

TOWN OF DAYTON, VIRGINIA

FINANCIAL REPORT

June 30, 2014

TOWN OF DAYTON, VIRGINIA

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INTRODUCTORY SECTION

TOWN OF DAYTON, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS

June 30, 2014

TOWN COUNCIL

Charles T. Long, Mayor
Josh O. Lyons, Vice Mayor
 Laura J. Daily
 Jeffrey S. Daly
 Steven J. Dean
 Kehris A. Snead
 Shelley P. Newman

APPOINTED OFFICIALS

John Crim Town Manager
Justin Moyers Treasurer
Donald Conley Chief of Police

INDEPENDENT AUDITOR'S

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

FINANCIAL SECTION

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, 2014, 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.

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, 2014, 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 the analysis of funding progress for a defined benefit pension plan, 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 September 9, 2014 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, 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
September 9, 2014

BASIC FINANCIAL STATEMENTS

TOWN OF DAYTON, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2014

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents (Note 2)	\$ 22,770	\$ 734,318	\$ 757,088
Investments (Note 2)	-	2,308,128	2,308,128
Receivables (Note 3)	104,822	424,482	529,304
Due from other governmental units (Note 5)	16,211	-	16,211
Inventories	-	135,018	135,018
Prepays	69,099	11,392	80,491
Cash and cash equivalents, restricted (Note 2)	20,097	-	20,097
Investment in electric cooperative (Note 2)	2,409	87,812	90,221
Capital assets: (Note 6)			
Nondepreciable	1,240,907	274,007	1,514,914
Depreciable, net	3,506,372	7,529,320	11,035,692
Total assets	<u>4,982,687</u>	<u>11,504,477</u>	<u>16,487,164</u>
LIABILITIES			
Accounts payable and accrued liabilities	29,012	20,971	49,983
Accrued payroll and related liabilities	47,249	7,194	54,443
Accrued interest	7,479	-	7,479
Deposits payable	-	6,970	6,970
Noncurrent liabilities: (Note 8)			
Due within one year	98,934	-	98,934
Due in more than one year	250,974	8,229	259,203
Total liabilities	<u>433,648</u>	<u>43,364</u>	<u>477,012</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue (Note 7)	84,291	-	84,291
Total deferred inflows of resources	<u>84,291</u>	<u>-</u>	<u>84,291</u>
NET POSITION			
Net investment in capital assets	4,436,999	7,803,327	12,240,326
Restricted - grant funds	20,097	-	20,097
Unrestricted	7,652	3,657,786	3,665,438
Total net position	<u>\$ 4,464,748</u>	<u>\$11,461,113</u>	<u>\$ 15,925,861</u>

TOWN OF DAYTON, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental activities							
General government administration	\$ 488,877	\$ 1,833	\$ -	\$ -	\$ (487,044)	\$ -	\$ (487,044)
Public safety	795,206	28,158	173,276	-	(593,772)	-	(593,772)
Public works	529,103	140,828	-	3,397	(384,878)	-	(384,878)
Parks, recreation, and cultural	183,883	56,649	-	-	(127,234)	-	(127,234)
Community development	76,220	-	-	-	(76,220)	-	(76,220)
Interest on long-term debt	18,911	-	-	-	(18,911)	-	(18,911)
Total governmental activities	2,092,200	227,468	173,276	3,397	(1,688,059)	-	(1,688,059)
Business-type activities							
Water and sewer	2,451,131	3,666,992	-	-	-	1,215,861	1,215,861
Total business-type activities	2,451,131	3,666,992	-	-	-	1,215,861	1,215,861
Total primary government	\$ 4,543,331	\$ 3,894,460	\$ 173,276	\$ 3,397	(1,688,059)	1,215,861	(472,198)
General revenues and transfers:							
Property taxes					107,534	-	107,534
Other local taxes					378,024	-	378,024
Unrestricted revenue from the use of money and property					37	41,089	41,126
Other					24,750	-	24,750
Transfers (Note 4)					1,607,053	(1,607,053)	-
Total general revenues and transfers					2,117,398	(1,565,964)	551,434
Change in net position					429,339	(350,103)	79,236
NET POSITION AT JULY 1					4,035,409	11,811,216	15,846,625
NET POSITION AT JUNE 30					\$ 4,464,748	\$ 11,461,113	\$ 15,925,861

TOWN OF DAYTON, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2014

	General
ASSETS	
Cash and cash equivalents (Note 2)	\$ 22,770
Receivables, net (Note 3)	104,822
Due from other governmental units (Note 5)	16,211
Prepays	69,099
Cash and cash equivalents, restricted (Note 2)	20,097
Total assets	\$ 232,999
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	
Liabilities:	
Accounts payable and accrued liabilities	\$ 29,012
Accrued payroll and related liabilities	47,249
Total liabilities	76,261
Deferred inflows of resources:	
Unavailable/unearned revenue (Note 7)	86,136
Total deferred inflows of resources	86,136
Fund balances (deficits):	
Nonspendable - prepaids	69,099
Restricted - grant funds	20,097
Committed to:	
Community development for website development	1,800
Unassigned	(20,394)
Total fund balances (deficits)	70,602
Total liabilities, deferred inflows of resources, and fund balances	\$ 232,999

TOWN OF DAYTON, VIRGINIA

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2014**

Ending fund balance – governmental fund \$ 70,602

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 funds.

Nondepreciable capital assets	\$ 1,240,907	
Depreciable capital assets, net	<u>3,506,372</u>	
		4,747,279

Investment in electric cooperative is not available in the current period and therefore is not reported in the funds.		2,409
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Certain revenues are not available to pay for current period expenditures and are not reported in the governmental fund.		1,845
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Accrued interest payable	(7,479)	
Compensated absences and service benefits	(39,628)	
Long-term debt	<u>(310,280)</u>	
		<u>(357,387)</u>

Total net position – governmental activities		<u><u>\$ 4,464,748</u></u>
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TOWN OF DAYTON, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
Year Ended June 30, 2014

	General
REVENUES	
General property taxes	\$ 107,704
Other local taxes	378,024
Permits, privilege fees, and regulatory licenses	393
Fines and forfeitures	28,158
Revenues from the use of money and property	1,490
Charges for services	140,828
Intergovernmental	176,673
Recovered costs	16,939
Other	64,460
Total revenues	914,669
EXPENDITURES	
Current:	
General government administration	388,861
Public safety	777,261
Public works	478,360
Parks, recreation and cultural	163,267
Community development	85,670
Capital outlay	516,789
Debt service:	
Principal retirement	94,122
Interest and other fiscal charges	21,091
Total expenditures	2,525,421
Excess (deficiency) of revenues over expenditures	(1,610,752)
OTHER FINANCING SOURCES	
Transfers in (Note 4)	1,607,053
Total other financing sources	1,607,053
Net change in fund balance	(3,699)
FUND BALANCES AT JULY 1	74,301
FUND BALANCES AT JUNE 30	\$ 70,602

TOWN OF DAYTON, VIRGINIA

IN
FUND BALANCE TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

Net change in fund balance – total governmental fund \$ (3,699)

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	\$ 500,092	
Depreciation expense	<u>(190,453)</u>	
		309,639

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (183)

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	94,122
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The net effect of the change in accrued interest expense, which is not reflected in the fund statements. 2,180

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.	<u>27,280</u>
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Change in net position of governmental activities \$ 429,339

TOWN OF DAYTON, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
REVENUES				
General property taxes	\$ 106,000	\$ 106,000	\$ 107,704	\$ 1,704
Other local taxes	366,100	350,100	378,024	27,924
Permits, privilege fees, and regulatory licenses	-	-	393	393
Fines and forfeitures	48,000	25,000	28,158	3,158
Revenues from the use of money and property	1,440	1,440	1,490	50
Charges for services	128,000	128,000	140,828	12,828
Intergovernmental	248,025	173,000	176,673	3,673
Recovered costs	3,000	8,500	16,939	8,439
Other	43,000	56,000	64,460	8,460
	<u>943,565</u>	<u>848,040</u>	<u>914,669</u>	<u>66,629</u>
EXPENDITURES				
Current:				
General government administration	380,774	410,574	388,861	21,713
Public safety	754,754	802,335	777,261	25,074
Public works	466,622	503,751	478,360	25,391
Parks, recreation and cultural	179,892	180,328	163,267	17,061
Community development	42,500	76,500	85,670	(9,170)
Capital outlay	340,000	516,000	516,789	(789)
Debt service:				
Principal retirement	94,122	94,122	94,122	-
Interest and other fiscal charges	21,091	21,091	21,091	-
	<u>2,279,755</u>	<u>2,604,701</u>	<u>2,525,421</u>	<u>79,280</u>
Excess (deficiency) of revenues over expenditures	<u>(1,336,190)</u>	<u>(1,756,661)</u>	<u>(1,610,752)</u>	<u>145,909</u>
OTHER FINANCING SOURCES				
Transfers in	<u>1,379,228</u>	<u>1,440,988</u>	<u>1,607,053</u>	<u>166,065</u>
Total other financing sources	<u>1,379,228</u>	<u>1,440,988</u>	<u>1,607,053</u>	<u>166,065</u>
Net change in fund balance	<u>\$ 43,038</u>	<u>\$ (315,673)</u>	<u>\$ (3,699)</u>	<u>\$ 311,974</u>

TOWN OF DAYTON, VIRGINIA
STATEMENT OF NET POSITION –
PROPRIETARY FUND
June 30, 2014

	<u>Enterprise Fund</u> <u>Water and Sewer</u>
ASSETS	
Current assets:	
Cash and cash equivalents (Note 2)	\$ 734,318
Investments (Note 2)	2,308,128
Accounts receivable, net (Note 3)	424,482
Inventories	135,018
Prepays	<u>11,392</u>
Total current assets	<u>3,613,338</u>
Noncurrent assets:	
Investment in electric cooperative (Note 2)	87,812
Capital assets (Note 6)	
Nondepreciable	274,007
Depreciable, net	<u>7,529,320</u>
Total noncurrent assets	<u>7,891,139</u>
Total assets	<u>11,504,477</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	20,971
Accrued payroll and related liabilities	7,194
Deposits payable	<u>6,970</u>
Total current liabilities	<u>35,135</u>
Noncurrent liabilities:	
Compensated absences and service benefits (Note 8)	<u>8,229</u>
Total liabilities	<u>43,364</u>
NET POSITION	
Net investment in capital assets	7,803,327
Unrestricted	<u>3,657,786</u>
Total net position	<u><u>\$ 11,461,113</u></u>

TOWN OF DAYTON, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET POSITION – PROPRIETARY FUND
Year Ended June 30, 2014**

	<u>Enterprise Fund</u> <u>Water and Sewer</u>
OPERATING REVENUES	
Charges for services (Note 11)	\$ 3,620,733
Connection availability fees	45,000
Other	1,259
	3,666,992
OPERATING EXPENSES	
Salaries	130,271
Fringe benefits	45,785
Maintenance	135,958
Utilities	128,892
Materials and supplies	26,280
Regional Sewer Authority assessment	1,563,495
Other	14,853
Depreciation	405,597
	2,451,131
Total operating expenses	2,451,131
Operating income	1,215,861
NONOPERATING REVENUES (EXPENSES)	
Interest income	41,089
Net nonoperating revenues (expenses)	41,089
Income before transfers	1,256,950
TRANSFERS OUT (NOTE 4)	(1,607,053)
Change in net position	(350,103)
NET POSITION AT JULY 1	11,811,216
NET POSITION AT JUNE 30	\$ 11,461,113

TOWN OF DAYTON, VIRGINIA

STATEMENT OF CASH FLOWS – PROPRIETARY FUND
Year Ended June 30, 2014

	<u>Enterprise Fund</u> <u>Water and Sewer</u>
OPERATING ACTIVITIES	
Receipts from customers	\$ 3,666,528
Payments to suppliers	(1,956,204)
Payments to employees	(178,863)
Net cash provided by operating activities	<u>1,531,461</u>
NON-CAPITAL AND RELATED FINANCING ACTIVITIES	
Transfers to other funds	<u>(1,607,053)</u>
INVESTING ACTIVITIES	
Purchase of investments	(302,149)
Interest received	43,198
Net cash used in investing activities	<u>(258,951)</u>
Net decrease in cash and cash equivalents	(334,543)
CASH AND CASH EQUIVALENTS	
Beginning at July 1	<u>1,068,861</u>
Ending at June 30	<u>\$ 734,318</u>
RECONCILIATION OF OPERATING INCOME TO NET	
CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 1,215,861
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	405,597
Change in certain assets and liabilities:	
(Increase) decrease in:	
Accounts receivable, excluding interest receivable	(221)
Prepays	(781)
Inventories	(99,076)
Investment in electric cooperative	(839)
Increase (decrease) in:	
Accounts payable and accrued liabilities	13,970
Accrued payroll and related liabilities	49
Deposits payable	(243)
Compensated absences and service benefits	(2,856)
Net cash provided by operating activities	<u>\$ 1,531,461</u>

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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.

At June 30th, total general fund expenditures related to capital outlay and community development exceeded budgeted amounts by \$789 and \$9,170, respectively.

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.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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. Prepays

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.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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 reported in the applicable governmental or business-type activities columns in the government-wide financial statements. *Capital assets* are defined by the government as 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.

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 system	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 Inflows of Resources

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Town has one such item, *unavailable/unearned revenue*. 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 day of year-end and property taxes collected in advance but levied to fund future years. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

N. 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.

O. 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.

P. Net Position/Fund Balance

Net position in government-wide and proprietary financial statements are classified as invested in capital assets, net of related debt, 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.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

P. Net Position/Fund Balance (Continued)

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).

Q. 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.

R. Minimum Fund Balance Policy

Governmental funds of the Town do not have specified fund balance targets. Recommended levels of committed and/or assigned fund balance will be determined on a case by case basis, based on the needs of each fund and as recommended by officials and approved by Council.

S. 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 \$125,925 of governmental encumbrances as of June 30th.

T. 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.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 2. Deposits and Investments (Continued)

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:

<u>Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Percent of Portfolio</u>
Demand deposits	\$ 777,185	N/A	25.19 %
Certificates of Deposit maturing in:			
One year or less	259,471	N/A	31.10
More than one year	<u>2,048,657</u>	N/A	<u>43.71</u>
	<u>\$ 3,085,313</u>		<u>100.00 %</u>
Reconciliation of deposits and investments to Exhibit 1:			
Cash and cash equivalents	\$ 757,088		
Cash and cash equivalents, restricted	20,097		
Investments	<u>2,308,128</u>		
Total deposits and investments	<u>\$ 3,085,313</u>		

Restricted cash of \$20,097 consists of unused grant proceeds.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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. Banker’s 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. 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 in excess of one year. 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.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 3. Receivables

Receivables are as follows:

	General	Water and Sewer	Total
Taxes	\$ 53,559	\$ -	\$ 53,559
Accounts	51,263	421,912	473,175
Interest	-	2,570	2,570
	\$ 104,822	\$ 424,482	\$ 529,304

Note 4. Interfund Transfers

The composition of interfund transfers is as follows:

Transfer Out Fund	Transfer In Fund	Amount
Water and Sewer	General Fund	\$ 1,607,053

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

Note 5. Due from Other Governmental Units

Amounts due from other governmental units are as follows:

Commonwealth of Virginia:		
Department of Taxation	\$	4,251
Department of Fire Programs		1,000
County of Rockingham, Virginia:		
Sales tax collected for the Town		10,960
	\$	16,211

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 6. Capital Assets

Capital asset activity for the year was as follows:

Governmental Activities	Beginning Balance	Increases	Transfers	Ending Balance
Capital assets, not depreciated				
Land	\$ 972,880	\$ -	\$ -	\$ 972,880
Construction in progress	277,530	11,263	(20,766)	268,027
Total capital assets, not depreciated	1,250,410	11,263	(20,766)	1,240,907
Capital assets, depreciated				
Buildings	2,767,133	156,345	-	2,923,478
Machinery and equipment	605,669	19,088	-	624,757
Vehicles	498,129	109,505	-	607,634
Land improvements	274,544	203,891	20,766	499,201
Infrastructure	382,994	-	-	382,994
Total capital assets, depreciated	4,528,469	488,829	20,766	5,038,064
Less accumulated depreciation:				
Buildings and improvements	355,677	61,687	-	417,364
Machinery and equipment	372,048	60,742	-	432,790
Vehicles	403,072	33,491	-	436,563
Land improvements	73,353	15,104	-	88,457
Infrastructure	137,089	19,429	-	156,518
Total accumulated depreciation	1,341,239	190,453	-	1,531,692
Total capital assets, depreciated, net	3,187,230	298,376	-	3,506,372
Governmental activities capital assets, net	\$ 4,437,640	\$ 309,639	\$ -	\$ 4,747,279

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 6. Capital Assets (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 256,047	\$ -	\$ -	\$ 256,047
Construction in progress	17,960	-	-	17,960
Total capital assets, not depreciated	<u>274,007</u>	<u>-</u>	<u>-</u>	<u>274,007</u>
Capital assets, depreciated				
Utility systems	13,111,329	-	-	13,111,329
Total capital assets, depreciated	<u>13,111,329</u>	<u>-</u>	<u>-</u>	<u>13,111,329</u>
Less accumulated depreciation	5,176,412	405,597	-	5,582,009
Total capital assets, depreciated, net	<u>7,934,917</u>	<u>(405,597)</u>	<u>-</u>	<u>7,529,320</u>
Business-type activities capital assets, net	<u>\$ 8,208,924</u>	<u>\$ (405,597)</u>	<u>\$ -</u>	<u>\$ 7,803,327</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government administration	\$ 73,444
Public safety	37,476
Public works	56,327
Parks, recreation and cultural	23,206
Total depreciation expense – governmental activities	<u>\$ 190,453</u>
Business-type activities	
Water and sewer	<u>\$ 405,597</u>

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 7. Unavailable and Unearned Revenue

The following is a summary of unavailable and unearned revenue:

Unbilled property taxes (unearned)	\$ 53,273
Autumn Celebration deposits (unearned)	<u>31,018</u>
Total unearned revenue	84,291
Uncollected property tax billing (unavailable)	<u>1,845</u>
Total unavailable/unearned revenue	<u>\$ 86,136</u>

Note 8. Long-Term Liabilities

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

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds:					
RJW, LLC	\$ 179,178	\$ -	\$ (39,763)	\$ 139,415	\$ 42,944
Dove Bond	109,556	-	(16,937)	92,619	17,445
Yancey Bond	<u>115,668</u>	<u>-</u>	<u>(37,422)</u>	<u>78,246</u>	<u>38,545</u>
Total general obligation bonds	404,402	-	(94,122)	310,280	98,934
Compensated absences and service benefits	<u>66,908</u>	<u>-</u>	<u>(27,280)</u>	<u>39,628</u>	<u>-</u>
Total governmental activities	<u>\$ 471,310</u>	<u>\$ -</u>	<u>\$ (121,402)</u>	<u>\$ 349,908</u>	<u>\$ 98,934</u>

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 matures 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 \$20,223, including interest at three percent. The bond matures December 30, 2018.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Long-Term Liabilities (Continued)

On January 30, 2012, the Town issued a general obligation bond to Joe C. and Charlotte R. Yancey. The bond is being repaid in annual installments of \$40,892, including interest at three percent. The bond matures January 30, 2016.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 98,934	\$ 16,279
2016	104,050	11,164
2017	68,598	5,723
2018	19,063	1,161
2019	<u>19,635</u>	<u>589</u>
	<u>\$ 310,280</u>	<u>\$ 34,916</u>

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

Note 9. Defined Benefit Pension Plan

Plan Description

The Town of Dayton contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (the "System"). All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

Within the VRS Plan, the System administers three different benefit plans for local government employees – Plan 1, Plan 2, and Hybrid. Each plan has a different eligibility and benefit structure as set out in the table below:

VRS PLAN 1

About VRS Plan 1 – VRS 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 VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 9. Defined Benefit Pension Plan (Continued)

VRS PLAN 1 (Continued)

Hybrid Opt-In Election – VRS non-hazardous duty covered plan 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 VRS Plan were not eligible to elect the Hybrid Retirement Plan and remain as plan members or ORP.

Retirement Contributions – Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% 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.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 9. Defined Benefit Pension Plan (Continued)

VRS PLAN 1 (Continued)

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 1.7%. 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 1.7% or 1.85% as elected by the employer.

Normal Retirement Age – Age 65.

Earliest Unreduced Retirement Eligibility – Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years of creditable service or at age 50 with at least 30 years of creditable service. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

Earliest Reduced Retirement Eligibility – Members may retire with a reduced benefit as early as age 55 with at least five years of creditable service or age 50 with at least 10 years of creditable service.

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

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.

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.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 9. Defined Benefit Pension Plan (Continued)

VRS PLAN 1 (Continued)

Cost-of-Living Adjustment (COLA) in Retirement – (Continued)

- 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.
- 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 for members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% 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.

VRS PLAN 2

VRS Plan 2 is the same as VRS Plan 1 except for the following:

Employees are eligible for VRS 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.

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 – For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.

Normal Retirement Age – Normal Social Security retirement age.

Earliest Unreduced Retirement Eligibility – Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years of creditable service or when their age and service equal 90.

Earliest Reduced Retirement Eligibility – Members may retire with a reduced benefit as early as age 60 with at least five years of creditable service.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 9. Defined Benefit Pension Plan (Continued)

VRS PLAN 2 (Continued)

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

Disability Coverage for members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

HYBRID RETIREMENT PLAN

The Hybrid Retirement Plan is the same as VRS Plan 1 except for the following:

About the 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 VRS Plan 1 and VRS 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:

- State employees*.
- School division employees.
- Political subdivision employees*.
- Judges appointed or elected to an original term on or after January 1, 2014.
- Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1 – April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 9. Defined Benefit Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

Eligible Members – (Continued)

***Non-Eligible Members**

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

- Members of the State Police Officers' Retirement System (SPORS).
- Members of the Virginia Law Officers' Retirement System (VaLORS).
- 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 VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS 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.

Creditable Service

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

Defined Contribution Component: Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 9. Defined Benefit Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

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 of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contribution 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 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 VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

Service Retirement Multiplier – The retirement multiplier is 1.0%. For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

Normal Retirement Age

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 9. Defined Benefit Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

Earliest Unreduced Retirement Eligibility

Defined Benefit Component: Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years of creditable service or when their age and service equal 90.

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 of creditable service.

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 VRS Plan 2.

Defined Contribution Component: Not applicable.

Disability Coverage – Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members. State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2013-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 9. Defined Benefit Pension Plan (Continued)

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% 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. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended June 30, 2014 was 12.05% of the annual covered payroll.

Annual Pension Cost

For the fiscal year ended June 30, 2014, the Town's annual pension cost of \$159,674 for VRS was equal to the required and actual contributions.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2014	\$ 159,674	100%	\$ -
June 30, 2013	\$ 146,751	100%	\$ -
June 30, 2012	\$ 134,796	100%	\$ -

The FY 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for local general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%.

The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013 for the Unfunded Actuarial Accrued liability (UAAL) was 30 years.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 9. Defined Benefit Pension Plan (Continued)

Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the Town's plan was 73.67% funded. The actuarial accrued liability for benefits was \$2,703,897, and the actuarial value of assets was \$1,991,882, resulting in an unfunded actuarial accrued liability (UAAL) of \$712,015. The covered payroll (annual payroll of active employees covered by the plan) was \$894,543, and the ratio of the UAAL to the covered payroll was 79.60%.

The schedule of funding progress, presented as required supplemental information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

Note 10. 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 ensuing year approximates \$1,630,000.

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 11. Major Customer

The Town has one major water and sewer customer. For the current year, water and sewer revenue from this customer was approximately \$3,309,000 or 90% of operating revenues. Accounts receivable from this customer amounted to approximately \$276,000 or 90% of receivables at June 30, 2014.

Note 12. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and 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.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Risk Management (Continued)

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 13. Related Party Transactions

During fiscal year 2014, the Town paid an electrical contractor a total of \$7,104 for various projects. A council member is the general manager of the company. The Town also paid a block company a total of \$67,895 for landscaping brick and pavers. A council member is a salesman for the company.

Note 14. New Accounting Standards

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

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* replaces the requirements of GASB Statements No. 27 and No. 50 as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The Statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. This Statement will be effective for the year ending June 30, 2015.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* was issued to provide governmental guidance on governmental combinations and disposals of governmental operations that does not conflict with GASB Statement No. 34. The objective of this Statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. A disposal of a government's operations results in the removal of specific activities of a government. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial Statement users to evaluate the nature and financial effects of those transactions. This Statement will be effective for the year ending June 30, 2015.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 14. New Accounting Standards (Continued)

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* was issued to address an issue regarding application of the transition provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement amends GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This Statement will be effective for the year ending June 30, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF DAYTON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN
June 30, 2014

	(a)	(b)	(b-a) Unfunded (Overfunded)	(a/b)	(c)	((b-a)/c)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as of Percentage of Covered Payroll
June 30, 2013	\$ 1,991,882	\$ 2,703,897	\$ 712,015	73.67%	\$ 894,543	79.60%
June 30, 2012	\$ 1,949,038	\$ 2,568,149	\$ 619,111	75.89%	\$ 812,661	76.18%
June 30, 2011	\$ 1,850,536	\$ 2,376,010	\$ 525,474	77.88%	\$ 784,105	67.02%
June 30, 2010	\$ 1,716,518	\$ 2,262,400	\$ 545,882	75.87%	\$ 712,490	76.62%
June 30, 2009	\$ 1,632,004	\$ 2,012,814	\$ 380,810	81.08%	\$ 957,450	39.77%
June 30, 2008	\$ 1,513,612	\$ 1,877,011	\$ 363,399	80.64%	\$ 938,450	38.72%
June 30, 2007	\$ 1,291,849	\$ 1,580,318	\$ 288,469	81.75%	\$ 765,190	37.70%
June 30, 2006	\$ 1,106,674	\$ 1,290,467	\$ 183,793	85.76%	\$ 512,734	35.85%
June 30, 2005	\$ 992,751	\$ 1,335,468	\$ 342,717	74.34%	\$ 435,582	78.68%
June 30, 2004	\$ 923,502	\$ 1,217,434	\$ 293,932	75.86%	\$ 418,417	70.25%

COMPLIANCE SECTION

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

To the 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, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated September 9, 2014.

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.

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 a certain deficiency in internal control described in the accompanying schedule of findings and responses as item 12-1 that we consider to be a material weakness.**

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 finding 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
September 9, 2014

TOWN OF DAYTON, VIRGINIA

**SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2014**

A. FINDINGS – FINANCIAL STATEMENT AUDIT

12-1: 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.