TOWN OF DAYTON, VIRGINIA

FINANCIAL REPORT

June 30, 2017

TOWN OF DAYTON, VIRGINIA

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INTRODUCTORY SECTION

TOWN OF DAYTON, VIRGINIA

DIRECTORY OF PRINCIPAL OFFICIALS

June 30, 2017

TOWN COUNCIL

Charles T. Long, Mayor
Jeffrey S. Daly, Vice Mayor
Laura J. Daily
L. Todd Collier
Zachary Fletchall
Shelley P. Newman
Tara Worthy

APPOINTED OFFICIALS

Robert Popowicz, Jr.	Town Manager
Lee Early	Treasurer
Daniel Hanlon	Chief of Police

INDEPENDENT AUDITORS

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

FINANCIAL SECTION

BROWN EDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

Honorable Members of Town Council
Town of Dayton, Virginia
Dayton, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Dayton, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Dayton, Virginia, 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 accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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 historic 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.

Management has omitted a management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

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 is presented for purposes of additional analysis and is not a required part of the financial statements. The introductory section has 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2018 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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
March 29, 2018

BASIC FINANCIAL STATEMENTS

EXHIBIT 1

TOWN OF DAYTON, VIRGINIA

STATEMENT OF NET POSITION
June 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents (Note 2)	$ 12,881	$ 1,946,184	$ 1,959,065
Investments (Note 2)	-	1,926,972	1,926,972
Receivables (Note 3)	157,340	387,864	545,204
Due from other governmental units (Note 4)	18,056	-	18,056
Inventories	-	35,365	35,365
Prepaids	15,692	514	16,206
Investment in electric cooperative (Note 1)	2,811	94,229	97,040
Capital assets: (Note 5)			
Nondepreciable	861,666	303,047	1,164,713
Depreciable, net	3,875,070	7,863,550	11,738,620
Total assets	4,943,516	12,557,725	17,501,241
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows (Note 8)	189,030	41,494	230,524
LIABILITIES			
Accounts payable and accrued liabilities	28,633	167,546	196,179
Accrued payroll and related liabilities	24,616	62,083	86,699
Accrued interest	581	-	581
Deposits payable	-	7,270	7,270
Unearned revenue (Note 6)	60,862	-	60,862
Noncurrent liabilities:			
Net pension liability (Note 8)	468,862	102,921	571,783
Other noncurrent liabilities due within one year (Note 7)	19,063	-	19,063
Other noncurrent liabilities due in more than one year (Note 7)	56,226	7,466	63,692
Total liabilities	658,843	347,286	1,006,129
DEFERRED INFLOWS OF RESOURCES			
Property taxes for future periods (Note 6)	55,013	-	55,013
Pension related deferred inflows (Note 8)	72,016	15,808	87,824
Total deferred inflows of resources	127,029	15,808	142,837
NET POSITION			
Net investment in capital assets	4,698,038	8,166,597	12,864,635
Unrestricted	(351,364)	4,069,528	3,718,164
Total net position	$ 4,346,674	$ 12,236,125	$ 16,582,799

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

EXHIBIT 2

TOWN OF DAYTON, VIRGINIA

STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
					Primary Government		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-Type Activities**	**Total**
Governmental activities							
General government administration	$ 392,241	$ 2,915	$ -	$ -	$ (389,326)	$ -	$ (389,326)
Public safety	719,527	24,026	49,056	-	(646,445)	-	(646,445)
Public works	441,528	147,178	-	96,405	(197,945)	-	(197,945)
Parks, recreation, and cultural	195,673	77,811	-	-	(117,862)	-	(117,862)
Community development	85,692	-	-	-	(85,692)	-	(85,692)
Interest on long-term debt	3,442	-	-	-	(3,442)	-	(3,442)
Total governmental activities	1,838,103	251,930	49,056	96,405	(1,440,712)	-	(1,440,712)
Business-type activities							
Water and sewer	2,362,048	3,590,354	-	-	-	1,228,306	1,228,306
Total business-type activities	2,362,048	3,590,354	-	-	-	1,228,306	1,228,306
Total primary government	$ 4,200,151	$ 3,842,284	$ 49,056	$ 96,405	(1,440,712)	1,228,306	(212,406)
		General revenues and transfers:					
		Property taxes			120,488	-	120,488
		Other local taxes			439,563	-	439,563
		Unrestricted revenue from the use of money and property			1,233	11,603	12,836
		Other			21,104	-	21,104
		Transfers (Note 1)			628,611	(628,611)	-
		Total general revenues and transfers			1,210,999	(617,008)	593,991
		Change in net position			(229,713)	611,298	381,585
		NET POSITION AT JULY 1			4,576,387	11,624,827	16,201,214
		NET POSITION AT JUNE 30			$ 4,346,674	$ 12,236,125	$ 16,582,799

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

EXHIBIT 3

TOWN OF DAYTON, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2017

		General
ASSETS		
Cash and cash equivalents (Note 2)	$	12,881
Receivables, net (Note 3)		157,340
Due from other governmental units (Note 4)		18,056
Prepaids		15,692
Total assets	$	203,969
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		
Liabilities:		
Accounts payable and accrued liabilities	$	28,633
Accrued payroll and related liabilities		24,616
Unearned revenue (Note 6)		60,862
Total liabilities		114,111
Deferred inflows of resources:		
Deferred property tax revenue (Note 6)		55,013
Unavailable revenue (Note 6)		22,168
Total deferred inflows of resources		77,181
Fund balances:		
Nonspendable - prepaids		15,692
Committed - public safety		74,302
Assigned - community development		11,673
Unassigned		(88,990)
Total fund balances		12,677
Total liabilities, deferred inflows of resources, and fund balances	$	203,969

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

EXHIBIT 4

TOWN OF DAYTON, VIRGINIA

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

Ending fund balance – governmental fund		$ 12,677
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the fund.		
Nondepreciable capital assets	$ 861,666	
Depreciable capital assets, net	3,875,070	
		4,736,736
Investment in electric cooperative is not available in the current period and therefore is not reported in the fund.		2,811
Certain revenues are not available to pay for current period expenditures and are not reported in the fund.		22,168
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the fund.		
Deferred outflows of resources related to pension	189,030	
Deferred inflows of resources related to pension	(72,016)	
		117,014
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund.		
Accrued interest payable	(581)	
Compensated absences and service benefits	(36,591)	
Net pension liability	(468,862)	
Long-term debt	(38,698)	
		(544,732)
Total net position – governmental activities		$ 4,346,674

EXHIBIT 5

TOWN OF DAYTON, VIRGINIA

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

	General
REVENUES	
General property taxes	$ 111,812
Other local taxes	439,563
Permits, privilege fees, and regulatory licenses	1,475
Fines and forfeitures	24,026
Revenues from the use of money and property	2,397
Charges for services	147,178
Intergovernmental	145,461
Recovered costs	6,522
Other	92,393
Total revenues	970,827
EXPENDITURES	
Current:	
General government administration	383,184
Public safety	673,732
Public works	397,315
Parks, recreation, and cultural	151,893
Community development	85,692
Capital outlay	142,967
Debt service:	
Principal retirement	68,598
Interest and other fiscal charges	5,723
Total expenditures	1,909,104
Deficiency of revenues over expenditures	(938,277)
OTHER FINANCING SOURCES	
Proceeds from sale of capital assets	5,111
Transfers in (Note 1)	628,611
Total other financing sources	633,722
Net change in fund balance	(304,555)
FUND BALANCE AT JULY 1	317,232
FUND BALANCE AT JUNE 30	$ 12,677

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

EXHIBIT 6

TOWN OF DAYTON, VIRGINIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

Net change in fund balance – total governmental fund		$ (304,555)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlays	$ 186,650	
Depreciation expense	(203,232)	
		(16,582)
Governmental funds report employer 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.		
Change in employer pension contributions	104,746	
Pension expense	(92,964)	
		11,782
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		8,952
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has an effect on net assets.		
Principal repayments		68,598
The net effect of the change in accrued interest is not reflected in the fund statements.		2,281
Long-term compensated absences and service benefits are reported in the statement of activities but they do not require the use of current financial resources and, therefore are not recorded as expenditures in governmental funds.		(189)
Change in net position of governmental activities		$ (229,713)

EXHIBIT 7

TOWN OF DAYTON, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES				
General property taxes	$ 106,000	$ 106,000	$ 111,812	$ 5,812
Other local taxes	388,250	388,250	439,563	51,313
Permits, privilege fees, and regulatory licenses	-	-	1,475	1,475
Fines and forfeitures	15,000	15,000	24,026	9,026
Revenues from the use of money and property	1,440	1,440	2,397	957
Charges for services	140,000	140,000	147,178	7,178
Intergovernmental	82,025	82,025	145,461	63,436
Recovered costs	203,000	203,000	6,522	(196,478)
Other	64,000	64,000	92,393	28,393
Total revenues	999,715	999,715	970,827	(28,888)
EXPENDITURES				
Current:				
General government administration	407,177	407,177	383,184	23,993
Public safety	677,936	677,936	673,732	4,204
Public works	460,264	460,264	397,315	62,949
Parks, recreation and cultural	196,681	196,681	151,893	44,788
Community development	94,000	94,000	85,692	8,308
Capital outlay	450,000	450,000	142,967	307,033
Debt service:				
Principal retirement	68,599	68,599	68,598	1
Interest and other fiscal charges	5,723	5,723	5,723	-
Total expenditures	2,360,380	2,360,380	1,909,104	451,276
Excess (deficiency) of revenues over expenditures	(1,360,665)	(1,360,665)	(938,277)	422,388
OTHER FINANCING SOURCES				
Proceeds from sale of capital assets	-	-	5,111	5,111
Transfers in	1,360,665	1,360,665	628,611	(732,054)
Total other financing sources	1,360,665	1,360,665	633,722	(726,943)
Net change in fund balance	$ -	$ -	$ (304,555)	$ (304,555)

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

EXHIBIT 8

TOWN OF DAYTON, VIRGINIA

STATEMENT OF NET POSITION –
PROPRIETARY FUND
June 30, 2017

	Enterprise Fund Water and Sewer
ASSETS	
Current assets:	
Cash and cash equivalents (Note 2)	$ 1,946,184
Investments (Note 2)	1,926,972
Accounts receivable, net (Note 3)	387,864
Inventories	35,365
Prepaids	514
Total current assets	4,296,899
Noncurrent assets:	
Investment in electric cooperative (Note 1)	94,229
Capital assets (Note 5)	
Nondepreciable	303,047
Depreciable, net	7,863,550
Total noncurrent assets	8,260,826
Total assets	12,557,725
DEFERRED OUTFLOWS OF RESOURCES	
Pension related deferred outflows (Note 8)	41,494
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	167,546
Accrued payroll and related liabilities	62,083
Deposits payable	7,270
Total current liabilities	236,899
Noncurrent liabilities:	
Net pension liability	102,921
Compensated absences and service benefits (Note 7)	7,466
Total noncurrent liabilities	110,387
Total liabilities	347,286
DEFERRED INFLOWS OF RESOURCES	
Pension related deferred inflows (Note 8)	15,808
NET POSITION	
Net investment in capital assets	8,166,597
Unrestricted	4,069,528
Total net position	$ 12,236,125

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

TOWN OF DAYTON, VIRGINIA

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

	Enterprise Fund Water and Sewer
OPERATING REVENUES	
Charges for services	$ 3,481,571
Connection availability fees	100,000
Other	8,783
Total operating revenues	3,590,354
OPERATING EXPENSES	
Salaries	154,379
Fringe benefits	44,108
Maintenance	180,687
Utilities	131,337
Materials and supplies	40,537
Regional Sewer Authority assessment	1,400,272
Other	16,324
Depreciation	394,404
Total operating expenses	2,362,048
Operating income	1,228,306
NONOPERATING REVENUES	
Investment income	11,603
Income before transfers	1,239,909
TRANSFERS OUT (NOTE 1)	(628,611)
Change in net position	611,298
NET POSITION AT JULY 1	11,624,827
NET POSITION AT JUNE 30	$ 12,236,125

EXHIBIT 10

TOWN OF DAYTON, VIRGINIA

STATEMENT OF CASH FLOWS – PROPRIETARY FUND
Year Ended June 30, 2017

	Enterprise Fund
	Water and Sewer
OPERATING ACTIVITIES	
Receipts from customers	$ 3,614,383
Payments to suppliers	(1,642,064)
Payments to employees	(141,760)
Net cash provided by operating activities	1,830,559
NON-CAPITAL AND RELATED FINANCING ACTIVITIES	
Transfers to other funds	(628,611)
Net cash used in non-capital and related financing activities	(628,611)
CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(413,362)
Net cash used in capital and related financing activities	(413,362)
INVESTING ACTIVITIES	
Purchase of investments	(453,139)
Interest received	39,770
Net cash used in investing activities	(413,369)
Net increase in cash and cash equivalents	375,217
CASH AND CASH EQUIVALENTS	
Beginning at July 1	1,570,967
Ending at June 30	$ 1,946,184
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$ 1,228,306
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	394,404
Pension expense net of employer contributions	7,766
Change in certain assets and liabilities:	
(Increase) decrease in:	
Accounts receivable, excluding interest receivable	24,219
Prepaids	1,711
Inventories	61,408
Investment in electric cooperative	(3,956)
Increase (decrease) in:	
Accounts payable and accrued liabilities	67,930
Accrued payroll and related liabilities	51,184
Deposits payable	(190)
Compensated absences and service benefits	(2,223)
Net cash provided by operating activities	$ 1,830,559

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

Note 1. Summary of Significant Accounting Policies

A. The Financial Reporting Entity

The Town of Dayton (the "Town") was established in 1852. It is a political subdivision of the Commonwealth of Virginia operating under the Council-Manager form of government. Town Council consists of a mayor, a vice mayor, and five other council members. The Town is part of Rockingham County and has taxing powers subject to statewide restrictions and tax limits.

The Town provides a full range of municipal services including police, refuse collection, public improvements, planning and zoning, general administrative services, fire, recreation, and water and sewer services. Fire and first aid services are supplemented by volunteer departments.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Town. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

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

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

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 45 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports the following major governmental fund:

> The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Town reports the following major proprietary fund:

> The *water and sewer fund* accounts for the financing of services to the general public where all or most of the operating expenses involved are intended to be recovered in the form of user charges. The water and sewer enterprise fund consists of the activities relating to water and sewer services.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's proprietary funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise fund are charges to customers for sales and services. Operating expenses of the water and sewer fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets and Budgetary Accounting

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

1) Prior to June 30th, the Town Manager submits to Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1st. This budget includes proposed expenditures and the means of financing them.
2) Public hearings are conducted to obtain citizen comments.
3) Prior to June 30th, the budget is legally enacted through passage of an appropriations ordinance. Town Council may, from time to time, amend the budget, providing for additional expenditures and the means for financing them.
4) The appropriations ordinance places legal restrictions on expenditures at the function level. Management can over-expend at the line item level without approval of Town Council. The appropriation for each department or function can be revised only by Town Council.
5) Formal budgetary integration is employed as a management control device during the year.
6) Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
7) Appropriations lapse on June 30th for all Town units.
8) All budget data presented in the accompanying financial statements includes the original and revised budgets as of June 30th.

E. Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term highly liquid investments with an original maturity of three months or less when purchased. Certificates of deposit with a maturity greater than three months are considered investments.

Note 1. Summary of Significant Accounting Policies (Continued)

F. Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include sales and use taxes, meals taxes and utility taxes. Governmental funds report receivables that are both earned and available. Business-type activities report utility services as the major receivable. The Town grants credit to the customers of its water and sewer systems.

The Town does not have an allowance for uncollectible accounts as historically there has not been difficulty in collecting payments. Management believes any allowance would be immaterial.

G. Property Taxes

Real estate taxes are assessed annually by Rockingham County, Virginia, for all property of record as of January 1st. Property taxes attach as an enforceable lien on property as of January 1. The Town collects real estate taxes on a semi-annual basis (one-half due June 5th, one half due December 5th). The portion of the tax receivable that is not collected within 45 days after year end is shown as unavailable revenue in the fund financial statements. The tax rate assessed for the year ended June 30th was $.08 per $100 valuation. A penalty of five percent of the tax is assessed after the applicable payment date. Interest is charged to all unpaid accounts at an annual rate of ten percent.

The taxes receivable balance at June 30th, includes amounts not yet billed or received from the January 1st levy (due December 5th). These items are included in unearned revenue since these taxes are intended for use in the following fiscal year.

H. Inventories

Inventories consist of expendable supplies held for consumption. Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

I. Prepaids

Payments made to vendors for services that will benefit periods beyond June 30th, are reported as prepaids using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

Note 1. Summary of Significant Accounting Policies (Continued)

J. Investment in Electric Cooperative

Investment in electric cooperative reflects the Town's member equity in a cooperative. The Town receives an allocation each year based on patronage. The current policy of the cooperative Board of Directors is to retire allocations on a 15-year schedule, and thus the investment is considered long-term.

K. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are assets with an initial, individual cost of more than $5,000 and a useful life of more than one year. Infrastructure assets capitalized have an original cost of $25,000 or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Assets received in a service concession arrangement are reported at acquisition value.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

Buildings and land improvements	10-50 years
Utility systems	10-35 years
Machinery, equipment, vehicles	5-15 years
Infrastructure	20-35 years

L. Capitalization of Interest

The Town follows the policy of capitalizing net interest costs on funds borrowed to finance the construction of proprietary capital assets. Interest is not capitalized on the construction of assets used in governmental activities. There was no interest capitalized in the current year.

M. Deferred Outflows/Inflows of Resources

In addition to assets, the statements which present financial position report a separate section for deferred outflows of resources which represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has three items that qualify for reporting in this category. The first consists of contributions subsequent to the measurement date for pensions; this will be applied to the net pension liability in the next fiscal year. The second item represents differences between expected and actual experience in the pension plan. This difference will be recognized in pension expense over a closed five year period. The third is the net difference between projected and actual earnings on pension plan investments. This difference will be recognized in pension expense over a closed five year period.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

M. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statements which represent financial condition report a separate section for deferred inflows of resources. This separate financial 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 three such items. 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 is the net difference between expected and actual pension experience. These differences will be recognized in pension expense over a closed five year period, and are recognized only on the government-wise statements. The third is property taxes intended for future periods, recognized in both the government wide and fund statements.

N. 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/deductions from the Town's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

O. Compensated Absences

The Town has policies which allow for the accumulation and vesting of limited amounts of paid time off until termination or retirement. Amounts of such absences are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds when the leave is due and payable.

P. Long-Term Debt

All long-term debt to be repaid from governmental and business-type resources is reported as a liability in the government-wide statements. Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest is reported as an expenditure. The accounting for the proprietary funds is the same in the fund financial statements as it is in the government-wide statements.

Note 1. Summary of Significant Accounting Policies (Continued)

Q. Net Position/Fund Balance

Net position in the government-wide and proprietary financial statements is classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through state statute.

Fund balance is divided into five classifications based primarily on the extent to which the Town is bound to observe constraints imposed upon the use of the resources in the governmental fund.

The classifications are as follows:

- **Nonspendable** – Amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.
- **Restricted** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed** – Amounts constrained to specific purposes by the Town, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purposes unless the same highest level of action is taken to remove or change the constraint.
- **Assigned** – Amounts the Town intends to use for a specified purpose; intent can be expressed by Council.
- **Unassigned** – Amounts that are available for any purpose; positive amounts are reported only in the general fund.

Council establishes fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. Assigned fund balance is established by Council through adoption or amendment of the budget as intended for a specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

R. Restricted Resources

The Town applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Note 1. Summary of Significant Accounting Policies (Continued)

S. Cash Reserve Policy

Town Council has formally adopted by resolution a requirement to establish and maintain a reserve equal to a minimum of $2,600,000 to provide the Town adequate funds to pay sewer authority fees and six months of budgeted general fund expenditures. The purpose of the safety net reserve is to protect the Town from unplanned changes at its major utility customer. Funds are currently held in the water and sewer fund.

Funds to be used from the reserve must be appropriated through the annual budget ordinance or by a budget amendment ordinance approved and adopted by Town Council. The Town is required to restore the minimum balance within the following three fiscal years.

T. Interfund Transfers

The composition of interfund transfers is as follows:

Transfer Out Fund	Transfer In Fund	Amount
Water and Sewer	General Fund	$ 628,611

The transfer from the water and sewer fund to the general fund is to support the general operating expenditures of the Town.

U. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. There are $74,302 of governmental encumbrances as of June 30th.

V. Estimates

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and reported revenues, expenditures, and expenses. Actual results could differ from those estimates.

Note 2. Deposits and Investments

Deposits

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

Investments

Investment Policy:

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

As of June 30th, the Town had the following deposits and investments:

Type	Fair Value	Credit Rating	Percent of Portfolio
Demand deposits	$ 1,959,065	N/A	50.41 %
Certificates of deposit maturing in:			
More than one year	1,926,972	N/A	49.59
	$ 3,886,037		100.00 %

Reconciliation of deposits and investments to Exhibit 1:	
Cash and cash equivalents	$ 1,959,065
Investments	1,926,972
Total deposits and investments	$ 3,886,037

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Credit Risk:

As required by state statute, commercial paper must have a short-term debt rating of no less than "A-1" (or its equivalent) from at least two of the following; Moody's Investors Service, Standard & Poor's, and Fitch Investor's Service, provided that the issuing corporation has a net worth of $50 million and its long term debt is rated A or better by Moody's and Standard & Poor's. Bankers acceptances and Certificates of Deposit maturing in less than one year must have a short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investor Service and a rating of at least AA by Standard & Poor's and Aa by Moody's Investor Service for maturities over one year and not exceeding five years. Open-end investment funds must be registered under the Securities Act of the Commonwealth or the Federal Investment Company Act of 1940, provided that they invest only in securities approved for investment herein. Commonwealth of Virginia and Virginia Local Government Obligations secured by debt service reserve funds not subject to annual appropriation must be rated AA or higher by Moody's or Standard & Poor's. Repurchase agreements require that the counterparty be rated "A" or better by Moody's and Standard & Poor's.

Concentration of Credit Risk:

Although the intent of the Policy is for the Town to diversify its investment portfolio to avoid incurring unreasonable risks regarding (i) security type, (ii) individual financial institution or issuing entity, and (iii) maturity, the Policy places no limit on the amount the Town may invest in any one issuer.

Interest Rate Risk:

As of June 30th, all certificates of deposit have original maturities ranging from September 2017 through April 2022. The Town does not have a formal policy limiting investment maturities.

Custodial Credit Risk:

As required by the *Code of Virginia*, all security holdings with maturities over 30 days must be registered in the Town's name. As of June 30th, the Town has no investments subject to custodial credit risk.

Note 3. Receivables

Receivables are as follows:

	General	Water and Sewer	Total
Taxes	$ 58,649	$ -	$ 58,649
Accounts	98,691	381,674	480,365
Interest	-	6,190	6,190
	$ 157,340	$ 387,864	$ 545,204

Note 4. Due from Other Governmental Units

Amounts due from other governmental units are as follows:

Commonwealth of Virginia:	
Department of Taxation	$ 3,956
Department of Transportation	1,271
County of Rockingham, Virginia:	
Sales tax collected for the Town	12,829
	$ 18,056

Note 5. Capital Assets

Capital asset activity for the year was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	$ 859,916	$ -	$ -	$ 859,916
Construction in progress	732,560	119,777	850,587	1,750
Total capital assets, not depreciated	1,592,476	119,777	850,587	861,666
Capital assets, depreciated				
Buildings and improvements	2,923,478	6,495	-	2,929,973
Machinery and equipment	618,640	20,736	-	639,376
Vehicles	542,070	39,642	29,952	551,760
Land improvements	490,124	2,984	-	493,108
Infrastructure	419,472	847,603	-	1,267,075
Total capital assets, depreciated	4,993,784	917,460	29,952	5,881,292
Less accumulated depreciation:				
Buildings and improvements	554,387	70,530	-	624,917
Machinery and equipment	467,718	26,306	-	494,024
Vehicles	457,477	44,202	29,952	471,727
Land improvements	155,247	38,453	-	193,700
Infrastructure	198,113	23,741	-	221,854
Total accumulated depreciation	1,832,942	203,232	29,952	2,006,222
Total capital assets, depreciated, net	3,160,842	714,228	-	3,875,070
Governmental activities capital assets, net	$ 4,753,318	$ 834,005	$ 850,587	$ 4,736,736

Note 5. Capital Assets (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	$ 303,047	$ -	$ -	$ 303,047
Construction in progress	635,497	413,362	1,048,859	-
Total capital assets, not depreciated	938,544	413,362	1,048,859	303,047
Capital assets, depreciated				
Utility systems	13,559,145	1,048,859	-	14,608,004
Total capital assets, depreciated	13,559,145	1,048,859	-	14,608,004
Less accumulated depreciation	6,350,050	394,404	-	6,744,454
Total capital assets, depreciated, net	7,209,095	654,455	-	7,863,550
Business-type activities capital assets, net	$ 8,147,639	$ 1,067,817	$ 1,048,859	$ 8,166,597

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government administration	$ 69,678
Public safety	45,958
Public works	43,719
Parks, recreation and cultural	43,877
Total depreciation expense – governmental activities	$ 203,232
Business-type activities	
Water and sewer	$ 394,404

Note 6. Unavailable and Unearned Revenue

The following is a summary of unavailable and unearned revenue:

Autumn Celebration deposits (unearned)	$	31,073
Dayton Muddler deposits (unearned)		29,789
Total unearned revenue	$	60,862
Property taxes intended for future periods	$	55,013
Vehicle license tax (unavailable)	$	7,975
Communications tax (unavailable)		1,953
Sales tax (unavailable)		6,347
DMV grant (unavailable)		1,271
Uncollected property tax billing (unavailable)		4,622
Total unavailable	$	22,168

Note 7. Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
General obligation bonds:					
RJW, LLC	$ 50,091	$ -	$ 50,091	$ -	$ -
Dove Bond	57,205	-	18,507	38,698	19,063
Total general obligation bonds	107,296	-	68,598	38,698	19,063
Compensated absences and service benefits	36,402	189	-	36,591	-
Total governmental activities	$ 143,698	$ 189	$ 68,598	$ 75,289	$ 19,063

Details of outstanding long-term debt are as follows:

On January 16, 2007, the Town issued a general obligation bond to RJW, LLC. The bond is being repaid in annual installments of $54,098, including interest at eight percent. The bond matured January 16, 2017.

On December 30, 2011, the Town issued a general obligation bond to James W. and Ruth G. Dove. The bond is being repaid in annual installments of $20,224, including interest at three percent. The bond matures December 30, 2018.

(Continued)

Note 7. Long-Term Liabilities (Continued)

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

Fiscal Year	Principal	Interest
2018	$ 19,063	$ 1,161
2019	19,635	589
	$ 38,698	$ 1,750

The only long-term liabilities in the water and sewer fund consist of compensated absences and service benefits.

Note 8. Defined Benefit Pension Plan

Plan Description

All full-time, salaried permanent employees of the Town of Dayton, (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 a 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.

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **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.
- **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.

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **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%.
  - **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.

Note 8. Defined Benefit Pension Plan (Continued)

<u>Plan Description</u> (Continued)

<u>Plan 2</u> – 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.
- **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.

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 2 (Continued)

- **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.

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

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

Note 8. 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.
- **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.

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **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	10
Inactive members:	
Vested inactive members	1
Non-vested inactive members	0
Inactive members active elsewhere in VRS	7
Total inactive members	8
Active members	15
Total covered employees	33

Note 8. 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, 2017 was 12.5% 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 $82,521 and $100,131 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.

Note 8. 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.

Note 8. 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:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
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 %		5.83 %
	Inflation		2.50 %
	*Expected arithmetic nominal return		8.33 %

* 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%

Note 8. 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

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2015	$ 2,868,520	$ 2,519,482	$ 349,038
Changes for the year:			
Service cost	92,920	-	92,920
Interest	196,059	-	196,059
Differences between expected and actual experience	107,453	-	107,453
Contributions – employer	-	93,620	(93,620)
Contributions – employee	-	37,308	(37,308)
Net investment income	-	44,324	(44,324)
Benefit payments, including refunds of employee contributions	(135,354)	(135,354)	-
Administrative expenses	-	(1,546)	1,546
Other changes	-	(19)	19
Net changes	261,078	38,333	222,745
Balances at June 30, 2016	$ 3,129,598	$ 2,557,815	$ 571,783

Note 8. 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	$ 976,912	$ 571,783	$ 234,429

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 $71,994. 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	$ 82,170	$ 87,824
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	65,833	-
Employer contributions subsequent to the measurement date	82,521	-
Total	$ 230,524	$ 87,824

Note 8. Defined Benefit Pension Plan (Continued)

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

The $82,521 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,	Reduction to Pension Expense
2018	$ (5,088)
2019	(5,086)
2020	37,666
2021	32,687
2022	-
Thereafter	-

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 $7,700 was payable to the Virginia Retirement System for the legally required contributions related to June 2017 payroll.

Note 9. Jointly Governed Organization

The Town has an agreement with the Harrisonburg-Rockingham Regional Sewer Authority whereby the Authority has agreed to provide wastewater treatment for the benefit of the Town and the other member municipalities. Each member pays its pro rata share of the operating expenses and debt service of the Authority. Members include the City of Harrisonburg, the County of Rockingham, and the Towns of Bridgewater, Dayton, and Mt. Crawford. Charges are submitted to the members monthly based upon their respective usage of the sewage treatment facilities. The Town does not have an ongoing financial interest in the Authority since it does not have access to the Authority's resources or surpluses, nor is it liable for the Authority's debts or deficits.

Based on the current average usage, the Town's total assessment for the Authority's operating, debt service and capital expenditures for the upcoming year approximates $1,511,000.

A copy of the annual audit report can be obtained by contacting the Harrisonburg-Rockingham Regional Sewer Authority, P.O. Box 8, 856 North River Rd, Mt. Crawford, Virginia 22841.

Note 10. Major Customer

The Town has one major water and sewer customer. For the current year, water and sewer revenue from this customer was approximately $3,590,000 or 89% of operating revenues. Accounts receivable from this customer amounted to approximately $249,000 or 88% of receivables at June 30, 2017.

Note 11. Risk Management

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

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

Note 12. Subsequent Events

The Town established an Economic Development Authority to promote greater economic vitality and prosperity for Town residents.

In July 2017, the Town entered into a four year server lease with monthly payments of $510.51 and bearing interest at 3.62%.

(Continued)

Note 12. Subsequent Events (Continued)

The Town entered into agreements for the Greenway project and Mill Street drainage project for $253,000 and $400,000, respectively.

Note 13. 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.

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.

Note 13. New Accounting Standards (Continued)

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.

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.

Management has not yet evaluated the effects, if any, of adopting these standards.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT 11

TOWN OF DAYTON, VIRGINIA

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

	Plan Year		
	2016	**2015**	**2014**
Total Pension Liability			
Service cost	$ 92,920	$ 119,570	$ 125,709
Interest on total pension liability	196,059	196,686	185,843
Difference between expected and actual experience	107,453	(149,892)	-
Benefit payments, including refunds of employee contributions	(135,354)	(215,295)	(97,998)
Net change in total pension liability	261,078	(48,931)	213,554
Total pension liability - beginning	2,868,520	2,917,451	2,703,897
Total pension liability - ending	$ 3,129,598	$ 2,868,520	$ 2,917,451
Plan Fiduciary Net Position			
Contributions - employer	$ 93,620	$ 102,969	$ 105,318
Contributions - employee	37,308	41,188	43,701
Net investment income	44,324	112,192	335,753
Benefit payments, including refunds of employee contributions	(135,354)	(215,295)	(97,998)
Administrative expenses	(1,546)	(1,586)	(1,749)
Other	(19)	(24)	18
Net change in plan fiduciary net position	38,333	39,444	385,043
Plan fiduciary net position - beginning	2,519,482	2,480,038	2,094,995
Plan fiduciary net position - ending	$ 2,557,815	$ 2,519,482	$ 2,480,038
Net pension liability - ending	$ 571,783	$ 349,038	$ 437,413
Plan fiduciary net position as a percentage of total pension liability	82%	88%	85%
Covered employee payroll	$ 801,047	$ 816,778	$ 874,018
Net pension liability as a percentage of covered employee payroll	71%	43%	50%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

The Notes to Required Supplementary Information are an integral part of this statement.

EXHIBIT 12

TOWN OF DAYTON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2017

Town Fiscal Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a percentage of Covered Payroll
2017	$ 82,521	$ 82,521	$ -	$ 660,168	12.50%
2016	100,131	100,131	-	801,047	12.50%
2015	102,097	102,097	-	816,778	12.50%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

The Notes to Required Supplementary Information are an integral part of this statement.

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 included 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

COMPLIANCE SECTION

BROWNEDWARDS
certified public accountants

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 Dayton, Virginia
Dayton, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Dayton, 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, and have issued our report thereon dated March 29, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. **We did identify certain deficiencies in internal control described in the accompanying schedule of findings and responses as items 2012-001, 2017-001, and 2017-002 that we consider to be material weaknesses.**

Your Success is Our Focus
124 Newman Avenue • Harrisonburg, VA 22801-4004 • 540-434-6736 • Fax: 540-434-3097 • www.BEcpas.com

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 that are required to be reported under *Government Auditing Standards*.**

Town of Dayton's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not 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
March 29, 2018

TOWN OF DAYTON, VIRGINIA

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2017

A. FINDINGS – FINANCIAL STATEMENT AUDIT

2012-001: Segregation of Duties (Material Weakness)

Condition:

A fundamental concept of internal controls is the separation of duties. No one employee should have access to both physical assets and the related accounting records, or to all phases of a transaction. A proper segregation of duties has not been established in functions related to cash receipts, accounts receivable, cash disbursements, and accounts payable.

Recommendation:

Steps should continue to be taken to eliminate performance of conflicting duties where possible or to implement effective compensating controls.

Management's Response:

Management understands the concern expressed with this finding and is correcting issues where practical. However, the current staff limits the separation of duties in regards to these functions.

2017-001: Council Oversight (Material Weakness)

Condition:

Monthly financial packets and budget to actual reports were not prepared and provided to Council for review. It also appears that transfers were not budgeted.

Recommendation:

We recommend that employees be cross-trained so when a position is vacant, such reports and budget amendments can still be prepared.

Management's Response:

Management understands the concern expressed with this finding and is correcting issues by filling vacant positions.

2017-002: Bank Reconciliations (Material Weakness)

Condition:

Bank reconciliations have not been prepared timely throughout most of the fiscal year.

Recommendation:

We recommend that employees be cross-trained so that when a position is vacant, reconciliations are still able to be completed.

Management's Response:

Management understands the concern expressed with this finding and is correcting issues by filling vacant positions.

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