

TOWN OF LOVETTSVILLE, VIRGINIA
FINANCIAL AND COMPLIANCE REPORTS
JUNE 30, 2018

TOWN OF LOVETTSVILLE, VIRGINIA

DIRECTORY OF OFFICIALS

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David W. Black, CPA
Managing Partner

Christopher R. Montgomery, CPA
Tax Partner

INDEPENDENT AUDITORS' REPORT

To the Honorable Town Council
Town of Lovettsville
P.O. Box 209
Lovettsville, VA 20180

Report on the Audited 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 Lovettsville, Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town of Lovettsville's basic financial statements as listed in the table of contents. We also have reviewed the financial statements of Mayfest and Oktoberfest, as discussed in this report under the heading "Report on the Reviewed Financial Statements." Mayfest and Oktoberfest financial activities are included in the Town's basic financial statements as fiduciary funds.

Management's Responsibility for the Audited Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Auditors' 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 Lovettsville, Virginia, as of June 30, 2018, and the respective changes in financial position, and where applicable, cash flows thereof 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 management's discussion and analysis and the required supplementary information, 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 historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Lovettsville's basic financial statements. The other supplementary information, listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2018, on our consideration of the Town of Lovettsville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Lovettsville's internal control over financial reporting and compliance.

Report on the Reviewed Financial Statements

We have reviewed the accompanying financial statements of the fiduciary funds (Mayfest and Oktoberfest) of the Town of Lovettsville, Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Reviewed 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.

Accountant's Responsibility for the Reviewed Financial Statements

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion on the Reviewed Financial Statements

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Young, Nicholas, Branner & Phillips, LLP

Harrisonburg, VA
December 10, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Town of Lovettsville's financial performance provides an overview of the Town's financial activities for the year ended June 30, 2018. Please read it in conjunction with the Town's financial statements, which begin on page 12.

FINANCIAL HIGHLIGHTS

- The assets of the Town exceeded its liabilities by \$12,398,165 at the close of the most recent fiscal year.
- The Town's net position increased as a result of this year's operations. While net position of the business-type activities increased by \$353,433, net position of the governmental activities increased by \$92,550.
- In the Town's business-type activities, operating revenues decreased by \$767 from the previous year while operating expenses increased by \$60,494. Nonoperating income increased by \$29,492.
- In the Town's governmental activities, operating revenues increased by \$259,501 from the previous year while operating expenses increased by \$24,522. Nonoperating income decreased by \$2,171.
- Actual revenues were \$215,755 more than budgeted for the General Fund. General Fund expenditures were \$79,638 more than budgeted.
- Operating and nonoperating revenues were \$57,635 more than budgeted for the Water and Sewer Fund. Water and Sewer Fund operating expenses, excluding depreciation, and interest expense were \$136,289 less than budgeted.
- The Town spent \$166,232 for capital additions during the current fiscal year.
- The Town's long-term debt decreased by \$538,842 during the current fiscal year.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 12 and 13) provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements start on page 14. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for the future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds.

Reporting the Town as a Whole

One of the most important questions asked about the Town's finances is, "Is the Town as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Town as a whole and about its activities in a way that help answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's *net position* and changes in it. You can think of the Town's net position - the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources - as one way to measure the Town's financial health, or *financial position*. Over time, *increases* or *decreases* in the Town's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Town's property base and condition of the Town's roads, to assess the *overall health* of the Town.

In the Statement of Net Position and the Statement of Activities, we divide the Town into two kinds of activities:

- *Governmental activities* - Most of the Town's basic services are reported here, including public safety, public works, community development and general administration. Property taxes, other local taxes and development fees finance most of these activities.
- *Business-type activities* - The Town charges a fee to customers/users to help it cover all or most of the cost of certain services it provides. The Town's water and sewer system is reported here.

Reporting the Town's Most Significant Funds

The fund financial statements begin on page 14 and provide detailed information about the Town's funds-not the Town as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town uses fund accounting to ensure and reflect compliance (or noncompliance) with finance-related legal requirements, such as the budget ordinance. The Town's two kinds of funds - *governmental* and *proprietary* - use different accounting approaches.

- *Governmental fund* - Most of the Town's basic services are reported in the governmental fund, which focuses on how money flows into and out of the fund, and the balances left at year-end that are nonspendable, restricted, committed, assigned, or unassigned. These classifications of fund balance show the nature and extent of constraints placed on the Town's fund balances by law, creditors, Town council, and the Town's annually adopted budget. Unassigned fund balance is available for spending for any purpose. This fund is reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Town's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and the governmental *fund* in reconciliations following the fund financial statements.

- *Proprietary fund*-When the Town charges customers/users for the services provided it is reported in a proprietary fund. The proprietary fund is reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the Town's enterprise fund is the same as the business-type activities we report in the government-wide statements but provides more detail and additional information, such as cash flows, for the proprietary fund.

THE TOWN AS A TRUSTEE

The Town is the trustee, or fiduciary, for the Mayfest and Oktoberfest Funds. All of the Town's fiduciary activities are reported in a separate Statements of Fiduciary Net Position and a Statements of Changes in Fiduciary Net Position on pages 23 and 24. Since this fund is custodial in nature (i.e. assets equal liabilities) it does not involve the measurement of results of operations. We exclude these activities from the Town's other financial statements because the Town cannot use these assets to finance its operations. The Town is responsible for ensuring that the assets reported in this fund are used for their intended purposes.

THE TOWN AS A WHOLE

The Town's *combined* net assets changed slightly from a year ago – *increasing* from \$11,952,182 to \$12,398,165. During the year, the net assets of the governmental and business-type activities increased by 1.31 percent and 4.67 percent, respectively. Below is a summary of the net assets as of June 30, 2018 and 2017.

	NET ASSETS					
	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 2,679,337	\$ 2,677,410	\$ 1,939,007	\$ 1,645,193	\$ 4,618,344	\$ 4,322,603
Capital assets	4,346,180	4,338,008	8,641,833	9,005,953	12,988,013	13,343,961
Total assets	\$ 7,025,517	\$ 7,015,418	\$ 10,580,840	\$10,651,146	\$ 17,606,357	\$ 17,666,564
Total deferred outflows of resources	\$ 52,883	\$ 57,951	\$ 145,759	\$ 171,103	\$ 198,642	\$ 229,054
Long-term liabilities	\$ 1,534,913	\$ 1,597,833	\$ 3,018,929	\$ 3,456,383	\$ 4,553,842	\$ 5,054,216
Other liabilities	98,997	199,562	126,112	142,089	225,109	341,651
Total liabilities	\$ 1,633,910	\$ 1,797,395	\$ 3,145,041	\$ 3,598,472	\$ 4,778,951	\$ 5,395,867
Total deferred inflows of resources	\$ 619,140	\$ 543,174	\$ 8,743	\$ 4,395	\$ 627,883	\$ 547,569
Net position:						
Net investment in capital assets	\$ 2,812,515	\$ 2,716,082	\$ 5,626,000	\$ 5,535,596	\$ 8,438,515	\$ 8,251,678
Unrestricted	2,012,835	2,016,718	1,946,815	1,683,786	3,959,650	3,700,504
Total net position	\$ 4,825,350	\$ 4,732,800	\$ 7,572,815	\$ 7,219,382	\$ 12,398,165	\$ 11,952,182

*Net position of 2017 governmental and business-type activities has been restated (see Note 15, page 60)

A portion of the Town's net position (68.06 percent) reflects its investments in capital assets (e.g., land, buildings, equipment, improvements, and infrastructure), less any debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of unrestricted net assets (\$3,959,650) may be used to meet the government's ongoing obligation to citizens and creditors.

The following is a summary of the change in net position for the governmental and business-type activities for the years ended June 30, 2018 and 2017.

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues						
Charges for services	\$ 48,080	\$ 90,367	\$ 1,131,805	\$ 1,132,572	\$ 1,179,885	\$ 1,222,939
General property taxes	587,709	559,357	-	-	587,709	559,357
Other local taxes	530,081	439,977	-	-	530,081	439,977
Intergovernmental	186,161	17,359	-	-	186,161	17,359
Miscellaneous	27,424	12,894	-	-	27,424	12,894
Total revenues	<u>\$ 1,379,455</u>	<u>\$ 1,119,954</u>	<u>\$ 1,131,805</u>	<u>\$ 1,132,572</u>	<u>\$ 2,511,260</u>	<u>\$ 2,252,526</u>
Program expenses						
General government	\$ 887,154	\$ 870,934	\$ -	\$ -	\$ 887,154	\$ 870,934
Community development	40,649	66,070	-	-	40,649	66,070
Parks, recreation, and cultural	34,593	34,836	-	-	34,593	34,836
Public safety	13,500	3,500	-	-	13,500	3,500
Public works	262,820	238,854	-	-	262,820	238,854
Water and sewer	-	-	1,209,660	1,149,166	1,209,660	1,149,166
Total expenses	<u>\$ 1,238,716</u>	<u>\$ 1,214,194</u>	<u>\$ 1,209,660</u>	<u>\$ 1,149,166</u>	<u>\$ 2,448,376</u>	<u>\$ 2,363,360</u>
Operating income (loss)	<u>\$ 140,739</u>	<u>\$ (94,240)</u>	<u>\$ (77,855)</u>	<u>\$ (16,594)</u>	<u>\$ 62,884</u>	<u>\$ (110,834)</u>
Nonoperating						
State disaster funds	\$ -	\$ -	\$ -	\$ 3,200	\$ -	\$ 3,200
(Loss) from disposal of equipment	-	-	(1,715)	-	(1,715)	-
Interest income	12,171	17,307	25,754	1,693	37,925	19,000
Lease income	-	-	78,746	75,717	78,746	75,717
Interest expense	(60,360)	(63,325)	(91,497)	(98,814)	(151,857)	(162,139)
Total nonoperating	<u>\$ (48,189)</u>	<u>\$ (46,018)</u>	<u>\$ 11,288</u>	<u>\$ (18,204)</u>	<u>\$ (36,901)</u>	<u>\$ (64,222)</u>
Income (loss) before contributions	<u>\$ 92,550</u>	<u>\$ (140,258)</u>	<u>\$ (66,567)</u>	<u>\$ (34,798)</u>	<u>\$ 25,983</u>	<u>\$ (175,056)</u>
Contributions	-	-	420,000	360,400	420,000	360,400
Increase in net position	<u>\$ 92,550</u>	<u>\$ (140,258)</u>	<u>\$ 353,433</u>	<u>\$ 325,602</u>	<u>\$ 445,983</u>	<u>\$ 185,344</u>

The Town's total revenues increased by \$258,734 (11.49 percent). The total cost of all programs and services increased by \$85,016 (3.60 percent). Nonoperating revenues increased by \$27,321 (42.54 percent). Capital contributions increased by \$59,600. Our analysis that follows separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenues for the Town's governmental activities increased by \$259,501 (23.71 percent) and expenses increased by \$24,522 (2.02 percent). The factors driving these results include:

Revenues

- *Other local taxes* increased by \$90,104. Some of this increase is due to additional meals tax of \$38,713. There are two new restaurants that have opened in Town, Velocity Wings and Rasco's, which have been responsible for this increase in meals tax. Business license revenue also increased this year by \$35,880 due to overall economic growth in the Town. The Town also changed the procedures for business license reporting. Beginning this year proof of gross receipts was required with the submission of the business license application. Cigarette taxes increased by \$12,850 which was due to the 7-Eleven being open for all 12 months of this fiscal year.
- *Intergovernmental* revenue increased by \$168,802. The Town received a grant this year from the County for \$150,000 to start the East Broad Way Phase 2A Improvement Project. In addition to that grant, the Town also received fire program funds in the amount of \$20,000, \$10,000 of which was for the prior fiscal year.

Expenses

- *Public works* increased by \$23,966. The cost for trash removal this year increased by \$18,218 due to the growing community and development that has occurred over the past years. Another increase is due to depreciation taken on public works infrastructure. Depreciation increased by \$4,210 due to the completion of the storm ditch improvement project.

Business-Type Activities

Revenues for the Town's business-type activities decreased by \$767 (0.01 percent) and expenses increased by \$60,494 (5.26 percent). The factors driving these results include:

Revenues

- *Water and sewer revenues* decreased overall by \$767. This is less than a 0.01 percent change from the previous year. Water and sewer connection fees were up slightly when compared with the prior year due to new housing development; however, the charges for water and sewer services including late fees were down slightly to offset the increase in connection fees.

Expenses

- *Water and sewer expenses* increased overall by \$60,494. There is no one individual factor responsible for this increase in water and sewer expense this year; however, this increase is made up of multiple small increases. Contractual services increased by \$8,186, repairs and maintenance increased by \$11,402, and supplies and equipment increased by \$14,568. These three items all increased due to work being done at the wastewater treatment plant. In addition to those three items increasing, the cost of utilities increased by \$14,273 as well as the amount of depreciation recorded on assets increased by \$10,063.

The Town's business-type activities also included an increase to interest income by \$24,061 and a decrease in interest expense by \$7,317. The increase in interest income resulted from moving some funds into certificate of deposits that are paying a higher interest rate. The decrease in interest expense resulted from the paying down of loans borrowed for capital improvements.

Finally, contributions increased in business-type activities by \$59,600 from the prior year. Water and sewer availability fees were \$59,600 higher than the prior year, with more availabilities being sold due to the increase in development.

THE TOWN'S FUNDS

As the Town completed the year, its governmental fund (as presented in the balance sheet on page 14) reported a fund balance of \$1,996,126, which is a decrease of \$1,638 over last year's total of \$1,997,764. The primary reasons for the General Fund's decrease mirror the changes noted in the previous section under "governmental" activities. Also, the Town expended \$122,266 in capital outlay for various projects throughout the Town.

As the Town completed the year, its proprietary funds (as presented in the statement of net position on pages 18 and 19) reported net assets of \$7,572,815, which is an increase of \$353,433 over last year's total of \$7,219,382. Significant changes in the change in net assets are noted in the previous section under "business-type" activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Town Council did not make any revisions to the General Fund budget. The significant variations of actual results to the General Fund budget are summarized below:

<u>Account</u>	<u>Variance Positive (Negative)</u>
Revenues	
Business licenses	\$ 32,428
Meals taxes	17,572
Developer proffers	7,183
Reimbursement - engineering	9,649
Bank franchise taxes	11,746
2A Broad Way Grant	150,000
Fire program funds	10,000
Expenditures	
<i>General Government Administration</i>	
Consulting services	\$ (14,879)
Administrative salaries	36,405
Legal fees, non-reimbursable	(34,603)
Software upgrade	(12,008)
<i>Community Development</i>	
Reimbursable - engineering	(8,221)
Event Expense	4,157
<i>Parks, Recreation and Cultural</i>	
Maintenance	10,530
Utilities	4,569
<i>Public Works</i>	
Refuse service	(13,592)
<i>Capital Outlay</i>	
Projects	(126,167)

The Town received more business license revenue and meals tax than budgeted this year due to the continued growth of the Town. Developer proffers and engineering fees exceeded expectations as there has been an increase in the development activity in the Town over the last year. Bank franchise taxes were higher than expected this year due to the local banks having more money on deposit from the local businesses. The Town received a grant from the county to begin the East Broad Way Phase 2A Improvement Project; this was not a budgeted item. The Town also received 2 years' worth of fire funds grant money this year, when the budget was only for 1 year. The Town didn't receive the grant in the previous year and this was a catch-up year for that program.

The Town kept the budget consistent with the prior year for consulting services; however, the Town spent more than expected in this area. Administrative salaries were less than budget this year due to not having a permanent Town Manager for the year. Legal fees for the Town this year exceeded expectations due to the timing of when the Town received the bills for legal services rendered. The Town budgeted the same as the prior year for engineering-reimbursable but expenditures exceeded expectations as more engineering services were needed. The Town budgeted for event expense as the Town is expanding its events within the Town; however, expenditures did not meet expectations. Both maintenance and utilities expenses for the Parks and Recreation department were less than budgeted for this fiscal year. The Town budgeted less than necessary for refuse service expense due to not anticipating the growth rate of the Town.

Capital outlays were primarily funded through greater than anticipated revenues.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the Town had \$12.99 million invested in capital assets including land, buildings, equipment, infrastructure and the utility system. (See table that follows.) This represents a net decrease of \$355,948, or 2.7 percent, under last year.

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Land	\$ 973,820	\$ 973,820	\$ 154,200	\$ 154,200	\$ 1,128,020	\$ 1,128,020
Construction in progress	74,139	70,394	-	98,811	74,139	169,205
Buildings	379,993	337,612	-	-	379,993	337,612
Improvements	362,070	320,214	-	-	362,070	320,214
Equipment	28,679	35,002	-	-	28,679	35,002
Infrastructure	2,527,479	2,600,966	-	-	2,527,479	2,600,966
Utility system	-	-	8,487,633	8,752,942	8,487,633	8,752,942
Totals	<u>\$ 4,346,180</u>	<u>\$ 4,338,008</u>	<u>\$ 8,641,833</u>	<u>\$ 9,005,953</u>	<u>\$ 12,988,013</u>	<u>\$ 13,343,961</u>

This year's additions to be included on the depreciation schedule:

General Fund

Town office concept plan	\$ 52,985
Bonnie's sidewalk connector	13,852
Town Square	31,000
N. Church St. Improvements	24,430
Total general fund	<u>\$ 122,267</u>

Water/Sewer Fund

Sludge pump modifications	\$ 98,811
Water/sewer Master plan	40,065
Total water/sewer fund	<u>\$ 138,876</u>

Debt

At year-end, the Town had \$4,510,841 in outstanding loans compared to \$5,049,683 last year. This is a decrease of 10.67 percent as shown in the following table.

	Governmental Activities		Business-Type Activities		Totals	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Bonds Payable:						
General obligation						
bonds	\$ 1,490,000	\$ 1,575,000	\$ 785,690	\$ 1,197,438	\$ 2,275,690	\$ 2,772,438
Revenue bonds	-	-	2,005,000	2,005,000	2,005,000	2,005,000
Premium on						
bond issuance	<u>16,636</u>	<u>18,300</u>	<u>213,515</u>	<u>253,945</u>	<u>230,151</u>	<u>272,245</u>
Totals	<u>\$ 1,506,636</u>	<u>\$ 1,593,300</u>	<u>\$ 3,004,205</u>	<u>\$ 3,456,383</u>	<u>\$ 4,510,841</u>	<u>\$ 5,049,683</u>

No new debt was issued during the year ended June 30, 2018.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Town anticipates a growing economy with steady growth expected over the course of the next year. The following is a summary of the Town of Lovettsville's budget for fiscal year 2018-2019.

- The budgeted revenues are set to decrease by approximately \$22,000 in the fiscal year ending June 30, 2019. The removal of the cell tower lease revenue has removed \$60,000 of revenue in the budget. This is offset with a \$20,000 increase in expected meals tax and an expected increase of \$15,000 in real estate tax revenue. The remainder of the budgeted revenue is very similar to the previous fiscal budget.
- The budgeted expenses are also set to remain fairly consistent with the previous fiscal year. Refuse service is budgeted to decrease by \$10,000 in the upcoming fiscal year. The Town has budgeted an additional \$5,000 for debt reduction due to loan commitments for the upcoming fiscal year. The remainder of the budgeted expenses is very similar to the previous fiscal budget.
- The budgeted revenue in the utility fund is expected to increase fairly significantly. The Town is projecting an increase of \$148,300 in water availability fee revenue and \$216,700 in sewer availability fee revenue. The Town is also projecting that water and sewer connection fees will increase by \$44,000. The Town is continuing to grow and has reflected this growth in the upcoming fiscal year budget.
- The budgeted expenses remain fairly steady in the upcoming year in response to the budgeted revenues. The extra revenue that the Town plans to see with the growth forecasted in the budget is going into reserve funds for future projects by the Town. The excess cash going into the reserve funds will be divided among the operating cash surplus fund, the rainy day reserve fund, the 3RM reserve fund, the sewer availability fee reserve fund, and the water availability fee reserve fund.

In conclusion, the proposed budget is balanced in accordance with state statutes, and revenues based on conservative estimates, while expenditures are based on historical data, as well as actual proposed costs.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Town Office at 6 East Pennsylvania Avenue, Lovettsville, VA.

Government-Wide Financial Statements

TOWN OF LOVETTSVILLE, VIRGINIA

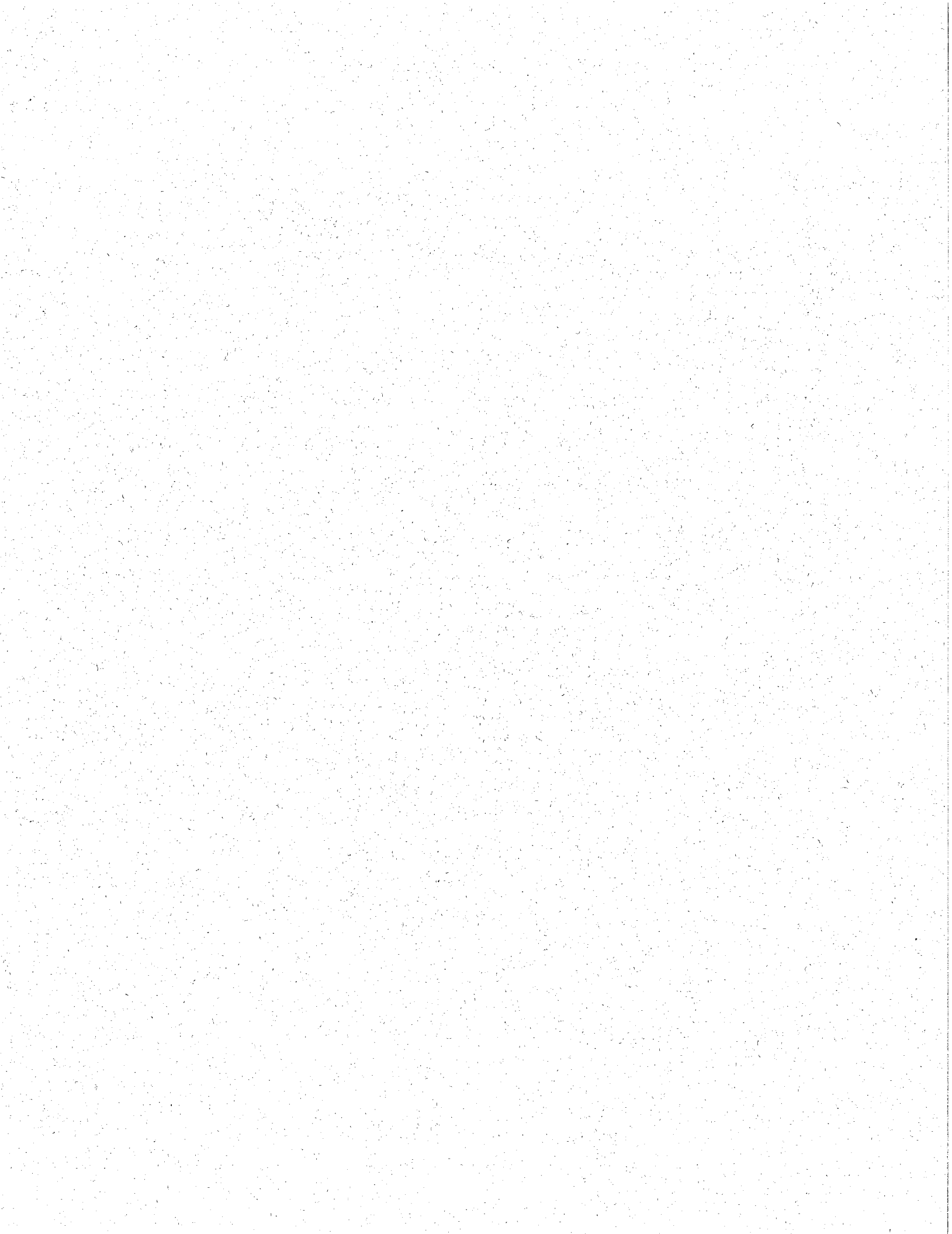
STATEMENT OF NET POSITION

June 30, 2018

----- Primary Government -----

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 1,451,808	\$ 2,251,410	\$ 3,703,218
Receivables:			
Property taxes	629,759	-	629,759
Utility taxes	1,216	-	1,216
Accounts	285	193,732	194,017
Meals and occupancy	19,933	-	19,933
Due from other governmental units	38,457	-	38,457
Prepaid expense	4,895	1,992	6,887
Internal balances	521,377	(521,377)	-
Capital assets:			
Non-depreciable	1,047,959	154,200	1,202,159
Depreciable, net of accumulated depreciation	3,298,221	8,487,633	11,785,854
Net pension asset	11,607	13,250	24,857
Total assets	<u>\$ 7,025,517</u>	<u>\$ 10,580,840</u>	<u>\$ 17,606,357</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension amounts	\$ 51,670	\$ 19,282	\$ 70,952
Deferred OPEB amounts, life insurance	1,213	631	1,844
Deferred charges on refunding	-	125,846	125,846
Total deferred outflows of resources	<u>\$ 52,883</u>	<u>\$ 145,759</u>	<u>\$ 198,642</u>
LIABILITIES			
Accounts payable	\$ 20,807	\$ 19,543	\$ 40,350
Accrued liabilities	16,523	14,805	31,328
Accrued interest payable	27,029	11,627	38,656
Compensated absences	34,638	7,737	42,375
Deposits	-	72,400	72,400
Long-term liabilities:			
Net OPEB liability, life insurance	28,277	14,723	43,000
Long-term debt due within one year	91,664	405,290	496,954
Due in more than one year	1,414,972	2,598,916	4,013,888
Total liabilities	<u>\$ 1,633,910</u>	<u>\$ 3,145,041</u>	<u>\$ 4,778,951</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	\$ 601,826	\$ -	\$ 601,826
Deferred pension amounts	14,026	7,031	21,057
Deferred OPEB amounts, life insurance	3,288	1,712	5,000
Total deferred inflows of resources	<u>\$ 619,140</u>	<u>\$ 8,743</u>	<u>\$ 627,883</u>
NET POSITION			
Net investments in capital assets	\$ 2,812,515	\$ 5,626,000	\$ 8,438,515
Unrestricted	2,012,835	1,946,815	3,959,650
Total net position	<u>\$ 4,825,350</u>	<u>\$ 7,572,815</u>	<u>\$ 12,398,165</u>

See Notes to Financial Statements.



Net (Expense) Revenue and Changes in Net Assets

----- Primary Government -----		
Governmental	Business-Type	
Activities	Activities	Total
\$ (864,132)	\$ -	\$ (864,132)
(15,591)	-	(15,591)
(34,593)	-	(34,593)
6,500	-	6,500
(111,781)	-	(111,781)
<u>(60,360)</u>	<u>-</u>	<u>(60,360)</u>
<u>\$ (1,079,957)</u>	<u>\$ -</u>	<u>\$ (1,079,957)</u>
<u>\$ -</u>	<u>\$ 329,394</u>	<u>\$ 329,394</u>
<u>\$ -</u>	<u>\$ 329,394</u>	<u>\$ 329,394</u>
<u>\$ (1,079,957)</u>	<u>\$ 329,394</u>	<u>\$ (750,563)</u>
\$ 587,709	\$ -	\$ 587,709
530,081	-	530,081
12,171	25,754	37,925
27,424	-	27,424
-	(1,715)	(1,715)
<u>15,122</u>	<u>-</u>	<u>15,122</u>
<u>\$ 1,172,507</u>	<u>\$ 24,039</u>	<u>\$ 1,196,546</u>
\$ 92,550	\$ 353,433	\$ 445,983
<u>4,732,800</u>	<u>7,219,382</u>	<u>11,952,182</u>
<u>\$ 4,825,350</u>	<u>\$ 7,572,815</u>	<u>\$ 12,398,165</u>

Fund Financial Statements

TOWN OF LOVETTSVILLE, VIRGINIA

---GOVERNMENTAL FUND---
BALANCE SHEET
 June 30, 2018

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 1,451,808
Receivables:	
Property taxes	629,759
Utility taxes	1,216
Meals and occupancy	19,933
Accounts	285
Prepaid expense	4,895
Due from other governmental units	38,457
Due from other funds	<u>521,377</u>
Total assets	\$ <u>2,667,730</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 20,807
Accrued liabilities	16,523
Compensated absences	<u>4,778</u>
Total liabilities	\$ <u>42,108</u>
Deferred Inflows of Resources	
Unavailable revenue	\$ <u>629,496</u>
Total deferred inflows of resources	\$ <u>629,496</u>
Total liabilities	\$ <u>671,604</u>
 Fund Balance	
Nonspendable:	
Prepaid items	\$ 4,895
Committed:	
Capital project – Loudon St. improvements	82,400
Unassigned	<u>1,908,831</u>
Total fund balance	\$ <u>1,996,126</u>
Total liabilities, deferred inflows of resources, and fund balance	\$ <u>2,667,730</u>

See Notes to Financial Statements.

TOWN OF LOVETTSVILLE, VIRGINIA
---GOVERNMENTAL FUND---
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2018

FUND BALANCE - TOTAL GOVERNMENTAL FUND **\$ 1,996,126**

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 governmental fund.

Governmental capital assets	\$ 4,793,266	
Less accumulated depreciation	<u>(447,086)</u>	4,346,180

Noncurrent assets are not due and receivable in the current period and therefore are not reported in the governmental fund.

Net pension asset	\$ <u>11,607</u>	11,607
-------------------	------------------	--------

Deferred outflows of resources for pension and life insurance amounts.	\$ <u>52,883</u>	52,883
--	------------------	--------

Deferred inflows of resources for pension and life insurance amounts.	\$ <u>(17,314)</u>	(17,314)
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Certain revenues not available to pay for current period expenditures are not reported in the governmental fund.

Deferred revenue, property taxes	\$ <u>27,670</u>	27,670
----------------------------------	------------------	--------

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. All liabilities - both current and long-term - are reported in the Statement of Net Position.

General obligation bonds	\$ (1,490,000)	
Premium on bond issuance	(16,636)	
Accrued interest payable	(27,029)	
Compensated absences	(29,860)	
Net OPEB liability, life insurance	<u>(28,277)</u>	<u>(1,591,802)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 4,825,350**

See Notes to Financial Statements.

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

	General Fund
REVENUES	
General property taxes	\$ 576,901
Other local taxes	530,081
Permits, privilege fees, and regulatory licenses	25,058
Revenues from the use of money and property	12,171
Charges for services	23,022
Miscellaneous	27,424
Intergovernmental revenues:	
Commonwealth	35,122
County	151,039
Total revenues	\$ 1,380,818
EXPENDITURES	
Current:	
General government administration	\$ 832,734
Community development	40,649
Parks, recreation and cultural	34,593
Public safety	13,500
Public works	186,190
Debt service	148,621
Capital outlay	126,167
Total expenditures	\$ 1,382,454
Excess (deficiency) of revenues over expenditures	\$ (1,636)
Net change in fund balance	\$ (1,636)
FUND BALANCE AT BEGINNING OF YEAR	1,997,762
FUND BALANCE AT END OF YEAR	\$ 1,996,126

See Notes to Financial Statements.

TOWN OF LOVETTSVILLE, VIRGINIA

—GOVERNMENTAL FUND—

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

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUND \$ (1,636)

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

The governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over the estimated useful lives.

Expenditures for capital assets	\$ 126,167	
Less current year depreciation	<u>(117,840)</u>	8,327

Loan proceeds provide current financial resources to the governmental fund, but issuing debt increases long-term liabilities in the statement of net position. Repayment of loan principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.

Principal repayments	\$ <u>85,000</u>	85,000
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Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the governmental fund. This amount is the net change in these revenues.

Property taxes	\$ <u>10,808</u>	10,808
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund.

Change in accrued interest	\$ 3,260	
Difference between pension expenditures and pension expense	1,889	
Change in long-term compensated absences	<u>(15,098)</u>	<u>(9,949)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 92,550

See Notes to Financial Statements.

TOWN OF LOVETTSVILLE, VIRGINIA

--- PROPRIETARY FUND ---
STATEMENT OF NET POSITION
 June 30, 2018

Enterprise Fund
Water & Sewer

ASSETS

Current assets:

Cash and cash equivalents	\$ 2,251,410
Accounts receivable	193,732
Prepaid expense	<u>1,992</u>
Total current assets	\$ 2,447,134

Noncurrent assets:

Capital assets:

Land	\$ 154,200
Utility plant, distribution and collection systems	13,973,304
Less accumulated depreciation	<u>(5,485,671)</u>
	\$ 8,641,833

Net pension asset

	<u>13,250</u>
Total noncurrent assets	\$ 8,655,083

Total assets

\$ 11,102,217

DEFERRED OUTFLOWS OF RESOURCES

Deferred pension amounts	\$ 19,282
Deferred OPEB, life insurance	631
Deferred charges on refunding	<u>125,846</u>
Total deferred outflows of resources	\$ 145,759

LIABILITIES

Current liabilities:

Accounts payable	\$ 19,543
Accrued liabilities	14,805
Accrued interest payable	11,627
Deposits	72,400
Due to other funds	521,377
Net OPEB liability, life insurance	14,723
Bonds, notes and loans payable	405,290
Compensated absences	<u>7,737</u>
Total current liabilities	\$ 1,067,502

Noncurrent liabilities:

Bonds, notes and loans payable, current portion	<u>\$ 2,598,916</u>
Total noncurrent liabilities	\$ 2,598,916

Total liabilities

\$ 3,666,418

DEFERRED INFLOWS OF RESOURCES

Deferred pension amounts	\$ 7,031
Deferred OPEB amounts, life insurance	<u>1,712</u>
Total deferred inflows of resources	\$ 8,743

(Continued)

TOWN OF LOVETTSVILLE, VIRGINIA

--- PROPRIETARY FUND ---
STATEMENT OF NET POSITION
June 30, 2018

	<u>Enterprise Fund</u> <u>Water & Sewer</u>
NET POSITION	
Net investment in capital assets	\$ 5,626,000
Unrestricted	<u>1,946,815</u>
Total net position	<u>\$ 7,572,815</u>

See Notes to Financial Statements.

TOWN OF LOVETTSVILLE, VIRGINIA
—PROPRIETARY FUND—
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
Year Ended June 30, 2018

	<u>Enterprise Fund</u> <u>Water & Sewer</u>
OPERATING REVENUES	
Charges for services	\$ 1,022,322
Late charges	19,048
Connection fees	76,000
Frye Court Service District tax	2,477
Reimbursement developers	5,700
Miscellaneous	6,258
Total operating revenues	<u>\$ 1,131,805</u>
OPERATING EXPENSES	
Personnel services	\$ 369,377
Contractual services	73,793
Repairs and maintenance	193,518
Utilities	59,897
Communications	6,045
Insurance	21,725
Miscellaneous	12,183
Supplies and equipment	70,650
Depreciation	402,472
Total operating expenses	<u>\$ 1,209,660</u>
Operating income (loss)	<u>\$ (77,855)</u>
NONOPERATING REVENUES (EXPENSE)	
(Loss) on disposal of equipment	\$ (1,715)
Lease of water tower space	78,746
Interest income	25,754
Interest expense	(91,497)
Total nonoperating revenues (expense)	<u>\$ 11,288</u>
Income (loss) before contributions	<u>\$ (66,567)</u>
CAPITAL CONTRIBUTIONS	
Sewer availability fees	\$ 249,900
Water availability fees	170,100
Total capital contributions	<u>\$ 420,000</u>
Change in net position	\$ 353,433
NET POSITION AT BEGINNING OF YEAR	<u>7,219,382</u>
NET POSITION AT END OF YEAR	<u>\$ 7,572,815</u>

See Notes to Financial Statements.

TOWN OF LOVETTSVILLE, VIRGINIA

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

	<u>Enterprise Fund</u> <u>Water & Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,129,301
Cash payments to suppliers of goods and services	(441,279)
Cash payments to employees	<u>(368,626)</u>
Net cash provided by (used in) operating activities	\$ <u>319,396</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Payment from other fund	\$ <u>1,681,014</u>
Net cash provided by (used in) noncapital financing activities	\$ <u>1,681,014</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments on long-term debt	\$ (411,748)
Interest payments on long-term debt	(110,444)
Rental income	78,746
Purchase of property, plant and equipment	(40,065)
Sewer availability fees	249,900
Water availability fees	<u>170,100</u>
Net cash provided by (used in) capital and related financing activities	\$ <u>(63,511)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earned from investments	\$ <u>25,754</u>
Net cash provided by (used in) investing activities	\$ <u>25,754</u>
Net increase (decrease) in cash and cash equivalents	\$ 1,962,653
Cash and cash equivalents:	
Beginning	<u>288,757</u>
Ending	\$ <u>2,251,410</u>

(Continued)

TOWN OF LOVETTSVILLE, VIRGINIA

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

Enterprise Fund
Water & Sewer

RECONCILIATION OF OPERATING
INCOME (LOSS) TO NET CASH
PROVIDED BY (USED IN)
OPERATING ACTIVITIES

Operating income (loss)	\$ (77,855)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Life insurance costs (earnings)	52
Pension costs (earnings)	(733)
Depreciation	402,472
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(6,304)
(Increase) decrease in prepaid expense	(356)
Increase (decrease) in accounts payable and accrued expenses	(1,680)
Increase (decrease) in deposits	<u>3,800</u>
Net cash provided by (used in) operating activities	<u>\$ 319,396</u>

See Notes to Financial Statements.

TOWN OF LOVETTSVILLE, VIRGINIA
—FIDUCIARY FUNDS—
STATEMENTS OF FIDUCIARY NET POSITION
June 30, 2018

	Reviewed (Unaudited)	
	<u>Mayfest</u>	<u>Oktoberfest</u>
ASSETS		
Cash	\$ 37,072	\$ 43,074
Total assets	<u>\$ 37,072</u>	<u>\$ 43,074</u>
LIABILITIES		
Amounts held for others	\$ 37,072	\$ 43,074
Total liabilities	<u>\$ 37,072</u>	<u>\$ 43,074</u>

See Notes to Financial Statements.

TOWN OF LOVETTSVILLE, VIRGINIA

---FIDUCIARY FUNDS---
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
 Year Ended June 30, 2018

	Reviewed (Unaudited)	
	<u>Mayfest</u>	<u>Oktoberfest</u>
ADDITIONS		
Sponsorship	\$ 14,094	\$ 14,609
Vendors	5,931	14,127
Beer	5,570	127,657
Souvenirs	-	18,200
Total additions	<u>\$ 25,595</u>	<u>\$ 174,593</u>
DEDUCTIONS		
Administrative expenses	\$ 221	\$ 15,759
Service fees	-	80
Cost of sales	-	10,544
Cost of beer	1,707	56,655
Donations	250	2,500
Entertainment	5,588	15,843
Advertising	1,236	12,481
Miscellaneous	5,999	-
Site expense	-	44,149
Permits	100	-
Reimbursement-general	386	-
Rent	2,405	-
Supplies	2,524	-
Total deductions	<u>\$ 20,416</u>	<u>\$ 158,011</u>
Changes in net position	\$ 5,179	\$ 16,582
NET POSITION AT BEGINNING OF YEAR	<u>31,893</u>	<u>26,492</u>
NET POSITION AT END OF YEAR	<u>\$ 37,072</u>	<u>\$ 43,074</u>

See Notes to Financial Statements.

TOWN OF LOVETTSVILLE, VIRGINIA**NOTES TO FINANCIAL STATEMENTS****Note 1. Summary of Significant Accounting Policies**

The financial statements of the Town of Lovettsville, Virginia, conform to generally accepted accounting principles (GAAP) applicable to government units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the most significant policies:

A. Reporting Entity

The Town of Lovettsville, Virginia, is a municipality governed by a six-member Town Council and Mayor. Daily operations are conducted by the Town Manager. In determining the reporting entity, the Town complies with the provisions of GASB Statement No. 14, "The Financial Reporting Entity." Based on the criteria provided in that Statement there are no agencies or entities that should be presented with the Town.

B. Governmental Accounting Standards

The Town follows the general provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This Statement identifies the financial reporting requirements of state and local governments.

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. For the most part, the effect of interfund activity has been removed from these statements. 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 identifiable activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. 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 governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

NOTES TO FINANCIAL STATEMENTS**Note 1. Summary of Significant Accounting Policies (Continued)**Government-Wide Financial Statements

The Town government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of governmental and business-type activities for the Town accompanied by a total column.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Town's assets and liabilities, including capital assets as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the Town are reported in three categories: (1) charges for services, (2) operating grants and contributions, and (3) capital grants and contributions.

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the government-wide financial statements.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 45 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Town, are property taxes, sales and use taxes, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The General Fund is the Town's only governmental fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows for each major proprietary fund.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

NOTES TO FINANCIAL STATEMENTS**Note 1. Summary of Significant Accounting Policies (Continued)**

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

The Town reports the following major proprietary fund:

Water and Sewer Fund-accounts for the activities related to the provision of water and sewer services to Town's businesses, residents, schools, and churches. The Town operates and maintains its wells and water distribution system, and its sewer treatment plant and sewer collection system.

Fiduciary Funds Financial Statements

The Town's fiduciary funds are presented in the fund financial statements by type (agency). Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the governmental-wide financial statements.

Fiduciary funds are used to account for assets held by the Town in a trustee capacity or as agent for individuals, private organizations, and other governments. The fiduciary funds of the Town are the Mayfest and Oktoberfest Funds. Since these funds are custodial in nature (i.e., assets equal liabilities), they do not involve the measurement of results of operations.

E. Assets, Liabilities and Equity**Cash and Cash Equivalents**

For purposes of reporting cash flows, the Town considers all cash on hand, checking accounts, savings accounts, money market funds and highly liquid instruments with a maturity of three months or less to be cash and cash equivalents. All certificates of deposit, regardless of maturity, are considered to be cash and cash equivalents.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical collection data and specific account analysis. Major receivable balances for the governmental activities include sales and use taxes and utility taxes. Business-type activities report utility services as their major receivable. The Town grants credit to the customers of its water and sewer systems. The customers are either local businesses or residents.

In the fund financial statements, major receivable balances and the allowances for uncollectible accounts are the same as those in the governmental and business-type activities.

Property Taxes

Real estate taxes are assessed annually by Loudoun County, Virginia, for all property of record as of January 1. Property taxes attach as an enforceable lien on property as of January 1. The Town collects real estate taxes on an annual basis (due December 5). The portion of the tax receivable that is not collected within 45 days after June 30 is shown as deferred revenue in the fund financial statements. The tax rate assessed for the year ended June 30, 2018, was \$.21 per \$100 valuation. A penalty of 10 percent of the tax is assessed after the applicable payment date.

The taxes receivable balance at June 30, 2018, includes amounts not yet billed or received from the January 1, 2018, levy (due December 5, 2018). These items are included in deferred revenue since these taxes are restricted for use until fiscal year 2019.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

The Town calculates its allowance for uncollectible delinquent property tax accounts using historical collection data and specific account analysis. No allowance was deemed necessary at June 30, 2017.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Interfund Receivables and Payables

During the course of operations, transactions occur that may result in amounts owed between funds. Those related to goods and service type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds are eliminated in the Statement of Net Position. The Town's General Fund has a due from the Water and Sewer Fund in the amount of \$521,377 at June 30, 2018.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in the governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items owned by the Town), are reported in the applicable governmental or business-type activities columns. In general, the Town defines capital assets as assets with an initial, individual cost of more than \$5,000 (not rounded) and an estimated useful life in excess of one year. Capital assets are carried at historical cost except for donated capital assets that are recorded at their estimated fair value on the date received.

The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and Improvements	30-50 years
Land improvements	20 years
Utility System	25-40 years
Machinery and Equipment	5-10 years
Infrastructure	20-40 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Compensated Absences

Vested or accumulated vacation leave is reported as an expense in the Statement of Activities and a long-term obligation in the Statement of Net Position. In accordance with the provisions of Government Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that is estimated will be paid upon retirement, which is liquidated in the Town general fund. Sick leave is paid upon separation of employment with the Town up to an amount equal to 25 percent of the unused balance.

Deferred Revenue

Deferred revenue is recorded when asset recognition criteria (measurable) have been met, but revenue recognition (available) criteria have not been met.

Long-Term Debt

The accounting treatment of the long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds, loans and notes payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for the proprietary funds is the same in the fund financial statements as it is in the government-wide statements.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has three items that qualify for reporting in this category. One item is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The other two items are deferred pension and OPEB amounts.

In addition to liabilities, the statement of net position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town currently has four items (property taxes, vehicle license billing, and deferred pension and OPEB amounts) that qualify for reporting in this category.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Equity Classifications

Government-Wide Statements

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets-consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- b. Restricted net position-consists of assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. These assets are reduced by liabilities and deferred inflows of resources related to those assets.
- c. Unrestricted-all other net position is reported in this category.

Fund Statements

In the governmental fund financial statements, fund balances are classified as follows:

- **Nonspendable** - Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- **Restricted** - Amounts that can be spent only for specific purposes because of the Town Charter, the Town Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- **Committed** - Amounts that can be used only for specific purposes determined by a formal action by Town Council ordinance or resolution. This includes the Budget Reserve Account.
- **Assigned** - Amounts that are designated by the Town Council for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by Town Council.
- **Unassigned** - All amounts not included in other spendable classifications.

Proprietary fund equity is classified the same as in the government-wide statements.

F. Revenues, Expenditures, and Expenses

Governmental Fund Revenues

As mentioned above, governmental fund revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Accordingly, property taxes not collected within 45 days after year-end are reflected as deferred revenues-uncollected property taxes. The Town recognizes sales and utility taxes remitted to the Town as revenues and receivables in the month preceding receipt. Licenses and permits are recorded as revenues when received. Intergovernmental revenues, consisting primarily of Federal, State and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of specific expenditure.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. They also include all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Sewer and Water Availability Fees

Sewer and water availability fees are recorded as revenue when received. Fees recorded in the Water and Sewer Fund are shown as capital contributions in the Statement of Revenues, Expenses and Changes in Fund Position. The same fees are presented in the government-wide Statement of Activities as capital grants and contributions. Council has designated that the sewer availability fees will be used to pay debt incurred in building the wastewater treatment plant and other sewer system improvements. The Council has also designated that the water availability fees will be used to pay for future water system improvements.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified by function for the governmental fund and by operating and nonoperating for the proprietary funds.

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to the use of economic resources.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers.

Advertising

The Town expenses advertising production costs as they are incurred and advertising communication costs the first time the advertising takes place. Non-reimbursable advertising expenditures in the General Fund were \$6,328, for the year ended June 30, 2018. Advertising expense in the Water and Sewer Fund was \$500, for the year ended June 30, 2018.

Fringe benefits

Fringe benefits of the Town include:

- a. Social Security System - All employees participate in the Federal Social Security Program. The employer share of FICA taxes for the employees is the responsibility of the Town.
- b. Health Insurance - The Town provides health insurance coverage for all electing full-time, salaried permanent employees.
- c. Pension Plan - Employees of the Town participate in the Virginia Retirement System (VRS). The VRS is administered by the Commonwealth, which bills the Town for the employer share of contributions. The VRS is obligated to pay a monthly benefit to participants upon retirement with the amount of the benefit depending on length of service and earnings.

NOTES TO FINANCIAL STATEMENTS**Note 1. Summary of Significant Accounting Policies (Continued)****G. Estimates and Assumptions**

The preparation of financial statements in conformity with generally accepted accounting principles requires the Town to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

H. Use of Restricted/Unrestricted Net Assets

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Town's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the Town's policy is to first apply the expenditure toward the restricted fund balance and then to other, less-restrictive classifications-committed and then assigned fund balances before using unassigned fund balances.

I. Pensions

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

J. Group Life Insurance

The Virginia Retirement System (VRS) Group Life Insurance Program is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The Group Life Insurance Program was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The Group Life Insurance Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net Group Life Insurance Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance Program OPEB, and Group Life Insurance Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Group Life Insurance program OPEB and the additions to/deductions from the VRS Group Life Insurance Program OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2. Stewardship, Compliance, and Accountability**A. Budgetary Information**

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the General Fund. Amounts shown in the accompanying financial statements as "budget" represent the original and final operating budget for the fiscal year 2018. Below is a summary of budgeted information which is not included in the General Fund Statement of Revenues and Expenditures – Budget:

NOTES TO FINANCIAL STATEMENTS

Note 2. Stewardship, Compliance, and Accountability (Continued)

	<u>Original & Final Budget</u>
Annual contributions:	
Debt retirement fund	\$ 33,159
Operating cash fund	243,356
New capital fund	(121,441)
3RM fund	(36,745)
Operating cash fund	(200,000)
From utility fund, cell tower	61,013
Reimbursement from utility fund	<u>158,411</u>
	<u>\$ 137,753</u>

A budget is also adopted for the Enterprise Fund as an operating guideline. Budget to actual information is shown as other supplementary information. Below is a summary of budgeted information that is not included in the Enterprise Fund's Statement of Revenues, Expenses and Changes in Net Assets - Budget:

	<u>Original & Final Budget</u>
Annual contributions:	
Debt retirement fund	\$ 191,656
Operating cash fund	304,961
3RM fund	(158,319)
Operating cash fund	(210,000)
Cell tower to GF infrastructure	(61,013)
Reimbursement to general fund	(158,410)
Debt service	<u>(410,856)</u>
	<u>\$ (501,981)</u>

B. Excess of Expenditures Over Appropriations

For the year ended June 30, 2018, General Fund expenditures exceeded appropriations in public works by \$6,258 and capital outlay by \$124,167. This over expenditure was funded by greater than anticipated revenues in that fund.

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Cash Equivalents

Deposits

Below is a summary of the Town's accounts/deposits at June 30, 2018:

<u>Account</u>	<u>Bank</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
<u>General</u>			
Checking	BB&T	\$ 146,101	\$ 204,220
GF Operating fund	BB&T	50,003	50,003
GF New capital	Access National Bank	289,608	289,608
General 3RM	Access National Bank	44,019	44,019
Loudon Street	Access National Bank	82,400	82,400
Clock Tower Donation	Access National Bank	3,155	3,155
Gen Debt Retirement	Access National Bank	568,022	568,022
Gen Rainy day	Access National Bank	111,413	111,413
Gen 30 Day Cash	Access National Bank	106,341	106,341
Petty cash	N/A	200	-
Gen HR Fund	Access National Bank	50,546	50,546
		<u>\$ 1,451,808</u>	<u>\$ 1,509,727</u>
<u>Water and Sewer</u>			
Checking, capital	BB&T	\$ 358,048	\$ 359,147
New Capital	Access National Bank	197,806	197,806
Utility 3RM	Access National Bank	264,771	264,771
Frye Ct.	Access National Bank	9,401	9,401
UF Operating cash	BB&T	67,592	67,592
Water AF Reserve	Access National Bank	109,369	109,369
New water & sewer acct	BB&T	71,701	71,701
Utility Rainy Day	Access National Bank	75,819	75,819
Utility 30 Day cash	Access National Bank	133,209	133,209
Utility HR Fund	Access National Bank	44,418	44,418
4yr Jumbo (Debt Retire)	Access National Bank	919,276	919,276
		<u>\$ 2,251,410</u>	<u>\$ 2,252,509</u>
Total reporting entity		<u>\$ 3,703,218</u>	<u>\$ 3,762,234</u>

All cash of the Town is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. 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 percent to 130 percent of excess deposits. Accordingly, all deposits are considered fully collateralized.

NOTES TO FINANCIAL STATEMENTS

Note 4. Receivables

Receivables as of June 30, 2018, for the government's individual major funds including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Water and Sewer</u>	<u>Total</u>
Receivables:			
Property taxes	\$ 629,759	\$ -	\$ 629,759
Other taxes:			
Utilities	1,216	-	1,216
Meals and occupancy	19,933	-	19,933
Accounts	<u>285</u>	<u>193,732</u>	<u>194,017</u>
Gross receivables	\$ 651,193	\$ 193,732	\$ 844,925
Less: allowance for uncollectibles	<u>-</u>	<u>-</u>	<u>-</u>
Net total receivables	<u>\$ 651,193</u>	<u>\$ 193,732</u>	<u>\$ 844,925</u>

Note 5. Due from Other Governmental Units

Due from other governmental units consists of the following:

Government-type activities

County of Loudoun, Virginia, sales tax collected for the Town	\$ 37,480
Department of Taxation, communications tax collected for the Town	<u>977</u>
	<u>\$ 38,457</u>

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 973,820	\$ -	\$ -	\$ 973,820
Construction in progress	<u>70,394</u>	<u>3,745</u>	<u>-</u>	<u>74,139</u>
Total capital assets not being depreciated	<u>\$ 1,044,214</u>	<u>\$ 3,745</u>	<u>\$ -</u>	<u>\$ 1,047,959</u>
Capital assets being depreciated				
Buildings	\$ 386,978	\$ 52,985	\$ -	\$ 439,963
Land improvements	463,962	69,282	-	533,244
Machinery and equipment	92,818	-	14,522	78,296
Infrastructure	<u>2,707,764</u>	<u>-</u>	<u>13,960</u>	<u>2,693,804</u>
Total capital assets being depreciated	<u>\$ 3,651,522</u>	<u>\$ 122,267</u>	<u>\$ 28,482</u>	<u>\$ 3,745,307</u>
Less accumulated depreciation for				
Buildings	\$ 49,366	\$ 10,604	\$ -	\$ 59,970
Land improvements	143,748	27,426	-	171,174
Machinery and equipment	57,816	6,323	14,522	49,617
Infrastructure	<u>106,798</u>	<u>73,487</u>	<u>13,960</u>	<u>166,325</u>
Total accumulated depreciation	<u>\$ 357,728</u>	<u>\$ 117,840</u>	<u>\$ 28,482</u>	<u>\$ 447,086</u>
Total capital assets being depreciated, net	<u>\$ 3,293,794</u>	<u>\$ 4,427</u>	<u>\$ -</u>	<u>\$ 3,298,221</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 4,338,008</u>	<u>\$ 8,172</u>	<u>\$ -</u>	<u>\$ 4,346,180</u>
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 154,200	\$ -	\$ -	\$ 154,200
Construction in progress	<u>98,811</u>	<u>-</u>	<u>98,811</u>	<u>-</u>
Total capital assets not being depreciated	<u>\$ 253,011</u>	<u>\$ -</u>	<u>\$ 98,811</u>	<u>\$ 154,200</u>
Capital assets being depreciated				
Utility system	<u>\$ 13,856,431</u>	<u>\$ 138,876</u>	<u>\$ 22,003</u>	<u>\$ 13,973,304</u>
Total capital assets being depreciated	<u>\$ 13,856,431</u>	<u>\$ 138,876</u>	<u>\$ 22,003</u>	<u>\$ 13,973,304</u>
Less accumulated depreciation for				
Utility system	<u>\$ 5,103,489</u>	<u>\$ 402,472</u>	<u>\$ 20,290</u>	<u>\$ 5,485,671</u>
Total accumulated depreciation	<u>\$ 5,103,489</u>	<u>\$ 402,472</u>	<u>\$ 20,290</u>	<u>\$ 5,485,671</u>
Total capital assets being depreciated, net	<u>\$ 8,752,942</u>	<u>\$ (263,596)</u>	<u>\$ 1,713</u>	<u>\$ 8,487,633</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 9,005,953</u>	<u>\$ (263,596)</u>	<u>\$ 100,524</u>	<u>\$ 8,641,833</u>

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

GOVERNMENTAL ACTIVITIES

General government administration	\$ 41,209
Public works	<u>76,631</u>
Total depreciation expense - governmental activities	<u>\$ 117,840</u>

BUSINESS-TYPE ACTIVITIES

Water and sewer	<u>\$ 402,472</u>
Total depreciation expense - business-type activities	<u>\$ 402,472</u>

Note 7. Unavailable Revenue

The following is a summary of unavailable revenue included in deferred inflows of resources by fund/activity at June 30, 2018:

Fund Statements

	<u>General Fund</u>
Property taxes billed in fiscal year 2019	\$ 601,271
Uncollected property tax billing	27,670
Taxes collected in advance	<u>555</u>
	<u>\$ 629,496</u>

Government-Wide Statements

	<u>Governmental Activities</u>
Property taxes billed in fiscal year 2019	\$ 601,271
Taxes collected in advance	<u>555</u>
	<u>\$ 601,826</u>

Note 8. Long-Term Obligations

A summary of long-term debt activity for the year ended June 30, 2018, is as follows. Additional detailed information is available on the following pages.

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due within One Year</u>
<u>Government-type activities</u>					
<i>General Fund</i>					
General obligation bond	\$ 1,575,000	\$ -	\$ (85,000)	\$ 1,490,000	\$ 90,000
Premium on bond issuance	<u>18,300</u>	<u>-</u>	<u>(1,664)</u>	<u>16,636</u>	<u>1,664</u>
	<u>\$ 1,593,300</u>	<u>\$ -</u>	<u>\$ (86,664)</u>	<u>\$ 1,506,636</u>	<u>\$ 91,664</u>

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Obligations (Continued)

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due within One Year</u>
<u>Business-type activities</u>					
<i>Water and Sewer Fund</i>					
General obligation and revenue bonds	\$ 3,202,438	\$ -	\$ (411,748)	\$ 2,790,690	\$ 366,595
Premium on bond issuance	<u>253,945</u>	<u>-</u>	<u>(40,429)</u>	<u>213,516</u>	<u>38,695</u>
	<u>\$ 3,456,383</u>	<u>\$ -</u>	<u>\$ (452,177)</u>	<u>\$ 3,004,206</u>	<u>\$ 405,290</u>

Government-type activities*Details of long-term obligations:*

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
<u>General Obligation Bond:</u>		
\$2,025,000 General obligation bonds issued December 7, 2010 payable in annual principal payments ranging from \$65,000 to \$145,000 and semi-annual interest payments ranging from 3 percent to 6.561 percent with final payment due February 1, 2031.	<u>\$ 1,490,000</u>	<u>\$ 90,000</u>
Total general obligation bond	<u>\$ 1,490,000</u>	<u>\$ 90,000</u>
Premium on bond issuance	<u>16,636</u>	<u>1,664</u>
Total governmental activities obligations	<u>\$ 1,506,636</u>	<u>\$ 91,664</u>

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

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 90,000	\$ 58,127
2020	95,000	54,437
2021	100,000	51,254
2022	100,000	48,282
2023	105,000	45,957
2024-2028	585,000	164,728
2029-2032	<u>415,000</u>	<u>36,881</u>
Total	<u>\$ 1,490,000</u>	<u>\$ 459,666</u>

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Obligations (Continued)

Business-type activities*Details of long-term obligations:*

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
<u>General Obligation Bonds:</u>		
\$3,499,572 Virginia Resource Authority bonds issued December 21, 1999 payable in semi-annual installments of \$91,980 bearing no interest. Final payment due October 1, 2020.	\$ 459,899	\$ 183,959
\$2,005,000 Series 2015A Refunding Revenue bonds issued through Virginia Resource Authority on May 28, 2015, bearing interest at 3.125 percent to 5.125 percent payable in semi-annual installments. Principal payable annually through October 1, 2027.	2,005,000	160,000
\$476,327 Virginia Resource Authority bond issued October 23, 2009 payable in semi-annual installments of \$17,284, bearing interest at 2.65 percent. Final payment due March 1, 2030.	<u>325,791</u>	<u>22,636</u>
Total general obligation and revenue bonds	\$ 2,790,690	\$ 366,595
Premium on bond issuance	<u>213,516</u>	<u>38,695</u>
Total business-type activities	<u>\$ 3,004,206</u>	<u>\$ 405,290</u>

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

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 366,595	\$ 102,264
2020	377,360	94,193
2021	291,176	85,712
2022	210,009	75,670
2023	215,853	30,066
2024-2028	1,267,970	151,988
2029-2032	<u>61,727</u>	<u>2,709</u>
Total	<u>\$ 2,790,690</u>	<u>\$ 542,602</u>

NOTES TO FINANCIAL STATEMENTS

Note 9. Fund Balance and Net Asset Designations

Designations segregate portions of the fund balance and net assets that are earmarked for specific purposes. The Town Council and management establish the various designations.

Unreserved fund balance and unrestricted net assets in the Fund Financial Statements are designated as follows:

<u>General Fund</u>	
Loudoun Street improvements	\$ 82,400
Unappropriated fund balance	1,908,831
Prepaid items	<u>4,895</u>
Fund Balance, Unreserved	<u>\$ 1,996,126</u>
<u>Water & Sewer Fund</u>	
Unappropriated net assets	<u>\$ 1,946,815</u>
Net Assets, Unrestricted	<u>\$ 1,946,815</u>

Note 10. Operating Lease Commitments

The Town receives rental income from four operating leases.

The Town leases its water tank to communications companies under noncancelable operating leases for 59 months. The monthly rents received from the leases range from \$3,275 to \$3,405. Each lease is adjusted upward annually. The companies use the tank to mount their antennas. The following is a schedule by years of future minimum rentals under the initial terms of the leases:

Year Ending June 30

2019	\$ 81,760
2020	85,030
2021	88,432
2022	91,969
2023	70,789
2024	<u>23,903</u>
	<u>\$ 441,883</u>

The total rental income from these leases that is included in the Water and Sewer Fund's statement of revenues and expenses for the years ended June 30, 2018, was \$78,746.

Note 11. Compensated Absences

In accordance with GASB Statement 16, *Accounting for Compensated Absences*, the Town has accrued liabilities arising from compensated absences.

Town employees earn annual leave at various rates. Sick leave is paid upon separation of employment with the Town up to an amount equal to 25 percent of the unused balance. Accumulated vacation and annual leave is paid upon termination up to a maximum of 240 hours. The Town's general fund has outstanding accrued leave pay totaling \$34,638 and the Water and Sewer Fund have outstanding accrued leave pay of \$7,737.

NOTES TO FINANCIAL STATEMENTS

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 a common risk management and insurance program for member municipalities. The Town is not self-insured.

The Town has insurance coverage with the Virginia Municipal Group Self Insurance Association. 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. Pension PlanPlan Description

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

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

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>About VRS Plan 1 VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</p>	<p>About VRS Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or VRS Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions Employees contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions Employees contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.</p>	<p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Creditable Service Same as VRS Plan 1.</p>	<p>Creditable Service Defined Benefit Component: Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p>Defined Contributions Component: Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as VRS Plan 1.</p>	<p>Vesting Defined Benefit Component: Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p>Defined Contributions Component: Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p>Calculating the Benefit See definition under VRS Plan 1.</p>	<p>Calculating the Benefit Defined Benefit Component: See definition under Plan 1.</p> <p>Defined Contribution Component: The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.</p>	<p>Service Retirement Multiplier Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.</p>	<p>Service Retirement Multiplier Defined Benefit Component: The retirement multiplier for the defined benefit component is 1.0%.</p> <p>For members that opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. Not applicable to sheriffs, regional jail superintendents and political subdivision hazardous duty employees.</p> <p>Defined Contribution Component: Not applicable.</p>
<p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age Defined Benefit Component: VRS: Same as Plan 2.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility VRS: Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility Defined Benefit Component: VRS: Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Earliest Reduced Retirement Eligibility VRS: Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Reduced Retirement Eligibility Defined Benefit Component: VRS: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p>Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p>Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p>Eligibility: Same as Plan 1.</p> <p>Exceptions to COLA Effective Dates: Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement Defined Benefit Component: Same as Plan 2.</p> <p>Defined Contribution Component: Not applicable.</p> <p>Eligibility: Same as Plan 1 and VRS Plan 2.</p> <p>Exceptions to COLA Effective Dates: Same as Plan 1 and Plan 2.</p>

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage Employees of political subdivision (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>
<p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service Defined Benefit Component: Same as Plan 1, with the following exception:</p> <ul style="list-style-type: none"> Hybrid Retirement Plan members are ineligible for ported service. <p>Defined Contribution Component: Not applicable.</p>

Employees Covered by Benefit Terms

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

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	-
Inactive members:	
Vested inactive members	-
Non-vested inactive members	-
Retirees and beneficiaries	1
Inactive members active elsewhere in VRS	<u>2</u>
Total inactive members	3
Active members	<u>9</u>
Total covered employees	<u>12</u>

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

Contributions

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

The political subdivision's contractually required contribution rate for the year ended June 30, 2018 was 5.18 percent of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by the employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$27,531 and \$25,904 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension (Asset) Liability

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

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent – 5.35 percent
Investment rate of return	7.0 percent, 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 percent of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0 percent. However, since the difference was minimal, and a more conservative 7.0 percent investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0 percent to simplify preparation of pension liabilities.

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

Mortality rates:

Largest 10 – Non-Hazardous Duty: 20% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

All Others (Non 10 Largest) – Non-Hazardous Duty: 15% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

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

Largest 10 – Non-Hazardous Duty:

Mortality Rates Pre-retirement, post-retirement healthy, and disabled	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 20%

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

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

Mortality Rates Pre-retirement, post-retirement healthy, and disabled	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 15%

Actuarial Assumptions – Public Safety Employees

The total pension liability for Public Safety employees in the Political Subdivision Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent – 4.75 percent
Investment rate of return	7.0 percent, 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 percent of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0 percent. However, since the difference was minimal, and a more conservative 7.0 percent investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0 percent to simplify preparation of pension liabilities.

Mortality rates:

Largest 10 – Hazardous Duty: 70% of deaths are assumed to be service related:

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

All Others (Non 10 Largest) – Non-Hazardous Duty: 45% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

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

Largest 10 – Hazardous Duty:

Mortality Rates Pre-retirement, post-retirement healthy, and disabled	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 60% to 70%

All Others (Non 10 Largest) – Hazardous Duty:

Mortality Rates Pre-retirement, post-retirement healthy, and disabled	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Increase rate from 60% to 45%

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

Long-Term Expected Rate of Return

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

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

* The above allocation provides a one-year return of 7.30 percent. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83 percent, including expected inflation of 2.50 percent.

Discount Rate

The discount rate used to measure the total pension liability was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100 percent 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.

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

Changes in Net Pension (Asset) Liability

	<u>Increase (Decrease)</u>		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2016	\$ 246,639	\$ 249,841	\$ (3,202)
Changes for the year:			
Service cost	\$ 51,718	\$ -	\$ 51,718
Interest	17,265	-	17,265
Changes of assumptions	(7,545)	-	(7,545)
Differences between expected and actual experience	3,739	-	3,739
Contributions - employer	-	27,704	(27,704)
Contributions - employee	-	25,290	(25,290)
Net investment income	-	34,012	(34,012)
Benefit payments, including refunds of employee contributions	(6)	(6)	-
Administrative expenses	-	(140)	140
Other changes	-	(33)	33
Net changes	<u>\$ 65,171</u>	<u>\$ 86,827</u>	<u>\$ (21,656)</u>
Balances at June 30, 2017	<u>\$ 311,810</u>	<u>\$ 336,668</u>	<u>\$ (24,858)</u>

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

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

	<u>Rate</u>		
	<u>(6.00%)</u>	<u>(7.00%)</u>	<u>(8.00%)</u>
Political subdivision's Net Pension (Asset) Liability	\$ 31,386	\$ (24,858)	\$ (70,241)

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

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

For the year ended June 30, 2018, the political subdivision recognized pension expense of \$43,555. At June 30, 2018, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 43,421	\$ 8,839
Change in assumptions	-	6,377
Net difference between projected and actual earnings on pension plan investments	-	5,841
Employer contributions subsequent to the measurement date	<u>27,531</u>	<u>-</u>
Total	<u>\$ 70,952</u>	<u>\$ 21,057</u>

The amount of \$27,531 reported as deferred outflows of resources related to pensions resulting from the subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension (Asset) Liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30

2019	\$ 1,922
2020	3,643
2021	2,907
2022	859
2023	4,299
Thereafter	8,734

Pension Plan Data

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

Payables to the Pension Plan

At June 30, 2018, the Town reported a payable of \$4,967 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

NOTES TO FINANCIAL STATEMENTS

Note 14. Group Life Insurance

Plan Description

All full-time, salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OBEB plans, for public employer groups in the Commonwealth of Virginia.

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 Group Life Insurance Program OPEB.

The specific information for Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS
<p>Eligible Employees</p> <p>The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:</p> <ul style="list-style-type: none"> • City of Richmond • City of Portsmouth • City of Roanoke • City of Norfolk • Roanoke City Schools Board <p>Basic group life insurance coverage is automatic upon employment. Coverage end for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.</p>
<p>Benefit Amounts</p> <p>The benefits payable under the Group Life Insurance Program have several components.</p> <ul style="list-style-type: none"> • <u>Natural Death Benefit</u> – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. • <u>Accidental Death Benefit</u> – The accidental death benefit is double the natural death benefit. • <u>Other Benefit Provisions</u> – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include: <ul style="list-style-type: none"> ○ Accidental dismemberment benefit ○ Safety belt benefit ○ Repatriation benefit ○ Felonious assault benefit ○ Accelerated death benefit option

NOTES TO FINANCIAL STATEMENTS

Note 14. Group Life Insurance (Continued)

Reduction in benefit Amounts

The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.

Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)

For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently \$8,111.

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31 percent of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79 percent (1.31 percent X 60 percent) and the employer component was 0.52 percent (1.31 percent X 40 percent). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52 percent of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the Group Life Insurance Program from the entity was \$4,610 for the year ended June 30, 2018.

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB

At June 30, 2018, the entity reported a liability of \$43,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employer's proportion was .00290 percent as compared to .00276 percent at June 30, 2016.

For the year ended June 30, 2018, the participating employer recognized GLI OPEB expense of \$2,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

NOTES TO FINANCIAL STATEMENTS

Note 14. Group Life Insurance (Continued)

At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 2,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	1,000
Change in assumptions	-	2,000
Changes in proportion	-	-
Employer contributions subsequent to the measurement date	<u>1,844</u>	<u>-</u>
Total	<u>\$ 1,844</u>	<u>\$ 5,000</u>

\$1,844 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year ended June 30:	
2019	\$ 1,000
2020	1,000
2021	1,000
2022	1,000
2023	1,000
Thereafter	-

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including inflation –	
Locality – General employees	3.5 percent – 5.35 percent
Locality – Hazardous Duty employees	3.5 percent – 4.75 percent
Investment rate of return	7.0 Percent, net of investment expenses, 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 percent of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0 percent. However, since the difference was minimal, and a more conservative 7.0 percent investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0 percent to simplify preparation of the OPEB liabilities.

NOTES TO FINANCIAL STATEMENTS

Note 14. Group Life Insurance (Continued)

Mortality rates – Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75.
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14 to 15%

Mortality rates – Non-Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

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

NOTES TO FINANCIAL STATEMENTS

Note 14. Group Life Insurance (Continued)

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Net GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program
Total GLI OPEB Liability	\$ 2,942,426
Plan Fiduciary Net Position	(1,437,586)
Employers' Net GLI OPEB Liability (Asset)	<u>\$ 1,504,840</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	48.86%

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

Long-Term Expected Rate of Return

The long-term expected rate of return on the System's 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 System's 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	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	<u>100.00%</u>		<u>4.80%</u>
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.30%</u>

NOTES TO FINANCIAL STATEMENTS

Note 14. Group Life Insurance (Continued)

* The above allocation provides a one-year return of 7.30 percent. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83 percent, including expected inflation of 2.50 percent.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that 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 entity for the GLI OPEB 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, employers are assumed to contribute 100 percent of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The following presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 7.00 percent, as well as what the employer's proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

	1.00% Decrease <u>(6.00%)</u>	Current Discount <u>Rate (7.00%)</u>	1.00% Increase <u>(8.00%)</u>
Employer's proportionate share of the Group Life Insurance Program Net OPEB Liability	\$ 56,000	\$ 43,000	\$ 33,000

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the VRS Group Life Insurance OPEB Plan

At June 30, 2018, there was no outstanding payable from the Town to the VRS Group Life Insurance OPEB Plan.

NOTES TO FINANCIAL STATEMENTS

Note 15. Accounting Changes and Accounting Standards

In fiscal year 2018, the Town implemented Governmental Accounting Standards (GASB) Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. The Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. The Statement also establishes the methods and assumptions that should be used for the various calculations in a plan for postemployment benefits other than pensions. Note disclosure and required supplementary information requirements about postemployment benefits other than pensions are also addressed.

The implementation of Statement 75 resulted in restatement of the beginning net position of the governmental and business-type activities in the government-wide financial statements. The restatement is also reflected in the beginning net position of the water and sewer fund included in the Proprietary Funds' Statements of Net Position. The beginning net pension liability, less the fiscal year 2017 employer contributions resulted in the adjustments below:

	<u>Governmental Activity</u>	<u>Business-Type Activities</u>	<u>Water & Sewer Fund</u>
Net position at June 30, 2017	\$ 4,763,050	\$ 7,235,132	\$ 7,235,132
Change in reporting for postemployment benefits other than pension costs	<u>(30,250)</u>	<u>(15,750)</u>	<u>(15,750)</u>
Net position at June 30, 2017, restated	<u>\$ 4,732,800</u>	<u>\$ 7,219,382</u>	<u>\$ 7,219,382</u>

**Required Supplementary Information-
Other than Management's Discussion and Analysis**

TOWN OF LOVETTSVILLE, VIRGINIA

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

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
General property taxes	\$ 579,173	\$ 576,901	\$ (2,272)
Other local taxes	472,707	530,081	57,374
Permits, privilege fees, and regulatory licenses	10,225	25,058	14,833
Revenues from the use of money and property	16,425	12,171	(4,254)
Charges for services	30,800	23,022	(7,778)
Miscellaneous	30,033	27,424	(2,609)
Intergovernmental revenues:			
Commonwealth	24,700	35,122	10,422
County	1,000	151,039	150,039
Total revenues	<u>\$ 1,165,063</u>	<u>\$ 1,380,818</u>	<u>\$ 215,755</u>
EXPENDITURES			
Current :			
General government administration	\$ 861,984	\$ 832,734	\$ 29,250
Community development	43,800	40,649	3,151
Parks, recreation and cultural	52,590	34,593	17,997
Public safety	13,500	13,500	-
Public works	179,932	186,190	(6,258)
Debt service	149,010	148,621	389
Capital outlay	2,000	126,167	(124,167)
Total expenditures	<u>\$ 1,302,816</u>	<u>\$ 1,382,454</u>	<u>\$ (79,638)</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (137,753)</u>	<u>\$ (1,636)</u>	<u>\$ 136,117</u>
Net change in fund balance	<u>\$ (137,753)</u>	<u>\$ (1,636)</u>	<u>\$ 136,117</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>1,997,762</u>	<u>1,997,762</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 1,860,009</u>	<u>\$ 1,996,126</u>	<u>\$ 136,117</u>

TOWN OF LOVETTSVILLE, VIRGINIA

SCHEDULE OF CHANGES IN THE TOWN'S NET PENSION (ASSET) LIABILITY
AND RELATED RATIOS AND SCHEDULE OF EMPLOYER CONTRIBUTIONSSCHEDULE OF CHANGES IN THE TOWN'S NET PENSION (ASSET) LIABILITY
AND RELATED RATIOS

	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 51,718	\$ 49,173	\$ 39,110	\$ 36,166
Interest	17,265	13,741	6,423	3,637
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	3,739	(12,577)	59,014	-
Changes in assumptions	(7,545)	-	-	-
Benefit Payments, including refunds of employee contributions	(6)	-	-	-
Net change in total pension liability	<u>65,171</u>	<u>50,337</u>	<u>104,547</u>	<u>39,803</u>
Total pension liability - beginning	<u>246,639</u>	<u>196,302</u>	<u>91,755</u>	<u>51,952</u>
Total pension liability - ending (a)	<u>\$ 311,810</u>	<u>\$ 246,639</u>	<u>\$ 196,302</u>	<u>\$ 91,755</u>
Plan fiduciary net position				
Contributions - employer	\$ 27,704	\$ 30,137	\$ 26,970	\$ 23,007
Contributions - employee	25,290	23,400	21,041	32,974
Net investment income	34,012	5,026	7,499	15,109
Benefit payments, including refunds of employee contributions	(6)	-	-	-
Administrative expense	(140)	(85)	(53)	(34)
Other	(33)	(2)	(1)	1
Net change in plan fiduciary net position	<u>86,827</u>	<u>58,476</u>	<u>55,456</u>	<u>71,057</u>
Plan fiduciary net position - beginning	<u>249,841</u>	<u>191,365</u>	<u>135,909</u>	<u>64,852</u>
Plan fiduciary net position - ending (b)	<u>\$ 336,668</u>	<u>\$ 249,841</u>	<u>\$ 191,365</u>	<u>\$ 135,909</u>
Political subdivision's net pension (asset) liability - ending (a) - (b)	<u>\$ (24,858)</u>	<u>\$ (3,202)</u>	<u>\$ 4,937</u>	<u>\$ (44,154)</u>
Plan fiduciary net position as a percentage of the total pension liability	107.97%	101.30%	97.48%	148.12%
Covered payroll	\$ 518,076	\$ 500,141	\$ 435,845	\$ 317,750
Political subdivision's net pension (asset) liability as a percentage of covered payroll	(4.80)%	(0.64)%	1.13%	(13.9)%

SCHEDULE OF EMPLOYER CONTRIBUTIONS
Years Ended June 30, 2015 through 2018

Date	Contributions in Relation to			Employer's Covered Payroll	Contributions as a % of Covered Payroll
	Contractually Required Contribution (1)	Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)		
2015	\$ 27,720	\$ 27,720	\$ -	\$ 435,845	6.36%
2016	51,284	51,284	-	500,141	10.25%
2017	44,781	44,781	-	518,076	8.64%
2018	46,435	46,435	-	550,620	8.43%

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

(Continued)

TOWN OF LOVETTSVILLE, VIRGINIA

SCHEDULE OF CHANGES IN THE TOWN'S NET PENSION (ASSET) LIABILITY
AND RELATED RATIOS AND SCHEDULE OF EMPLOYER CONTRIBUTIONS

Notes to Required Supplemental Information For the Year Ended June 30, 2018

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

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

Largest 10 – Non-Hazardous Duty:

Mortality Rates Pre-retirement, post-retirement healthy, and disabled	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 20%

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

Mortality Rates Pre-retirement, post-retirement healthy, and disabled	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 15%

Largest 10 – Hazardous Duty:

Mortality Rates Pre-retirement, post-retirement healthy, and disabled	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 60% to 70%

(Continued)

TOWN OF LOVETTSVILLE, VIRGINIA

SCHEDULE OF CHANGES IN THE TOWN'S NET PENSION (ASSET) LIABILITY
AND RELATED RATIOS AND SCHEDULE OF EMPLOYER CONTRIBUTIONS

Notes to Required Supplemental Information For the Year Ended June 30, 2018

All Others (Non 10 Largest) – Hazardous Duty:

Mortality Rates Pre-retirement, post-retirement healthy, and disabled	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Increase rate from 60% to 45%

TOWN OF LOVETTSVILLE, VIRGINIA

**SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY –
GROUP LIFE INSURANCE PROGRAM AND SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Schedule of Employer's Share of Net OPEB Liability - Group Life Insurance Program

	<u>2017</u>
Employer's Proportion of the Net GLI OPEB Liability (Asset)	.00290%
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset)	\$ 43,000
Employer's Covered Payroll	\$ 550,620
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered Payroll	7.81%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	48.86%

Schedule of Employer Contributions Year Ended June 30, 2018

<u>Date</u>	<u>Contractually Required Contribution (1)</u>	<u>Contributions in Relation to Contractually Required Contribution (2)</u>	<u>Contribution Deficiency (Excess) (3)</u>	<u>Employer's Covered Payroll (4)</u>	<u>Contributions as a % of Covered Payroll (5)</u>
2018	\$ 1,844	\$ 1,844	\$ -	\$ 550,620	.335%

Schedules are intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

TOWN OF LOVETTSVILLE, VIRGINIA

**SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY –
GROUP LIFE INSURANCE PROGRAM AND SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Notes to Required Supplemental Information For the Year Ended June 30, 2018

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

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

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75.
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14 to 15%

Non-Largest Ten Locality Employers – Hazardous Duty Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Other Supplementary Information

TOWN OF LOVETTSVILLE, VIRGINIA

GENERAL FUND
STATEMENT OF REVENUES, COMPARED TO BUDGET
Year Ended June 30, 2018

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
GENERAL PROPERTY TAXES			
Real estate taxes	\$ 543,093	\$ 539,778	\$ (3,315)
Penalties and interest	2,000	1,281	(719)
Commercial & industrial real estate taxes	34,080	35,842	1,762
	<u>\$ 579,173</u>	<u>\$ 576,901</u>	<u>\$ (2,272)</u>
OTHER LOCAL TAXES			
Sales taxes	\$ 215,000	\$ 206,202	\$ (8,798)
Utility tax	14,200	14,667	467
Cigarette tax	19,080	22,344	3,264
Meals tax	120,000	137,572	17,572
Motor vehicle licenses	34,000	34,695	695
Bank franchise tax	16,867	28,613	11,746
Business licenses	53,560	85,988	32,428
	<u>\$ 472,707</u>	<u>\$ 530,081</u>	<u>\$ 57,374</u>
PERMITS, PRIVILEGE FEES AND REGULATORY LICENSES			
Zoning application fees	\$ 7,500	\$ 12,975	\$ 5,475
Plat fees	1,125	1,125	-
Conditional use permits	250	250	-
Inspections	1,350	3,525	2,175
Developer proffers	-	7,183	7,183
	<u>\$ 10,225</u>	<u>\$ 25,058</u>	<u>\$ 14,833</u>
REVENUES FROM THE USE OF MONEY AND PROPERTY			
Interest earned	\$ 16,425	\$ 12,171	\$ (4,254)
	<u>\$ 16,425</u>	<u>\$ 12,171</u>	<u>\$ (4,254)</u>
CHARGES FOR SERVICES			
Reimbursements:			
Copier	\$ -	\$ 23	\$ 23
Engineering	8,000	17,649	9,649
Legal	3,000	-	(3,000)
Advertising	300	-	(300)
Love Winter	2,500	-	(2,500)
Love Fall	6,000	-	(6,000)
Love Summer	5,000	5,250	250
Love Spring	6,000	100	(5,900)
	<u>\$ 30,800</u>	<u>\$ 23,022</u>	<u>\$ (7,778)</u>

(Continued)

TOWN OF LOVETTSVILLE, VIRGINIA

GENERAL FUND
STATEMENT OF REVENUES, COMPARED TO BUDGET
Year Ended June 30, 2018

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
MISCELLANEOUS			
Paver donations	\$ 4,000	\$ 2,482	\$ (1,518)
Clock Tower donations	6,000	1,953	(4,047)
Refuse service fees	15,033	14,140	(893)
Other	5,000	8,849	3,849
	<u>\$ 30,033</u>	<u>\$ 27,424</u>	<u>\$ (2,609)</u>
INTERGOVERNMENTAL REVENUES			
Commonwealth			
Rolling Stock tax	\$ 100	\$ 202	\$ 102
Motor vehicle carriers' tax	2,000	2,656	656
Communications tax	12,600	12,264	(336)
Fire program funds	10,000	20,000	10,000
	<u>\$ 24,700</u>	<u>\$ 35,122</u>	<u>\$ 10,422</u>
County			
2A Broad Way funds	\$ -	\$ 150,000	\$ 150,000
Litter grant	1,000	1,039	39
	<u>\$ 1,000</u>	<u>\$ 151,039</u>	<u>\$ 150,039</u>
Total revenues	<u>\$ 1,165,063</u>	<u>\$ 1,380,818</u>	<u>\$ 215,755</u>

TOWN OF LOVETTSVILLE, VIRGINIA

GENERAL FUND
STATEMENT OF EXPENDITURES, COMPARED TO BUDGET
Year Ended June 30, 2018

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
GENERAL GOVERNMENT ADMINISTRATION			
Administration			
Administrative salaries	\$ 438,537	\$ 402,132	\$ 36,405
Maintenance support	8,080	4,217	3,863
Council salaries	20,000	18,083	1,917
Payroll taxes	32,630	27,210	5,420
Health insurance	61,070	59,259	1,811
ICMA Hybrid retirement	3,000	3,032	(32)
VRS Contribution	29,448	34,608	(5,160)
Auditing	8,000	8,400	(400)
Legal fees, non-reimbursable	50,500	85,103	(34,603)
Consulting services	30,000	44,879	(14,879)
Advertising, non-reimbursable	3,300	6,328	(3,028)
Telephone	2,000	2,602	(602)
Cellular phones	2,000	3,067	(1,067)
Postage	3,500	3,112	388
Software and support	4,807	647	4,160
Software upgrade	4,000	16,008	(12,008)
Website	550	1,996	(1,446)
Copier lease	4,800	4,451	349
Books and subscriptions	1,000	29	971
Office computers	7,000	3,347	3,653
Office supplies	14,000	10,641	3,359
Office cleaning	3,030	3,048	(18)
Snow removal	1,600	2,063	(463)
Mowing/landscaping	2,800	2,574	226
Repairs/replacements	15,000	16,140	(1,140)
Vehicle maintenance	4,000	5,796	(1,796)
Education	6,500	6,295	205
Mileage and travel	4,000	1,326	2,674
Building and grounds			
Electricity	4,500	4,843	(343)
Water and sewer	700	611	89
Other			
Donation, Love events	22,500	13,937	8,563
Donation, other	9,400	2,558	6,842
Software upgrade	10,000	360	9,640
Economic development	12,000	3,774	8,226
Tourism/branding	3,150	652	2,498
Municipal dues	3,500	3,066	434
General liability insurance	12,000	12,111	(111)
Refunds	6,000	10,165	(4,165)
Beautification	10,000	2,897	7,103
Hospitality	2,000	1,329	671
Decals	1,082	38	1,044
Total general government administration	<u>\$ 861,984</u>	<u>\$ 832,734</u>	<u>\$ 29,250</u>

(Continued)

TOWN OF LOVETTSVILLE, VIRGINIA

GENERAL FUND
STATEMENT OF EXPENDITURES, COMPARED TO BUDGET
Year Ended June 30, 2018

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
COMMUNITY DEVELOPMENT			
Consultant	\$ 10,000	\$ 6,809	\$ 3,191
Engineering, non-reimbursable	2,000	208	1,792
Planning commission salaries	8,400	7,700	700
Planning commission, other	2,000	648	1,352
Event expense	6,500	2,343	4,157
Miscellaneous	3,900	-	3,900
Reimbursable expenditures:			
Engineering	8,000	16,221	(8,221)
Legal	3,000	6,720	(3,720)
Total community development	<u>\$ 43,800</u>	<u>\$ 40,649</u>	<u>\$ 3,151</u>
PUBLIC SAFETY			
Donation to fire and rescue company	\$ 3,500	\$ 3,500	\$ -
Fire fund allocation	10,000	10,000	-
Total public safety	<u>\$ 13,500</u>	<u>\$ 13,500</u>	<u>\$ -</u>
PARKS, RECREATION AND CULTURAL			
Maintenance	\$ 25,690	\$ 15,160	\$ 10,530
Litter grant spending	1,000	773	227
Utilities	9,900	5,331	4,569
Beautification	10,000	9,572	428
Supplies	4,000	1,645	2,355
Park tools and equipment	2,000	2,112	(112)
Total parks, recreation and cultural	<u>\$ 52,590</u>	<u>\$ 34,593</u>	<u>\$ 17,997</u>
PUBLIC WORKS			
Refuse service	\$ 150,332	\$ 163,924	\$ (13,592)
Street signs	10,100	772	9,328
Street sweeping	4,000	7,200	(3,200)
Street lighting	15,500	14,294	1,206
Total public works	<u>\$ 179,932</u>	<u>\$ 186,190</u>	<u>\$ (6,258)</u>
DEBT SERVICE			
Principal	\$ 85,000	\$ 85,000	\$ -
Interest	64,010	63,621	389
Total debt service	<u>\$ 149,010</u>	<u>\$ 148,621</u>	<u>\$ 389</u>
CAPITAL OUTLAY			
Broad Way Improvement 2A	\$ -	\$ 74,139	(74,139)
Bonnie's 7-Eleven sidewalk	-	13,852	(13,852)
N. Church St. improvement	-	13,281	(13,281)
Town Square	-	10,850	(10,850)
Town office expansion	-	14,045	(14,045)
Storm ditch improvement	2,000	-	2,000
Total capital outlay	<u>\$ 2,000</u>	<u>\$ 126,167</u>	<u>\$ (124,167)</u>
Total expenditures	<u>\$ 1,302,816</u>	<u>\$ 1,382,454</u>	<u>\$ (79,638)</u>

TOWN OF LOVETTSVILLE, VIRGINIA

WATER AND SEWER FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - BUDGET AND ACTUAL
Year Ended June 30, 2018

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
OPERATING REVENUES			
Charges for services	\$ 1,006,331	\$ 1,022,322	\$ 15,991
Late charges	19,500	19,048	(452)
Connection fees	36,000	76,000	40,000
Frye Court Service District tax	2,626	2,477	(149)
Reimbursements, developers	10,000	5,700	(4,300)
Miscellaneous	10,460	6,258	(4,202)
Total operating revenues	<u>\$ 1,084,917</u>	<u>\$ 1,131,805</u>	<u>\$ 46,888</u>
OPERATING EXPENSES			
Personnel services	\$ 415,090	\$ 369,377	\$ 45,713
Contractual services	114,500	73,793	40,707
Repairs and maintenance	208,945	193,518	15,427
Utilities	60,500	59,897	603
Communications	8,200	6,045	2,155
Insurance	20,000	21,725	(1,725)
Miscellaneous	15,900	12,183	3,717
Supplies and equipment	79,610	70,650	8,960
Depreciation	-	402,472	(402,472)
Total operating expenses	<u>\$ 922,745</u>	<u>\$ 1,209,660</u>	<u>\$ (286,915)</u>
Operating income (loss)	<u>\$ 162,172</u>	<u>\$ (77,855)</u>	<u>\$ (240,027)</u>
NONOPERATING REVENUES (EXPENSE)			
(Loss) on disposal of equipment	\$ -	\$ (1,715)	\$ (1,715)
Lease of water tower space	75,613	78,746	3,133
Interest income	16,425	25,754	9,329
Interest expense	(112,229)	(91,497)	20,732
Total nonoperating revenues (expense)	<u>\$ (20,191)</u>	<u>\$ 11,288</u>	<u>\$ 31,479</u>
Income (loss) before contributions	<u>\$ 141,981</u>	<u>\$ (66,567)</u>	<u>\$ (208,548)</u>
CAPITAL CONTRIBUTIONS			
Sewer availability fees	\$ 214,200	\$ 249,900	\$ 35,700
Water availability fees	145,800	170,100	24,300
Total capital contributions	<u>\$ 360,000</u>	<u>\$ 420,000</u>	<u>\$ 60,000</u>
Change in net position	<u>\$ 501,981</u>	<u>\$ 353,433</u>	<u>\$ (148,548)</u>
NET POSITION AT BEGINNING OF YEAR	<u>7,219,382</u>	<u>7,219,382</u>	<u>-</u>
NET POSITION AT END OF YEAR	<u>\$ 7,721,363</u>	<u>\$ 7,572,815</u>	<u>\$ (148,548)</u>

TOWN OF LOVETTSVILLE, VIRGINIA

WATER AND SEWER FUND
STATEMENT OF OPERATING EXPENSES, COMPARED TO BUDGET
Year Ended June 30, 2018

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
PERSONNEL SERVICES			
Utility operators	\$ 319,276	\$ 280,364	\$ 38,912
Maintenance salaries	606	-	606
Payroll taxes	23,813	20,531	3,282
Benefits	71,395	68,482	2,913
	<u>\$ 415,090</u>	<u>\$ 369,377</u>	<u>\$ 45,713</u>
CONTRACTUAL SERVICES			
Engineering	\$ 15,000	\$ -	\$ 15,000
Auditing	10,000	8,400	1,600
Sample testing, sewer	32,000	29,749	2,251
Sample testing, water	4,000	2,313	1,687
Consulting services	7,000	28,881	(21,881)
Legal services	15,000	2,195	12,805
GIS update	6,000	-	6,000
Software support	4,500	2,255	2,245
Well contributions to 3RM	3,500	-	3,500
Facility repairs	7,000	-	7,000
Reimbursable expenses:			
Legal	2,000	-	2,000
Engineering	500	-	500
Water & sewer record drawing	8,000	-	8,000
	<u>\$ 114,500</u>	<u>\$ 73,793</u>	<u>\$ 40,707</u>
REPAIRS AND MAINTENANCE			
Sewer:			
Permits	\$ 2,805	\$ 2,721	\$ 84
Equipment repair	36,000	26,717	9,283
Mowing/landscaping	3,700	3,237	463
Snow removal	1,500	3,866	(2,366)
Maintenance contracts	6,500	5,103	1,397
Sludge hauling	60,000	57,420	2,580
WTP system repairs	28,000	35,032	(7,032)
Frye Court lift station	2,500	4,118	(1,618)
Inflow and infiltration maintenance	10,000	8,374	1,626
SCADA operation	5,000	5,218	(218)
Water:			
Plant/water line repair	-	850	(850)
Service contracts	7,000	3,021	3,979
Equipment repair	4,000	6,255	(2,255)
Asphalt work	5,000	-	5,000
Water meter installation	17,340	16,885	455
Water tower maintenance	14,600	14,580	20
SCADA operation	5,000	121	4,879
	<u>\$ 208,945</u>	<u>\$ 193,518</u>	<u>\$ 15,427</u>
UTILITIES			
Electricity-water	\$ 30,000	\$ 28,769	\$ 1,231
Electricity-sewer	30,000	30,948	(948)
Electricity-Frye Court lift station	500	180	320
	<u>\$ 60,500</u>	<u>\$ 59,897</u>	<u>\$ 603</u>

(Continued)

TOWN OF LOVETTSVILLE, VIRGINIA

WATER AND SEWER FUND
STATEMENT OF OPERATING EXPENSES, COMPARED TO BUDGET
Year Ended June 30, 2018

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
COMMUNICATIONS			
Telephone	\$ 6,500	\$ 5,185	\$ 1,315
DSL	1,700	860	840
	<u>\$ 8,200</u>	<u>\$ 6,045</u>	<u>\$ 2,155</u>
INSURANCE			
General liability	\$ 20,000	\$ 21,725	\$ (1,725)
	<u>\$ 20,000</u>	<u>\$ 21,725</u>	<u>\$ (1,725)</u>
MISCELLANEOUS			
Training	\$ 6,300	\$ 6,233	\$ 67
Dues	1,000	590	410
Advertising	500	500	-
Credit card fees	2,100	2,721	(621)
Reimbursements/refunds	5,000	1,655	3,345
Miss Utility	1,000	484	516
	<u>\$ 15,900</u>	<u>\$ 12,183</u>	<u>\$ 3,717</u>
SUPPLIES AND EQUIPMENT			
Sewer:			
Software upgrade	\$ 1,250	\$ -	\$ 1,250
Sample testing	5,000	1,365	3,635
Chemicals	9,000	14,108	(5,108)
Gas/diesel fuel	2,000	960	1,040
Office supplies	1,500	2,789	(1,289)
Postage	1,500	1,448	52
Safety supplies	2,500	268	2,232
Spare parts	12,000	8,083	3,917
Tools	2,500	2,819	(319)
Stone/gravel	1,030	-	1,030
Vehicle expense	13,550	13,494	56
Uniforms	3,000	4,817	(1,817)
Water:			
Software upgrade	1,250	-	1,250
Sample testing	4,500	5,416	(916)
Chemicals	7,500	8,240	(740)
Gas/diesel fuel	2,000	987	1,013
Office supplies	1,500	1,029	471
Office equipment	1,500	981	519
Postage	1,500	951	549
Safety supplies	2,000	507	1,493
Tools	2,000	2,388	(388)
Stone/gravel	1,030	-	1,030
	<u>\$ 79,610</u>	<u>\$ 70,650</u>	<u>\$ 8,960</u>
DEPRECIATION			
Depreciation	\$ -	\$ 402,472	\$ (402,472)
	<u>\$ -</u>	<u>\$ 402,472</u>	<u>\$ (402,472)</u>
Total operating expenses	<u>\$ 922,745</u>	<u>\$ 1,209,660</u>	<u>\$ (286,915)</u>



David W. Black, CPA
Managing Partner

Christopher R. Montgomery, CPA
Tax Partner

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

To the Honorable Town Council
Town of Lovettsville
P.O. Box 209
Lovettsville, VA 20180

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the 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 Lovettsville, Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town of Lovettsville's basic financial statements, and have issued our report thereon dated December 10, 2018. The financial statements of the Town's fiduciary funds were not audited and this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with those funds.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Lovettsville's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Lovettsville's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Lovettsville'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 or deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Young, Nicholas, Branner & Phillips, LLP
Certified Public Accountants

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Retired Partners
Edward M. Young, CPA
Jack D. Nicholas, CPA
J. Robert Branner, CPA
Richard E. Phillips, CPA

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified the following deficiencies in internal control that we consider to be material weaknesses.

1. The management and staff of the Town lack the expertise to reconcile certain accounts, maintain depreciation schedules, and make all adjusting entries necessary to prepare financial statements in accordance with generally accepted accounting standards. As a result of this deficiency in internal control, the Town's financial statements may be misstated without the assistance and expertise of a third party.

The management of the Town has enlisted our firm to provide basic accounting assistance such as reconciling certain accounts, maintaining depreciation schedules, and proposing journal entries. Professional standards indicate that it is acceptable for the auditor to perform such nonaudit services providing independence is not impaired. However, the auditor cannot be considered part of the Town's internal control and this matter is required to be communicated to you.

Management believes this practice to be acceptable and cost beneficial to the Town.

2. The management and staff of the Town lack the expertise to prepare financial statements in accordance with generally accepted accounting standards. As a result of this deficiency in internal control, the Town's financial statements may be misstated without the assistance and expertise of a third party.

The management of the Town has enlisted our firm to provide assistance in drafting the Town's financial statements. Professional standards indicate that it is acceptable for the auditor to perform such nonaudit service providing independence is not impaired. However, the auditor cannot be considered part of the Town's internal control and this matter is required to be communicated to you.

Management believes this practice to be acceptable and cost beneficial to the Town.

We also identified the following deficiency in internal control that we consider to be a significant deficiency.

1. Proper internal control is not always possible due to the relatively small number of persons involved in processing transactions. We recognize that because of the small size of the Town, it may not be economically feasible to have adequate segregation of duties but we are required to report this condition under our professional responsibilities.

The Town has segregated certain duties of its employees to help prevent or promptly detect errors in financial reporting. The employees appear to perform their duties in a structured and conscientious manner. The problem is that with a small staff, it is hard to totally divide the functions of executing a transaction, recording the transaction, and keeping custody of the assets.

In the future, the Town plans to continue to segregate employee duties as much as possible. The Town Council and Officials also plan to continue to be actively involved in overseeing the Town's financial operations.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Lovettsville'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 or other matters that are required to be reported under *Government Auditing Standards*.

Response to Findings

The Town of Lovettsville's response to the findings identified in our audit is described under the material weaknesses reported above. The Town of Lovettsville's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Young, Nicholas, Branner & Phillips, LLP

Harrisonburg, VA
December 10, 2018