694	2,157,122	(910,572)
Miscellaneous	8,000	8,000	19,749	11,749
Total revenue from local sources	29,021,761	29,052,061	31,709,985	2,657,924
Intergovernmental:				
County of Fairfax:				
Contribution toward tourism and economic development	40,000	40,000	40,000	-
Total from County of Fairfax	40,000	40,000	40,000	-

TOWN OF HERNDON, VIRGINIA

Exhibit B-3
Page 3

GENERAL FUND
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
Year Ended June 30, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Intergovernmental: (Continued)				
Other Local Governments:				
NOVA regional Gang Task Force grant	\$ 20,000	\$ 20,000	\$ -	\$ (20,000)
Commonwealth:				
Non-categorical aid:				
Police reimbursement (Section 599)	610,232	610,232	610,290	58
Communications sales and use tax	1,300,000	1,300,000	1,231,312	(68,688)
Vehicle rental taxes	30,000	30,000	49,839	19,839
Total non-categorical aid	1,940,232	1,940,232	1,891,441	(48,791)
Categorical aid:				
Fire fund program	90,000	90,000	94,274	4,274
Litter control grant	5,000	5,000	7,896	2,896
Dept. of Criminal Justice Service -				
NOVA regional ICAC grant	30,000	30,000	45,693	15,693
Local law enforcement block grant	-	2,614	2,854	240
State seized assets	-	-	34,408	34,408
Arts grant	4,500	4,500	4,500	-
Street and highway maintenance allocation	2,065,594	2,065,594	2,100,908	35,314
Total categorical aid	2,195,094	2,197,708	2,290,533	92,825
Total from the Commonwealth	4,135,326	4,137,940	4,181,974	44,034
Federal government:				
Categorical aid:				
Dept. of Transportation/ National Highway Safety Administration - Selective Enforcement Grant				
	30,000	30,000	36,496	6,496
US Dept. of Justice/ Criminal Division Office				
Byrne Justice Assistance (JAG) Grant	-	-	2,537	2,537
FEMA	-	-	20,081	20,081
Bullet Proof Vest Grant	5,000	5,000	5,567	567
HIDTA Grant	2,500	2,500	1,538	(962)
Community Development Bloc Grant	90,000	90,000	102,249	12,249
Total from the Federal government	127,500	127,500	168,468	40,968
Total intergovernmental revenue	4,322,826	4,325,440	4,390,442	65,002
Other financing sources:				
Proceeds from sale of surplus property	50,000	100,000	78,731	(21,269)
Insurance recoveries	10,000	12,745	61,202	48,457
Lease financing - GASB 87	-	-	1,538	1,538
Bond proceeds	-	2,300,000	-	(2,300,000)
Total other financing sources (uses)	60,000	2,412,745	141,471	(2,271,274)
Total General Fund revenues	\$ 33,404,587	\$ 35,790,246	\$ 36,241,898	\$ 451,652

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 1

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Legislative:				
Personnel services	\$ 451,727	\$ 455,758	\$ 447,857	\$ 7,901
Operations and maintenance	81,300	81,300	60,260	21,040
Total legislative	533,027	537,058	508,117	28,941
Administration:				
Communications & Economic Development:				
Personnel services	374,040	377,227	377,349	(122)
Operations and maintenance	49,150	49,150	42,087	7,063
	423,190	426,377	419,436	6,941
Town manager:				
Personnel services	385,030	388,314	393,869	(5,555)
Operations and maintenance	19,225	19,225	22,515	(3,290)
	404,255	407,539	416,384	(8,845)
Human resources:				
Personnel services	442,632	446,394	512,749	(66,355)
Operations and maintenance	122,300	122,300	92,211	30,089
	564,932	568,694	604,960	(36,266)
Information services:				
Personnel services	750,351	756,726	714,594	42,132
Operations and maintenance	883,660	952,254	901,200	51,054
Capital outlay	47,975	53,213	54,841	(1,628)
	1,681,986	1,762,193	1,670,635	91,558
Total administration	3,074,363	3,164,803	3,111,415	53,388
Town attorney:				
Personnel services	633,681	639,259	660,546	(21,287)
Operations and maintenance	124,980	137,562	116,340	21,222
Capital outlay	-	-	1,538	(1,538)
Total town attorney	758,661	776,821	778,424	(1,603)

(Continued)

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 2

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Parks and recreation:				
Administration:				
Personnel services	\$ 671,257	\$ 676,899	\$ 692,873	\$ (15,974)
Operations and maintenance	118,425	118,425	66,017	52,408
	<u>789,682</u>	<u>795,324</u>	<u>758,890</u>	<u>36,434</u>
Recreation programs:				
Personnel services	721,970	728,619	667,117	61,502
Operations and maintenance	654,600	631,600	203,162	428,438
	<u>1,376,570</u>	<u>1,360,219</u>	<u>870,279</u>	<u>489,940</u>
Community center operations:				
Personnel services	820,367	827,379	668,458	158,921
Operations and maintenance	421,000	421,000	393,532	27,468
	<u>1,241,367</u>	<u>1,248,379</u>	<u>1,061,990</u>	<u>186,389</u>
Aquatics programs and operations:				
Personnel services	626,876	632,860	592,189	40,671
Operations and maintenance	140,074	140,074	116,496	23,578
	<u>766,950</u>	<u>772,934</u>	<u>708,685</u>	<u>64,249</u>
Park operations and development:				
Personnel services	117,192	118,417	69,362	49,055
Operations and maintenance	91,145	146,765	99,981	46,784
	<u>208,337</u>	<u>265,182</u>	<u>169,343</u>	<u>95,839</u>
Total parks and recreation	<u>4,382,906</u>	<u>4,442,038</u>	<u>3,569,187</u>	<u>872,851</u>

(Continued)

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 3

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Finance:				
Administration:				
Personnel services	\$ 426,888	\$ 345,922	\$ 373,908	\$ (27,986)
Operations and maintenance	67,094	140,433	54,739	85,694
Capital outlay	-	75,023	-	75,023
	<u>493,982</u>	<u>561,378</u>	<u>428,647</u>	<u>132,731</u>
Accounting:				
Personnel services	503,157	591,962	596,271	(4,309)
Operations and maintenance	29,000	29,000	24,736	4,264
	<u>532,157</u>	<u>620,962</u>	<u>621,007</u>	<u>(45)</u>
Revenue:				
Personnel services	281,745	284,115	322,838	(38,723)
Operations and maintenance	36,710	36,710	23,586	13,124
	<u>318,455</u>	<u>320,825</u>	<u>346,424</u>	<u>(25,599)</u>
Procurement:				
Personnel services	118,338	119,350	117,790	1,560
Operations and maintenance	2,820	2,820	4,131	(1,311)
	<u>121,158</u>	<u>122,170</u>	<u>121,921</u>	<u>249</u>
Total finance	<u>1,465,752</u>	<u>1,625,335</u>	<u>1,517,999</u>	<u>107,336</u>
Community development:				
Administration:				
Personnel services	1,573,089	1,586,333	1,737,373	(151,040)
Operations and maintenance	118,200	173,733	78,881	94,852
	<u>1,691,289</u>	<u>1,760,066</u>	<u>1,816,254</u>	<u>(56,188)</u>
Community inspections:				
Personnel services	195,486	197,147	201,527	(4,380)
Operations and maintenance	4,000	4,000	1,408	2,592
	<u>199,486</u>	<u>201,147</u>	<u>202,935</u>	<u>(1,788)</u>
Total community development	<u>1,890,775</u>	<u>1,961,213</u>	<u>2,019,189</u>	<u>(57,976)</u>

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 4

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Police:				
Field operations:				
Personnel services	\$ 4,871,278	\$ 4,916,406	\$ 4,676,730	\$ 239,676
Operations and maintenance	188,900	198,900	224,482	(25,582)
Capital outlay	63,200	177,348	112,625	64,723
	<u>5,123,378</u>	<u>5,292,654</u>	<u>5,013,837</u>	<u>278,817</u>
Support services:				
Personnel services	3,870,803	3,902,864	4,160,652	(257,788)
Operations and maintenance	597,284	636,877	523,400	113,477
Capital outlay	-	30,503	33,080	(2,577)
	<u>4,468,087</u>	<u>4,570,244</u>	<u>4,717,132</u>	<u>(146,888)</u>
Total police	<u>9,591,465</u>	<u>9,862,898</u>	<u>9,730,969</u>	<u>131,929</u>
Public Works:				
Administration:				
Personnel services	917,260	925,109	997,919	(72,810)
Operations and maintenance	18,330	32,660	15,134	17,526
Capital outlay	-	1,811	-	1,811
	<u>935,590</u>	<u>959,580</u>	<u>1,013,053</u>	<u>(53,473)</u>
Engineering:				
Personnel services	662,789	668,338	692,085	(23,747)
Operations and maintenance	168,050	171,416	37,901	133,515
	<u>830,839</u>	<u>839,754</u>	<u>729,986</u>	<u>109,768</u>
Program management:				
Personnel services	242,645	244,707	264,236	(19,529)
Operations and maintenance	294,845	213,039	198,743	14,296
Capital outlay	1,000	1,000	1,000	-
	<u>538,490</u>	<u>458,746</u>	<u>463,979</u>	<u>(5,233)</u>
Building inspections:				
Personnel services	443,235	446,972	532,609	(85,637)
Operations and maintenance	111,700	111,700	114,468	(2,768)
	<u>554,935</u>	<u>558,672</u>	<u>647,077</u>	<u>(88,405)</u>
Building maintenance:				
Personnel services	528,184	532,584	495,379	37,205
Operations and maintenance	1,077,200	1,085,200	1,028,151	57,049
	<u>1,605,384</u>	<u>1,617,784</u>	<u>1,523,530</u>	<u>94,254</u>

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 5

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Public Works: (Continued)				
Grounds maintenance:				
Personnel services	\$ 824,711	\$ 831,481	\$ 793,146	\$ 38,335
Operations and maintenance	252,500	258,482	238,741	19,741
	<u>1,077,211</u>	<u>1,089,963</u>	<u>1,031,887</u>	<u>58,076</u>
Street maintenance:				
Personnel services	795,973	802,422	779,913	22,509
Operations and maintenance	1,001,600	1,050,589	902,453	148,136
Capital outlay	-	4,367	-	4,367
	<u>1,797,573</u>	<u>1,857,378</u>	<u>1,682,366</u>	<u>175,012</u>
Refuse/recycling:				
Personnel services	1,049,031	1,057,672	1,061,367	(3,695)
Operations and maintenance	743,800	676,662	602,203	74,459
	<u>1,792,831</u>	<u>1,734,334</u>	<u>1,663,570</u>	<u>70,764</u>
Vehicle and equipment maintenance:				
Personnel services	768,278	785,263	859,948	(74,685)
Operations and maintenance	433,700	539,455	421,170	118,285
Capital outlay	415,000	970,635	203,616	767,019
	<u>1,616,978</u>	<u>2,295,353</u>	<u>1,484,734</u>	<u>810,619</u>
Traffic engineering:				
Personnel services	259,321	261,431	279,091	(17,660)
Operations and maintenance	114,100	273,087	149,425	123,662
Capital outlay	20,000	3,123	3,123	-
	<u>393,421</u>	<u>537,641</u>	<u>431,639</u>	<u>106,002</u>
Right of way inspections:				
Personnel services	312,468	315,055	341,847	(26,792)
Operations and maintenance	9,600	8,790	7,140	1,650
Capital outlay	3,800	1,800	1,697	103
	<u>325,868</u>	<u>325,645</u>	<u>350,684</u>	<u>(25,039)</u>
Total public works	<u>11,469,120</u>	<u>12,274,850</u>	<u>11,022,505</u>	<u>1,252,345</u>

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 6

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Grants:				
Operations	\$ 150,000	\$ 7,400	\$ 43,525	\$ (36,125)
Total grants	<u>150,000</u>	<u>7,400</u>	<u>43,525</u>	<u>(36,125)</u>
Non-departmental				
Operations	710,000	4,718,000	(110,414)	4,828,414
Total non-departmental	<u>710,000</u>	<u>4,718,000</u>	<u>(110,414)</u>	<u>4,828,414</u>
Debt service:				
Principal	938,254	973,254	1,015,683	(42,429)
Interest and fiscal charges	340,264	261,301	261,940	(639)
Total debt service	<u>1,278,518</u>	<u>1,234,555</u>	<u>1,277,623</u>	<u>(43,068)</u>
Other financing uses:				
Transfers out	-	-	743,012	(743,012)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>743,012</u>	<u>(743,012)</u>
Total General Fund expenditures	<u>\$ 35,304,587</u>	<u>\$ 40,604,971</u>	<u>\$ 34,211,551</u>	<u>\$ 6,393,420</u>

TOWN OF HERNDON, VIRGINIA

Exhibit B-5

**GOVERNMENTAL FUND TYPE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
CAPITAL PROJECTS FUND
Year Ended June 30, 2022**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Use of money and property	\$ -	\$ -	\$ (4,808)	\$ (4,808)
Miscellaneous	-	-	39,166	39,166
Intergovernmental	1,675,000	1,675,000	7,506,048	5,831,048
Total revenues	1,675,000	1,675,000	7,540,406	5,865,406
Capital Outlay:				
Administration	35,000	35,000	14,397	20,603
Parks & recreation	20,000	20,000	-	20,000
Police	400,000	400,154	-	400,154
Public works:				
Admin, buildings, and grounds	1,000,000	2,682,695	120,925	2,561,770
Streets, sidewalks, and trails	600,000	23,185,563	9,276,392	13,909,171
Storm water	300,000	804,434	138,251	666,183
Other infrastructure		2,098,600	565,939	1,532,661
Total expenditures	2,355,000	29,226,446	10,115,904	19,110,542
Revenues under expenditures	(680,000)	(27,551,446)	(2,575,498)	(13,245,136)
Other financing sources:				
Bond Proceeds	-	3,050,000	-	(3,050,000)
Transfers in	680,000	680,000	743,012	63,012
Total other financing sources	680,000	3,730,000	743,012	(2,986,988)
Net change in fund balance	\$ -	\$ (23,821,446)	\$ (1,832,486)	\$ (16,232,124)

(Continued)

GOVERNMENTAL FUND TYPE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
AMERICAN RESCUE PLAN ACT FUND
Year Ended June 30, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Use of money and property	\$ -	\$ -	\$ 31,713	\$ 31,713
Intergovernmental	-	9,533,160	2,253,349	(7,279,811)
Total revenues	-	9,533,160	2,285,062	(7,248,098)
Capital Outlay:				
Administration - Information technology	-	35,000	18,594	16,406
Parks & recreation	-	1,854,000	210,608	1,643,392
Police	-	1,942,661	539,694	1,402,967
Public works	-	5,506,000	1,315,393	4,190,607
Total capital outlay	-	9,337,661	2,084,289	7,253,372
Non-departmental				
Community donations	-	195,499	169,060	26,439
Total non-departmental	-	195,499	169,060	26,439
Total expenditures	-	9,533,160	2,253,349	7,279,811
Revenues under expenditures	-	-	31,713	(14,527,909)
Net change in fund balance	\$ -	\$ -	\$ 31,713	\$ (14,527,909)



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STATISTICAL SECTION

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**TOWN OF HERNDON, VIRGINIA
STATISTICAL SECTION**

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These schedules contain trend information to help the reader understand how the government’s financial performance and well-being have changed over time. 94-100

Revenue Capacity – Tables 5 – 9

These schedules contain information to help the reader assess the government’s most significant local revenue source, the property tax, as well as other revenue sources. 101-105

Debt Capacity – Tables 10 – 13

These tables present information to help the reader assess the affordability of the town’s current level of outstanding debt and the town’s ability to issue additional debt in the future. 106-109

Demographic and Economic Information – Tables 14 – 15

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government’s financial activities take place... 110-111

Operating Information – Tables 16 – 18

These schedules contain service and infrastructure data to help the reader understand how the information in the government’s financial report relates to the services the government provides and activities it performs..... 112-115

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

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TOWN OF HERNDON, VIRGINIA

Table 1

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Governmental activities:										
Net investment in capital assets	\$ 67,773,944	\$ 66,964,850	\$ 69,544,673	\$ 70,494,388	\$ 71,246,008	\$ 71,885,582	\$ 70,826,382	\$ 73,311,591	\$ 76,256,170	\$ 85,163,306
Restricted	3,156,244	3,156,490	2,400,979	3,985,488	1,618,442	2,132,077	2,542,708	1,781,483	1,847,341	6,310,998
Unrestricted	12,982,159	13,031,542	5,849,529	7,336,877	8,499,347	10,633,283	14,016,685	15,761,317	21,402,934	19,003,965
Total governmental activities net position	\$ 83,912,347	\$ 83,152,882	\$ 77,795,181	\$ 81,816,753	\$ 81,363,797	\$ 84,650,942	\$ 87,385,775	\$ 90,854,391	\$ 99,506,445	\$ 110,478,269
Business-type activities:										
Net investment in capital assets	\$ 14,277,687	\$ 14,409,510	\$ 14,601,815	\$ 16,773,326	\$ 16,771,452	\$ 16,649,854	\$ 16,512,129	\$ 17,092,331	\$ 14,818,995	\$ 14,191,182
Restricted					151,114	161,671	172,116	155,747	160,515	558,821
Unrestricted	15,838,128	17,747,172	17,347,462	15,399,987	14,653,463	15,559,458	15,985,051	16,082,595	13,426,076	14,327,549
Total business-type activities net position	\$ 30,115,815	\$ 32,156,682	\$ 31,949,277	\$ 32,173,313	\$ 31,576,029	\$ 32,370,983	\$ 32,669,296	\$ 33,330,673	\$ 28,405,586	\$ 29,077,552
Primary government:										
Net investment in capital assets	\$ 82,051,631	\$ 81,374,360	\$ 84,146,488	\$ 87,267,714	\$ 88,017,460	\$ 88,535,436	\$ 87,338,511	\$ 90,403,922	\$ 91,075,165	\$ 99,354,488
Restricted	3,156,244	3,156,490	2,400,979	3,985,488	1,769,556	2,293,748	2,714,824	1,937,230	2,007,856	6,869,819
Unrestricted	28,820,287	30,778,714	23,196,991	22,736,864	23,152,810	26,192,741	30,001,736	31,843,912	34,829,010	33,331,514
Total primary government net position	\$ 114,028,162	\$ 115,309,564	\$ 109,744,458	\$ 113,990,066	\$ 112,939,826	\$ 117,021,925	\$ 120,055,071	\$ 124,185,064	\$ 127,912,031	\$ 139,555,821
		(1)		(2)	(3)	(4)			(4)	

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

Notes:

- (1) Fiscal Year 2014 net position was restated for the implementation of GASB Statement No. 68 which reduced net position by \$7,812,196.
- (2) 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.
- (3) Fiscal Year 2017 net position was restated for the implementation of GASB Statement No. 75 which reduced net position by \$2,059,806.
- (4) Fiscal Year 2021 the Downtown Parking Fund net position of \$725,872 was reclassified from business-type activities to governmental activities.

TOWN OF HERNDON, VIRGINIA

Table 2

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Expenses:										
Governmental activities:										
Legislative	\$ 640,816	\$ 627,221	\$ 602,274	\$ 677,277	\$ 745,753	\$ 706,048	\$ 734,671	\$ 551,445	\$ 566,955	\$ 521,966
Administration	2,744,129	4,043,656	2,965,744	2,691,531	3,304,796	3,017,512	3,093,764	3,716,194	3,423,026	3,253,326
Town attorney	497,761	539,332	522,777	556,236	606,758	612,209	612,349	837,152	1,001,496	822,127
Parks and recreation	4,608,079	4,659,976	4,732,787	4,839,122	5,012,560	4,879,803	5,280,626	4,649,822	3,312,797	4,024,864
Finance	1,379,724	1,320,493	1,321,326	1,485,207	1,492,031	1,710,148	1,501,718	1,585,696	1,588,972	1,462,517
Community development	2,127,055	1,980,462	1,804,660	1,682,901	1,672,244	1,699,935	1,896,791	2,205,030	2,318,909	1,578,231
Police	9,465,667	9,548,043	9,174,389	10,021,992	10,079,277	10,242,016	10,390,551	11,141,097	10,801,750	10,013,133
Public works	11,488,561	11,530,515	11,501,379	11,665,946	12,594,496	11,337,194	11,598,171	12,810,607	11,860,528	13,588,564
Interest	533,155	443,213	511,089	287,036	258,075	257,963	491,896	327,914	305,188	245,028
Total governmental activities	33,484,947	34,692,911	33,136,425	33,907,248	35,765,990	34,462,828	35,600,537	37,824,957	35,179,621	35,509,756
Business-type activities:										
Water and sewer	7,064,425	7,589,406	6,869,506	7,044,675	7,606,887	6,999,142	8,090,566	7,245,711	7,461,338	8,224,221
Golf course	1,595,145	1,554,011	1,567,919	1,506,117	1,559,749	1,572,043	1,503,005	1,516,523	1,684,876	1,633,991
Chestnut Grove cemetery	729,837	707,836	697,207	710,164	708,383	668,944	703,935	682,704	784,405	758,540
Downtown parking	29,390	32,945	28,283	72,623	111,913	133,985	110,788	61,674	101,603	-
Total business-type activities	9,418,797	9,884,198	9,162,915	9,333,579	9,986,932	9,374,114	10,408,294	9,506,612	10,032,222	10,616,752
Total government expenses	42,903,744	44,577,109	42,299,340	43,240,827	45,752,922	43,836,942	46,008,831	47,331,569	45,211,843	46,126,508
Program revenue:										
Governmental activities:										
Charges for services:										
Administration	19,606	34,762	24,327	9,675	41,075	35,976	6,892	3,205	8,485	52,176
Parks and recreation	2,826,309	2,762,453	2,785,759	2,710,943	2,767,730	2,767,916	2,873,136	1,399,288	472,882	1,603,104
Finance	512,690	533,200	549,600	560,500	571,700	588,333	588,333	583,894	583,894	-
Police	498,279	469,812	543,901	447,552	397,691	430,685	460,288	332,689	259,372	335,707
Public works	687,130	646,287	634,681	762,796	710,671	749,504	1,208,825	821,113	898,653	1,066,314
Operating grants and contributions:										
Community development	130,823	130,000	130,000	40,000	40,000	40,000	40,000	40,000	140,000	40,000
Police	627,749	751,934	671,045	666,752	707,588	864,195	745,352	2,530,623	3,208,911	778,758
Public works	890,712	862,301	936,748	953,146	1,178,505	1,046,761	1,080,054	1,194,716	1,234,256	1,145,267
Capital grants and contributions:										
Public works	1,881,507	1,610,482	1,955,113	3,244,961	2,168,349	2,765,821	2,658,343	4,945,608	2,167,274	10,904,664
Total governmental activities program revenue	8,074,805	7,801,231	8,231,174	9,396,325	8,583,309	9,289,191	9,661,223	11,851,136	8,973,727	15,925,990

TOWN OF HERNDON, VIRGINIA

Table 2
Page 2

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Program revenues (Continued):										
Business-type activities:										
Charges for services:										
Water and sewer	\$ 6,285,282	\$ 6,445,760	\$ 6,303,140	\$ 6,127,359	\$ 6,506,438	\$ 6,935,184	\$ 7,170,706	\$ 6,900,460	\$ 6,342,651	\$ 6,861,887
Golf course	1,392,960	1,365,597	1,309,211	1,401,722	1,497,289	1,372,186	1,389,986	1,183,263	2,216,761	2,335,733
Chestnut Grove cemetery	695,230	806,521	725,182	783,598	890,165	967,731	905,155	821,964	1,144,677	1,298,235
Operating grants and contributions:										
Downtown parking	-	-	-	-	26,903	-	-	-	-	-
Capital grants and contributions:										
Water and sewer	119,085	-	-	-	-	-	-	-	-	130,228
Total business-type activities program revenues	8,553,717	8,772,117	8,354,203	8,312,679	8,920,795	9,275,101	9,465,847	8,905,687	9,704,089	10,626,083
Total government program revenues	16,628,522	16,573,348	16,585,377	17,709,004	17,504,104	18,564,292	19,127,070	20,756,823	18,677,816	26,552,073
Net (expense) revenue:										
Governmental activities	(25,410,142)	(26,891,680)	(24,905,251)	(24,510,923)	(27,182,681)	(25,173,637)	(25,939,314)	(25,973,821)	(26,205,894)	(19,583,766)
Business-type activities	(865,080)	(1,112,081)	(808,712)	(1,020,900)	(1,066,137)	(99,013)	(942,447)	(600,925)	(328,133)	9,331
Total government net expense	(26,275,222)	(28,003,761)	(25,713,963)	(25,531,823)	(28,248,818)	(25,272,650)	(26,881,761)	(26,574,746)	(26,534,027)	(19,574,435)
General revenues and other changes in net position:										
Governmental activities:										
Taxes:										
General property	10,153,920	10,482,821	10,963,925	11,040,763	11,218,438	11,416,010	11,690,750	12,255,705	12,837,288	12,868,724
Business license	4,481,963	4,750,718	4,860,528	4,868,291	5,569,516	5,732,161	4,930,755	5,871,507	6,786,720	5,881,836
Transient occupancy	2,088,149	2,091,900	2,187,198	2,169,852	2,199,410	2,286,397	2,345,943	1,607,031	855,309	1,512,110
Meals	2,008,529	2,046,307	2,121,519	2,173,102	2,215,677	2,266,761	2,308,551	2,975,487	2,876,751	3,590,406
Local sales	1,668,325	1,703,517	1,848,993	1,871,189	1,798,728	1,818,023	1,871,909	1,897,945	2,033,030	2,326,918
Other local taxes	2,195,384	2,258,268	2,300,406	2,290,371	2,393,966	2,361,383	2,293,183	2,127,774	2,154,418	2,223,106
Revenues not restricted to specific programs	82,940	85,328	87,940	90,539	93,362	102,243	66,330	58,203	73,470	70,798
Intergovernmental, non-categorical aid	1,957,744	1,937,785	1,815,751	1,868,193	2,067,279	1,583,697	1,482,539	1,460,834	1,304,101	1,281,151
Use of money and property	451,965	1,111,136	801,986	1,027,152	909,502	688,957	1,355,800	1,078,968	555,187	548,544
Gain on sale of capital assets	-	-	-	14,927	-	-	65,954	19,727	80,168	60,312
Miscellaneous and lease income	184,899	1,984,086	77,560	708,184	206,101	350,137	481,258	101,558	104,917	120,117
Transfers	(175,892)	(2,109,986)	(386,638)	(174,904)	(155,593)	(144,987)	(218,825)	(12,302)	5,196,589	71,568
Total governmental activities	25,097,926	26,341,880	26,679,168	27,947,659	28,516,386	28,460,782	28,674,147	29,442,437	34,857,948	30,555,590

TOWN OF HERNDON, VIRGINIA

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

**Table 2
Page 3**

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
General revenues and other changes in net position: (Continued)										
Business-type activities:										
Intergovernmental, non-categorical aid	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 449,725	\$ 14,220	\$ 1,373
Use of money and property	80,894	487,345	276,557	325,396	68,405	132,979	369,224	224,571	22,505	60,622
Gain on sale of capital assets	-	-	-	-	6,370	33,556	12,904	10,800	-	60,760
Miscellaneous	579,466	615,068	618,690	603,232	511,630	582,445	639,807	564,904	562,910	611,448
Transfers	175,892	2,109,986	386,638	174,904	155,593	144,987	218,825	12,302	(5,196,589)	(71,568)
Total business-type activities	836,252	3,212,399	1,281,885	1,103,532	741,998	893,967	1,240,760	1,262,302	(4,596,954)	662,635
Total primary government	25,934,178	29,554,279	27,961,053	29,051,191	29,258,384	29,354,749	29,914,907	30,704,739	30,260,994	31,218,225
Changes in net position:										
Governmental activities	(312,216)	(549,800)	1,773,917	3,436,736	1,333,705	3,287,145	2,734,833	3,468,616	8,652,054	10,971,824
Business-type activities	(28,828)	2,100,318	473,173	82,632	(324,139)	794,954	298,313	661,377	(4,925,087)	671,966
Total primary government	\$ (341,044)	\$ 1,550,518	\$ 2,247,090	\$ 3,519,368	\$ 1,009,566	\$ 4,082,099	\$ 3,033,146	\$ 4,129,993	\$ 3,726,967	\$ 11,643,790

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)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
General Fund:										
Nonspendable	\$ 396,781	\$ 319,403	\$ 274,029	\$ 291,196	\$ 338,093	\$ 252,186	\$ 211,510	\$ 166,659	\$ 258,029	\$ 354,739
Restricted	-	-	3,716	3,170	3,228	310,000	-	2,224	1,095,266	1,097,996
Committed	400,000	600,000	800,000	1,000,000	1,200,000	1,400,000	-	-	-	-
Assigned	1,478,176	1,494,774	2,108,853	2,898,995	2,859,002	2,869,397	5,581,134	5,338,176	6,114,606	10,606,684
Unassigned	7,109,184	8,164,509	8,454,408	9,084,025	9,345,836	10,196,779	10,537,670	13,293,488	19,560,379	16,999,208
Total General Fund	\$ 9,384,141	\$ 10,578,686	\$ 11,641,006	\$ 13,277,386	\$ 13,746,159	\$ 15,028,362	\$ 16,330,314	\$ 18,800,547	\$ 27,028,280	\$ 29,058,627
All Other Governmental Funds:										
Nonspendable	\$ -	\$ -	\$ -	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ -	\$ -	\$ 5,000
Restricted	4,600,626	4,654,446	3,935,728	4,019,354	1,764,513	2,132,077	6,073,939	6,293,607	6,353,031	6,307,965
Assigned	5,466,901	5,045,594	3,252,034	3,942,806	6,510,193	6,335,363	6,944,452	5,308,565	4,640,086	2,955,830
Unassigned	-	-	-	(16,879)	(330,872)	(206,498)	-	-	-	-
Total all other governmental funds	\$ 10,067,527	\$ 9,700,040	\$ 7,187,762	\$ 7,970,281	\$ 7,968,834	\$ 8,285,942	\$ 13,043,391	\$ 11,602,172	\$ 10,993,117	\$ 9,268,795

Source:

Town of Herndon Finance Department - Exhibit A-3

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenues:										
General property taxes	\$ 10,166,799	\$ 10,500,239	\$ 10,970,320	\$ 11,029,513	\$ 11,214,419	\$ 11,367,365	\$ 11,691,186	\$ 12,241,266	\$ 12,822,398	\$ 12,914,408
Other local taxes	12,442,350	12,850,710	13,318,644	13,372,805	14,177,297	14,463,451	13,750,341	14,212,059	14,562,162	15,128,514
Permits, privilege fees and regulatory licenses	576,155	532,695	522,048	630,218	559,488	603,773	1,057,412	585,191	457,719	613,968
Fines and forfeitures	491,067	632,491	547,939	463,312	423,335	452,965	485,008	353,593	281,512	359,468
Use of money and property	451,965	1,111,136	801,986	1,027,152	909,502	688,957	1,355,800	1,078,968	555,187	548,544
Charges for services	3,550,572	3,525,332	3,556,221	3,488,475	3,599,406	3,619,194	3,662,069	2,248,267	1,525,312	2,157,122
Miscellaneous	156,708	33,485	77,560	708,184	206,101	350,137	258,073	51,691	9,985	58,915
Intergovernmental	5,020,623	5,338,235	5,508,657	6,773,052	6,161,721	6,300,473	6,006,287	10,171,781	8,054,541	14,149,839
Total revenues	32,856,239	34,524,323	35,303,375	37,492,711	37,251,269	37,846,315	38,266,176	40,942,816	38,268,816	45,930,778
Expenditures:										
Legislative	633,519	622,325	626,639	654,549	698,951	699,202	713,209	500,752	507,091	508,117
Administration	2,249,139	2,319,175	2,457,281	2,582,772	3,131,313	2,863,707	3,006,360	2,978,610	2,775,022	3,111,415
Town attorney	494,245	535,633	545,434	476,792	476,844	489,362	471,179	676,293	726,639	776,886
Parks and recreation	3,851,099	3,985,756	4,055,755	4,136,245	4,288,848	4,449,527	4,675,180	3,934,039	2,665,348	3,569,187
Finance	1,302,849	1,267,040	1,307,771	1,427,806	1,518,192	1,716,122	1,532,617	1,508,139	1,477,878	1,517,999
Community development	2,051,139	1,891,352	1,857,171	1,598,172	1,686,329	1,736,736	1,947,330	2,102,628	1,912,361	2,019,189
Police	9,053,956	9,097,892	9,126,841	9,848,958	9,603,136	10,074,661	10,222,766	10,328,678	9,849,301	9,730,969
Public works	9,172,971	9,453,015	9,512,357	10,014,006	10,735,437	10,239,065	9,767,767	10,432,212	9,225,472	11,022,505
Grants	38,171	102,305	26,042	46,618	74,628	151,977	69,523	84,490	278,570	43,525
Capital outlay	1,699,472	2,242,162	4,805,785	3,296,422	3,040,310	3,109,930	1,755,189	5,220,582	377,676	58,646
Non-departmental	-	-	-	-	-	-	-	457,223	1,522,495	12,201,731
Debt service:										
Principal	1,505,093	1,540,720	1,681,126	1,102,539	1,090,629	1,256,739	1,344,287	1,388,246	4,273,129	1,015,683
Interest and fiscal charges	494,954	481,073	573,790	313,792	283,733	283,989	457,264	359,202	396,744	261,940
Total expenditures	32,546,607	33,538,448	36,575,992	35,498,671	36,628,350	37,071,017	35,962,671	39,971,094	35,987,726	45,837,792
Excess of revenues over (under) expenditures	309,632	985,875	(1,272,617)	1,994,040	622,919	775,298	2,303,505	971,722	2,281,090	92,986
Other financing sources (uses):										
Transfers in	584,487	1,048,074	1,043,888	1,474,921	1,535,807	1,335,013	827,525	234,281	1,816,456	819,463
Transfers out	(760,379)	(3,158,060)	(1,430,526)	(1,649,825)	(1,691,400)	(1,480,000)	(1,046,350)	(246,583)	(141,416)	(747,895)
Issuance of debt	-	-	-	-	-	969,000	3,686,266	-	-	1,538
Proceeds of refunding bonds	-	-	4,032,000	-	-	-	-	-	5,087,915	-
Payment to refunded bond escrow agent	-	-	(3,822,703)	-	-	-	-	-	(1,604,801)	-
Insurance recoveries	-	-	-	-	-	-	222,501	49,867	94,932	61,202
Proceeds from sale of property	29,876	1,951,169	-	14,927	-	-	65,954	19,727	84,502	78,731
Total other financing sources (uses), net	(146,016)	(158,817)	(177,341)	(159,977)	(155,593)	824,013	3,755,896	57,292	5,337,588	213,039
Net changes in fund balances	\$ 163,616	\$ 827,058	\$ (1,449,958)	\$ 1,834,063	\$ 467,326	\$ 1,599,311	\$ 6,059,401	\$ 1,029,014	\$ 7,618,678	\$ 306,025

TOWN OF HERNDON, VIRGINIA

Table 4
Page 2

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Debt service as a percentage of noncapital expenditures:										
Total debt service	\$ 2,000,047	\$ 2,021,793	\$ 2,254,916	\$ 1,416,331	\$ 1,374,362	\$ 1,540,728	\$ 1,801,551	\$ 1,747,448	\$ 4,669,873	\$ 1,277,623
Total expenditures	\$ 32,546,607	\$ 33,538,448	\$ 36,575,992	\$ 35,498,671	\$ 36,628,350	\$ 37,071,017	\$ 35,962,671	\$ 39,971,094	\$ 35,987,726	\$ 45,837,792
Less: capital outlay	(1,784,169)	(2,464,081)	(4,496,172)	(3,549,414)	(3,370,996)	(3,752,903)	(1,678,206)	(5,293,568)	(1,322,688)	(11,909,025)
Noncapital expenditures	\$ 30,762,438	\$ 31,074,367	\$ 32,079,820	\$ 31,949,257	\$ 33,257,354	\$ 33,318,114	\$ 34,284,465	\$ 34,677,526	\$ 34,665,038	\$ 33,928,767
Debt service as a percentage of noncapital expenditures	6.50%	6.51%	7.03%	4.43%	4.13%	4.62%	5.25%	5.04%	13.47%	3.77%

Source:
Town of Herndon Finance Department - Exhibit A-5
Exhibit A-6 for capital outlay

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	Cigarette	Motor Vehicle	Consumer Utility and Consumption	Other (1)	Total
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
2019	11,691,186	4,930,755	2,345,943	1,871,909	2,308,551	254,081	461,004	888,455	689,643	25,441,527
2020	12,241,266	5,767,393	1,573,340	1,897,945	2,845,607	209,757	455,175	874,759	588,083	26,453,325
2021	12,822,398	6,680,365	888,999	2,033,030	2,805,350	178,772	432,593	867,110	675,943	27,384,560
2022	12,914,409	5,863,537	1,267,569	2,326,918	3,447,384	175,432	430,872	870,086	746,716	28,042,923
Change 2013-2022	27.03%	30.83%	-39.30%	39.48%	71.64%	-47.45%	15.39%	-2.13%	24.64%	24.03%

Source: Town of Herndon Finance Department and Exhibit B-3.

Notes:

(1) 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
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	119,777,904	241,876,120	4,682,189,384	4,440,313,264	2.75%	0.2650	4,440,313,264	100.00%
2019	2,546,334,900	1,971,459,740	122,069,304	252,749,430	4,892,613,374	4,639,863,944	4.49%	0.2650	4,639,863,944	100.00%
2020	2,631,535,050	2,098,506,390	123,942,449	260,867,840	5,114,851,729	4,853,983,889	4.61%	0.2650	4,853,983,889	100.00%
2021	2,742,953,080	2,051,179,410	117,428,156	255,179,930	5,166,740,576	4,911,560,646	1.19%	0.2650	4,911,560,646	100.00%
2022	3,040,609,020	2,134,122,810	120,470,511	271,536,580	5,566,738,921	5,295,202,341	7.81%	0.2650	5,295,202,341	100.00%

Sources:

Town of Herndon Finance Department
 County of Fairfax Department of Tax Administration (Real Estate Division)
 PSC Values from the State Corporation Commission, Certified every September

Notes:

(1) Rates are per \$100 of assessed value.

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
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
2019	0.2650	-	1.1500	4.5700	1.4150	4.5700
2020	0.2650	-	1.1500	4.5700	1.4150	4.5700
2021	0.2650	-	1.1400	4.5700	1.4050	4.5700
2022	0.2650	-	1.1100	4.5700	1.3750	4.5700

Source:
Town of Herndon Finance Department

Notes:
(1) These rates are per \$100 of assessed value for real estate and personal property.

TOWN OF HERNDON, VIRGINIA

Table 8

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

Taxpayer	2022			2013		
	Taxable Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value
USGBF 499 Grove Street LLC	\$ 83,894,450	1	1.58 %	-	-	-
Townes Apartments LLC	75,824,680	2	1.43	-	-	-
Westerly at Worldgate Owner LLC	74,424,760	3	1.41	-	-	-
USGBF 399 Grove Street LLC	70,819,700	4	1.34	-	-	-
MIVPO LLC	61,821,490	5	1.17	-	-	-
Worldgate Centre Owner LLC	52,880,850	6	1.00	64,230,160	4	1.67
38 WP2D1 Owner LLC	51,838,070	7	0.98	-	-	-
Monument III Owner LLC	46,428,080	8	0.88	-	-	-
OAP/VER Herndon VA LLC	45,647,340	9	0.86	-	-	-
460 Herndon Parkway LLC	43,733,960	10	0.83	-	-	-
BP New Dominion Technology	-	-	-	82,460,930	1	2.15
New Dominion	-	-	-	72,669,990	2	1.89
Inland American Herndon Worldgate	-	-	-	72,142,720	3	1.88
EQR Worldgate LLC	-	-	-	58,080,930	5	1.51
EQR- LLC	-	-	-	55,911,850	6	1.45
AC/MRP Monument III Associates LLC	-	-	-	55,471,290	7	1.44
Washington Real Estate Investment Trust	-	-	-	48,255,230	8	1.26
MIVIOP LLC	-	-	-	45,167,480	9	1.18
CLF Herndon LLC	-	-	-	45,013,530	10	1.17
Total	\$ 607,313,380		11.48 %	\$ 599,404,110		15.60 %

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
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%	30,969	10,705,206	100.00%
2016	10,805,027	10,767,440	99.65%	36,566	10,804,006	99.99%
2017	11,019,662	10,999,443	99.82%	20,501	11,019,944	100.00%
2018	11,449,420	11,434,920	99.87%	10,124	11,445,043	99.96%
2019	11,965,659	11,794,199	98.57%	163,445	11,957,644	99.93%
2020	12,534,612	12,388,867	98.84%	124,641	12,513,508	99.83%
2021	12,704,453	12,617,454	99.32%	67,147	12,684,601	99.84%

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	Other Obligations				General Obligation Bonds		Debt Per Capita
2013	\$ 14,009,445	\$ 1,590,513	\$ 2,961,603	\$ -	\$ 18,561,561	1.13	787	\$ 14,009,445	36%	594
2014	12,594,199	1,451,514	2,747,420	-	16,793,133	0.98	712	12,594,199	32%	534
2015	12,464,958	87,397	2,609,488	-	15,161,843	0.85	642	12,464,958	30%	528
2016	11,353,283	83,158	2,355,385	-	13,791,826	0.76	583	11,353,283	27%	480
2017	10,253,274	78,794	2,036,746	-	12,368,814	0.66	521	10,253,274	24%	432
2018	10,031,639	-	1,771,516	-	11,803,155	0.63	496	10,031,639	23%	421
2019	12,354,914	-	9,352,703	3,681,872	25,389,489	1.35	1,060	12,354,914	27%	516
2020	10,947,964	-	8,817,990	3,419,303	23,185,257	1.17	964	10,947,964	23%	455
2021	11,106,523	-	7,660,344	3,178,615	21,945,482	1.06	912	11,106,523	23%	462
2022	10,125,610	80,027	7,492,099	2,934,891	20,632,627	0.96	857	10,125,610	19%	421

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 14.
 - (3) See table 6 for taxable value of property.
 - (4) The Downtown Parking Fund debts were reclassified from business-type to governmental activities 2021.

TOWN OF HERNDON, VIRGINIA

Table 11

**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
JUNE 30, 2022
(Unaudited)**

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt (2)
Fairfax County, Virginia	\$2,623,846,856	1.7521%	\$ 45,972,056
Town Direct Debt (3)			<u>10,205,637</u>
Total direct and overlapping debt			<u><u>\$ 56,177,693</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 10.

TOWN OF HERNDON, VIRGINIA

Table 12

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Debt limit	\$ 372,773,329	\$ 386,401,474	\$ 403,314,793	\$ 408,000,722	\$ 419,656,989	\$ 432,053,536	\$ 451,779,464	\$ 473,004,144	\$ 479,413,249	\$ 517,473,183
Total debt applicable to limit	15,599,958	14,045,713	12,466,973	11,436,441	10,332,068	10,031,639	12,354,914	10,205,637	11,106,523	10,205,637
Available legal debt margin	<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>	<u>\$ 439,424,550</u>	<u>\$ 462,798,507</u>	<u>\$ 468,306,726</u>	<u>\$ 507,267,546</u>
Total debt applicable to the limit as a percentage of debt limit	4.18%	3.64%	3.09%	2.80%	2.46%	2.32%	2.73%	2.16%	2.32%	1.97%

Legal Debt Margin Calculation for Fiscal Year 2021:

Assessed value of real estate	<u>\$5,174,731,830</u>
Debt limit (10% of assessed value) (1)	517,473,183
Total Debt applicable to limit:	<u>10,205,637</u>
Available legal debt margin	<u>\$ 507,267,546</u>

Summary of Outstanding Debt:

2012 refunding bonds	1,210,500
2018B general obligation bonds	4,320,000
2020A Refunding bonds (2010 GO & 2014 refund)	3,893,608
2020B Refunding bonds (2010 refund & 2018B GO)	571,293
Leases	80,027
Deferred bond premiums	<u>130,209</u>
Total debt applicable to limit	<u>\$ 10,205,637</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)**

Water and Sewer Fund							
Fiscal Year June 30,	Gross Revenues (1)	Operating Expenses (2)	Net Available Revenue	Debt Service		Total	Coverage
				Principal	Interest		
2020	\$ 7,389,157	\$ 5,966,717	\$ 1,422,440	\$ 284,450	\$ 246,885	531,335	2.68
2021	\$ 6,726,135	\$ 5,615,114	1,111,021	\$ 262,569	\$ 246,887	509,456	2.18
2022	7,380,676	6,741,392	639,284	388,600	241,302	629,902	1.01

Golf Course Fund							
Fiscal Year June 30,	Gross Revenues (1)	Operating Expenses (2)	Net Available Revenue	Debt Service		Total	Coverage
				Principal	Interest		
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
2019	1,472,969	1,244,250	228,719	108,767	22,602	131,369	1.74
2020	1,247,685	1,269,174	(21,489)	111,993	22,783	134,776	(0.16)
2021	2,279,480	1,487,992	791,488	37,707	20,206	57,913	13.67
2022	2,403,318	1,423,777	979,541	19,639	3,965	23,604	41.50

Chestnut Grove Cemetery Fund							
Fiscal Year June 30,	Gross Revenues (1)	Operating Expenses (2)	Net Available Revenue	Debt Service		Total	Coverage
				Principal	Interest		
2013	\$ 744,741	\$ 524,940	\$ 210,825	\$ 108,724	\$ 85,348	\$ 192,424	1.10
2014	851,041	514,028	219,801	114,133	81,210	194,072	1.13
2015	814,677	540,926	337,013	116,406	56,725	195,343	1.73
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
2019	982,863	552,786	430,077	157,946	24,947	182,893	2.35
2020	879,318	531,954	347,364	161,511	23,014	184,525	1.88
2021	1,211,864	574,258	637,606	39,033	25,164	64,197	9.93
2022	1,401,415	626,039	775,376	28,607	5,226	33,833	22.92

Downtown Parking Fund							
Fiscal Year June 30,	Gross Revenues (1)	Operating Expenses (2)	Net Available Revenue	Debt Service		Total	Coverage
				Principal	Interest		
2020	\$ 36,486	\$ 24,383	\$ 12,103	\$ 5,000	\$ 38,975	43,975	0.28
2021 (4)	19,088	64,468	(45,380)	5,000	38,876	43,876	(1.03)

Source:
Town of Herndon Finance Department - Exhibits A-9 and A-10

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 bonds issued by these funds.
- (4) The Downtown Parking Fund was closed at the end of fiscal year 2021.

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)
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	187,484	3.2
2018	23,809	78,376	1,866,054	188,403	2.7
2019	23,949	78,376	1,877,027	187,474	2.3
2020	24,042	82,441	1,982,047	188,355	7.8
2021	24,057	86,141	2,072,294	179,748	4.1
2022	24,069	88,971	2,141,443	178,421	2.5

Sources:

- (1) Town of Herndon, Community Development Annual Population Estimate memo
- (2) www.bea.gov Tools>Interactive Data> Regional Data>GDP & Personal Income> Personal Income and Employment (CAINC)>Fairfax County - updated March 2021
- (3) Actual enrollment is obtained from FCPS Approved Budget Book at www.fcps.edu
- (4) Virginia Employment Commission, www.virginiaworks.com Employment>Local Area Unemployment Statistics (LAUS) - Fairfax County June (Unadjusted)

TOWN OF HERNDON, VIRGINIA

Table 15

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

Employer	2022			2013	
	Number of Employees (1)	Rank	Percentage of Total Town Employment (2)	Number of Employees (3)	Rank
Amazon Web Services	750-999	1	4.66%	-	-
Peraton	500-999	2	2.64%	Over 500	1
Northwest Federal Union	250-499	4	2.14%	-	-
Serco	250-499	3	1.77%	0	-
Boeing Corporation	250-499	5	1.75%	249-499	5
Town of Herndon	100-249	6	1.24%	-	-
Forcepoint	100-249	7	1.12%	-	-
Tyler Solutions	100-249	8	0.86%	-	-
Karsun Solutions	100-249	9	0.82%	-	-
Expel	100-249	10	0.77%	-	-
Excelis Inc	-	-	-	249-499	2
Worldgate Sport & Health Club	-	-	-	249-499	3
Medical Transportation Services	-	-	-	249-499	4
Airline Pilots Association	-	-	-	249-499	6
Segovia, Inc.	-	-	-	249-499	7
DRS Technical Service Inc	-	-	-	100-250	8
Raytheon Trusted Computer Solutions	-	-	-	100-250	9
Micropact, Inc	-	-	-	100-250	10
Total			<u>17.77%</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 2013 Annual Comprehensive Financial Report

Note:

- (1) Percentage of total town employment for fiscal year 2013 is not available.

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

Function/Program	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Legislative	4.0	4.0	3.5	3.0	3.9	3.1	2.9	3.4	3.6	3.2
Administration:										
Communications & economic development	1.6	2.4	2.7	2.8	2.8	2.9	3.0	2.7	2.8	2.8
Town manager	2.0	2.0	2.1	2.8	3.0	3.0	2.9	1.4	2.0	2.0
Human resources	3.4	3.1	3.5	3.6	3.7	3.8	3.7	3.8	3.8	4.3
Information services	6.0	6.1	5.9	6.1	5.5	5.9	6.3	6.2	5.2	5.4
Town attorney	2.8	2.6	2.6	2.5	2.7	2.7	2.8	4.1	4.6	4.6
Parks and recreation:										
Administration	4.9	4.0	5.1	5.7	5.8	5.8	5.8	5.6	5.6	5.4
Recreation programs	15.1	15.1	14.8	16.3	15.9	16.4	15.6	13.3	4.6	8.2
Community center operations	16.9	16.7	16.6	16.0	16.4	15.7	17.3	15.3	8.1	8.3
Aquatics programs and operations	13.3	13.1	13.8	12.1	13.4	13.9	14.0	11.1	4.8	8.8
Park operation and development	1.6	1.6	1.1	0.8	1.5	2.2	2.6	2.1	1.3	1.3
Finance:										
Administration	2.0	2.0	1.0	1.0	1.1	2.0	1.9	2.5	2.3	2.1
Accounting	4.9	4.7	5.8	5.8	6.3	6.2	5.7	5.0	4.4	4.8
Revenue	2.8	2.8	2.8	2.7	2.8	2.4	2.8	3.2	4.2	4.1
Procurement	1.0	1.0	0.6	1.0	0.8	1.0	1.0	1.0	1.0	0.9
Community development	19.2	18.7	18.2	14.8	15.5	14.5	16.3	16.8	15.6	16.1
Police:										
Field operations	48.9	48.4	46.6	45.1	47.1	42.2	42.3	42.9	38.6	36.0
Support services	31.9	33.4	35.4	34.8	35.0	35.3	34.4	32.3	34.4	35.2
Public works:										
Administration	7.0	7.0	7.0	6.9	6.5	6.5	6.3	5.9	6.0	7.3
Engineering	4.9	4.4	4.7	3.9	4.9	4.8	5.3	5.1	6.0	6.3
Program management	2.9	2.8	2.0	1.5	1.3	1.8	1.8	2.0	2.0	2.2
Building inspections	4.8	4.9	4.4	4.6	4.9	4.6	4.3	4.9	4.3	5.0
Building maintenance	8.5	8.0	7.2	7.2	7.0	7.0	6.8	6.0	4.4	5.1
Grounds maintenance	11.0	11.0	11.6	12.3	12.6	11.7	11.7	11.6	11.9	11.0
Street maintenance	9.8	11.0	9.8	10.3	10.2	9.7	8.7	8.9	9.3	8.4
Refuse/recycling	17.0	16.8	16.6	16.9	15.2	13.9	14.5	14.1	14.9	14.5
Vehicle and equipment replacement	9.4	9.4	10.5	10.5	10.0	8.9	8.9	8.0	7.6	8.5
Traffic engineering	3.1	3.2	3.2	2.6	3.1	3.0	3.0	2.6	3.0	2.8
Right-of-way inspections	3.0	3.1	3.1	3.1	3.0	3.0	3.0	2.8	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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Water and Sewer:										
Customer service	4.1	4.0	4.3	3.5	4.3	3.1	2.9	2.9	2.4	2.8
Sewer service and maintenance	4.4	5.3	5.2	5.1	4.8	5.2	5.4	6.7	5.5	6.7
Water supply and maintenance	7.7	7.3	8.3	7.7	7.4	6.7	5.2	4.4	4.7	5.0
Golf Course:										
Maintenance	7.2	7.5	7.3	6.8	7.3	6.7	6.5	6.4	7.4	7.4
Clubhouse	5.7	5.8	6.1	5.4	5.5	5.5	5.1	4.5	6.0	5.1
Chestnut Grove Cemetery:										
Administration	4.8	4.8	4.9	4.3	4.7	4.7	5.0	4.4	4.8	4.9
Total	297.9	298.0	298.3	289.6	296.0	285.8	285.8	274.0	249.9	259.5

Source:

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

TOWN OF HERNDON, VIRGINIA

Table 17

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

Function/Program	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Police:										
Calls for service (1)	30,900	28,990	36,230	35,520	21,967	24,253	23,246	23,102	22,332	24,020
Human Resources:										
Recruitments requests (1)	60	56	65	64	43	67	64	83	115	138
Building safety:										
Total building permits (2)	226	241	230	263	237	298	280	193	217	469
Total inspections performed (1)	2,628	2,613	2,844	3,496	3,433	3,340	4,460	3,096	2,217	2,293
Public service:										
Refuse collected (tons) (1)	5,248	5,670	6,250	6,410	6,537	6,309	6,358	6,179	6,801	5,357
Recycle collected (residential - tons) (1)	1,517	1,625	1,673	1,711	1,752	1,803	1,789	1,633	1,622	1,381
Parks and Recreation:										
Class and program attendance (1)	12,000	11,500	11,200	11,600	13,700	12,300	13,700	8,500	1,200	5,200
Herndon Festival attendance (1)	82,000	82,000	83,000	78,500	81,500	40,300	62,000	-	-	30,000
Water and sewer:										
New utility accounts (2)	15	25	20	35	26	75	3	3	2	3
Average daily water consumption (mgd) (2)	2.02	2.00	2.15	2.13	2.24	2.28	2.21	2.19	1.99	2.02
Average daily sewage treatment (mgd) (2)	2.24	2.66	2.46	2.44	2.67	2.88	3.36	3.02	2.95	2.86
Golf Course:										
Rounds played (18 and 9 hole) (1)	31,766	31,421	30,368	33,112	33,029	31,369	31,401	27,301	47,397	47,846
Cemetery:										
Interment rights for sites sold (1)	180	184	136	132	148	171	148	152	199	231
Interments performed (1)	124	129	139	140	133	161	140	153	175	183

Sources:

- (1) Town of Herndon Town Manager's Annual Reports
- (2) Town of Herndon Department of Public Works
- (3) Town of Herndon Department of Human Resources
- (4) Town of Herndon Parks & Recreation
- (5) Herndon Centennial Golf Course

TOWN OF HERNDON, VIRGINIA

Table 18

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

Function/Program	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Police:										
Stations (1)	1	1	1	1	1	1	1	1	1	1
Vehicles (1)	42	45	45	47	47	47	47	50	47	45
Refuse Collection:										
Collection trucks (2)	9	9	9	10	10	10	10	17	16	16
Other public works:										
Vehicles/equipment maintained (2)	379	385	424	429	533	567	552	514	553	527
Streets:										
Primary (miles) (2)	31.3	31.3	31.3	31.3	31.3	41.6	41.6	41.6	41.6	41.6
Secondary (miles) (2)	98.4	98.4	98.4	98.4	98.4	88.4	88.4	88.4	88.4	88.4
Parks & Recreation:										
Parks - number of acres (3)	97	97	97	97	137	137	137	137	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)	89.3	83.4	84.7	84.7	84.7	84.9	85.0	85.0	85.0	85.0
Storage capacity (million gallons) (2)	3.3	3.3	3.3	3.3	2.0	2.0	2.0	2.0	2.0	2.0
Wastewater:										
Sanitary sewers (miles) (2)	81.8	81.8	81.8	81.8	81.8	81.9	81.9	81.9	81.9	81.9

Sources:

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



www.herndon-va.gov

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, Virginia (the “town”), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements, and have issued our report thereon dated November 17, 2022

Report on 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) as a basis for designing 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. **Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as item 2022-001 that we consider to be a significant deficiency.**

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. **The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.**

Town of Herndon's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Town of Herndon's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Town of Herndon's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 17, 2022

**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

Opinion on Compliance for Each Major 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 each of the town’s major federal programs for the year ended June 30, 2022. The town’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Town of Herndon, Virginia, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Bases for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the town and to meet our ethical responsibilities, in accordance with relevant ethical requirements related to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal documentation of the town’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Town of Herndon, Virginia’s federal programs.

Auditor's Responsibility for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the town's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the town's compliance the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the town's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the town's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the town's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a significant deficiency.

Report on Internal Control over Compliance (Continued)

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. **We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Item 2022-002 to be a significant deficiency.**

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Other Matters

Government Auditing Standards requires the auditor to perform limited procedures on the town's response to the internal control over compliance finding identified in our audit described in the accompanying schedule of findings and questioned costs. The town's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion the response.

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 17, 2022

TOWN OF HERNDON, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2022

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

Fire Programs Aid to Localities

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

June 30, 2022

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **One significant deficiency** relating to the audit of the financial statements is 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 *Governmental Auditing Standards*.
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **One significant deficiency** relating to the audit of the major federal award programs was 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:

<u>Name of Program</u>	<u>ALN #</u>
Coronavirus State and Local Fiscal Recovery Funds	21.027

8. The **threshold for** distinguishing Type A and B programs was **\$750,000**.
9. The Town of Herndon was determined to be a **low-risk auditee**.

TOWN OF HERNDON, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2022

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2022-001: Reimbursements related to grants, Significant Deficiency

Condition:

During the current audit, we noted certain reimbursement requests were not filed timely for expenditures eligible for reimbursement, resulting in a misstatement of revenue and receivables related to grants.

Criteria:

Internal controls should be in place to ensure such reimbursements are made timely and the related revenue and receivables are appropriately recorded.

Cause:

We noted that the town had not implemented a process to ensure the timely submission of reimbursement requests for grant funded expenditures.

Effect:

Absent appropriate controls, misstatements of revenue and receivables for such expenditure driven grants could occur.

Recommendation:

We recommend that reimbursement requests be completed more timely, on a monthly or quarterly basis to ensure proper recording of revenue and receivables related to grants.

Views of Responsible Officials and Planned Corrective Action:

The Finance department will continue to work with the departments responsible for reimbursement submission to improve the timeliness of the process.

TOWN OF HERNDON, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2022

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

2022-002: Coronavirus State and Local Fiscal Recovery Funds – ALN# 21.027, Reporting, Significant Deficiency

Condition:

During the current audit, we noted that the Project and Expenditure report was not reviewed prior to its submission. The report to Treasury was determined to be accurate and timely filed.

Criteria:

Internal controls should be in place to ensure the Project and Expenditure report is reviewed prior to its submission to the oversight agency.

Cause:

We noted that at the time of submission, the town had not implemented a process to ensure the Project and Expenditure report was reviewed prior to its submission.

Effect:

Absent appropriate controls, errors on the report filed or late submission of the Project and Expenditure report could occur.

Questioned Cost Amount:

N/A

Perspective Information:

N/A

Context:

N/A

Recommendation:

We recommend that management develop a system to ensure the Project and Expenditure report is reviewed by an individual other than the preparer to ensure its accuracy and the timeliness of its submission.

TOWN OF HERNDON, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2022

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

2022-002: Coronavirus State and Local Fiscal Recovery Funds – ALN# 21.027, Reporting, Significant Deficiency (Continued)

Views of Responsible Officials and Planned Corrective Action:

Management concurs with the finding and has implemented procedures to ensure the appropriate controls are in place.

D. FINDINGS – COMMONWEALTH OF VIRGINIA

None.

Town of Herndon, Virginia

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2022

Federal Grantor/Pass - Through Grantor/ Program or Cluster Title	Assistance Listing Number	Cluster Name	Pass-through Entity Identifying Number	Cluster Amounts	Federal Expenditures
U.S. Department of Housing and Urban Development:					
Pass Through Payments:					
Fairfax County, Virginia:					
Community Development Block Grants:					
Entitlement Grants	14.218	CDBG-Entitlement Grants Cluster	N/A	102,249	\$ 102,249
Total U.S. Department of Housing and Urban Development					<u>102,249</u>
U.S. Department of Justice:					
Direct Payments:					
Bulletproof Vest Partnership Program	16.607	N/A	N/A		5,567
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	N/A		<u>2,537</u>
Total U.S. Department of Justice					<u>8,104</u>
Department of Transportation:					
Direct Payments:					
Highway Planning and Construction	20.205		N/A		3,377,283
Pass Through Payments:					
Virginia Department of Transportation:					
State and Community Highway Safety Program	20.600	Highway Safety Cluster	N/A	20,525	20,525
Alcohol Open Container Requirements	20.607	N/A	N/A		<u>15,971</u>
Total Department of Transportation					<u>3,413,779</u>
Executive Office of the President:					
Direct Payments:					
High Intensity Drug Trafficking Areas Program	95.001	N/A	N/A		<u>1,538</u>
Total Executive Office of the President					<u>1,538</u>
Department of the Treasury:					
Pass Through Payments:					
Virginia Department of Accounts					
Coronavirus State and Local Fiscal Recovery Recovery Funds	21.027	N/A	N/A		<u>2,253,349</u>
Department of Homeland Security					
Direct Awards:					
Disaster Grants - Public Assistance	97.036	N/A	N/A		<u>20,081</u>
Total Expenditures of Federal Awards					<u>\$ 5,799,100</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 minimus indirect cost rate.

NOTE 3 - OUTSTANDING LOAN BALANCES:

At June 30, 2022, the Town had no outstanding loan balances requiring continuing disclosure.

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