

TOWN OF DAYTON, VIRGINIA

FINANCIAL REPORT

June 30, 2013

TOWN OF DAYTON, VIRGINIA

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INTRODUCTORY SECTION

TOWN OF DAYTON, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS

June 30, 2013

TOWN COUNCIL

Charles T. Long, Mayor
Josh O. Lyons, Vice Mayor
Laura J. Daily
Steven J. Dean
Gregory L. Trissel
Jeff Daly
Kehris Snead

APPOINTED OFFICIALS

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

INDEPENDENT AUDITOR'S

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

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Town of Dayton, Virginia, (the "Town") as of and for the year ended June 30, 2013, 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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2013 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
September 12, 2013

BASIC FINANCIAL STATEMENTS

TOWN OF DAYTON, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2013

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents (Note 2)	\$ 42,806	\$ 1,068,861	\$ 1,111,667
Investments (Note 2)	-	2,005,979	2,005,979
Receivables (Note 3)	113,913	426,370	540,283
Due from other governmental units (Note 5)	13,875	-	13,875
Inventories	-	35,942	35,942
Prepays	59,769	10,611	70,380
Investment in electric cooperative (Note 2)	2,422	86,973	89,395
Capital assets: (Note 6)			
Nondepreciable	1,250,410	274,007	1,524,417
Depreciable, net	3,187,230	7,934,917	11,122,147
	<u>4,670,425</u>	<u>11,843,660</u>	<u>16,514,085</u>
LIABILITIES			
Accounts payable and accrued liabilities	29,730	7,001	36,731
Accrued payroll and related liabilities	38,923	7,145	46,068
Accrued interest	9,659	-	9,659
Unearned revenue (Note 7)	85,392	-	85,392
Deposits payable	-	7,213	7,213
Noncurrent liabilities: (Note 8)			
Due within one year	94,122	-	94,122
Due in more than one year	377,190	11,085	388,275
	<u>635,016</u>	<u>32,444</u>	<u>667,460</u>
NET POSITION			
Invested in capital assets, net of related debt	4,033,237	8,295,897	12,329,134
Unrestricted	2,172	3,515,319	3,517,491
	<u>4,035,409</u>	<u>\$ 11,811,216</u>	<u>\$ 15,846,625</u>

TOWN OF DAYTON, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Governmental activities							
General government administration	\$ 494,019	\$ 1,777	\$ -	\$ -	\$ (492,242)	\$ -	\$ (492,242)
Public safety	751,927	41,176	55,143	-	(655,608)	-	(655,608)
Public works	514,119	137,307	-	6,589	(370,223)	-	(370,223)
Parks, recreation, and cultural	176,928	44,635	-	-	(132,293)	-	(132,293)
Community development	47,988	-	-	-	(47,988)	-	(47,988)
Interest on long-term debt	23,727	-	-	-	(23,727)	-	(23,727)
Total governmental activities	2,008,708	224,895	55,143	6,589	(1,722,081)	-	(1,722,081)
Business-type activities							
Water and sewer	2,468,278	3,663,497	-	-	-	1,195,219	1,195,219
Total business-type activities	2,468,278	3,663,497	-	-	-	1,195,219	1,195,219
Total primary government	\$ 4,476,986	\$ 3,888,392	\$ 55,143	\$ 6,589	(1,722,081)	1,195,219	(526,862)
General revenues and transfers:							
Property taxes					106,635	-	106,635
Other local taxes					346,442	-	346,442
Unrestricted revenue from the use of money and property					212	53,944	54,156
Other					31,545	-	31,545
Transfers (Note 4)					1,295,243	(1,295,243)	-
Total general revenues and transfers					1,780,077	(1,241,299)	538,778
Change in net position					57,996	(46,080)	11,916
NET POSITION AT JULY 1, AS RESTATED (NOTE 4)					3,977,413	11,857,296	15,834,709
NET POSITION AT JUNE 30					\$ 4,035,409	\$ 11,811,216	\$ 15,846,625

TOWN OF DAYTON, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2013

	<u>General</u>
ASSETS	
Cash and cash equivalents (Note 2)	\$ 42,806
Receivables, net (Note 3)	113,913
Due from other governmental units (Note 5)	13,875
Prepays	<u>59,769</u>
Total assets	<u>\$ 230,363</u>
LIABILITIES AND FUND BALANCES	
Accounts payable and accrued liabilities	\$ 29,730
Accrued payroll and related liabilities	38,923
Deferred revenue (Note 7)	<u>87,407</u>
Total liabilities	<u>156,060</u>
Fund balances (deficits):	
Nonspendable - prepaids	59,769
Committed to:	
General government administration	32,978
Public safety	3,874
Public works	95,990
Community development	31,278
Unassigned	<u>(149,586)</u>
Total fund balances (deficits)	<u>74,303</u>
Total liabilities and fund balances	<u>\$ 230,363</u>

TOWN OF DAYTON, VIRGINIA

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2013**

Ending fund balance – governmental fund		\$ 74,303
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the funds.</p>		
Nondepreciable capital assets	\$ 1,250,410	
Depreciable capital assets, net	<u>3,187,230</u>	
		4,437,640
<p>Investment in electric cooperative is not available in the current period and therefore is not reported in the funds.</p>		
		2,422
<p>Certain revenues are not available to pay for current period expenditures and are not reported in the governmental fund.</p>		
		2,015
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.</p>		
Accrued interest payable	(9,659)	
Compensated absences and service benefit liabilities	(66,909)	
Long-term debt	<u>(404,403)</u>	
		<u>(480,971)</u>
Total net position – governmental activities		<u><u>\$ 4,035,409</u></u>

TOWN OF DAYTON, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
Year Ended June 30, 2013

	General
REVENUES	
General property taxes	\$ 106,714
Other local taxes	346,442
Permits, privilege fees, and regulatory licenses	337
Fines and forfeitures	41,176
Revenues from the use of money and property	1,653
Charges for services	137,307
Intergovernmental	61,732
Recovered costs	23,864
Other	52,256
Total revenues	771,481
EXPENDITURES	
Current:	
General government administration	398,120
Public safety	716,733
Public works	458,408
Parks, recreation and cultural	177,577
Community development	47,988
Capital outlay	97,899
Debt service:	
Principal retirement	89,593
Interest and other fiscal charges	25,620
Total expenditures	2,011,938
Excess (deficiency) of revenues over expenditures	(1,240,457)
OTHER FINANCING SOURCES	
Proceeds from sale of capital assets	31,705
Transfers in (Note 4)	1,295,243
Total other financing sources	1,326,948
Net change in fund balance	86,491
FUND BALANCES (DEFICITS) AT JULY 1	(12,188)
FUND BALANCES AT JUNE 30	\$ 74,303

TOWN OF DAYTON, VIRGINIA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
FUND BALANCE TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2013**

Net change in fund balance – total governmental fund		\$ 86,491
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	\$ 104,561	
Depreciation expense	<u>(190,728)</u>	(86,167)
In the statement of activities, only gains (losses) on the sale of assets are reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the assets sold or disposed.		
		(39,380)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
		(80)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has an effect on net assets.		
Principal repayments		89,593
The net effect of the change in accrued interest expense, which is not reflected in the fund statements.		
		1,893
Long-term compensated absences and service benefits are reported in the statement of activities but they do not require the use of current financial resources and, therefore are not recorded as expenditures in governmental funds.		
		<u>5,646</u>
Change in net position of governmental activities		<u><u>\$ 57,996</u></u>

TOWN OF DAYTON, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 106,000	\$ 106,000	\$ 106,714	\$ 714
Other local taxes	349,400	314,400	346,442	32,042
Permits, privilege fees, and regulatory licenses	-	-	337	337
Fines and forfeitures	20,000	20,000	41,176	21,176
Revenues from the use of money and property	1,440	1,440	1,653	213
Charges for services	127,000	127,000	137,307	10,307
Intergovernmental	257,000	58,000	61,732	3,732
Recovered costs	3,000	18,000	23,864	5,864
Other	40,000	40,000	52,256	12,256
Total revenues	<u>903,840</u>	<u>684,840</u>	<u>771,481</u>	<u>86,641</u>
EXPENDITURES				
Current:				
General government administration	395,205	403,279	398,120	5,159
Public safety	660,025	720,316	716,733	3,583
Public works	445,709	461,574	458,408	3,166
Parks, recreation and cultural	162,412	162,412	177,577	(15,165)
Community development	39,000	49,500	47,988	1,512
Capital outlay	434,500	174,500	97,899	76,601
Debt service:				
Principal retirement	89,597	90,087	89,593	494
Interest and other fiscal charges	25,620	25,127	25,620	(493)
Total expenditures	<u>2,252,068</u>	<u>2,086,795</u>	<u>2,011,938</u>	<u>74,857</u>
Excess (deficiency) of revenues over expenditures	<u>(1,348,228)</u>	<u>(1,401,955)</u>	<u>(1,240,457)</u>	<u>161,498</u>
OTHER FINANCING SOURCES				
Proceeds from sale of capital assets	44,000	49,000	31,705	(17,295)
Transfers in	1,379,228	1,440,988	1,295,243	(145,745)
Total other financing sources	<u>1,423,228</u>	<u>1,489,988</u>	<u>1,326,948</u>	<u>(163,040)</u>
Net change in fund balance	<u>\$ 75,000</u>	<u>\$ 88,033</u>	<u>\$ 86,491</u>	<u>\$ (1,542)</u>

TOWN OF DAYTON, VIRGINIA
STATEMENT OF NET POSITION –
PROPRIETARY FUND
June 30, 2013

	<u>Enterprise Fund</u> <u>Water and Sewer</u>
ASSETS	
Current assets:	
Cash and cash equivalents (Note 2)	\$ 1,068,861
Investments (Note 2)	2,005,979
Accounts receivable, net (Note 3)	426,370
Inventories	35,942
Prepays	<u>10,611</u>
Total current assets	<u>3,547,763</u>
Noncurrent assets:	
Investment in electric cooperative (Note 2)	86,973
Capital assets (Note 6)	
Nondepreciable	274,007
Depreciable, net	<u>7,934,917</u>
Total noncurrent assets	<u>8,295,897</u>
Total assets	<u>11,843,660</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	7,001
Accrued payroll and related liabilities	7,145
Deposits payable	<u>7,213</u>
Total current liabilities	<u>21,359</u>
Noncurrent liabilities:	
Compensated absences and service benefits (Note 8)	<u>11,085</u>
Total liabilities	<u>32,444</u>
NET POSITION	
Invested in capital assets, net of related debt	8,295,897
Unrestricted	<u>3,515,319</u>
Total net position	<u><u>\$ 11,811,216</u></u>

TOWN OF DAYTON, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET POSITION – PROPRIETARY FUND
Year Ended June 30, 2013**

	<u>Enterprise Fund</u> <u>Water and Sewer</u>
OPERATING REVENUES	
Charges for services (Note 11)	\$ 3,637,217
Connection availability fees	26,000
Other	280
	3,663,497
OPERATING EXPENSES	
Salaries	138,721
Fringe benefits	43,534
Maintenance	145,675
Utilities	135,495
Materials and supplies	49,190
Regional Sewer Authority assessment	1,525,160
Other	16,299
Depreciation	414,204
	2,468,278
Total operating expenses	2,468,278
Operating income	1,195,219
NONOPERATING REVENUES (EXPENSES)	
Loss on disposal of capital asset	(1,143)
Interest income	55,087
	53,944
Net nonoperating revenues (expenses)	53,944
Income before transfers	1,249,163
TRANSFERS OUT (NOTE 4)	(1,295,243)
Change in net position	(46,080)
NET POSITION AT JULY 1, AS RESTATED (Note 14)	11,857,296
NET POSITION AT JUNE 30	\$ 11,811,216

TOWN OF DAYTON, VIRGINIA

STATEMENT OF CASH FLOWS – PROPRIETARY FUND
Year Ended June 30, 2013

	<u>Enterprise Fund</u> <u>Water and Sewer</u>
OPERATING ACTIVITIES	
Receipts from customers	\$ 3,650,947
Payments to suppliers	(1,876,173)
Payments to employees	(186,109)
Net cash provided by operating activities	<u>1,588,665</u>
NON-CAPITAL AND RELATED FINANCING ACTIVITIES	
Transfers to other funds	<u>(1,295,243)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(40,950)
Proceeds from sale of capital assets	17,855
Net cash used in capital and related financing activities	<u>(23,095)</u>
INVESTING ACTIVITIES	
Proceeds from sale of investments	7,925
Interest received	58,594
Net cash provided by investing activities	<u>66,519</u>
Net increase in cash and cash equivalents	336,846
CASH AND CASH EQUIVALENTS	
Beginning at July 1	<u>732,015</u>
Ending at June 30	<u>\$ 1,068,861</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 1,195,219
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	414,204
Change in certain assets and liabilities:	
(Increase) decrease in:	
Accounts receivable, excluding interest receivable	(13,253)
Prepays	1,440
Inventories	(5,048)
Increase (decrease) in:	
Accounts payable and accrued liabilities	(746)
Accrued payroll and related liabilities	(3,142)
Customer security deposits	703
Compensated absences and service benefits	(712)
Net cash provided by operating activities	<u>\$ 1,588,665</u>

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 1. Summary of Significant Accounting Policies

A. The Financial Reporting Entity

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

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

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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

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

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

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets and Budgetary Accounting

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

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

At June 30th, total general fund expenditures related to parks, recreation, and cultural exceeded budgeted amounts by \$15,165.

E. Cash and Cash Equivalents

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

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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 activities 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 deferred 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 deferred revenue since these taxes are intended for use in the following fiscal year.

H. Inventories

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

I. Prepays

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

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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, and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. *Capital assets* are defined by the government as assets with an initial, individual cost of more than \$5,000 and a useful life of more than one year. Infrastructure assets capitalized have an original cost of \$25,000 or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

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

L. Capitalization of Interest

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

M. Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 1. Summary of Significant Accounting Policies (Continued)

N. Compensated Absences

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

O. Long-Term Debt

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

P. Net Position/Fund Balance

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

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

The classifications are as follows:

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

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 1. Summary of Significant Accounting Policies (Continued)

P. Net Position/Fund Balance (Continued)

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

Q. Restricted Resources

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

R. Minimum Fund Balance Policy

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

S. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. There are \$164,120 of governmental encumbrances as of June 30th.

T. Estimates

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

Note 2. Deposits and Investments

Deposits

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

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 2. Deposits and Investments (Continued)

Investments

Investment Policy:

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

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

<u>Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Percent of Portfolio</u>
Demand deposits	\$ 1,111,667	N/A	35.66 %
Certificates of Deposit maturing in:			
One year or less	850,543	N/A	27.28
More than one year	<u>1,155,436</u>	N/A	<u>37.06</u>
	<u>\$ 3,117,646</u>		<u>100.00 %</u>
Reconciliation of deposits and investments to Exhibit 1:			
Cash and cash equivalents	\$ 1,111,667		
Investments	<u>2,005,979</u>		
Total deposits and investments	<u>\$ 3,117,646</u>		

The Town has an investment in electric cooperative totaling \$89,395 that reflects the Town’s member equity in the cooperative.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Credit Risk:

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

Concentration of Credit Risk:

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

Interest Rate Risk:

As of June 30th, all certificates of deposit have original maturities in excess of one year. The Town does not have a formal policy limiting investment maturities.

Custodial Credit Risk:

As required by the *Code of Virginia*, all security holdings with maturities over 30 days may not be held in safekeeping with the “counterparty” to the investment transaction. As of June 30th, the Town has no investments subject to custodial credit risk.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 3. Receivables

Receivables are as follows:

	General	Water and Sewer	Total
Taxes	\$ 53,592	\$ -	\$ 53,592
Accounts	60,321	421,691	482,012
Interest	-	4,679	4,679
	\$ 113,913	\$ 426,370	\$ 540,283

Note 4. Interfund Transfers

The composition of interfund transfers is as follows:

Transfer Out Fund	Transfer In Fund	Amount
Water and Sewer	General Fund	\$ 1,295,243

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

Note 5. Due from Other Governmental Units

Amounts due from other governmental units are as follows:

Commonwealth of Virginia:		
Department of Taxation	\$	3,999
Department of Fire Programs		800
County of Rockingham, Virginia:		
Sales tax collected for the Town		9,076
	\$	13,875

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 6. Capital Assets

Capital asset activity for the year was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 1,004,525	\$ -	\$ (31,645)	\$ 972,880
Construction in progress	265,761	32,929	(21,160)	277,530
Total capital assets, not depreciated	<u>1,270,286</u>	<u>32,929</u>	<u>(52,805)</u>	<u>1,250,410</u>
Capital assets, depreciated				
Buildings	2,757,511	9,622	-	2,767,133
Machinery and equipment	585,701	19,968	-	605,669
Vehicles	495,074	34,003	(30,948)	498,129
Land improvements	245,345	29,199	-	274,544
Infrastructure	382,994	-	-	382,994
Total capital assets, depreciated	<u>4,466,625</u>	<u>92,792</u>	<u>(30,948)</u>	<u>4,528,469</u>
Less accumulated depreciation:				
Buildings and improvements	295,183	60,494	-	355,677
Machinery and equipment	304,963	48,671	-	353,634
Vehicles	396,516	29,767	(23,211)	403,072
Land improvements	59,330	32,437	-	91,767
Infrastructure	117,730	19,359	-	137,089
Total accumulated, depreciation	<u>1,173,722</u>	<u>190,728</u>	<u>(23,211)</u>	<u>1,341,239</u>
Total capital assets, depreciated, net	<u>3,292,903</u>	<u>(97,936)</u>	<u>(7,737)</u>	<u>3,187,230</u>
Governmental activities capital assets, net	<u>\$ 4,563,189</u>	<u>\$ (65,007)</u>	<u>\$ (60,542)</u>	<u>\$ 4,437,640</u>

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 6. Capital Assets (Continued)

Capital asset activity for the year was as follows:

<u>Business-Type Activities</u>	<u>Beginning Balance (as restated)</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 275,045	\$ -	\$ (18,998)	\$ 256,047
Construction in progress	800	17,160	-	17,960
Total capital assets, not depreciated	<u>275,845</u>	<u>17,160</u>	<u>(18,998)</u>	<u>274,007</u>
Capital assets, depreciated				
Utility systems	13,087,539	23,790	-	13,111,329
Total capital assets, depreciated	<u>13,087,539</u>	<u>23,790</u>	<u>-</u>	<u>13,111,329</u>
Less accumulated depreciation	4,762,208	414,204	-	5,176,412
Total capital assets, depreciated, net	<u>8,325,331</u>	<u>(390,414)</u>	<u>-</u>	<u>7,934,917</u>
Business-type activities capital assets, net	<u>\$ 8,601,176</u>	<u>\$ (373,254)</u>	<u>\$ (18,998)</u>	<u>\$ 8,208,924</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government administration	\$ 74,066
Public safety	40,055
Public works	56,257
Parks, recreation and cultural	20,350
Total depreciation expense – governmental activities	<u>\$ 190,728</u>
Business-type activities	
Water and sewer	<u>\$ 414,204</u>

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 7. Deferred and Unearned Revenue

The following is a summary of deferred and unearned revenue:

Unbilled property taxes (unearned)	\$ 53,122
Autumn Celebration deposits (unearned)	32,270
Total unearned revenue	85,392
Uncollected property tax billing (unavailable)	2,015
Total deferred revenue	\$ 87,407

Note 8. Long-Term Liabilities

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

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds:					
RJW, LLC	\$ 215,996	\$ -	\$ (36,817)	\$ 179,179	\$ 39,763
Dove Bond	126,000	-	(16,444)	109,556	16,937
Yancey Bond	152,000	-	(36,332)	115,668	37,422
Total general obligation bonds	493,996	-	(89,593)	404,403	94,122
Compensated absences and services benefits	72,556	-	(5,647)	66,909	-
Total governmental activities	\$ 566,552	\$ -	\$ (95,240)	\$ 471,312	\$ 94,122

Details of outstanding long-term debt are as follows:

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

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

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 8. Long-Term Liabilities (Continued)

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

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 94,122	\$ 21,091
2015	98,935	16,279
2016	104,050	11,164
2017	68,598	5,723
2018	19,063	1,161
2019	19,635	589
	<u>\$ 404,403</u>	<u>\$ 56,007</u>

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

Note 9. Defined Benefit Pension Plan

Plan Description

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

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who were vested as of January 1, 2013 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least five years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 3.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS Web site at <http://www.varetire.org/PDF/Publications/2012-Annual-Report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Special Elected Benefit

The Town has elected to fund the Law Enforcement Officers (LEOS) retirement benefit. LEOS provides a package of special retirement benefits for law enforcement officers and their survivors. Employees eligible for LEOS are covered by VRS but have enhanced benefit formulas because of the nature of their jobs. The Town's contribution rate was increased to cover enrollment in this program.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 9. Defined Benefit Pension Plan (Continued)

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended June 30, 2013 was 12.05% of annual covered payroll.

Annual Pension Cost

For the fiscal year ended June 30, 2013, the Town's annual pension cost of \$146,751 was equal to the required and actual contributions.

Three-Year Trend Information			
<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of (APC) Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2013	\$ 146,751	100%	\$ -
June 30, 2012	\$ 134,796	100%	\$ -
June 30, 2011	\$ 120,345	100%	\$ -

The fiscal year 2013 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumption at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00% (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%. The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 9. Defined Benefit Pension Plan (Continued)

Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was 75.89% funded. The actuarial accrued liability for benefits was \$2,568,149, and the actuarial value of assets was \$1,949,038, resulting in an unfunded actuarial accrued liability (UAAL) of \$619,111. The covered payroll (annual payroll of active employees covered by the plan) was \$812,661, and the ratio of the UAAL to the covered payroll was 76.18%.

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

Note 10. Jointly Governed Organization

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

Based on the current average usage, the Town's total assessment for the Authority's operating, debt service and capital expenditures for the ensuing year approximates \$1,540,000.

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

Note 11. Major Customer

The Town has one major water and sewer customer. For the current year, water and sewer revenue from this customer was approximately \$3,347,000 or 91% of operating revenues. Accounts receivable from this customer amounted to approximately \$288,000 or 91% of receivables at June 30, 2013.

Note 12. Risk Management

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

TOWN OF DAYTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 12. Risk Management (Continued)

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

Note 13. Related Party Transactions

During fiscal year 2013, the Town paid an electrical contractor a total of \$6,172 for various projects. A council member is the general manager of the company.

The Town paid an IT company a total of \$17,871 in the current year. A former council member works for this company. The total paid consisted of \$8,400 for monthly IT support and \$9,387 for new computer equipment and installation of that equipment. The council member resigned in October 2012.

The Town paid a block company a total of \$994 for landscaping brick and sandbags. A council member is a salesman for the company.

Note 14. Restatement

Beginning net position was increased by \$2,422 and \$86,973 in governmental activities and the water and sewer fund, respectively to record the Town's long-term investment in an electric cooperative.

Note 15. New Accounting Standards

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

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes standards for reclassification of certain item as deferred outflows and inflows of resources that were previously reported as assets and liabilities. The standard limits the items that should be reported as deferred outflows and inflows of resources to items specifically identified in authoritative pronouncements. Additionally, the standard requires that debt issuance costs be recognized as an expense in the period incurred except any portion related to prepaid insurance costs. Prospective application is required. The Statement will be effective for the year ending June 30, 2014.

TOWN OF DAYTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 15. New Accounting Standards (Continued)

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, was issued to resolve conflicting guidance that resulted from the issuance of two pronouncements. The Statement amends GASB Statement No. 10 by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. The fund classification should be determined based on the nature of the activity to be reported. The Statement also amends GASB Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a normal servicing fee rate. The Statement will be effective for the year ending June 30, 2014.

GASB Statement No. 67, *Financial Reporting for Pension Plans* replaces the requirements of *GASB Statements No. 25 and No. 50* as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. The Statement also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial Statements and in 10-year RSI schedules. This Statement will be effective for the year ending June 30, 2014.

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

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

TOWN OF DAYTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 15. New Accounting Standards (Continued)

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* was issued to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also provides guidance on the accounting for the government if they are the obligor in the transaction and on intra-entity nonexchange financial guarantees involving blended component units. This Statement specifies the information required to be disclosed by governments that extend or receive nonexchange financial guarantees. This Statement will be effective for the year ending June 30, 2014.

**REQUIRED SUPPLEMENTARY
INFORMATION**

TOWN OF DAYTON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN
June 30, 2013

	(a)	(b)	(b-a) Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	((b-a)/c) UAAL as of Percentage of Covered Payroll
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as of Percentage of Covered Payroll
June 30, 2012	\$ 1,949,038	\$ 2,568,149	\$ 619,111	75.89%	\$ 812,661	76.18%
June 30, 2011	\$ 1,850,536	\$ 2,376,010	\$ 525,474	77.88%	\$ 784,105	67.02%
June 30, 2010	\$ 1,716,518	\$ 2,262,400	\$ 545,882	75.87%	\$ 712,490	76.62%

COMPLIANCE SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the Town of Dayton, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated September 12, 2013.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. **We did identify a certain deficiency in internal control described in the accompanying schedule of findings and responses as item 12-1 that we consider to be a material weakness.**

Compliance and Other Matters

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

Town of Dayton's Response to Findings

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

Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
September 12, 2013

TOWN OF DAYTON, VIRGINIA

**SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2013**

A. FINDINGS – FINANCIAL STATEMENT AUDIT

12-1: Segregation of Duties (Material Weakness)

Condition:

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

Recommendation:

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

Management's Response:

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