

TOWN OF DAYTON, VIRGINIA

FINANCIAL REPORT

June 30, 2016

TOWN OF DAYTON, VIRGINIA

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INTRODUCTORY SECTION

TOWN OF DAYTON, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS

June 30, 2016

TOWN COUNCIL

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

APPOINTED OFFICIALS

Robert Popowicz, Jr. Town Manager
Justin Moyers Treasurer
Daniel Hanlon Chief of Police

INDEPENDENT AUDITORS

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

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Town of Dayton, Virginia, (the "Town") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Dayton, Virginia, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2016 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
September 19, 2016

BASIC FINANCIAL STATEMENTS

TOWN OF DAYTON, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2016

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents (Note 2)	\$ 12,946	\$ 1,570,967	\$ 1,583,913
Investments (Note 2)	-	1,505,555	1,505,555
Receivables (Note 3)	126,630	408,528	535,158
Due from other governmental units (Note 4)	320,514	-	320,514
Inventories	-	96,773	96,773
Prepays	32,393	2,225	34,618
Investment in electric cooperative (Note 1)	2,535	90,273	92,808
Capital assets: (Note 5)			
Nondepreciable	1,592,476	938,544	2,531,020
Depreciable, net	3,160,842	7,209,095	10,369,937
Total assets	<u>5,248,336</u>	<u>11,821,960</u>	<u>17,070,296</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension contributions subsequent to measurement date (Note 8)	84,284	15,847	100,131
LIABILITIES			
Accounts payable and accrued liabilities	25,950	99,616	125,566
Accrued payroll and related liabilities	42,981	10,899	53,880
Accrued interest	2,862	-	2,862
Deposits payable	-	7,460	7,460
Unearned revenue (Note 6)	38,073	-	38,073
Noncurrent liabilities:			
Net pension liability (Note 8)	293,192	55,846	349,038
Other noncurrent liabilities due within one year (Note 7)	68,599	-	68,599
Other noncurrent liabilities due in more than one year (Note 7)	75,099	9,689	84,788
Total liabilities	<u>546,756</u>	<u>183,510</u>	<u>730,266</u>
DEFERRED INFLOWS OF RESOURCES			
Property taxes for future periods (Note 6)	54,755	-	54,755
Pension related deferred inflows (Note 8)	154,722	29,470	184,192
Total deferred inflows of resources	<u>209,477</u>	<u>29,470</u>	<u>238,947</u>
NET POSITION			
Net investment in capital assets	4,646,022	8,147,639	12,793,661
Unrestricted	(69,635)	3,477,188	3,407,553
Total net position	<u>\$ 4,576,387</u>	<u>\$ 11,624,827</u>	<u>\$ 16,201,214</u>

TOWN OF DAYTON, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Governmental activities							
General government administration	\$ 540,420	\$ 2,519	\$ -	\$ -	\$ (537,901)	\$ -	\$ (537,901)
Public safety	724,651	15,977	46,715	-	(661,959)	-	(661,959)
Public works	479,155	145,962	-	325,234	(7,959)	-	(7,959)
Parks, recreation, and cultural	230,632	72,701	-	-	(157,931)	-	(157,931)
Community development	100,657	-	-	-	(100,657)	-	(100,657)
Interest on long-term debt	8,543	-	-	-	(8,543)	-	(8,543)
Total governmental activities	<u>2,084,058</u>	<u>237,159</u>	<u>46,715</u>	<u>325,234</u>	<u>(1,474,950)</u>	<u>-</u>	<u>(1,474,950)</u>
Business-type activities							
Water and sewer	2,420,856	3,504,615	-	368,683	-	1,452,442	1,452,442
Total business-type activities	<u>2,420,856</u>	<u>3,504,615</u>	<u>-</u>	<u>368,683</u>	<u>-</u>	<u>1,452,442</u>	<u>1,452,442</u>
Total primary government	<u>\$ 4,504,914</u>	<u>\$ 3,741,774</u>	<u>\$ 46,715</u>	<u>\$ 693,917</u>	<u>(1,474,950)</u>	<u>1,452,442</u>	<u>(22,508)</u>
General revenues and transfers:							
					107,904	-	107,904
					425,845	-	425,845
					242	50,876	51,118
					30,057	-	30,057
					1,476,587	(1,476,587)	-
					<u>2,040,635</u>	<u>(1,425,711)</u>	<u>614,924</u>
					565,685	26,731	592,416
					<u>4,010,702</u>	<u>11,598,096</u>	<u>15,608,798</u>
					<u>\$ 4,576,387</u>	<u>\$ 11,624,827</u>	<u>\$ 16,201,214</u>

TOWN OF DAYTON, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2016

	General
ASSETS	
Cash and cash equivalents (Note 2)	\$ 12,946
Receivables, net (Note 3)	126,630
Due from other governmental units (Note 4)	320,514
Prepays	32,393
Total assets	\$ 492,483
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	
Liabilities:	
Accounts payable and accrued liabilities	\$ 25,950
Accrued payroll and related liabilities	42,981
Unearned revenue (Note 6)	38,073
Total liabilities	107,004
Deferred inflows of resources:	
Deferred property tax revenue (Note 6)	54,755
Unavailable revenue (Note 6)	13,492
Total deferred inflows of resources	68,247
Fund balances:	
Nonspendable - prepaids	32,393
Committed - public safety	5,020
Assigned - community development	11,646
Unassigned	268,173
Total fund balances	317,232
Total liabilities, deferred inflows of resources, and fund balances	\$ 492,483

TOWN OF DAYTON, VIRGINIA

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2016**

Ending fund balance – governmental fund		\$ 317,232
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the fund.</p>		
Nondepreciable capital assets	\$ 1,592,476	
Depreciable capital assets, net	<u>3,160,842</u>	
		4,753,318
<p>Investment in electric cooperative is not available in the current period and therefore is not reported in the fund.</p>		
		2,535
<p>Certain revenues are not available to pay for current period expenditures and are not reported in the fund.</p>		
		13,492
<p>Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the fund.</p>		
Deferred outflows of resources for 2016 employer contributions	84,284	
Deferred inflows of resources related to pension	<u>(154,722)</u>	
		(70,438)
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund.</p>		
Accrued interest payable	(2,862)	
Compensated absences and service benefits	(36,402)	
Net pension liability	(293,192)	
Long-term debt	<u>(107,296)</u>	
		<u>(439,752)</u>
Total net position – governmental activities		<u><u>\$ 4,576,387</u></u>

TOWN OF DAYTON, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
Year Ended June 30, 2016

	General
REVENUES	
General property taxes	\$ 107,941
Other local taxes	425,845
Permits, privilege fees, and regulatory licenses	1,199
Fines and forfeitures	15,977
Revenues from the use of money and property	1,481
Charges for services	145,962
Intergovernmental	371,948
Recovered costs	20,931
Other	81,827
Total revenues	1,173,111
EXPENDITURES	
Current:	
General government administration	417,375
Public safety	677,011
Public works	431,763
Parks, recreation and cultural	188,500
Community development	100,657
Capital outlay	462,952
Debt service:	
Principal retirement	104,050
Interest and other fiscal charges	11,164
Total expenditures	2,393,472
Excess (deficiency) of revenues over expenditures	(1,220,361)
OTHER FINANCING SOURCES	
Proceeds from sale of capital assets	15,627
Transfers in (Note 1)	1,476,587
Total other financing sources	1,492,214
Net change in fund balance	271,853
FUND BALANCE AT JULY 1, as restated (Note 9)	45,379
FUND BALANCE AT JUNE 30	\$ 317,232

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, 2016**

Net change in fund balance – total governmental fund		\$ 271,853
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	\$ 458,257	
Depreciation expense	<u>(210,843)</u>	247,414
In the statement of activities, only the <i>gain or loss</i> on the sale of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balances by the cost of the property sold.		
		(112,963)
Governmental funds report employer pension contributions as expenditures. However, in the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense.		
Change in employer pension contributions	(1,499)	
Pension expense	<u>45,431</u>	43,932
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
		42
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		104,050
The net effect of the change in accrued interest is not reflected in the fund statements.		
		2,621
Long-term compensated absences and service benefits are reported in the statement of activities but they do not require the use of current financial resources and, therefore are not recorded as expenditures in governmental funds.		
		<u>8,736</u>
Change in net position of governmental activities		<u>\$ 565,685</u>

TOWN OF DAYTON, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
REVENUES				
General property taxes	\$ 106,000	\$ 106,000	\$ 107,941	\$ 1,941
Other local taxes	390,250	381,250	425,845	44,595
Permits, privilege fees, and regulatory licenses	-	-	1,199	1,199
Fines and forfeitures	15,000	15,000	15,977	977
Revenues from the use of money and property	1,440	1,440	1,481	41
Charges for services	127,000	127,000	145,962	18,962
Intergovernmental	250,025	390,025	371,948	(18,077)
Recovered costs	3,000	19,000	20,931	1,931
Other	63,000	63,000	81,827	18,827
Total revenues	<u>955,715</u>	<u>1,102,715</u>	<u>1,173,111</u>	<u>70,396</u>
EXPENDITURES				
Current:				
General government administration	398,485	459,485	417,375	42,110
Public safety	673,898	695,281	677,011	18,270
Public works	481,098	487,798	431,763	56,035
Parks, recreation and cultural	198,958	222,458	188,500	33,958
Community development	89,500	98,000	100,657	(2,657)
Capital outlay	350,000	537,000	462,952	74,048
Debt service:				
Principal retirement	104,052	104,052	104,050	2
Interest and other fiscal charges	11,166	11,166	11,164	2
Total expenditures	<u>2,307,157</u>	<u>2,615,240</u>	<u>2,393,472</u>	<u>221,768</u>
Excess (deficiency) of revenues over expenditures	<u>(1,351,442)</u>	<u>(1,512,525)</u>	<u>(1,220,361)</u>	<u>292,164</u>
OTHER FINANCING SOURCES				
Proceeds from sale of capital assets	-	15,000	15,627	627
Transfers in	1,351,442	1,497,525	1,476,587	(20,938)
Total other financing sources	<u>1,351,442</u>	<u>1,512,525</u>	<u>1,492,214</u>	<u>(20,311)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 271,853</u>	<u>\$ 271,853</u>

TOWN OF DAYTON, VIRGINIA
STATEMENT OF NET POSITION –
PROPRIETARY FUND
June 30, 2016

	<u>Enterprise Fund</u> <u>Water and Sewer</u>
ASSETS	
Current assets:	
Cash and cash equivalents (Note 2)	\$ 1,570,967
Investments (Note 2)	1,505,555
Accounts receivable, net (Note 3)	408,528
Inventories	96,773
Prepays	2,225
Total current assets	3,584,048
Noncurrent assets:	
Investment in electric cooperative (Note 1)	90,273
Capital assets (Note 5)	
Nondepreciable	938,544
Depreciable, net	7,209,095
Total noncurrent assets	8,237,912
Total assets	11,821,960
DEFERRED OUTFLOWS OF RESOURCES	
Pension contributions subsequent to measurement date	15,847
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	99,616
Accrued payroll and related liabilities	10,899
Deposits payable	7,460
Total current liabilities	117,975
Noncurrent liabilities:	
Net pension liability	55,846
Compensated absences and service benefits (Note 7)	9,689
Total noncurrent liabilities	65,535
Total liabilities	183,510
DEFERRED INFLOWS OF RESOURCES	
Pension related deferred inflows (Note 8)	29,470
NET POSITION	
Net investment in capital assets	8,147,639
Unrestricted	3,477,188
Total net position	\$ 11,624,827

TOWN OF DAYTON, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET POSITION – PROPRIETARY FUND
Year Ended June 30, 2016**

	<u>Enterprise Fund</u> <u>Water and Sewer</u>
OPERATING REVENUES	
Charges for services (Note 11)	\$ 3,413,772
Connection availability fees	67,500
Other	23,343
	3,504,615
OPERATING EXPENSES	
Salaries	151,469
Fringe benefits	38,912
Maintenance	266,308
Utilities	149,041
Materials and supplies	24,279
Regional Sewer Authority assessment	1,382,716
Other	26,129
Depreciation	382,002
	2,420,856
Total operating expenses	2,420,856
Operating income	1,083,759
NONOPERATING REVENUES (EXPENSES)	
Investment income	50,876
	50,876
Net nonoperating revenues (expenses)	50,876
Income before contributions and transfers	1,134,635
CAPITAL CONTRIBUTIONS	368,683
TRANSFERS OUT (NOTE 4)	(1,476,587)
	26,731
Change in net position	26,731
NET POSITION AT JULY 1, as restated (Note 9)	11,598,096
NET POSITION AT JUNE 30	\$ 11,624,827

TOWN OF DAYTON, VIRGINIA

STATEMENT OF CASH FLOWS – PROPRIETARY FUND
Year Ended June 30, 2016

	<u>Enterprise Fund</u> <u>Water and Sewer</u>
OPERATING ACTIVITIES	
Receipts from customers	\$ 3,488,928
Payments to suppliers	(1,767,323)
Payments to employees	(194,305)
Net cash provided by operating activities	<u>1,527,300</u>
NON-CAPITAL AND RELATED FINANCING ACTIVITIES	
Transfers to other funds	<u>(1,476,587)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	<u>(198,523)</u>
Net cash used in capital and related financing activities	<u>(198,523)</u>
INVESTING ACTIVITIES	
Sale of investments	841,609
Interest received	11,481
Net cash provided by investing activities	<u>853,090</u>
Net increase in cash and cash equivalents	705,280
CASH AND CASH EQUIVALENTS	
Beginning at July 1	<u>865,687</u>
Ending at June 30	<u>\$ 1,570,967</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 1,083,759
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	382,002
Pension expense net of employer contributions	(8,188)
Change in certain assets and liabilities:	
(Increase) decrease in:	
Accounts receivable, excluding interest receivable	(16,012)
Prepays	60
Inventories	39,947
Investment in electric cooperative	(1,889)
Increase (decrease) in:	
Accounts payable and accrued liabilities	43,032
Accrued payroll and related liabilities	3,242
Deposits payable	325
Compensated absences and service benefits	1,022
Net cash provided by operating activities	<u>\$ 1,527,300</u>
NONCASH CAPITAL ACTIVITIES:	
Developer contributions	<u>\$ 368,683</u>

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1. Summary of Significant Accounting Policies

A. The Financial Reporting Entity

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

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

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

The Town reports the following major governmental fund:

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

The Town reports the following major proprietary fund:

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

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

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

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets and Budgetary Accounting

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

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

At June 30th, total general fund expenditures related to community development exceeded budgeted amounts by \$2,657.

E. Cash and Cash Equivalents

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

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

F. Receivables

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

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

G. Property Taxes

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

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

H. Inventories

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

I. Prepays

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

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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.

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

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

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

L. Capitalization of Interest

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

M. Deferred Outflows/Inflows of Resources

In addition to assets, the statements which present financial position report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will *not* be recognized as an outflow of resources (expenses/expenditure) until then. The Town has only one item that qualifies for reporting in this category, which consists of contributions subsequent to the measurement date for pensions; this will be applied to the net pension liability in the next fiscal year.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

M. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statements which represent financial condition report a separate section for deferred inflows of resources. This separate financial element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Town has three such items. One item occurs only under the modified accrual basis of accounting; this item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes and other receivables not collected within 45 days of year end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second is the net difference between expected and actual pension experience and differences between projected and actual earnings on pension plan investments. These differences will be recognized in pension expense over a closed five year period, and are recognized only on the government-wise statements. The third is property taxes intended for future periods, recognized in both the government wide and fund statements.

N. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Town's Retirement Plan and the additions to/deductions from the Town's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

O. Compensated Absences

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

P. Long-Term Debt

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

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

Q. Net Position/Fund Balance

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

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

The classifications are as follows:

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

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

R. Restricted Resources

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

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

S. Minimum Fund Balance Policy

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

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

T. Interfund Transfers

The composition of interfund transfers is as follows:

Transfer Out Fund	Transfer In Fund	Amount
Water and Sewer	General Fund	\$ 1,476,587

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

U. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. There are \$5,020 of governmental encumbrances as of June 30th.

V. Estimates

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

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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:

<u>Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Percent of Portfolio</u>
Demand deposits	\$ 1,583,913	N/A	51.27 %
Certificates of deposit maturing in: More than one year	1,505,555	N/A	48.73
	<u>\$ 3,089,468</u>		<u>100.00 %</u>
Reconciliation of deposits and investments to Exhibit 1:			
Cash and cash equivalents	\$ 1,583,913		
Investments	1,505,555		
Total deposits and investments	<u>\$ 3,089,468</u>		

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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 August 2016 through June 2020. The Town does not have a formal policy limiting investment maturities.

Custodial Credit Risk:

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

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 3. Receivables

Receivables are as follows:

	General	Water and Sewer	Total
Taxes	\$ 55,575	\$ -	\$ 55,575
Accounts	71,055	405,893	476,948
Interest	-	2,635	2,635
	\$ 126,630	\$ 408,528	\$ 535,158

Note 4. Due from Other Governmental Units

Amounts due from other governmental units are as follows:

Commonwealth of Virginia:	
Department of Taxation	\$ 4,038
Department of Transportation	305,865
County of Rockingham, Virginia:	
Sales tax collected for the Town	10,611
	\$ 320,514

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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	\$ 972,879	\$ -	\$ 112,963	\$ 859,916
Construction in progress	321,731	429,571	18,742	732,560
Total capital assets, not depreciated	<u>1,294,610</u>	<u>429,571</u>	<u>131,705</u>	<u>1,592,476</u>
Capital assets, depreciated				
Buildings	2,923,478	-	-	2,923,478
Machinery and equipment	607,690	10,950	-	618,640
Vehicles	542,070	-	-	542,070
Land improvements	490,124	-	-	490,124
Infrastructure	382,994	36,478	-	419,472
Total capital assets, depreciated	<u>4,946,356</u>	<u>47,428</u>	<u>-</u>	<u>4,993,784</u>
Less accumulated depreciation:				
Buildings and improvements	485,876	68,512	-	554,388
Machinery and equipment	431,639	36,079	-	467,718
Vehicles	414,779	42,698	-	457,477
Land improvements	113,858	41,389	-	155,247
Infrastructure	175,947	22,165	-	198,112
Total accumulated depreciation	<u>1,622,099</u>	<u>210,843</u>	<u>-</u>	<u>1,832,942</u>
Total capital assets, depreciated, net	<u>3,324,257</u>	<u>(163,415)</u>	<u>-</u>	<u>3,160,842</u>
Governmental activities capital assets, net	<u>\$ 4,618,867</u>	<u>\$ 266,156</u>	<u>\$ 131,705</u>	<u>\$ 4,753,318</u>

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 5. Capital Assets (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 256,047	\$ 47,000	\$ -	\$ 303,047
Construction in progress	505,399	130,098	-	635,497
Total capital assets, not depreciated	761,446	177,098	-	938,544
Capital assets, depreciated				
Utility systems	13,169,037	390,108	-	13,559,145
Total capital assets, depreciated	13,169,037	390,108	-	13,559,145
Less accumulated depreciation	5,968,048	382,002	-	6,350,050
Total capital assets, depreciated, net	7,200,989	8,106	-	7,209,095
Business-type activities capital assets, net	<u>\$ 7,962,435</u>	<u>\$ 185,204</u>	<u>\$ -</u>	<u>\$ 8,147,639</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government administration	\$ 71,272
Public safety	48,579
Public works	48,694
Parks, recreation and cultural	42,298
Total depreciation expense – governmental activities	<u>\$ 210,843</u>
Business-type activities	
Water and sewer	<u>\$ 382,002</u>

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 6. Unavailable and Unearned Revenue

The following is a summary of unavailable and unearned revenue:

Autumn Celebration deposits (unearned)	\$ 24,228
Dayton Muddler deposits (unearned)	<u>13,845</u>
 Total unearned revenue	 <u>\$ 38,073</u>
 Property taxes intended for future periods	 <u>\$ 54,755</u>
 Vehicle license tax (unavailable)	 \$ 3,605
Communications tax (unavailable)	2,000
Sales tax (unavailable)	5,000
Uncollected property tax billing (unavailable)	<u>2,887</u>
 Total unavailable	 <u>\$ 13,492</u>

Note 7. Long-Term Liabilities

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

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
General obligation bonds:					
RJW, LLC	\$ 96,471	\$ -	\$ 46,380	\$ 50,091	\$ 50,091
Dove Bond	75,174	-	17,969	57,205	18,508
Yancey Bond	<u>39,701</u>	<u>-</u>	<u>39,701</u>	<u>-</u>	<u>-</u>
Total general obligation bonds	211,346	-	104,050	107,296	68,599
 Compensated absences and service benefits	 <u>45,138</u>	 <u>-</u>	 <u>8,736</u>	 <u>36,402</u>	 <u>-</u>
 Total governmental activities	 <u>\$ 256,484</u>	 <u>\$ -</u>	 <u>\$ 112,786</u>	 <u>\$ 143,698</u>	 <u>\$ 68,599</u>

Details of outstanding long-term debt are as follows:

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

On December 30, 2011, the Town issued a general obligation bond to James W. and Ruth G. Dove. The bond is being repaid in annual installments of \$20,223, including interest at three percent. The bond matures December 30, 2018.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 7. Long-Term Liabilities (Continued)

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

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 68,599	\$ 5,723
2018	19,063	1,161
2019	<u>19,634</u>	<u>589</u>
	<u>\$ 107,296</u>	<u>\$ 7,473</u>

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, Virginia, (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 and is an agent multi-employer plan. Members earn one month of service credit for each month they are employed and for which they and their employer are pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria a 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.

TOWN OF DAYTON, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

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

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1</p> <p>Plan 1 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>About Plan 2</p> <p>Plan 2 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p>About the Hybrid Retirement Plan</p> <p>The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see “Eligible Members”)</p> <ul style="list-style-type: none"> • 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.

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

<p>Eligible Members</p> <p>Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election</p> <p>VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>Eligible Members</p> <p>Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election</p> <p>Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>Eligible Members</p> <p>Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • 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. <p>*Non-Eligible Members</p> <p>Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
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TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Retirement Contributions	Retirement Contributions	Retirement Contributions
<p>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.</p>	<p>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.</p>	<p>A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Creditable Service	Creditable Service	Creditable Service
<p>Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Same as Plan 1.</p>	<p><u>Defined Benefit Component:</u></p> <p>Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contributions Component:</u></p> <p>Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

<p>Vesting</p> <p>Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting</p> <p>Same as Plan 1.</p>	<p>Vesting</p> <p><u>Defined Benefit Component:</u></p> <p>Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u></p> <p>Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p>
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TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

		<p>Vesting (Continued)</p> <p><u>Defined Contributions Component: (Continued)</u></p> <ul style="list-style-type: none"> • 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. <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit</p> <p>The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>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.</p>	<p>Calculating the Benefit</p> <p>See definition under Plan 1.</p>	<p>Calculating the Benefit</p> <p><u>Defined Benefit Component:</u></p> <p>See definition under Plan 1.</p> <p><u>Defined Contribution Component:</u></p> <p>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.</p>

TOWN OF DAYTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

<p>Average Final Compensation</p> <p>A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation</p> <p>A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation</p> <p>Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier</p> <p>VRS: 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%.</p> <p>Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p>Political subdivision hazardous duty employees: 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.</p>	<p>Service Retirement Multiplier</p> <p>VRS: 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.</p> <p>Sheriffs and regional jail superintendents: Same as Plan 1.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Service Retirement Multiplier</p> <p><u>Defined Benefit Component:</u></p> <p>VRS: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>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.</p> <p>Sheriffs and regional jail superintendents: Not applicable.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u></p> <p>Not applicable.</p>

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

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

TOWN OF DAYTON, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Earliest Reduced Retirement Eligibility	Earliest Reduced Retirement Eligibility	Earliest Unreduced Retirement Eligibility
<p>VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p><u>Defined Benefit Component:</u></p> <p>VRS: Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u></p> <p>Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p>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%.</p> <p><u>Eligibility:</u></p> <p>For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p>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%.</p> <p><u>Eligibility:</u></p> <p>Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p><u>Defined Benefit Component:</u></p> <p>Same as Plan 2.</p> <p><u>Defined Contribution Component:</u></p> <p>Not applicable.</p> <p><u>Eligibility:</u></p> <p>Same as Plan 1 and Plan 2.</p>

TOWN OF DAYTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Cost-of-Living Adjustment (COLA) in Retirement (Continued)	Cost-of-Living Adjustment (COLA) in Retirement (Continued)	Cost-of-Living Adjustment (COLA) in Retirement (Continued)
<p><u>Eligibility:</u> (Continued)</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p>		
<p><u>Exceptions to COLA Effective Dates:</u></p> <p>The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • 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. 	<p><u>Exceptions to COLA Effective Dates:</u></p> <p>Same as Plan 1.</p>	<p><u>Exceptions to COLA Effective Dates:</u></p> <p>Same as Plan 1 and Plan 2.</p>

(Continued)

TOWN OF DAYTON, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

<p>Cost-of-Living Adjustment (COLA) in Retirement (Continued)</p> <p><u>Exceptions to COLA Effective Dates:</u> (Continued)</p> <ul style="list-style-type: none"> • 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. 		
<p>Disability Coverage</p> <p>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.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p>Disability Coverage</p> <p>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased, or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p>Disability Coverage</p> <p>Employees of political subdivisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Purchase of Prior Service	Purchase of Prior Service	Purchase of Prior Service
<p>Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Same as Plan 1.</p>	<p><u>Defined Benefit Component:</u></p> <p>Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4.00% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. <p><u>Defined Contribution Component:</u></p> <p>Not applicable.</p>

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 8. Defined Benefit Pension Plan (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	9
Inactive members:	
Vested inactive members	1
Non-vested inactive members	-
Inactive members active elsewhere in VRS	6
Total inactive members	7
Active members	18
Total covered employees	34

Contributions

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

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 8. Defined Benefit Pension Plan (Continued)

Contributions (Continued)

The political subdivision's contractually required contribution rate for the year ended June 30, 2016 was 12.50% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2014.

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 \$100,131 and \$102,097 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension Liability

The political subdivision's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2014, 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, 2015.

Inflation	2.50%
Salary increases, including inflation	3.50 – 5.35%
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 return rate for GASB purposes of slightly more than the assumed 7.00%. However, since the difference was minimal, and a more conservative 7.00% 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 7.00% to simplify preparation of pension liabilities.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 8. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

Mortality rates: 14% of deaths are assumed to be service related.

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 8. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

Largest 10 – Non-LEOS:

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

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

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

Actuarial Assumptions – Public Safety Employees

The total pension liability for Public Safety employees in the Political Subdivision Retirement Plan was based on an actuarial valuation as of June 30, 2014, 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, 2015.

Inflation	2.50%
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 return rate for GASB purposes of slightly more than the assumed 7.00%. However, since the difference was minimal, and a more conservative 7.00% 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 7.00% to simplify preparation of pension liabilities.

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

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 8. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – Public Safety Employees (Continued)

Largest 10 – LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

All Others (Non 10 Largest) – LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 –LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – LEOS:

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

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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:

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

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

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 8. Defined Benefit Pension Plan (Continued)

Discount Rate

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

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2014	\$ 2,917,451	\$ 2,480,038	\$ 437,413
Changes for the year:			
Service cost	119,570	-	119,570
Interest	196,686	-	196,686
Differences between expected and actual experience	(149,892)	-	(149,892)
Contributions – employer	-	102,969	(102,969)
Contributions – employee	-	41,188	(41,188)
Net investment income	-	112,192	(112,192)
Benefit payments, including refunds of employee contributions	(215,295)	(215,295)	-
Administrative expenses	-	(1,586)	1,586
Other changes	-	(24)	24
Net changes	(48,931)	39,444	(88,375)
Balances at June 30, 2015	\$ 2,868,520	\$ 2,519,482	\$ 349,038

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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	\$ 743,133	\$ 349,038	\$ 21,281

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

For the year ended June 30, 2016, the political subdivision recognized pension expense of \$48,013. At June 30, 2016, 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	\$ -	\$ 118,858
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	65,334
Employer contributions subsequent to the measurement date	100,131	-
Total	\$ 100,131	\$ 184,192

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 8. Defined Benefit Pension Plan (Continued)

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

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, 2017. 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
2017	\$ 56,737
2018	56,737
2019	56,735
2020	13,983

Payables to the Pension Plan

At June 30, 2016, \$3,319 was payable to the Virginia Retirement System for the legally required contributions related to June 2016 payroll.

Note 9. Prior Period Adjustments

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

	General Fund	Governmental Activities	Water and Sewer Fund
Fund balance/net position, June 30, 2015, as previously reported	\$ 51,017	\$ 4,016,340	\$ 11,620,581
To properly record cash received from Dayton Muddler as unearned revenue	(6,760)	(6,760)	-
To correct VRS payment accrual	(6,960)	(6,960)	(1,486)
To correct payroll accrual	8,082	8,082	-
To record prior year connection fee expense	-	-	(20,999)
	-	-	(20,999)
Fund balance/net position June 30, 2015, as restated	\$ 45,379	\$ 4,010,702	\$ 11,598,096

TOWN OF DAYTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 10. Jointly Governed Organization

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

Based on the current average usage, the Town's total assessment for the Authority's operating, debt service and capital expenditures for the upcoming year approximates \$1,444,000.

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

Note 11. Major Customer

The Town has one major water and sewer customer. For the current year, water and sewer revenue from this customer was approximately \$3,114,000 or 89% of operating revenues. Accounts receivable from this customer amounted to approximately \$263,000 or 90% of receivables at June 30, 2016.

Note 12. Risk Management

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

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. Subsequent to year end, the Town received notice of one claim of approximating \$15,000. The Town has not recorded an estimated liability as the outcome is not determinable.

TOWN OF DAYTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 13. Commitments and Contingencies

State Water Control Board Enforcement Action:

In 2016, the State Water Control Board issued an action against the Town. The Town must make planned improvements estimated to cost \$5,000 to \$7,000 to the water system before the consent order will be released.

Construction and Improvement Contracts:

The Town has active construction and improvement commitments as of June 30 for the well #4 project and sidewalk improvement project. Remaining commitments on these contracts as of June 30 are approximately \$299,000 and \$112,000, respectively.

Note 14. New Accounting Standards

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

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pensions* improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2017.

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

GASB Statement No. 77, *Tax Abatement Disclosures*, requires governments to disclose information about the nature and magnitude of tax abatements granted to a specific taxpayer, typically for the purpose of economic development. This does not cover programs that reduce the tax liabilities of broad classes of taxpayers, such as senior citizens or veterans, and which are not the product of individual agreements with each taxpayer. The Statement does not consider issues related to recognition. This Statement will be effective for the year ending June 30, 2017.

TOWN OF DAYTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 14. New Accounting Standards (Continued)

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14* clarifies the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement will be effective for the year ending June 30, 2017.

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

TOWN OF DAYTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 14. New Accounting Standards (Continued)

GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement will be effective for the year ending June 30, 2017.

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

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF DAYTON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

June 30, 2016

	<u>2016</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 119,570	\$ 125,709
Interest on total pension liability	196,686	185,843
Difference between expected and actual experience	(149,892)	-
Benefit payments, including refunds of employee contributions	<u>(215,295)</u>	<u>(97,998)</u>
Net change in total pension liability	(48,931)	213,554
Total pension liability - beginning	<u>2,917,451</u>	<u>2,703,897</u>
Total pension liability - ending	<u>\$ 2,868,520</u>	<u>\$ 2,917,451</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 102,969	\$ 105,318
Contributions - employee	41,188	43,701
Net investment income	112,192	335,753
Benefit payments, including refunds of employee contributions	(215,295)	(97,998)
Administrative expenses	(1,586)	(1,749)
Other	<u>(24)</u>	<u>18</u>
Net change in plan fiduciary net position	39,444	385,043
Plan fiduciary net position - beginning	<u>2,480,038</u>	<u>2,094,995</u>
Plan fiduciary net position - ending	<u>\$ 2,519,482</u>	<u>\$ 2,480,038</u>
Net pension liability - ending	<u>\$ 349,038</u>	<u>\$ 437,413</u>
Plan fiduciary net position as a percentage of total pension liability	<u>88%</u>	<u>85%</u>
Covered employee payroll	<u>\$ 816,778</u>	<u>\$ 874,018</u>
Net pension liability as a percentage of covered employee payroll	<u>43%</u>	<u>50%</u>

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.

TOWN OF DAYTON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS

June 30, 2016

Year Ended June 30	Actuarially Determined Contribution (1)	Contributions in Relation to Actuarially Determined Contribution (2)	Contribution Deficiency (Excess) (3)	Covered Employee Payroll (4)	Contributions as a percentage of Covered Payroll (5)
2016	\$ 100,131	\$ 100,131	-	\$ 801,047	12.50%
2015	102,097	102,097	-	816,778	12.50%

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

TOWN OF DAYTON, VIRGINIA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016**

Note 1. Changes of Benefit Terms

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

Note 2. Changes of Assumptions

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

Largest 10 – Non-LEOS:

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

Largest 10 –LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) – LEOS:

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

Teacher cost-sharing pool

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for 3 through 9 years of service
- Decrease in rates of disability
- Reduce rates of salary increase by 0.25% per year

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, 2016, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements, and have issued our report thereon dated September 19, 2016.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. **We did identify a certain deficiency in internal control described in the accompanying schedule of findings and responses as item 12-001 that we consider to be a material weakness.**

Compliance and Other Matters

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

Town of Dayton's Response to Findings

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

Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
September 19, 2016

TOWN OF DAYTON, VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2016

A. FINDINGS – FINANCIAL STATEMENT AUDIT

12-001: Segregation of Duties (Material Weakness)

Condition:

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

Recommendation:

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

Management's Response:

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