

TOWN OF LOVETTSVILLE, VIRGINIA
FINANCIAL AND COMPLIANCE REPORTS
JUNE 30, 2016

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
Lovettsville, VA 20180

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Town of Lovettsville, Virginia, as of and for the year ended June 30, 2016, 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.

Management's Responsibility for the Financial Statements

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

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. Because of the matter described in the "Basis for Disclaimer of Opinion" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the fiduciary funds.

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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Except for the matter described in the “Basis for Disclaimer of Opinion on the Fiduciary Funds” paragraph, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Disclaimer of Opinion on the Fiduciary Funds

The financial statements of Mayfest and Oktoberfest have not been audited, and we were not engaged to audit those financial statements as part of our audit of the Town’s basic financial statements. Mayfest and Oktoberfest financial activities are included in the Town’s basic financial statements as fiduciary funds.

Disclaimer of Opinion

Because of the significance of the matter described in the “Basis for Disclaimer of Opinion on the Fiduciary Funds” paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the fiduciary funds of the Town of Lovettsville, Virginia. Accordingly, we do not express an opinion on these financial statements.

Unmodified 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, 2016, 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 15, 2016, 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.

Young, Nicholas, Branner & Phillips, LLP

Harrisonburg, VA
December 15, 2016

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, 2016. Please read it in conjunction with the Town's financial statements, which begin on page 13.

FINANCIAL HIGHLIGHTS

- The assets of the Town exceeded its liabilities by \$11,812,838 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 decreased by \$296,132 net position of the governmental activities increased by \$986,845.
- In the Town's business-type activities, operating revenues increased by \$206,766 from the previous year while operating expenses decreased by \$37,808. Nonoperating income increased by \$73,842.
- In the Town's governmental activities, operating revenues increased by \$243,766 from the previous year while operating expenses increased by \$131,211. Nonoperating income increased by \$6,390.
- Actual revenues were \$230,280 more than budgeted for the General Fund. General Fund expenditures were \$13,048 less than budgeted, excluding capital additions.
- Operating and nonoperating revenues were \$121,720 more than budgeted for the Water and Sewer Fund. Water and Sewer Fund operating expenses, excluding depreciation, and interest expense were \$82,517 less than budgeted.
- The Town spent \$2,094,970 for capital additions during the current fiscal year.
- The Town's long-term debt decreased by \$538,270 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 13 and 14) 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 15. 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 15 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 24 and 25. 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 significantly from a year ago – *increasing* from \$11,122,125 to \$11,812,838. During the year, the net assets of the governmental increased and business-type activities decreased by 25.19 percent and 4.10 percent, respectively. Below is a summary of the net assets as of June 30, 2016 and 2015.

	NET ASSETS					
	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 2,876,455	\$ 3,619,002	\$ 1,896,912	\$ 2,248,932	\$ 4,773,367	\$ 5,867,934
Capital assets	<u>4,321,729</u>	<u>2,703,379</u>	<u>9,282,635</u>	<u>9,238,722</u>	<u>13,604,364</u>	<u>11,942,101</u>
Total assets	<u>\$ 7,198,184</u>	<u>\$ 6,322,381</u>	<u>\$ 11,179,547</u>	<u>\$ 11,487,654</u>	<u>\$ 18,377,731</u>	<u>\$ 17,810,035</u>
Total deferred outflows of resources	\$ 75,621	\$ 16,124	\$ 201,930	\$ 207,141	\$ 277,551	\$ 223,265
Long-term liabilities	\$ 1,679,963	\$ 1,781,475	\$ 3,897,965	\$ 4,334,723	\$ 5,577,928	\$ 6,116,198
Other liabilities	<u>166,343</u>	<u>116,204</u>	<u>572,378</u>	<u>151,528</u>	<u>738,721</u>	<u>267,732</u>
Total liabilities	<u>\$ 1,846,306</u>	<u>\$ 1,897,679</u>	<u>\$ 4,470,343</u>	<u>\$ 4,486,251</u>	<u>\$ 6,316,649</u>	<u>\$ 6,383,930</u>
Total deferred inflows of resources	\$ 524,191	\$ 524,363	\$ 1,604	\$ 2,882	\$ 525,795	\$ 527,245
Net position:						
Net investment in capital assets	\$ 2,641,766	\$ 2,146,946	\$ 5,384,670	\$ 5,103,908	\$ 8,026,436	\$ 7,250,854
Restricted	-	50,199	-	-	-	50,199
Unrestricted	<u>2,261,542</u>	<u>1,719,318</u>	<u>1,524,860</u>	<u>2,101,754</u>	<u>3,786,402</u>	<u>3,821,072</u>
Total net position	<u>\$ 4,903,308</u>	<u>\$ 3,916,463</u>	<u>\$ 6,909,530</u>	<u>\$ 7,205,662</u>	<u>\$ 11,812,838</u>	<u>\$ 11,122,125</u>

A portion of the Town's net position (67.94 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 (\$3,786,402) 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, 2016 and 2015.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues						
Charges for services	\$ 54,059	\$ 26,381	\$ 968,045	\$ 737,783	\$ 1,022,104	\$ 764,164
General property taxes	531,334	486,565	-	2,503	531,334	489,068
Other local taxes	435,261	415,783	-	-	435,261	415,783
Intergovernmental	189,581	30,885	-	-	189,581	30,885
Miscellaneous	10,409	17,264	-	20,993	10,409	38,257
Total revenues	<u>\$ 1,220,644</u>	<u>\$ 976,878</u>	<u>\$ 968,045</u>	<u>\$ 761,279</u>	<u>\$ 2,188,689</u>	<u>\$ 1,738,157</u>
Program expenses						
General government	\$ 761,560	\$ 502,043	\$ -	\$ -	\$ 761,560	\$ 502,043
Community development	28,796	58,962	-	-	28,796	58,962
Parks, recreation, and cultural	31,950	29,779	-	-	31,950	29,779
Public safety	13,825	12,167	-	-	13,825	12,167
Public works	147,903	249,872	-	-	147,903	249,872
Water and sewer	-	-	1,109,578	1,147,386	1,109,578	1,147,386
Total expenses	<u>\$ 984,034</u>	<u>\$ 852,823</u>	<u>\$ 1,109,578</u>	<u>\$ 1,147,386</u>	<u>\$ 2,093,612</u>	<u>\$ 2,000,209</u>
Operating income (loss)	<u>\$ 236,610</u>	<u>\$ 124,055</u>	<u>\$ (141,533)</u>	<u>\$ (386,107)</u>	<u>\$ 95,077</u>	<u>\$ (262,052)</u>
Nonoperating						
Gain on insurance recovery	\$ -	\$ -	\$ 23,708	\$ -	\$ 23,708	\$ -
Interest income	7,349	3,366	7,052	5,711	14,401	9,077
Lease income	-	-	72,684	83,279	72,684	83,279
Interest expense	(68,609)	(71,016)	(104,148)	(163,536)	(172,757)	(234,552)
Total nonoperating	<u>\$ (61,260)</u>	<u>\$ (67,650)</u>	<u>\$ (704)</u>	<u>\$ (74,546)</u>	<u>\$ (61,964)</u>	<u>\$ (142,196)</u>
Income (loss) before contributions and transfers	\$ 175,350	\$ 56,405	\$ (142,237)	\$ (460,653)	\$ 33,113	\$ (404,248)
Contributions	-	-	657,600	115,200	657,600	115,200
Transfers	<u>811,495</u>	<u>97,681</u>	<u>(811,495)</u>	<u>(97,681)</u>	<u>-</u>	<u>-</u>
Increase in net position	<u>\$ 986,845</u>	<u>\$ 154,086</u>	<u>\$ (296,132)</u>	<u>\$ (443,134)</u>	<u>\$ 690,713</u>	<u>\$ (289,048)</u>

The Town's total revenues increased by \$450,532 (25.92 percent). The total cost of all programs and services increased by \$93,403 (4.66 percent). Nonoperating revenues increased by \$80,232 (56.42 percent). Capital contributions increased by \$542,400. 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 \$243,766 (24.95 percent) and expenses increased by \$131,211 (15.38 percent). The factors driving these results include:

Revenues

- *General property taxes* increased by \$44,769. Although the tax rates remained the same, revenues increased in this category due to the continued residential housing growth in the community and the annual county reassessment.

- *Other local taxes* increased by \$19,478. Most of this change is attributable to the increase in meals tax. Meals tax increased by roughly \$18,000. This increase is attributable to a recovering economy and more disposable income to be spent at local restaurants and businesses.
- *Intergovernmental* revenue increased by \$158,696. This increase is due to a new grant received in the amount of \$163,500 for work to be done to the storm ditches in the Town. Last year the Town received a federal grant for \$3,634 in relation to emergency and disaster recovery that they did not receive in the current year.
- *Charges for services* increased by \$27,678. Permits, privilege fees and regulatory items increased by approximately \$22,000. This increase is due to the continued housing development in the community. Additionally, reimbursements for services increased by approximately \$5,000. The Town paid for more expenses out of pocket for items needed for Oktoberfest and Mayfest that were later reimbursed to the Town

Expenses

- *General government administration and public works* collectively increased by \$157,548. The most significant increase was in salaries which increased by approximately \$101,000. Overall salaries increased due to annual raises and the hiring of an event and tourism coordinator. Employee benefits and payroll taxes also increased incrementally with the increase in salaries noted above. Payroll taxes increased by roughly \$11,000 while employee benefits increased by roughly \$45,000.
- *Community Development* decreased by \$30,166. Most of the costs in this category are attributable to the engineering, zoning and legal services for the Town's new development. Last year's expenses were unusually high as the Town was rapidly developing. Development, while still steady, has slowed down and has put this year's expenses more in line with prior years.

The Town's governmental activities also included an increase in interest income in the amount of \$3,983. This increase resulted from higher interest rates and increased deposits.

Business-Type Activities

Revenues for the Town's business-type activities increased by \$206,766 (27.16 percent) and expenses decreased by \$37,808 (3.29 percent). The factors driving these results include:

Revenues

- *Water and sewer revenues* increased overall by \$206,766. Charges for water and sewer services increased by \$135,726 over the prior year, to reflect the 16% rate increase that took effect October 1, 2015. Water and sewer connection fees also increased \$72,000 over the prior year as a result of new construction and development throughout the community.

Expenses

- *Water and sewer expenses* decreased overall by \$ 37,808. The most significant decrease in this category was repairs and maintenance. Repairs and maintenance decreased by \$31,198. The Town completed a wastewater treatment plant upgrade in the prior year which has led to a decrease in the need for repairs at the plant. As upgrades are made at the wastewater treatment plant, the need for repairs will decrease. Utilities also decreased by approximately \$8,000. This too can be attributed to the upgrades at the wastewater treatment plant as the upgraded equipment is more efficient.

The Town's business-type activities also included increases in interest income by \$1,341 and a decrease in interest expense by \$59,388. The increase in interest income resulted from higher interest rates and increased deposits. The decrease in interest expense resulted from the paying down of loans borrowed for capital improvements.

Finally, contributions increased in business-type activities by \$542,400 from the prior year. During FY2016, the Town received \$24,000 from DEQ for a wellhead protection plant and received \$44,550 in reimbursements from Loudoun County. Water and sewer availability fees were \$473,850 more 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 15) reported a fund balance of \$2,232,202, which is a decrease of \$745,112 over last year's total of \$2,977,314. The primary reasons for the General Fund's decrease mirror the changes noted in the previous section under "governmental" activities. Also, the Town expended \$1,665,474 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 19 and 20) reported net assets of \$6,909,530, which is a decrease of \$296,132 over last year's total of \$7,205,662. 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	
Meals tax	\$ 18,028
Sales taxes	19,681
Developer proffers	14,300
Business licenses	7,265
Interest earned	7,349
Storm ditch grant	163,500
Expenditures	
<i>General Government Administration</i>	
Town office expansion	\$ (28,000)
Administrative salaries	11,463
Retirement	(11,226)
Health insurance	(10,179)
<i>Parks, Recreation and Cultural</i>	
Maintenance	12,882
Utilities	4,329
Park tools and equipment	2,502
<i>Public Works</i>	
Street lighting	3,164
<i>Capital Outlay</i>	
Projects	1,665,474

Actual revenues were \$230,280 more than budgeted. The Town received more local sales and use tax than expected. As the economy recovers and the Town develops, sales tax is expected to continue to increase. Actual revenue from meals taxes exceeded budget as the Town's eating establishments, both new and old, had increased sales. Business licenses and developer proffers exceeded expectations as there has been an increase in the development activity in the Town over the year. Interest earned was more than budget because of higher interest rates and increased deposits. A grant for the amount of \$163,500 intended for improvements made to the storm ditches throughout the Town was not budgeted.

The Town made a nonrefundable deposit on land in the amount of \$28,000 in which the contract was voided. The Town increased the salaries and wages budget for general administration in response to annual raises and the hiring of an event and tourism coordinator; however, the Town spent less on wages than anticipated. With hiring of additional employees comes an increase in retirement and health insurance costs. Health insurance and retirement exceeded expectations due to the hiring of new employees and increased salaries. The Town budgeted for an increase in maintenance and tools in the parks and recreation; however, actual expenditures did not meet expectations. Street lighting was under budget in the public works department.

Capital outlays were primarily funded through the prior year revenues and loans.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the Town had \$13.60 million invested in capital assets including land, buildings, equipment, infrastructure and the utility system. (See table that follows.) This represents a net increase of \$1,662,263, or 13.91 percent, over last year.

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Land	\$ 973,820	\$ 973,820	\$ 154,200	\$ 154,200	\$ 1,128,020	\$ 1,128,020
Construction in progress	227,413	1,292,918	57,155	-	284,568	1,292,918
Buildings	347,886	4,374	-	-	347,886	4,374
Improvements	333,845	358,883	-	-	333,845	358,883
Equipment	23,334	29,296	-	-	23,334	29,296
Infrastructure	2,415,431	44,088	-	-	2,415,431	44,088
Utility system	-	-	9,071,280	9,084,522	9,071,280	9,084,522
Totals	<u>\$4,321,729</u>	<u>\$2,703,379</u>	<u>\$9,282,635</u>	<u>\$9,238,722</u>	<u>\$ 13,604,364</u>	<u>\$ 11,942,101</u>

This year's additions included:

General Fund

Broadway sidewalk/street improvements	\$ 1,387,312
Storm ditch improvement	188,474
Street lights – Broadway	83,038
Information sign	6,650
Total general fund	<u>\$ 1,665,474</u>

Water/Sewer Fund

Broadway waterline	\$ 320,740
Sludge pumping modifications	57,155
Wellhead protection plan	24,000
GIS update	17,121
WWTP blower	<u>10,480</u>
Total water fund	<u>\$ 429,496</u>

Debt

At year-end, the Town had \$5,577,928 in outstanding loans compared to \$6,091,985 last year. This is a decrease of 8.43 percent as shown in the following table.

	Governmental Activities		Business-Type Activities		Totals	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Bonds Payable:						
General obligation						
bonds	\$1,660,000	\$1,740,000	\$1,598,591	\$1,993,588	\$ 3,258,591	\$ 3,733,588
Revenue bonds	-	-	2,005,000	2,005,000	2,005,000	2,005,000
Premium on						
bond issuance	<u>19,963</u>	<u>21,626</u>	<u>294,374</u>	<u>331,771</u>	<u>314,337</u>	<u>353,397</u>
Totals	<u>\$1,679,963</u>	<u>\$1,761,626</u>	<u>\$3,897,965</u>	<u>\$4,330,359</u>	<u>\$ 5,577,928</u>	<u>\$ 6,091,985</u>

No new debt was issued during the year ended June 30, 2016.

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 2016-2017.

General Fund

- The budgeted revenues are to remain fairly steady in the upcoming year and there are only a few significant changes in comparison to last year's budget. The increase in budgeted revenues is due to an increase in meals and business license revenues. Meals are expected to increase seventeen percent while business license revenue is expected to increase fifteen percent. This is due to the continued development within the Town. The Town also expects a \$20,000 increase in sales tax revenue in response to the growing economy and development that is occurring in the Town.
- The budgeted expenses also remain fairly steady in the upcoming year in response to the slight increase in budgeted revenues. The general government department increased its budget by one percent in response to the increase in expected revenue. The biggest change was in the amount budgeted for capital outlays. Events and tourism expenses are expected to increase by sixteen percent due to additional marketing items and maintenance expenses that are needed in the upcoming year. The Town also expects an increase in the Events Coordinator's hours as the events and tourism program expands.

Utility Fund

- The budgeted revenue in the utility fund is expected to remain fairly steady with only a slight increase in revenues. The Town expects a twelve percent increase in usage fee revenue as development around the community has created more users. There is also an increase in connection and availability fee revenue of one percent as the Town anticipates a steady increase in connection fees as the community continues to grow.
- The budgeted expenses also remain fairly steady in the upcoming year in response to the budgeted revenues. An increase in general services is expected as the Town is upgrading IT equipment and financial software in the upcoming year. There is expected to be a two percent increase in existing wages and the Town is planning to add a new operator to do the inspections at the wastewater treatment plant.

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, 2016

	----- Primary Government -----		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 1,786,421	\$ 1,697,783	\$ 3,484,204
Receivables:			
Property taxes	537,763	-	537,763
Utility taxes	1,184	-	1,184
Accounts	-	189,878	189,878
Meals and occupancy	21,766	-	21,766
Other	10,816	-	10,816
Due from other governmental units	120,699	-	120,699
Prepaid expense	2,741	4,190	6,931
Internal balances	395,065	(395,065)	-
Capital assets:			
Non-depreciable	1,201,233	211,355	1,412,588
Depreciable, net of accumulated depreciation	3,120,496	9,071,280	12,191,776
Net pension asset	-	5,061	5,061
	<u> </u>	<u> </u>	<u> </u>
Total assets	\$ 7,198,184	\$ 10,784,482	\$ 17,982,666
DEFERRED OUTFLOWS OF RESOURCES			
Employer pension contributions	\$ 75,621	\$ 28,426	\$ 104,047
Deferred charges on refunding	-	173,504	173,504
	<u> </u>	<u> </u>	<u> </u>
Total deferred outflows of resources	\$ 75,621	\$ 201,930	\$ 277,551
LIABILITIES			
Accounts payable	\$ 50,875	\$ 80,728	\$ 131,603
Accrued liabilities	9,430	9,703	19,133
Accrued interest payable	30,761	17,294	48,055
Compensated absences	23,089	5,266	28,355
Performance bond held	42,190	-	42,190
Deposits	-	64,322	64,322
Long-term liabilities:			
Due within one year	86,663	440,569	527,232
Due in more than one year	1,593,300	3,457,396	5,050,696
Net pension liability	9,998	-	9,998
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	\$ 1,846,306	\$ 4,075,278	\$ 5,921,584
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	\$ 523,582	\$ -	\$ 523,582
Net difference between projected and actual earnings on pension plan investments	609	1,604	2,213
	<u> </u>	<u> </u>	<u> </u>
Total deferred inflows of resources	\$ 524,191	\$ 1,604	\$ 525,795
NET POSITION			
Net investments in capital assets	\$ 2,641,766	\$ 5,384,670	\$ 8,026,436
Unrestricted	2,261,542	1,524,860	3,786,402
	<u> </u>	<u> </u>	<u> </u>
Total net position	\$ 4,903,308	\$ 6,909,530	\$ 11,812,838

See Notes to Financial Statements.

TOWN OF LOVETTSVILLE, VIRGINIA

**STATEMENT OF ACTIVITIES
Year Ended June 30, 2016**

<u>Functions/ Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>----- Program Revenues ----- Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental activities:				
General government administration	\$ 761,560	\$ 24,199	\$ -	\$ -
Community development	28,796	29,860	-	-
Parks, recreation and cultural	31,950	-	-	-
Public safety	13,825	-	10,000	-
Public works	147,903	-	1,069	163,500
Interest on long-term obligations	<u>68,609</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total governmental activities	 <u>\$ 1,052,643</u>	 <u>\$ 54,059</u>	 <u>\$ 11,069</u>	 <u>\$ 163,500</u>
Business-type activities:				
Water and sewer	<u>\$ 1,213,726</u>	<u>\$ 1,040,729</u>	<u>\$ -</u>	<u>\$ 657,600</u>
 Total business-type activities	 <u>\$ 1,213,726</u>	 <u>\$ 1,040,729</u>	 <u>\$ -</u>	 <u>\$ 657,600</u>
 Total primary government	 <u>\$ 2,266,369</u>	 <u>\$ 1,094,788</u>	 <u>\$ 11,069</u>	 <u>\$ 821,100</u>

General revenues:

General property taxes
Other local taxes
Unrestricted revenue from the use of money and property
Miscellaneous
Grants and contributions not restricted to specific program
Transfers

Total general revenues and transfers

Change in net position

Net position at beginning of year

Net position at end of year

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Assets

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

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (737,361)	\$ -	\$ (737,361)
1,064	-	1,064
(31,950)	-	(31,950)
(3,825)	-	(3,825)
16,666	-	16,666
<u>(68,609)</u>	<u>-</u>	<u>(68,609)</u>
<u>\$ (824,015)</u>	<u>\$ -</u>	<u>\$ (824,015)</u>
<u>\$ -</u>	<u>\$ 484,603</u>	<u>\$ 484,603</u>
<u>\$ -</u>	<u>\$ 484,603</u>	<u>\$ 484,603</u>
<u>\$ (824,015)</u>	<u>\$ 484,603</u>	<u>\$ (339,412)</u>
\$ 531,334	\$ -	\$ 531,334
435,261	-	435,261
7,349	7,052	14,401
10,409	23,708	34,117
15,012	-	15,012
<u>811,495</u>	<u>(811,495)</u>	<u>-</u>
<u>\$ 1,810,860</u>	<u>\$ (780,735)</u>	<u>\$ 1,030,125</u>
\$ 986,845	\$ (296,132)	\$ 690,713
<u>3,916,463</u>	<u>7,205,662</u>	<u>11,122,125</u>
<u>\$ 4,903,308</u>	<u>\$ 6,909,530</u>	<u>\$ 11,812,838</u>

Fund Financial Statements

TOWN OF LOVETTSVILLE, VIRGINIA

----GOVERNMENTAL FUND----
BALANCE SHEET
June 30, 2016

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 1,786,421
Receivables:	
Property taxes	537,763
Utility taxes	1,184
Meals and occupancy	21,766
Other	10,816
Prepaid expense	2,741
Due from other governmental units	120,699
Due from other fund	<u>395,065</u>
Total assets	<u>\$ 2,876,455</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 50,875
Accrued liabilities	9,430
Compensated absences	5,617
Performance bonds held	<u>42,190</u>
Total liabilities	<u>\$ 108,112</u>
Deferred Inflows of Resources	
Unavailable revenue	<u>\$ 536,141</u>
Total deferred inflows of resources	<u>\$ 536,141</u>
Total liabilities	<u>\$ 644,253</u>
Fund Balance	
Nonspendable:	
Prepaid items	\$ 2,741
Committed:	
Capital project – Loudon St. improvements	82,000
Capital project – 27 N. Berlin	42,190
Unassigned	<u>2,105,271</u>
Total fund balance	<u>\$ 2,232,202</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 2,876,455</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, 2016

FUND BALANCE-TOTAL GOVERNMENTAL FUND **\$ 2,232,202**

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	\$4,570,801	
Less accumulated depreciation	<u>(249,072)</u>	4,321,729

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

Net pension asset	\$ <u>(9,998)</u>	(9,998)
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Deferred outflows of resources for employer pension contributions subsequent to the measurement date.

	\$ <u>75,621</u>	75,621
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Deferred inflows of resources for the net difference between projected and actual earnings on pension plan investments.

	\$ <u>(609)</u>	(609)
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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>12,559</u>	12,559
----------------------------------	------------------	--------

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	\$(1,660,000)	
Premium on bond issuance	(19,963)	
Accrued interest payable	(30,761)	
Compensated absences	<u>(17,472)</u>	<u>(1,728,196)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 4,903,308**

See Notes to Financial Statements.

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

	<u>General Fund</u>
REVENUES	
General property taxes	\$ 529,151
Other local taxes	435,261
Permits, privilege fees, and regulatory licenses	29,860
Revenues from the use of money and property	7,349
Charges for services	24,199
Miscellaneous	10,409
Intergovernmental revenues:	
Commonwealth	25,012
County	1,069
Federal	163,500
Total revenues	<u>\$ 1,225,810</u>
EXPENDITURES	
Current:	
General government administration	\$ 758,970
Community development	28,796
Parks, recreation and cultural	31,950
Public safety	13,825
Public works	132,964
Debt service	150,438
Capital outlay	1,665,474
Total expenditures	<u>\$ 2,782,417</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (1,556,607)</u>
OTHER FINANCING SOURCES (USES)	
Transfers in	\$ 811,495
Total other financing sources (uses)	<u>\$ 811,495</u>
Net change in fund balance	\$ (745,112)
FUND BALANCE AT BEGINNING OF YEAR	<u>2,977,314</u>
FUND BALANCE AT END OF YEAR	<u>\$ 2,232,202</u>

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, 2016**

NET CHANGE IN FUND BALANCE-TOTAL GOVERNMENTAL FUND \$ (745,112)

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	\$ 1,665,474	
Less current year depreciation	<u>(47,123)</u>	1,618,351

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>80,000</u>	80,000
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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>2,183</u>	2,183
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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	\$ 1,829	
Difference between pension expenditures and pension expense	27,216	
Change in long-term compensated absences	<u>2,378</u>	<u>31,423</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 986,845

See Notes to Financial Statements.

TOWN OF LOVETTSVILLE, VIRGINIA

---- PROPRIETARY FUND ----
STATEMENT OF NET POSITION
June 30, 2016

	<u>Enterprise Fund</u> <u>Water & Sewer</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,697,783
Accounts receivable	189,878
Prepaid expense	4,190
Total current assets	<u>\$ 1,891,851</u>
Noncurrent assets:	
Capital assets:	
Land	\$ 154,200
Construction in progress	57,155
Utility plant, distribution and collection systems	13,782,360
Less accumulated depreciation	<u>(4,711,080)</u>
	\$ 9,282,635
Net pension asset	5,061
Total noncurrent assets	<u>\$ 9,287,696</u>
Total assets	<u>\$ 11,179,547</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charges on refunding	\$ 173,504
Employer pension contributions	28,426
Total deferred outflows of resources	<u>\$ 201,930</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 80,728
Accrued liabilities	9,703
Accrued interest payable	17,294
Deposits	64,322
Due to other fund	395,065
Bonds, notes and loans payable	440,569
Compensated absences, current portion	5,266
Total current liabilities	<u>\$ 1,012,947</u>
Noncurrent liabilities:	
Bonds, notes and loans payable	<u>\$ 3,457,396</u>
Total noncurrent liabilities	<u>\$ 3,457,396</u>
Total liabilities	<u>\$ 4,470,343</u>
DEFERRED INFLOWS OF RESOURCES	
Net difference between projected and actual earnings on pension plan investments	<u>\$ 1,604</u>
Total deferred inflows of resources	<u>\$ 1,604</u>

(Continued)

TOWN OF LOVETTSVILLE, VIRGINIA**---- PROPRIETARY FUND ----
STATEMENT OF NET POSITION
June 30, 2016**

	<u>Enterprise Fund Water & Sewer</u>
NET POSITION	
Net investment in capital assets	\$ 5,384,670
Unrestricted	<u>1,524,860</u>
Total net position	<u>\$ 6,909,530</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, 2016

	<u>Enterprise Fund</u> <u>Water & Sewer</u>
OPERATING REVENUES	
Charges for services	\$ 855,508
Late charges	18,713
Connection fees	90,000
Frye Court Service District tax	2,916
Miscellaneous	908
Total operating revenues	<u>\$ 968,045</u>
OPERATING EXPENSES	
Personnel services	\$ 304,277
Contractual services	98,297
Repairs and maintenance	181,101
Utilities	61,608
Communications	6,736
Insurance	9,392
Miscellaneous	10,475
Supplies and equipment	52,109
Depreciation	385,583
Total operating expenses	<u>\$ 1,109,578</u>
Operating income (loss)	<u>\$ (141,533)</u>
NONOPERATING REVENUES (EXPENSE)	
Gain on insurance recovery	\$ 23,708
Lease of water tower space	72,684
Interest income	7,052
Interest expense	(104,148)
Total nonoperating revenues (expense)	<u>\$ (704)</u>
Income (loss) before contributions and transfers	<u>\$ (142,237)</u>
CAPITAL CONTRIBUTIONS	
Sewer availability fees	\$ 589,050
DEQ, wellhead protection grant	24,000
Reimbursement, Loudoun County	44,550
Total capital contributions	<u>\$ 657,600</u>
TRANSFERS OUT	<u>\$ (811,495)</u>
Change in net position	\$ (296,132)
NET POSITION AT BEGINNING OF YEAR	<u>7,205,662</u>
NET POSITION AT END OF YEAR	<u>\$ 6,909,530</u>

See Notes to Financial Statements.

TOWN OF LOVETTSVILLE, VIRGINIA

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

	<u>Enterprise Fund</u> <u>Water & Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 926,345
Cash payments to suppliers of goods and services	(393,004)
Cash payments to employees	<u>(304,277)</u>
Net cash provided by (used in) operating activities	<u>\$ 229,064</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating transfers out to other fund	\$ (811,495)
Payment from other fund	<u>219,772</u>
Net cash provided by (used in) noncapital financing activities	<u>\$ (591,723)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments on long-term debt	\$ (394,998)
Interest payments on long-term debt	(121,869)
Rental income	72,684
Purchase of property, plant and equipment	(429,496)
Sewer availability fees	589,050
DEQ wellhead protection grant	24,000
Insurance recovery	23,708
Reimbursements, Loudoun County	<u>44,550</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (192,371)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earned from investments	<u>\$ 7,052</u>
Net cash provided by (used in) investing activities	<u>\$ 7,052</u>
Net increase (decrease) in cash and cash equivalents	\$ (547,978)
Cash and cash equivalents:	
Beginning	<u>2,245,761</u>
Ending	<u><u>\$ 1,697,783</u></u>

(Continued)

TOWN OF LOVETTSVILLE, VIRGINIA

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

Enterprise Fund
Water & Sewer

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

Operating income (loss)	\$ (141,533)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Pension costs (earnings)	(4,695)
Depreciation	385,583
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(41,700)
(Increase) decrease in prepaid expense	7,622
Increase (decrease) in accounts payable and accrued expenses	59,312
Increase (decrease) in deposits	<u>(35,525)</u>
Net cash provided by (used in) operating activities	<u>\$ 229,064</u>

See Notes to Financial Statements.

TOWN OF LOVETTSVILLE, VIRGINIA
---FIDUCIARY FUNDS---
STATEMENTS OF FIDUCIARY NET POSITION
June 30, 2016

	<u>Mayfest</u>	<u>Oktoberfest</u>
ASSETS		
Cash	\$ 27,916	\$ 16,072
Total assets	<u>\$ 27,916</u>	<u>\$ 16,072</u>
LIABILITIES		
Amounts held for others	\$ 27,916	\$ 16,072
Total liabilities	<u>\$ 27,916</u>	<u>\$ 16,072</u>

See Notes to Financial Statements.

TOWN OF LOVETTSVILLE, VIRGINIA
---FIDUCIARY FUNDS---
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
Year Ended June 30, 2016

	<u>Mayfest</u>	<u>Oktoberfest</u>
ADDITIONS		
Event receipts and contributions	\$ 24,256	\$ 83,764
Total additions	<u>\$ 24,256</u>	<u>\$ 83,764</u>
DEDUCTIONS		
Event disbursements and contributions	\$ 8,144	\$ 81,045
Total deductions	<u>\$ 8,144</u>	<u>\$ 81,045</u>
Changes in net position	\$ 16,112	\$ 2,719
NET POSITION AT BEGINNING OF YEAR	<u>11,804</u>	<u>13,353</u>
NET POSITION AT END OF YEAR	<u>\$ 27,916</u>	<u>\$ 16,072</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.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)**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, 2016, 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, 2016, includes amounts not yet billed or received from the January 1, 2016, levy (due December 5, 2016). These items are included in deferred revenue since these taxes are restricted for use until fiscal year 2017.

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, 2016.

Prepaid Items

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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 \$395,065 at June 30, 2016.

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% 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 two 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 item is comprised of contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date, which will be recognized as a reduction or increase in the net pension liability or asset next fiscal year.

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 three items (property taxes, vehicle license billing, and the difference between projected and actual earnings on pension plan investments) 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 \$4,044, for the year ended June 30, 2016. Advertising expense in the Water and Sewer Fund was \$67, for the year ended June 30, 2016.

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.

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 2016. Below is a summary of budgeted information which is not included in the General Fund Statement of Revenues and Expenditures – Budget:

	<u>Budget</u>
Annual contributions:	
Debt retirement fund	\$ 51,975
Operating cash fund	145,146
Rainy day fund	(333)
30-day cash on hand fund	(111)
HR fund	(666)
Operating cash fund	(110,000)
Reimbursement from utility fund	123,850
Subsidy to utility fund	<u>(75,400)</u>
	<u>\$ 134,461</u>

NOTES TO FINANCIAL STATEMENTS

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

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>Budget</u>
Annual contributions:	
Debt retirement fund	\$ 266,259
Operating cash fund	100,000
Rainy day fund	(3,000)
30-day cash on hand fund	(5,667)
HR fund	(933)
3RM fund	(20,000)
Operating cash fund	(103,333)
New capital fund	(151,400)
Reimbursement to general fund	(123,850)
General fund subsidy	75,400
Debt service	<u>(394,448)</u>
	<u>\$ (360,972)</u>

B. Excess of Expenditures Over Appropriations

For the year ended June 30, 2016, General Fund expenditures exceeded appropriations in General government administration by \$16,463. This over expenditure was funded by greater than anticipated revenues in that fund.

Note 3. Cash and Cash EquivalentsDeposits

Below is a summary of the Town's accounts/deposits at June 30, 2016:

<u>Account</u>	<u>Bank</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
<u>General</u>			
Checking	BB&T	\$ 589,835	\$ 649,896
Checking, capital	BB&T	705	705
Money markets	BB&T	1,195,681	1,195,681
Petty cash	N/A	<u>200</u>	<u>-</u>
		<u>\$ 1,786,421</u>	<u>\$ 1,846,282</u>
<u>Water and Sewer</u>			
Checking, capital	BB&T	\$ 2,496	\$ 2,496
Money markets	BB&T	1,655,065	1,655,065
Certificates of deposit	Summit Community Bank	<u>40,222</u>	<u>40,222</u>
		<u>\$ 1,697,783</u>	<u>\$ 1,697,783</u>
		<u>\$ 3,484,204</u>	<u>\$ 3,544,065</u>
Total reporting entity			

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Cash Equivalents (Continued)

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.

Note 4. Receivables

Receivables as of June 30, 2016, 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	\$ 537,763	\$ -	\$ 537,763
Other taxes:			
Utilities	1,184	-	1,184
Meals and occupancy	21,766	-	21,766
Accounts	10,816	-	10,816
Water/sewer billings	-	<u>189,878</u>	<u>189,878</u>
Gross receivables	<u>\$ 571,529</u>	<u>\$ 189,878</u>	<u>\$ 761,407</u>
Less: allowance for uncollectibles	<u>-</u>	<u>-</u>	<u>-</u>
Net total receivables	<u>\$ 571,529</u>	<u>\$ 189,878</u>	<u>\$ 761,407</u>

Note 5. Due from Other Governmental Units

Due from other governmental units consists of the following:

Government-type activities

Storm ditch grant	\$ 84,531
County of Loudoun, Virginia, sales tax collected for the Town	33,789
Department of Taxation, communications tax collected for the Town	<u>2,379</u>
	<u>\$ 120,699</u>

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2016, 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>1,292,918</u>	<u>1,582,435</u>	<u>2,647,940</u>	<u>227,413</u>
Total capital assets not being depreciated	<u>\$ 2,266,738</u>	<u>\$ 1,582,435</u>	<u>\$ 2,647,940</u>	<u>\$ 1,201,233</u>
Capital assets being depreciated				
Buildings	\$ 33,314	\$ 353,664	\$ -	\$ 386,978
Land improvements	452,162	-	-	452,162
Machinery and equipment	74,182	-	-	74,182
Infrastructure	<u>78,932</u>	<u>2,377,314</u>	<u>-</u>	<u>2,456,246</u>
Total capital assets being depreciated	<u>\$ 638,590</u>	<u>\$ 2,730,978</u>	<u>\$ -</u>	<u>\$ 3,369,568</u>
Less accumulated depreciation for				
Buildings	\$ 28,940	\$ 10,152	\$ -	\$ 39,092
Land improvements	93,279	25,038	-	118,317
Machinery and equipment	44,886	5,962	-	50,848
Infrastructure	<u>34,844</u>	<u>5,971</u>	<u>-</u>	<u>40,815</u>
Total accumulated depreciation	<u>\$ 201,949</u>	<u>\$ 47,123</u>	<u>\$ -</u>	<u>\$ 249,072</u>
Total capital assets being depreciated, net	<u>\$ 436,641</u>	<u>\$ 2,683,855</u>	<u>\$ -</u>	<u>\$ 3,120,496</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET				
	<u>\$ 2,703,379</u>	<u>\$ 4,266,290</u>	<u>\$ 2,647,940</u>	<u>\$ 4,321,729</u>
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 154,200	\$ -	\$ -	\$ 154,200
Construction in progress	<u>-</u>	<u>57,155</u>	<u>-</u>	<u>57,155</u>
Total capital assets not being depreciated	<u>\$ 154,200</u>	<u>\$ 57,155</u>	<u>\$ -</u>	<u>\$ 211,355</u>
Capital assets being depreciated				
Utility system	<u>\$ 13,410,019</u>	<u>\$ 372,341</u>	<u>\$ -</u>	<u>\$ 13,782,360</u>
Total capital assets being depreciated	<u>\$ 13,410,019</u>	<u>\$ 372,341</u>	<u>\$ -</u>	<u>\$ 13,782,360</u>
Less accumulated depreciation for				
Utility system	<u>\$ 4,325,497</u>	<u>\$ 385,583</u>	<u>\$ -</u>	<u>\$ 4,711,080</u>
Total accumulated depreciation	<u>\$ 4,325,497</u>	<u>\$ 385,583</u>	<u>\$ -</u>	<u>\$ 4,711,080</u>
Total capital assets being depreciated, net	<u>\$ 9,084,522</u>	<u>\$ (13,242)</u>	<u>\$ -</u>	<u>\$ 9,071,280</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET				
	<u>\$ 9,238,722</u>	<u>\$ 43,913</u>	<u>\$ -</u>	<u>\$ 9,282,635</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	\$ 32,184
Public works	<u>14,939</u>

Total depreciation expense-governmental activities	<u>\$ 47,123</u>
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BUSINESS-TYPE ACTIVITIES

Water and sewer	<u>\$ 385,583</u>
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Total depreciation expense-business-type activities	<u>\$ 385,583</u>
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Note 7. Unavailable Revenue

The following is a summary of unavailable revenue included in deferred inflows of resources by fund/activity at June 30, 2016:

Fund Statements

	<u>General Fund</u>
Property taxes billed in fiscal year 2017	\$ 523,027
Uncollected property tax billing	12,559
Taxes collected in advance	<u>555</u>
	<u>\$ 536,141</u>

Government-Wide Statements

	<u>Governmental Activities</u>
Property taxes billed in fiscal year 2017	\$ 523,027
Taxes collected in advance	<u>555</u>
	<u>\$ 523,582</u>

Note 8. Long-Term Obligations

A summary of long-term debt activity for the year ended June 30, 2016, 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	\$ 1,740,000	\$	\$ (80,000)	\$ 1,660,000	\$ 85,000
Premium on bond issuance	<u>21,626</u>	<u> </u>	<u>(1,663)</u>	<u>19,963</u>	<u>1,663</u>
	<u>\$ 1,761,626</u>	<u>\$ -</u>	<u>\$ (81,663)</u>	<u>\$ 1,679,963</u>	<u>\$ 86,663</u>

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Obligations (Continued)

Business-type activities*Water and Sewer Fund*

General obligation and revenue bonds	\$ 3,998,588	\$ -	\$ (394,997)	\$ 3,603,591	\$ 400,140
Premium on bond issuance	<u>331,771</u>	<u>-</u>	<u>(37,397)</u>	<u>294,374</u>	<u>40,429</u>
	<u>\$ 4,330,359</u>	<u>\$ -</u>	<u>\$ (432,394)</u>	<u>\$ 3,897,965</u>	<u>\$ 440,569</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.	\$ 1,660,000	\$ 85,000
Total general obligation bond	\$ 1,660,000	\$ 85,000
Premium on bond issuance	<u>19,963</u>	<u>1,663</u>
Total governmental activities obligations	<u>\$ 1,679,963</u>	<u>\$ 86,663</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>
2017	\$ 85,000	\$ 65,097
2018	85,000	61,612
2019	90,000	58,127
2020	95,000	54,437
2021	100,000	51,254
2022-2026	545,000	204,180
2027-2031	<u>660,000</u>	<u>87,528</u>
Total	<u>\$ 1,660,000</u>	<u>\$ 582,235</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.	\$ 827,821	\$ 183,959
\$515,000 Virginia Resource Authority bonds issued May 21, 2003 payable in annual installments ranging from \$25,000 to \$45,000. Interest ranging from 3.1 percent to 4.1 percent payable in semi-annual installments. Final payment due April 1, 2018.	85,000	40,000
\$3,450,000 Virginia Resource Authority bond issued May 23, 2007 and partially refunded in May 2015 with Series 2015A Revenue Bonds. Remaining interest payments ranging from 4.1 percent to 4.667 percent payable annually. Final annual principal payment due October 1, 2017.	315,000	155,000
\$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.	370,770	21,181
\$492,040 Virginia Resource Authority bond issued October 23, 2009 payable in semi-annual installments of \$17,284, bearing interest at 3.35 percent. Final payment due March 1, 2030. At June 30, 2011 only \$467,283 of this loan had been received.	<u>2,005,000</u>	<u>-</u>
Total general obligation and revenue bonds	\$ 3,603,591	\$ 400,140
Premium on bond issuance	<u>294,374</u>	<u>40,429</u>
Total business-type activities	<u>\$ 3,897,965</u>	<u>\$ 440,569</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>
2017	\$ 400,140	\$ 121,317
2018	410,856	112,229
2019	366,595	102,264
2020	377,360	94,193
2021	291,176	85,712
2022-2026	1,148,781	268,394
2027-2031	<u>608,683</u>	<u>27,180</u>
Total	<u>\$ 3,603,591</u>	<u>\$ 811,289</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	\$ 82,000
27 N. Berlin	42,190
Unappropriated fund balance	2,105,271
Prepaid items	<u>2,741</u>
Fund Balance, Unreserved	<u>\$ 2,232,202</u>
<u>Water & Sewer Fund</u>	
Unappropriated net assets	<u>\$ 1,524,860</u>
Net Assets, Unrestricted	<u>\$ 1,524,860</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 \$610 to \$2,080. 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:

<u>Year Ending June 30</u>	
2017	\$ 75,467
2018	61,459
2019	<u>19,647</u>
	<u>\$ 156,573</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, 2016, was \$72,684.

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% of the unused balance. Accumulated vacation and banked holidays are paid upon termination up to a maximum of 240 hours. The Town's general fund has outstanding accrued leave pay totaling \$23,089 and the Water and Sewer Fund have outstanding accrued leave pay of \$5,266.

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. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>About 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. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members")</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

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.</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. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions Employees contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.</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 Plan1 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 exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. <p>Defined Contribution Component: Not applicable.</p>

Employees Covered by Benefit Terms

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

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	-
Inactive members:	
Vested inactive members	-
Non-vested inactive members	-
Inactive members active elsewhere in VRS	-
Total inactive members	-
Active members	<u>5</u>
Total covered employees	<u><u>5</u></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, 2016 was 6.36 percent of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2014.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by 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 \$51,284 and \$27,720 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension (Asset) Liability

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

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	2.5 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: 14 percent of deaths are assumed to be service related

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest 10 – Non-LEOS:

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

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

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

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)Actuarial Assumptions – Public Safety Employees

The total pension liability for Public Safety employees in the Political Subdivision Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	2.5 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: 60 percent of deaths are assumed to be service related

Largest 10 - LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

All Others (Non 10 Largest) - LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

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

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

Long-Term Expected Rate of Return

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

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

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33 percent but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44 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, 2018, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100 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.

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, 2014	\$ 91,755	\$ 135,909	\$ (44,154)
Changes for the year:			
Service cost	\$ 39,110	\$ -	\$ 39,110
Interest	6,423	-	6,423
Differences between expected and actual experience	59,014	-	59,014
Contributions - employer	-	26,970	(26,970)
Contributions - employee	-	21,041	(21,041)
Net investment income	-	7,499	(7,499)
Benefit payments, including refunds of employee contributions	-	-	-
Administrative expenses	-	(53)	53
Other changes	-	(1)	1
Net changes	<u>\$ 104,547</u>	<u>\$ 55,456</u>	<u>\$ 49,091</u>
Balances at June 30, 2015	<u>\$ 196,302</u>	<u>\$ 191,365</u>	<u>\$ 4,937</u>

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)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	\$ 41,115	\$ 4,937	\$ (24,398)

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

For the year ended June 30, 2016, the political subdivision recognized pension expense of \$19,372. At June 30, 2016, 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	\$ 52,763	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	2,213
Employer contributions subsequent to the measurement date	<u>51,284</u>	<u>-</u>
Total	<u>\$ 104,047</u>	<u>\$ 2,213</u>

The amount of \$51,284 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, 2016. 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

2017	\$ (5,268)
2018	(5,268)
2019	(5,267)
Thereafter	(19,498)

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension Plan (Continued)

Payables to the Pension Plan

At June 30, 2016, the Town reported a payable of \$4,937 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

**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, 2016

	<u>Budget- Original & Final</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
General property taxes	\$ 529,105	\$ 529,151	\$ 46
Other local taxes	394,800	435,261	40,461
Permits, privilege fees, and regulatory licenses	14,175	29,860	15,685
Revenues from the use of money and property	-	7,349	7,349
Charges for services	30,550	24,199	(6,351)
Miscellaneous	2,500	10,409	7,909
Intergovernmental revenues:			
Commonwealth	23,400	25,012	1,612
County	1,000	1,069	69
Federal	-	163,500	163,500
Total revenues	<u>\$ 995,530</u>	<u>\$ 1,225,810</u>	<u>\$ 230,280</u>
EXPENDITURES			
Current :			
General government administration	\$ 742,507	\$ 758,970	\$ (16,463)
Community development	28,900	28,796	104
Parks, recreation and cultural	58,250	31,950	26,300
Public safety	14,200	13,825	375
Public works	135,360	132,964	2,396
Debt service	150,774	150,438	336
Capital outlay	-	1,665,474	(1,665,474)
Total expenditures	<u>\$ 1,129,991</u>	<u>\$ 2,782,417</u>	<u>\$(1,652,426)</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (134,461)</u>	<u>\$(1,556,607)</u>	<u>\$(1,422,146)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ -	\$ 811,495	\$ 811,495
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ 811,495</u>	<u>\$ 811,495</u>
Net change in fund balance	\$ (134,461)	\$ (745,112)	\$ (610,651)
FUND BALANCE AT BEGINNING OF YEAR	<u>2,977,314</u>	<u>2,977,314</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 2,842,853</u>	<u>\$ 2,232,202</u>	<u>\$ (610,651)</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

	<u>2015</u>
Total pension liability	
Service cost	\$ 39,110
Interest	6,423
Changes of benefit terms	-
Differences between expected and actual experience	59,014
Changes in assumptions	-
Benefit Payments, including refunds of employee contributions	-
Net change in total pension liability	<u>104,547</u>
Total pension liability - beginning	<u>91,755</u>
Total pension liability - ending (a)	<u>\$ 196,302</u>
Plan fiduciary net position	
Contributions - employer	\$ 26,970
Contributions - employee	21,041
Net investment income	7,499
Benefit payments, including refunds of employee contributions	(53)
Administrative expense	(1)
Other	-
Net change in plan fiduciary net position	<u>55,456</u>
Plan fiduciary net position - beginning	<u>135,909</u>
Plan fiduciary net position - ending (b)	<u>\$ 191,365</u>
Political subdivision's net pension (asset) liability - ending (a) - (b)	<u>\$ 4,937</u>
Plan fiduciary net position as a percentage of the total pension liability	97.48%
Covered-employee payroll	\$ 435,845
Political subdivision's net pension (asset) liability as a percentage of covered-employee payroll	1.13%

SCHEDULE OF EMPLOYER CONTRIBUTIONS
Year Ended June 30, 2016

<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 Employee Payroll (4)</u>	<u>Contributions as a % of Covered Employee Payroll (5)</u>
2015	\$ 27,720	\$ 27,720	\$ -	\$ 435,845	6.36%
2016	51,284	51,284	-	500,141	10.25%

Schedule is 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, 2016

Changes of benefit terms – There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014, and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013, and the impact on the liabilities as of the measurement date of June 30, 2015 are minimal.

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

Largest 10 – Non-LEOS:

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

Largest 10 –LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) – LEOS:

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

Other Supplementary Information

TOWN OF LOVETTSVILLE, VIRGINIA
GENERAL FUND
STATEMENT OF REVENUES, COMPARED TO BUDGET
Year Ended June 30, 2016

	<u>Budget- Original & Final</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
GENERAL PROPERTY TAXES			
Real estate taxes	\$ 527,105	\$ 525,708	\$ (1,397)
Penalties and interest	2,000	3,443	1,443
	<u>\$ 529,105</u>	<u>\$ 529,151</u>	<u>\$ 46</u>
OTHER LOCAL TAXES			
Sales taxes	\$ 180,000	\$ 199,681	\$ 19,681
Utility tax	13,500	13,689	189
Cigarette tax	18,000	19,626	1,626
Meals tax	80,800	98,828	18,028
Motor vehicle licenses	32,500	34,233	1,733
Bank franchise tax	25,000	16,939	(8,061)
Business licenses	45,000	52,265	7,265
	<u>\$ 394,800</u>	<u>\$ 435,261</u>	<u>\$ 40,461</u>
PERMITS, PRIVILEGE FEES AND REGULATORY LICENSES			
Zoning application fees	\$ 10,250	\$ 10,975	\$ 725
Plat fees	1,175	735	(440)
Conditional use permits	350	700	350
Inspections	2,400	3,150	750
Developer proffers	-	14,300	14,300
	<u>\$ 14,175</u>	<u>\$ 29,860</u>	<u>\$ 15,685</u>
REVENUES FROM THE USE OF MONEY AND PROPERTY			
Interest earned	\$ -	\$ 7,349	\$ 7,349
	<u>\$ -</u>	<u>\$ 7,349</u>	<u>\$ 7,349</u>
CHARGES FOR SERVICES			
Reimbursements:			
Advertising	\$ 300	\$ -	\$ (300)
Engineering	7,500	13,772	6,272
Legal	3,000	3,780	780
Oktoberfest	10,500	6,147	(4,353)
Movies on the Green	1,250	500	(750)
Mayfest	8,000	-	(8,000)
	<u>\$ 30,550</u>	<u>\$ 24,199</u>	<u>\$ (6,351)</u>

(Continued)

TOWN OF LOVETTSVILLE, VIRGINIA
GENERAL FUND
STATEMENT OF REVENUES, COMPARED TO BUDGET
Year Ended June 30, 2016

	<u>Budget- Original & Final</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
MISCELLANEOUS			
Paver donations	\$ -	\$ 5,500	\$ 5,500
Clock Tower donations	-	439	439
Other	<u>2,500</u>	<u>4,470</u>	<u>1,970</u>
	<u>\$ 2,500</u>	<u>\$ 10,409</u>	<u>\$ 7,909</u>
INTERGOVERNMENTAL REVENUES			
Commonwealth			
Rolling Stock tax	\$ -	\$ 130	\$ 130
Motor vehicle carriers' tax	-	1,942	1,942
Communications tax	13,400	12,940	(460)
Fire program funds	<u>10,000</u>	<u>10,000</u>	<u>-</u>
	<u>\$ 23,400</u>	<u>\$ 25,012</u>	<u>\$ 1,612</u>
County			
Litter grant	<u>\$ 1,000</u>	<u>\$ 1,069</u>	<u>\$ 69</u>
	<u>\$ 1,000</u>	<u>\$ 1,069</u>	<u>\$ 69</u>
Federal			
Storm ditch grant	<u>\$ -</u>	<u>\$ 163,500</u>	<u>\$ 163,500</u>
	<u>\$ -</u>	<u>\$ 163,500</u>	<u>\$ 163,500</u>
Total revenues	<u>\$ 995,530</u>	<u>\$ 1,225,810</u>	<u>\$ 230,280</u>

TOWN OF LOVETTSVILLE, VIRGINIA

GENERAL FUND
STATEMENT OF EXPENDITURES, COMPARED TO BUDGET
Year Ended June 30, 2016

	<u>Budget- Original & Final</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
GENERAL GOVERNMENT ADMINISTRATION			
Administration			
Administrative salaries	\$ 411,322	\$ 399,859	\$ 11,463
Maintenance support	2,000	5,438	(3,438)
Council salaries	20,000	20,000	-
Payroll taxes	30,650	34,594	(3,944)
Health insurance	46,677	56,856	(10,179)
Retirement	28,230	39,456	(11,226)
Auditing	8,000	8,200	(200)
Legal fees, non-reimbursable	50,000	36,280	13,720
Consulting services	20,000	6,221	13,779
Advertising, non-reimbursable	2,500	2,394	106
Telephone	2,000	1,998	2
Cellular phones	1,850	2,501	(651)
Postage	2,500	3,290	(790)
Software and support	8,120	5,566	2,554
Software upgrade	2,000	3,170	(1,170)
Website	500	465	35
Copier lease	2,800	2,664	136
Books and subscriptions	1,500	557	943
Office computers	8,000	2,852	5,148
Office supplies	7,500	10,432	(2,932)
Office cleaning	3,000	2,555	445
Snow removal	1,300	1,766	(466)
Mowing/landscaping	2,550	2,550	-
Repairs/replacements	17,000	11,391	5,609
Vehicle maintenance	6,800	2,710	4,090
Education	5,200	3,184	2,016
Mileage and travel	4,500	5,157	(657)
Building and grounds			
Electricity	4,500	4,054	446
Water and sewer	500	407	93
Other			
Donation, Oktoberfest and Mayfest	12,000	13,477	(1,477)
Donation, other	11,650	14,450	(2,800)
Town office expansion	-	28,000	(28,000)
Economic development	-	9,125	(9,125)
Municipal dues	3,000	2,494	506
General liability insurance	5,358	4,857	501
Refunds	5,000	3,775	1,225
Beautification	-	4,401	(4,401)
Hospitality	2,000	779	1,221
Decals	1,000	1,045	(45)
Support contract	1,000	-	1,000
Total general government administration	<u>\$ 742,507</u>	<u>\$ 758,970</u>	<u>\$ (16,463)</u>

(Continued)

TOWN OF LOVETTSVILLE, VIRGINIA
GENERAL FUND
STATEMENT OF EXPENDITURES, COMPARED TO BUDGET
Year Ended June 30, 2016

	<u>Budget- Original & Final</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
COMMUNITY DEVELOPMENT			
Consultant	\$ 7,000	\$ 9,450	\$ (2,450)
Engineering, non-reimbursable	1,000	26	974
Planning commission salaries	8,400	8,100	300
Planning commission, other	2,000	204	1,796
Reimbursable expenditures:			
Advertising	-	1,650	(1,650)
Engineering	7,500	4,286	3,214
Legal	3,000	5,080	(2,080)
Total community development	<u>\$ 28,900</u>	<u>\$ 28,796</u>	<u>\$ 104</u>
PUBLIC SAFETY			
Donation to fire and rescue company	\$ 3,500	\$ 3,500	\$ -
Community police support	700	325	375
Fire fund allocation	10,000	10,000	-
Total public safety	<u>\$ 14,200</u>	<u>\$ 13,825</u>	<u>\$ 375</u>
PARKS, RECREATION AND CULTURAL			
Maintenance	\$ 27,650	\$ 14,768	\$ 12,882
Litter grant spending	1,000	1,069	(69)
Donations	2,500	-	2,500
Utilities	10,800	6,471	4,329
Beautification	7,000	4,883	2,117
Supplies	5,000	3,261	1,739
Parks and environment board	300	-	300
Park tools and equipment	4,000	1,498	2,502
Total parks, recreation and cultural	<u>\$ 58,250</u>	<u>\$ 31,950</u>	<u>\$ 26,300</u>
PUBLIC WORKS			
Refuse service	\$ 115,360	\$ 114,528	\$ 832
Street sweeping	2,000	3,600	(1,600)
Street lighting	18,000	14,836	3,164
Total public works	<u>\$ 135,360</u>	<u>\$ 132,964</u>	<u>\$ 2,396</u>
DEBT SERVICE			
Principal	\$ 80,000	\$ 80,000	\$ -
Interest	70,774	70,438	336
Total debt service	<u>\$ 150,774</u>	<u>\$ 150,438</u>	<u>\$ 336</u>
CAPITAL OUTLAY			
Information sign	\$ -	\$ 6,650	\$ (6,650)
Storm ditch improvement	-	188,474	(188,474)
Streetscape improvements, Broadway	-	1,387,312	(1,387,312)
Street lights, Broadway	-	83,038	(83,038)
Total capital outlay	<u>\$ -</u>	<u>\$ 1,665,474</u>	<u>\$ (1,665,474)</u>
Total expenditures	<u>\$ 1,129,991</u>	<u>\$ 2,782,417</u>	<u>\$ (1,652,426)</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, 2016

	Budget- Original & Final	Actual	Variance Positive (Negative)
OPERATING REVENUES			
Charges for services	\$ 824,768	\$ 855,508	\$ 30,740
Late charges	14,880	18,713	3,833
Connection fees	38,000	90,000	52,000
Frye Court Service District tax	2,500	2,916	416
Reimbursements, developers	15,000	-	(15,000)
Miscellaneous	1,000	908	(92)
Total operating revenues	<u>\$ 896,148</u>	<u>\$ 968,045</u>	<u>\$ 71,897</u>
OPERATING EXPENSES			
Personnel services	\$ 318,070	\$ 304,277	\$ 13,793
Contractual services	100,500	98,297	2,203
Repairs and maintenance	215,880	181,101	34,779
Utilities	55,200	61,608	(6,408)
Communications	8,900	6,736	2,164
Insurance	10,888	9,392	1,496
Miscellaneous	20,061	10,475	9,586
Supplies and equipment	57,950	52,109	5,841
Depreciation	-	385,583	(385,583)
Total operating expenses	<u>\$ 787,449</u>	<u>\$ 1,109,578</u>	<u>\$ (322,129)</u>
Operating income (loss)	<u>\$ 108,699</u>	<u>\$ (141,533)</u>	<u>\$ (250,232)</u>
NONOPERATING REVENUES (EXPENSE)			
Gain on insurance recovery	\$ -	\$ 23,708	\$ 23,708
Lease of water tower space	72,684	72,684	-
Interest income	-	7,052	7,052
Interest expense	(123,211)	(104,148)	19,063
Total nonoperating revenues (expense)	<u>\$ (50,527)</u>	<u>\$ (704)</u>	<u>\$ 49,823</u>
Income (loss) before contributions and transfers	<u>\$ 58,172</u>	<u>\$ (142,237)</u>	<u>\$ (200,409)</u>
CAPITAL CONTRIBUTIONS			
Sewer availability fees	\$ 262,300	\$ 589,050	\$ 326,750
Water availability fees	40,500	-	(40,500)
DEQ wellhead protection grant	-	24,000	24,000
Reimbursements, Loudoun County	-	44,550	44,550
Total capital contributions	<u>\$ 302,800</u>	<u>\$ 657,600</u>	<u>\$ 354,800</u>
TRANSFERS OUT			
Change in net position	<u>\$ 360,972</u>	<u>\$ (296,132)</u>	<u>\$ (657,104)</u>
NET POSITION AT BEGINNING OF YEAR	<u>7,205,662</u>	<u>7,205,662</u>	<u>-</u>
NET POSITION AT END OF YEAR	<u>\$ 7,566,634</u>	<u>\$ 6,909,530</u>	<u>\$ (657,104)</u>

TOWN OF LOVETTSVILLE, VIRGINIA

WATER AND SEWER FUND
STATEMENT OF OPERATING EXPENSES, COMPARED TO BUDGET
Year Ended June 30, 2016

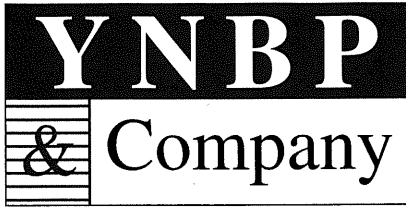
	<u>Budget- Original & Final</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
PERSONNEL SERVICES			
Utility operators	\$ 239,883	\$ 235,782	\$ 4,101
Maintenance salaries	4,000	1,520	2,480
Payroll taxes	17,671	18,297	(626)
Benefits	<u>56,516</u>	<u>48,678</u>	<u>7,838</u>
	<u>\$ 318,070</u>	<u>\$ 304,277</u>	<u>\$ 13,793</u>
CONTRACTUAL SERVICES			
Engineering	\$ 15,000	\$ 350	\$ 14,650
Auditing	8,000	7,700	300
Sample testing, sewer	30,000	31,557	(1,557)
Sample testing, water	5,000	1,130	3,870
Consulting services	5,000	36,634	(31,634)
Legal services	13,000	14,225	(1,225)
GIS update	5,000	1,080	3,920
Software support	4,500	5,621	(1,121)
Reimbursable expenses:			
Legal	2,000	-	2,000
Engineering	6,000	-	6,000
LCSA operations	<u>7,000</u>	<u>-</u>	<u>7,000</u>
	<u>\$ 100,500</u>	<u>\$ 98,297</u>	<u>\$ 2,203</u>
REPAIRS AND MAINTENANCE			
Sewer:			
Permits	\$ 3,500	\$ 2,678	\$ 822
Snow removal	500	1,508	(1,008)
Mowing/landscaping	2,590	4,167	(1,577)
Maintenance contracts	7,500	5,142	2,358
Sludge hauling	55,000	81,750	(26,750)
WTP system repairs	37,700	16,584	21,116
Frye Court lift station	2,500	1,750	750
Inflow and infiltration maintenance	20,000	-	20,000
SCADA operation	7,500	6,751	749
Water:			
Plant/water line repair	31,000	33,049	(2,049)
Service contracts	7,500	3,389	4,111
Snow removal	500	1,509	(1,009)
Mowing/landscaping	2,590	-	2,590
Asphalt work	6,000	-	6,000
Water meter installation	6,000	6,869	(869)
Water pump installation	6,000	-	6,000
Water tower maintenance	14,500	14,580	(80)
SCADA operation	<u>5,000</u>	<u>1,375</u>	<u>3,625</u>
	<u>\$ 215,880</u>	<u>\$ 181,101</u>	<u>\$ 34,779</u>
UTILITIES			
Electricity-water	\$ 27,000	\$ 31,640	\$ (4,640)
Electricity-sewer	28,000	29,408	(1,408)
Electricity-Frye Court lift station	<u>200</u>	<u>560</u>	<u>(360)</u>
	<u>\$ 55,200</u>	<u>\$ 61,608</u>	<u>\$ (6,408)</u>

(Continued)

TOWN OF LOVETTSVILLE, VIRGINIA

WATER AND SEWER FUND
STATEMENT OF OPERATING EXPENSES, COMPARED TO BUDGET
Year Ended June 30, 2016

	<u>Budget- Original & Final</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
COMMUNICATIONS			
Telephone	\$ 6,500	\$ 5,386	\$ 1,114
DSL	2,400	1,350	1,050
	<u>\$ 8,900</u>	<u>\$ 6,736</u>	<u>\$ 2,164</u>
INSURANCE			
General liability	\$ 10,888	\$ 9,392	\$ 1,496
	<u>\$ 10,888</u>	<u>\$ 9,392</u>	<u>\$ 1,496</u>
MISCELLANEOUS			
Training	\$ 9,000	\$ 4,825	\$ 4,175
Dues	1,080	500	580
Advertising	1,081	67	1,014
Credit card fees	1,500	2,067	(567)
Reimbursements/refunds	7,400	3,016	4,384
	<u>\$ 20,061</u>	<u>\$ 10,475</u>	<u>\$ 9,586</u>
SUPPLIES AND EQUIPMENT			
Sewer:			
Sample testing	\$ 7,000	\$ 7,492	\$ (492)
Chemicals	7,500	8,907	(1,407)
Gas/diesel fuel	2,500	-	2,500
Office supplies	1,000	381	619
Postage	1,500	1,016	484
Safety supplies	2,200	900	1,300
Spare parts	-	10,216	(10,216)
Tools	1,000	1,379	(379)
Stone/gravel	1,750	-	1,750
Vehicle expense	9,000	5,113	3,887
Uniforms	3,300	2,334	966
Water:			
Sample testing	2,000	1,814	186
Chemicals	7,500	6,858	642
Gas/diesel fuel	3,500	-	3,500
Office supplies	1,100	475	625
Office equipment	600	1,126	(526)
Postage	1,500	878	622
Safety supplies	2,500	1,151	1,349
Tools	1,500	1,676	(176)
Stone/gravel	1,000	393	607
	<u>\$ 57,950</u>	<u>\$ 52,109</u>	<u>\$ 5,841</u>
DEPRECIATION			
Depreciation	\$ -	\$ 385,583	\$ (385,583)
	<u>\$ -</u>	<u>\$ 385,583</u>	<u>\$ (385,583)</u>
Total operating expenses	<u>\$ 787,449</u>	<u>\$ 1,109,578</u>	<u>\$ (322,129)</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
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, 2016, 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 15, 2016. 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 of 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. 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.

2. 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.

3. 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.

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 15, 2016