

TOWN OF DAYTON, VIRGINIA

FINANCIAL REPORT

June 30, 2020

TOWN OF DAYTON, VIRGINIA

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INTRODUCTORY SECTION

TOWN OF DAYTON, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS

June 30, 2020

TOWN COUNCIL

Sam Lee, Mayor
Jeffrey S. Daly, Vice Mayor
Bradford Dyjak
Cary Jackson
RJ Ohgren
Dale Rodgers
Tara Worthy

APPOINTED OFFICIALS

Angela LawrenceTown Superintendent
Susan Smith Treasurer
Justin Trout 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, 2020, 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, 2020, 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 October 14, 2020 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
October 14, 2020

BASIC FINANCIAL STATEMENTS

TOWN OF DAYTON, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2020

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents (Note 2)	\$ 200	\$ 4,261,900	\$ 4,262,100
Investments (Note 2)	-	1,215,198	1,215,198
Receivables (Note 3)	100,075	502,572	602,647
Due from other governmental units (Note 4)	19,035	-	19,035
Inventories	-	54,127	54,127
Prepays	15,997	1,800	17,797
Investment in electric cooperative (Note 1)	4,886	105,031	109,917
Capital assets: (Note 5)			
Nondepreciable	861,666	303,047	1,164,713
Depreciable, net	3,582,150	6,754,484	10,336,634
Total assets	4,584,009	13,198,159	17,782,168
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows (Note 8)	142,257	19,399	161,656
OPEB related deferred outflows (Note 10)	9,681	1,320	11,001
Total deferred outflows of resources	151,938	20,719	172,657
LIABILITIES			
Accounts payable and accrued liabilities	66,459	116,448	182,907
Accrued payroll and related liabilities	25,344	5,313	30,657
Deposits payable	-	7,671	7,671
Unearned revenue (Note 6)	30,181	-	30,181
Noncurrent liabilities:			
Net pension liability (Note 8)	18,575	2,533	21,108
Net OPEB liability (Notes 9 and 10)	556,962	39,061	596,023
Other noncurrent liabilities due within one year (Note 7)	6,013	-	6,013
Other noncurrent liabilities due in more than one year (Note 7)	34,297	4,275	38,572
Total liabilities	737,831	175,301	913,132
DEFERRED INFLOWS OF RESOURCES			
Property taxes for future periods (Note 6)	60,625	-	60,625
Pension related deferred inflows (Note 8)	262,992	35,862	298,854
OPEB related deferred inflows (Note 10)	13,200	1,800	15,000
Total deferred inflows of resources	336,817	37,662	374,479
NET POSITION			
Net investment in capital assets	4,437,803	7,057,531	11,495,334
Unrestricted	(776,504)	5,948,384	5,171,880
Total net position	\$ 3,661,299	\$ 13,005,915	\$ 16,667,214

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

TOWN OF DAYTON, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental activities							
General government administration	\$ 613,167	\$ 1,511	\$ -	\$ -	\$ (611,656)	\$ -	\$ (611,656)
Public safety	516,466	14,040	45,616	-	(456,810)	-	(456,810)
Public works	468,421	138,697	-	24,700	(305,024)	-	(305,024)
Parks, recreation, and cultural	125,458	151,070	-	-	25,612	-	25,612
Community development	166,685	-	-	-	(166,685)	-	(166,685)
Total governmental activities	1,890,197	305,318	45,616	24,700	(1,514,563)	-	(1,514,563)
Business-type activities							
Water and sewer	2,750,314	4,086,194	-	-	-	1,335,880	1,335,880
Total business-type activities	2,750,314	4,086,194	-	-	-	1,335,880	1,335,880
Total primary government	\$ 4,640,511	\$ 4,391,512	\$ 45,616	\$ 24,700	(1,514,563)	1,335,880	(178,683)
General revenues and transfers:							
Property taxes					112,888	-	112,888
Other local taxes					406,788	-	406,788
Unrestricted revenue from the use of money and property					2,135	133,870	136,005
Other					29,313	-	29,313
Transfers (Note 1)					956,964	(956,964)	-
Total general revenues and transfers					1,508,088	(823,094)	684,994
Change in net position					(6,475)	512,786	506,311
NET POSITION AT JULY 1					3,667,774	12,493,129	16,160,903
NET POSITION AT JUNE 30					\$ 3,661,299	\$ 13,005,915	\$ 16,667,214

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

TOWN OF DAYTON, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2020

	General
ASSETS	
Cash and cash equivalents (Note 2)	\$ 200
Receivables, net (Note 3)	100,075
Due from other governmental units (Note 4)	19,035
Prepays	15,997
Total assets	\$ 135,307
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	
Liabilities:	
Accounts payable and accrued liabilities	\$ 66,459
Accrued payroll and related liabilities	25,344
Unearned revenue (Note 6)	30,181
Total liabilities	121,984
Deferred inflows of resources:	
Deferred property tax revenue (Note 6)	60,625
Unavailable revenue (Note 6)	16,537
Total deferred inflows of resources	77,162
Fund balances:	
Nonspendable - prepaids	15,997
Unassigned	(79,836)
Total fund balances	(63,839)
Total liabilities, deferred inflows of resources, and fund balances	\$ 135,307

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

TOWN OF DAYTON, VIRGINIA

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2020**

Ending fund balance – governmental fund \$ (63,839)

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

Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the fund.

Nondepreciable capital assets	\$ 861,666	
Depreciable capital assets, net	<u>3,582,150</u>	
		4,443,816

Investment in electric cooperative is not available in the current period and therefore is not reported in the fund.		4,886
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Certain revenues are not available to pay for current period expenditures and are not reported in the fund.		16,537
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Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the fund.

Deferred outflows of resources related to pension	142,257	
Deferred inflows of resources related to pension	(262,992)	
Deferred outflows of resources related to OPEB	9,681	
Deferred inflows of resources related to OPEB	<u>(13,200)</u>	
		(124,254)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund.

Compensated absences and service benefits	(34,297)	
Net pension liability	(18,575)	
Net OPEB liability	(556,962)	
Long-term debt	<u>(6,013)</u>	
		<u>(615,847)</u>

Total net position – governmental activities \$ 3,661,299

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

TOWN OF DAYTON, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
Year Ended June 30, 2020

	General
REVENUES	
General property taxes	\$ 122,499
Other local taxes	406,788
Permits, privilege fees, and regulatory licenses	836
Fines and forfeitures	14,040
Revenues from the use of money and property	2,810
Charges for services	138,697
Intergovernmental	70,316
Recovered costs	7,039
Other	154,903
	<u>917,928</u>
 EXPENDITURES	
Current:	
General government administration	593,257
Public safety	553,630
Public works	419,562
Parks, recreation, and cultural	85,296
Community development	177,014
Capital outlay	80,115
	<u>1,908,874</u>
Total expenditures	1,908,874
Deficiency of revenues over expenditures	<u>(990,946)</u>
 OTHER FINANCING SOURCES	
Proceeds from sale of capital assets	16,607
Transfers in (Note 1)	956,964
	<u>973,571</u>
Total other financing sources	973,571
Net change in fund balance	(17,375)
FUND BALANCE AT JULY 1	<u>(46,464)</u>
FUND BALANCE AT JUNE 30	<u>\$ (63,839)</u>

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

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, 2020**

Net change in fund balance – total governmental fund \$ (17,375)

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	\$ 87,122	
Depreciation expense	(215,790)	
		(128,668)

Governmental funds report employer pension and OPEB contributions as expenditures. However, in the statement of activities the cost of pension and OPEB benefits earned net of employee contributions are reported as pension and OPEB expense.

Change in employer pension contributions	13,269	
Pension expense	120,555	
Change in employer OPEB contributions	1,091	
OPEB expense	5,103	
		140,018

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (7,777)

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 position.

Principal repayments		5,808
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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.

		1,519
Change in net position of governmental activities		\$ (6,475)

TOWN OF DAYTON, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2020**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
REVENUES				
General property taxes	\$ 118,500	\$ 118,500	\$ 122,499	\$ 3,999
Other local taxes	441,100	441,100	406,788	(34,312)
Permits, privilege fees, and regulatory licenses	1,000	1,000	836	(164)
Fines and forfeitures	15,000	15,000	14,040	(960)
Revenues from the use of money and property	1,440	1,440	2,810	1,370
Charges for services	132,000	132,000	138,697	6,697
Intergovernmental	70,000	70,000	70,316	316
Recovered costs	15,000	15,000	7,039	(7,961)
Other	112,000	112,000	154,903	42,903
Total revenues	<u>906,040</u>	<u>906,040</u>	<u>917,928</u>	<u>11,888</u>
EXPENDITURES				
Current:				
General government administration	620,128	620,128	593,257	26,871
Public safety	557,676	557,676	553,630	4,046
Public works	387,807	387,807	419,562	(31,755)
Parks, recreation and cultural	159,768	159,768	85,296	74,472
Community development	154,538	154,538	177,014	(22,476)
Capital outlay	205,000	205,000	80,115	124,885
Total expenditures	<u>2,084,917</u>	<u>2,084,917</u>	<u>1,908,874</u>	<u>176,043</u>
Excess (deficiency) of revenues over expenditures	<u>(1,178,877)</u>	<u>(1,178,877)</u>	<u>(990,946)</u>	<u>187,931</u>
OTHER FINANCING SOURCES				
Transfers in	973,876	973,876	956,964	(16,912)
Total other financing sources	<u>973,876</u>	<u>973,876</u>	<u>956,964</u>	<u>(16,912)</u>
Net change in fund balance	<u>\$ (205,001)</u>	<u>\$ (205,001)</u>	<u>\$ (33,982)</u>	<u>\$ 171,019</u>

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

TOWN OF DAYTON, VIRGINIA
STATEMENT OF NET POSITION –
PROPRIETARY FUND
June 30, 2020

	<u>Enterprise Fund</u> <u>Water and Sewer</u>
ASSETS	
Current assets:	
Cash and cash equivalents (Note 2)	\$ 4,261,900
Investments (Note 2)	1,215,198
Accounts receivable (Note 3)	502,572
Inventories	54,127
Prepays	1,800
Total current assets	6,035,597
Noncurrent assets:	
Investment in electric cooperative (Note 1)	105,031
Capital assets (Note 5)	
Nondepreciable	303,047
Depreciable, net	6,754,484
Total noncurrent assets	7,162,562
Total assets	13,198,159
DEFERRED OUTFLOWS OF RESOURCES	
Pension related deferred outflows (Note 8)	19,399
OPEB related deferred outflows (Note 10)	1,320
Total deferred outflows of resources	20,719
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	116,448
Accrued payroll and related liabilities	5,313
Deposits payable	7,671
Total current liabilities	129,432
Noncurrent liabilities:	
Net pension liability (Note 8)	2,533
Net OPEB liability (Notes 9 and 10)	39,061
Compensated absences and service benefits (Note 7)	4,275
Total noncurrent liabilities	45,869
Total liabilities	175,301
DEFERRED INFLOWS OF RESOURCES	
Pension related deferred inflows (Note 8)	35,862
OPEB related deferred inflows (Note 10)	1,800
Total deferred inflows of resources	37,662
NET POSITION	
Net investment in capital assets	7,057,531
Unrestricted	5,948,384
Total net position	\$ 13,005,915

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

TOWN OF DAYTON, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET POSITION – PROPRIETARY FUND
Year Ended June 30, 2020**

	<u>Enterprise Fund</u> <u>Water and Sewer</u>
OPERATING REVENUES	
Charges for services	\$ 3,993,819
Connection availability fees	92,375
	4,086,194
OPERATING EXPENSES	
Salaries and fringe benefits	162,995
Maintenance	255,472
Utilities	148,443
Materials and supplies	81,642
Regional Sewer Authority assessment	1,613,301
Other	85,202
Depreciation	403,259
	2,750,314
Operating income	1,335,880
NONOPERATING REVENUES	
Investment income	133,870
Income before transfers	1,469,750
TRANSFERS OUT (NOTE 1)	(956,964)
Change in net position	512,786
NET POSITION AT JULY 1	12,493,129
NET POSITION AT JUNE 30	\$ 13,005,915

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

TOWN OF DAYTON, VIRGINIA

STATEMENT OF CASH FLOWS – PROPRIETARY FUND
Year Ended June 30, 2020

	<u>Enterprise Fund</u> <u>Water and Sewer</u>
OPERATING ACTIVITIES	
Receipts from customers	\$ 4,041,686
Payments to suppliers	(2,159,842)
Payments to employees	(174,410)
Net cash provided by operating activities	<u>1,707,434</u>
NON-CAPITAL AND RELATED FINANCING ACTIVITIES	
Transfers to other funds	(956,964)
Net cash used in non-capital and related financing activities	<u>(956,964)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(65,326)
Net cash used in capital and related financing activities	<u>(65,326)</u>
INVESTING ACTIVITIES	
Proceeds from sale of investments	1,883,223
Interest received	102,001
Net cash provided by investing activities	<u>1,985,224</u>
Net increase in cash and cash equivalents	2,670,368
CASH AND CASH EQUIVALENTS	
Beginning at July 1	<u>1,591,532</u>
Ending at June 30	<u>\$ 4,261,900</u>
RECONCILIATION OF OPERATING INCOME TO NET	
CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 1,335,880
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	403,259
Pension and OPEB expense net of employer contributions	(10,729)
Change in certain assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(44,582)
Prepays	(702)
Investment in electric cooperative	(4,886)
Increase (decrease) in:	
Accounts payable and accrued liabilities	29,806
Accrued payroll and related liabilities	1,995
Deposits payable	74
Compensated absences and service benefits	(2,681)
Net cash provided by operating activities	<u>\$ 1,707,434</u>

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

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 1. Summary of Significant Accounting Policies

A. The Financial Reporting Entity

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

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

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

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

The Town reports the following major governmental fund:

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

The Town reports the following major proprietary fund:

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

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

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

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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. The appropriation for each 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.

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

E. Cash and Cash Equivalents

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

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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 were previously presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories were estimated for the current year.

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.

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 1. Summary of Significant Accounting Policies (Continued)

J. Investment in Electric Cooperative

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

K. Capital Assets

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

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

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

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

L. Deferred Outflows/Inflows of Resources

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

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

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 1. Summary of Significant Accounting Policies (Continued)

L. Deferred Outflows/Inflows of Resources (Continued)

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

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

M. Pensions and Other Postemployment Benefits (OPEB)

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

N. Compensated Absences

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

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 1. Summary of Significant Accounting Policies (Continued)

O. Long-Term Debt

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

P. Net Position/Fund Balance

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

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

The classifications are as follows:

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

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

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 1. Summary of Significant Accounting Policies (Continued)

Q. Restricted Resources

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

R. Cash Reserve Policy

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

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

S. Interfund Transfers

The composition of interfund transfers is as follows:

Transfer Out Fund	Transfer In Fund	Amount
Water and Sewer	General Fund	\$ 956,964

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

T. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. The Town does not have any encumbrances as of year-end.

U. Estimates

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

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 1. Summary of Significant Accounting Policies (Continued)

V. COVID-19 Impacts

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The Town’s operations are heavily dependent on the ability to raise taxes, assess fees, and access the capital markets. The outbreak will have a continued material adverse impact on economic and market conditions, triggering a period of global economic slowdown. This situation has depressed the tax bases and other areas in which the Town received revenue during fiscal year 2020. As such, the Town’s financial condition and liquidity may be negatively impacted for the fiscal year 2021.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude the pandemic will have on the Town’s financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Town is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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	\$ 3,329,109	N/A	60.78 %
Certificates of deposit maturing in:			
Three months or less	932,791	N/A	17.03
More than three months	<u>1,215,198</u>	N/A	<u>22.19</u>
	<u>\$ 5,477,098</u>		<u>100.00 %</u>
Reconciliation of deposits and investments to Exhibit 1:			
Cash and cash equivalents	\$ 4,262,100		
Investments	<u>1,215,198</u>		
Total deposits and investments	<u>\$ 5,477,298</u>		

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Credit Risk:

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

Concentration of Credit Risk:

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

Interest Rate Risk:

As of June 30th, all certificates of deposit have original maturities ranging from July 2020 through November 2022. The Town does not have a formal policy limiting investment maturities.

Custodial Credit Risk:

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

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 3. Receivables

Receivables are as follows:

	General	Water and Sewer	Total
Taxes	\$ 60,764	\$ -	\$ 60,764
Accounts	39,311	502,572	541,883
	\$ 100,075	\$ 502,572	\$ 602,647

Note 4. Due from Other Governmental Units

Amounts due from other governmental units are as follows:

Commonwealth of Virginia:	
Department of Taxation	\$ 4,163
County of Rockingham, Virginia:	
Sales tax collected for the Town	14,872
	\$ 19,035

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 5. Capital Assets

Capital asset activity for the year was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 859,916	\$ -	\$ -	\$ 859,916
Construction in progress	1,750	-	-	1,750
Total capital assets, not depreciated	861,666	-	-	861,666
Capital assets, depreciated				
Buildings and improvements	2,929,973	-	-	2,929,973
Machinery and equipment	662,228	56,938	-	719,166
Vehicles	575,561	-	52,892	522,669
Land improvements	736,842	30,184	-	767,026
Infrastructure	1,267,075	-	-	1,267,075
Total capital assets, depreciated	6,171,679	87,122	52,892	6,205,909
Less accumulated depreciation:				
Buildings and improvements	760,362	67,480	-	827,842
Machinery and equipment	541,244	23,361	-	564,605
Vehicles	535,049	11,068	52,892	493,225
Land improvements	270,110	47,760	-	317,870
Infrastructure	354,096	66,121	-	420,217
Total accumulated depreciation	2,460,861	215,790	52,892	2,623,759
Total capital assets, depreciated, net	3,710,818	(128,668)	-	3,582,150
Governmental activities capital assets, net	\$ 4,572,484	\$ (128,668)	\$ -	\$ 4,443,816

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 5. Capital Assets (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 303,047	\$ -	\$ -	\$ 303,047
Total capital assets, not depreciated	303,047	-	-	303,047
Capital assets, depreciated				
Utility systems	14,643,557	65,326	-	14,708,883
Total capital assets, depreciated	14,643,557	65,326	-	14,708,883
Less accumulated depreciation	7,551,140	403,259	-	7,954,399
Total capital assets, depreciated, net	7,092,417	(337,933)	-	6,754,484
Business-type activities capital assets, net	<u>\$ 7,395,464</u>	<u>\$ (337,933)</u>	<u>\$ -</u>	<u>\$ 7,057,531</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government administration	\$ 82,254
Public safety	13,848
Public works	79,342
Parks, recreation and cultural	40,346
Total depreciation expense – governmental activities	<u>\$ 215,790</u>
Business-type activities	
Water and sewer	<u>\$ 403,259</u>

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 6. Unavailable and Unearned Revenue

The following is a summary of unavailable and unearned revenue:

Autumn Celebration deposits (unearned)	\$ 30,181
Property taxes intended for future periods	\$ 60,625
Vehicle license tax (unavailable)	\$ 7,120
Communications tax (unavailable)	1,749
Sales tax (unavailable)	7,570
Uncollected property tax billing (unavailable)	98
 Total unavailable	 \$ 16,537

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
Capital lease	\$ 11,821	\$ -	\$ 5,808	\$ 6,013	\$ 6,013
Compensated absences and service benefits	35,816	-	1,519	34,297	-
 Total governmental activities	 \$ 47,637	 \$ -	 \$ 7,327	 \$ 40,310	 \$ 6,013

Details of outstanding long-term debt are as follows:

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

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 7. Long-Term Liabilities (Continued)

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2021	<u>\$ 6,013</u>	<u>\$ 113</u>

The only long-term liabilities in the water and sewer fund consist of compensated absences and service benefits all due within one year.

Assets acquired through capital leases have a carrying value of \$16,663 for governmental activities as of June 30, 2020. Depreciation expense for assets under capital leases was \$5,713.

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

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

- <https://www.varetire.org/members/benefits/defined-benefit/plan1.asp>,
- <https://www.varetire.org/members/benefits/defined-benefit/plan2.asp>,
- <https://www.varetirement.org/hybrid.html>.

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 8. Defined Benefit Pension Plan (Continued)

Employees Covered by Benefit Terms

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

	Number
Inactive members or their beneficiaries currently receiving benefits	12
Inactive members:	
Vested inactive members	5
Non-Vested inactive members	1
Inactive members active elsewhere in VRS	13
Total inactive members	19
Active members	15
Total covered employees	46

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.

The political subdivision’s contractually required contribution rate for the year ended June 30, 2020 was 13.3% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

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 \$99,650 and \$85,739 for the years ended June 30, 2020 and June 30, 2019, respectively.

Net Pension Liability

The net pension liability is calculated separately for each employer and represents that particular employer’s total pension liability determined in accordance with GASB Statement No. 68, less that employer’s fiduciary net position. For political subdivisions, the net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2018 rolled forward to the measurement date of June 30, 2019.

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 8. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions

The total pension liability for General Employees in the Political Subdivision’s Retirement Plan was based on an actuarial valuation as of June 30, 2018, 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, 2019.

Inflation	2.50%
General Employees – Salary increases, including inflation	3.50 – 5.35%
Public Safety Employees – Salary increases, including inflation	3.50 – 4.75%
Investment rate of return	6.75%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of pension liabilities.

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees – Largest 10 – Non-Hazardous Duty and All Others (Non 10 Largest): Update mortality table; lowered retirement rates at older ages, changed final retirement from 70 to 75; adjusted withdrawal rates to better fit experience at each year age and service through 9 years of service; lowered disability rates, no change to salary scale, increased rate of line of duty disability from 14% to 20% (Largest 10) or 15% (All Others), and decreased discount rate from 7.00% to 6.75%.

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 8. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions (Continued)

Public Safety Employees – Largest 10 – Hazardous Duty and All Others (Non 10 Largest): Update mortality table; lowered retirement rate at older ages; adjusted rates of withdrawal and disability to better fit experience; changes to line of duty rates, no changes to salary scale, and decreased discount rate from 7.00% to 6.75%.

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>
Public Equity	34.00 %	5.61 %	1.91 %
Fixed Income	15.00	0.88	0.13
Credit Strategies	14.00	5.13	0.72
Real Assets	14.00	5.27	0.74
Private Equity	14.00	8.77	1.23
MAPS – Multi-Asset Public Strategies	6.00	3.52	0.21
PIP – Private Investment Partnership	3.00	6.29	0.19
Total	<u>100.00 %</u>		<u>5.13 %</u>
	Inflation		<u>2.50 %</u>
	*Expected arithmetic nominal return		<u>7.63 %</u>

* The above allocation provides for a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.5%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund allocation.

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 8. Defined Benefit Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. 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. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions, political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2019, the alternate rate was the employer contribution rate used in the FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017, actuarial valuations, whichever is greater. From July 1, 2019 on, participating employers are assumed to continue 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, 2018	\$ 3,206,433	\$ 2,920,878	\$ 285,555
Changes for the year:			
Service cost	107,224	-	107,224
Interest	218,981	-	218,981
Changes of assumptions	88,634	-	88,634
Differences between expected and actual experience	(368,912)	-	(368,912)
Contributions – employer	-	85,739	(85,739)
Contributions – employee	-	31,825	(31,825)
Net investment income	-	194,850	(194,850)
Benefit payments, including refunds of employee contributions	(156,272)	(156,272)	-
Administrative expenses	-	(1,917)	1,917
Other changes	-	(123)	123
Net changes	(110,345)	154,102	(264,447)
Balances at June 30, 2019	\$ 3,096,088	\$ 3,074,980	\$ 21,108

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Political subdivision's net pension liability	\$ 422,915	\$ 21,108	\$ (299,296)

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

For the year ended June 30, 2020, the political subdivision recognized pension expense (income) of \$(46,678). At June 30, 2020, 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	\$ 6,321	\$ 267,183
Change in assumptions	55,685	4,963
Net difference between projected and actual earnings on pension plan investments	-	26,708
Employer contributions subsequent to the measurement date	99,650	-
Total	\$ 161,656	\$ 298,854

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 8. Defined Benefit Pension Plan (Continued)

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

The \$99,650 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision’s contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2021. 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
2021	\$ (137,467)
2022	(100,571)
2023	(447)
2024	1,637
2025	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2019-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

At June 30, 2020, approximately \$7,800 was payable to the Virginia Retirement System for the legally required contributions related to June 2020 payroll.

Note 9. Other Postemployment Benefits Liability – Local Plan

Plan Description

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

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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

Plan Description (Continued)

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

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

Employees Covered by Benefit Terms

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

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

Total OPEB Liability

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

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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

Actuarial Assumptions and Other Inputs

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

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

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

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

Changes in the Total OPEB Liability

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

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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

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

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

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

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

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

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

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

For the year ended June 30, 2020, the Town did not have any OPEB expense. At June 30, 2020, the political subdivision did not have deferred outflows of resources and deferred inflows of resources related to OPEB to report.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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

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

Plan Description

Group Life Insurance Program

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

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

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

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

Contributions

Contributions to the VRS OPEB programs were based on actuarially determined rates from actuarial valuations as of June 30, 2017. The actuarially determined rates were expected to finance the cost of benefits earned by employees during the year, with an additional amount to fund any unfunded accrued liability. Specific details related to the contributions for the VRS OPEB programs are as follows:

Group Life Insurance Program

Governed by:	<i>Code of Virginia</i> 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.
Total rate:	1.31% of covered employee compensation. Rate allocated 60/40; 0.79% employee and 0.52% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2020 Contribution	\$4,001
June 30, 2019 Contribution	\$3,430

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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

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

The net OPEB liabilities were measured as of June 30, 2019 and the total OPEB liabilities used to calculate the net OPEB liabilities were determined by actuarial valuations as of that date. The covered employer's proportion of the net OPEB liabilities were based on the covered employer's actuarially determined employer contributions for the year ended June 30, 2019 relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program

June 30, 2020 proportionate share of liability	\$55,000
June 30, 2019 proportion	0.00337%
June 30, 2018 proportion	0.00423%
June 30, 2020 expense (income)	(\$1,570)

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

At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

Group Life Insurance Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,000	\$ 1,000
Changes of assumptions	3,000	2,000
Net difference between projected and actual earnings on OPEB plan investments	-	1,000
Change in proportionate share	-	11,000
Employer contributions subsequent to the measurement date	4,001	-
Total	<u>\$ 11,001</u>	<u>\$ 15,000</u>

The deferred outflows of resources related to OPEB resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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

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

Group Life Insurance Program

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2021	\$ (2,000)
2022	(2,000)
2023	(1,500)
2024	(1,000)
2025	(1,000)
Thereafter	(500)

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2018, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019:

Inflation	2.5%
Salary increases, including inflation:	
• Locality- general employees	3.5 – 5.35%
• Locality – hazardous duty employees	3.5 – 4.75%
Healthcare cost trend rates:	
• Under age 65	7.25 – 4.75%
• Ages 65 and older	5.50 – 4.75%
Investment rate of return, net of expenses, including inflation*	6.75%

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

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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

Actuarial Assumptions and Other Inputs (Continued)

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

Net OPEB Liabilities

The net OPEB liabilities represents the VRS total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2019, net OPEB liability amounts are as follows (amounts expressed in thousands):

	Group Life Insurance Program
Total OPEB Liability	\$ 3,390,238
Plan fiduciary net position	1,762,972
Employers' net OPEB liability (asset)	\$ 1,627,266
Plan fiduciary net position as a percentage of total OPEB liability	52.00%

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

Long-Term Expected Rate of Return

The long-term expected rate of return on VRS investments was determined in a manner similar to that of the VRS pension described in Note 8.

Discount Rate

The discount rate used to measure the GLI and HIC OPEB liabilities was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the OPEB liabilities will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the OPEB plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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

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

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

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
GLI Net OPEB liability	\$ 72,000	\$ 55,000	\$ 41,000

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2019-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the OPEB Plan

At June 30, 2020, the Town had \$323 payable to the Virginia Retirement System for the legally required contributions related to June 2020 payroll.

Note 11. Jointly Governed Organization

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

Based on the current average usage, the Town’s total assessment for the Authority’s operating, debt service and capital expenditures for fiscal year 2021 approximates \$1,681,000.

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.

(Continued)

TOWN OF DAYTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Note 12. Major Customer

The Town has one major water and sewer customer. For the current year, water and sewer revenue from this customer was approximately \$3,700,000 or 90% of water and sewer operating revenues. Accounts receivable from this customer amounted to approximately \$327,000 or 89% of water and sewer receivables at June 30, 2020.

Note 13. Risk Management

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

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

Note 14. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective. The effective dates below are updated based on Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* due to the COVID-19 pandemic.

The GASB issued **Statement No. 84**, *Fiduciary Activities* in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2019.

The GASB issued **Statement No. 87**, *Leases* in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for periods beginning after June 15, 2021.

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 14. New Accounting Standards (Continued)

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

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

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for periods beginning after December 15, 2019. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

The GASB issued **Statement No. 91**, *Conduit Debt Obligations* in May 2019. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

In January 2020, the GASB issued **Statement No. 92**, *Omnibus*. This Statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain requirements of this Statement are effective immediately and others for reporting periods beginning after June 15, 2021.

(Continued)

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 14. New Accounting Standards (Continued)

In March 2020, the GASB issued **Statement No. 93**, *Replacement of Interbank Offered Rates*. This Statement addresses accounting and financial reporting implications that result from the replacement of an IBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2022. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

In March 2020, the GASB issued **Statement No. 94**, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This Statement improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

In May 2020, the GASB issued **Statement No. 96**, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

In June 2020, the GASB issued **Statement No. 97**, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. This Statement provides a more consistent financial reporting of defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans, while mitigating the costs associated with reporting those plans. Certain requirements of this Statement are effective immediately and others for reporting periods beginning after June 15, 2021.

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

**REQUIRED SUPPLEMENTARY
INFORMATION**

TOWN OF DAYTON, VIRGINIA

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

June 30, 2020

	Plan Year					
	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service cost	\$ 107,224	\$ 110,272	\$ 104,350	\$ 92,920	\$ 119,570	\$ 125,709
Interest on total pension liability	218,981	213,220	214,347	196,059	196,686	185,843
Changes of assumptions	88,634	-	(23,806)	-	-	-
Difference between expected and actual experience	(368,912)	(32,513)	(112,947)	107,453	(149,892)	-
Benefit payments, including refunds of employee contributions	(156,272)	(261,079)	(135,009)	(135,354)	(215,295)	(97,998)
Net change in total pension liability	(110,345)	29,900	46,935	261,078	(48,931)	213,554
Total pension liability - beginning	<u>3,206,433</u>	<u>3,176,533</u>	<u>3,129,598</u>	<u>2,868,520</u>	<u>2,917,451</u>	<u>2,703,897</u>
Total pension liability - ending	<u>\$ 3,096,088</u>	<u>\$ 3,206,433</u>	<u>\$ 3,176,533</u>	<u>\$ 3,129,598</u>	<u>\$ 2,868,520</u>	<u>\$ 2,917,451</u>
Plan Fiduciary Net Position						
Contributions - employer	\$ 85,739	\$ 86,381	\$ 82,752	\$ 93,620	\$ 102,969	\$ 105,318
Contributions - employee	31,825	39,168	37,711	37,308	41,188	43,701
Net investment income	194,850	205,327	311,886	44,324	112,192	335,753
Benefit payments, including refunds of employee contributions	(156,272)	(261,079)	(135,009)	(135,354)	(215,295)	(97,998)
Administrative expenses	(1,917)	(1,835)	(1,779)	(1,546)	(1,586)	(1,749)
Other	(123)	(181)	(279)	(19)	(24)	18
Net change in plan fiduciary net position	154,102	67,781	295,282	38,333	39,444	385,043
Plan fiduciary net position - beginning	<u>2,920,878</u>	<u>2,853,097</u>	<u>2,557,815</u>	<u>2,519,482</u>	<u>2,480,038</u>	<u>2,094,995</u>
Plan fiduciary net position - ending	<u>\$ 3,074,980</u>	<u>\$ 2,920,878</u>	<u>\$ 2,853,097</u>	<u>\$ 2,557,815</u>	<u>\$ 2,519,482</u>	<u>\$ 2,480,038</u>
Net pension liability - ending	<u>\$ 21,108</u>	<u>\$ 285,555</u>	<u>\$ 323,436</u>	<u>\$ 571,783</u>	<u>\$ 349,038</u>	<u>\$ 437,413</u>
Plan fiduciary net position as a percentage of total pension liability	<u>99%</u>	<u>91%</u>	<u>90%</u>	<u>82%</u>	<u>88%</u>	<u>85%</u>
Covered employee payroll	\$ 659,574	\$ 788,229	\$ 660,168	\$ 801,047	\$ 816,778	\$ 874,018
Net pension liability as a percentage of covered employee payroll	<u>3%</u>	<u>36%</u>	<u>49%</u>	<u>71%</u>	<u>43%</u>	<u>50%</u>

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

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

TOWN OF DAYTON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS

June 30, 2020

Town Fiscal Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a percentage of Covered Payroll
2020	\$ 99,650	\$ 99,650	-	769,456	12.95%
2019	85,739	85,739	-	659,574	13.00%
2018	86,381	86,381	-	788,229	10.96%
2017	82,752	82,752	-	660,168	12.53%
2016	93,620	93,620	-	801,047	11.69%
2015	102,969	102,969	-	816,778	12.61%

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

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

TOWN OF DAYTON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
June 30, 2020

Entity Fiscal Year Ended June 30	Employer's Proportion of the Net OPEB Liability (Asset)	Employer's Proportionate Share of the Net OPEB Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
Virginia Retirement System - Group Life Insurance - General Employees					
2020	0.00337%	\$ 55,000	\$ 659,574	8.34%	52.00%
2019	0.00423%	65,000	788,229	8.25%	51.22%
2018	0.00415%	62,000	660,168	9.39%	48.86%

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

The covered payroll amounts above are for the measurement period, which is twelve months prior to the entity's fiscal year.

SCHEDULE OF OPEB CONTRIBUTIONS
June 30, 2020

Entity Fiscal Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
Virginia Retirement System - Group Life Insurance - General Employees					
2020	\$ 4,001	\$ 4,001	\$ -	\$ 769,656	0.52%
2019	3,430	3,430	-	659,574	0.52%
2018	4,161	4,161	-	788,229	0.63%

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

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

TOWN OF DAYTON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY
AND RELATED RATIOS - LOCAL PLAN

June 30, 2020

	Plan Year		
	2019	2018	2017
Total OPEB Liability			
Service cost	\$ 79,138	\$ 79,138	\$ 79,138
Benefit payments	(79,138)	(79,138)	(79,138)
Net change in total OPEB liability	-	-	-
Total OPEB liability - beginning	541,023	541,023	541,023
Total OPEB liability - ending	<u>\$ 541,023</u>	<u>\$ 541,023</u>	<u>\$ 541,023</u>
Covered payroll	<u>\$ 659,574</u>	<u>\$ 788,229</u>	<u>\$ 660,168</u>
Net OPEB liability as a percentage of covered payroll	<u>82%</u>	<u>69%</u>	<u>82%</u>

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

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

TOWN OF DAYTON, VIRGINIA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2020**

Note 1. Changes of Benefit Terms

Pension

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

Other Postemployment Benefits (OPEB)

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

Note 2. Changes of Assumptions

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest 10 – Non-Hazardous Duty:

- Update mortality table to RP-2014 projected to 2020
- Lowered rates at older ages and extended final retirement age from 70 to 75
- Update withdrawal rates to better fit experience at each age and service year
- Lowered rates of disability retirement
- No changes to salary rates
- Decrease discount rate from 7.00% to 6.75%
- Applicable to: Pension, GLI OPEB

Largest 10 – Hazardous Duty/Public Safety Employees:

- Update mortality table to RP-2014 projected to 2020
- Lowered rates of retirement at older ages
- Update withdrawal rates to better fit experience at each age and service year
- Increased disability rates
- No changes to salary rates
- Decreased discount rate from 7.00% to 6.75%
- Applicable to: Pension, GLI OPEB

All Others (Non 10 Largest) – Non-Hazardous Duty:

- Update mortality table to RP-2014 projected to 2020
- Lowered rates of retirement at older ages and changed final retirement from 70 to 75
- Update withdrawal rates to better fit experience at each age and service year
- Lowered disability rates
- No changes to salary rates
- Decreased discount rate from 7.00% to 6.75%
- Applicable to: Pension, GLI OPEB

(Continued)

TOWN OF DAYTON, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2020

Note 2. Changes of Assumptions (Continued)

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

- Update mortality table to RP-2014 projected to 2020
- Increased retirement rate at age 50 and lowered rates at older ages
- Update withdrawal rates to better fit experience at each age and service year
- Update disability rates to better fit experience
- No changes to salary rates
- Decreased discount rate from 7.00% to 6.75%
- Applicable to: Pension, GLI OPEB

COMPLIANCE SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Dayton, Virginia (the “Town”), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements, and have issued our report thereon dated October 14, 2020.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. **We identified certain deficiencies in internal control described in the accompanying schedule of findings and responses as items 2012-001, 2017-001, and 2019-001 that we consider to be material weaknesses.**

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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. **The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.**

Town of Dayton's Response to Findings

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

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
October 14, 2020

TOWN OF DAYTON, VIRGINIA

**SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2020**

A. FINDINGS – FINANCIAL STATEMENT AUDIT

2012-001: Segregation of Duties (Material Weakness)

Condition:

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

Recommendation:

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

Management's Response:

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

2017-001: Bank Reconciliations (Material Weakness)

Condition:

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

Recommendation:

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

Management's Response:

The Treasurer and staff have improved the process to allow for more timely bank reconciliations starting in April 2020.

2019-001: Audit Adjustments (Material Weakness)

Condition:

Audit procedures resulted in material audit adjustments to the financial statements.

Recommendation:

We recommend that the Town create monthly and annual checklists for accrual entries.

Management's Response:

The Town underwent transitions in key personnel positions. Employees will be trained and more prepared for the FY21 audit.