

TOWN OF **Herndon** VIRGINIA



Comprehensive Annual Financial Report **Fiscal Year Ended** **June 30, 2017**

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TOWN OF HERNDON, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED
JUNE 30, 2017

Prepared by the
Department of Finance

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**TOWN OF HERNDON, VIRGINIA
FINANCIAL REPORT**

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INTRODUCTORY SECTION

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

November 27, 2017

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

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the Town of Herndon, Virginia (town), for the fiscal year ended June 30, 2017. The Herndon Town Charter, Section 4.2 (f), requires that the Town Manager arrange for an annual audit by a certified public accountant. In addition, Section 15.2-2511 of the Code of Virginia requires that all counties, cities and towns with populations greater than 3,500 as well as all towns with a separate school system, regardless of size, have their accounts and records audited annually as of June 30 by an independent certified public accountant in accordance with the specifications furnished by the Auditor of Public Accounts of the Commonwealth of Virginia. This report is formally submitted to you in fulfillment of those requirements.

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

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

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

The town's financial statements have been audited by Brown Edwards & Company, LLP, a certified public accounting firm. The goal of the independent audit was to provide reasonable assurance that the financial statements of the town for the fiscal year ended June 30, 2017 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by town management; and evaluating the overall financial statement presentation. The independent auditors' report is presented as the first component of the report's financial section.

Profile of the Town

The Town of Herndon, Virginia is located in the northwest quadrant of Fairfax County about 23 miles west of Washington DC. The town has a land area of 4.28 square miles and was incorporated in 1879. The local economy originally centered on the railroad and dairy farming; in fact, the town was at one time in the heart of Northern Virginia's important dairy farming community. And, until about sixty years ago, it remained essentially a quiet country village where well-to-do Washingtonians rode the railroad to summer vacation homes. Since that time, the town's economic and demographic makeup has changed dramatically. The estimated population is 23,734 persons, housed in 7,949 dwelling units. If the town is developed according to the currently adopted Comprehensive Plan (master plan), it is anticipated that the 2040 population will increase to approximately 29,800 and 10,500 dwelling units.

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

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

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

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

Local Economic Conditions and Outlook

Situated in the Washington, D.C. metropolitan area, Herndon's economy remains healthy and vibrant. Located prominently in the center of the Dulles Technology Corridor, the town has a significant corporate presence that includes Amazon Web Services; Boeing; Booz Allen Hamilton; Fannie Mae; Northwest Federal Credit Union and Peraton. The town's office vacancy rate as of June 2017 was 13.0 percent, which is lower than the overall Fairfax County office vacancy rate of 15.4 percent. According to the American Community Survey, the town's median household income in 2015 was \$101,872. In July 2017, the local unemployment rate in Fairfax County, which is the third wealthiest county in the United States according to Forbes, was 3.1 percent. The national unemployment rate was 4.3 percent, according to the Bureau of Labor Statistics. Further, the town borders Loudoun County, which is the wealthiest county in the United States, according to Forbes. As many of the town's revenue streams are dependent upon consumption, these healthy statistics are positive signs of economic vitality.

The town continues to attract new restaurants, commercial businesses and infill residential development. The second phase of the Silver Line, which will include a stop in Herndon has spurred strong redevelopment interest in the metro area. The first project underway in the metro area is the redevelopment of the office building located at 625 Herndon Parkway, which is being replaced with 64 condominiums being developed by Stanley Martin homes. Also, the town has seen strong reinvestment in its existing commercial core with the announcement of Aslin Brewery opening a new tasting room in downtown Herndon, the repositioning of the office building located at 381 Elden Street by Stream Realty and the redevelopment of the former K-Mart space located in the Herndon Centre. The town's overall economic outlook assumes modest growth in property values with other local tax sources remaining flat.

Long-term Financial Planning

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

The town's 2030 Comprehensive Plan addresses the redevelopment of the areas surrounding access to the Herndon-Monroe rail station at the southern edge of the town. This transit station is part of Phase 2 of Dulles Rail, a project that will bring the Washington area Metrorail system (dubbed the "Silver Line") to the Herndon area. The Silver Line's current terminus is at the Wiehle-Reston metro station. It is expected to be finished, with riders on board, by early 2020. The connection by rail of the town and its commercial districts to the entire metropolitan Washington region creates a vastly enhanced marketplace that will likely have broad appeal to businesses. The town continues to focus on planning for development and redevelopment at the future Herndon Metrorail area. The concepts provide for large scale transit-oriented mixed use space 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.

New developments throughout the town continued during fiscal year 2017. One of the more highly visible is the Junction Square project located at the intersection of Elden and Monroe streets. This mixed-use development, one of the first to incorporate the town's Downtown Master Plan guidelines, complements the Town Council's vision for the downtown. Residential development continues with several in-fill developments in progress.

Long-term Financial Planning (Continued)

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

Relevant Financial Policies

Financial policies are a key component of the town's annual budgetary planning process, which highlights the organization's commitment to fiscal integrity and sound financial management. These policies relate primarily to capital planning and debt management, and provide annual budget guidelines covering operating revenues and expenditures. Included in the policies are strategies which support the adoption of an annual balanced budget; require recurring costs to be supported by recurring revenues; and limit combined outstanding and proposed debt such that the total is no greater than the town's maximum debt capacities. The policies also address minimum General Fund unassigned fund balance requirements and revenue stabilization fund balance guidance. The town's financial policies are being reviewed in conjunction with the town's financial advisors, and will be presented to the Town Council as part of the town's budget adoption process. See Management's Discussion and Analysis in the Financial Section of this report for the financial highlights for fiscal year 2017.

Major Initiatives

Downtown Redevelopment

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

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

Also during fiscal year 2017, the town issued a Request for Proposals (RFP) from non-profit arts groups located within 25 miles of the town center, to occupy and operate the Arts Center portion of the downtown redevelopment project. Negotiations with respondents are still underway at the date of this letter.

Major Initiatives (Continued)

Junction Square

The construction of this 55,000 square foot mixed-use development, consisting of fifteen urban townhomes, five condominiums, and 5,500 square feet of retail/restaurant space, was partially complete as of the date of this letter. Homes are already for sale and occupied in one portion of the development with full completion expected in early 2018. Projected annual town tax revenues of approximately thirty thousand dollars are anticipated when the structures are fully occupied.

Awards and Acknowledgements

Recreation - Herndon's recreational events and programs continued to attract throngs of attendees, with 81,500 people attending the Herndon Festival, 5,000 attending the 4th of July celebration and more than 2,000 attending the Labor Day Festival.

Golf Course - By continuing its tradition of providing high quality playing conditions, value and service, Herndon Centennial remains one of the premier public golf courses in the Northern Virginia metropolitan area. 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. In support of the Mayor's Monarch Butterfly Pledge, a monarch butterfly waystation was installed at the golf course entrance in fiscal year 2017.

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 28th consecutive year that the town has achieved this award, confirming the town's commitment to its tree canopy and environmental stewardship.

Public Safety - The Herndon Police Department has won first place for the last two consecutive years in a row in the state-wide Virginia Law Enforcement Challenge, an annual competition sponsored by the Virginia Association of Chiefs of Police. The award recognizes the department's commitment to addressing impaired driving, speeding, aggressive driving, and seat belt and passenger safety. In addition, the department successfully achieved recertification as a Certified Crime Prevention Community in 2016. All components were maintained and the next recertification will be in 2018.

Human Resources and Risk Management - Fiscal year 2017 was the ninth consecutive year the town successfully satisfied 100 percent of the Virginia Municipal League Insurance Programs (VMLIP) risk management guidelines. This achievement reflects the town's continuing efforts to ensure the safety of town citizen and employees. In addition, the town is eligible to receive a five percent premium credit on its liability insurance.

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, 2016. This is the 26th consecutive year that the town has achieved this honor. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communication device. In July 2017, the town's budget documents for the fiscal year beginning July 1, 2017 were submitted to GFOA for consideration of another Distinguished Budget Presentation Award.

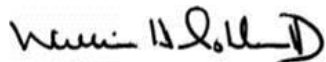
Awards and Acknowledgements (Continued)

Certificate of Achievement for Excellence in Financial Reporting – The GFOA has also awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Herndon, Virginia, for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016. This was the 42nd consecutive year that the town has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The current report is designed and prepared to conform to the Certificate of Achievement Program requirements, and it will be submitted to the GFOA to determine its eligibility for another certificate.

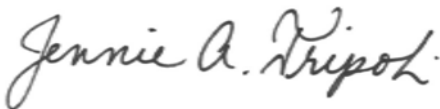
The Town of Herndon continues to maintain a stable financial position through responsible progressive management of financial operations combined with sound accounting and financial reporting practices. The timely preparation of this report could not have been accomplished without the effort of the entire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

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

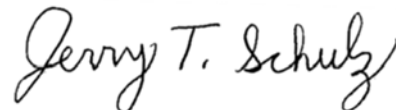
Respectfully submitted,



William H. Ashton II
Town Manager



Jennie A. Tripoli, CPA
Director of Finance



Jerry T. Schulz, CPA
Deputy Director of Finance



Government Finance Officers Association

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

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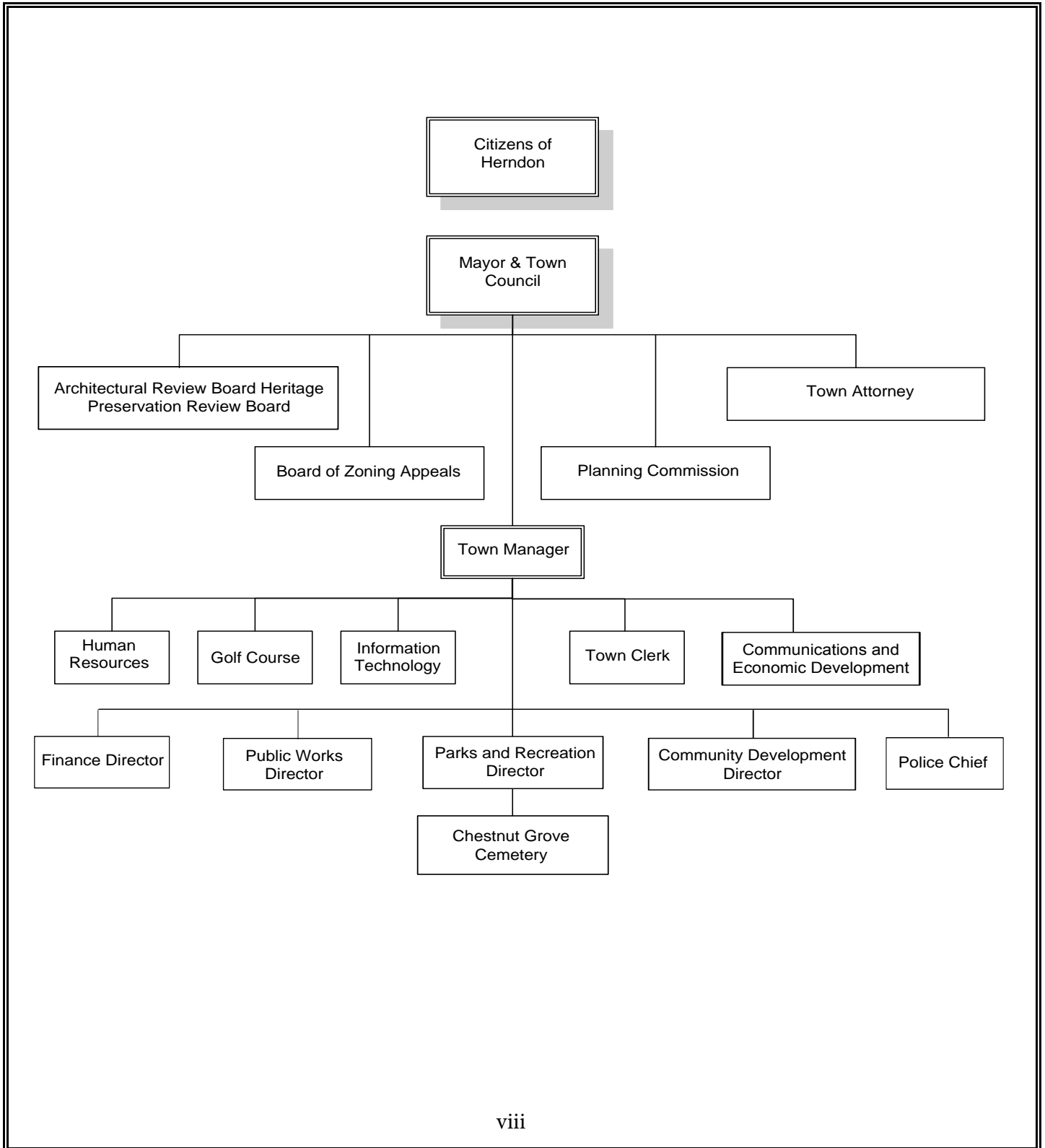
**Town of Herndon
Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

TOWN OF HERNDON, VIRGINIA
TOWN ORGANIZATION FISCAL
YEAR 2016-2017





Comprehensive Annual Financial Report
Year Ended June 30, 2017

Directory of Officials

TOWN COUNCIL

Mayor

Lisa C. Merkel

Vice Mayor

Jennifer K. Baker

Grace Wolf Cunningham

Jeffrey L. Davidson

Signe V. Friedrichs

William J. McKenna

Sheila A. Olem

MANAGEMENT TEAM

Town Manager

William H. Ashton, II

Town Attorney

Lesa J. Yeatts

Town Clerk

Viki L. Wellershaus

Predrag Kalapasev

Dana L. Singer

Anne P. Curtis

Maggie A. DeBoard

Gene A. Fleming

Elizabeth M. Gilleran

Tanya J. Kendrick

Cynthia S. Roeder

Jennie A. Tripoli

Director of Information Technology

Director of Public Works

Chief Communications Officer

Chief of Police

Director of Golf Course Operations

Director of Community Development

Director of Human Resources

Director of Parks and Recreation

Director of Finance

Independent Auditor

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

Prepared by the Department of Finance, Town of Herndon, Virginia

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Herndon, Virginia (the "town"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the town, as of June 30, 2017, 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.

Other Matters

Required Supplementary Information

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

Other Information

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

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

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

Other Matters (Continued)

Report on Summarized Comparative Information

We have previously audited the financial statements of the town as of June 30, 2016, and we expressed an unmodified opinion on those statements in our report dated November 22, 2016. The 2016 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 27, 2017, on our consideration of the town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the town's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 27, 2017

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TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Town of Herndon, Virginia's (town) financial statements provides an overview of the town's financial performance for the fiscal year ended June 30, 2017. Please read it in conjunction with the transmittal letter found on page i in the introductory section of this report and the town's basic financial statements which follow this discussion and analysis.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2017

- 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 \$115.0 million (*total net position*). Of this amount, \$25.2 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.
- On a governmental activities basis, net position increased by \$1.3 million as total revenues outpaced total expenses. Although total revenues were down slightly when compared to the prior year, other local taxes increased \$0.8 million which was due to the \$0.7 million increase in business license taxes when compared to the prior year. Slightly higher real estate tax revenues also contributed to the increase in net position during the fiscal year. See Table 2 for more information.
- On a business-type activities basis, net position decreased by \$0.3 million as the Water and Sewer Fund decrease of \$0.5 million was slightly offset by small increases in the Cemetery and Downtown Parking funds. 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 \$21.7 million, an increase of \$0.5 million from the previous fiscal year. The main driver of this increase was a \$0.5 million increase in the General Fund as revenues slightly exceeded expenditures and transfers out and additional funds were added to the revenue stabilization reserve. A small increase in non-major governmental fund balances was offset by the small decrease in the Capital Project fund balance. See Table 3 for more information.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$9.3 million, or approximately 26 percent of total General Fund expenditures. Unassigned fund balance increased \$0.3 million from the prior year as revenues outpaced expenditures due to the strong performance of business license revenues. General Fund unassigned fund balance is available for spending at the town's discretion and it represents approximately 43 percent of total governmental fund balance. See Table 3 for more information.
- For the current fiscal year end, general fund total revenues were \$1.6 million more than amended budget amounts while actual total expenditures and transfers out were less than the amended budget amounts by \$1.5 million. See Table 4 for more information.
- Total net capital assets decreased \$0.7 million from the prior fiscal year as the \$4.5 million increase in accumulated depreciation outpaced net new investments of \$3.8 million. See Table 5 for more information.
- The town's total outstanding long-term debt is \$12.4 million, which is a decrease of \$1.4 million, driven mainly by debt service payments during the normal course of business. See Table 6 for more information.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

USING THE FINANCIAL SECTION OF THIS ANNUAL FINANCIAL REPORT

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

Government-Wide Financial Statements

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

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

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

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

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

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

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fund Financial Statements

The fund financial statements provide more detailed information about the town's more significant funds. A "fund" is a grouping of related accounts that is used to maintain control over resources which have been segregated for specific activities or purposes. The town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds – Most of the town's basic services are included in governmental funds which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out, and (2) the balances remaining at fiscal year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader in determining whether there are more or fewer financial resources that can be spent in the near future to finance the town's programs.

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

Fiduciary Funds – These funds is 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 immediately follow the basic financial statements.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

Statement of Net Position:

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

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

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 32,042	\$ 31,878	\$ 18,035	\$ 18,173	\$ 50,077	\$ 50,051
Capital assets, net	81,578	81,931	18,717	19,027	100,295	100,958
Total assets	113,620	113,809	36,752	37,200	150,372	151,009
Deferred outflows of resources	2,740	1,429	373	246	3,113	1,675
Current and other liabilities	4,830	5,237	1,871	1,682	6,701	6,919
Non-current liabilities	22,229	20,620	3,346	3,381	25,575	24,001
Total liabilities	27,059	25,857	5,217	5,063	32,276	30,920
Deferred inflows of resources	6,151	7,564	59	210	6,210	7,774
Net Position:						
Net investment in capital assets	71,246	70,494	16,771	16,774	88,017	87,268
Restricted	1,618	3,986	151	-	1,769	3,986
Unrestricted	10,286	7,337	14,927	15,399	25,213	22,736
Total net position	\$ 83,150	\$ 81,817	\$ 31,849	\$ 32,173	\$ 114,999	\$ 113,990

Net position may serve over time as a useful indicator of the town's financial position. For the most recently concluded fiscal year, the town's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$115.0 million representing an increase of \$1.0 million from the net position as of June 30, 2016. About 22 percent of the town's net position is unrestricted and available to meet the town's ongoing obligations to citizens and creditors. The larger net position sub-component, labeled "Net investment in capital assets," reflects the town's investment in capital assets (e.g., land, infrastructure, buildings, improvements, machinery and equipment, intangible assets and construction in progress), net of accumulated depreciation and amortization and outstanding debt associated with acquisitions.

The town uses its capital assets in providing services to its citizens; consequently, these assets are not readily available for future spending. Although the town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets would not likely be used to liquidate these liabilities.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Activities:

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

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

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 4,489	\$ 4,491	\$ 8,921	\$ 8,313	\$ 13,410	\$ 12,804
Operating grants and contributions	1,926	1,660	-	-	1,926	1,660
Capital grants and contributions	2,168	3,245	-	-	2,168	3,245
Total program revenues	8,583	9,396	8,921	8,313	17,504	17,709
General revenues:						
General property taxes	11,218	11,041	-	-	11,218	11,041
Other local taxes	14,177	13,373	-	-	14,177	13,373
Use of money and property	910	1,027	68	325	978	1,352
Intergovernmental non-categorical aid	2,067	1,868	-	-	2,067	1,868
Miscellaneous	300	814	518	603	818	1,417
Total general revenues	28,672	28,123	586	928	29,258	29,051
Total revenues	37,255	37,519	9,507	9,241	46,762	46,760
Expenses:						
General government administration	6,149	5,410	-	-	6,149	5,410
Parks and recreation	5,013	4,839	-	-	5,013	4,839
Community development	1,672	1,683	-	-	1,672	1,683
Police	10,079	10,022	-	-	10,079	10,022
Public works	12,595	11,666	-	-	12,595	11,666
Interest	258	287	-	-	258	287
Water and sewer	-	-	7,607	7,045	7,607	7,045
Golf course	-	-	1,560	1,506	1,560	1,506
Chestnut Grove cemetery	-	-	708	710	708	710
Downtown parking	-	-	112	72	112	72
Total expenses	35,766	33,907	9,987	9,333	45,753	43,240
Change in net position before transfers	1,489	3,612	(480)	(92)	1,009	3,520
Transfers	(156)	(175)	156	175	-	-
Change in net position	1,333	3,437	(324)	83	1,009	3,520
Net position, July 1, as restated	81,817	78,380	32,173	32,090	113,990	110,470
Net position, June 30	\$83,150	\$81,817	\$31,849	\$32,173	\$114,999	\$113,990

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 \$1.3 million as revenues exceeded expenditures and transfers out.

Revenues: For the current fiscal year ended, revenues for governmental activities totaled \$37.2 million which is a decrease of \$0.3 million from the prior fiscal year.

General property taxes, the town's single largest revenue source, increased by \$0.2 million from the prior fiscal year due to the increase in assessments of taxable real property. As of January 1, 2016, the assessed value of real property within the town was \$4,196,569,890. When compared to the total assessed values at January 1, 2015, this amount represents a combined increase of 2.86 percent, with residential properties increasing approximately four percent and commercial properties increasing slightly over one percent. The town's real estate tax rate remained at \$0.265 per \$100 of assessed value.

Other local taxes, the town's largest combined revenue source, increased by \$0.8 million primarily due to the \$0.7 million increase in business license (BPOL) fees. Other local taxes such as transient occupancy (hotel/motel) tax, meals tax, and motor vehicle registration tax experienced slight increases while local sales tax decreased slightly compared to the prior fiscal year.

Operating and capital grants and contributions declined \$0.8 million due to decreases mainly in state revenue-sharing grants for transportation-related projects as well as minor usage of House Bill 2313 funds compared to the prior year. Miscellaneous revenues decreased by \$0.5 million primarily due to the one-time write-off in the prior year of a large reserve originally set aside to pay a potential business license refund.

Expenses: For the current fiscal year ended, expenses for governmental activities totaled \$35.8 million which is about a five and one-half percent increase, or \$1.9 million, over the prior fiscal year.

The two programs that account for the majority of the increase are General Government Administration and Public Works, which increased \$0.7 and \$0.9 million, respectively. General Government Administration saw increases in personnel expenses and operating and maintenance expenses primarily driven by the termination of the police retiree health insurance benefit plan and information technology improvements, respectively. Public Works expenses increased mostly due to increased operations and maintenance spending in the Streets Division for VDOT reimbursable road work in the town. Overall, the cost increases were anticipated as part of the town's adopted budget and budget amendments for fiscal year 2017.

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

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Activities: (Continued)

Business-type Activities

During the current fiscal year, business-type activities decreased the town's net position by \$0.3 million as charges for services, miscellaneous revenues and transfers in were less than total expenses. Both total revenues and total expenses increased from the prior fiscal year by \$0.3 million and \$0.6 million, respectively.

Due to increased demand for services, charges for services revenue increased in all the enterprise funds by \$0.6 million from the prior year with the Water and Sewer Fund, Golf Course Fund, and Chestnut Grove Cemetery Fund showed increases of \$0.4, \$0.1, and \$0.1 million, respectively. These revenues increases were offset by a \$0.3 million decrease in use of money and property (investment earnings, net) and miscellaneous revenues.

The \$0.6 million increase in total expenses is primarily from the increased expenses in the Water and Sewer Fund since all the other enterprise fund's expenses were relatively flat compared to the prior year. Increased consumption for water and sewer services as measured in millions of gallons, a six percent sewer rate increase from the county, and depreciation of couple new major assets placed in service (Automatic Meter Reading and the Spring Knoll water tank rehabilitation) all contributed the increased expenses experienced by the Water and Sewer Fund.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

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

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

	General		Capital Projects		Non-Major Governmental		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Non-spendable	\$ 338	\$ 291	\$ 25	\$ 25	\$ -	\$ -	\$ 363	\$ 316
Restricted	3	3	146	2,439	1,618	1,581	1,767	4,023
Committed	1,200	1,000	-	-	-	-	1,200	1,000
Assigned	2,859	2,899	5,824	3,943	686	-	9,369	6,842
Unassigned	9,346	9,084	-	-	(331)	(17)	9,015	9,067
Total fund balances	\$13,746	\$13,277	\$5,995	\$6,407	\$1,973	\$1,564	\$21,714	\$21,248

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (Continued)

As of the end of the current fiscal year, the town's total ending fund balance increased \$0.5 million from the prior fiscal year. The main driver of this increase was the town's General Fund total fund balance which increased \$0.5 million from the prior fiscal year due to the town adding \$0.2 million to the revenue stabilization reserve as shown by the increase in committed fund balance. Also, the unassigned general fund balance increased \$0.3 million as General Fund revenues slightly exceeded expenditures and transfers out. The unassigned general fund balance of \$9.3 million represents approximately 26 percent of the General Fund's total expenditures for fiscal year 2017.

The Capital Projects fund balance decreased \$0.4 million from the prior fiscal year. During the year approximately \$2.3 million in restricted bond proceeds were collected which were off-set by a \$1.9 million increase in assigned fund balance for assets dedicated to subsequent years' capital expenditures.

Non-Major Governmental fund balances increased \$0.4 million from the prior fiscal year. This increase is attributed to transfers from the general fund which are set aside in assigned fund balance of the Information Systems Improvement Fund for future police radio equipment.

Proprietary funds - The town's enterprise funds, which are a type of proprietary fund, provide the same type of information found in the government-wide financial statements for business-type activities, but in greater detail. Total unrestricted net position decreased by \$0.3 million from the prior year to \$14.9 million. Unrestricted net position for three of the four enterprise funds increased or (decreased) from the prior year as follows:

- | | |
|-------------------------|----------------------------------|
| ➤ Water and Sewer Fund | (\$0.5) million to \$10.1million |
| ➤ Golf Course Fund | \$0.1 million to \$0.5 million |
| ➤ Downtown Parking Fund | \$0.1 million to \$3.9 million |

Unrestricted net position for the Chestnut Grove Cemetery fund did not change significantly. Increased consumption for water and sewer services and a six percent sewer rate increase from the county caused the decrease in the Water and Sewer Fund. The Golf Course Fund increased slightly since total operating revenues exceeded total operating expenses exclusive of depreciation expense. The Downtown Parking Fund increased slightly since the transfer in from the General Fund exceeded the fund's net loss operating loss for the fiscal year. See Exhibits A-8 and A-9 for further details.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL FUND BUDGETARY HIGHLIGHTS

Table 4
General Fund Budget to Actual
(in thousands)

	Fiscal Year 2017			Over / (Under)
	Original Budget	Amended Budget	Actual	
Taxes	\$ 24,004	\$ 24,304	\$ 25,392	\$ 1,088
Intergovernmental	4,449	4,449	5,172	723
Other	5,337	5,337	5,184	(153)
Total revenues	33,790	34,090	35,748	1,658
Expenditures	33,370	35,044	33,588	(1,456)
Transfers out & other	1,021	1,045	1,691	646
Total expenditures	34,391	36,089	35,279	(810)
Change in fund balance	(601)	(1,999)	469	2,468
Fund balance, beginning	12,730	12,730	13,277	547
Fund balance, ending	\$ 12,129	\$ 10,731	\$ 13,746	\$ 3,015

The amended budget for revenues exceeded the original budget by \$0.3 million. This was primarily due to the anticipation of greater business license taxes. The final amended budget appropriations, which include expenditures and transfers out, exceeded the original budget by \$1.7 million. During the fiscal year, the town enacted the first budget amendment for \$0.8 million plus \$0.5 million for carry-over appropriations for encumbrances outstanding at the end of the prior fiscal year. The town authorized a mid-year budget amendment of \$0.1 million, and a final amendment of \$0.3 million was authorized for the police retiree health insurance benefit.

At the conclusion of the fiscal year, total revenues were \$1.6 million more than amended budget amounts while actual expenditures and transfers out were less than the amended budget amounts by \$1.5 million. Highlights of the comparison of amended budget to actual figures for the fiscal year ended June 30, 2017 include the following:

- The \$1.1 million increase in taxes is attributable to increase in business license taxes. A slight decrease in the town's share of local sales tax was offset by slight increases motor vehicle registration taxes and bank stock taxes. All other local taxes (e.g., meals tax, transient occupancy tax, consumer utility tax, and cigarette taxes) had modest positive or negative variances.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL FUND BUDGETARY HIGHLIGHTS (Continued)

- Intergovernmental revenues increased \$0.7 million mostly due to a revenue sharing grant administered by the Virginia Department of Transportation for road repaving. The grant was not budgeted in the General Fund, however, \$0.4 million of the repaving expenditures were charged to the General Fund. Thus, the grant revenue was recognized in the General Fund. The town recognized an additional \$0.2 million from the stormwater utility tax reserve to cover stormwater expenditures made from the General Fund. The town receives stormwater funds from Fairfax County.
- Other revenues were in-line with the amended budget as charges for services were essentially on target with the original budget projections.
- Total expenditures came in under budget by \$1.5 million. Expenditure amounts for most operating departments (with the exception of town attorney finance and grants) were less than the amended budgets. Encumbrances of \$0.8 million at the end of fiscal year 2017 were authorized for carryforward to fiscal year 2018. Also, favorably impacting the budget were employee vacancy savings throughout the fiscal year.
- The debt service budget included funding of \$0.2 million to issue bonds during the fiscal year and make the first semi-annual debt service payment on this proposed issue. Given the reduced pace of the projects to be bond-funded, the bond issue was deferred to a later date.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS

As of June 30, 2017, the town had invested approximately \$100 million in a variety of capital assets as reflected in the following table, which represents a net decrease of \$0.7 million from the prior fiscal year. More detailed information on capital assets can be found in Note 6 of the notes to the financial statements.

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

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 24,698	\$ 24,698	\$ 3,506	\$ 3,506	\$ 28,204	\$ 28,204
Infrastructure	82,195	82,171	-	-	82,195	82,171
Buildings	41,177	41,177	3,485	3,485	44,662	44,662
Improvements other than buildings	13,124	13,078	33,870	33,831	46,994	46,909
Machinery and equipment	10,360	10,059	3,070	2,183	13,430	12,242
Intangibles	1,255	1,216	265	265	1,520	1,481
Furniture and fixtures	969	969	202	202	1,171	1,171
Construction in progress	3,833	1,355	303	293	4,136	1,648
Accumulated depreciation	(96,033)	(92,792)	(25,984)	(24,738)	(122,017)	(117,530)
Total capital assets, net	\$ 81,578	\$ 81,931	\$ 18,717	\$ 19,027	\$ 100,295	\$ 100,958

The net decrease in the town's capital asset investment is attributable to the increase in accumulated depreciation of \$4.5 million exceeding net new investments of \$3.8 million. The new investments in capital assets were primarily in machinery and equipment and construction in progress as each increased \$1.2 million and \$2.5 million, respectively.

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

- New investments in machinery and equipment include four new police vehicles with related accessories, an automated refuse truck, a dump truck, snow plows, lawn, and leaf equipment. Also, the Water and Sewer Fund purchased a water utility truck, sewer CCTV truck, a heavy duty full-size pickup truck and related equipment for each truck.
- The town completed the commercial portion of the automated meter reading (AMR) project which streamlined the meter reading process.
- The project to replace the Brady Park soccer field natural turf with synthetic turf and add field lighting was in progress. This project will be completed in the first half of fiscal year 2018.
- The downtown projects for utility undergrounding and streetscape improvements were in progress. Both projects are projected to be completed in fiscal year 2018.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS (Continued)

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

LONG-TERM DEBT

At the end of fiscal year 2017, the town had \$12.4 million in outstanding general obligations bonds, premiums and notes payable as reflected in the following table, which represents a decrease of \$1.4 million from the prior fiscal year. More detailed information on long-term debt can be found in Note 8 of the notes to the financial statements.

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

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
	General obligation (GO) bonds	\$ 10,175	\$ 11,261	\$ 2,004	\$ 2,312	\$ 12,179
GO bonds - premiums	78	92	33	43	111	135
Notes payable	79	83	-	-	79	83
Total outstanding debt	\$ 10,332	\$ 11,436	\$ 2,037	\$ 2,355	\$ 12,369	\$ 13,791

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

As noted earlier, other than business licenses, the town's revenues from taxes performed as expected compared to budget in fiscal year 2017. As such, the fiscal year 2018 budget anticipates no significant revenue growth over the fiscal year 2017. Business licenses showed a healthy \$0.7 million increase over the prior year which seems to indicate a strengthening commercial sector. The approved fiscal year 2018 budget reflects a 1.53 percent increase in assessed property tax values and maintains the town's real estate tax rate of \$0.265 per \$100 of assessed value. All excise taxes are maintained at their current rates.

The total adopted fiscal year 2018 budget (all funds), including inter-fund transfers, is \$51.2 million which is about 7.8 percent less than the original budget for fiscal year 2017. General Fund expenditures total \$35.6 million which is about 1.4 percent more than the original budget for fiscal year 2017.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The June 2017 unemployment rate in Fairfax County (which includes the Town of Herndon) is estimated at 3.2 percent compared to the actual rate of 3.3 percent in June 2016. In comparison, Virginia's unemployment rate for June 2017 is 3.9 percent and the U.S. unemployment rate is estimated at 4.5 percent.

CURRENTLY KNOWN FACTS EXPECTED TO EFFECT FINANCIAL POSITION

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

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the town's finances and to demonstrate the town's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to the Director of Finance, Town of Herndon, Department of Finance, 777 Lynn St., Herndon, VA 20170. The telephone number is (703) 435-6810, or visit the town's web site at www.herndon-va.gov.

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www.herndon-va.gov

BASIC FINANCIAL STATEMENTS

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TOWN OF HERNDON, VIRGINIA

Exhibit A-1

STATEMENT OF NET POSITION
June 30, 2017

	Governmental Activities	Business-type Activities	Totals
ASSETS			
Cash, cash equivalents, and investments (Note 2)	\$ 23,843,435	\$ 13,085,811	\$ 36,929,246
Cash and investments with fiscal agent (Note 2)	3,263	-	3,263
Receivables, net:			
Property taxes (Note 3)	5,575,175	-	5,575,175
Trade and other accounts (Note 3)	669,977	1,444,386	2,114,363
Accrued interest	150,192	56,300	206,492
Due from other governments (Note 3)	1,437,412	-	1,437,412
Inventories	198,469	50,956	249,425
Prepaid costs	63,304	1,880	65,184
Notes receivable (Note 5)	-	28,149	28,149
Internal balances	101,320	(101,320)	-
Land held for sale	-	3,469,456	3,469,456
Capital assets: (Note 6)			
Nondepreciable	28,531,153	3,808,992	32,340,145
Depreciable, net	53,046,923	14,907,829	67,954,752
Total assets	<u>113,620,623</u>	<u>36,752,439</u>	<u>150,373,062</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	-	91,377	91,377
Pension related deferred outflows (Note 9)	2,739,797	281,868	3,021,665
Total deferred outflows of resources	<u>2,739,797</u>	<u>373,245</u>	<u>3,113,042</u>
LIABILITIES			
Accounts payable	1,825,259	1,588,698	3,413,957
Accrued payroll	482,044	46,177	528,221
Accrued liabilities - other	357,111	29,255	386,366
Accrued interest	105,546	23,060	128,606
Unearned revenue (Note 7)	321,510	38,828	360,338
Customer deposits	1,738,750	144,785	1,883,535
Noncurrent liabilities:			
Due within one year (Note 8)	1,729,778	285,383	2,015,161
Due in more than one year (Note 8)	10,915,902	2,068,058	12,983,960
Net pension liability (Note 9)	7,241,812	685,990	7,927,802
Other postemployment benefits (OPEB) (Note 11)	2,341,512	306,799	2,648,311
Total liabilities	<u>27,059,224</u>	<u>5,217,033</u>	<u>32,276,257</u>
DEFERRED INFLOWS OF RESOURCES			
Pension related deferred inflows (Note 9)	586,453	59,477	645,930
Property taxes (Note 7)	5,564,285	-	5,564,285
Total deferred inflows of resources	<u>6,150,738</u>	<u>59,477</u>	<u>6,210,215</u>
NET POSITION			
Net investment in capital assets	71,246,008	16,771,452	88,017,460
Restricted:			
Restricted, lateral program	-	151,114	151,114
Cemetery Perpetual Care Fund	1,618,442	-	1,618,442
Unrestricted	10,286,008	14,926,608	25,212,616
Total net position	<u>\$ 83,150,458</u>	<u>\$ 31,849,174</u>	<u>\$ 114,999,632</u>

TOWN OF HERNDON, VIRGINIA

Exhibit A-2

STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

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	\$ 745,753	\$ -	\$ -	\$ -	\$ (745,753)		\$ (745,753)
Administration	3,304,796	41,075	-	-	(3,263,721)		(3,263,721)
Town attorney	606,758	-	-	-	(606,758)		(606,758)
Parks and recreation	5,012,560	2,767,730	-	-	(2,244,830)		(2,244,830)
Finance	1,492,031	571,700	-	-	(920,331)		(920,331)
Community development	1,672,244	-	40,000	-	(1,632,244)		(1,632,244)
Police	10,079,277	397,691	707,588	-	(8,973,998)		(8,973,998)
Public works	12,594,496	710,671	1,178,505	2,168,349	(8,536,971)		(8,536,971)
Interest	258,075	-	-	-	(258,075)		(258,075)
Total governmental activities	35,765,990	4,488,867	1,926,093	2,168,349	(27,182,681)		(27,182,681)
Business-type activities:							
Water and sewer	\$ 7,606,887	\$ 6,506,438	-	-		\$ (1,100,449)	\$ (1,100,449)
Golf course	1,559,749	1,497,289	-	-		(62,460)	(62,460)
Chestnut Grove cemetery	708,383	890,165	-	-		181,782	181,782
Downtown parking	111,913	26,903	-	-		(85,010)	(85,010)
Total business-type activities	9,986,932	8,920,795	-	-		(1,066,137)	(1,066,137)
Total government	\$ 45,752,922	\$ 13,409,662	\$ 1,926,093	\$ 2,168,349	(27,182,681)	(1,066,137)	(28,248,818)
General Revenues:							
Taxes:							
General property					11,218,438	-	11,218,438
Business licenses					5,569,516	-	5,569,516
Transient occupancy					2,199,410	-	2,199,410
Local sales					1,798,728	-	1,798,728
Meals					2,215,677	-	2,215,677
Other local taxes					2,393,966	-	2,393,966
Revenues not restricted to specific programs					93,362	-	93,362
Intergovernmental, non-categorical aid					2,067,279	-	2,067,279
Use of money and property					909,502	68,405	977,907
Gain on sale of capital assets					-	6,370	6,370
Miscellaneous and lease income					206,101	511,630	717,731
Transfers					(155,593)	155,593	-
Total general revenues and transfers					28,516,386	741,998	29,258,384
Change in net position					1,333,705	(324,139)	1,009,566
Net position, July 1, as restated (Note 15)					81,816,753	32,173,313	113,990,066
Net position, June 30					\$ 83,150,458	\$ 31,849,174	\$ 114,999,632

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TOWN OF HERNDON, VIRGINIA

Exhibit A-3
Page 1

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017**

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash, cash equivalents and investments	\$ 15,459,311	\$ 6,381,731	\$ 2,002,393	\$ 23,843,435
Cash and investments with fiscal agent	3,228	35	-	3,263
Receivables (net of allowance for doubtful accounts):				
Property taxes	5,575,175	-	-	5,575,175
Trade and other accounts	669,977	-	-	669,977
Accrued interest	99,521	34,591	16,080	150,192
Due from other governments	791,077	646,335	-	1,437,412
Inventories	198,469	-	-	198,469
Prepaid costs	38,304	25,000	-	63,304
Advances to other funds	101,320	-	-	101,320
Total assets	\$ 22,936,382	\$ 7,087,692	\$ 2,018,473	\$ 32,042,547

(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, 2017

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 776,344	\$ 1,004,428	\$ 44,487	\$ 1,825,259
Accrued payroll	482,044	-	-	482,044
Accrued liabilities - other	268,695	88,416	-	357,111
Unearned revenue	321,510	-	-	321,510
Customer deposits	1,738,750	-	-	1,738,750
Total liabilities	3,587,343	1,092,844	44,487	4,724,674
Deferred inflows of resources:				
Unavailable revenue - property taxes	5,602,880	-	-	5,602,880
Total deferred inflows of resources	5,602,880	-	-	5,602,880
Fund Balances:				
Nonspendable:				
Inventories	198,469	-	-	198,469
Prepaid costs	38,304	25,000	-	63,304
Loan to Cemetery Fund	101,320	-	-	101,320
Restricted:				
Bond proceeds not yet spent	3,228	35	-	3,263
Cemetery perpetual care	-	-	1,618,442	1,618,442
Stormwater grant	-	37,036	-	37,036
Brownfields grant	-	109,000	-	109,000
Committed:				
Revenue stabilization	1,200,000	-	-	1,200,000
Assigned:				
Operating materials, services and supplies	836,095	-	190,292	1,026,387
Capital equipment and vehicles	818,300	-	-	818,300
Future debt service costs	-	-	-	-
Future police radio system costs	-	-	420,000	420,000
BPOL Reserve	547,800	-	-	547,800
Subsequent years' expenditures for:				
General Fund	656,807	-	-	656,807
Capital Projects Fund	-	5,823,777	76,124	5,899,901
Unassigned:				
General Fund	9,345,836	-	-	9,345,836
Other Governmental Funds	-	-	(330,872)	(330,872)
Total fund balances	13,746,159	5,994,848	1,973,986	21,714,993
Total liabilities, deferred inflows of resources and fund balances	\$ 22,936,382	\$ 7,087,692	\$ 2,018,473	\$ 32,042,547

TOWN OF HERNDON, VIRGINIA

Exhibit A-4

**RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2017**

Total Fund Balances - Governmental Funds		\$ 21,714,993
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.</p>		81,578,076
<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>		38,595
<p>Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the funds.</p>		
<p style="padding-left: 20px;">Pension related deferred outflows</p>		2,739,797
<p style="padding-left: 20px;">Pension related deferred inflows</p>		(586,453)
<p style="padding-left: 20px;">Net pension liability</p>		(7,241,812)
<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>		
<p style="padding-left: 20px;">Bonds payable, including unamortized premiums and discounts</p>	(10,253,274)	
<p style="padding-left: 20px;">Notes payable</p>	(78,794)	
<p style="padding-left: 20px;">Other postemployment benefits</p>	(2,341,512)	
<p style="padding-left: 20px;">Compensated absences</p>	(2,313,612)	
<p style="padding-left: 20px;">Interest payable</p>	(105,546)	
	(15,092,738)	
<p style="padding-left: 40px;">Net position of governmental activities</p>		\$ 83,150,458

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TOWN OF HERNDON, VIRGINIA

Exhibit A-5
Page 1

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2017

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
General property taxes	\$ 11,214,419	\$ -	\$ -	\$ 11,214,419
Other local taxes	14,177,297	-	-	14,177,297
Permits, privilege fees and regulatory licenses	559,488	-	-	559,488
Fines and forfeitures	423,335	-	-	423,335
Use of money and property	569,726	346,313	(6,537)	909,502
Charges for services	3,599,406	-	-	3,599,406
Miscellaneous	32,665	173,436	-	206,101
Intergovernmental	5,171,877	989,844	-	6,161,721
Total revenues	35,748,213	1,509,593	(6,537)	37,251,269
Expenditures:				
Current:				
Legislative	698,951	-	-	698,951
Administration	3,131,313	-	-	3,131,313
Town attorney	476,844	-	-	476,844
Parks and recreation	4,288,848	-	-	4,288,848
Finance	1,518,192	-	-	1,518,192
Community development	1,686,329	-	-	1,686,329
Police	9,603,136	-	-	9,603,136
Public works	10,735,437	-	-	10,735,437
Grants	74,628	-	-	74,628
Capital outlay	-	2,791,333	248,977	3,040,310
Debt service:				
Principal	1,090,629	-	-	1,090,629
Interest and fiscal charges	283,733	-	-	283,733
Total expenditures	33,588,040	2,791,333	248,977	36,628,350
Excess (deficiency) of revenues over expenditures	2,160,173	(1,281,740)	(255,514)	622,919

(Continued)

TOWN OF HERNDON, VIRGINIA

Exhibit A-5
Page 2

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2017

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Other financing sources (uses):				
Transfers in	\$ -	\$ 870,000	\$ 665,807	\$ 1,535,807
Transfers out	(1,691,400)	-	-	(1,691,400)
Total other financing sources (uses), net	(1,691,400)	870,000	665,807	(155,593)
Net change in fund balances	468,773	(411,740)	410,293	467,326
Fund balances, July 1, as restated (Note 15)	13,277,386	6,406,588	1,563,693	21,247,667
Fund balances, June 30	\$ 13,746,159	\$ 5,994,848	\$ 1,973,986	\$ 21,714,993

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, 2017**

Net change in fund balances - total governmental funds		\$ 467,326
Reconciliation of amounts reported for governmental activities in the Statement of Activities:		
<p>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.</p>		
Expenditure for capital assets	\$ 3,370,996	
Less depreciation and amortization expense	<u>(3,720,156)</u>	
Excess of capital outlay over depreciation and amortization		(349,160)
<p>The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins and donations) is to decrease net position:</p>		
Loss on disposal of capital assets		(3,593)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Change in unavailable revenue		4,019
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the Statement of Net Position.</p>		
Principal repayments:		
General obligation debt and notes payable		1,090,629
<p>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.</p>		
Employer pension contributions		1,151,154
Pension expense		(993,939)
<p>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.</p>		
Accrued interest	11,914	
Compensated absences	85,722	
Other postemployment benefits	(144,111)	
Amortization of premiums and discounts	<u>13,744</u>	
		<u>(32,731)</u>
Change in net position of governmental activities		<u>\$ 1,333,705</u>

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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, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
General property taxes	\$ 11,227,000	\$ 11,227,000	\$ 11,214,419	\$ (12,581)
Other local taxes	12,777,000	13,077,000	14,177,297	1,100,297
Permits, privilege fees and regulatory licenses	479,000	479,000	559,488	80,488
Fines and forfeitures	538,000	538,000	423,335	(114,665)
Use of money and property	790,000	790,000	569,726	(220,274)
Charges for services	3,514,700	3,514,700	3,599,406	84,706
Miscellaneous	14,961	14,961	32,665	17,704
Intergovernmental	4,449,000	4,449,000	5,171,877	722,877
Total revenues	33,789,661	34,089,661	35,748,213	1,658,552
Expenditures:				
Current:				
Legislative	701,800	701,800	698,951	2,849
Administration	2,858,800	3,244,800	3,131,313	113,487
Town attorney	465,500	465,500	476,844	(11,344)
Parks and recreation	4,342,554	4,428,838	4,288,848	139,990
Finance	1,441,500	1,494,200	1,518,192	(23,992)
Community development	1,886,800	2,261,913	1,686,329	575,584
Police	9,671,770	9,839,117	9,603,136	235,981
Public works	10,473,337	11,038,457	10,735,437	303,020
Grants	-	41,355	74,628	(33,273)
Debt service:				
Principal	1,190,700	1,190,700	1,090,629	100,071
Interest and fiscal charges	337,100	337,100	283,733	53,367
Total expenditures	33,369,861	35,043,780	33,588,040	1,455,740
Excess (deficiency) of revenues over expenditures	419,800	(954,119)	2,160,173	3,114,292

(Continued)

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, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Other financing sources (uses):				
Proceeds from sale of capital assets	\$ 16,300	\$ 16,300	\$ -	\$ (16,300)
Proceeds from capital lease	420,000	420,000	-	(420,000)
Transfers out	(1,457,000)	(1,481,400)	(1,691,400)	(210,000)
Total other financing uses, net	(1,020,700)	(1,045,100)	(1,691,400)	(646,300)
Net change in fund balance	\$ (600,900)	\$ (1,999,219)	\$ 468,773	\$ 2,467,992

TOWN OF HERNDON, VIRGINIA

Exhibit A-8
Page 1

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2017

	Business-type Activities - Enterprise Funds				
	Major Funds				Totals
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking	
ASSETS					
Current Assets:					
Cash, cash equivalents and investments	\$ 11,056,988	\$ 977,107	\$ 683,767	\$ 367,949	\$ 13,085,811
Receivables (net of allowance for doubtful accounts):					
Trade and other accounts	1,433,232	-	-	11,154	1,444,386
Accrued interest	35,832	7,678	6,695	6,095	56,300
Inventories	12,753	38,203	-	-	50,956
Prepaid costs	-	880	-	1,000	1,880
Current notes receivable (net of allowance for doubtful accounts)	-	-	-	28,149	28,149
Total current assets	12,538,805	1,023,868	690,462	414,347	14,667,482
Noncurrent Assets:					
Land held for sale	-	-	-	3,469,456	3,469,456
Capital assets:					
Land	200,000	1,621,574	718,500	966,109	3,506,183
Buildings	-	2,222,015	1,263,020	-	3,485,035
Improvements other than buildings	28,802,793	3,157,597	1,450,064	460,045	33,870,499
Machinery and equipment	2,247,134	687,549	134,911	-	3,069,594
Furniture and fixtures	194,919	-	6,720	-	201,639
Intangibles	265,608	-	-	-	265,608
Construction in progress	275,379	27,430	-	-	302,809
Less accumulated depreciation and amortization	(19,661,905)	(4,451,296)	(1,420,030)	(451,315)	(25,984,546)
Total capital assets (net of accumulated depreciation and amortization)	12,323,928	3,264,869	2,153,185	974,839	18,716,821
Total noncurrent assets	12,323,928	3,264,869	2,153,185	4,444,295	22,186,277
Total assets	24,862,733	4,288,737	2,843,647	4,858,642	36,853,759
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on refunding	-	-	91,377	-	91,377
Pension related deferred outflows	135,093	102,929	43,846	-	281,868
Total deferred outflows of resources	135,093	102,929	135,223	-	373,245

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

(Continued)

TOWN OF HERNDON, VIRGINIA

Exhibit A-8
Page 2

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2017

	Business-type Activities - Enterprise Funds				
	Major Funds				Totals
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking	
LIABILITIES					
Current Liabilities:					
Accounts payable	\$ 1,557,865	\$ 12,007	\$ 8,850	\$ 9,976	\$ 1,588,698
Accrued payroll	20,866	18,947	6,364	-	46,177
Accrued liabilities - other	24,697	14,391	13,227	-	52,315
Compensated absences	14,502	7,659	4,916	-	27,077
Unearned revenue	38,828	-	-	-	38,828
Customer deposits	144,785	-	-	-	144,785
Advances from other funds	-	-	101,320	-	101,320
Current general obligation bonds payable	-	104,227	154,079	-	258,306
Total current liabilities	1,801,543	157,231	288,756	9,976	2,257,506
Noncurrent Liabilities:					
Compensated absences	124,354	144,914	20,350	-	289,618
Other postemployment benefits	166,815	96,942	43,042	-	306,799
Net pension liability	300,826	274,862	110,302	-	685,990
Long-term general obligation bonds payable, net	-	636,878	1,141,562	-	1,778,440
Total noncurrent liabilities	591,995	1,153,596	1,315,256	-	3,060,847
Total liabilities	2,393,538	1,310,827	1,604,012	9,976	5,318,353
DEFERRED INFLOWS OF RESOURCES					
Pension related deferred inflows	28,947	21,311	9,219	-	59,477
NET POSITION					
Net Position:					
Net investment in capital assets	12,323,928	2,523,764	948,921	974,839	16,771,452
Restricted, lateral program	151,114	-	-	-	151,114
Unrestricted	10,100,299	535,764	416,718	3,873,827	14,926,608
Total net position	\$ 22,575,341	\$ 3,059,528	\$ 1,365,639	\$ 4,848,666	\$ 31,849,174

TOWN OF HERNDON, VIRGINIA

Exhibit A-9

Page 1

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS
 Year Ended June 30, 2017

	Business-type Activities - Enterprise Funds				
	Major Funds				
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking	Totals
Operating revenues:					
Sale of water	\$ 2,815,443	\$ -	\$ -	\$ -	\$ 2,815,443
Sewer service charges	3,204,229	-	-	-	3,204,229
Late payment charges	66,317	-	-	-	66,317
Sale of commodities	12,214	-	-	-	12,214
Rents and leases	348,383	45,525	-	-	393,908
Greens fees	-	1,000,583	-	-	1,000,583
Golf cart revenue	-	292,332	-	-	292,332
Golf pro shop sales	-	64,237	-	-	64,237
Driving range fees	-	77,455	-	-	77,455
Cemetery sites	-	-	445,939	-	445,939
Interment services	-	-	195,335	-	195,335
Merchandise sales	-	-	198,924	-	198,924
Miscellaneous	23,695	17,157	49,967	26,903	117,722
Total operating revenues	6,470,281	1,497,289	890,165	26,903	8,884,638
Operating expenses:					
Finance	276,731	-	-	-	276,731
Water main maintenance	1,890,757	-	-	-	1,890,757
Sewer service charge	3,985,256	-	-	-	3,985,256
Contractual services	519,900	-	-	-	519,900
Golf course operations	-	717,667	-	-	717,667
Golf course club house	-	528,955	-	-	528,955
Cemetery operations	-	-	531,072	-	531,072
Downtown parking	-	-	-	107,491	107,491
Nondepartmental:					
Depreciation and amortization	896,037	231,907	108,009	4,422	1,240,375
Miscellaneous	38,206	52,021	21,058	-	111,285
Total operating expenses	7,606,887	1,530,550	660,139	111,913	9,909,489
Operating income (loss)	(1,136,606)	(33,261)	230,026	(85,010)	(1,024,851)

(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, 2017

	Business-type Activities - Enterprise Funds				Totals
	Major Funds				
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking	
Nonoperating revenues (expenses):					
Investment earnings, net	\$ 53,704	\$ 12,720	\$ 8,960	\$ (6,979)	\$ 68,405
Availability fees	547,787	-	-	-	547,787
Interest expense	-	(29,199)	(48,244)	-	(77,443)
Gain on disposal of capital assets	6,370	-	-	-	6,370
Total nonoperating revenues (expenses), net	607,861	(16,479)	(39,284)	(6,979)	545,119
Income (loss) before transfers	(528,745)	(49,740)	190,742	(91,989)	(479,732)
Transfers in	-	-	-	200,000	200,000
Transfers out	-	-	(44,407)	-	(44,407)
Change in net position	(528,745)	(49,740)	146,335	108,011	(324,139)
Total net position, July 1, as restated (Note 15)	23,104,086	3,109,268	1,219,304	4,740,655	32,173,313
Total net position, June 30	\$ 22,575,341	\$ 3,059,528	\$ 1,365,639	\$ 4,848,666	\$ 31,849,174

TOWN OF HERNDON, VIRGINIA

Exhibit A-10

Page 1

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 Year Ended June 30, 2017

	Business-type Activities - Enterprise Funds				
	Major Funds				
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking	Totals
Operating Activities:					
Receipts from customers	\$ 6,204,718	\$ 1,497,290	\$ 890,165	\$ 28,463	\$ 8,620,636
Payments to suppliers for goods and services	(5,810,582)	(404,051)	(217,637)	(105,143)	(6,537,413)
Payments to employees for services	(1,063,669)	(908,021)	(363,040)	-	(2,334,730)
Net cash provided by (used in) operating activities	(669,533)	185,218	309,488	(76,680)	(251,507)
Noncapital Financing Activities:					
Transfers in from other funds	-	-	-	200,000	200,000
Transfers out to other funds	-	-	(44,407)	-	(44,407)
Repayment of advances from other funds	-	-	(12,665)	-	(12,665)
Interest paid on advances from other funds	-	-	(4,844)	-	(4,844)
Net cash provided by (used in) noncapital financing activities	-	-	(61,916)	200,000	138,084
Capital and Related Financing Activities:					
Water and sewer tap fees/contributions from local sources	547,787	-	-	-	547,787
Acquisition and construction of capital assets	(504,877)	(9,910)	(5,175)	-	(519,962)
Proceeds from the sale of capital assets	6,370	-	-	-	6,370
Principal paid on bonds	-	(100,501)	(207,234)	-	(307,735)
Interest paid on bonds	-	(30,848)	(36,166)	-	(67,014)
Net cash provided by (used in) capital and related financing activities	49,280	(141,259)	(248,575)	-	(340,554)
Investing Activities:					
Principal received on note receivable	-	-	-	18,327	18,327
Interest received on investment securities	84,847	8,583	2,782	1,362	97,574
Net cash provided by investing activities	84,847	8,583	2,782	19,689	115,901
Net increase (decrease) in cash, cash equivalents and investments	(535,406)	52,542	1,779	143,009	(338,076)
Cash, Cash Equivalents and Investments:					
Beginning	11,592,394	924,565	681,988	224,940	13,423,887
Ending	\$ 11,056,988	\$ 977,107	\$ 683,767	\$ 367,949	\$ 13,085,811

TOWN OF HERNDON, VIRGINIA

Exhibit A-10

Page 2

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 Year Ended June 30, 2017

	Business-type Activities - Enterprise Funds				
	Major Funds				
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking	Totals
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ (1,136,606)	\$ (33,261)	\$ 230,026	\$ (85,010)	\$ (1,024,851)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	896,037	231,907	108,009	4,422	1,240,375
Pension expense net of employer contributions	(8,860)	(9,996)	(3,643)	-	(22,499)
Changes in assets and liabilities:					
(Increase) decrease in:					
Receivables	(236,571)	-	-	1,560	(235,011)
Inventories	(6,406)	(5,777)	-	-	(12,183)
Increase (decrease) in:					
Accounts payable, accrued liabilities and compensated absences	(147,004)	2,345	(24,904)	2,348	(167,215)
Deposits	(30,123)	-	-	-	(30,123)
Net cash provided by (used in) operating activities	<u>\$ (669,533)</u>	<u>\$ 185,218</u>	<u>\$ 309,488</u>	<u>\$ (76,680)</u>	<u>\$ (251,507)</u>
 Schedule of Noncash Capital and Related Financing Activities:					
Capital asset additions in accounts payable	<u>\$ 409,959</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 409,959</u>

TOWN OF HERNDON, VIRGINIA

Exhibit A-11

STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUND
 June 30, 2017
 (With Comparative Amounts for 2016)

	Pension Trust Fund Police Supplemental Retirement Pension Trust Fund	
	2017	2016
ASSETS		
Mutual funds	\$ 3,749,545	\$ 2,819,507
Accounts Receivable	9,698	5,506
	<hr/>	<hr/>
Total assets	3,759,243	2,825,013
	<hr/>	<hr/>
NET POSITION		
Net position restricted for pensions	\$ 3,759,243	\$ 2,825,013
	<hr/>	<hr/>

TOWN OF HERNDON, VIRGINIA

Exhibit A-12

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUND
 Year Ended June 30, 2017
 (With Comparative Amounts for 2016)

	Pension Trust Fund Police Supplemental Retirement Pension Trust Fund	
	2017	2016
Additions:		
Employer contributions	\$ 539,686	\$ 144,547
Rollovers from prior employers	3,576	-
Total contributions	543,262	144,547
Investment income:		
Net increase (decrease) in the fair market value of investments	390,968	(2,597)
Total additions, net	934,230	141,950
Deductions:		
Benefit payments	-	93,428
Change in net position	934,230	48,522
Net position, July 1	2,825,013	2,776,491
Net position, June 30	\$ 3,759,243	\$ 2,825,013

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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*.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1. Summary of Significant Accounting Policies (Continued)

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

Fund Financial Statements:

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items.

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

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

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

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

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

The town reports the following major governmental funds:

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

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

The town reports the following major proprietary funds:

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

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

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

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

Additionally, the town reports the *Police Supplemental Retirement Pension 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.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets and Budgetary Accounting

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

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

Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution. This resolution appropriates all budgeted amounts. The Appropriations Resolution places legal restrictions on expenditures for each department or category level. The Town Manager is authorized to transfer budgeted amounts of up to \$30,000. Transfers exceeding \$30,000 must be authorized by the Town Council. All increases or decreases to the approved budget must be approved by the Town Council before being made. During the year, the Town Council approves additional appropriations, as needed, in the form of Budget Amendments. During the year ended June 30, 2017, budget revisions to the general fund were made, which resulted in a \$1,673,919 increase in budgeted expenditures.

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

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

E. Deposits and Investments

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

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

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1. Summary of Significant Accounting Policies (Continued)

F. Fair Value Measurements

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

G. Receivables and Payables

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

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

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

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

The town levies real estate taxes as of January 1 on all real property in the town on a calendar year basis at a rate enacted by Town Council. The levies are based on the assessed value of property as determined by the Director of Real Estate Assessments of Fairfax County. All property is assessed at 100 percent of appraised value and reassessed each year as of January 1. Real estate taxes are collected in equal installments due July 28 and December 5. Lien dates are 190 days after the due date. The tax rate during 2017 per \$100 of assessed value was \$.265. No discounts are allowed. A late penalty of ten percent is charged after July 28 and December 5. Interest of ten percent on tax and penalty is charged from August 1 for the first half real estate taxes and from January 1 for second half real estate taxes.

The town did not assess personal property taxes during fiscal year 2017.

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

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1. Summary of Significant Accounting Policies (Continued)

H. Inventories

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

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

I. Prepaid Items

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

J. Restricted Cash

In accordance with the agreements resulting in the issuance of debt, the General Fund and Capital Projects Fund has a portion of its cash balance restricted and shown as "Cash with fiscal agent" on the Governmental Funds' Balance Sheet and the Statement of Net Position. This restriction on cash balances is due to the intended use, as prescribed in the applicable bond covenants.

K. Deferred Outflows and Inflows of Resources

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

- Deferred loss on refunding. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Due to the relationship with outstanding debt, these deferred outflows are included in the calculation of net position, net investment in capital assets.
- Contributions subsequent to the measurement date for pensions; this will be applied to the net pension liability in the next fiscal year.
- Difference between projected and actual earnings on pension plan investments. This difference will be recognized in pension expense over the closed five year period.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1. Summary of Significant Accounting Policies (Continued)

K. Deferred Outflows and Inflows of Resources (Continued)

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

- One item occurs only under the modified accrual basis of accounting; this item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes and other receivables not collected within 45 days of year end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- The second item represents taxes billed and, in some cases, collected before the period they are eligible for use.
- Differences between expected and actual experience for economic/demographic factors in the measurement of the total pension liability. This difference will be recognized in pension expense over the closed five year period.

L. Capital Assets

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

Interest incurred during construction on governmental activities' capital assets is not capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Capitalized interest is amortized using the straight-line method over the useful life of the asset.

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.

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

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.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1. Summary of Significant Accounting Policies (Continued)

L. Capital Assets (Continued)

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

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

M. Land Held for Sale

Property held for sale is valued at the lower of cost or market. These assets are evaluated on an annual basis for impairment and a loss is recognized if the carrying amount exceeds the fair value. In May 2015, the Town Council entered into a contract to purchase 1.67 acres of land from a private owner. The sale was completed in September, 2015 with a purchase price of \$3,469,000. This land, along with other parcels, was transferred to Comstock Herndon Venture, LC in November 2017 as part of the comprehensive agreement for the Herndon Downtown Redevelopment project.

N. Compensated Absences

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

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

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

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1. Summary of Significant Accounting Policies (Continued)

O. Long-term Obligations

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

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

P. Fund Equity

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 OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1. Summary of Significant Accounting Policies (Continued)

P. Fund Equity (Continued)

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.

Q. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Town's Retirement Plan and the additions to or deductions from the Town's Retirement Plan 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.

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

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 2. Deposits and Investments (Continued)

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.

Investments

Investment Policy:

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

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

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Investment Policy (Continued):

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

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

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

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.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 2. Deposits and Investments (Continued)

Interest Rate Risk (Continued):

As of June 30, 2017, the town's investments consisted of the following:

Investment Type	Value	S & P Credit Rating	Weighted Average Maturity*
LGIP	\$ 10,854,730	AAAm	0.23
Money Market	3,262	N/A	N/A
Federal Agency Bonds and Notes	17,387,442	AA- to AAA	0.38
Corporate Notes	2,014,850	AA+	1.30
Mutual Funds	3,749,545	Various	N/A
Total investments	<u>\$ 34,009,829</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, 2017, the portion of the town's portfolio that exceed 5% of the total portfolio are as follows:

Federal Agency Bonds and Notes	51%
Corporate Notes	6%
Mutual Funds	11%

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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, 2017:

	Level 1	Level 2	Level 3	Total
Mutual funds – Police Retirement Plan				
DFA Emerging Markets Core Equity I	\$ 26,388	\$ -	\$ -	\$ 26,388
DFA International Core Equity I	93,161	-	-	93,161
DFA US Core Equity 2 I	124,448	-	-	124,448
Federated Capital Preservation	23,673	-	-	23,673
I-Shares I-Boxx \$ High Yield Corporate Bd	27,988	-	-	27,988
Vanguard Total Bond Market Index Adm	102,321	-	-	102,321
Vanguard Target Retirement 2055 Inv	13,253	-	-	13,253
Vanguard Target Retirement 2050 Inv	93,833	-	-	93,833
Vanguard Target Retirement 2040 Inv	592,322	-	-	592,322
Vanguard REIT Index Adm	24,114	-	-	24,114
Vanguard Growth Index Adm	193,269	-	-	193,269
Vanguard Mid Cap Index Adm	30,093	-	-	30,093
Vanguard S and P 500 ETF	308,448	-	-	308,448
Vanguard Target Retirement 2030 Inv	313,425	-	-	313,425
Vanguard Target Retirement Income Inv	1,654	-	-	1,654
Vanguard Target Retirement 2045 Inv	139,558	-	-	139,558
Vanguard Target Retirement 2035 Inv	712,565	-	-	712,565
Vanguard Target Retirement 2025 Inv	702,525	-	-	702,525
Vanguard Target Retirement 2020	224,397	-	-	224,397
Vanguard Target Retirement 2015	1,997	-	-	1,997
Other	113	-	-	113
Debt securities:				
Federal Agency Bonds and Notes	-	17,387,442	-	17,387,442
Corporate bonds	-	2,014,850	-	2,014,850
	<u>\$ 3,749,545</u>	<u>\$ 19,402,292</u>	<u>\$ -</u>	<u>\$ 23,151,837</u>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 2. Deposits and Investments (Continued)

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

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

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

Deposits and investments:	
Deposits	\$ 6,672,225
Investments	30,260,284
Investments held in trust	3,749,545
	<u>\$ 40,682,054</u>
Statement of Net Position:	
Cash and investments	\$ 36,929,246
Cash and investments with fiscal agent	3,263
Fiduciary fund cash and investments	3,749,545
	<u>\$ 40,682,054</u>

Cash with fiscal agent:

Restricted investments consist of unspent bond proceeds related to bond issuances.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 3. Receivables and Due from Other Governments

Receivables are as follows:

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Total</u>
Property tax	\$ 5,580,447	\$ -	\$ 5,580,447
Meal tax	213,897	-	213,897
Transient occupancy tax	225,270	-	225,270
Fines and forfeitures	55,364	-	55,364
Trade and other accounts	177,722	1,507,197	1,684,919
Gross receivables	6,252,700	1,507,197	7,759,897
Less: allowance for uncollectible	(7,548)	(62,811)	(70,359)
Receivables, net	<u>\$ 6,245,152</u>	<u>\$ 1,444,386</u>	<u>\$ 7,689,538</u>

Due from other governments:

Federal government	\$ 636,817	\$ -	\$ 636,817
Commonwealth of Virginia	736,056	-	736,056
Counties	34,610	-	34,610
Northern Virginia Cigarette Tax Board	29,929		29,929
Total due from other governments	<u>\$ 1,437,412</u>	<u>\$ -</u>	<u>\$ 1,437,412</u>

Note 4. Interfund Receivables, Payables, and Transfers

Interfund balances are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Enterprise: Chestnut Grove Cemetery	\$ <u>101,320</u>
	Total	\$ <u>101,320</u>

Interfund receivables consist of interfund loans.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

A summary of interfund transfer activity is presented as follows:

	General Fund	Chestnut Grove Cemetery Fund	Total Transferred In
Transferred to Fund:			
Primary government:			
Governmental activities:			
Capital projects Fund	\$ 870,000	\$ -	\$ 870,000
Other nonmajor governmental funds	621,400	44,407	665,807
Business-type activities:			
Downtown Parking Fund	200,000	-	200,000
Total Transferred Out	<u>\$ 1,691,400</u>	<u>\$ 44,407</u>	<u>\$ 1,735,807</u>

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

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

Note 5. Notes Receivable

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

4.27% note, due in annual installments of \$16,291, plus interest through October 2017	16,291
4.515% note, due in annual installments of \$11,858, plus interest through October 2023	<u>83,003</u>
	99,294
Less current maturities	(28,149)
Less allowance for uncollectible accounts	<u>(71,145)</u>
Long-term portion, net	<u>\$ -</u>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 6. Capital Assets

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

Governmental Activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital asset, not depreciated:				
Land	\$ 24,689,717	\$ -	\$ -	\$ 24,689,717
Easements	8,584	-	-	8,584
Construction in progress	1,354,770	2,547,240	(69,158)	3,832,852
Total capital assets not depreciated	26,053,071	2,547,240	(69,158)	28,531,153
Capital assets, depreciated:				
Infrastructure	82,170,598	30,587	(6,240)	82,194,945
Buildings	41,176,787	-	-	41,176,787
Improvements other than buildings	13,078,398	46,498	-	13,124,896
Machinery and equipment	10,058,977	776,743	(475,743)	10,359,977
Intangibles	1,215,861	39,086	-	1,254,947
Furniture and fixtures	968,835	-	-	968,835
Total capital assets	148,669,456	892,914	(481,983)	149,080,387
Less accumulated depreciation:				
Infrastructure	(61,196,463)	(1,342,851)	6,032	(62,533,282)
Buildings	(16,648,305)	(1,082,084)	-	(17,730,389)
Improvements other than buildings	(7,802,935)	(494,310)	-	(8,297,245)
Machinery and equipment	(5,761,926)	(712,046)	472,358	(6,001,614)
Intangibles	(1,082,392)	(44,531)	-	(1,126,923)
Furniture and fixtures	(299,677)	(44,334)	-	(344,011)
Total accumulated depreciation	(92,791,698)	(3,720,156)	478,390	(96,033,464)
Total capital assets, depreciated, net	55,877,758	(2,827,242)	(3,593)	53,046,923
Governmental activities capital assets, net	\$ 81,930,829	\$ (280,002)	\$ (72,751)	\$ 81,578,076

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 6. Capital Assets (Continued)

Business-type activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital asset, not depreciated:				
Land	\$ 3,506,183	\$ -	\$ -	\$ 3,506,183
Construction in progress	292,970	398,147	(388,308)	302,809
	<hr/>			<hr/>
Total capital assets not depreciated	3,799,153	398,147	(388,308)	3,808,992
	<hr/>			<hr/>
Capital assets, depreciated:				
Buildings	3,485,035	-	-	3,485,035
Improvements other than buildings	33,831,469	39,030	-	33,870,499
Machinery and equipment	2,182,823	886,770	-	3,069,593
Furniture and fixtures	201,639	-	-	201,639
Intangibles	265,608	-	-	265,608
	<hr/>			<hr/>
Total capital assets	39,966,574	925,800	-	40,892,374
	<hr/>			<hr/>
Less accumulated depreciation:				
Buildings	(1,740,220)	(99,254)	-	(1,839,474)
Improvements other than buildings	(20,808,552)	(1,057,014)	-	(21,865,566)
Machinery and equipment	(1,745,801)	(87,264)	-	(1,833,065)
Furniture and fixtures	(200,323)	(336)	-	(200,659)
Intangibles	(243,557)	(2,224)	-	(245,781)
	<hr/>			<hr/>
Total accumulated depreciation	(24,738,453)	(1,246,092)	-	(25,984,545)
	<hr/>			<hr/>
Total capital assets, depreciated, net	15,228,121	(320,292)	-	14,907,829
	<hr/>			<hr/>
Business-type activities capital assets, net	\$ 19,027,274	\$ 77,855	\$ (388,308)	\$ 18,716,821
	<hr/>			<hr/>

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 6. Capital Assets (Continued)

Primary Government

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
Legislative	\$ 38,772
Administration	231,595
Parks and Recreation	671,829
Finance	40,371
Community Development	38,780
Police	484,940
Public Works	2,064,767
Town Attorney	<u>149,102</u>
	<u>\$ 3,720,156</u>
Business-type activities:	
Water and Sewer	\$ 896,037
Golf Course	231,907
Chestnut Grove Cemetery	108,009
Downtown Parking Enterprise	<u>4,422</u>
	1,240,375
Transfer in of capital assets	<u>5,717</u>
	<u>\$ 1,246,092</u>

Note 7. Unavailable and Unearned Revenue

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

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property tax receivable	\$ 38,595	\$ -
Advance billing of 2017-2018 taxes	5,564,285	5,564,285
Intergovernmental	-	321,510
Other	<u>-</u>	<u>38,828</u>
	<u>\$ 5,602,880</u>	<u>\$ 5,924,623</u>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 8. Long-Term Debt

Primary Government

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due within One Year
Governmental Activities:					
Bonds and notes payable:					
General obligation bonds	\$ 11,261,412	\$ -	\$ 1,086,265	\$ 10,175,147	\$ 1,177,944
Notes Payable	83,158	-	4,364	78,794	4,493
Plus deferred amount for bond premiums	91,871	-	13,744	78,127	-
Total	11,436,441	-	1,104,373	10,332,068	1,182,437
Compensated absences	2,399,334	2,014,340	2,100,062	2,313,612	547,341
	<u>\$ 13,835,775</u>	<u>\$ 2,014,340</u>	<u>\$ 3,204,435</u>	<u>\$ 12,645,680</u>	<u>\$ 1,729,778</u>
 Business-type Activities:					
Serial bonds	\$ 2,312,088	\$ -	\$ 307,735	\$ 2,004,353	\$ 258,306
Plus deferred amount for bond premiums	43,297	-	10,904	32,393	-
Compensated absences	320,746	178,985	183,036	316,695	27,077
	<u>\$ 2,676,131</u>	<u>\$ 178,985</u>	<u>\$ 501,675</u>	<u>\$ 2,353,441</u>	<u>\$ 285,383</u>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 8. Long-Term Debt (continued)

Primary Government (Continued)

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

Fiscal Year	Governmental Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 1,182,437	\$ 250,893	\$ 258,306	\$ 55,574	\$ 1,440,743	\$ 306,467
2019	1,212,912	219,993	266,713	47,234	1,479,625	267,227
2020	1,246,007	188,133	273,754	38,574	1,519,761	226,707
2021	1,280,847	156,898	282,555	30,715	1,563,402	187,613
2022	1,105,041	124,132	140,506	22,238	1,245,547	146,370
2023-2027	3,733,289	283,353	673,519	56,734	4,406,808	340,087
2028-2032	493,408	36,002	109,000	6,964	602,409	42,966
	<u>\$ 10,253,941</u>	<u>\$ 1,259,404</u>	<u>\$ 2,004,353</u>	<u>\$ 258,033</u>	<u>\$ 12,258,295</u>	<u>\$ 1,517,437</u>

Details of Long-term Indebtedness

	Interest Rates	Date Issued	Maturity Date	Amount of Original Issue	Governmental Activities	Business-Type Activities
General Obligation Build America and Recovery Zone Bonds	3.00 – 6.07	2010	2030	\$ 2,875,000	\$ 1,723,450	\$ 366,550
General Obligation Public Improvement and Refunding Bonds	3.25 – 4.00	2010	2021	3,015,000	782,123	552,878
VRA Loan Note Payable	2.93	2011	2031	100,000	78,794	-
General Obligation Public Improvement and Refunding Bonds	2.15	2012	2023	4,999,000	3,990,500	-
General Obligation Public Improvement and Refunding Bonds	2.10	2014	2026	5,221,000	3,679,074	1,084,925
					<u>\$ 10,253,941</u>	<u>\$ 2,004,353</u>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 9. Defined Benefit Pension Plan

Plan Description

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

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

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

- **Hybrid Opt-In Election** – VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan’s effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.
- **Retirement Contributions** – Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.
- **Creditable Service** – Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member’s total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

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

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

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

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 2 – Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

- **Hybrid Opt-In Election** – Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.
- **Retirement Contributions** – Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016.
- **Creditable Service** – Same as Plan 1.
- **Vesting** – Same as Plan 1.
- **Calculating the Benefit** – See definition under Plan 1.
- **Average Final Compensation** – A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier** – Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013. Sheriffs, regional jail superintendents, and hazardous duty employees are same as Plan 1.
- **Normal Retirement Age** – Normal Social Security retirement age. Hazardous duty employees are the same as Plan 1.
- **Earliest Unreduced Retirement Eligibility** – Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. Hazardous duty employees are the same as Plan 1.
- **Earliest Reduced Retirement Eligibility** – Age 60 with at least five years (60 months) of creditable service. Hazardous duty employees are the same as Plan 1.

TOWN OF HERNDON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

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

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

- **Eligible Members** – Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes political subdivision employees; members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.
- **Non-Eligible Members** – Some employees are not eligible to participate in the Hybrid Retirement Plan. They include political subdivision employees who are covered by enhanced benefits for hazardous duty employees. Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
- **Retirement Contributions** – A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

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

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Service Retirement Multiplier** – The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. This is not applicable to sheriffs, regional jail superintendents, or hazardous duty employees.
- **Normal Retirement Age** –
 - **Defined Benefit Component** – Same as Plan 2, however, not applicable for hazardous duty employees.
 - **Defined Contribution Component** – Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Unreduced Retirement Eligibility** –
 - **Defined Benefit Component** – Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. This is not applicable to hazardous duty employees.
 - **Defined Contribution Component** – Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Reduced Retirement Eligibility** –
 - **Defined Benefit Component** – Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. This is not applicable to hazardous duty employees.
 - **Defined Contribution Component** – Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Cost-of-Living Adjustment (COLA) in Retirement** –
 - **Defined Benefit Component** – Same as Plan 2.
 - **Defined Contribution Component** – Not Applicable.
 - **Eligibility** – Same as Plan 1 and 2.
 - **Exceptions to COLA Effective Dates** – Same as Plan 1 and 2.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

- **Disability Coverage** – Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
- **Purchase of Prior Service** –
 - **Defined Benefit Component** – Same as Plan 1, with the following exceptions:
 - Hybrid Retirement Plan members are ineligible for ported service.
 - The cost for purchasing refunded service is the higher or 4% of creditable compensation or average final compensation.
 - Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.
 - **Defined Contribution Component** – Not Applicable.

Employees Covered by Benefit Terms

As of the June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	108
Inactive members:	
Vested inactive members	31
Non-vested inactive members	57
Inactive members active elsewhere in VRS	35
Total inactive members	123
Active members	236
Total covered employees	467

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 9. Defined Benefit Pension Plan (Continued)

Contributions

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

The political subdivision's contractually required contribution rate for the year ended June 30, 2016 was 7.76% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$1,271,903 and \$1,573,635 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Liability

The political subdivision's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 9. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2015, 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, 2016.

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

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

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees – Largest 10 – Non-LEOS and All Others (Non 10 Largest): Update mortality table; decrease in rates of service retirement; decrease in rates of disability retirement; and reduce rates of salary increase by 0.25% per year.

Public Safety Employees – Largest 10 – Non-LEOS and All Others (Non 10 Largest): Update mortality table; adjustment to rates of service retirement for females (Non 10 Largest); decrease in rates of male disability (Largest 10, only); decrease in male and female rates of disability (Non 10 Largest) and increase in rates of withdrawal.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 9. Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
U.S. Equity	19.50 %	6.46 %	1.26 %
Developed Non U.S. Equity	16.50	6.28	1.04
Emerging Market Equity	6.00	10.00	0.60
Fixed Income	15.00	0.09	0.01
Emerging Debt	3.00	3.51	0.11
Rate Sensitive Credit	4.50	3.51	0.16
Non Rate Sensitive Credit	4.50	5.00	0.23
Convertibles	3.00	4.81	0.14
Public Real Estate	2.25	6.12	0.14
Private Real Estate	12.75	7.10	0.91
Private Equity	12.00	10.41	1.25
Cash	1.00	(1.50)	(0.02)
Total	100.00 %		<u>5.83 %</u>
	Inflation		<u>2.50 %</u>
			<u>8.33 %</u>

*Expected arithmetic nominal return

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 9. Defined Benefit Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) – (b)</u>
Balances at June 30, 2015	\$ 71,052,969	\$ 66,045,326	\$ 5,007,643
Changes for the year:			
Service cost	1,775,184	-	1,775,184
Interest	4,887,085	-	4,887,085
Differences between expected and actual experience	(269,073)	-	(269,073)
Contributions – employer	-	1,548,518	(1,548,518)
Contributions – employee	-	800,721	(800,721)
Net investment income	-	1,164,925	(1,164,925)
Benefit payments, including refunds of employee contributions	(2,474,947)	(2,474,947)	-
Administrative expenses	-	(40,637)	40,637
Other changes	-	(490)	490
Net changes	<u>3,918,249</u>	<u>998,090</u>	<u>2,920,159</u>
Balances at June 30, 2016	<u>\$ 74,971,218</u>	<u>\$ 67,043,416</u>	<u>\$ 7,927,802</u>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 9. Defined Benefit Pension Plan (Continued)

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Political subdivision's net pension liability (asset)	\$ 17,935,273	\$ 7,927,802	\$ (402,567)

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

For the year ended June 30, 2017, the political subdivision recognized pension expense of \$1,067,074. At June 30, 2017, 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	\$ -	\$ 645,930
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	1,749,762	-
Employer contributions subsequent to the measurement date	1,271,903	-
Total	\$ 3,021,665	\$ 645,930

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 9. Defined Benefit Pension Plan (Continued)

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

The \$1,271,903 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Increase (Reduction) to Pension Expense
2018	\$ (218,267)
2019	(218,268)
2020	875,455
2021	664,912
	\$ 1,103,832

Pension Plan Data

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

Payables to the Pension Plan

At June 30, 2017, approximately \$167,475 was payable to the Virginia Retirement System for the legally required contributions related to June 2017 payroll.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 10. Defined Contribution Pension Plan

Police Retirement Plan:

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 three 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*.

The town’s payroll for employees covered by the Plan for the year ended June 30, 2017 was \$5,631,464, which was 28% of the total town payroll of \$19,785,617. There were 82 participants in the Plan at June 30, 2017. 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 \$535,494 for the fiscal year ended June 30, 2017. Data concerning the value of vested and nonvested benefits as of June 30, 2017 is as follows:

Vested benefits	\$	3,634,561
Nonvested benefits		114,984
	\$	3,749,545

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, 2017

Note 10. Defined Contribution Pension Plan (Continued)

Police Retirement Plan: (Continued)

Significant Accounting Policies (Continued)

Reporting: The Plan is accounted for as a pension 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, 2017, 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, 2017 are separately identified in the fair value measurements table in Note 2.

Note 11. Other Postemployment Benefits

Plan Description

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

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

Funding Policy

The Town Council establishes employer contribution rates for their respective plan participants. The Council has chosen to fund the healthcare benefits on a pay-as-you-go basis.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 11. Other Postemployment Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation

In the July 2016 actuarial valuation performed of postemployment benefits, the pay-as-you-go cost for OPEB benefits for the town's plan is \$191,419 and the annual benefit cost is \$358,285. The percentage of annual OPEB cost contributed is 53.43%.

The town has elected not to prefund OPEB liabilities at this time. The difference between the OPEB annual expense and cash payments for OPEB benefits is treated as a liability in the financial statements when the liability is not prefunded.

The town is required to contribute the ARC of the employer, an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years on an open basis. The following table shows the components of the annual OPEB cost for the year, the amounts contributed for the year, and the change in the net OPEB obligation:

Annual required contribution (ARC)	\$	362,341
Interest on net OPEB obligation		99,258
Adjustment to annual required contribution		(103,314)
Annual OPEB cost		358,285
Contributions made		(191,419)
Increase in net OPEB obligation		166,866
Net OPEB obligation, beginning of year		2,481,445
Net OPEB obligation, end of year	\$	2,648,311

Trend Information

Three-year trend information is as follows:

Fiscal Year End	Annual OPEB Costs	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation
June 30, 2017	\$ 358,285	53.43%	\$ 2,648,311
June 30, 2016	\$ 599,700	47.76%	\$ 2,481,445
June 30, 2015	\$ 578,600	41.81%	\$ 2,168,145

Funding Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the plan was not funded. The actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,004,216 for the town's plan. Covered payroll was \$11,018,509 and the ratio of UAAL to covered payroll was 36.34%.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 11. Other Postemployment Benefits (Continued)

Funding Status and Funding Progress (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan are compared with past expectations and new estimates are made for the future. The Schedule of Funding Progress, presented as Required Supplementary Information following the notes to the financial statements, presents trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2016 actuarial valuation, the Entry Age Normal cost method was used. The actuarial assumptions include a four percent rate of return, an inflation rate of two and one-half percent, assumed salary scale increase of two and one-half percent, and an annual healthcare cost trend rate of ten percent initially, reduced by one percent decrements to an ultimate rate of five percent. The unfunded liability is amortized over a period of 30 years based on a level percent of payroll method on an open basis.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 12. Risk Management

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

The town has coverage with the Virginia Municipal League Insurance Program (the "Pool") for all insurable risks identified by the town. Each Pool member jointly and severally agrees to assume, pay and discharge any liability. The town pays the Pool contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the Pool and claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the Pool may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

The town contributes to carry commercial insurance for all other risks of losses. Settled claims from these risks have not exceeded commercial coverage in any of the last three fiscal years.

Note 13. Commitments and Contingencies

Federal and State-Assisted Programs

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

Litigation:

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

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 14. Rentals Under Operating Leases

The town has twelve leases to telecommunication companies for the placement of antennas on the town's water tanks. Lease terms vary by lessee and expire at various dates through July, 2033. Total rental income for 2017 was \$348,383.

2018	\$	357,046
2019		367,758
2020		378,790
2021		386,678
2022		358,896
Thereafter		<u>1,929,240</u>
Total	\$	<u>3,778,408</u>

Note 15. Restatement of Net Position and Fund Balance

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

	<u>Funds</u>			<u>Governmental Activities</u>	<u>Business-Type Activities</u>
	<u>General Fund</u>	<u>Capital Project Fund</u>	<u>Water & Sewer Fund</u>		
Fund Balance/ Net Position June 30, 2016, as previously stated	\$ 12,729,586	\$ 6,369,552	\$ 22,962,682	\$ 81,231,917	\$ 32,031,909
Restatement due to recognition of various fees previously reported as deferred or unearned:					
Lateral Sewer Fees			141,404		141,404
Stormwater Fees		37,036		37,036	
BPOL Reserve	547,800			547,800	
Fund Balance/ Net Position June 30, 2016, as restated	<u>\$ 13,277,386</u>	<u>\$ 6,406,588</u>	<u>\$ 23,104,086</u>	<u>\$ 81,816,753</u>	<u>\$ 32,173,313</u>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 16. New Accounting Standards

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

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 45 and No. 57 and establishes new accounting requirements for OPEB plans. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* provides recognition and measurement guidance for situations in which a government is a beneficiary of an irrevocable split-interest agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding the presentation of payroll related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement will be effective for the year ending June 30, 2018.

TOWN OF HERNDON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 16. New Accounting Standards (Continued)

GASB Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for Asset Retirement Obligations (AROs). This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. This Statement will be effective for the year ending June 30, 2019.

GASB Statement No. 84, *Fiduciary Activities* establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement will be effective for the year ending June 30, 2020.

GASB Statement No. 85, *Omnibus 2017* addresses practice issues that have been identified during implementation and application of certain GASB Statements, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and “negative” goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

This Statement will be effective for the year ending June 30, 2018.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 16. New Accounting Standards (Continued)

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 87, *Leases* establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement will be effective for the year ending June 30, 2021.



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**REQUIRED SUPPLEMENTARY
INFORMATION**

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TOWN OF HERNDON, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2017

Schedule of Funding Progress - Other Postemployment Benefits

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2016	\$ -	\$ 4,004,216	\$ 4,004,216	0.00 %	\$ 11,018,509	36.34 %
July 1, 2014	-	6,266,500	6,266,500	0.00 %	14,605,600	42.90
July 1, 2012	-	5,557,300	5,557,300	0.00	15,064,805	36.89

Schedule of Employer Contributions - Other Postemployment Benefits

Fiscal Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2017	\$ 362,341	52.83 %
2016	603,300	47.47
2015	581,500	41.60

TOWN OF HERNDON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Year Ended June 30, 2017

	Plan Year		
	2016	2015	2014
Total Pension Liability			
Service cost	\$ 1,775,184	\$ 1,780,620	\$ 1,821,327
Interest on total pension liability	4,887,085	4,664,075	4,385,197
Benefit payments, including refunds of employee contributions	(2,474,947)	(2,406,002)	(2,039,114)
Difference between actual and expected experience	(269,073)	(818,369)	-
Net change in total pension liability	3,918,249	3,220,324	4,167,410
Total pension liability (beginning)	71,052,969	67,832,645	63,665,235
Total pension liability (ending)	<u>\$ 74,971,218</u>	<u>\$ 71,052,969</u>	<u>\$ 67,832,645</u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 1,548,518	\$ 1,562,827	\$ 1,603,624
Contributions - employee	800,721	807,614	832,188
Net investment income	1,164,925	2,907,557	8,612,262
Benefit payments, including refunds of employee contributions	(2,474,947)	(2,406,002)	(2,039,114)
Administrative expenses	(40,637)	(39,225)	(45,658)
Other	(490)	(616)	454
Net change in plan fiduciary net position	998,090	2,832,155	8,963,756
Plan fiduciary net position - beginning	66,045,326	63,213,171	54,249,415
Plan fiduciary net position - ending	<u>\$ 67,043,416</u>	<u>\$ 66,045,326</u>	<u>\$ 63,213,171</u>
Net pension liability - ending	<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>89.43%</u>	<u>92.95%</u>	<u>93.19%</u>
Covered payroll	<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>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 2014 information was presented in the entity's fiscal year 2015 financial report.

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

TOWN OF HERNDON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PENSION CONTRIBUTIONS
 June 30, 2017

Fiscal Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
Primary Government					
2017	\$ 1,271,903	\$ 1,271,903	\$ -	\$ 16,663,134	7.63 %
2016	1,573,635	1,573,635	-	16,563,441	9.50
2015	1,564,778	1,564,778	-	15,901,012	9.84

Schedule is intended to show information for 10 years. Since 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, 2017

Note 1. Changes of Benefit Terms

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 are not material.

Note 2. Changes of Assumptions

The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 –LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year
-

All Others (Non 10 Largest) – LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability



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OTHER SUPPLEMENTARY INFORMATION

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Nonmajor Governmental Funds

Special Revenue Fund

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

Capital Projects Fund

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

TOWN OF HERNDON, VIRGINIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2017

Exhibit B-1

	Special Revenue Chestnut Grove Cemetery Perpetual Care Fund	Capital Projects Information Systems Improvement Fund	Total Nonmajor Governmental Funds
ASSETS			
Cash, cash equivalents and investments	\$ 1,602,362	\$ 400,031	\$ 2,002,393
Accrued interest	16,080	-	16,080
Total assets	\$ 1,618,442	\$ 400,031	\$ 2,018,473
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ 44,487	\$ 44,487
Fund balances:			
Restricted:			
Cemetery perpetual care	1,618,442	-	1,618,442
Assigned:			
Prior year reserve for encumbrances	-	190,292	190,292
Police radio replacements	-	420,000	420,000
Subsequent years' expenditures for Information Systems Improvement Fund	-	76,124	76,124
Unassigned	-	(330,872)	(330,872)
Total fund balances	1,618,442	355,544	1,973,986
Total liabilities and fund balances	\$ 1,618,442	\$ 400,031	\$ 2,018,473

TOWN OF HERNDON, VIRGINIA

Exhibit B-2

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2017

	Special Revenue Chestnut Grove Cemetery Perpetual Care Fund	Capital Projects Information Systems Improvement Fund	Total Nonmajor Governmental Funds
Revenues:			
Revenue from local sources:			
Use of money and property	\$ (6,537)	\$ -	\$ (6,537)
Total revenues	(6,537)	-	(6,537)
Expenditures:			
Capital outlay	-	248,977	248,977
Excess (deficiency) of revenues over expenditures	(6,537)	(248,977)	(255,514)
Other financing sources (uses):			
Transfers in	44,407	621,400	665,807
Total other financing sources, net	44,407	621,400	665,807
Net change in fund balances	37,870	372,423	410,293
Fund balances, July 1	1,580,572	(16,879)	1,563,693
Fund balances, June 30	\$ 1,618,442	\$ 355,544	\$ 1,973,986

TOWN OF HERNDON, VIRGINIA

Exhibit B-3

**GENERAL FUND
BALANCE SHEET
June 30, 2017
(With Comparative Amounts for 2016)**

	2017	2016
ASSETS		
Cash, cash equivalents and investments	\$ 15,459,311	\$ 15,764,681
Cash and investments with fiscal agent	3,228	3,170
Receivables (net of allowance for doubtful accounts):		
Property taxes	5,575,175	5,522,592
Accounts and other services	669,977	726,279
Accrued interest	99,521	124,415
Due from other governments	791,077	669,248
Inventories	198,469	144,317
Prepaid costs	38,304	32,894
Advances to other funds	101,320	113,985
	<u>\$ 22,936,382</u>	<u>\$ 23,101,581</u>
LIABILITIES		
Liabilities:		
Accounts payable	\$ 776,344	\$ 984,751
Accrued payroll	482,044	411,109
Accrued liabilities - other	268,695	1,435,523
Unearned revenue	321,510	379,072
Deposits	1,738,750	1,650,309
	<u>3,587,343</u>	<u>4,860,764</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenues - property taxes	5,602,880	5,511,231
	<u>5,602,880</u>	<u>5,511,231</u>
FUND BALANCE		
Fund Balances:		
Nonspendable:		
Inventories	198,469	144,317
Prepaid costs	38,304	32,894
Loan to Cemetery Fund	101,320	113,985
Restricted:		
Bond proceeds not yet spent	3,228	3,170
Committed:		
Revenue stabilization	1,200,000	1,000,000
Assigned to:		
Operating and capital	836,095	543,619
Future debt service costs	818,300	535,200
Future police radio system costs	-	210,000
BPOL reserve	547,800	-
Subsequent years' expenditures	656,807	1,062,376
Unassigned	9,345,836	9,084,025
	<u>13,746,159</u>	<u>12,729,586</u>
Total fund balances	<u>13,746,159</u>	<u>12,729,586</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 22,936,382</u>	<u>\$ 23,101,581</u>

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 1

GENERAL FUND
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue from local sources:				
General property taxes:				
Real estate taxes	\$ 10,868,000	\$ 10,868,000	\$ 10,999,443	\$ 131,443
Elderly tax relief exemption	-	-	(176,068)	(176,068)
Public service corporation taxes	304,000	304,000	326,971	22,971
Penalties and interest	55,000	55,000	64,073	9,073
Total general property taxes	11,227,000	11,227,000	11,214,419	(12,581)
Other local taxes:				
Consumer utility tax	790,000	790,000	787,614	(2,386)
Right of way use fees	153,000	153,000	190,401	37,401
Cigarette tax	320,000	320,000	288,484	(31,516)
Transient occupancy tax	2,165,000	2,165,000	2,199,410	34,410
Bank stock tax	360,000	360,000	402,719	42,719
Cable T.V. franchise fees	198,000	198,000	203,958	5,958
Business licenses tax	4,200,000	4,500,000	5,569,516	1,069,516
Utility consumption tax	95,000	95,000	89,151	(5,849)
Motor vehicle licenses	375,000	375,000	431,639	56,639
Local sales tax	1,918,000	1,918,000	1,798,728	(119,272)
Meals tax	2,203,000	2,203,000	2,215,677	12,677
Total other local taxes	12,777,000	13,077,000	14,177,297	1,100,297
Permits, privilege fees and regulatory licenses:				
Planning fees	105,000	105,000	151,650	46,650
Building inspection fees and permits	340,000	340,000	380,761	40,761
State stormwater management fees	9,000	9,000	12,485	3,485
Right of way permit fees	25,000	25,000	14,592	(10,408)
Total permits, privilege fees and regulatory licenses	479,000	479,000	559,488	80,488
Fines and forfeitures:				
Court fines and costs	68,000	68,000	46,175	(21,825)
Court fees - Fairfax County	435,000	435,000	339,614	(95,386)
Court maintenance fees	11,000	11,000	11,902	902
E-Summons fees	20,000	20,000	23,970	3,970
Zoning fines	4,000	4,000	1,674	(2,326)
Total fines and forfeitures	538,000	538,000	423,335	(114,665)

(Continued)

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 2

GENERAL FUND
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue from local sources: (Continued)				
Use of money and property:				
Interest on investments	\$ 225,000	\$ 225,000	\$ 2,997	\$ (222,003)
Rental income	565,000	565,000	566,729	1,729
Total use of money and property	790,000	790,000	569,726	(220,274)
Charges for services:				
Franchise lease	88,000	88,000	93,362	5,362
Commercial refuse collection	12,000	12,000	29,102	17,102
Recycling collection	101,000	101,000	96,437	(4,563)
Recreation program fees	1,607,000	1,607,000	1,608,008	1,008
Admission fees	419,000	419,000	389,515	(29,485)
Park operation	9,000	9,000	15,703	6,703
Herndon festival	360,000	360,000	416,718	56,718
Concession	19,000	19,000	17,112	(1,888)
Rental income - parks & recreation	107,000	107,000	89,391	(17,609)
Tennis/multi-use facility	208,000	208,000	231,283	23,283
Sale of recyclable materials	13,000	13,000	41,075	28,075
Quasi - external revenue - charges for administration, personnel, and other services:				
Chestnut Grove Cemetery fund	16,800	16,800	16,800	-
Golf course fund	35,000	35,000	35,000	-
Water and sewer fund	519,900	519,900	519,900	-
Total charges for services	3,514,700	3,514,700	3,599,406	84,706
Miscellaneous	14,961	14,961	32,665	17,704
Total revenue from local sources	29,340,661	29,640,661	30,576,336	935,675
Intergovernmental:				
County of Fairfax:				
Pro-rata share of stormwater district tax collections	220,000	220,000	439,387	219,387
Contribution toward tourism and economic development	40,000	40,000	40,000	-
Total from County of Fairfax	260,000	260,000	479,387	219,387

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 3

GENERAL FUND
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Intergovernmental: (Continued)				
Other Local Governments:				
NOVA regional Gang Task Force grant	\$ 15,000	\$ 15,000	\$ 30,642	\$ 15,642
Commonwealth:				
Non-categorical aid:				
Police reimbursement (Section 599)	569,000	569,000	566,368	(2,632)
Communications sales and use tax	1,667,000	1,667,000	1,626,306	(40,694)
Vehicle rental taxes	1,000	1,000	1,586	586
Total non-categorical aid	2,237,000	2,237,000	2,194,260	(42,740)
Categorical aid:				
Fire fund program	74,000	74,000	75,586	1,586
Litter control grant	6,000	6,000	5,793	(207)
Dept. of Criminal Justice Service - NOVA regional ICAC grant	35,000	35,000	44,034	9,034
VDOT highway revenue sharing grant	-	-	382,033	382,033
Street and highway maintenance allocation	1,787,000	1,787,000	1,849,564	62,564
Total categorical aid	1,902,000	1,902,000	2,357,010	455,010
Total from the Commonwealth	4,139,000	4,139,000	4,551,270	412,270
Federal government:				
Categorical aid:				
Dept. of Transportation/ National Highway Safety Administration - Selective Enforcement grant	35,000	35,000	58,385	23,385
US Dept. of Justice/ Criminal Division Office Equitable Sharing Program	-	-	49,747	49,747
Byrne Justice Assistance (JAG) grant	-	-	2,446	2,446
Total from the Federal government	35,000	35,000	110,578	75,578
Total intergovernmental revenue	4,449,000	4,449,000	5,171,877	722,877
Other financing sources:				
Proceeds from capital lease	420,000	420,000	-	(420,000)
Total other financing sources (uses)	420,000	420,000	-	(420,000)
Total General Fund revenues	\$ 34,209,661	\$ 34,509,661	\$ 35,748,213	\$ 1,238,552

TOWN OF HERNDON, VIRGINIA

Exhibit B-5
Page 1

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Legislative:				
Personnel services	\$ 398,400	\$ 398,400	\$ 399,013	\$ (613)
Operations and maintenance	303,400	303,400	299,938	3,462
Total legislative	701,800	701,800	698,951	2,849
Administration:				
Communications & Economic Development:				
Personnel services	354,300	354,300	343,630	10,670
Operations and maintenance	104,200	202,200	117,286	84,914
	458,500	556,500	460,916	95,584
Town manager:				
Personnel services	421,600	421,600	472,064	(50,464)
Operations and maintenance	57,900	57,900	54,620	3,280
	479,500	479,500	526,684	(47,184)
Human resources:				
Personnel services	456,900	756,900	782,767	(25,867)
Operations and maintenance	113,000	131,000	119,583	11,417
	569,900	887,900	902,350	(14,450)
Information services:				
Personnel services	749,500	719,500	688,501	30,999
Operations and maintenance	586,400	586,400	539,845	46,555
Capital outlay	15,000	15,000	13,017	1,983
	1,350,900	1,320,900	1,241,363	79,537
Total administration	2,858,800	3,244,800	3,131,313	113,487
Town attorney:				
Personnel services	321,700	321,700	355,236	(33,536)
Operations and maintenance	143,800	143,800	121,608	22,192
Total town attorney	465,500	465,500	476,844	(11,344)

TOWN OF HERNDON, VIRGINIA

Exhibit B-5
Page 2

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Parks and recreation:				
Administration:				
Personnel services	\$ 622,000	\$ 622,000	\$ 588,969	\$ 33,031
Operations and maintenance	109,800	110,051	91,924	18,127
	<u>731,800</u>	<u>732,051</u>	<u>680,893</u>	<u>51,158</u>
Recreation programs:				
Personnel services	785,900	785,900	825,389	(39,489)
Operations and maintenance	674,354	689,410	641,037	48,373
	<u>1,460,254</u>	<u>1,475,310</u>	<u>1,466,426</u>	<u>8,884</u>
Community center operations:				
Personnel services	959,000	959,000	938,904	20,096
Operations and maintenance	228,500	230,844	215,098	15,746
	<u>1,187,500</u>	<u>1,189,844</u>	<u>1,154,002</u>	<u>35,842</u>
Aquatics programs and operations:				
Personnel services	663,300	663,300	626,425	36,875
Operations and maintenance	144,600	137,400	130,680	6,720
Capital outlay	-	72,200	64,480.00	7,720
	<u>807,900</u>	<u>872,900</u>	<u>821,585</u>	<u>51,315</u>
Park operations and development:				
Personnel services	75,900.00	75,900	91,851	(15,951)
Operations and maintenance	79,200	82,833	74,091	8,742
	<u>155,100</u>	<u>158,733</u>	<u>165,942</u>	<u>(7,209)</u>
Total parks and recreation	<u>4,342,554</u>	<u>4,428,838</u>	<u>4,288,848</u>	<u>139,990</u>

TOWN OF HERNDON, VIRGINIA

Exhibit B-5
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GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Finance:				
Administration:				
Personnel services	\$ 230,100	\$ 230,100	\$ 259,616	\$ (29,516)
Operations and maintenance	235,300	258,833	209,823	49,010
	465,400	488,933	469,439	19,494
Accounting:				
Personnel services	565,100	565,100	618,240	(53,140)
Operations and maintenance	22,800	26,107	23,395	2,712
Capital outlay	-	25,450	25,450	-
	587,900	616,657	667,085	(50,428)
Revenue:				
Personnel services	223,400	223,400	224,746	(1,346)
Operations and maintenance	54,100	54,510	61,339	(6,829)
	277,500	277,910	286,085	(8,175)
Procurement:				
Personnel services	103,900	103,900	90,585	13,315
Operations and maintenance	6,800	6,800	4,998	1,802
	110,700	110,700	95,583	15,117
Total finance	1,441,500	1,494,200	1,518,192	(23,992)
Community development:				
Administration:				
Personnel services	1,446,700.00	1,422,300	1,401,564	20,736
Operations and maintenance	103,100	521,076	124,972	396,104
Capital outlay	800	-	-	-
	1,550,600	1,943,376	1,526,536	416,840
Community inspections:				
Personnel services	326,000	308,000	153,146	154,854
Operations and maintenance	10,200	10,537	6,647	3,890
	336,200	318,537	159,793	158,744
Total community development	1,886,800	2,261,913	1,686,329	575,584

TOWN OF HERNDON, VIRGINIA

Exhibit B-5
Page 4

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Police:				
Field operations:				
Personnel services	\$ 5,259,700	\$ 5,259,700	\$ 5,198,412	\$ 61,288
Operations and maintenance	173,900	247,293	192,560	54,733
Capital outlay	178,300	254,964	248,941	6,023
	5,611,900	5,761,957	5,639,913	122,044
Support services:				
Personnel services	3,538,300	3,538,300	3,495,767	42,533
Operations and maintenance	506,570	523,860	452,506	71,354
Capital outlay	15,000.00	15,000	14,950	50
	4,059,870	4,077,160	3,963,223	113,937
Total police	9,671,770	9,839,117	9,603,136	235,981
Public Works:				
Administration:				
Personnel services	872,400.00	868,200	829,389	38,811
Operations and maintenance	47,000	47,042	31,617	15,425
	919,400	915,242	861,006	54,236
Engineering:				
Personnel services	552,400	552,400	532,048	20,352
Operations and maintenance	75,900	99,919	58,230	41,689
	628,300	652,319	590,278	62,041
Program management:				
Personnel services	311,300	238,900	135,746	103,154
Operations and maintenance	5,400	7,400	1,256	6,144
	316,700	246,300	137,002	109,298
Building inspections:				
Personnel services	489,600	489,600	481,018	8,582
Operations and maintenance	80,100	84,300	91,871	(7,571)
	569,700	573,900	572,889	1,011
Building maintenance:				
Personnel services	551,800	551,800	526,944	24,856
Operations and maintenance	748,300	969,047	788,466	180,581
	1,300,100	1,520,847	1,315,410	205,437

(Continued)

TOWN OF HERNDON, VIRGINIA

Exhibit B-5
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GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Public Works: (Continued)				
Grounds maintenance:				
Personnel services	\$ 703,600	\$ 703,600	\$ 648,960	\$ 54,640
Operations and maintenance	282,637	302,657	201,630	101,027
Capital outlay	-	6,800	6,800	-
	<u>986,237</u>	<u>1,013,057</u>	<u>857,390</u>	<u>155,667</u>
Street maintenance:				
Personnel services	735,000	735,000	561,640	173,360
Operations and maintenance	857,400	1,109,469	2,341,903	(1,232,434)
Capital outlay	293,200	392,577	345,380	47,197
	<u>1,885,600</u>	<u>2,237,046</u>	<u>3,248,923</u>	<u>(1,011,877)</u>
Refuse/recycling:				
Personnel services	964,100	964,100	813,050	151,050
Operations and maintenance	603,300	614,087	561,548	52,539
Capital outlay	300,000.00	300,000	291,977	8,023
	<u>1,867,400</u>	<u>1,878,187</u>	<u>1,666,575</u>	<u>211,612</u>
Vehicle and equipment maintenance:				
Personnel services	768,700	768,700	781,341	(12,641)
Operations and maintenance	474,200	426,543	230,354	196,189
Capital outlay	15,000.00	23,500	12,270	11,230
	<u>1,257,900</u>	<u>1,218,743</u>	<u>1,023,965</u>	<u>194,778</u>
Traffic engineering:				
Personnel services	253,400	253,400	140,692	112,708
Operations and maintenance	159,900	194,716	22,735	171,981
Capital outlay	39,000	45,000	11,495	33,505
	<u>452,300</u>	<u>493,116</u>	<u>174,922</u>	<u>318,194</u>
Right of way inspections:				
Personnel services	279,000.00	279,000	279,915	(915)
Operations and maintenance	10,700	10,700	7,162	3,538
	<u>289,700</u>	<u>289,700</u>	<u>287,077</u>	<u>2,623</u>
Total public works	<u>10,473,337</u>	<u>11,038,457</u>	<u>10,735,437</u>	<u>303,020</u>

TOWN OF HERNDON, VIRGINIA

Exhibit B-5
Page 6

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Grants and contingency:				
Operations	\$ -	\$ 41,355	\$ 74,628	\$ (33,273)
Total grants	-	41,355	74,628	(33,273)
Debt service:				
Principal	1,190,700	1,190,700	1,090,629	100,071
Interest and fiscal charges	337,100	337,100	283,733	53,367
Total debt service	1,527,800	1,527,800	1,374,362	153,438
Other financing uses:				
Transfers out	1,457,000	1,481,400	1,691,400	(210,000)
Total other financing sources (uses)	1,457,000	1,481,400	1,691,400	(210,000)
Total General Fund expenditures	\$ 34,826,861	\$ 36,525,180	\$ 35,279,440	\$ 1,245,740

TOWN OF HERNDON, VIRGINIA

Exhibit B-6

**GOVERNMENTAL FUND TYPE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
CAPITAL PROJECTS FUND AND INFORMATION SYSTEMS IMPROVEMENT FUND
Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Use of money and property	\$ 60,000	\$ 170,500	\$ 346,313	\$ 175,813
Miscellaneous	150,000	172,100	173,436	1,336
Intergovernmental	3,418,000	3,418,000	989,844	(2,428,156)
Total revenues	3,628,000	3,760,600	1,509,593	(2,251,007)
Capital Outlay:				
Parks and recreation	120,000	1,615,507	795,984	819,523
Public works:				
Buildings and grounds	490,000	1,087,092	445,164	641,928
Streets, sidewalks and trails	4,363,000	16,392,834	1,282,794	15,110,040
Other infrastructure	2,940,000	4,296,571	267,391	4,029,180
Information systems improvements	387,000	729,064	248,977	480,087
Total expenditures	8,300,000	24,121,068	3,040,310	21,080,758
Revenues under expenditures	(4,672,000)	(20,360,468)	(1,530,717)	18,829,751
Other financing sources:				
Issuance of debt	3,415,000	3,415,000	-	(3,415,000)
Transfers in	1,257,000	1,281,400	1,491,400	210,000
Total other financing sources	4,672,000	4,696,400	1,491,400	(3,205,000)
Net change in fund balance	\$ -	\$ (15,664,068)	\$ (39,317)	\$ 15,624,751

TOWN OF HERNDON, VIRGINIA

Exhibit B-7

PROPRIETARY FUND TYPE
 SCHEDULE OF REVENUES, EXPENSES AND
 CHANGES IN NET POSITION - BUDGET AND ACTUAL
 WATER AND SEWER FUND
 Year Ended June 30, 2017

	Final Budget	Actual	Variance Positive (Negative)
Operating revenues:			
Sale of water	\$ 2,811,000	\$ 2,815,443	\$ 4,443
Sewer service charges	3,097,000	3,204,229	107,229
Late payment charges	68,000	66,317	(1,683)
Sale of commodities	10,700	12,214	1,514
Rents and leases	349,000	348,383	(617)
Miscellaneous	18,300	23,695	5,395
Total operating revenues	6,354,000	6,470,281	116,281
Operating expenses:			
Finance	307,506	276,731	30,775
Water main maintenance	2,067,105	1,890,757	176,348
Sewer service charge	4,240,793	3,985,256	255,537
Contractual services	519,900	519,900	-
Nondepartmental:			
Depreciation and amortization	-	896,037	(896,037)
Miscellaneous	50,400	38,206	12,194
Total operating expenses	7,185,705	7,606,887	(421,182)
Operating loss	(831,705)	(1,136,606)	(304,901)
Nonoperating revenues (expenses):			
Investment earnings	313,000	53,704	(259,296)
Availability fees	610,000	547,787	(62,213)
Gain on disposal of capital assets	500	6,370	5,870
Total nonoperating revenues, net	923,500	607,861	(315,639)
Change in net position	\$ 91,795	(528,745)	\$ (620,540)
Total net position, July 1, as restated		23,104,086	
Total net position, June 30		\$ 22,575,341	

TOWN OF HERNDON, VIRGINIA

Exhibit B-8

PROPRIETARY FUND TYPE
 SCHEDULE OF REVENUES, EXPENSES, AND
 CHANGES IN NET POSITION - BUDGET AND ACTUAL
 GOLF COURSE FUND
 Year Ended June 30, 2017

	Final Budget	Actual	Variance Positive (Negative)
Operating revenues:			
Rents and leases	\$ 43,300	\$ 45,525	\$ 2,225
Greens fees	985,800	1,000,583	14,783
Golf cart revenue	274,000	292,332	18,332
Golf pro shop sales	66,000	64,237	(1,763)
Driving range fees	67,500	77,455	9,955
Miscellaneous	22,000	17,157	(4,843)
Total operating revenues	1,458,600	1,497,289	38,689
Operating expenses:			
Golf course operations	765,175	717,667	47,508
Golf course club house	556,367	528,955	27,412
Nondepartmental:			
Depreciation and amortization	-	231,907	(231,907)
Miscellaneous	57,400	52,021	5,379
Total operating expenses	1,378,942	1,530,550	(151,608)
Operating income (loss)	79,658	(33,261)	(112,919)
Nonoperating revenues (expenses):			
Investment earnings, net	25,000	12,720	(12,280)
Interest expense	(131,000)	(29,199)	101,801
Total nonoperating expenses, net	(106,000)	(16,479)	89,521
Income (loss)	(26,342)	(49,740)	(23,398)
Change in net position	\$ (26,342)	(49,740)	\$ (23,398)
Total net position, July 1		<u>3,109,268</u>	
Total net position, June 30		<u>\$ 3,059,528</u>	

TOWN OF HERNDON, VIRGINIA

Exhibit B-9

PROPRIETARY FUND TYPE
 SCHEDULE OF REVENUES, EXPENSES, AND
 CHANGES IN NET POSITION - BUDGET AND ACTUAL
 CHESTNUT GROVE CEMETERY FUND
 Year Ended June 30, 2017

	Final Budget	Actual	Variance Positive (Negative)
Operating revenues:			
Cemetery sites	\$ 449,700	\$ 445,939	\$ (3,761)
Interment services	183,200	195,335	12,135
Merchandise sales	67,600	198,924	131,324
Miscellaneous	20,100	49,967	29,867
Total operating revenues	720,600	890,165	169,565
Operating expenses:			
Cemetery operations	521,800	531,072	(9,272)
Nondepartmental:			
Depreciation and amortization	-	108,009	(108,009)
Miscellaneous	22,500	21,058	1,442
Total operating expenses	544,300	660,139	(115,839)
Operating income	176,300	230,026	53,726
Nonoperating revenues (expenses):			
Investment earnings	9,000	8,960	(40)
Interest expense	(41,000)	(48,244)	(7,244)
Total nonoperating expenses, net	(32,000)	(39,284)	(7,284)
Income before transfers	144,300	190,742	46,442
Transfers in	39,500	-	(39,500)
Transfers out	(43,100)	(44,407)	(1,307)
Change in net position	\$ 140,700	146,335	\$ 5,635
Total net position, July 1		<u>1,219,304</u>	
Total net position, June 30		<u>\$ 1,365,639</u>	

TOWN OF HERNDON, VIRGINIA

Exhibit B-10

PROPRIETARY FUND TYPE
 SCHEDULE OF REVENUES, EXPENSES, AND
 CHANGES IN NET POSITION - BUDGET AND ACTUAL
 DOWNTOWN PARKING FUND
 Year Ended June 30, 2017

	Final Budget	Actual	Variance Positive (Negative)
Operating revenues:			
Miscellaneous	\$ 12,700	\$ 26,903	\$ 14,203
Total operating revenues	<u>12,700</u>	<u>26,903</u>	<u>14,203</u>
Operating expenses:			
Downtown parking	108,044	107,491	553
Depreciation and amortization	-	4,422	(4,422)
Total operating expenses	<u>108,044</u>	<u>111,913</u>	<u>(3,869)</u>
Operating loss	<u>(95,344)</u>	<u>(85,010)</u>	<u>10,334</u>
Nonoperating revenues:			
Investment earnings (losses)	8,300	(6,979)	(15,279)
Total nonoperating revenues	<u>8,300</u>	<u>(6,979)</u>	<u>(15,279)</u>
Income (loss) before transfers	<u>(87,044)</u>	<u>(91,989)</u>	<u>(4,945)</u>
Transfers in	200,000	200,000	-
Change in net position	<u>\$ 112,956</u>	<u>108,011</u>	<u>\$ (4,945)</u>
Total net position, July 1		<u>4,740,655</u>	
Total net position, June 30		<u>\$ 4,848,666</u>	

TOWN OF
Herndon
VIRGINIA

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STATISTICAL SECTION

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**TOWN OF HERNDON, VIRGINIA
STATISTICAL SECTION**

TABLE OF CONTENTS

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

TOWN OF HERNDON, VIRGINIA

Table 1

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

	Fiscal Year June 30,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental activities:										
Net investment in capital assets	\$ 72,923,937	\$ 72,604,103	\$ 72,888,823	\$ 71,869,483	\$ 70,770,618	\$ 67,773,944	\$ 66,964,850	\$ 69,544,673	\$ 70,494,388	\$ 71,246,007
Restricted	1,268,979	1,298,335	1,331,216	-	-	3,156,244	3,156,490	2,400,979	3,985,488	1,618,442
Unrestricted	11,780,466	11,187,939	11,136,298	12,710,197	13,453,945	12,982,159	13,031,542	5,849,529	7,336,877	10,286,008
Total governmental activities net position	\$ 85,973,382	\$ 85,090,377	\$ 85,356,337	\$ 84,579,680	\$ 84,224,563	\$ 83,912,347	\$ 83,152,882	\$ 77,795,181	\$ 81,816,753	\$ 83,150,457
Business-type activities:										
Net investment in capital assets	\$ 16,308,652	\$ 15,947,667	\$ 14,723,720	\$ 15,029,325	\$ 14,333,960	\$ 14,277,687	\$ 14,409,510	\$ 14,601,815	\$ 16,773,326	\$ 16,771,452
Restricted	-	-	-	-	-	-	-	-	-	151,114
Unrestricted	14,205,592	13,837,158	15,190,726	14,896,236	15,810,683	15,838,128	17,747,172	17,347,462	15,399,987	14,926,608
Total business-type activities net position	\$ 30,514,244	\$ 29,784,825	\$ 29,914,446	\$ 29,925,561	\$ 30,144,643	\$ 30,115,815	\$ 32,156,682	\$ 31,949,277	\$ 32,173,313	\$ 31,849,174
Primary government:										
Net investment in capital assets	\$ 89,232,589	\$ 88,551,770	\$ 87,612,543	\$ 86,898,808	\$ 85,104,578	\$ 82,051,631	\$ 81,374,360	\$ 84,146,488	\$ 87,267,714	\$ 88,017,459
Restricted	1,268,979	1,298,335	1,331,216	-	-	3,156,244	3,156,490	2,400,979	3,985,488	1,769,556
Unrestricted	25,986,058	25,025,097	26,327,024	27,606,433	29,264,628	28,820,287	30,778,714	23,196,991	22,736,864	25,212,616
Total primary government net position	\$ 116,487,626	\$ 114,875,202	\$ 115,270,783	\$ 114,505,241	\$ 114,369,206	\$ 114,028,162	\$ 115,309,564	\$ 109,744,458	\$ 113,990,066	\$ 114,999,631
							(3)		(4)	

Notes:

- (1) Beginning in fiscal year 2011, the town reclassified the Cemetery Perpetual Care Fund to unrestricted.
- (2) This table reports financial information based on the accrual basis of accounting. The town implemented GASB Statement No. 63, the new reporting standard, in fiscal year 2013. This standard eliminated the use of the term 'net assets' and now refers to this measurement as 'net position.'
- (3) June 30, 2014 net position was restated for the implementation of GASB Statement No. 68 which reduced net position by \$7,812,196.
- (4) 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.

TOWN OF HERNDON, VIRGINIA

Table 2

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

	Fiscal Year June 30,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Expenses:										
Governmental activities:										
Legislative	\$ 685,284	\$ 654,002	\$ 633,438	\$ 623,912	\$ 583,204	\$ 640,816	\$ 627,221	\$ 602,274	\$ 677,277	\$ 745,753
Administration	2,945,108	3,226,320	2,164,235	2,259,326	2,644,089	2,744,129	4,043,656	2,965,744	2,691,531	3,304,796
Town attorney	461,394	519,437	532,305	587,992	475,518	497,761	539,332	522,777	556,236	606,758
Parks and recreation	4,462,531	4,658,971	4,310,670	4,363,722	4,359,512	4,608,079	4,659,976	4,732,787	4,839,122	5,012,560
Finance	1,307,331	1,348,980	1,288,960	1,215,584	1,291,803	1,379,724	1,320,493	1,321,326	1,485,207	1,492,031
Community development	1,652,196	1,950,546	2,353,844	2,346,085	2,138,936	2,127,055	1,980,462	1,804,660	1,682,901	1,672,244
Police	8,759,234	9,257,315	9,009,339	8,548,326	8,834,312	9,465,667	9,548,043	9,174,389	10,021,992	10,079,277
Public works	11,278,365	11,229,645	10,817,176	10,493,058	11,861,291	11,488,561	11,530,515	11,501,379	11,665,946	12,594,496
Interest	875,509	813,800	765,523	807,330	938,843	533,155	443,213	511,089	287,036	258,075
Total governmental activities	32,426,952	33,659,016	31,875,490	31,245,335	33,127,508	33,484,947	34,692,911	33,136,425	33,907,248	35,765,990
Business-type activities:										
Water and sewer	6,692,754	6,836,413	6,615,960	6,715,723	7,173,978	7,064,425	7,589,406	6,869,506	7,044,675	7,606,887
Golf course	1,564,081	1,530,464	1,561,787	1,476,713	1,531,506	1,595,145	1,554,011	1,567,919	1,506,117	1,559,749
Chestnut Grove cemetery	652,781	704,690	714,927	698,361	686,962	729,837	707,836	697,207	710,164	708,383
Downtown parking	278,725	65,844	44,814	77,374	29,473	29,390	32,945	28,283	72,623	111,913
Total business-type activities	9,188,341	9,137,411	8,937,488	8,968,171	9,421,919	9,418,797	9,884,198	9,162,915	9,333,579	9,986,932
Total government expenses	41,615,293	42,796,427	40,812,978	40,213,506	42,549,427	42,903,744	44,577,109	42,299,340	43,240,827	45,752,922
Program revenue:										
Governmental activities:										
Charges for services:										
Administration	46,447	20,650	12,827	28,242	20,573	19,606	34,762	24,327	9,675	41,075
Parks and recreation	2,394,257	2,551,346	2,720,621	2,848,308	2,837,304	2,826,309	2,762,453	2,785,759	2,710,943	2,767,730
Finance	401,700	421,790	442,880	465,020	488,270	512,690	533,200	549,600	560,500	571,700
Police	509,890	579,682	544,060	543,607	583,820	498,279	469,812	543,901	447,552	397,691
Public works	398,234	466,595	495,331	498,571	421,503	687,130	646,287	634,681	762,796	710,671
Operating grants and contributions:										
Administration	177,155	195,616	112,141	114,732	29,348	-	-	-	-	-
Community development	451	-	130,958	87,289	129,380	130,823	130,000	130,000	40,000	40,000
Police	916,457	1,045,779	954,847	898,306	707,317	627,749	751,934	671,045	666,752	707,588
Public works	1,896,712	739,287	1,097,785	864,727	806,055	890,712	862,301	936,748	953,146	1,178,505
Capital grants and contributions:										
Police	-	-	-	5,000	-	-	-	-	-	-
Public works	1,013,922	1,164,938	1,645,234	1,233,410	2,570,040	1,881,507	1,610,482	1,955,113	3,244,961	2,168,349
Total governmental activities program revenue	7,755,225	7,185,683	8,156,684	7,587,212	8,593,610	8,074,805	7,801,231	8,231,174	9,396,325	8,583,309

TOWN OF HERNDON, VIRGINIA

Table 2
Page 2

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

	Fiscal Year June 30,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Program revenues (Continued):										
Business-type activities:										
Charges for services:										
Water and sewer	\$ 5,032,572	\$ 4,898,322	\$ 5,667,631	\$ 5,928,243	\$ 6,207,789	\$ 6,285,282	\$ 6,445,760	\$ 6,303,140	\$ 6,127,359	\$ 6,506,438
Golf course	1,501,835	1,469,522	1,396,993	1,279,442	1,419,051	1,392,960	1,365,597	1,309,211	1,401,722	1,497,289
Chestnut Grove cemetery	406,729	536,054	568,783	596,106	639,107	695,230	806,521	725,182	783,598	890,165
Capital grants and contributions:										26,903
Water and sewer	41,500	75,420	78,291	314,121	50,512	119,085	-	-	-	-
Golf course	-	-	-	-	-	61,160	154,239	16,670	-	-
Total business-type activities program revenues	6,982,636	6,979,318	7,711,698	8,117,912	8,316,459	8,553,717	8,772,117	8,354,203	8,312,679	8,920,795
Total government program revenues	14,737,861	14,165,001	15,868,382	15,705,124	16,910,069	16,628,522	16,573,348	16,585,377	17,709,004	17,504,104
Net (expense) revenue:										
Governmental activities	(24,671,727)	(26,473,333)	(23,718,806)	(23,658,123)	(24,533,898)	(25,410,142)	(26,891,680)	(24,905,251)	(24,510,923)	(27,182,681)
Business-type activities	(2,205,705)	(2,158,093)	(1,225,790)	(850,259)	(1,105,460)	(865,080)	(1,112,081)	(808,712)	(1,020,900)	(1,066,137)
Total government net expense	(26,877,432)	(28,631,426)	(24,944,596)	(24,508,382)	(25,639,358)	(26,275,222)	(28,003,761)	(25,713,963)	(25,531,823)	(28,248,818)
General revenues and other changes in net position:										
Governmental activities:										
Taxes:										
General property	11,395,778	11,305,328	10,417,959	9,117,669	9,484,072	10,153,920	10,482,821	10,963,925	11,040,763	11,218,438
Business license	3,260,125	3,458,908	3,395,732	3,788,311	3,928,098	4,481,963	4,750,718	4,860,528	4,868,291	5,569,516
Transient occupancy	2,678,892	2,493,698	2,202,096	2,212,811	2,235,969	2,088,149	2,091,900	2,187,198	2,169,852	2,199,410
Local sales	1,661,725	1,511,792	1,413,606	1,488,959	1,601,032	1,668,325	1,703,517	1,848,993	1,871,189	1,798,728
Meals	1,167,976	1,103,744	1,086,649	1,154,577	1,991,460	2,008,529	2,046,307	2,121,519	2,173,102	2,215,677
Other local taxes	3,944,832	3,785,126	4,013,468	2,317,896	2,264,521	2,195,384	2,258,268	2,300,406	2,290,371	2,393,966
Revenues not restricted to specific programs	84,118	89,937	92,844	193,634	-	82,940	85,328	87,940	90,539	93,362
Intergovernmental, non-categorical aid	63,070	42,626	29,026	1,827,856	1,790,631	1,957,744	1,937,785	1,815,751	1,868,193	2,067,279
Use of money and property	1,332,543	1,406,066	1,216,859	725,320	899,551	451,965	1,111,136	801,986	1,027,152	909,502
Miscellaneous and lease income	190,623	439,355	144,995	64,412	201,030	184,899	1,984,086	77,560	708,184	206,101
Gain on sale of capital assets	52,309	-	-	-	-	-	-	-	14,927	-
Transfers	(82,139)	(46,252)	(28,468)	(9,979)	(217,583)	(175,892)	(2,109,986)	(386,638)	(174,904)	(155,593)
Total governmental activities	25,749,852	25,590,328	23,984,766	22,881,466	24,178,781	25,097,926	26,341,880	26,679,168	27,947,659	28,516,386

TOWN OF HERNDON, VIRGINIA

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

	Fiscal Year June 30,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General revenues and other changes in net position: (Continued)										
Business-type activities:										
Use of money and property	\$ 969,476	\$ 1,014,947	\$ 835,100	\$ 291,614	\$ 547,645	\$ 80,894	\$ 487,345	\$ 276,557	\$ 325,396	\$ 68,405
Gain on sale of capital assets	-	-	-	-	-	-	-	-	-	6,370
Miscellaneous	282,077	367,475	491,843	559,781	559,314	579,466	615,068	618,690	603,232	511,630
Transfers	82,139	46,252	28,468	9,979	217,583	175,892	2,109,986	386,638	174,904	155,593
Total business-type activities	1,333,692	1,428,674	1,355,411	861,374	1,324,542	836,252	3,212,399	1,281,885	1,103,532	741,998
Total primary government	27,083,544	27,019,002	25,340,177	23,742,840	25,503,323	25,934,178	29,554,279	27,961,053	29,051,191	29,258,384
Changes in net position:										
Governmental activities	1,078,125	(883,005)	265,960	(776,657)	(355,117)	(312,216)	(549,800)	1,773,917	3,436,736	1,333,705
Business-type activities	(872,013)	(729,419)	129,621	11,115	219,082	(28,828)	2,100,318	473,173	82,632	(324,139)
Total primary government	\$ 206,112	\$ (1,612,424)	\$ 395,581	\$ (765,542)	\$ (136,035)	\$ (341,044)	\$ 1,550,518	\$ 2,247,090	\$ 3,519,368	\$ 1,009,566

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

**PROGRAM REVENUES BY FUNCTION / PROGRAM
LAST TEN FISCAL YEARS
(accrual basis of accounting)
(Unaudited)**

Function / Program	Fiscal Year June 30,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental activities:										
Administration	\$ 223,602	\$ 216,266	\$ 124,968	\$ 142,974	\$ 49,921	\$ 19,606	\$ 34,762	\$ 24,327	\$ 9,675	\$ 41,075
Parks and recreation	2,394,257	2,551,346	2,720,621	2,848,308	2,837,304	2,826,309	2,762,453	2,785,759	2,710,943	2,767,730
Finance	401,700	421,790	442,880	465,020	488,270	512,690	533,200	549,600	560,500	571,700
Community development	451	-	130,958	87,289	129,380	130,823	130,000	130,000	40,000	40,000
Police	1,426,347	1,625,461	1,498,907	1,446,913	1,291,137	1,126,028	1,221,746	1,214,946	1,114,304	1,105,279
Public works	3,308,868	2,370,820	3,238,350	2,596,708	3,797,598	3,459,349	3,119,070	3,526,542	4,960,903	4,057,525
Total governmental activities	7,755,225	7,185,683	8,156,684	7,587,212	8,593,610	8,074,805	7,801,231	8,231,174	9,396,325	8,583,309
Business-type activities:										
Water and sewer	5,074,072	4,973,742	5,745,922	6,242,364	6,258,301	6,404,367	6,445,760	6,303,140	6,127,359	6,506,438
Golf course	1,501,835	1,469,522	1,396,993	1,279,442	1,419,051	1,454,120	1,519,836	1,325,881	1,401,722	1,497,289
Chestnut Grove cemetery	406,729	536,054	568,783	596,106	639,107	695,230	806,521	725,182	783,598	890,165
Downtown parking	-	-	-	-	-	-	-	-	-	26,903
Total business-type activities	6,982,636	6,979,318	7,711,698	8,117,912	8,316,459	8,553,717	8,772,117	8,354,203	8,312,679	8,920,795
Total government	\$ 14,737,861	\$ 14,165,001	\$ 15,868,382	\$ 15,705,124	\$ 16,910,069	\$ 16,628,522	\$ 16,573,348	\$ 16,585,377	\$ 17,709,004	\$ 17,504,104

Note:

(1) In years 2007 through 2013, the public works department received donated assets of \$10,904,769, \$215,931, \$169,792, \$738,713, \$251,315, \$484,901 and \$458,718 respectively, which is included in revenue above.

TOWN OF HERNDON, VIRGINIA

Table 5

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues:										
General property taxes	\$ 11,415,226	\$ 11,315,372	\$ 10,397,197	\$ 9,121,061	\$ 9,469,904	\$ 10,166,799	\$ 10,500,239	\$ 10,970,320	\$ 11,029,513	\$ 11,214,419
Other local taxes	12,713,550	12,353,268	12,111,551	10,962,554	12,021,080	12,442,350	12,850,710	13,318,644	13,372,805	14,177,297
Permits, privilege fees and regulatory licenses	285,090	361,280	398,453	394,406	307,471	576,155	532,695	522,048	630,218	559,488
Fines and forfeitures	571,998	593,631	546,486	525,648	586,607	491,067	632,491	547,939	463,312	423,335
Use of money and property	1,332,543	1,406,066	1,216,859	725,320	899,551	451,965	1,111,136	801,986	1,027,152	909,502
Charges for services	2,999,216	3,158,288	3,344,974	3,540,621	3,553,684	3,550,572	3,525,332	3,556,221	3,488,475	3,599,406
Miscellaneous	190,623	318,482	122,619	45,613	173,216	156,708	33,485	77,560	708,184	206,101
Intergovernmental	3,751,795	3,017,100	3,036,075	4,914,716	5,601,971	5,020,623	5,338,235	5,508,657	6,773,052	6,161,721
Total revenues	33,260,041	32,523,487	31,174,214	30,229,939	32,613,484	32,856,239	34,524,323	35,303,375	37,492,711	37,251,269
Expenditures:										
Legislative	660,310	651,245	621,490	621,830	574,002	633,519	622,325	626,639	654,549	698,951
Administration	2,621,611	2,443,752	1,794,756	1,875,307	2,039,372	2,249,139	2,319,175	2,457,281	2,582,772	3,131,313
Town attorney	455,322	522,946	533,800	580,099	465,714	494,245	535,633	545,434	476,792	476,844
Parks and recreation	3,922,569	3,896,866	3,588,867	3,637,139	3,615,552	3,851,099	3,985,756	4,055,755	4,136,245	4,288,848
Finance	1,263,648	1,291,102	1,237,706	1,159,375	1,236,659	1,302,849	1,267,040	1,307,771	1,427,806	1,518,192
Community development	1,647,157	1,853,933	2,258,153	2,060,965	2,069,278	2,051,139	1,891,352	1,857,171	1,598,172	1,686,329
Police	8,426,430	8,662,952	8,605,850	8,164,952	8,829,067	9,053,956	9,097,892	9,126,841	9,848,958	9,603,136
Public works	8,281,419	9,049,695	9,071,074	8,460,778	8,534,908	9,172,971	9,453,015	9,512,357	10,014,006	10,735,437
Grants	70,741	169,494	112,375	56,077	52,544	38,171	102,305	26,042	46,618	74,628
Capital outlay	2,452,376	1,354,695	1,713,889	1,117,577	2,313,599	1,699,472	2,242,162	4,805,785	3,296,422	3,040,310
Debt service:										
Principal	1,936,694	1,714,623	1,804,517	1,755,837	1,458,640	1,505,093	1,540,720	1,681,126	1,102,539	1,090,629
Interest and fiscal charges	881,041	800,142	808,155	838,530	695,817	494,954	481,073	573,790	313,792	283,733
Total expenditures	32,619,318	32,411,445	32,150,632	30,328,466	31,885,152	32,546,607	33,538,448	36,575,992	35,498,671	36,628,350
Excess of revenues over (under) expenditures	640,723	112,042	(976,418)	(98,527)	728,332	309,632	985,875	(1,272,617)	1,994,040	622,919
Other financing sources (uses):										
Transfers in	1,424,483	551,856	1,255,981	755,777	666,003	584,487	1,048,074	1,043,888	1,474,921	1,535,807
Transfers out	(1,506,622)	(598,108)	(1,284,449)	(765,756)	(883,586)	(760,379)	(3,158,060)	(1,430,526)	(1,649,825)	(1,691,400)
Issuance of debt	-	-	3,240,000	902,500	97,500	-	-	-	-	-
Proceeds of refunding bonds	-	-	-	1,766,365	4,999,000	-	-	4,032,000	-	-
Payment to refunded bond escrow agent	-	-	-	(1,760,506)	(4,986,906)	-	-	(3,822,703)	-	-
Premium (discount) on issuance debt	-	-	71,562	92,459	-	-	-	-	-	-
Proceeds from sale of property	52,309	120,873	22,376	19,995	27,375	29,876	1,951,169	-	14,927	-
Total other financing sources (uses), net	(29,830)	74,621	3,305,470	1,010,834	(80,614)	(146,016)	(158,817)	(177,341)	(159,977)	(155,593)
Net changes in fund balances	\$ 610,893	\$ 186,663	\$ 2,329,052	\$ 912,307	\$ 647,718	\$ 163,616	\$ 827,058	\$ (1,449,958)	\$ 1,834,063	\$ 467,326

TOWN OF HERNDON, VIRGINIA

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

**Table 5
Page 2**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Debt service as a percentage of noncapital expenditures:										
Total debt service	\$ 2,817,735	\$ 2,514,765	\$ 2,612,672	\$ 2,594,367	\$ 2,154,457	\$ 2,000,047	\$ 2,021,793	\$ 2,254,916	\$ 1,416,331	\$ 1,374,362
Total expenditures	\$ 32,619,318	\$ 32,411,445	\$ 32,150,632	\$ 30,328,466	\$ 31,885,152	\$ 32,546,607	\$ 33,538,448	\$ 36,575,992	\$ 35,498,671	\$ 36,628,350
Less: capital outlay	(1,721,592)	(1,236,989)	(2,115,568)	(920,817)	(1,325,046)	(1,784,169)	(2,464,081)	(4,496,172)	(3,549,414)	(3,370,996)
Noncapital expenditures	\$ 30,897,726	\$ 31,174,456	\$ 30,035,064	\$ 29,407,649	\$ 30,560,106	\$ 30,762,438	\$ 31,074,367	\$ 32,079,820	\$ 31,949,257	\$ 33,257,354
Debt service as a percentage of noncapital expenditures	9.12%	8.07%	8.70%	8.82%	7.05%	6.50%	6.51%	7.03%	4.43%	4.13%

TOWN OF HERNDON, VIRGINIA

Table 6

**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 (1)	Business License	Transient Occupancy	Local Sales	Meals (2)	Cigarette (3)	Motor Vehicle	Consumer Utility and Consumption (4)	5% Communications (6)	Other (7)	Total
2008	\$ 11,415,226	\$ 3,260,125	\$ 2,678,892	\$ 1,661,725	\$ 1,167,976	\$ 322,660	\$ 271,605	\$ 877,394	\$ 1,928,078	\$ 545,095	\$ 24,128,776
2009	11,315,372	3,458,908	2,493,698	1,511,792	1,103,744	307,047	285,356	878,034	1,796,554	518,135	23,668,640
2010	10,397,197	3,395,732	2,202,096	1,413,606	1,086,649	293,592	290,313	899,685	1,853,246	676,632	22,508,748
2011	9,121,061	3,788,311	2,212,811	1,488,959	1,154,577	390,163	373,933	884,483	-	669,317	20,083,615
2012	9,469,904	3,928,098	2,235,969	1,601,032	1,991,460	364,975	386,712	882,544	-	630,290	21,490,984
2013	10,166,799	4,481,963	2,088,149	1,668,325	2,008,529	333,869	373,415	888,993	-	599,107	22,609,149
2014	10,500,239	4,750,718	2,091,900	1,703,517	2,046,307	337,783	371,325	895,793	-	653,367	23,350,949
2015	10,970,320	4,860,528	2,187,198	1,848,993	2,121,519	323,517	365,163	891,319	-	720,407	24,288,964
2016	11,029,513	4,868,291	2,169,852	1,871,189	2,173,102	330,796	358,906	872,267	-	728,402	24,402,318
2017	11,214,419	5,569,516	2,199,410	1,798,728	2,215,677	288,484	431,639	876,765	-	797,078	25,391,716
Change 2008-2017	-1.76%	70.84%	-17.90%	8.24%	89.70%	-10.59%	58.92%	-0.07%	N/A	46.23%	5.23%

Source: Town records.

Notes:

- (1) Town's real property assessments declined about 2 percent from 2008 to 2017. In response to the decreases, the town's real estate tax rate increased over the past ten years from \$0.24 per \$100 of assessed value (AV) to the current rate of \$0.2650 per \$100 AV.
- (2) Town adopted a meals tax was 1.5 percent for the fiscal years prior to 2012. Rate was increased to 2.5 percent beginning in fiscal year 2012.
- (3) Cigarette tax rate was \$0.50 per pack effective for fiscal years prior to 2011. Rate was increased to \$0.75 per pack beginning in fiscal year 2011.
- (4) State communications sales and use tax became effective January 1, 2007. This tax replaced three locally assessed town taxes which are the consumer utility tax on telecommunication services, the mobile telecommunications (cell phone) tax and the 5 percent portion of the town's cable TV franchise fee. Beginning in fiscal year 2011, this tax is now accounted for as state intergovernmental revenue.
- (5) Includes right of way use fees, bank stock taxes and cable TV franchise fees.

TOWN OF HERNDON, VIRGINIA

Table 7

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

Fiscal Year June 30,	Residential Property	Commercial Property	Public Service Corporation	Nontaxable	Total Assessed Value	Total Taxable Assessed Value	Percent Growth	Total Direct Tax Rate	Actual Taxable Value	Value as a Percentage of Assessed Value
2008	\$ 2,478,870,750	\$ 2,118,458,610	\$ 152,834,703	\$ 148,854,355	\$ 4,899,018,418	\$ 4,750,164,063	26.62%	0.2400	\$ 4,750,164,063	100.00%
2009	2,370,955,949	2,212,843,650	148,261,544	235,205,540	\$ 4,967,266,683	4,732,061,143	(0.38)%	0.2400	\$ 4,732,061,143	100.00%
2010	1,679,450,917	2,174,409,910	137,947,029	222,736,840	4,214,544,696	3,991,807,856	(15.64)%	0.2600	3,991,807,856	100.00%
2011	1,596,765,065	1,684,423,215	134,591,895	202,647,500	3,618,427,675	3,415,780,175	(14.43)%	0.2675	3,415,780,175	100.00%
2012	1,708,242,740	1,747,193,177	119,532,778	204,073,885	3,779,042,580	3,574,968,695	4.66%	0.2650	3,574,968,695	100.00%
2013	1,801,509,810	1,925,923,584	116,081,340	205,388,122	4,048,902,856	3,843,514,734	7.51%	0.2650	3,843,514,734	100.00%
2014	1,980,265,471	1,883,749,270	81,935,902	208,716,740	4,154,667,383	3,945,950,643	2.67%	0.2650	3,945,950,643	100.00%
2015	2,173,438,731	1,859,709,194	112,355,453	214,819,800	4,360,323,178	4,145,503,378	5.06%	0.2650	4,145,503,378	100.00%
2016	2,256,968,560	1,823,038,660	114,688,984	220,801,220	4,415,497,424	4,194,696,204	1.19%	0.2650	4,194,696,204	100.00%
2017	2,348,465,120	1,848,104,770	124,886,642	239,891,960	4,561,348,492	4,321,456,532	3.02%	0.2650	4,321,456,532	100.00%

Sources:

Town of Herndon Department of Finance

County of Fairfax Department of Tax Administration (Real Estate Division)

Notes:

- (1) Higher assessed values from 2008 and 2009 correspond to rapid increases in residential and commercial values, coupled with extensive residential and commercial building construction, which began in 1999.
- (2) Declines in assessments noted for 2010 and 2011, especially in the residential sector, reflect the rapid decline in property values during that time for the Washington DC housing market. Years 2012 through 2017 portray a steady, albeit slow, recovery of assessment values.

TOWN OF HERNDON, VIRGINIA

Table 8

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

Fiscal Year June 30,	Tax Rates - Town		Tax Rates - County		Tax Rates - Combined	
	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property
2008	\$ 0.2400	\$ -	\$ 0.8900	\$ 4.5700	\$ 1.1300	\$ 4.5700
2009	0.2400	-	0.9200	4.5700	1.1600	4.5700
2010	0.2600	-	1.0400	4.5700	1.3000	4.5700
2011	0.2675	-	1.0900	4.5700	1.3575	4.5700
2012	0.2650	-	1.0750	4.5700	1.3400	4.5700
2013	0.2650	-	1.0850	4.5700	1.3500	4.5700
2014	0.2650	-	1.0900	4.5700	1.3550	4.5700
2015	0.2650	-	1.0900	4.5700	1.3550	4.5700
2016	0.2650	-	1.1300	4.5700	1.3950	4.5700
2017	0.2650	-	1.1300	4.5700	1.3950	4.5700

Notes:

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

TOWN OF HERNDON, VIRGINIA

Table 9

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

Taxpayer	2017			2008		
	Taxable Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value
BP New Dominion Technology	\$ 75,120,260	1	1.74 %	\$ 113,358,650	1	2.68 %
New Dominion	67,316,580	2	1.56	88,045,660	3	1.64
GSG Residential Westerly AT	64,754,620	3	1.50	-	-	-
Worldgare Centre Owner LLC	64,097,630	4	1.48	69,171,950	5	1.53
GSG Residential Townes AT	61,435,150	5	1.42	-	-	-
MIVPO LLC	55,179,320	6	1.28	67,250,700	6	1.42
Inland America Herndon Worldgate LLC	51,765,990	7	1.20	98,414,490	2	1.91
Rreef America Reit II Corp VVV	51,107,470	8	1.18	65,370,460	7	1.27
Washreit Monument II LLC	43,991,250	9	1.02	-	-	-
CLF Herndon LLC	40,270,700	10	0.93	-	-	-
Washington Real Estate	-	-	-	70,541,220	4	1.66
HMH Properties, Inc.	-	-	-	59,845,360	8	1.26
First Herndon Associates	-	-	-	59,243,480	9	1.25
EQR	-	-	-	53,422,750	10	1.16
Total	\$ 575,038,970		13.31 %	\$ 744,664,720		15.78 %

Sources:

Town of Herndon Department of Finance.

County of Fairfax Department of Tax Administration (Real Estate Division).

TOWN OF HERNDON, VIRGINIA

Table 10

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

Fiscal Year June 30,	Taxes Levied for the Fiscal Year (1)	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2008	\$ 11,033,590	\$ 10,982,504	99.54%	\$ 51,081	\$ 11,033,585	100.00%
2009	11,001,119	10,961,629	99.64%	39,351	11,000,980	100.00%
2010	10,019,464	9,970,734	99.51%	48,730	10,019,464	100.00%
2011	8,709,325	8,657,610	99.41%	51,540	8,709,150	100.00%
2012	9,160,086	9,104,251	99.39%	55,444	9,159,695	100.00%
2013	9,880,992	9,845,894	99.64%	34,681	9,880,575	100.00%
2014	10,299,028	10,272,232	99.74%	26,796	10,299,028	100.00%
2015	10,705,433	10,674,237	99.71%	31,196	10,705,433	100.00%
2016	10,805,027	10,767,440	99.65%	30,926	10,798,366	99.94%
2017	11,019,662	10,967,064	99.52%	NA	10,967,064	99.52%

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 11

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

Fiscal Year June 30,	Governmental Activities		Business-Type Activities	Total Primary Government	Percentage of Per Capita Personal Income	Debt Per Capita	General Bonded Debt Outstanding	Percentage of Actual Taxable Value of Property	General Bonded Debt Outstanding
	General Obligation Bonds	Capital Leases and Notes	Revenue Bonds				General Obligation Bonds		Debt Per Capita
2008	\$ 18,754,365	\$ 360,000	\$ 3,269,337	\$ 22,383,702	1.39	958	\$ 18,754,365	0.39	803
2009	17,207,449	195,000	3,121,892	20,524,341	1.28	874	17,207,449	0.36	733
2010	18,046,007	865,000	3,478,783	22,389,790	1.49	953	18,046,007	0.45	768
2011	16,382,491	1,767,500	3,364,163	21,514,154	1.38	911	16,382,491	0.48	694
2012	15,388,576	1,730,000	3,166,900	20,285,476	1.23	861	15,388,576	0.43	653
2013	14,009,445	1,590,513	2,961,603	18,561,561	1.09	787	14,009,445	0.36	594
2014	12,594,199	1,451,514	2,747,420	16,793,133	1.02	712	12,594,199	0.32	534
2015	12,464,958	87,397	2,609,488	15,161,843	0.89	642	12,464,958	0.30	528
2016	11,353,283	83,158	2,355,385	13,791,826	0.78	583	11,353,283	0.27	480
2017	10,175,147	78,794	2,004,353	12,258,294	0.68	516	10,175,147	0.24	429

Notes:

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

TOWN OF HERNDON, VIRGINIA

Table 12

**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
JUNE 30, 2017
(Unaudited)**

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Fairfax County, Virginia	\$ 2,450,070,757	1.7648%	\$ 43,239,173
Town Direct Debt			<u>10,253,941</u>
Total direct and overlapping debt			<u><u>\$ 53,493,114</u></u>

Sources:

- (1) Town of Herndon Department of Finance and County of Fairfax Finance Department.
- (2) Town of Herndon percentage of overlapping debt based on Real Estate assessed values of each respective entity.

TOWN OF HERNDON, VIRGINIA

Table 13

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

	Fiscal Year June 30,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Debt limit	\$ 459,732,936	\$ 458,379,960	\$ 385,386,083	\$ 328,121,001	\$ 345,568,950	\$ 372,773,329	\$ 386,401,474	\$ 403,314,793	\$ 408,000,722	\$ 419,656,989
Total net debt applicable to limit	19,114,365	17,402,449	18,911,007	18,149,991	17,118,576	15,599,958	14,045,713	12,466,973	11,436,441	10,332,068
Available legal debt margin	<u>\$ 440,618,571</u>	<u>\$ 440,977,511</u>	<u>\$ 366,475,076</u>	<u>\$ 309,971,010</u>	<u>\$ 328,450,374</u>	<u>\$ 357,173,371</u>	<u>\$ 372,355,761</u>	<u>\$ 390,762,438</u>	<u>\$ 396,564,281</u>	<u>\$ 409,324,921</u>
Total net debt applicable to the limit as a percentage of debt limit	4.16%	3.80%	4.91%	5.53%	4.95%	4.18%	3.64%	3.09%	2.80%	2.46%

Legal Debt Margin Calculation for Fiscal Year 2017

Assessed value of real estate	<u>\$ 4,196,569,890</u>
Debt limit (10% of assessed value)	\$ 419,656,989
Debt applicable to limit:	
Net direct debt outstanding	<u>10,332,068</u>
Available legal debt margin	<u>\$ 409,324,921</u>

Summary of Outstanding Debt:

2010 general obligation bonds	1,723,450
2010 refunding bonds	782,123
2012 refunding bonds	3,990,500
2010 twenty-year note payable	78,794
2014 refunding bonds	3,679,074
Deferred bond premiums	<u>78,127</u>
	<u>\$ 10,332,068</u>

Notes:

- (1) Net direct debt excludes debt service on general obligation bond issues in the Golf Course and the Chestnut Grove Cemetery Funds.
- (2) 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.

TOWN OF HERNDON, VIRGINIA

Table 14

**BOND COVERAGE
LAST TEN FISCAL YEARS
(Unaudited)**

Golf Course Fund							
Fiscal Year June 30,	Service Charges	Operating Expenses	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
2008	\$ 1,576,985	\$ 1,303,023	\$ 273,962	\$ 53,838	\$ 45,632	\$ 99,470	2.75
2009	1,518,889	1,270,943	247,946	55,152	43,559	98,711	2.51
2010	1,512,540	1,306,977	205,563	59,091	41,353	100,444	2.05
2011	1,369,871	1,188,595	181,276	87,059	59,284	146,343	1.24
2012	1,496,295	1,252,292	244,003	83,044	46,623	129,667	1.88
2013	1,467,555	1,331,920	135,635	85,670	44,298	129,968	1.04
2014	1,462,861	1,298,157	164,704	89,146	42,294	131,440	1.25
2015	1,366,093	1,295,926	70,167	93,085	39,014	132,099	0.53
2016	1,502,549	1,238,349	264,200	96,562	34,538	131,100	2.02
2017	1,510,009	1,298,643	211,366	100,501	30,848	131,349	1.61

Chestnut Grove Cemetery Fund							
Fiscal Year June 30,	Service Charges	Operating Expenses	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
2008	\$ 472,053	\$ 415,793	\$ 56,260	\$ 89,468	\$ 106,669	\$ 196,137	0.29
2009	573,029	447,881	125,148	90,225	104,730	194,955	0.64
2010	616,522	466,123	150,399	96,392	101,412	197,804	0.76
2011	635,207	459,127	176,080	107,104	99,529	206,633	0.85
2012	686,149	475,324	210,825	103,316	89,108	192,424	1.10
2013	744,741	524,940	219,801	108,724	85,348	194,072	1.13
2014	851,041	514,028	337,013	114,133	81,210	195,343	1.73
2015	814,677	540,926	273,751	116,406	56,725	173,131	1.58
2016	839,852	539,973	299,879	146,638	42,140	188,778	1.59
2017	899,125	552,130	346,995	207,234	36,166	243,400	1.43

Notes:

- (1) Service charges includes all revenues of the fund except gains on sale of capital assets and capital grant revenue.
- (2) Operating expenses are exclusive of depreciation and amortization, interest expense and losses on sale of capital assets.
- (3) The bonds for the Chestnut Grove Cemetery Fund were issued in fiscal years 2001 and 2007 with the first principal payments due in fiscal years 2002 and 2008, respectively.
- (4) The bonds for the Chestnut Grove Cemetery Fund and the Golf Course Fund issued in fiscal year 2001 were refunded in fiscal year 2011. The last principal payment for the refunded bonds and the first principal payment for the refunding bonds were made in fiscal year 2011.

TOWN OF HERNDON, VIRGINIA

Table 15

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

Fiscal Year June 30,	Population (1)	Personal Income (000's) (2)	Per Capita Personal Income (2)	School Enrollment (3)	Unemployment Rates (%) (4)
2008	23,367	\$ 1,610,150	\$ 68,907	166,307	3.2
2009	23,476	1,602,965	68,281	169,538	4.8
2010	23,496	1,506,188	64,104	169,538	5.1
2011	23,620	1,558,070	65,964	172,391	4.9
2012	23,556	1,646,682	69,905	177,918	4.2
2013	23,572	1,703,242	72,257	181,259	4.3
2014	23,592	1,647,123	69,817	183,895	4.2
2015	23,612	1,713,098	72,552	185,914	4.0
2016	23,666	1,776,867	75,081	185,979	3.3
2017	23,734	1,803,262	75,978	187,484	3.2

Sources:

(1) Town of Herndon, Community Development.

(2) www.bea.gov Interactive Data> Regional Data>GDP & Personal Income>Local Area
Personal Income and Employment (CA1)>Fairfax County - updated Nov. 16, 2017

(3) Fairfax County Public Schools, Office of Finance.

(4) Virginia Employment Commission, Labor Market Information Unemployment Statistics
(not seasonally adjusted. Rate is for Fairfax County as of June 30 of the fiscal year.

TOWN OF HERNDON, VIRGINIA

Table 16

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

Employer	2017 Employment Range	2008 Employment Range
Amazon Corporation LLC	Over 500	-
Booz Allen Hamilton, Inc.	Over 500	-
Fannie Mae	Over 500	-
Harris Corporation	Over 500	-
Northwest Federal Union	249-499	-
Navy Federal Credit Union	249-499	-
Town of Herndon	249-499	-
Airline Pilots Association	100-250	-
Medical Transportation Service	100-250	-
Boeing Corporation	100-250	-
ITT Industries Inc.	-	249-499
Lafarge Corporation	-	249-499
Town of Herndon	-	249-499
Savvis Communications	-	100-250
REI Systems	-	100-250
Medical Transportation Service	-	100-250
Institute for Building	-	100-250
RCN Telcom	-	100-250
Navy Federal Credit Union	-	100-250

Sources:

Fairfax County Economic Development Authority.

Virginia Employment Commission.

Town of Herndon, Communications & Economic Development and Finance Departments.

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TOWN OF HERNDON, VIRGINIA

Table 17

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

Function/Program	Fiscal Year June 30,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Legislative	4.1	4.0	4.0	4.0	4.0	4.0	4.0	3.5	3.0	3.9
Administration:										
Public information	1.5	1.5	1.5	1.5	1.5	1.6	2.4	2.7	2.8	2.8
Town manager	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.1	2.8	3.0
Human resources	3.4	3.3	3.5	3.5	3.4	3.4	3.1	3.5	3.6	3.7
Information services	6.1	6.0	5.7	5.3	6.0	6.0	6.1	5.9	6.1	5.5
Neighborhood resources (1)	4.7	3.5	0.0	-	-	-	-	-	-	-
Town attorney	2.8	3.0	2.6	2.6	2.8	2.8	2.6	2.6	2.5	2.7
Parks and recreation:										
Administration	5.5	4.6	3.9	4.2	4.6	4.9	4.0	5.1	5.7	5.8
Recreation programs (2)	20.1	19.3	17.7	16.9	15.3	15.1	15.1	14.8	16.3	15.9
Community center operations	15.9	17.0	15.4	16.2	16.6	16.9	16.7	16.6	16.0	16.4
Aquatics programs and operations	12.9	13.6	13.4	13.3	13.7	13.3	13.1	13.8	12.1	13.4
Park operation and development	1.9	1.1	1.2	1.4	1.3	1.6	1.6	1.1	0.8	1.5
Finance:										
Administration	1.8	2.0	2.0	2.0	2.0	2.0	2.0	1.0	1.0	1.1
Billing and accounting	5.0	5.0	5.0	5.0	5.0	4.9	4.7	5.8	5.8	6.3
Revenue (2)	4.6	3.8	3.2	2.8	2.8	2.8	2.8	2.8	2.7	2.8
Procurement	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.6	1.0	0.8
Community development (1), (2)	20.3	21.5	22.0	22.3	21.5	19.2	18.7	18.2	14.8	15.5
Police:										
Field operations	46.1	45.6	45.4	44.1	49.9	48.9	48.4	46.6	45.1	47.1
Support services	32.0	33.7	35.0	33.9	29.8	31.9	33.4	35.4	34.8	35.0
Public works:										
Administration	8.2	8.2	8.1	6.1	6.9	7.0	7.0	7.0	6.9	6.5
Engineering	4.6	5.0	5.0	5.0	5.0	4.9	4.4	4.7	3.9	4.9
Program management	2.0	2.8	3.0	3.0	3.0	2.9	2.8	2.0	1.5	1.3
Building inspections	5.2	5.2	4.8	4.0	4.9	4.8	4.9	4.4	4.6	4.9
Building maintenance	8.0	8.3	8.4	8.3	8.4	8.5	8.0	7.2	7.2	7.0
Grounds maintenance	10.1	10.4	10.5	7.8	9.0	11.0	11.0	11.6	12.3	12.6
Street maintenance	7.3	10.3	8.8	10.3	8.7	9.8	11.0	9.8	10.3	10.2
Refuse/recycling	18.1	17.4	16.9	17.0	16.6	17.0	16.8	16.6	16.9	15.2
Vehicle and equipment replacement	9.9	10.1	10.5	10.3	9.2	9.4	9.4	10.5	10.5	10.0
Traffic engineering (2)	3.8	3.8	3.5	3.1	3.0	3.1	3.2	3.2	2.6	3.1
Right-of-way inspections	3.0	3.1	3.2	3.1	3.1	3.0	3.1	3.1	3.1	3.0

TOWN OF HERNDON, VIRGINIA

Table 17
Page 2

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

Function/Program	Fiscal Year June 30,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Water and Sewer:										
Customer service	2.0	3.7	3.8	3.8	3.9	4.1	4.0	4.3	3.5	4.3
Sewer service and maintenance (2)	6.2	5.6	6.4	5.7	3.3	4.4	5.3	5.2	5.1	4.8
Water supply and maintenance	7.1	6.4	6.7	5.6	8.1	7.7	7.3	8.3	7.7	7.4
Golf Course:										
Maintenance (2)	8.4	8.1	7.6	7.2	7.2	7.2	7.5	7.3	6.8	7.3
Clubhouse	6.2	6.3	6.0	5.7	5.8	5.7	5.8	6.1	5.4	5.5
Chestnut Grove Cemetery:										
Administration	5.1	4.9	5.0	4.9	5.0	4.8	4.8	4.9	4.3	4.7
Total	311.1	302.0	295.5	293.9	297.2	297.3	296.9	292.9	289.6	296.0

Source:

Town of Herndon, Finance Department

Notes:

- (1) As part of the fiscal year 2010 budget, Neighborhood Resources division was transferred from Administration to Community Development.
- (2) Due to economic recession, starting in fiscal year 2010 several positions in the larger departments were either "frozen" or, in some cases, eliminated.

TOWN OF HERNDON, VIRGINIA

Table 18

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

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Police:										
Calls for service (1)	35,600	33,800	27,700	28,100	27,700	30,900	28,990	36,230	35,520	21,967
Administration:										
Number of recruitments requests (1)	158	93	78	105	89	60	56	65	64	43
Building safety:										
Total building permits (3)	310	168	342	308	247	226	241	230	263	237
Total inspections performed (1)	3,628	3,766	3,446	3,421	2,928	2,628	2,613	2,844	3,496	3,433
Public service:										
Refuse collected (tons) (1)	5,817	5,655	5,868	5,948	5,860	5,248	5,670	6,250	6,410	6,537
Recycle collected (residential - tons) (1)	1,737	1,427	1,473	1,501	1,518	1,517	1,625	1,673	1,711	1,752
Parks and Recreation:										
Recreation program attendance (1)	15,875	16,703	17,842	17,368	16,954	12,000	11,500	11,200	11,600	13,700
Herndon Festival attendance (1)	85,000	83,000	79,000	82,000	69,000	82,000	82,000	83,000	78,500	81,500
Water and sewer:										
New utility accounts	30	24	10	50	78	15	25	20	35	26
Average daily water consumption (mgd)	2.42	2.28	2.09	2.15	2.17	2.02	2.00	2.15	2.13	2.24
Average daily sewage treatment (mgd)	2.39	2.40	2.57	2.50	2.47	2.24	2.66	2.46	2.44	2.67
Golf Course:										
Rounds played (18 and 9 hole) (4)	34,940	32,781	32,110	30,098	33,435	31,766	31,421	30,368	33,112	33,029
Cemetery:										
Sites sold (1)	139	147	184	163	204	180	184	136	132	148
Interments performed (1)	102	133	174	117	138	124	129	139	140	133

Sources:

- 1 Town of Herndon Town Manager's Annual Reports.
- 2 Town of Herndon Adopted Annual Budgets.
- 3 Town of Herndon Department of Public Works.
- 4 Town of Herndon Golf Course.

TOWN OF HERNDON, VIRGINIA

Table 19

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

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Vehicles	35	38	39	39	42	42	45	45	47	47
Refuse Collection:										
Collection trucks	8	8	9	9	9	9	9	9	10	10
Other public works:										
Vehicles/equipment maintained	374	374	375	374	378	379	385	424	429	533
Streets:										
Primary (miles)	29.9	29.9	29.9	29.9	31.3	31.3	31.3	31.3	31.3	31.3
Secondary (miles)	98.1	98.1	98.1	98.5	98.4	98.4	98.4	98.4	98.4	98.4
Parks & Recreation:										
Parks - number of acres	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	137
Swimming pools	1	1	1	1	1	1	1	1	1	1
Parks with playground equipment	7	7	7	7	7	7	7	7	8	7
Community centers	1	1	1	1	1	1	1	1	1	1
Water:										
Water lines (miles)	88.7	88.7	89.3	89.3	89.3	89.3	83.4	84.7	84.7	84.7
Storage capacity (million gallons)	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	2.0
Wastewater:										
Sanitary sewers (miles)	81.3	81.3	81.8	81.8	81.8	81.8	81.8	81.8	81.8	81.8

Sources:

- Town of Herndon Town Manager's Annual Reports.
- Town of Herndon Adopted Annual Budgets.
- Town of Herndon Department of Public Works.

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COMPLIANCE SECTION

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Herndon (the “town”), as of and for the year ended June 30, 2017, 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 27, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the town’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of town’s internal control. Accordingly, we do not express an opinion on the effectiveness of town’s internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.**

Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 27, 2017

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

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

Report on Compliance for Each Major Federal Program

We have audited the Town of Herndon, Virginia's (the "town") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the town's major federal program for the year ended June 30, 2017. The town's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the town's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

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

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

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 27, 2017

TOWN OF HERNDON, VIRGINIA

**SUMMARY OF COMPLIANCE MATTERS
June 30, 2017**

As more fully described in the Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the town’s compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Budget and Appropriation Laws

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Debt Provisions

Procurement Laws

Uniform Disposition of Unclaimed Property Act

State Agency Requirements

Urban Highway Maintenance

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

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

TOWN OF HERNDON, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017**

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **No significant deficiencies** relating to the audit of the financial statements were reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. **No instances of noncompliance** material to the financial statements were disclosed during the audit.
4. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Independent Auditor's Report on Compliance For Each Major Program and on Internal Control over Compliance Required By the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings relating to major programs**.
7. The major programs of the town are:

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

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

TOWN OF HERNDON, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None

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

None

D. FINDINGS – COMMONWEALTH OF VIRGINIA

None

TOWN OF HERNDON, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

<u>Federal Granting Agency/Recipient State Agency/Grant Program</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Justice			
Direct payments:			
Equitable Sharing Program	16.922	N/A	\$ 49,747
Pass-through payments:			
Department of Criminal Justice Services:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	16-O1047-LO15	<u>2,446</u>
Total U.S. Department of Justice			<u>52,193</u>
U.S. Department of Transportation			
Pass-through payments:			
Virginia Department of Transportation Highway Planning and Construction	20.205	N/A	<u>908,872</u>
Total U.S. Department of Transportation			<u>908,872</u>
Total Expenditures of Federal Awards			<u>\$ 961,065</u>

Notes to the Schedule of Expenditures of Federal Awards

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'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 Cost Rate

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