TOWN OF DAYTON, VIRGINIA

FINANCIAL REPORT

June 30, 2018

TOWN OF DAYTON, VIRGINIA

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TOWN OF DAYTON, VIRGINIA

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TOWN OF DAYTON, VIRGINIA

DIRECTORY OF PRINCIPAL OFFICIALS

June 30, 2018

TOWN COUNCIL

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

APPOINTED OFFICIALS

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

INDEPENDENT AUDITORS

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

FINANCIAL SECTION

BROWN EDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Dayton, Virginia, (the "Town") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Dayton, Virginia, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 11 to the financial statements, in 2018, the Town adopted new accounting guidance, *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions.* 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 required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted a management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2019 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
April 2, 2019

BASIC FINANCIAL STATEMENTS

EXHIBIT 1

TOWN OF DAYTON, VIRGINIA

STATEMENT OF NET POSITION
June 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents (Note 2)	$ 12,930	$ 945,781	$ 958,711
Investments (Note 2)	-	3,267,829	3,267,829
Receivables (Note 3)	160,020	406,089	566,109
Due from other governmental units (Note 4)	16,451	-	16,451
Inventories	-	31,524	31,524
Prepaids	20,575	656	21,231
Investment in electric cooperative (Note 1)	2,899	97,238	100,137
Capital assets: (Note 5)			
Nondepreciable	920,974	303,047	1,224,021
Depreciable, net	3,668,563	7,458,742	11,127,305
Total assets	4,802,412	12,510,906	17,313,318
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows (Note 8)	134,236	8,568	142,804
OPEB related deferred outflows (Note 10)	3,911	250	4,161
Total deferred outflows of resources	138,147	8,818	146,965
LIABILITIES			
Accounts payable and accrued liabilities	13,671	2,900	16,571
Accrued payroll and related liabilities	129,728	30,112	159,840
Accrued interest	295	-	295
Deposits payable	-	6,990	6,990
Unearned revenue (Note 6)	57,545	-	57,545
Noncurrent liabilities:			
Net pension liability (Note 8)	304,030	19,406	323,436
Net OPEB liability (Note 9 and 10)	566,842	36,181	603,023
Other noncurrent liabilities due within one year (Note 7)	25,246	-	25,246
Other noncurrent liabilities due in more than one year (Note 7)	43,778	3,026	46,804
Total liabilities	1,141,135	98,615	1,239,750
DEFERRED INFLOWS OF RESOURCES			
Property taxes for future periods (Note 6)	56,949	-	56,949
Pension related deferred inflows (Note 8)	187,085	11,942	199,027
OPEB related deferred inflows (Note 10)	6,580	420	7,000
Total deferred inflows of resources	250,614	12,362	262,976
NET POSITION			
Net investment in capital assets	4,575,139	7,761,789	12,336,928
Unrestricted	(1,026,329)	4,646,958	3,620,629
Total net position	$ 3,548,810	$ 12,408,747	$ 15,957,557

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

EXHIBIT 2

TOWN OF DAYTON, VIRGINIA

STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position — Primary Government: Governmental Activities	Business-Type Activities	Total
Governmental activities							
General government administration	$ 803,557	$ 2,367	$ -	$ -	$ (801,190)	$ -	$ (801,190)
Public safety	758,230	17,734	45,519	-	(694,977)	-	(694,977)
Public works	293,878	149,688	-	3,616	(140,574)	-	(140,574)
Parks, recreation, and cultural	415,633	111,561	-	-	(304,072)	-	(304,072)
Community development	85,124	-	-	-	(85,124)	-	(85,124)
Interest on long-term debt	1,581	-	-	-	(1,581)	-	(1,581)
Total governmental activities	2,358,003	281,350	45,519	3,616	(2,027,518)	-	(2,027,518)
Business-type activities							
Water and sewer	2,273,434	3,672,964	-	-	-	1,399,530	1,399,530
Total business-type activities	2,273,434	3,672,964	-	-	-	1,399,530	1,399,530
Total primary government	$ 4,631,437	$ 3,954,314	$ 45,519	$ 3,616	(2,027,518)	1,399,530	(627,988)
General revenues and transfers:							
Property taxes					119,468	-	119,468
Other local taxes					450,665	-	450,665
Unrestricted revenue from the use of money and property					138	11,938	12,076
Other					30,560	-	30,560
Transfers (Note 1)					1,202,245	(1,202,245)	-
Total general revenues and transfers					1,803,076	(1,190,307)	612,769
Change in net position					(224,442)	209,223	(15,219)
NET POSITION AT JULY 1, as restated (Note 11)					3,773,252	12,199,524	15,972,776
NET POSITION AT JUNE 30					$ 3,548,810	$ 12,408,747	$ 15,957,557

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

TOWN OF DAYTON, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2018

		General
ASSETS		
Cash and cash equivalents (Note 2)	$	12,930
Receivables, net (Note 3)		160,020
Due from other governmental units (Note 4)		16,451
Prepaids		20,575
Total assets	$	209,976
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		
Liabilities:		
Accounts payable and accrued liabilities	$	13,671
Accrued payroll and related liabilities		129,728
Unearned revenue (Note 6)		57,545
Total liabilities		200,944
Deferred inflows of resources:		
Deferred property tax revenue (Note 6)		56,949
Unavailable revenue (Note 6)		24,169
Total deferred inflows of resources		81,118
Fund balances:		
Nonspendable - prepaids		20,575
Committed:		
General government administration		4,200
Public safety		63,246
Parks, recreation, and cultural		219,457
Unassigned		(379,564)
Total fund balances		(72,086)
Total liabilities, deferred inflows of resources, and fund balances	$	209,976

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

EXHIBIT 4

TOWN OF DAYTON, VIRGINIA

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET POSITION
June 30, 2018

Ending fund balance – governmental fund		$ (72,086)
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the fund.		
Nondepreciable capital assets	$ 920,974	
Depreciable capital assets, net	3,668,563	
		4,589,537
Investment in electric cooperative is not available in the current period and therefore is not reported in the fund.		2,899
Certain revenues are not available to pay for current period expenditures and are not reported in the fund.		24,169
Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the fund.		
Deferred outflows of resources related to pension	134,236	
Deferred inflows of resources related to pension	(187,085)	
Deferred outflows of resources related to OPEB	3,911	
Deferred inflows of resources related to OPEB	(6,580)	
		(55,518)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund.		
Accrued interest payable	(295)	
Compensated absences and service benefits	(31,957)	
Net pension liability	(304,030)	
Net OPEB liability	(566,842)	
Long-term debt	(37,067)	
		(940,191)
Total net position – governmental activities		$ 3,548,810

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

EXHIBIT 5

TOWN OF DAYTON, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
Year Ended June 30, 2018

	General
REVENUES	
General property taxes	$ 117,467
Other local taxes	450,665
Permits, privilege fees, and regulatory licenses	927
Fines and forfeitures	17,734
Revenues from the use of money and property	1,489
Charges for services	149,688
Intergovernmental	49,135
Recovered costs	11,432
Other	130,690
Total revenues	929,227
EXPENDITURES	
Current:	
General government administration	788,611
Public safety	721,982
Public works	224,177
Parks, recreation, and cultural	368,535
Community development	85,124
Capital outlay	24,306
Debt service:	
Principal retirement	24,483
Interest and other fiscal charges	1,867
Total expenditures	2,239,085
Deficiency of revenues over expenditures	(1,309,858)
OTHER FINANCING SOURCES	
Capital lease proceeds	22,852
Transfers in (Note 1)	1,202,245
Total other financing sources	1,225,097
Net change in fund balance	(84,761)
FUND BALANCE AT JULY 1	12,675
FUND BALANCE AT JUNE 30	$ (72,086)

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

EXHIBIT 6

TOWN OF DAYTON, VIRGINIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

Net change in fund balance – total governmental fund		$ (84,761)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlays	$ 64,453	
Depreciation expense	(234,504)	
		(170,051)
Governmental funds report employer pension and OPEB contributions as expenditures. However, in the statement of activities the cost of pension and OPEB benefits earned net of employee contributions are reported as pension and OPEB expense.		
Change in employer pension contributions	(3,192)	
Pension expense	(1,839)	
Change in employer OPEB contributions	171	
OPEB expense	3,738	
		(1,122)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		2,089
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has an effect on net assets.		
Principal repayments		24,483
The net effect of the change in accrued interest is not reflected in the fund statements.		286
Long-term compensated absences and service benefits are reported in the statement of activities but they do not require the use of current financial resources and, therefore are not recorded as expenditures in governmental funds.		4,634
Change in net position of governmental activities		$ (224,442)

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

EXHIBIT 7

TOWN OF DAYTON, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2018

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES				
General property taxes	$ 107,000	$ 107,000	$ 117,467	$ 10,467
Other local taxes	392,250	392,250	450,665	58,415
Permits, privilege fees, and regulatory licenses	-	-	927	927
Fines and forfeitures	15,000	15,000	17,734	2,734
Revenues from the use of money and property	1,440	1,440	1,489	49
Charges for services	140,000	140,000	149,688	9,688
Intergovernmental	42,025	42,025	49,135	7,110
Recovered costs	-	-	11,432	11,432
Other	92,000	92,000	130,690	38,690
Total revenues	789,715	789,715	929,227	139,512
EXPENDITURES				
Current:				
General government administration	709,731	709,731	788,611	(78,880)
Public safety	713,687	713,687	721,982	(8,295)
Public works	223,400	223,400	224,177	(777)
Parks, recreation and cultural	433,248	433,248	368,535	64,713
Community development	91,900	91,900	85,124	6,776
Capital outlay	190,000	190,000	24,306	165,694
Debt service:				
Principal retirement	18,508	18,508	24,483	(5,975)
Interest and other fiscal charges	1,717	1,717	1,867	(150)
Total expenditures	2,382,191	2,382,191	2,239,085	143,106
Excess (deficiency) of revenues over expenditures	(1,592,476)	(1,592,476)	(1,309,858)	282,618
OTHER FINANCING SOURCES				
Transfers in	-	-	1,202,245	1,202,245
Total other financing sources	-	-	1,202,245	1,202,245
Net change in fund balance	$ (1,592,476)	$(1,592,476)	$ (107,613)	$ 1,484,863

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

EXHIBIT 8

TOWN OF DAYTON, VIRGINIA

STATEMENT OF NET POSITION –
PROPRIETARY FUND
June 30, 2018

	Enterprise Fund Water and Sewer
ASSETS	
Current assets:	
Cash and cash equivalents (Note 2)	$ 945,781
Investments (Note 2)	3,267,829
Accounts receivable, net (Note 3)	406,089
Inventories	31,524
Prepaids	656
Total current assets	4,651,879
Noncurrent assets:	
Investment in electric cooperative (Note 1)	97,238
Capital assets (Note 5)	
Nondepreciable	303,047
Depreciable, net	7,458,742
Total noncurrent assets	7,859,027
Total assets	12,510,906
DEFERRED OUTFLOWS OF RESOURCES	
Pension related deferred outflows (Note 8)	8,568
OPEB related deferred outflows (Note 10)	250
Total deferred outflows of resources	8,818
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	2,900
Accrued payroll and related liabilities	30,112
Deposits payable	6,990
Total current liabilities	40,002
Noncurrent liabilities:	
Net pension liability	19,406
Net OPEB liability	36,181
Compensated absences and service benefits (Note 7)	3,026
Total noncurrent liabilities	58,613
Total liabilities	98,615
DEFERRED INFLOWS OF RESOURCES	
Pension related deferred inflows (Note 8)	11,942
OPEB related deferred inflows (Note 10)	420
Total deferred inflows of resources	12,362
NET POSITION	
Net investment in capital assets	7,761,789
Unrestricted	4,646,958
Total net position	$ 12,408,747

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

TOWN OF DAYTON, VIRGINIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION – PROPRIETARY FUND
Year Ended June 30, 2018

	Enterprise Fund
	Water and Sewer
OPERATING REVENUES	
Charges for services	$ 3,590,526
Connection availability fees	74,986
Other	7,452
Total operating revenues	3,672,964
OPERATING EXPENSES	
Salaries and fringe beneftis	5,790
Maintenance	79,429
Utilities	132,288
Materials and supplies	42,992
Regional Sewer Authority assessment	1,570,964
Other	37,163
Depreciation	404,808
Total operating expenses	2,273,434
Operating income	1,399,530
NONOPERATING REVENUES	
Investment income	11,938
Income before transfers	1,411,468
TRANSFERS OUT (NOTE 1)	(1,202,245)
Change in net position	209,223
NET POSITION AT JULY 1, as restated (Note 11)	12,199,524
NET POSITION AT JUNE 30	$ 12,408,747

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

EXHIBIT 10

TOWN OF DAYTON, VIRGINIA

STATEMENT OF CASH FLOWS – PROPRIETARY FUND
Year Ended June 30, 2018

	Enterprise Fund Water and Sewer
OPERATING ACTIVITIES	
Receipts from customers	$ 3,658,170
Payments to suppliers	(2,026,792)
Payments to employees	(96,906)
Net cash provided by operating activities	1,534,472
NON-CAPITAL AND RELATED FINANCING ACTIVITIES	
Transfers to other funds	(1,202,245)
Net cash used in non-capital and related financing activities	(1,202,245)
INVESTING ACTIVITIES	
Purchase of investments	(1,376,674)
Interest received	44,044
Net cash used in investing activities	(1,332,630)
Net decrease in cash and cash equivalents	(1,000,403)
CASH AND CASH EQUIVALENTS	
Beginning at July 1	1,946,184
Ending at June 30	$ 945,781
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$ 1,399,530
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	404,808
Pension and OPEB expense net of employer contributions	(54,705)
Change in certain assets and liabilities:	
(Increase) decrease in:	
Accounts receivable, excluding interest receivable	(14,514)
Prepaids	(142)
Inventories	3,841
Investment in electric cooperative	(3,009)
Increase (decrease) in:	
Accounts payable and accrued liabilities	(164,646)
Accrued payroll and related liabilities	(31,971)
Deposits payable	(280)
Compensated absences and service benefits	(4,440)
Net cash provided by operating activities	$ 1,534,472

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

Note 1. Summary of Significant Accounting Policies

A. The Financial Reporting Entity

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

The Town provides a full range of municipal services including police, refuse collection, public improvements, planning and zoning, general administrative services, recreation, and water and sewer services. Fire and emergency medical services are provided by Rockingham County and supplemented by volunteer departments and agencies.

The Town established an Economic Development Authority (the "EDA") to promote greater economic vitality and prosperity for Town residents. The EDA is excluded from this report as activity has not commenced.

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. <u>Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)</u>

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

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

The Town reports the following major governmental fund:

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

The Town reports the following major proprietary fund:

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

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

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

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets and Budgetary Accounting

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

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

The Town spent funds in excess of budgeted amounts in five functional areas but did not exceed the budget for the general fund as illustrated in Exhibit 7.

E. Cash and Cash Equivalents

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

Note 1. Summary of Significant Accounting Policies (Continued)

F. Receivables

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

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

G. Property Taxes

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

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

H. Inventories

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

I. Prepaids

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

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Investment in Electric Cooperative

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

K. Capital Assets

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

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

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

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

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statements which present financial position report a separate section for deferred outflows of resources which represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements which represent financial condition report a separate section for deferred inflows of resources. This separate financial element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

L. Deferred Outflows/Inflows of Resources (Continued)

The Town has the following items that qualify for reporting as deferred inflows or outflows:

- Contributions subsequent to the measurement date for pensions and OPEB are always a deferred outflow; this will be applied to the net pension or OPEB liability in the next fiscal year.
- Differences between expected and actual experience for economic/demographic factors in the measurement of the total pension or OPEB liability. This difference will be recognized in pension or OPEB expense over the expected average remaining service life of all employees provided with benefits in the plan and may be reported as a deferred inflow or outflow as appropriate.
- Difference between projected and actual earnings on pension and OPEB plan investments. This difference will be recognized in pension or OPEB expense over a closed five year period and may be reported as a deferred outflow or inflow as appropriate.
- Changes of assumptions. This difference will be recognized in pension or OPEB expense over a closed five year period and may be reported as a deferred outflow or inflow as appropriate.
- Unavailable revenue occurs only under the modified accrual basis of accounting and is reported only in the governmental fund balance sheet. The governmental fund reports unavailable revenue from property taxes and other receivables not collected within 45 days of year end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Property taxes intended for future periods, recognized in both the government wide and fund statements as a deferred inflow of resources.

M. Pensions and Other Postemployment Benefits (OPEB)

For purposes of measuring all financial statement elements related to pension and OPEB plans, information about the fiduciary net position of the Town's Plans and the additions to/deductions from the Town's 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.

N. Compensated Absences

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

Note 1. Summary of Significant Accounting Policies (Continued)

O. Long-Term Debt

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

P. Net Position/Fund Balance

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

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

The classifications are as follows:

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

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

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Q. Restricted Resources

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

R. Cash Reserve Policy

Town Council has formally adopted by resolution a requirement to establish and maintain a reserve equal to a minimum of $2,400,000 to provide the Town adequate funds to pay sewer authority fees and six months of budgeted general fund expenditures. The purpose of the safety net reserve is to protect the Town from unplanned changes at its major utility customer. Funds are currently held in the water and sewer fund.

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

S. Interfund Transfers

The composition of interfund transfers is as follows:

Transfer Out Fund	Transfer In Fund	Amount
Water and Sewer	General Fund	$ 1,202,245

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

T. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. There are $286,903 of governmental encumbrances as of June 30th.

U. Estimates

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

(Continued)

Note 2. Deposits and Investments

Deposits

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

Investments

Investment Policy:

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

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

Type	Fair Value	Credit Rating	Percent of Portfolio
Demand deposits	$ 958,711	N/A	22.68 %
Certificates of deposit maturing in:			
More than three months	3,267,829	N/A	77.32
	$ 4,226,540		100.00 %

Reconciliation of deposits and investments to Exhibit 1:	
Cash and cash equivalents	$ 958,711
Investments	3,267,829
Total deposits and investments	$ 4,226,540

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Credit Risk:

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

Concentration of Credit Risk:

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

Interest Rate Risk:

As of June 30th, all certificates of deposit have original maturities ranging from July 2018 through November 2022. The Town does not have a formal policy limiting investment maturities.

Custodial Credit Risk:

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

(Continued)

Note 3. Receivables

Receivables are as follows:

	General	Water and Sewer	Total
Taxes	$ 60,269	$ -	$ 60,269
Accounts	99,751	396,188	495,939
Interest	-	9,901	9,901
	$ 160,020	$ 406,089	$ 566,109

Note 4. Due from Other Governmental Units

Amounts due from other governmental units are as follows:

Commonwealth of Virginia:	
Department of Taxation	$ 3,743
County of Rockingham, Virginia:	
Sales tax collected for the Town	12,708
	$ 16,451

(Continued)

Note 5. Capital Assets

Capital asset activity for the year was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	$ 859,916	$ -	$ -	$ 859,916
Construction in progress	1,750	59,308	-	61,058
Total capital assets, not depreciated	861,666	59,308		920,974
Capital assets, depreciated				
Buildings and improvements	2,929,973	-	-	2,929,973
Machinery and equipment	639,376	22,852	-	662,228
Vehicles	551,760	5,145	-	556,905
Land improvements	493,108	-	-	493,108
Infrastructure	1,267,075	-	-	1,267,075
Total capital assets, depreciated	5,881,292	27,997	-	5,909,289
Less accumulated depreciation:				
Buildings and improvements	624,917	67,803	-	692,720
Machinery and equipment	494,024	25,596	-	519,620
Vehicles	471,727	39,791	-	511,518
Land improvements	193,700	35,193	-	228,893
Infrastructure	221,854	66,121	-	287,975
Total accumulated depreciation	2,006,222	234,504	-	2,240,726
Total capital assets, depreciated, net	3,875,070	(206,507)	-	3,668,563
Governmental activities capital assets, net	$ 4,736,736	$ (147,199)	$ -	$ 4,589,537

(Continued)

Note 5. Capital Assets (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	$ 303,047	$ -	$ -	$ 303,047
Total capital assets, not depreciated	303,047	-	-	303,047
Capital assets, depreciated				
Utility systems	14,608,004	-	-	14,608,004
Total capital assets, depreciated	14,608,004	-	-	14,608,004
Less accumulated depreciation	6,744,454	404,808	-	7,149,262
Total capital assets, depreciated, net	7,863,550	(404,808)	-	7,458,742
Business-type activities capital assets, net	$ 8,166,597	$ (404,808)	$	$ 7,761,789

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government administration	$ 68,365
Public safety	42,189
Public works	81,043
Parks, recreation and cultural	42,907
Total depreciation expense – governmental activities	$ 234,504
Business-type activities	
Water and sewer	$ 404,808

Note 6. Unavailable and Unearned Revenue

The following is a summary of unavailable and unearned revenue:

Autumn Celebration deposits (unearned)	$ 29,508
Dayton Muddler deposits (unearned)	28,037
Total unearned revenue	$ 57,545
Property taxes intended for future periods	$ 56,949
Vehicle license tax (unavailable)	$ 12,584
Communications tax (unavailable)	1,865
Sales tax (unavailable)	6,607
Uncollected property tax billing (unavailable)	3,113
Total unavailable	$ 24,169

Note 7. Long-Term Liabilities

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

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
General obligation bonds:					
Dove Bond	$ 38,698	$ -	$ 19,063	$ 19,635	$ 19,635
Total general obligation bonds	38,698	-	19,063	19,635	19,635
Capital lease	-	22,852	5,420	17,432	5,611
Compensated absences and service benefits	36,591	-	4,634	31,957	-
Total governmental activities	$ 75,289	$ 22,852	$ 29,117	$ 69,024	$ 25,246

Details of outstanding long-term debt are as follows:

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

On July 31, 2017, the Town entered into a lease-purchase agreement with Hewlett-Packard Financial Services Company for acquisition of a server. Payments of $511 are being made monthly including interest at 3.62%. The lease matures June 30, 2021.

(Continued)

Note 7. Long-Term Liabilities (Continued)

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

Fiscal Year	Principal	Interest
2019	$ 25,246	$ 907
2020	5,808	318
2021	6,013	113
	$ 37,067	$ 1,338

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

Note 8. Defined Benefit Pension Plan

Plan Description

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

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

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

- **Hybrid Opt-In Election** – VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **Retirement Contributions –** Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution, but all employees will be paying the full 5.00% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.
- **Creditable Service –** Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.
- **Vesting –** Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.
- **Calculating the Benefit –** The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.
- **Average Final Compensation –** A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier –** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.
- **Normal Retirement Age –** Age 65 or age 60 for hazardous duty employees.
- **Earliest Unreduced Retirement Eligibility –** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service for hazardous duty employees.

(Continued)

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **Earliest Reduced Retirement Eligibility –** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. Age 50 with at least five years of creditable service for hazardous duty employees.
- **Cost-of-Living Adjustment (COLA) in Retirement –** The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%.
    - **Eligibility** – For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.
    - **Exceptions to COLA Effective Dates** – The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:
        - The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
        - The member retires on disability.
        - The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
        - The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
        - The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.
- **Disability Coverage** – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
- **Purchase of Prior Service** – Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

(Continued)

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

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

- **Hybrid Opt-In Election** – Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.
- **Retirement Contributions** – Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction.
- **Creditable Service** – Same as Plan 1.
- **Vesting** – Same as Plan 1.
- **Calculating the Benefit** – See definition under Plan 1.
- **Average Final Compensation** – A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier** – Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013. Sheriffs, regional jail superintendents, and hazardous duty employees are same as Plan 1.
- **Normal Retirement Age** – Normal Social Security retirement age. Hazardous duty employees are the same as Plan 1.
- **Earliest Unreduced Retirement Eligibility** – Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. Hazardous duty employees are the same as Plan 1.
- **Earliest Reduced Retirement Eligibility** – Age 60 with at least five years (60 months) of creditable service. Hazardous duty employees are the same as Plan 1.
- **Cost-of-Living Adjustment (COLA) in Retirement** – The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.
    - **Eligibility** – Same as Plan 1.

(Continued)

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 2 (Continued)

- **Cost-of-Living Adjustment (COLA) in Retirement (Continued)**
  - **Exceptions to COLA Effective Dates –** Same as Plan 1.
- **Disability Coverage –** Same as Plan 1 except that the retirement multiplier is 1.65%.
- **Purchase of Prior Service –** Same as Plan 1.

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

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

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

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

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Service Retirement Multiplier –** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. This is not applicable to sheriffs, regional jail superintendents, or hazardous duty employees.
- **Normal Retirement Age –**
  - **Defined Benefit Component –** Same as Plan 2, however, not applicable for hazardous duty employees.
  - **Defined Contribution Component –** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Unreduced Retirement Eligibility –**
  - **Defined Benefit Component –** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. This is not applicable to hazardous duty employees.
  - **Defined Contribution Component –** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Reduced Retirement Eligibility –**
  - **Defined Benefit Component –** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. This is not applicable to hazardous duty employees.
  - **Defined Contribution Component –** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Cost-of-Living Adjustment (COLA) in Retirement –**
  - **Defined Benefit Component –** Same as Plan 2.
  - **Defined Contribution Component –** Not Applicable.
  - **Eligibility –** Same as Plan 1 and 2.
  - **Exceptions to COLA Effective Dates –** Same as Plan 1 and 2.
- **Disability Coverage –** Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

(Continued)

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Purchase of Prior Service –**
  - **Defined Benefit Component** – Same as Plan 1, with the following exceptions:
    - Hybrid Retirement Plan members are ineligible for ported service.
  - **Defined Contribution Component** – Not Applicable.

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	11
Inactive members:	
Vested inactive members	3
Non-vested inactive members	-
Inactive members active elsewhere in VRS	9
Total inactive members	12
Active members	16
Total covered employees	39

Note 8. Defined Benefit Pension Plan (Continued)

Contributions

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

The political subdivision's contractually required contribution rate for the year ended June 30, 2018 was 10.9% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were $85,917 and $82,752 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability

The political subdivision's net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

(Continued)

Note 8. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2016, 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, 2017.

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

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

Mortality rates: General employees – 15 to 20% of deaths are assumed to be service related. Public Safety Employees – 70% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2014 Mortality Table Projected to 2020 with various setbacks or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees – Largest 10 – Non-Hazardous Duty and All Others (Non 10 Largest): Update mortality table; lowered retirement rates at older ages, changed final retirement from 70 to 75; lowered disability rates, no change to salary scale, increased rate of line of duty disability from 14% to 20%.

Public Safety Employees – Largest 10 – Hazardous Duty and All Others (Non 10 Largest): Update mortality table; adjustment to rates of retirement by increasing rate at 50 and lowering rate at older ages; adjusted rates of withdrawal and disability to better fit experience; changes to line of duty rates, and no changes to salary scale.

Note 8. Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00 %	4.54 %	1.82 %
Fixed Income	15.00	0.69	0.10
Credit Strategies	15.00	3.96	0.59
Real Assets	15.00	5.76	0.86
Private Equity	15.00	9.53	1.43
Total	100.00 %		4.80 %
Inflation			2.50 %
*Expected arithmetic nominal return			7.30 %

* The above allocation provides for a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.5%.

Note 8. Defined Benefit Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2016, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 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, 2016	$ 3,129,598	$ 2,557,815	$ 571,783
Changes for the year:			
Service cost	104,350	-	104,350
Interest	214,347	-	214,347
Changes of assumptions	(23,806)	-	(23,806)
Differences between expected and actual experience	(112,947)	-	(112,947)
Contributions – employer	-	82,752	(82,752)
Contributions – employee	-	37,711	(37,711)
Net investment income	-	311,886	(311,886)
Benefit payments, including refunds of employee contributions	(135,009)	(135,009)	-
Administrative expenses	-	(1,779)	1,779
Other changes	-	(279)	279
Net changes	46,935	295,282	(248,347)
Balances at June 30, 2017	$ 3,176,533	$ 2,853,097	$ 323,436

(Continued)

Note 8. Defined Benefit Pension Plan (Continued)

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Political subdivision's net pension liability	$ 736,190	$ 323,436	$ (19,777)

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

For the year ended June 30, 2018, the political subdivision recognized pension expense of $36,724. At June 30, 2018, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 56,887	$ 139,936
Change in assumptions	-	17,525
Net difference between projected and actual earnings on pension plan investments	-	41,566
Employer contributions subsequent to the measurement date	85,917	-
Total	$ 142,804	$ 199,027

(Continued)

Note 8. Defined Benefit Pension Plan (Continued)

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

The $85,917 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
2019	$ (67,852)
2020	(25,100)
2021	(22,504)
2022	(26,684)
2023	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

At June 30, 2018, approximately $7,500 was payable to the Virginia Retirement System for the legally required contributions related to June 2018 payroll.

Note 9. Other Postemployment Benefits Liability – Local Plan

Plan Description

The Town provides post-employment medical coverage for retired employees through a single-employer defined benefit plan. The plan is established under the authority of Town Council, which may also amend the plan as deemed appropriate.

(Continued)

Note 9. Other Postemployment Benefits Liability – Local Plan (Continued)

Plan Description (Continued)

Participants in the Town's OPEB plan must meet eligibility requirements based on service earned with the Town to be eligible to receive benefits upon retirement. Participants who do not retire directly from active service are not eligible for the benefit. Participants must meet eligibility for retirement or disability retirement with VRS to be eligible for health benefits.

Health benefits include medical, dental, and vision insurance. Retirees may also elect to cover eligible spouses and/or dependents. Participating retirees pay 100% of the monthly premium cost to continue with the Town's insurance plans. Benefits end at the earlier of the retiree's death or attainment of age 65.

Employees Covered by Benefit Terms

As of the June 30, 2018 actuarial valuation, the following employees were covered by the benefit terms of the plan:

	Number
Inactive employees or beneficiaries:	
Currently receiving benefits	1
Entitled to but not yet receiving benefits	-
Total inactive employees	1
Active plan members	12
	13

Total OPEB Liability

The Town's total OPEB liability of $541,023 was measured as of June 30, 2018 and was determined based on an actuarial valuation performed as of June 30, 2018.

Note 9. Other Postemployment Benefits Liability – Local Plan (Continued)

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Payroll
Inflation	3.50%
Salary increases, including inflation	2.00%
Healthcare cost trend rates	Vision 3.00% Dental 3.00-3.50% Medical 4.60-4.80%
Retirees' share of benefit-related costs	100%

Mortality rates: RP2000 Mortality Table for males and females projected 18 years; this assumption does not include a margin for future improvements in longevity.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an internal analysis performed during 2018.

Changes in the Total OPEB Liability

Balance at June 30, 2017	$ 541,023
Changes for the year:	
Service cost	79,138
Benefit payments	(79,138)
Net changes	-
Balance at June 30, 2018	$ 541,023

Note 9. Other Postemployment Benefits Liability – Local Plan (Continued)

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

The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.50%) or one percentage point higher (4.50%) than the current discount rate:

	1.00% Decrease (2.50%)	Current Discount Rate (3.50%)	1.00% Increase (4.50%)
Total OPEB liability	$ 624,238	$ 541,023	$ 470,579

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

The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (3.60%) or one percentage point higher (5.60%) than the current healthcare cost trend rates:

	1.00% Decrease (3.60%)	Current Healthcare Cost Trend Rates (4.60%)	1.00% Increase (5.60%)
Total OPEB liability	$ 458,509	$ 541,023	$ 643,975

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

For the year ended June 30, 2018, the Town did not have any OPEB expense. At June 30, 2018, the political subdivision did not have deferred outflows of resources and deferred inflows of resources related to OPEB to report.

Note 10. Other Postemployment Benefits Liability – Virginia Retirement System Plans

In addition to their participation in the pension plans offered through the Virginia Retirement System (VRS), the Town also participates in one cost-sharing other postemployment benefit plan, described as follows.

Plan Description

Group Life Insurance Program

All full-time teachers and employees of political subdivisions are automatically covered by the VRS Group Life Insurance (GLI) Program upon employment.

In addition to the Basic Group Life Insurance Benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the GLI Program OPEB.

Specific information for the GLI is available at https://www.varetire.org/members/benefits/life-insurance/basic-group-life-insurance.asp

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

Contributions

Contributions to the VRS OPEB programs were based on actuarially determined rates from actuarial valuations as of June 30, 2015. The actuarially determined rates were expected to finance the cost of benefits earned by employees during the year, with an additional amount to fund any unfunded accrued liability. Specific details related to the contributions for the VRS OPEB programs are as follows:

Group Life Insurance Program

Governed by:	*Code of Virginia* 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.
Total rate:	1.31% of covered employee compensation. Rate allocated 60/40; 0.79% employee and 0.52% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2018 Contribution	$4,161
June 30, 2017 Contribution	$3,979

(Continued)

Note 10. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

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

The net OPEB liabilities were measured as of June 30, 2017 and the total OPEB liabilities used to calculate the net OPEB liabilities were determined by actuarial valuations as of that date. The covered employer's proportion of the net OPEB liabilities were based on the covered employer's actuarially determined employer contributions for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program

June 30, 2018 proportionate share of liability	$62,000
June 30, 2017 proportion	0.00415%
June 30, 2016 proportion	0.00418%
June 30, 2018 expense	$-

Since there was a change in proportionate share between measurement dates, a portion of the OPEB expense above was related to deferred amount from changes in proportion.

At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

Group Life Insurance Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,000
Changes of assumptions	-	3,000
Net difference between projected and actual earnings on OPEB plan investments	-	2,000
Changes in proportion	-	-
Employer contributions subsequent to the measurement date	4,161	-
Total	$ 4,161	$ 7,000

The deferred outflows of resources related to OPEB resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Note 10. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

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

Group Life Insurance Program

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2019	$ (1,000)
2020	(1,000)
2021	(1,000)
2022	(1,000)
2023	(1,000)
Thereafter	(2,000)

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2016, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017:

Inflation	2.5%
Salary increases, including inflation:	
• Locality- general employees	3.5 – 5.35%
• Locality – hazardous duty employees	3.5 – 4.75%
Healthcare cost trend rates:	
• Under age 65	7.75 – 5.00%
• Ages 65 and older	5.75 – 5.00%
Investment rate of return, net of expenses, including inflation*	7.0%

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment rate for GASB purposes of slightly more than the assumed percent above. However, since the difference was minimal, and a more conservative 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 the percent noted above to simplify preparation of OPEB liabilities.

(Continued)

Note 10. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Actuarial Assumptions and Other Inputs (Continued)

Mortality rates used for the various VRS OPEB plans are the same as those used for the actuarial valuations of the VRS pension plans. The mortality rates are discussed in detail at Note 8.

Net OPEB Liabilities

The net OPEB liabilities represents the VRS total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, net OPEB liability amounts are as follows (amounts expressed in thousands):

	Group Life Insurance Program
Total OPEB Liability	$ 2,942,426
Plan fiduciary net position	1,437,586
Employers' net OPEB liability (asset)	$ 1,504,840
Plan fiduciary net position as a percentage of total OPEB liability	48.86%

The total liability is calculated by the VRS actuary and each plan's fiduciary net position is reported in the VRS financial statements. The net OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the VRS notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on VRS investments was determined in a manner similar to that of the VRS pension described in Note 7.

Discount Rate

The discount rate used to measure the GLI OPEB 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 Guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the OPEB liabilties will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the OPEB plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

Note 10. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

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

The following presents the net OPEB liabilities of the Town, as well as what the Town's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
GLI Net OPEB liability	$ 80,000	$ 62,000	$ 47,000

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the OPEB Plan

At June 30, 2018, the Town had $16 payable to the Virginia Retirement System for the legally required contributions related to June 2018 payroll.

Note 11. Adoption of New Standard and Prior Period Restatement

In the current year the Town adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard replaces the requirements of GASB Statement No. 45 as it relates to governments that provide postemployment benefits other than pensions. The new Statement requires governments providing defined benefit postemployment benefits to recognize the long-term obligation for those benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of other postemployment benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the plans are determined, and assumptions and methods used to calculate the liability. Comparative prior year information, to the extent presented, has not been restated because the necessary information is not available.

Note 11. Adoption of New Standard and Prior Period Restatement (Continued)

	Governmental Activities	Water and Sewer Fund
Net position, June 30, 2017, as previously reported	$ 4,346,674	$ 12,236,125
Recognition of other post-employment benefit related liabilities and related deferred outflows/inflows in accordance with GASB No. 75	(573,422)	(36,601)
Net position, June 30, 2017, as restated	$ 3,773,252	$ 12,199,524

Note 12. Jointly Governed Organization

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

Based on the current average usage, the Town's total assessment for the Authority's operating, debt service and capital expenditures for fiscal year 2019 approximates $1,680,000.

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

Note 13. Major Customer

The Town has one major water and sewer customer. For the current year, water and sewer revenue from this customer was approximately $3,300,000 or 90% of water and sewer operating revenues. Accounts receivable from this customer amounted to approximately $259,000 or 92% of water and sewer receivables at June 30, 2018.

Note 14. Risk Management

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

(Continued)

Note 14. Risk Management (Continued)

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

Note 15. New Accounting Standards

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

The GASB issued **Statement No. 83**, *Certain Asset Retirement Obligations* in November 2016. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The requirements of this Statement are effective for periods beginning after June 15, 2018.

The GASB issued **Statement No. 84**, *Fiduciary Activities* in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2018.

The GASB issued **Statement No. 87**, *Leases* in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for periods beginning after December 15, 2019.

The GASB issued **Statement No. 88**, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* in March 2018. This Statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The requirements of this Statement are effective for periods beginning after June 15, 2018.

(Continued)

Note 15. New Accounting Standards (Continued)

The GASB issued **Statement No. 90**, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61* in August 2018. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.
The requirements of this Statement are effective for periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

Management has not determined the effects these new GASB Statements may have on prospective financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT 11

TOWN OF DAYTON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
June 30, 2018

	Plan Year			
	2017	**2016**	**2015**	**2014**
Total Pension Liability				
Service cost	$ 104,350	$ 92,920	$ 119,570	$ 125,709
Interest on total pension liability	214,347	196,059	196,686	185,843
Changes of assumptions	(23,806)	-	-	-
Difference between expected and actual experience	(112,947)	107,453	(149,892)	-
Benefit payments, including refunds of employee contributions	(135,009)	(135,354)	(215,295)	(97,998)
Net change in total pension liability	46,935	261,078	(48,931)	213,554
Total pension liability - beginning	3,129,598	2,868,520	2,917,451	2,703,897
Total pension liability - ending	$ 3,176,533	$ 3,129,598	$ 2,868,520	$ 2,917,451
Plan Fiduciary Net Position				
Contributions - employer	$ 82,752	$ 93,620	$ 102,969	$ 105,318
Contributions - employee	37,711	37,308	41,188	43,701
Net investment income	311,886	44,324	112,192	335,753
Benefit payments, including refunds of employee contributions	(135,009)	(135,354)	(215,295)	(97,998)
Administrative expenses	(1,779)	(1,546)	(1,586)	(1,749)
Other	(279)	(19)	(24)	18
Net change in plan fiduciary net position	295,282	38,333	39,444	385,043
Plan fiduciary net position - beginning	2,557,815	2,519,482	2,480,038	2,094,995
Plan fiduciary net position - ending	$ 2,853,097	$ 2,557,815	$ 2,519,482	$ 2,480,038
Net pension liability - ending	$ 323,436	$ 571,783	$ 349,038	$ 437,413
Plan fiduciary net position as a percentage of total pension liability	90%	82%	88%	85%
Covered employee payroll	$ 660,168	$ 801,047	$ 816,778	$ 874,018
Net pension liability as a percentage of covered employee payroll	49%	71%	43%	50%

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year - i.e., plan year 2014 information was presented in the entity's fiscal year 2015 financial report.

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

EXHIBIT 12

TOWN OF DAYTON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2018

Town Fiscal Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a percentage of Covered Payroll
2018	$ 85,917	$ 85,917	$ -	$ 788,229	10.90%
2017	82,752	82,752	-	660,168	12.53%
2016	93,620	93,620	-	801,047	11.69%
2015	102,969	102,969	-	816,778	12.61%

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

The covered payroll amounts above are for the fiscal year - i.e. the covered payroll on which required contributions were based for the same year.

EXHIBIT 13

TOWN OF DAYTON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
June 30, 2018

Entity Fiscal Year Ended June 30	Employer's Proportion of the Net OPEB Liability (Asset)	Employer's Proportionate Share of the Net OPEB Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
Virginia Retirement System - Group Life Insurance - General Employees					
2018	0.00415%	$ 62,000	$ 788,229	7.87%	48.86%

EXHIBIT 14

SCHEDULE OF OPEB CONTRIBUTIONS
June 30, 2018

Entity Fiscal Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
Virginia Retirement System - Group Life Insurance - General Employees					
2018	$ 4,161	$ 4,161	$ -	$ 788,229	0.53%

Schedules are intended to show information for 10 years. Since 2018 was the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

The covered payroll amounts above are for the entity's fiscal year - i.e. the covered payroll on which required contributions were based for the same year.

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

TOWN OF DAYTON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
June 30, 2018

	Plan Year 2017 Local Plan
Total OPEB Liability	
Service cost	$ 79,138
Benefit payments	(79,138)
Net change in total OPEB liability	-
Total OPEB liability - beginning	541,023
Total OPEB liability - ending	$ 541,023
Covered payroll	$ 660,168
Net OPEB liability as a percentage of covered payroll	82%

The plan year above is reported in the entity’s financial statements in the fiscal year following the plan year - i.e., plan year 2017 information was presented in the entity's fiscal year 2018 financial report.

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

Note 1. Changes of Benefit Terms

Pension

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

Other Postemployment Benefits (OPEB)

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Note 2. Changes of Assumptions

The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 – Non-Hazardous Duty:
- Update mortality table
- Lowered in rates of service retirement
- Update withdrawal rates to better fit experience
- Lowered in rates of disability retirement
- No changes to salary rates
- Increase Line of Duty Disability rates
- Applicable to: Pension and GLI OPEB

Largest 10 –Hazardous Duty/Public Safety Employees:
- Update mortality table
- Lowered rates of retirement at older ages
- Update withdrawal rates to better fit experience
- Increased disability rates
- No changes to salary rates
- Increased Line of Duty disability rates
- Applicable to: Pension and GLI OPEB

All Others (Non 10 Largest) – Non-Hazardous Duty:
- Update mortality table
- Lowered rates of retirement at older ages and changed final retirement from 70 to 75
- Update withdrawal rates to better fit experience
- Lowered disability rates
- No changes to salary rates
- Increased Line of Duty disability rates from 14% to 15%
- Applicable to: Pension and GLI OPEB

(Continued)

Note 2. Changes of Assumptions (Continued)

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

- Update mortality table
- Increased retirement rate at age 50 and lowered rates at older ages
- Update withdrawal rates to better fit experience
- Update disability rates to better fit experience
- No changes to salary rates
- Lowered Line of Duty rate from 60% to 45%
- Applicable to: Pension and GLI OPEB

COMPLIANCE SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Dayton, Virginia (the "Town"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated April 2, 2019.

Internal Control over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Town of Dayton's Response to Findings

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

Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
April 2, 2019

TOWN OF DAYTON, VIRGINIA

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2018

A. FINDINGS – FINANCIAL STATEMENT AUDIT

2012-001: Segregation of Duties (Material Weakness)

Condition:

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

Recommendation:

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

Management's Response:

Management understands the concern expressed with this finding and is working to correct these issues. In the subsequent fiscal year, an additional position has been authorized by Council to provide for additional segregation of duties and additional oversight of all financial functions.

2017-001: Council Oversight (Material Weakness)

Condition:

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

Recommendation:

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

Management's Response:

Management has provided budget to actual reports for Council in FY19. Budget and actual transfer amounts between funds were included in each month's report. Separate fund budgets will be adopted with the budget effective July 1, 2019.

2017-002: Bank Reconciliations (Material Weakness)

Condition:

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

Recommendation:

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

A. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

2017-002: Bank Reconciliations (Material Weakness) (Continued)

Management's Response:

Council authorized contracting with an outside independent accountant to assist Town accounting staff in completing financial transactions, review and reporting. Completing bank reconciliations is one task assigned to the outside accountant. As such, the reconciliations were prepared in a timely manner beginning in February 2018. The Treasurer or Town Superintendent now review the bank reconciliation report from the independent accountant. As the Town fully staffs its finance function, bank reconciliations will again be prepared by internal staff with appropriate cross-training of personnel.