

**TOWN OF DUMFRIES, VIRGINIA**  
**FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2015**

TOWN OF DUMFRIES, VIRGINIA

PRINCIPAL OFFICIALS

TOWN COUNCIL AND EXECUTIVE OFFICERS

Mayor

Gearld M. Foreman II

Vice-Mayor

Willie J. Toney

Town Manager

Daniel Taber

Town Treasurer

Retta Ladd

Chief of Police

Rebecca Edwards

Town Attorney

Olaun Simmons

Town Clerk

Dawn Hobgood, CMC

COUNCIL MEMBERS

William A. Murphy  
Gwen P. Washington  
Derrick R. Wood

Helen Reynolds  
Charles Brewer

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TOWN OF DUMFRIES, VIRGINIA  
Financial Report  
For the Year Ended June 30, 2015

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TOWN OF DUMFRIES, VIRGINIA

Financial Report  
For the Year Ended June 30, 2015

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# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

## Independent Auditors' Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Town of Dumfries, Virginia, as of and for the year ended June 30, 2015, 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.

#### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' 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 and each major fund of the Town of Dumfries, Virginia, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Change in Accounting Principle*

As described in Note 1 to the financial statements, in 2015, the Town adopted new accounting guidance, GASB Statement Nos. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension and OPEB funding located on pages 4-9, and 51-55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Town of Dumfries, Virginia's basic financial statements. The supporting schedule and statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The statistical information 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 January 27, 2016, on our consideration of Town of Dumfries, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Dumfries, Virginia's internal control over financial reporting and compliance.

*Robinson, Farmer, Cox Associates*

Fredericksburg, Virginia  
January 27, 2016

## Town of Dumfries Management's Discussion and Analysis

The following discussion provides an overview and analysis of Town of Dumfries's (Town) financial activities for the fiscal year ended June 30, 2015. Please read this information in conjunction with the Town's audited financial statements as reported herein.

### Financial Highlights

- The assets and deferred outflows of resources of the Town of Dumfries, on a government-wide basis exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$4,430,864 (net position). Of this amount, \$3,274,739 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The total assets of the Town's governmental activities for fiscal year ended June 30, 2015 were \$12,162,612.
- For the year ended June 30, 2015, the Town of Dumfries's governmental activities reported a positive change in net position of \$1,357,467.
- The Town's bonds decreased by \$160,000 due to debt repayment, while the Town's compensated absences liabilities increased by \$32,632.
- Fiscal year 2015 is the first year the Town has reported net pension liability information. Further discussion on this topic can be found later in this narrative, as well as in the notes to financial statements. Net pension liability as of June 30, 2014 was \$1,489,109 and there was a net pension liability at June 30, 2015 of \$1,157,608, resulting in a net decrease in liability of \$331,501.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. These basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

### Government-wide financial statements

The *government-wide financial statements* are designed to provide the readers with a broad overview of the Town's finances, in a manner similar to a private-sector business. The *statement of net position* presents all of the Town's permanent accounts or assets, deferred outflows, liabilities, deferred inflows and the resulting net position. The difference between assets (including deferred outflows of resources) and liabilities (including deferred inflows of resources) is reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. Other non-financial factors will also need to be considered to determine the overall financial position of the Town.

The *Statement of Activities* presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying events giving rise to the changes occur, *regardless of the timing of related cash flows*. Thus, some transactions reported in this statement will result in cash flows in future fiscal periods.

## Government-wide financial statements (Continued)

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government administration, public safety, public works, community development, and interest paid on long-term debt.

## Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Town only has governmental funds.

*Governmental Funds* - Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on the *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

## Notes to the Financial Statements

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

## Other information

In addition to the basic financial statements and accompanying notes, this report also contains required supplementary information including budgetary comparisons for the general fund and progress in funding its obligation to provide pension to its employees.

## Government-wide Financial Analysis

The following table reflects the condensed Summary of Net Position as presented in the government-wide financial statements:

Statement of Net Position		
As of June 30, 2015 and 2014		
	Governmental Activities	
	2015	2014
Current and other assets	\$ 6,631,084	\$ 6,481,530
Capital assets	5,531,528	3,822,240
Total assets	<u>\$ 12,162,612</u>	<u>\$ 10,303,770</u>
Deferred Outflows of Resources	\$ 187,584	\$ -
Total assets and deferred outflows	<u>\$ 12,350,196</u>	<u>\$ 10,303,770</u>
Current and other liabilities	\$ 1,537,107	\$ 805,340
Long-term liabilities	5,745,483	4,715,000
Total liabilities	<u>\$ 7,282,590</u>	<u>\$ 5,520,340</u>
Deferred Inflows of Resources	\$ 636,742	\$ 439,855
Net position:		
Net invested in capital assets	\$ 1,156,125	\$ 888,747
Unrestricted	3,274,739	3,454,828
Total net position	<u>\$ 4,430,864</u>	<u>\$ 4,343,575</u>
Total liabilities, deferred inflows, and net position	<u>\$ 12,350,196</u>	<u>\$ 10,303,770</u>

The net position for the Town totals \$4,430,864, which is an increase of \$1,357,467 (44%) over the previous fiscal year. The individual revenue and expense categories of the governmental activities remained relatively level as compared with the prior year with the exception of an increase in capital grants of \$1,316,697 attributable primarily to the VDOT roads grants.

## Government-wide Financial Analysis (Continued)

The following table shows the revenue and expenses of government-wide activities:

Statement of Activities			
For the Year Ended June 30, 2015 and 2014			
	Governmental Activities		
	2015	2014	
Revenues:			
Program Revenues:			
Charges for services	\$ 313,319	\$ 237,878	
Operating grants & contributions	483,294	699,394	
Capital grants & contributions	1,316,697	-	
General Revenues:			
Real estate taxes	912,637	1,038,593	
Other local taxes	2,082,798	2,255,630	
Miscellaneous	15,265	-	
Unrestricted investment earnings	26,985	1,798	
Grants and contributions not restricted to specific programs	257,410	186,815	
Total revenues	\$ 5,408,405	\$ 4,420,108	
Expenses:			
Administration	\$ 1,060,868	\$ 1,003,678	
Public safety	1,069,215	1,273,211	
Public works	1,379,844	1,041,047	
Community development	313,242	133,854	
Interest on long-term debt	227,769	265,908	
Total expenses	\$ 4,050,938	\$ 3,717,698	
Change in net position	\$ 1,357,467	\$ 702,410	
Net position beginning of year, as restated	3,073,397	3,641,165	
Net position end of year	\$ 4,430,864	\$ 4,343,575	

Note: Due to the implementation in fiscal year 2015 of Accounting Pronouncements issued by the Governmental Accounting Standards Board (GASB 68 and 71), beginning net position was restated for items related to net pension liability and its measurement. However, due to lack of available information to categorize these changes, comparative tables included in this discussion and analyses do not reflect this in the fiscal year 2014 data.

## Government-wide Financial Analysis (Continued)

Governmental Activities. For fiscal year 2015, the real estate tax rate decreased to \$0.2333 per \$100 of assessed value. Capital grants and contributions increased as compared to FY15 by \$1,316,697. This reduction was due to VDOT roads grants.

### Financial Analysis of the Town's Funds

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds:** The focus of the Town's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town's financing requirement. In particular *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the Town's governmental funds reported a combined ending fund balance of \$4,703,264, a decrease of \$536,005 in comparison with the prior year. Of this total amount, \$4,427,537 or 94% constitutes the unassigned fund balance. The remaining \$275,727 consists of the restricted, committed and assigned fund balances designated for various items.

The General Fund is the Town's primary operating fund. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$4,427,537.

### General Fund Budgetary Highlights

The General Fund budget was amended during the year to increase expenditures by \$162,205. This was primarily attributable to public works which had an budget increase of \$170,114.

### Capital Assets and Debt Administration

**Capital assets:** The Town's investment in capital assets for its governmental activities totaled \$5,531,528 million, net of accumulated depreciation. This is a increase of \$1,709,288 million from the previous year. This investment in capital assets includes land, buildings and improvements, infrastructure, machinery and equipment, and construction in progress. This increase is primarily due to increases to construction in progress related to roads projects.

Additional details on the Town's capital assets can be found in Note 4 of the Notes to Financial Statements.

### Capital Assets and Debt Administration (Continued)

**Long-term obligations:** At the end of the current fiscal year, the Town had total outstanding long-term obligations of \$5,745,483. The decrease of \$458,869 over the prior year primarily represents the payment of debt service and reduction in the net pension liability. Debt service repayments during the year totaled \$160,000. The liability balances for compensated absences increased by \$32,632 and the net pension liability decreased \$331,501.

For towns, the Commonwealth of Virginia limits the amount of debt outstanding to 10% of the locality's assessed value of real property. The Town's outstanding debt is significantly below this limitation representing the Town's historically conservative debt borrowing policy and management approach.

Additional details on the Town's long-term obligations can be found in Notes 6 of the Notes to Financial Statements.

## Economic Factors

- Economic Development and Redevelopment will continue to be a major issue for the Town of Dumfries for the foreseeable future. The Town of Dumfries has a finite amount of land available for new construction and, as a result, there continues to be a need to encourage redevelopment options within the Town limits. A local developer is currently moving forward with a \$42 million Main Street project that will include residential over retail development with a parking garage. It is anticipated that once that project is completed, other developers will explore opportunities for redevelopment throughout the Town of Dumfries.
- The Route 1 widening project is moving forward on a timeline for completion that is shorter than what was originally anticipated. Funding appears to be the controlling factor and that issue is being dealt with on several different levels. Once completed, the project will result in all lanes of Route 1 through the Town of Dumfries being located where the northbound only lanes currently run. That will allow the present southbound lanes to revert to a “Main Street” setting that will encourage development and redevelopment.
- Although economic recovery continues at the local, state and federal levels, it remains slower than anticipated and there continues to be reduced funding opportunities available to local government.
- The real estate tax rate for FY 16 will decline but the BPOL tax rate will remain stable. Additional reductions in both of these tax rates are unlikely over the next two fiscal years.

## Requests for Information

This financial report is designed to provide a general overview of the Town’s financial condition as of fiscal year ended June 30, 2015. Questions concerning this report or requests for additional information should be directed to the Treasurer, Town of Dumfries, 1755 Main Street, Dumfries, VA 22026.

## Basic Financial Statements

*Government-wide Financial Statements*

Statement of Net Position  
June 30, 2015

	Primary Government Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 5,090,347
Receivables (net of allowance for uncollectibles):	
Taxes receivable	432,961
Accounts receivable	101,892
Due from other governmental units	981,252
Prepaid items	24,632
Capital assets (net of accumulated depreciation):	
Land	320,876
Buildings and improvements	200,132
Machinery and equipment	154,777
Infrastructure	1,819,991
Construction in progress	3,035,752
Total assets	\$ 12,162,612
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension contributions subsequent to the measurement date	\$ 187,584
<b>LIABILITIES</b>	
Accounts payable	\$ 667,056
Accrued liabilities	36,386
Retainage payable	71,965
Escrow and other deposits	112,436
Accrued interest payable	31,939
Unearned revenue	617,325
Long-term liabilities:	
Due within one year	175,288
Due in more than one year	5,570,195
Total liabilities	\$ 7,282,590
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Items related to the measurement of the net pension liability	\$ 250,744
Deferred revenue - property taxes	385,998
Total deferred inflows of resources	\$ 636,742
<b>NET POSITION</b>	
Net investment in capital assets	\$ 1,156,125
Unrestricted	3,274,739
Total net position	\$ 4,430,864

The notes to financial statements are an integral part of this statement.

Statement of Activities  
For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and
		Charges for	Operating	Capital	Changes in Net Position
		Services	Grants and	Grants and	Primary Government
			Contributions	Contributions	Governmental
					Activities
<b>PRIMARY GOVERNMENT:</b>					
Governmental activities:					
General government administration	\$ 1,060,868	\$ 118,058	\$ -	\$ -	\$ (942,810)
Public safety	1,069,215	-	192,312	-	(876,903)
Public works	1,379,844	-	290,982	1,316,697	227,835
Community development	313,242	195,261	-	-	(117,981)
Interest on long-term debt	227,769	-	-	-	(227,769)
Total governmental activities	\$ 4,050,938	\$ 313,319	\$ 483,294	\$ 1,316,697	\$ (1,937,628)
General revenues:					
General property taxes					\$ 912,637
Local sales and use taxes					354,751
Consumers' utility taxes					171,808
Business licenses					374,574
Restaurant food taxes					643,717
Transient occupancy taxes					137,465
Cigarette tax					205,105
Other local taxes					195,378
Unrestricted revenues from use of money and property					26,985
Miscellaneous					15,265
Grants and contributions not restricted to specific programs					257,410
Total general revenues					\$ 3,295,095
Change in net position					\$ 1,357,467
Net position - beginning, as restated					3,073,397
Net position - ending					\$ 4,430,864

The notes to financial statements are an integral part of this statement.

## Fund Financial Statements

Balance Sheet  
Governmental Funds  
June 30, 2015

	General	Capital Projects	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 4,513,370	\$ 576,977	\$ 5,090,347
Receivables (net of allowance for uncollectibles):			
Taxes receivable	432,961	-	432,961
Accounts receivable	101,892	-	101,892
Due from other governmental units	981,252	-	981,252
Prepaid items	24,632	-	24,632
Total assets	<u>\$ 6,054,107</u>	<u>\$ 576,977</u>	<u>\$ 6,631,084</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 271,641	\$ 395,415	\$ 667,056
Retainage payable	-	71,965	71,965
Accrued liabilities	36,386	-	36,386
Escrow and other deposits	112,436	-	112,436
Unearned revenue	617,325	-	617,325
Total liabilities	<u>\$ 1,037,788</u>	<u>\$ 467,380</u>	<u>\$ 1,505,168</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - property taxes	\$ 422,652	\$ -	\$ 422,652
Total deferred inflows of resources	<u>\$ 422,652</u>	<u>\$ -</u>	<u>\$ 422,652</u>
<b>FUND BALANCES</b>			
Nonspendable:			
Prepaid items	\$ 24,632	\$ -	\$ 24,632
Restricted:			
Asset forfeiture	345	-	345
Couthouse maintenance funds	3,514	-	3,514
Committed:			
Stormwater funds	137,639	-	137,639
Assigned:			
Capital projects	-	109,597	109,597
Unassigned:			
General fund	4,427,537	-	4,427,537
Total fund balances	<u>\$ 4,593,667</u>	<u>\$ 109,597</u>	<u>\$ 4,703,264</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 6,054,107</u>	<u>\$ 576,977</u>	<u>\$ 6,631,084</u>

The notes to financial statements are an integral part of this statement.

Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Position  
June 30, 2015

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Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$	4,703,264
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		5,531,528
Other long-term assets are not available to pay for current period expenditures, and therefore, are deferred in the funds.		
Unavailable revenue - property taxes	\$	36,654
Items related to measurement of net pension liability		<u>(250,744)</u>
		(214,090)
Pension contributions subsequent to the measurement date will be a reduction to the net pension liability in the next fiscal year and, therefore, are not reported in the funds.		187,584
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expense when due.		(31,939)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		<u>(5,745,483)</u>
Net position of governmental activities	\$	<u><u>4,430,864</u></u>

The notes to financial statements are an integral part of this statement.

## Statement of Revenues, Expenditures, and Changes in Fund Balances

## Governmental Funds

For the Year Ended June 30, 2015

	General	Capital Projects	Total
<b>REVENUES</b>			
General property taxes	\$ 906,071	\$ -	\$ 906,071
Other local taxes	2,082,798	-	2,082,798
Permits, privilege fees, and regulatory licenses	195,261	-	195,261
Fines and forfeitures	118,058	-	118,058
Revenue from the use of money and property	26,775	210	26,985
Miscellaneous	15,265	-	15,265
Intergovernmental:			
Commonwealth	1,564,144	-	1,564,144
Federal	493,257	-	493,257
Total revenues	\$ <u>5,401,629</u>	\$ <u>210</u>	\$ <u>5,401,839</u>
<b>EXPENDITURES</b>			
Current:			
General government administration	\$ 1,027,429	\$ -	\$ 1,027,429
Public safety	1,034,409	-	1,034,409
Public works	1,387,421	-	1,387,421
Community development	304,127	-	304,127
Capital projects	211,352	1,584,497	1,795,849
Debt service:			
Principal retirement	160,000	-	160,000
Interest and other fiscal charges	228,609	-	228,609
Total expenditures	\$ <u>4,353,347</u>	\$ <u>1,584,497</u>	\$ <u>5,937,844</u>
Excess (deficiency) of revenues over (under) expenditures	\$ <u>1,048,282</u>	\$ <u>(1,584,287)</u>	\$ <u>(536,005)</u>
Net change in fund balances	\$ 1,048,282	\$ (1,584,287)	\$ (536,005)
Fund balances - beginning, as restated	3,545,385	1,693,884	5,239,269
Fund balances - ending	\$ <u>4,593,667</u>	\$ <u>109,597</u>	\$ <u>4,703,264</u>

The notes to financial statements are an integral part of this statement.

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances  
to the Statement of Activities - Governmental Funds  
For the Year Ended June 30, 2015

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		<u>Governmental Funds</u>
Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances - total governmental funds	\$	(536,005)
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. This is the amount by which capital outlays exceeded depreciation or vice versa in the current period.		
Capital outlay	\$ 1,872,802	
Depreciation expense	<u>(163,514)</u>	1,709,288
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	6,566	
Change in deferred inflows of resources related to the measurement of the net pension liability	<u>(250,744)</u>	(244,178)
Bond and capital lease proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases the long-term liabilities and does not affect the statement of activities. Similarly, the repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.		
Principal retired on general obligation bonds		160,000
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds. The following is a summary of items supporting this adjustment:		
Change in compensated absences	\$ (32,632)	
Change in net pension liability	331,501	
Change in deferred outflows of resources related to pension contributions subsequent to the measurement date	(31,347)	
Change in interest payable	<u>840</u>	<u>268,362</u>
Change in net position of governmental activities	\$	<u><u>1,357,467</u></u>

The notes to financial statements are an integral part of this statement.

## TOWN OF DUMFRIES, VIRGINIA

### Notes of Financial Statements June 30, 2015

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#### NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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##### Narrative Profile:

Town of Dumfries received its charter in 1749. The Town has a population of 4,961 and a land area of 1.63 square miles.

The Town is governed under the Council-Manager form of government. The Town government engages in wide ranges of municipal services including general government administration, public safety, public works, and community development.

The financial statements of Town of Dumfries, Virginia have been prepared in conformity with specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia, and the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board. The more significant of the Town's accounting policies are described below.

##### A. Financial Reporting Entity

Management's Discussion and Analysis: GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis that the private sector provides in their annual reports.

Government-wide Financial Statements: The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter.

Statement of Net Position: The Statement of Net Position is designed to display the financial position of the primary government (governmental and business-type activities) and its discretely presented component units. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Position and report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net position of a government will be broken down into three categories: 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

Statement of Activities: The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

Budgetary Comparison Schedules: Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments and have a keen interest in following the actual financial progress of their governments over the course of the year. The Town and many other governments revise their original budgets over the course of the year for a variety of reasons.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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A. Financial Reporting Entity: (Continued)

Budgetary Comparison Schedules: (Continued)

Under the GASB 34 reporting model, governments provide budgetary comparison information in their annual reports, including the original budget and a comparison of final budget and actual results for its major funds.

Individual Component Unit Disclosures: Accounting principles generally accepted in the United States require financial statements to present the primary government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The Town has no component units that meet the requirements for blending. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide statements to emphasize they are legally separate from the primary government. The Town does not have any discretely presented component units.

B. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the Town as a whole) and fund financial statements. The focus is on both the Town as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds (by category) and the component units, if applicable. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected on a full accrual economic resource basis which incorporates long-term assets and receivables as well as long-term debt and obligations. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

The Town generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The Town may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, community development, etc.) that are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, community development, etc.) or a business-type activity.

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 and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The Town does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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B. Government-wide and Fund Financial Statements: (Continued)

Internal service charges, if applicable, are eliminated and the net income or loss from internal service activities is allocated to the various functional expense categories based on the internal charges to each function. In the fund financial statements, financial transactions and accounts of the Town are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The fund statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustment necessary to reconcile the fund financial statements to the governmental column of the government-wide financial statements.

The following is a brief description of the specific funds used by the Town in FY 2015.

1. *Governmental Funds* - Governmental Funds are those through which most governmental functions typically are financed. The government reports the following governmental funds.

*General Fund* - The General Fund is the primary operating fund of the Town. This fund is used to account for and report all financial resources except those required to be accounted for and reported in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for service, and interest income. The General Fund is considered a major fund for reporting purposes.

*Capital Projects Fund* - The Capital Projects Fund accounts for and reports financial resources that are restricted, committed or assigned to expenditure for capital outlays, except for those financed by proprietary funds or for assets held in trust for individuals, private organizations, or other governments. The Capital Projects Fund is considered a major fund.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Government-wide statements are prepared using the economic resources measurement focus. All Governmental Funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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C. Basis of Accounting (Continued)

Governmental funds utilize the modified accrual basis of accounting under which revenues and related assets are recorded when measurable and available to finance operations during the year. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts, except that property taxes not collected within 45 days after year-end are reflected as unavailable revenues. Sales and utility taxes, which are collected by the State or utilities and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the State or utility, which is generally in the month preceding receipt by the Town. Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of State and other grants for the purpose of funding specific expenditures, are recognized when measurable and available or at the time of the specific expenditure and all other grant requirements have been satisfied.

Expenditures, other than interest on long-term debt, are recorded as the related fund liabilities are incurred. Principal and interest on long-term debt are recognized when due except for amounts due on July 1, which are accrued.

D. Budgets and Budgetary Accounting

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

1. Budgets and Budgetary Accounting

- a. The Town Manager submits a proposed operating and capital budget to the Town Council prior to June 30 of each year. The budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain citizen comments.
- c. Prior to June 30, the budget is legally enacted through Council vote.
- d. The Town Manager is authorized to transfer budgeted amounts between line items within a department without prior approval from the Town Council.
- e. All budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

2. Legally Adopted Budgets

The general fund has a legally adopted annual budget.

E. Cash and Cash Equivalents

Cash and cash equivalents include all cash on hand and in banks, certificates of deposit, and highly liquid investments with original maturities of three months or less.

F. Investments

Investments are reported at fair value.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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G. Property Taxes

Real estate is assessed annually on January 1st by the County of Prince William at fair market value. Real estate taxes attach as an enforceable lien on the property as of January 1st. Taxes are payable semi-annually on June 5th and December 5th. The Town bills and collects its own property taxes. Penalties accrue on real estate and personal property taxes beginning June 6<sup>th</sup> and December 6th. Interest accrues on real estate and personal property taxes beginning July 1st.

H. Allowance for Uncollectible Accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance for uncollectible taxes for the General Fund was \$11,019 at June 30, 2015.

I. Capital Assets

Capital assets include land, buildings and improvements, machinery and equipment, and infrastructure. Any asset or group of assets acquired by the Town that has a useful life in excess of one year and an acquisition cost, or fair market value (when received), of at least \$5,000 is reported in the applicable governmental column in the government-wide financial statements.

Such assets are recorded at historical cost (or estimated historical cost) if constructed or purchased. Donated capital assets are recorded at fair market value at the date of donation. Capital assets are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings and improvements	20-30 years
Machinery and equipment	5-7 years
Infrastructure	30 years

K. Compensated Absences and Other Employee Benefit Amounts

Vested vacation, sick pay and other related employee benefit amounts are accrued when earned in all funds.

L. Long-term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued and premiums on issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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M. Fund Equity

The Town reports fund balance in accordance with GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance - 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 fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund.

When fund balance resources are available for a specific purpose in more than one classification, it is the Town's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

Town Council establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget or a motion to commit funds. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by Town Council or the Town Manager as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

N. Credit Risk

Concentrations of credit risk with respect to receivables are limited due to the large number of customers comprising the Town's customer base. As of June 30, 2015, the Town had no significant concentrations of credit risk.

O. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures and disclosure of contingent assets and liabilities for the reported periods. Actual results could differ from those estimates and assumptions.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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P. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has one item that qualifies for reporting in this category. The Town reports contributions to the pension plan made during the current year and subsequent to the net pension asset or liability measurement date, which will be recognized as a reduction of the net pension asset or liability next fiscal year. For more detailed information on these items, reference the pension note.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement 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 items that qualify for reporting in this category.

Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30, 2<sup>nd</sup> half installments levied during the fiscal year but due after June 30<sup>th</sup>, and amounts prepaid on the 2<sup>nd</sup> half installments and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2<sup>nd</sup> half installments levied during the fiscal year but due after June 30<sup>th</sup> and amounts prepaid on the 2<sup>nd</sup> half installments are reported as deferred inflows of resources. In addition, certain items related to the measurement of the net pension liability are reported as deferred inflows of resources. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments. For more detailed information on these items, reference the pension note.

Q. Pensions

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

R. Net Position

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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S. Net Position Flow Assumption

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

T. Adoption of Accounting Principles

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*:

The Town implemented the financial reporting provisions of the above Statements for the fiscal year ended June 30, 2015. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. Note disclosure and required supplementary information requirements about pensions are also addressed. The requirements of these Statements will improve financial reporting by improving accounting and financial reporting by state and local governments for pensions. The implementation of these Statements resulted in a restatement of net position, see Note 12 for details.

NOTE 2—DEPOSITS AND INVESTMENTS:

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Deposits:

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits (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:

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 and the State Treasurer's Local Government Investment Pool (LGIP).

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements  
June 30, 2015 (Continued)

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NOTE 2—DEPOSITS AND INVESTMENTS: (CONTINUED)

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Custodial Credit Risk (Investments):

The Town's investments at June 30, 2015 were held by the Town or in the Town's name by the Town's custodial banks.

Credit Risk of Debt Securities:

The Town does not have a policy related to credit risk of debt securities. The Town's rated debt investments as of June 30, 2015 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

Town's Rated Debt Investments' Values	
	Fair Quality Rating AAAm
Local Government Investment Pool	\$ 603,737
Money market mutual funds	576,977
Total	\$ 1,180,714

External Investment Pool:

The fair value of the positions in the Local Government Investment Pool (LGIP) is the same as the value of the pool shares. As this pool is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. LGIP maintains a policy to operate in a manner consistent with SEC Rule 2a-7.

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NOTE 3—DUE FROM OTHER GOVERNMENTAL UNITS:

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At June 30, 2015 the Town has receivables from other governments as follows:

	General Fund
Commonwealth of Virginia:	
Department of Transportation	\$ 943,457
Prince William County	
Court fees	4,090
Sales tax	33,705
Totals	\$ 981,252

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements  
June 30, 2015 (Continued)

NOTE 4—CAPITAL ASSETS:

The following is a summary of changes in capital assets during the fiscal year:

Governmental Activities:	Restated Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Capital assets not being depreciated:				
Land	\$ 320,876	\$ -	\$ -	\$ 320,876
Construction in progress	1,181,304	1,854,448	-	3,035,752
Total capital assets not being depreciated	<u>\$ 1,502,180</u>	<u>\$ 1,854,448</u>	<u>\$ -</u>	<u>\$ 3,356,628</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 974,253	\$ 11,514	\$ -	\$ 985,767
Machinery and equipment	1,129,936	6,840	21,187	1,115,589
Infrastructure	2,753,948	-	-	2,753,948
Total capital assets being depreciated	<u>\$ 4,858,137</u>	<u>\$ 18,354</u>	<u>\$ 21,187</u>	<u>\$ 4,855,304</u>
Accumulated depreciation:				
Buildings and improvements	\$ 771,848	\$ 13,787	\$ -	\$ 785,635
Machinery and equipment	924,070	57,929	21,187	960,812
Infrastructure	842,159	91,798	-	933,957
Total accumulated depreciation	<u>\$ 2,538,077</u>	<u>\$ 163,514</u>	<u>\$ 21,187</u>	<u>\$ 2,680,404</u>
Total capital assets being depreciated, net	<u>\$ 2,320,060</u>	<u>\$ (145,160)</u>	<u>\$ -</u>	<u>\$ 2,174,900</u>
Governmental activities capital assets, net	<u>\$ 3,822,240</u>	<u>\$ 1,709,288</u>	<u>\$ -</u>	<u>\$ 5,531,528</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 44,759
Public Safety	45,064
Public Works	60,442
Community Development	13,249
Total	<u>\$ 163,514</u>

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements  
June 30, 2015 (Continued)

NOTE 5—COMPENSATED ABSENCES:

In accordance with GASB statement 16 *Accounting for Compensated Absences*, the Town has accrued the liability arising from outstanding compensated absences. Town employees earn vacation and sick leave at rates determined by length of service. Accumulated amounts paid upon termination vary with the length of service. The Town had outstanding compensated absences as follows:

Governmental Funds	\$ <u>102,875</u>
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NOTE 6—LONG-TERM OBLIGATIONS:

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

Year	Revenue Bonds	
	Principal	Interest
2016	\$ 165,000	\$ 223,108
2017	170,000	216,895
2018	175,000	209,373
2019	180,000	201,097
2020	195,000	192,558
2021	200,000	183,865
2022	210,000	174,820
2023	225,000	164,694
2024	235,000	153,601
2025	240,000	142,026
2026	260,000	129,965
2027	265,000	117,362
2028	135,000	107,625
2029	100,000	101,693
2030	105,000	96,342
2031	110,000	90,725
2032	115,000	84,840
2033	125,000	78,400
2034	130,000	71,400
2035	140,000	64,120
2036	145,000	56,280
2037	155,000	48,160
2038	165,000	39,480
2039	170,000	30,240
2040	180,000	20,720
2041	190,000	10,640
	<u>\$ 4,485,000</u>	<u>\$ 3,010,029</u>

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements  
June 30, 2015 (Continued)

NOTE 6—LONG-TERM OBLIGATIONS: (CONTINUED)

The following is a summary of changes in long-term obligation transactions for the fiscal year ended June 30, 2015:

	Balance at July 1, 2014 As Restated	Issuances/ Increases	Retirements/ Decreases	Balance at June 30, 2015	Amounts Due Within One Year
Governmental Activities:					
Revenue bonds	\$ 4,645,000	\$ -	\$ 160,000	\$ 4,485,000	\$ 165,000
Net pension liability	1,489,109	509,655	841,156	1,157,608	-
Compensated absences	70,243	32,632	-	102,875	10,288
Total Governmental Activities	<u>\$ 6,204,352</u>	<u>\$ 542,287</u>	<u>\$ 1,001,156</u>	<u>\$ 5,745,483</u>	<u>\$ 175,288</u>

Details of Long-term Obligations:

	Amount Outstanding	Amounts Due Within One Year
<u>Revenue Bonds:</u>		
\$1,615,000 Revenue Refunding Bonds, issued May 2010, maturing annually in installments ranging from \$15,000 to \$135,000 through October 1, 2026, interest ranging from 2.20% to 5.20% payable semiannually	\$ 1,285,000	\$ 85,000
\$485,000 Revenue Refunding Bonds, issued July 2012, maturing annually in installments ranging from \$5,000 to \$45,000 through October 1, 2027, interest ranging from 2.125% to 5.125% payable semiannually	430,000	25,000
\$2,875,400 IDA Revenue Bonds, issued November 2010, due in annual installments ranging from \$50,000 to \$190,000 through February 1, 2041, interest ranging from 3.0% to 5.5% payable semiannually	<u>2,770,000</u>	<u>55,000</u>
Total revenue bonds	<u>\$ 4,485,000</u>	<u>\$ 165,000</u>
Net pension liability	<u>\$ 1,157,608</u>	<u>\$ -</u>
Compensated absences	<u>\$ 102,875</u>	<u>\$ 10,288</u>
Total Governmental Activities	<u>\$ 5,745,483</u>	<u>\$ 175,288</u>

# TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements  
June 30, 2015 (continued)

## **NOTE 7—PENSION PLAN:**

### *Plan Description*

All full-time, salaried permanent employees of the Town are automatically covered by VRS Retirement Plan upon employment. This is an agent multiple-employer plan 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 set out in the table below:

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>About Plan 1</b> 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.</p>	<p><b>About Plan 2</b> 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.</p>	<p><b>About the Hybrid Retirement Plan</b> 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. (see "Eligible Members")</p> <ul style="list-style-type: none"> <li>• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</li> <li>• 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.</li> </ul>

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements  
June 30, 2015 (continued)

**NOTE 7—PENSION PLAN: (CONTINUED)**

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>About Plan 1 (Cont.)</b></p>	<p><b>About Plan 2 (Cont.)</b></p>	<p><b>About the Hybrid Retirement Plan (Cont.)</b></p> <ul style="list-style-type: none"> <li>• 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.</li> </ul>
<p><b>Eligible Members</b> Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> 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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p><b>Eligible Members</b> Employees are in 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.</p> <p><b>Hybrid Opt-In Election</b> 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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p><b>Eligible Members</b> Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> <li>• Political subdivision employees*</li> <li>• School division employees</li> <li>• Members in Plan 1 or 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.</li> </ul> <p><b>*Non-Eligible Members</b> Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> <li>• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.</li> </ul>

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements  
June 30, 2015 (continued)

**NOTE 7—PENSION PLAN: (CONTINUED)**

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Hybrid Opt-In Election (Cont.)</b> 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.</p>	<p><b>Hybrid Opt-In Election (Cont.)</b> 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.</p>	<p><b>*Non-Eligible Members (Cont.)</b> 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.</p>
<p><b>Retirement Contributions</b> Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions and school divisions elected to phase in the required 5% member contribution but 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.</p>	<p><b>Retirement Contributions</b> Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions and school divisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.</p>	<p><b>Retirement Contributions</b> 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.</p>

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements  
June 30, 2015 (continued)

**NOTE 7—PENSION PLAN: (CONTINUED)**

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Creditable Service</b> 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.</p>	<p><b>Creditable Service</b> Same as Plan 1.</p>	<p><b>Creditable Service</b> <b><u>Defined Benefit Component:</u></b> 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.</p> <p><b><u>Defined Contributions Component:</u></b> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements  
June 30, 2015 (continued)

**NOTE 7—PENSION PLAN: (CONTINUED)**

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Vesting</b> 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.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p><b>Vesting</b> Same as Plan 1.</p>	<p><b>Vesting</b> <b><u>Defined Benefit Component:</u></b> 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.</p> <p><b><u>Defined Contributions Component:</u></b> 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.</p> <p>Members are always 100% vested in the contributions that they make.</p>

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements  
June 30, 2015 (continued)

**NOTE 7—PENSION PLAN: (CONTINUED)**

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting (Cont.)	Vesting (Cont.)	<p>Vesting (Cont.)  <u>Defined Contributions Component: (Cont.)</u>                      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.</p> <ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distribution is not required by law until age 70½.</p>
<p><b>Calculating the Benefit</b>                      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.</p>	<p><b>Calculating the Benefit</b>                      See definition under Plan 1.</p>	<p><b>Calculating the Benefit</b>  <u>Defined Benefit Component:</u>                      See definition under Plan 1</p>

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements  
June 30, 2015 (continued)

**NOTE 7—PENSION PLAN: (CONTINUED)**

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<b>Calculating the Benefit (Cont.)</b> 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.	<b>Calculating the Benefit (Cont.)</b>	<b>Calculating the Benefit (Cont.)</b> <u><b>Defined Contribution Component:</b></u> 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.
<b>Average Final Compensation</b> A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	<b>Average Final Compensation</b> A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	<b>Average Final Compensation</b> Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
<b>Service Retirement Multiplier</b> <b>VRS:</b> 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%.  <b>Sheriffs and regional jail superintendents:</b> The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.  <b>Political subdivision hazardous duty employees:</b> 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.	<b>Service Retirement Multiplier</b> <b>VRS:</b> 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.  <b>Sheriffs and regional jail superintendents:</b> Same as Plan 1.  <b>Political subdivision hazardous duty employees:</b> Same as Plan 1.	<b>Service Retirement Multiplier</b> <u><b>Defined Benefit Component:</b></u> <b>VRS:</b> 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.  <b>Sheriffs and regional jail superintendents:</b> Not applicable.  <b>Political subdivision hazardous duty employees:</b> Not applicable.  <u><b>Defined Contribution Component:</b></u> Not applicable.

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements  
June 30, 2015 (continued)

**NOTE 7—PENSION PLAN: (CONTINUED)**

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Normal Retirement Age</b> VRS: Age 65.</p> <p><b>Political subdivisions hazardous duty employees:</b> Age 60.</p>	<p><b>Normal Retirement Age</b> VRS: Normal Social Security retirement age.</p> <p><b>Political subdivisions hazardous duty employees:</b> Same as Plan 1.</p>	<p><b>Normal Retirement Age</b> <b><u>Defined Benefit Component:</u></b> VRS: Same as Plan 2.</p> <p><b>Political subdivisions hazardous duty employees:</b> Not applicable.</p> <p><b><u>Defined Contribution Component:</u></b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Unreduced Retirement Eligibility</b> VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p><b>Political subdivisions hazardous duty employees:</b> Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b> VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p><b>Political subdivisions hazardous duty employees:</b> Same as Plan 1.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b> <b><u>Defined Benefit Component:</u></b> VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p><b>Political subdivisions hazardous duty employees:</b> Not applicable.</p> <p><b><u>Defined Contribution Component:</u></b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Reduced Retirement Eligibility</b> VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p><b>Earliest Reduced Retirement Eligibility</b> VRS: Age 60 with at least five years (60 months) of creditable service.</p>	<p><b>Earliest Reduced Retirement Eligibility</b> <b><u>Defined Benefit Component:</u></b> VRS: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p>

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements  
June 30, 2015 (continued)

**NOTE 7—PENSION PLAN: (CONTINUED)**

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Earliest Reduced Retirement Eligibility (Cont.)</b></p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p><b>Earliest Reduced Retirement Eligibility (Cont.)</b></p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p><b>Earliest Reduced Retirement Eligibility (Cont.)</b></p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><b><u>Defined Contribution Component:</u></b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> 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%.</p> <p><b><u>Eligibility:</u></b> 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.</p> <p>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.</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> 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%.</p> <p><b><u>Eligibility:</u></b> Same as Plan 1</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> <b><u>Defined Benefit Component:</u></b> Same as Plan 2.</p> <p><b><u>Defined Contribution Component:</u></b> Not applicable.</p> <p><b><u>Eligibility:</u></b> Same as Plan 1 and Plan 2.</p>

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements  
June 30, 2015 (continued)

**NOTE 7—PENSION PLAN: (CONTINUED)**

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</b></p> <p><b><u>Exceptions to COLA Effective Dates:</u></b> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> <li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>• The member retires on disability.</li> <li>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</li> <li>• 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.</li> <li>• 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.</li> </ul>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</b></p> <p><b><u>Exceptions to COLA Effective Dates:</u></b> Same as Plan 1</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</b></p> <p><b><u>Exceptions to COLA Effective Dates:</u></b> Same as Plan 1 and Plan 2.</p>

# TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements  
June 30, 2015 (continued)

## NOTE 7—PENSION PLAN: (CONTINUED)

### Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Disability Coverage</b> 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.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p><b>Disability Coverage</b> 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.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p><b>Disability Coverage</b> Employees of political subdivisions and School divisions (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.</p> <p>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.</p>
<p><b>Purchase of Prior Service</b> 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.</p>	<p><b>Purchase of Prior Service</b> Same as Plan 1.</p>	<p><b>Purchase of Prior Service</b> <u><b>Defined Benefit Component:</b></u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> <li>• Hybrid Retirement Plan members are ineligible for ported service.</li> <li>• The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.</li> <li>• 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.</li> </ul> <p><u><b>Defined Contribution Component:</b></u> Not applicable.</p>

## TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements  
June 30, 2015 (continued)

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### **NOTE 7—PENSION PLAN: (CONTINUED)**

#### *Plan Description (Continued)*

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publicaitons/2014-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

#### *Employees Covered by Benefit Terms*

As of the June 30, 2013 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

Inactive members or their beneficiaries currently receiving benefits	22
Inactive members:	
Vested inactive members	15
Non-vested inactive members	19
Inactive members active elsewhere in VRS	<u>14</u>
Total inactive members	48
Active members	<u>21</u>
Total covered employees	<u><u>91</u></u>

#### *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% 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 Town's contractually required contribution rate for the year ended June 30, 2015 was 16.53% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. 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 Town were \$187,584 and \$218,931 for the years ended June 30, 2015 and June 30, 2014, respectively.

## TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements  
June 30, 2015 (continued)

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### **NOTE 7—PENSION PLAN: (CONTINUED)**

#### *Net Pension Liability (Asset)*

The Town's net pension liability (asset) was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

#### *Actuarial Assumptions - General Employees*

The total pension liability for General Employees in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2013, 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, 2014.

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7.0%, 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 return 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: 14% of deaths are assumed to be service related

#### Largest 10 - Non-LEOS:

##### Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

##### Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

##### Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

## TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements  
June 30, 2015 (continued)

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### **NOTE 7—PENSION PLAN: (CONTINUED)**

#### *Actuarial Assumptions - General Employees (Continued)*

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

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2013 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:

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

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

#### *Actuarial Assumptions - Public Safety Employees*

The total pension liability for Public Safety employees in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2013, 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, 2014.

Inflation	2.5%
Salary increases, including inflation	3.5% - 4.75%
Investment rate of return	7.0%, 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 return 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.

## TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements  
June 30, 2015 (continued)

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### **NOTE 7—PENSION PLAN: (CONTINUED)**

#### *Actuarial Assumptions - Public Safety Employees (Continued)*

Mortality rates: 60% of deaths are assumed to be service related

Largest 10 - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

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

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2013 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:

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

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

# TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements  
June 30, 2015 (continued)

## NOTE 7—PENSION PLAN: (CONTINUED)

### *Long-term Expected Rate of Return*

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

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

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

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements  
June 30, 2015 (continued)

**NOTE 7—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 Town 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, 2013	\$ 5,105,256	\$ 3,616,147	\$ 1,489,109
Changes for the year:			
Service cost	\$ 160,496	\$ -	\$ 160,496
Interest	346,097	-	346,097
Differences between expected and actual experience	-	-	-
Contributions - employer	-	218,931	(218,931)
Contributions - employee	-	57,342	(57,342)
Net investment income	-	564,853	(564,853)
Benefit payments, including refunds of employee contributions	(322,017)	(322,017)	-
Administrative expenses	-	(3,062)	3,062
Other changes	-	30	(30)
Net changes	\$ 184,576	\$ 516,077	\$ (331,501)
Balances at June 30, 2014	\$ 5,289,832	\$ 4,132,224	\$ 1,157,608

TOWN OF DUMFRIES, VIRGINIA

Notes to Financial Statements  
June 30, 2015 (continued)

**NOTE 7—PENSION PLAN: (CONTINUED)**

*Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate*

The following presents the net pension liability (asset) of the Town using the discount rate of 7.00%, as well as what the Town's net pension liability (asset) 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:

	Rate		
	<u>(6.00%)</u>	<u>(7.00%)</u>	<u>(8.00%)</u>
Town Net Pension Liability (Asset)	\$ 1,790,682	\$ 1,157,608	\$ 630,261

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

For the year ended June 30, 2015, the Town recognized pension expense of \$138,174. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 250,744
Employer contributions subsequent to the measurement date	<u>187,584</u>	<u>-</u>
Total	<u>\$ 187,584</u>	<u>\$ 250,744</u>

\$187,584 reported as deferred outflows of resources related to pensions resulting from the Town's contributions, subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. 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 ended June 30**

2016	\$ (62,686)
2017	(62,686)
2018	(62,686)
2019	(62,686)
Thereafter	-

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements  
June 30, 2015 (Continued)

NOTE 8— DEFERRED/UNAVAILABLE/UNEARNED REVENUE:

Deferred/unavailable/unearned revenue represents amounts for which asset recognition have been met, but for which revenue recognition criteria have not been met. Unavailable/unearned/deferred revenue is comprised of the following:

	Unearned Revenue <u>Statement of Net Position</u>		
Grant revenue received in advance	\$	579,601	
Other		<u>37,724</u>	
Total unearned revenue	\$	<u><u>617,325</u></u>	
	<u>Deferred/Unavailable Revenue</u> <u>Balance</u> <u>Sheet</u> <u>Governmental</u> <u>Funds</u>		<u>Statement of</u> <u>Net Position</u> <u>Governmental</u> <u>Activities</u>
2nd half assessments representing uncollected property tax which has not been billed but for which an enforceable lien is in effect.	\$	378,741	\$ 378,741
Prepaid property tax revenues representing collections for property taxes that are applicable to the subsequent budget year.		7,257	7,257
Unavailable revenue representing uncollected property tax billings for which revenue recognition criteria has not been met. The uncollected tax billings are not available for the funding of current expenditures.		<u>36,654</u>	<u>-</u>
Total deferred/unavailable revenue	\$	<u><u>422,652</u></u>	\$ <u><u>385,998</u></u>

TOWN OF DUMFRIES, VIRGINIA

Notes of Financial Statements  
June 30, 2015 (Continued)

NOTE 9—FIDELITY BOND:

Fidelity bond coverage with Virginia Municipal League during the fiscal year 2015 was as follows:

	<u>Coverage</u>
Fidelity and Crime	\$ 20,000

NOTE 10—COMMITMENTS AND CONTINGENCIES:

Federal programs in which the Town participates were audited in accordance with the provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States and Local Governments and Non-Profit Organizations*. Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

NOTE 11—LITIGATION:

At June 30, 2015, there were no matters of litigation involving the Town which would materially affect the Town's financial position should any court decisions on pending matters not be favorable to the Town.

NOTE 12—RESTATEMENT OF NET POSITION/FUND BALANCE:

Net Position/Fund Balance as of July 1, 2014 was restated as follows:

	<u>Net Position</u> <u>Governmental</u> <u>Activities</u>	<u>Fund Balance</u> <u>General</u> <u>Fund</u>
Beginning net position/fund balance, as previously reported \$	4,381,530	\$ 3,508,277
Restatement related to deferred property taxes	(75,524)	(35,368)
Restatement related to taxes receivable	(37,851)	(37,851)
Restatement of unearned revenue	85,743	85,743
Restatement of accrued liabilities	24,584	24,584
Restatement of accrued interest payable	(32,779)	-
Restatement of capital asset balances	(2,128)	-
Implementation of GASB 68	(1,270,178)	-
Beginning net position/fund balance, as restated	\$ <u>3,073,397</u>	\$ <u>3,545,385</u>

NOTE 13 - HEALTH INSURANCE CREDIT PROGRAM-OTHER POSTEMPLOYMENT BENEFIT:

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A. Plan Description:

The Town participates in the Health Insurance Credit Program, a plan designed to assist retirees with the cost of health insurance coverage. This program is an agent and cost sharing, multiple-employer defined benefit plan administered by the Virginia Retirement System (VRS). The Virginia General Assembly establishes the dollar amount of the health insurance credit for each year of creditable service. The credit amount and eligibility differs for state, school division, political subdivision, local officer, local social services department and general registrar retirees.

An employee of the Town, who retires under VRS with at least 15 years of total creditable service under the System and is enrolled in a health insurance plan, is eligible to receive a monthly health insurance credit of \$1.50 per year of creditable service up to a maximum monthly credit of \$45. However, such credit shall not exceed the health insurance premium for the retiree. Disabled retirees automatically receive the maximum monthly health insurance credit of \$45.

Localities may elect to provide an additional health insurance credit of \$1 per month for each full year of the retired members' creditable service, not to exceed a maximum monthly credit of \$30. The enhanced credit is available for constitutional officers and their employees, local social services employees, and general registrars and their employees. Whereas the \$1.50 health credit cost is borne by the Commonwealth, the costs of such additional health insurance credit shall be borne by the locality.

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the Code of Virginia. The VRS actuarially determines the amount necessary to fund all credits provided, reflects the cost of such credits in the applicable employer contribution rate pursuant to §51.1-145, and prescribes such terms and conditions as are necessary to carry out the provisions of the health insurance credit program. VRS issues separate financial statements as previously discussed in Note 7.

B. Funding Policy:

As a participating local political subdivision, the Town is required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the Code of Virginia and the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2015 was .18% of annual covered payroll.

C. Annual OPEB Cost and Net OPEB Obligation

The annual cost of OPEB under Governmental Accounting Standards Board (GASB) 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions, is based on the annual required contribution (ARC). The Town is required to contribute the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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NOTE 13 - HEALTH INSURANCE CREDIT PROGRAM-OTHER POSTEMPLOYMENT BENEFIT: (continued)

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C. Annual OPEB Cost and Net OPEB Obligation (continued)

For 2015, the Town's contribution of \$1,163 was equal to the ARC and OPEB cost. The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2015	\$ 1,163	100%	\$ -

D. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2014, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$ 29,616
Actuarial value of plan assets	24,260
Unfunded actuarial accrued liability	(5,356)
Funded ratio (actuarial value of plan assets / AAL)	122.08%
Covered payroll (active plan members)	1,146,412
UAAL as a percentage of covered payroll	-0.47%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future and reflect a long-term perspective. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

E. Actuarial Methods and Assumptions

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

NOTE 13 - HEALTH INSURANCE CREDIT PROGRAM-OTHER POSTEMPLOYMENT BENEFIT: (continued)

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E. Actuarial Methods and Assumptions (continued)

The entry age normal cost method was used to determine the plan's funding liabilities and costs. The actuarial assumptions included a 7% investment rate of return, compounded annually, including an inflation component of 2.5%, and a payroll growth rate of 3%. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining open amortization period at June 30, 2015 was 20-29 years.

## **Required Supplementary Information**

### **Note to Required Supplementary Information:**

Presented budgets were prepared in accordance with Accounting Principles Generally Accepted in the United States of America.

Schedule of Components of and Changes in Net Pension Liability and Related Ratios - VRS  
For the Year Ended June 30, 2015

	<u>2014</u>
Total pension liability	
Service cost	\$ 160,496
Interest	346,097
Benefit payments, including refunds of employee contributions	(322,017)
Net change in total pension liability	\$ 184,576
Total pension liability - beginning	5,105,256
Total pension liability - ending (a)	<u><u>\$ 5,289,832</u></u>
Plan fiduciary net position	
Contributions - employer	\$ 218,931
Contributions - employee	57,342
Net investment income	564,853
Benefit payments, including refunds of employee contributions	(322,017)
Administrative expense	(3,062)
Other	30
Net change in plan fiduciary net position	\$ 516,077
Plan fiduciary net position - beginning	3,616,147
Plan fiduciary net position - ending (b)	<u><u>\$ 4,132,224</u></u>
Town's net pension liability - ending (a) - (b)	\$ 1,157,608
Plan fiduciary net position as a percentage of the total pension liability	78.12%
Covered-employee payroll	\$ 1,146,836
Town's net pension liability as a percentage of covered-employee payroll	100.94%

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

Schedule of Employer Contributions - VRS  
For the Year Ended June 30, 2015

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Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
2015	\$ 187,584	\$ 187,584	\$ -	\$ 1,134,812	16.53%

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

Notes to Required Supplementary Information  
For the Year Ended June 30, 2015

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Changes of benefit terms - There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013 and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

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

Schedule of Revenues, Expenditures, and Changes in Fund Balances -  
Budget and Actual - General Fund  
For the Year Ended June 30, 2015

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
General property taxes	\$ 906,728	\$ 906,728	\$ 906,071	\$ (657)
Other local taxes	2,131,222	2,131,222	2,082,798	(48,424)
Permits, privilege fees, and regulatory licenses	211,500	211,500	195,261	(16,239)
Fines and forfeitures	70,000	70,000	118,058	48,058
Revenue from the use of money and property	28,016	28,016	26,775	(1,241)
Miscellaneous	13,000	13,000	15,265	2,265
Intergovernmental revenues:				
Commonwealth	770,600	932,805	1,564,144	631,339
Federal	10,000	10,000	493,257	483,257
Total revenues	\$ 4,141,066	\$ 4,303,271	\$ 5,401,629	\$ 1,098,358
Expenditures:				
General government administration:				
Legislative:				
Governing body	\$ 58,502	\$ 58,502	\$ 52,928	\$ 5,574
General and financial administration:				
Administration	\$ 931,912	\$ 931,912	\$ 790,679	\$ 141,233
Information technology	190,144	190,144	183,822	6,322
Total general and financial administration	\$ 1,122,056	\$ 1,122,056	\$ 974,501	\$ 147,555
Total general government administration	\$ 1,180,558	\$ 1,180,558	\$ 1,027,429	\$ 153,129
Public safety:				
Law enforcement and traffic control:				
Police	\$ 1,264,405	\$ 1,228,126	\$ 1,034,409	\$ 193,717
Public works:				
Maintenance of general buildings and grounds	\$ 81,600	\$ 96,480	\$ 69,367	\$ 27,113
Street maintenance	240,000	395,234	348,005	47,229
Facilities and other public works	752,118	752,118	735,200	16,918
Stormwater management	194,568	194,568	234,849	(40,281)
Total public works	\$ 1,268,286	\$ 1,438,400	\$ 1,387,421	\$ 50,979
Community development:				
Planning and community development:				
Community development	\$ 113,604	\$ 141,974	\$ 136,585	\$ 5,389
Community services	140,229	140,229	157,366	(17,137)
Boards and commissions	19,450	19,450	10,176	9,274
Total community development	\$ 273,283	\$ 301,653	\$ 304,127	\$ (2,474)
Capital projects	\$ -	\$ -	\$ 211,352	\$ (211,352)
Debt service:				
Principal retirement	\$ 160,000	\$ 160,000	\$ 160,000	\$ -
Interest and other fiscal charges	228,609	228,609	228,609	-
Total debt service	\$ 388,609	\$ 388,609	\$ 388,609	\$ -
Total expenditures	\$ 4,375,141	\$ 4,537,346	\$ 4,353,347	\$ 183,999
Excess (deficiency) of revenues over (under) expenditures	\$ (234,075)	\$ (234,075)	\$ 1,048,282	\$ 1,282,357
Net change in fund balance	\$ (234,075)	\$ (234,075)	\$ 1,048,282	\$ 1,282,357
Fund balances at beginning of year, as restated	\$ 234,075	\$ 234,075	\$ 3,545,385	\$ 3,311,310
Fund balances at end of year	\$ -	\$ -	\$ 4,593,667	\$ 4,593,667

Schedule of OPEB Funding Progress  
Last Three Fiscal Years

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Virginia Retirement System - Health Insurance Credit Program (OPEB):

Actuarial Valuation as of	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets at % of AAL (2) / (3)	Covered Payroll	UAAL as % of Covered Payroll (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 2014	\$ 29,616	\$ 24,260	(5,356)	122.08%	\$ 1,146,412	-0.47%
June 30, 2013	26,686	24,870	(1,816)	107.30%	1,123,072	-0.16%
June 30, 2012	25,162	26,438	1,276	95.17%	1,147,058	0.11%

## Supporting Schedule

Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2015

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 873,983	\$ 873,983	\$ 869,614	\$ (4,369)
Real and personal public service corporation taxes	23,045	23,045	24,200	1,155
Penalties	7,600	7,600	12,081	4,481
Interest	2,100	2,100	176	(1,924)
Total general property taxes	<u>\$ 906,728</u>	<u>\$ 906,728</u>	<u>\$ 906,071</u>	<u>\$ (657)</u>
Other local taxes:				
Local sales and use taxes	\$ 400,000	\$ 400,000	\$ 354,751	\$ (45,249)
Consumers' utility taxes	180,000	180,000	171,808	(8,192)
Business license taxes	358,008	358,008	374,574	16,566
Motor vehicle licenses	51,700	51,700	58,251	6,551
Franchise license taxes	70,000	70,000	66,072	(3,928)
Bank stock taxes	49,514	49,514	36,040	(13,474)
Transient occupancy taxes	140,000	140,000	137,465	(2,535)
Cigarette tax	184,000	184,000	205,105	21,105
Meals taxes	675,000	675,000	643,717	(31,283)
Other	23,000	23,000	35,015	12,015
Total other local taxes	<u>\$ 2,131,222</u>	<u>\$ 2,131,222</u>	<u>\$ 2,082,798</u>	<u>\$ (48,424)</u>
Permits, privilege fees, and regulatory licenses:				
Building and related permits	\$ 65,000	\$ 65,000	\$ 53,513	\$ (11,487)
Stormwater management fees	145,000	145,000	141,148	(3,852)
Other permits and licenses	1,500	1,500	600	(900)
Total permits, privilege fees, and regulatory licenses	<u>\$ 211,500</u>	<u>\$ 211,500</u>	<u>\$ 195,261</u>	<u>\$ (16,239)</u>
Fines and forfeitures:				
Court and other fines and forfeitures	<u>\$ 70,000</u>	<u>\$ 70,000</u>	<u>\$ 118,058</u>	<u>\$ 48,058</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 500	\$ 500	\$ 1,552	\$ 1,052
Revenue from use of property	27,516	27,516	25,223	(2,293)
Total revenue from use of money and property	<u>\$ 28,016</u>	<u>\$ 28,016</u>	<u>\$ 26,775</u>	<u>\$ (1,241)</u>

Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2015

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (continued)				
Revenue from local sources: (continued)				
Miscellaneous:				
Miscellaneous	\$ 13,000	\$ 13,000	\$ 15,265	\$ 2,265
Total miscellaneous	\$ 13,000	\$ 13,000	\$ 15,265	\$ 2,265
Total revenue from local sources	\$ 3,360,466	\$ 3,360,466	\$ 3,344,228	\$ (16,238)
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle rental tax	\$ 67,000	\$ 67,000	\$ 69,697	\$ 2,697
Rolling stock tax	50	50	9	(41)
Telecommunications sales tax	195,000	195,000	187,704	(7,296)
Total noncategorical aid	\$ 262,050	\$ 262,050	\$ 257,410	\$ (4,640)
Categorical aid:				
State roads grants	\$ 80,000	\$ 80,000	\$ 879,546	\$ 799,546
Street and highway maintenance	240,000	395,234	250,118	(145,116)
Litter control	2,943	2,943	2,939	(4)
State fire funds	14,149	14,149	18,073	3,924
Public safety grants	136,458	136,458	136,458	-
Stormwater grant	32,500	32,500	6,824	(25,676)
DEQ stormwater fees	-	-	7,776	7,776
Other categorical aid	2,500	9,471	5,000	(4,471)
Total other categorical aid	\$ 508,550	\$ 670,755	\$ 1,306,734	\$ 635,979
Total categorical aid	\$ 508,550	\$ 670,755	\$ 1,306,734	\$ 635,979
Total revenue from the Commonwealth	\$ 770,600	\$ 932,805	\$ 1,564,144	\$ 631,339
Revenue from the federal government:				
Categorical aid:				
DMV grants	\$ 10,000	\$ 10,000	\$ 11,811	\$ 1,811
Justice assistance grant	-	-	23,031	23,031
Stormwater development and implementation	-	-	21,264	21,264
Highway planning and construction	-	-	437,151	437,151
Total categorical aid	\$ 10,000	\$ 10,000	\$ 493,257	\$ 483,257
Total revenue from the federal government	\$ 10,000	\$ 10,000	\$ 493,257	\$ 483,257
Total General Fund	\$ 4,141,066	\$ 4,303,271	\$ 5,401,629	\$ 1,098,358
Capital Projects Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ -	\$ 210	\$ 210
Total Governmental Funds	\$ 4,141,066	\$ 4,303,271	\$ 5,401,839	\$ 1,098,568

## Statistical Information

## TOWN OF DUMFRIES, VIRGINIA

Table 1

General Fund Expenditures by Function  
Last Ten Fiscal Years

Fiscal Year Ended June 30,	General						Debt Service	Capital Outlays	Total
	Government Administration	Public Safety	Public Works	Community Development	Non- Departmental				
2015	\$ 1,027,429	\$ 1,034,409	\$ 1,387,421	\$ 304,127	\$ -	\$ 388,609	\$ 211,352	\$ 4,353,347	
2014	1,298,958	1,135,714	911,123	125,704	8,150	388,129	-	3,867,778	
2013	814,069	1,277,980	1,203,515	170,583	80,607	211,689	-	3,758,443	
2012	989,472	1,201,994	1,214,505	114,253	137,803	105,000	86,701	3,849,728	
2011	1,122,360	1,157,029	1,141,320	48,416	112,093	105,000	86,349	3,772,567	
2010	852,959	1,403,128	1,120,386	120,655	-	242,503	79,523	3,819,154	
2009	979,214	1,548,375	1,159,419	157,528	-	202,154	72,798	4,119,488	
2008	935,749	1,481,997	1,144,155	140,589	(206,984)	200,009	19,800	3,715,315	
2007	978,510	1,442,950	826,975	131,764	-	197,471	221	3,577,891	
2006	746,061	1,170,198	697,498	98,007	-	199,865	185,680	3,097,309	

## TOWN OF DUMFRIES, VIRGINIA

Table 2

General Fund Revenue by Source  
Last Ten Fiscal Years

Fiscal Year Ended June 30,	General Property Taxes	Other Local Taxes	Licenses Permits, and Privilege Fees	Fines and Penalties	Use of Money and Property	Miscel- laneous	Inter- Govern- mental	Total
2015	\$ 906,071	\$ 2,082,798	\$ 195,261	\$ 118,058	\$ 26,775	\$ 15,265	\$ 2,057,401	\$ 5,401,629
2014	1,066,225	1,934,150	709,415	62,117	31,412	21,367	622,864	4,447,550
2013	1,006,758	2,656,046	258,267	102,690	28,631	20,788	578,385	4,651,565
2012	1,009,185	2,244,838	234,215	80,063	32,630	38,303	504,934	4,144,168
2011	1,039,493	2,126,602	253,549	51,181	34,159	10,677	463,308	3,978,969
2010	1,052,180	2,080,461	195,129	69,351	33,772	40,351	439,078	3,910,322
2009	748,870	1,935,084	89,364	92,394	47,791	22,934	422,909	3,359,346
2008	834,730	1,922,311	122,013	76,658	68,408	72,758	450,327	3,547,205
2007	954,704	2,064,189	141,298	61,106	61,046	29,281	456,192	3,767,816
2006	802,928	2,078,842	259,650	48,408	66,788	90,214	467,141	3,813,971

TOWN OF DUMFRIES, VIRGINIA

Table 3

Real Property Tax Levies and Collections  
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Total Tax Levy [1]	Total Tax Collections [2]	Percent of Levy Collected	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
2015	\$ 901,736	\$ 893,814	99.12%	\$ 65,258	7.24%
2014	954,205	962,884	100.91%	83,233	8.72%
2013	1,063,060	1,006,758	94.70%	88,366	8.31%
2012	1,033,885	1,009,185	97.61%	78,083	7.55%
2011	1,011,245	1,039,493	102.79%	67,923	6.72%
2010	1,034,544	1,052,180	101.70%	64,508	6.24%
2009	722,942	748,870	103.59%	75,052	10.38%
2008	939,785	876,238	93.24%	60,902	6.48%
2007	941,536	931,799	98.97%	53,869	5.72%
2006	836,188	773,498	92.50%	37,815	4.52%

[1] Figures may not include all abatements or supplements.

[2] Penalties and interest not included.

Assessed Value of Taxable Property  
Last Ten Fiscal Years

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<u>Fiscal Year</u>		<u>Real Estate</u>
2015	\$	388,811,330
2014		359,345,592
2013		339,310,600
2012		310,196,400
2011		284,878,800
2010		292,154,885
2009		308,543,700
2008		504,091,500
2007		540,986,800
2006		523,076,092

Property Tax Rates  
Last Ten Fiscal Years

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Fiscal Year	Real Estate
2015	\$.2333/\$100
2014	\$.2733/\$100
2013	\$.3133/\$100
2012	\$.3333/\$100
2011	\$.3533/\$100
2010	\$.3533/\$100
2009	\$.18/\$100
2008	\$.18/\$100
2007	\$.18/\$100
2006	\$.12/\$100

Legal Debt Margin  
June 30, 2015

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Total assessed value of taxed real property	\$ <u>388,811,330</u>
Debt limit - 10% of total assessed value	\$ 38,881,133
Less: Amount of debt applicable to debt limit - gross debt	<u>4,485,000</u>
Legal debt margin	\$ <u><u>34,396,133</u></u>

Miscellaneous Statistics  
Last Ten Fiscal Years

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<u>Fiscal Year</u>	<u>Population</u>
2015	4,961
2014	5,207
2013	5,207
2012	4,937
2011	4,937
2010	4,937
2009	4,937
2008	4,937
2007	4,937
2006	4,937

## Compliance

# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

## Independent Auditors' 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 the Town Council  
Town of Dumfries  
Dumfries, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities and each major fund of Town of Dumfries, Virginia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Town of Dumfries, Virginia's basic financial statements, and have issued our report thereon dated January 27, 2016.

### Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (2015-001,002, and 003).

## Compliance and Other Matters

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

## Town of Dumfries, Virginia's Response to Findings

Town of Dumfries, Virginia's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Town of Dumfries, Virginia'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 to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Robinson, Farmer, Cox Associates*

Fredericksburg, Virginia  
January 27, 2016

Schedule of Findings and Responses  
For the Year Ended June 30, 2015

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Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Section II - Financial Statement Findings

2015-001 - Segregation of Duties (Material Weakness)

Criteria:

A key concept of internal controls is the segregation of duties. No one employee should have access to both accounting records and related assets.

Condition:

The Town's current internal control system does not provide adequate segregation of duties over accounting functions.

Cause of Condition:

Due to the limited size of the Treasurer's Office, a proper separation of duties has not been established and maintained.

Effect of Condition:

There is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal controls over financial reporting.

Recommendation:

It is recommended that the Town establish a proper segregation of duties over accounting functions.

Management's Response:

Management feels that duties are segregated to the extent feasible with the staffing levels in place. The Town has a small staff and this creates inherent limitations in the division of duties and the segregation that is feasible.

Schedule of Findings and Responses (continued)  
For the Year Ended June 30, 2015

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2015-002 - Adjusting Entries (Material Weakness)

Criteria:

Accounting principles generally accepted in the United States of America (GAAP) require the Town to record all asset and liabilities in their financial statements.

Condition:

Material adjustments were needed including an entry to record capital project expenditures in excess in the amount of \$1,117,117.

Cause of Condition:

The Town does not have adequate internal controls in place to capture and record all necessary balances in the automated accounting system.

Effect of Condition:

There is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal controls over financial reporting.

Recommendation:

It is recommended that the Town develop internal controls to capture and record all balances accurately and eliminate the need for material adjustments on the part of the auditor's.

Management's Response:

The Town will work with the auditors to develop controls to help identify the types of transactions that routinely lead to adjustments in order to better alleviate these adjustments in the future.

2015-003 - Depreciation Schedule (Material Weakness)

Criteria:

Accounting principles generally accepted in the United States of America (GAAP) require the Town to report accurate balances for capital assets and corresponding accumulated depreciation.

Condition:

The Town does not maintain its own detailed capital asset listing and corresponding depreciation schedule. Capital asset balances are not recorded in a "fixed asset account group" in the automated accounting system.

Cause of Condition:

The Town's internal control processes do not include a process to capture and record capital asset additions and deletions and calculate annual depreciation expense on such capital assets.

Effect of Condition:

The depreciation schedule has been maintained and updated in the past by the Auditors'. There is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal controls over financial reporting.

Recommendation:

It is recommended that the Town implement internal controls to maintain a detailed capital asset listing and corresponding depreciation schedule that is annually updated with additions, disposals, and current year depreciation. Capital asset balances should be recorded in a "fixed asset account group" in the automated accounting system.

Management's Response:

The Town will work with the auditors so the Town staff can take over the process of maintaining the depreciation schedule and will develop a comprehensive capital asset policy. The Town will also implement a process for recording capital asset balances in the automated accounting system.