

**TOWN OF LOVETTSVILLE, VIRGINIA
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2015**

TOWN OF LOVETTSVILLE, VIRGINIA

DIRECTORY OF OFFICIALS

COUNCIL

Jennifer Jones	Robert Zoldos II, Mayor	Rodney Gray
Tiffany Carder	Michael Senate, Vice-Mayor	James McIntyre
Kimberly Allar		

OFFICIALS

Laszlo Palko	Town Manager
Lance Gladstone	Treasurer
Harriet West	Town Clerk

TOWN OF LOVETTSVILLE, VIRGINIA

FINANCIAL REPORT
YEAR ENDED JUNE 30, 2015

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-9
 <u>Basic Financial Statements:</u>	
Government-wide Financial Statements:	
Exhibit 1 Statement of Net Position	10
Exhibit 2 Statement of Activities	11
Fund Financial Statements:	
Exhibit 3 Balance Sheet—Governmental Fund	12
Exhibit 4 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	13
Exhibit 5 Statement of Revenues, Expenditures, and Change in Fund Balance—Governmental Fund	14
Exhibit 6 Reconciliation of Statement of Revenues, Expenditures, and Change in Fund Balance of Governmental Funds to the Statement of Activities	15
Exhibit 7 Statement of Net Position—Proprietary Fund	16
Exhibit 8 Statement of Revenues, Expenses, and Change in Net Position — Proprietary Fund	17
Exhibit 9 Statement of Cash Flows—Proprietary Fund	18
Notes to Financial Statements	19-55
 <u>Required Supplementary Information:</u>	
Exhibit 10 Schedule of Revenues, Expenditures, and Change in Fund Balance—Budget and Actual—General Fund	56
Exhibit 11 Schedule of Components of and Changes in Net Pension (Asset) Liability and Related Ratios	57
Exhibit 12 Schedule of Employer Contributions	58
Exhibit 13 Notes to Required Supplementary Information	59

TOWN OF LOVETTSVILLE, VIRGINIA

FINANCIAL REPORT
YEAR ENDED JUNE 30, 2015

TABLE OF CONTENTS (Continued)

	<u>Page</u>
<u>Other Supplementary Information:</u>	
Supporting Schedules	
Schedule 1 Schedule of Revenues—Budget and Actual—Governmental Fund	60
Schedule 2 Schedule of Expenditures—Budget and Actual—Governmental Fund	61
 <u>Compliance:</u>	
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 <i>Government Auditing Standards</i>	62-63
Schedule of Findings and Responses	64-65

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

To the Honorable Members of
the Town Council
Lovettsville, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Lovettsville, Virginia, as of and for the year June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund, of the Town of Lovettsville, Virginia, as of June 30, 2015, 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.

Change in Accounting Principle

As described in Note 13 to the financial statements, in 2015, the Town adopted new accounting guidance, GASB Statement Nos. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension funding on pages 3-9, 56, and 57-59 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. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Lovettsville, Virginia's basic financial statements. The supporting schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supporting schedules are the responsibility of management and were derived from and relate 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, supporting schedules are 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 February 16, 2016, on our consideration of the Town of Lovettsville, Virginia'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, Virginia's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates
Charlottesville, Virginia
February 16, 2016

Management's Discussion and Analysis

As management of the Town of Lovettsville (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2015. Please read it in conjunction with the Town's basic financial statements, which follow this section.

Financial Highlights

- The assets and deferred outflows of the Town exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$11.1 million (*net position*). Of this amount, \$3.8 million (*unrestricted net position*) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net position decreased by \$289,048, of which the governmental activities accounted for a \$154,086 increase and business-type activities accounted for a \$443,134 decrease.
- The unassigned ending fund balance for the Town's governmental fund is \$1.59 million. Total general fund balance was also made up of \$1.25 million in restricted funds, and \$.12 million in committed funds.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1.59 million, or 173% of governmental fund expenditures less any capital outlay expenditures.
- The Town's total debt decreased by \$239,215 during the current fiscal year. This is due to routine principal payments.
- The Town implemented Statement of Governmental Accounting Standards (GASB Statement) Nos. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 and 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Accordingly, the net pension liability and related information are reported on the statement of net position along with a more comprehensive measure of pension expense and enhanced, note disclosures and required supplementary information. More information regarding the implementation of this new accounting standard can be found in Notes 13 and 11 of the Notes to Financial Statements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The *government-wide financial statements* are designed to provide the readers with a broad overview of the Town's finances, in a manner similar to a private-sector business. The *statement of net position* presents information on all of the Town's assets, liabilities and deferred inflows/outflows with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of how the financial position of the Town may be changing. Increases in net position may indicate an improved financial position; however, even decreases in net position may reflect a changing manner in which the Town may have used previously accumulated funds.

Overview of the Financial Statements: (Continued)

Government-wide financial statements: (Continued)

The statement of activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government administration, public safety (the Town does not have its own public safety department but does receive pass through funds from the state), public works, parks, recreation and cultural, and community development. The business-type activities are for public utilities. The government-wide financial statements can be found on pages 10 and 11 of this report.

Fund financial statements

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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The Town maintains one governmental fund, a General Fund. The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 12 through 15 of this report.

The Town maintains one type of *Proprietary Fund*. The Town uses *enterprise funds*, which are used to report the same functions presented as *business-type activities* in the government-wide financial statements, to account for its public utilities. The basic proprietary fund financial statements can be found on pages 16 through 18 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19 through 55 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities and deferred inflows by \$11.1 million at the close of the most recent fiscal year. A portion of the Town's net position (\$7.2 million, 65% of total) reflects its investment in capital assets (e.g., land, buildings, improvements, infrastructure, machinery and equipment, and vehicles), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services 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 (i.e., the Town's investment in capital assets are of a permanent nature as assets acquired are generally not sold or otherwise disposed of during their useful life).

The following table summarizes the Town's Statement of Net Position:

Town of Lovettsville, Virginia Summary of Net Position

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 3,619,002	\$ 3,481,468	\$ 2,248,932	\$ 2,859,853	\$ 5,867,934	\$ 6,341,321
Capital assets	2,703,379	2,744,691	9,238,722	9,458,260	11,942,101	12,202,951
Total assets	\$ 6,322,381	\$ 6,226,159	\$ 11,487,654	\$ 12,318,113	\$ 17,810,035	\$ 18,544,272
Deferred outflows of resources	\$ 16,124	\$ -	\$ 207,141	\$ -	\$ 223,265	\$ -
Long-term liabilities outstanding	\$ 1,781,475	\$ 1,870,364	\$ 4,334,723	\$ 4,485,049	\$ 6,116,198	\$ 6,355,413
Other liabilities	116,204	119,517	151,528	199,290	267,732	318,807
Total liabilities	\$ 1,897,679	\$ 1,989,881	\$ 4,486,251	\$ 4,684,339	\$ 6,383,930	\$ 6,674,220
Deferred inflows of resources	\$ 524,363	\$ 494,786	\$ 2,882	\$ -	\$ 527,245	\$ 494,786
Net position:						
Net investment in capital assets	\$ 2,146,946	\$ 2,450,552	\$ 5,103,908	\$ 4,975,894	\$ 7,250,854	\$ 7,426,446
Restricted	50,199	50,194	-	-	50,199	50,194.00
Unrestricted	1,719,318	1,240,746	2,101,754	2,657,880	3,821,072	3,898,626
Total net position	\$ 3,916,463	\$ 3,741,492	\$ 7,205,662	\$ 7,633,774	\$ 11,122,125	\$ 11,375,266

At the end of the current fiscal year, the Town is able to report positive balances in unrestricted net position, both for the Town as a whole, as well as for its separate governmental and business-type activities.

As noted previously, the Town's overall (government and business-type activities) net position decreased by \$289,048 during the current fiscal year.

Government-wide Financial Analysis: (Continued)

Governmental activities increased the Town's net position by \$154,086. The following table summarizes the Town's Statement of Activities:

Town of Lovettsville, Virginia Changes in Net Position						
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 26,381	\$ 30,444	\$ 737,783	\$ 750,794	\$ 764,164	\$ 781,238
Operating grants and contributions	15,271	11,060	-	-	15,271	11,060
Capital grants and contributions	-	-	115,200	345,100	115,200	345,100
General revenues:						
Property taxes	486,565	437,388	2,503	2,637	489,068	440,025
Other taxes	415,783	379,355	-	-	415,783	379,355
Unrestricted revenues from the use of money and property	3,366	15,783	88,990	105,400	92,356	121,183
Miscellaneous	17,264	10,503	20,993	17,867	38,257	28,370
Grants and contributions not restricted to specific programs	15,614	14,548	-	-	15,614	14,548
Total revenues	\$ 980,244	\$ 899,081	\$ 965,469	\$ 1,221,798	\$ 1,945,713	\$ 2,120,879
Expenses:						
General government administration	\$ 502,043	\$ 544,115	-	-	\$ 502,043	\$ 544,115
Public safety	12,167	12,620	-	-	12,167	12,620
Public works	249,872	161,518	-	-	249,872	161,518
Parks, recreation and cultural	29,779	38,200	-	-	29,779	38,200
Community development	58,962	119,904	-	-	58,962	119,904
Interest on long-term debt	71,016	74,642	-	-	71,016	74,642
Water and sewer fund	-	-	1,310,922	1,245,757	1,310,922	1,245,757
Total expenses	\$ 923,839	\$ 950,999	\$ 1,310,922	\$ 1,245,757	\$ 2,234,761	\$ 2,196,756
Increase in net position before transfers and capital contributions	\$ 56,405	\$ (51,918)	\$ (345,453)	\$ (23,959)	\$ (289,048)	\$ (75,877)
Transfers	\$ 97,681	-	\$ (97,681)	-	-	-
Increase/(decrease) in net position	\$ 154,086	\$ (51,918)	\$ (443,134)	\$ (23,959)	\$ (289,048)	\$ (75,877)
Net position-beginning of year, restated	\$ 3,762,377	\$ 3,793,410	\$ 7,648,796	\$ 7,657,733	\$ 11,411,173	\$ 11,451,143
Net position-end of year	\$ 3,916,463	\$ 3,741,492	\$ 7,205,662	\$ 7,633,774	\$ 11,122,125	\$ 11,375,266

The following analysis separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenues for the Town's governmental activities increased by \$81,163 and expenses decreased by \$27,160. Some contributing factors driving these results include:

Revenues

- Increase in the amounts received from property taxes, local sales tax and bank franchise taxes.

Government-wide Financial Analysis: (Continued)

Governmental Activities: (Continued)

Expenses

Total expenses decreased over fiscal year 2014 by \$27,160.

- Interest expense decreased
- General Government Administration overall decreased by \$42,072.
- Community development decreased by \$60,942.

Business-type Activities

Total revenues for the Town's business-type activities have decreased by \$256,329 and expenses increased by \$65,165. The Town collected approximately \$230,000 less in tap fees during fiscal year 2015 than in fiscal year 2014.

Financial Analysis of the Town's Funds

As noted earlier, The Town uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The Town consolidates the General Fund and General Capital Fund for financial reporting.

Government Fund: The focus of the Town's governmental fund is to provide information on near-term inflows, outflows, and the balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

- The Town's FY 2015 general fund revenues were more than those of FY 2014 by \$85,150. This increase is primarily attributed to an increase in property taxes, local sales tax and bank franchise taxes.
- In FY2015, the general fund's expenditures, excluding capital outlay, were less than revenues by approximately \$63,000. Capital outlay expenditures in the amount of \$389,658 were largely funded with debt issuances.
- At the end of the current fiscal year, unassigned fund balance of the General fund was \$1.59 million.

Proprietary Fund: The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the water and sewer funds at the end of the year amounted to \$2.10 million.

As the Town completed the year, its proprietary funds (presented in the balance sheet as Exhibit 7) reported net position of \$7,205,662. The total net position decreased by \$443,134 from the prior year. Significant changes in net position are noted in the previous section under "business-type" activities. There were increases in all categories of expenses with the exception of contractual services which the Town is no longer receiving operational support and services from a third-party.

Capital Asset and Debt Administration

Capital assets: The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2015, amounts to \$11.9 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, utility system and machinery and equipment as well as construction in progress.

Town of Lovettsville, Virginia Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 973,820	\$ 960,877	\$ 154,200	\$ 154,200	\$ 1,128,020	\$ 1,115,077
Buildings	4,374	82,148	-	-	4,374	82,148
Land improvements	358,883	383,921	-	-	358,883	383,921
Machinery and equipment	29,296	8,833	-	-	29,296	8,833
Infrastructure	44,088	47,290	-	-	44,088	47,290
Utility system	-	-	9,084,522	9,184,462	9,084,522	9,184,462
Construction in progress	1,292,918	1,261,622	-	119,598	1,292,918	1,381,220
Total	\$ 2,703,379	\$ 2,744,691	\$ 9,238,722	\$ 9,458,260	\$ 11,942,101	\$ 12,202,951

Additional information on the Town's capital assets can be found in Note 5 on pages 30 and 31 of this report.

Long-term obligations: At the end of the current fiscal year, the Town had total outstanding debt of \$6.1 million and details are summarized in the following table:

Town of Lovettsville, Virginia Outstanding Obligations

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Bonds Payable:						
General obligation bonds	\$ 1,740,000	\$ 1,815,000	\$ 1,993,588	\$ -	\$ 3,733,588	\$ 1,815,000
Revenue bonds	-	-	2,005,000	4,482,366	2,005,000	4,482,366
Premium on bond issuance	21,626	23,289	331,771	-	353,397	23,289
Compensated absences	19,849	32,075	4,364	2,683	24,213	34,758
Total	\$ 1,781,475	\$ 1,870,364	\$ 4,334,723	\$ 4,485,049	\$ 6,116,198	\$ 6,355,413

Debt associated with governmental activities decreased by \$88,889 while debt associated with business-type activities decreased by \$150,326. The decrease is attributed to the repayment of principal. During fiscal year 2015 the Town partially refunded Series 2007 general obligation bonds (previously issued by Virginia Resources Authority) with Series 2015A Refunding Revenue Bonds in the amount of \$2,005,000.

The Town is subject to a statutory debt limitation. The legal debt margin is limited to 10% of total assessed value. The margin is computed as all bonded debt and long-term notes except for enterprise indebtedness over total assessed value of taxed real property. The Town was in compliance with debt limitation as of June 30, 2015.

Additional information on the Town's long-term debt and compliance can be found in Note 7.

Economic Factors and Next Year's Budgets and Rates

The Town anticipates a steadily improving economy with moderate growth expected over the course of the next year. The following is a summary of the Town of Lovettsville's budget for FY2016.

General Fund

The Town consolidates the General Fund and General Capital Fund for financial reporting.

General Fund budgeted revenues increased by \$496,475 (\$1,316,500 in FY2016 compared to \$820,025 in FY2015) or 60 percent. Roughly \$440K of the increase is from increasing transparency and proper accounting: demonstrating the annual reserve contributions that the town makes to its operating budget; reimbursing the General Fund for Utility Fund support from General Fund employees; and showing how much the Town collects for Meals and Cigarette taxes (previously only discussed in the capital budget). The property tax rate remained the same at 21 cents per hundred.

General Fund budgeted expenditures increased by \$496,475 (\$1,316,500 in FY 2016 compared to \$820,025 in FY 2015) or 60 percent. Over 75% of this increase is from increasing transparency, proper accounting, and for building up Reserve Accounts. Budgeted administrative salaries increased \$115,000 to hire three part time employees and fully budget an existing position which was divided between the Utility Fund and General Fund. Town events have been budgeted separately and total \$22,650. New expenditure accounts include annual contributions for debt retirement, capital spending, utility fund subsidy, and reserve accounts for emergencies, operations and human resources. These new accounts total \$355,550, or 27% of the total budget. These changes were made to create reserve accounts for anticipated contingencies, depreciation of assets, and to improve financial transparency by demonstrating what the annual debt payments are for the town.

Utility Fund

Utility Fund budgeted revenues increased by \$845,560 (\$1,713,290 FY2016 compared to \$867,730 in FY2015) or 97 percent. \$744,459 of this increase is from improving transparency: demonstrating the annual reserve contributions that the town makes to its operating budget; showing the General Fund Subsidy to the Utility Fund; and showing how much the Town collects in Availability Fee Revenues. Budgeted water and sewer service has increased \$107,970. This additional revenue is attributable to a 16 percent rate increase effective October 2015 and anticipated new home constructions added to the system.

Utility Fund budgeted expenditures increased by \$845,560 (\$1,713,290 in FY2016 compared to \$867,730 in FY2015) or 97 percent. Changes were made to create reserve accounts for anticipated contingencies, depreciation of assets, and to improve financial transparency. These changes include demonstrating annual debt payments, capital fund contributions, Utility Fund reimbursements to the General Fund, budgeting for overtime separately to control costs, and reserve accounts for emergencies, operations and human resources. These new accounts total \$973,119.21, or 57% of the total budget.

Capital Projects Fund

The Town's FY2016 Capital Improvement Plan includes \$1,397,250 in spending for general capital projects and \$572,872 for utility capital projects. The projects include water line improvements, sludge pump modifications, water model calibration, WWTP consulting, improvements to East Broad Way and Quarterbranch Park, storm ditch improvements, an economic development plan, asset management plan and new street lights. Funding for these projects will come from a variety of sources including Utility Fund reserves, General Fund reserves, dedicated meals and cigarette taxes, debt financing, and water & sewer tap fees.

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.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Office at 6 East Pennsylvania Avenue, Lovettsville, Virginia.

Basic Financial Statements

Government-wide Financial Statements

Statement of Net Position
As of June 30, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,569,035	\$ 2,159,047	\$ 3,728,082
Receivables (net of allowance for uncollectibles):			
Taxes receivable	531,177	-	531,177
Other local receivables	17,589	-	17,589
Accounts receivable	-	148,178	148,178
Internal balances	175,292	(175,292)	-
Due from other governmental units	35,564	-	35,564
Prepaid items	9,272	11,812	21,084
Restricted assets:			
Cash and cash equivalents	1,255,392	86,714	1,342,106
Net pension asset	25,681	18,473	44,154
Capital assets (net of accumulated depreciation):			
Land	973,820	154,200	1,128,020
Buildings	4,374	-	4,374
Land improvements	358,883	-	358,883
Machinery and equipment	29,296	-	29,296
Infrastructure	44,088	-	44,088
Utility system	-	9,084,522	9,084,522
Construction in progress	1,292,918	-	1,292,918
Total assets	\$ 6,322,381	\$ 11,487,654	\$ 17,810,035
DEFERRED OUTFLOWS OF RESOURCES			
Pension contributions subsequent to measurement date	\$ 16,124	\$ 11,596	\$ 27,720
Deferred charge on refunding	-	195,545	195,545
Total deferred outflows of resources	\$ 16,124	\$ 207,141	\$ 223,265
LIABILITIES			
Accounts payable	\$ 34,540	\$ 25,050	\$ 59,590
Accrued expenses	8,545	6,971	15,516
Performance bonds held	42,190	-	42,190
Accrued interest payable	30,929	19,660	50,589
Deposits held	-	99,847	99,847
Long-term liabilities:			
Due within one year	83,649		#VALUE!
Due in more than one year	1,697,826	3,902,442	5,600,268
Total liabilities	\$ 1,897,679	\$ 4,053,970	\$ #VALUE!
DEFERRED INFLOWS OF RESOURCES			
Items related to measurement of net pension liability	\$ 4,007	\$ 2,882	\$ 6,889
Unavailable revenue-property taxes	520,356	-	520,356
Total deferred inflows of resources	524,363	2,882	527,245
NET POSITION			
Net investment in capital assets	\$ 2,146,946	\$ 5,103,908	\$ 7,250,854
Restricted:			
Proffers - capital projects	50,199	-	50,199
Unrestricted	1,719,318	2,101,754	3,821,072
Total net position	\$ 3,916,463	\$ 7,205,662	\$ 11,122,125

The notes to financial statements are an integral part of this statement.

Statement of Activities
For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
PRIMARY GOVERNMENT:							
Governmental activities:							
General government							
administration	\$ 502,043	\$ 18,996	\$ -	\$ -	\$ (483,047)	\$ -	\$ (483,047)
Public safety	12,167	-	14,215	-	2,048	-	2,048
Public works	249,872	-	1,056	-	(248,816)	-	(248,816)
Parks, recreation, and cultural	29,779	-	-	-	(29,779)	-	(29,779)
Community development	58,962	7,385	-	-	(51,577)	-	(51,577)
Interest on long-term obligations	71,016	-	-	-	(71,016)	-	(71,016)
Total governmental activities	\$ 923,839	\$ 26,381	\$ 15,271	\$ -	\$ (882,187)	\$ -	\$ (882,187)
Business-type activities:							
Water and Sewer	\$ 1,310,922	\$ 737,783	\$ -	\$ 115,200	\$ -	\$ (457,939)	\$ (457,939)
Total business-type activities	\$ 1,310,922	\$ 737,783	\$ -	\$ 115,200	\$ -	\$ (457,939)	\$ (457,939)
Total primary government	\$ 2,234,761	\$ 764,164	\$ 15,271	\$ 115,200	\$ (882,187)	\$ (457,939)	\$ (1,340,126)
General revenues:							
General property taxes					\$ 486,565	\$ 2,503	\$ 489,068
Other local taxes:							
Local sales and use tax					182,793	-	182,793
Consumers' utility tax					13,858	-	13,858
Meals tax					81,441	-	81,441
Vehicle decals					32,763	-	32,763
Cigarette tax					21,550	-	21,550
Business licenses					55,590	-	55,590
Other local taxes					27,788	-	27,788
Unrestricted revenues from use of money and property					3,366	88,990	92,356
Miscellaneous					17,264	20,993	38,257
Grants and contributions not restricted to specific programs					15,614	-	15,614
Transfers					97,681	(97,681)	-
Total general revenues and transfers					\$ 1,036,273	\$ 14,805	\$ 1,051,078
Change in net position					154,086	(443,134)	(289,048)
Net position - beginning, as restated					3,762,377	7,648,796	11,411,173
Net position - ending					\$ 3,916,463	\$ 7,205,662	\$ 11,122,125

The notes to financial statements are an integral part of this statement.

Fund Financial Statements

Balance Sheet
 Governmental Fund
 As of June 30, 2015

	<u>General</u>
ASSETS	
Cash and cash equivalents (Note 1)	\$ 1,569,035
Receivables (net of allowance for uncollectibles):	
Taxes receivable	531,177
Other local receivables	17,589
Due from other funds	175,292
Due from other governmental units (Note 3)	35,564
Prepaid items	9,272
Restricted assets:	
Cash and cash equivalents	<u>1,255,392</u>
Total assets	<u>\$ 3,593,321</u>
LIABILITIES	
Accounts payable	\$ 34,540
Accrued expenses	8,545
Performance bonds held	<u>42,190</u>
Total liabilities	<u>\$ 85,275</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue-property taxes	<u>\$ 530,732</u>
FUND BALANCE	
Nonspendable:	
Prepaid items	\$ 9,272
Restricted:	
Construction- East Broad Streetscape Improvements	1,205,193
Proffers - capital projects	50,199
Committed:	
Capital project - Loudoun St. improvements	82,000
Capital project - 27 N. Berlin	42,190
Unassigned	<u>1,588,460</u>
Total fund balance	<u>\$ 2,977,314</u>
Total liabilities, deferred inflows of resources, and fund balance	<u><u>\$ 3,593,321</u></u>

The notes to financial statements are an integral part of this statement.

Reconciliation of the Balance Sheet of Governmental Fund
 To the Statement of Net Position
 As of June 30, 2015

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

Total fund balance per Exhibit 3 - Balance Sheet - Governmental Fund	\$	2,977,314	
When capital assets (land, buildings, equipment) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net position includes those capital assets among the assets of the Town as a whole.			2,703,379
The net pension asset is not an available resource and, therefore, is not reported in the funds.			25,681
Pension contributions subsequent to the measurement date will be a reduction to or increase in the net pension liability or asset in the next fiscal year and, therefore, are not reported in the funds.			16,124
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable in the funds.			
Unavailable revenue related to property taxes	\$	10,376	
Items related to measurement of net pension liability		<u>(4,007)</u>	6,369
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	\$	(1,740,000)	
Premium on bond issuance		(21,626)	
Accrued interest payable		(30,929)	
Compensated absences		<u>(19,849)</u>	<u>(1,812,404)</u>
Net position of governmental activities	\$		<u><u>3,916,463</u></u>

The notes to financial statements are an integral part of this statement.

Statement of Revenues, Expenditures, and Change in Fund Balance
 Governmental Fund
 For the Year Ended June 30, 2015

	<u>General</u>
REVENUES	
General property taxes	\$ 490,260
Other local taxes	415,783
Permits, privilege fees, and regulatory licenses	7,385
Revenue from the use of money and property	3,366
Charges for services	18,996
Miscellaneous	17,264
Intergovernmental:	
Commonwealth	27,251
Federal	<u>3,634</u>
Total revenues	<u>\$ 983,939</u>
EXPENDITURES	
Current:	
General government administration	\$ 507,064
Public safety	12,167
Public works	167,976
Parks, recreation, and cultural	55,741
Community development	27,288
Capital outlay	389,658
Debt service:	
Principal	75,000
Interest and other fiscal charges	<u>74,485</u>
Total expenditures	<u>\$ 1,309,379</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (325,440)</u>
OTHER FINANCING SOURCES (USES)	
Sale of property	\$ 319,245
Transfers in	<u>97,681</u>
Total other financing sources (uses)	<u>\$ 416,926</u>
Net change in fund balance	\$ 91,486
Fund balance - beginning	<u>2,885,828</u>
Fund balance - ending	<u><u>\$ 2,977,314</u></u>

The notes to financial statements are an integral part of this statement.

Reconciliation of Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2015

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

Net change in fund balances - total governmental funds	\$	91,486
--	----	--------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Details supporting this adjustment are as follows:

Capital outlay	\$	389,446	
Depreciation expense		<u>(34,989)</u>	354,457

The net effect of various miscellaneous transactions involving capital assets (sales, trade-ins, and donations) is to decrease net position	(395,769)
---	-----------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes	\$	(3,695)	
Change in deferred inflows of resources related to the measurement of the net pension asset		<u>(4,007)</u>	(7,702)

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal retired on general obligation bonds	75,000
---	--------

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 governmental funds.

Increase/(decrease) in deferred outflow of resources - pension contributions subsequent to measurement date	\$	2,742	
Increase/(decrease) in net pension asset		18,178	
(Increase)/decrease in premium on bond issuance		1,664	
(Increase)/decrease in accrued interest payable		1,805	
(Increase)/decrease in compensated absences		<u>12,225</u>	<u>36,614</u>

Change in net position of governmental activities	\$	<u>154,086</u>
---	----	----------------

The notes to financial statements are an integral part of this statement.

Statement of Net Position
 Proprietary Fund
 For the Year Ended June 30, 2015

	<u>Enterprise Fund</u>
	<u>Water and Sewer Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,159,047
Accounts receivables (net of allowances for uncollectibles):	148,178
Prepaid expenses	11,812
Restricted current assets:	
Cash and cash equivalents	86,714
Total current assets	<u>\$ 2,405,751</u>
Noncurrent assets:	
Net pension asset	\$ 18,473
Capital assets (net of accumulated depreciation):	
Land	154,200
Utility system	9,084,522
Construction in progress	-
Total capital assets, net	<u>\$ 9,238,722</u>
Total noncurrent assets	<u>\$ 9,257,195</u>
Total assets	<u>\$ 11,662,946</u>
DEFERRED OUTFLOW OF RESOURCES	
Pension contributions subsequent to measurement date	\$ 11,596
Deferred charge on refunding	195,545
Total deferred outflow of resources	<u>\$ 207,141</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 25,050
Accrued expenses	6,971
Due to other funds	175,292
Accrued interest payable	19,660
Customer deposits	99,847
Bonds payable, current portion	431,845
Compensated absences, current portion	436
Total current liabilities	<u>\$ 759,101</u>
Noncurrent liabilities:	
Bonds payable, net of current portion	\$ 3,898,514
Compensated absences, net of current portion	3,928
Total noncurrent liabilities	<u>\$ 3,902,442</u>
Total liabilities	<u>\$ 4,661,543</u>
DEFERRED INFLOW OF RESOURCES	
Items related to measurement of net pension liability	\$ 2,882
Total deferred outflow of resources	<u>\$ 2,882</u>
NET POSITION	
Net investment in capital assets	\$ 5,103,908
Unrestricted	2,101,754
Total net position	<u><u>\$ 7,205,662</u></u>

The notes to financial statements are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Position
 Proprietary Fund
 For the Year Ended June 30, 2015

	<u>Enterprise Fund</u>
	<u>Water and Sewer Fund</u>
OPERATING REVENUES:	
Charges for services:	
Charges for services and connection fees	\$ 737,783
Frye court sewer district tax	2,503
Miscellaneous	<u>20,993</u>
Total operating revenues	<u>\$ 761,279</u>
OPERATING EXPENSES:	
Personnel services	\$ 237,054
Fringe benefits	58,762
Contractual services/maintenance	114,594
Materials & supplies	46,445
Utilities	69,684
Repairs and maintenance	212,299
Other charges	24,391
Depreciation	<u>384,157</u>
Total operating expenses	<u>\$ 1,147,386</u>
Operating income (loss)	<u>\$ (386,107)</u>
NONOPERATING REVENUES (EXPENSES):	
Interest income	\$ 5,711
Antennae lease	83,279
Interest and fiscal charges	<u>(163,536)</u>
Total nonoperating revenues (expenses)	<u>\$ (74,546)</u>
Income (loss) before contributions and transfers	<u>\$ (460,653)</u>
Capital contributions and grants	\$ 115,200
Operating transfers out	<u>\$ (97,681)</u>
Change in net position	\$ (443,134)
Net position at beginning of year	<u>7,648,796</u>
Net position at end of year	<u><u>\$ 7,205,662</u></u>

The notes to financial statements are an integral part of this statement.

Statement of Cash Flows
 Proprietary Fund
 For the Year Ended June 30, 2015

	<u>Enterprise Fund</u>
	<u>Water and Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers and users	\$ 876,506
Payments to suppliers	(615,550)
Payments to and on behalf of employees	(306,300)
	<hr/>
Net cash provided by (used for) operating activities	\$ (45,344)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase and construction of capital assets	\$ (164,619)
Capital contributions	115,200
Proceeds from capital debt	2,005,000
Premium on capital debt	331,771
Payment to refunding bond escrow agent	(2,100,000)
Deferred amount on refunding	(195,545)
Repayment of long-term obligations	(388,778)
Capital debt issuance costs	(41,226)
Interest paid on long-term obligations	(139,528)
	<hr/>
Net cash provided by (used for) capital and related financing activities	\$ (577,725)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	\$ 5,711
	<hr/>
Net increase (decrease) in cash and cash equivalents	\$ (617,358)
Cash and cash equivalents - beginning	2,863,119
	<hr/>
Cash and cash equivalents - ending	\$ 2,245,761
	<hr/> <hr/>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ (386,107)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation expense	384,157
Antennae lease	83,279
Transfers to other funds	(97,681)
Changes in operating assets and liabilities:	
(Increase) decrease in account receivables	(3,005)
(Increase) decrease in prepaid items	(11,812)
(Increase) decrease in net pension asset	(13,076)
(Increase) decrease in deferred outflows - pension items	(1,971)
Increase (decrease) in deferred inflows - pension items	2,882
Increase (decrease) in due to other funds	26,853
Increase (decrease) in accounts payable	(41,259)
Increase (decrease) in accrued expenses	2,615
Increase (decrease) in customer deposits	8,100
Increase (decrease) in compensated absences	1,681
	<hr/>
Net cash provided by (used for) operating activities	\$ (45,344)
	<hr/> <hr/>

The notes to financial statements are an integral part of this statement.

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Financial Reporting Entity

The basic criterion for determining whether a governmental department, agency, institution, commission, public authority, or other governmental organization should be included in a primary governmental unit's reporting entity for general purpose financial statements is financial accountability. Financial accountability includes the appointment of a voting majority of the organizations governing body and the ability of the primary government to impose its will on the organization or if there is a financial benefit/burden relationship. In addition, an organization which is fiscally dependent on the primary government should be included in its reporting entity. These financial statements present the Town of Lovettsville, Virginia.

Individual Component Unit Disclosures

The Town has no component units.

Related Organizations

The Town has no related organizations.

Jointly Governed Organizations

The Town has no jointly governed organizations.

B. Government-wide and Fund Financial Statements

Government-wide financial statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities but also capital assets and long-term liabilities (such as buildings and general obligation debt).

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units, if applicable. 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 services. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Statement of Net Position - The Statement of Net Position is designed to display the financial position of the primary government (governmental and business-type activities) and its discretely presented component units, if applicable. Governments will report all capital assets, in the government-wide Statement of Net Position and will report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net position of a government will be broken down into three categories - 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

Statement of Activities - The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

B. Government-wide and Fund Financial Statements (Continued)

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

Budgetary comparison schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in one way or another in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. Many governments revise their original budgets over the course of the year for a variety of reasons. Under the GASB 34 reporting model, governments provide budgetary comparison information in their annual reports, including the original budget and a comparison of final budget and actual results.

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

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

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

The government-wide statement of activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) which are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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

In the fund financial statements, financial transactions and accounts of the Town are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

1. Governmental Funds account for and report the expendable financial resources, other than those accounted for in Proprietary and similar Trust Funds. The Governmental Fund measurement focus is on determination of financial position and changes in financial position, rather than upon net income determination. The individual Governmental Funds are:

General Fund

The General Fund is the primary operating fund of the Town. The fund accounts for and reports all revenues and expenditures of the Town which are not accounted for and reported in other funds. The General Capital Fund is consolidated with the General Fund for financial reporting.

2. Proprietary Funds account for activities similar to those found in the private business sector. The measurement focus is upon determination of net income. Proprietary Funds consist of Enterprise Funds.

Enterprise Funds

Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the Town is that the cost of providing services to the general public be financed or recovered through user charges. Currently the Town's Water and Sewer Fund is accounted for as an enterprise fund.

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

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

D. Budgets and Budgetary Accounting

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

1. Prior to March 30, the Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the fund level. The appropriation for each fund can be revised only by the Town Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except that enterprise fund budgets are adopted on the modified accrual basis of accounting.
7. Appropriations lapse on June 30 for all Town units.
8. All budget data presented in the accompanying financial statements is as amended and approved by Town Council.
9. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to commit that portion of the applicable appropriations, is not part of the Town's accounting system.

E. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term highly liquid investments that are both readily convertible to known amounts of cash and investments with original maturities of 90 days or less.

F. Investments

Investments are reported at fair market value. Certificates of deposit, money market mutual funds and short-term repurchase agreements are reported in the accompanying financial statements as cash and cash equivalents.

G. Restricted Assets

Proceeds from bonds issued for general and enterprise funds are classified as restricted assets on the Balance Sheet and Statement of Net Position because their use is limited to future capital outlay. These funds are maintained in a separate bank account under the care of a trustee.

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

H. Capital Assets

Capital assets, which include property, plant and equipment and infrastructure, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the Town as land, buildings, infrastructure, vehicles, and equipment with an initial individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not included in the capital assets of the government-wide statements or capitalized in the proprietary funds.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Interest attributable to capitalized assets for the year ended June 30, 2015 was immaterial.

Depreciation for capital assets is computed over the following useful lives using the straight line method.

Buildings	30-50 Years
Utility Plant & Lines	25-40 Years
Automobiles	5-7 Years
Machinery and Equipment	5-10 Years
Infrastructure	20-40 Years
Land Improvements	20 Years

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position 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. For more detailed information on these items, reference the pension note.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

I. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position 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 has two items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30, 2nd half installments levied during the fiscal year but due after June 30th, and amounts prepaid on the 2nd half installments and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2nd half installments levied during the fiscal year but due after June 30th and amounts prepaid on the 2nd half installments are reported as deferred inflows of resources. In addition, certain items related to the measurement of the net pension liability are reported as deferred inflows of resources. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments. For more detailed information on these items, reference the pension note.

J. Pensions

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

K. 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 it 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.

L. Long-term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental and business-type activities. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued and premiums on issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

M. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e. the current portion of interfund loans).

All trade and property tax receivables are shown net of an allowance for uncollectibles. The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. At June 30, 2015 no allowance was recorded. At June 30, 2015 receivable balances were as follows:

Governmental Activities:

Local:

Real estate taxes receivable	\$ 531,177
Other local receivables	<u>17,589</u>
Total for Governmental Activities	<u>\$ 548,766</u>

Business-Type Activities:

Local:

Water billings	<u>\$ 148,178</u>
----------------	-------------------

N. Property Taxes

Real property is assessed by Loudoun County, Virginia at its value on January 1 and is payable annually on December 5th. The Town does not collect a personal property tax. Taxes attach as an enforceable lien as of the date assessed. The Town bills and collects its own property taxes based on the assessed values provided by the County.

O. Use of Estimates

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

P. Net Position

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Q. Net Position Flow Assumption

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

R. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as an expenditure/expense when consumed rather than when purchased.

S. Fund Equity

The Town reports fund balance in accordance with GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund.

In accordance with GASB Statement 54, when fund balance resources are available for a specific purpose in more than one classification, it is the Town's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

Town Council establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by Town Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

T. Upcoming Pronouncements

Statement No. 72, *Fair Value Measurement and Application*, amends the definitions of fair value used throughout GASB literature to be consistent with the definition and principles provided in FASB Accounting Standards Codification Topic 820, *Fair Value Measurement*. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. No formal study or estimate of the impact of this standard has been performed.

Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68 and amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. No formal study or estimate of the impact of this standard has been performed.

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. No formal study or estimate of the impact of this standard has been performed.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for fiscal years beginning after June 15, 2017. No formal study or estimate of the impact of this standard has been performed.

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

T. Upcoming Pronouncements (Continued)

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, objective is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. No formal study or estimate of the impact of this standard has been performed.

Statement No. 77, *Tax Abatement Disclosures*, will increase the disclosure of tax abatement agreements to disclose information about the agreements. The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. No formal study or estimate of the impact of this standard has been performed.

NOTE 2—DEPOSITS AND INVESTMENTS:

Deposits:

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

Investments:

Statutes authorize the local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes, banker’s acceptances, repurchase agreements and the State Treasurer’s Local Government Investment Pool (LGIP). The Town does not have a formal investment policy.

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 2—DEPOSITS AND INVESTMENTS: (CONTINUED)

Credit Risk of Debt Securities:

The Town's rated debt investments as of June 30, 2015 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

Town's Rated Debt Investments	
Rated Debt Investments Value	Fair Quality Ratings
	AAAm
Wells Fargo Heritage Money Market Fund	\$ <u>1,205,193</u>

NOTE 3—DUE FROM OTHER GOVERNMENTAL UNITS:

Details of the Town's amounts due from other governmental units as of June 30, 2015 are as follows:

Commonwealth of Virginia:	
Communications tax	\$ 2,185
State fire program funds	1,000
Other	253
County of Loudoun:	
Sales tax	32,126
Total	\$ 35,564

NOTE 4—INTERFUND OBLIGATIONS:

Details of the Town's interfund receivables and payables as of June 30, 2015 are as follows:

Fund	Due to	Due from
General Fund	\$ -	\$ 175,292
Water and Sewer Fund	175,292	-
Totals	\$ 175,292	\$ 175,292

The above interfund obligations represent temporary advances between funds or amounts allocable to one fund and not yet transferred between the funds.

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 5—CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2015 was as follows:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
<u>Governmental Activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 960,877	\$ 12,943	\$ -	\$ 973,820
Construction in progress	1,261,622	363,484	332,188	1,292,918
Total capital assets, not being depreciated	<u>\$ 2,222,499</u>	<u>\$ 376,427</u>	<u>\$ 332,188</u>	<u>\$ 2,266,738</u>
Capital assets, being depreciated:				
Buildings	\$ 119,945	\$ 319,245	\$ 405,876	\$ 33,314
Land Improvements	452,162	-	-	452,162
Machinery and equipment	48,220	25,962	-	74,182
Infrastructure	78,932	-	-	78,932
Total capital assets being depreciated	<u>\$ 699,259</u>	<u>\$ 345,207</u>	<u>\$ 405,876</u>	<u>\$ 638,590</u>
Accumulated depreciation:				
Buildings	\$ (37,797)	\$ (1,250)	\$ (10,107)	\$ (28,940)
Land Improvements	(68,241)	(25,038)	-	(93,279)
Machinery and equipment	(39,387)	(5,499)	-	(44,886)
Infrastructure	(31,642)	(3,202)	-	(34,844)
Total accumulated depreciation	<u>\$ (177,067)</u>	<u>\$ (34,989)</u>	<u>\$ (10,107)</u>	<u>\$ (201,949)</u>
Total capital assets, being depreciated, net	<u>\$ 522,192</u>	<u>\$ 310,218</u>	<u>\$ 395,769</u>	<u>\$ 436,641</u>
Governmental activities capital assets, net	<u><u>\$ 2,744,691</u></u>	<u><u>\$ 686,645</u></u>	<u><u>\$ 727,957</u></u>	<u><u>\$ 2,703,379</u></u>

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 5—CAPITAL ASSETS: (CONTINUED)

Capital asset activity for the year ended June 30, 2015 was as follows:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
<u>Business-type Activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 154,200	\$ -	\$ -	\$ 154,200
Construction in progress	119,598	164,619	284,217	-
	<u>273,798</u>	<u>164,619</u>	<u>284,217</u>	<u>154,200</u>
Total capital assets, not being depreciated	\$ 273,798	\$ 164,619	\$ 284,217	\$ 154,200
Capital assets, being depreciated:				
Utility system	\$ 13,125,802	\$ 284,217	\$ -	\$ 13,410,019
Total capital assets being depreciated	\$ 13,125,802	\$ 284,217	\$ -	\$ 13,410,019
Accumulated depreciation:				
Utility system	\$ (3,941,340)	\$ (384,157)	\$ -	\$ (4,325,497)
Total accumulated depreciation	\$ (3,941,340)	\$ (384,157)	\$ -	\$ (4,325,497)
Total capital assets, being depreciated, net	\$ 9,184,462	\$ (99,940)	\$ -	\$ 9,084,522
Business-type activities capital assets, net	<u>\$ 9,458,260</u>	<u>\$ 64,679</u>	<u>\$ 284,217</u>	<u>\$ 9,238,722</u>

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

Governmental activities:	
General government administration	\$ 24,117
Public works	<u>10,872</u>
Total depreciation expense - governmental activities	<u>\$ 34,989</u>
Business-type activities:	
Water and sewer fund	<u>\$ 384,157</u>
Total depreciation expense - business-type activities	<u>\$ 384,157</u>

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 6—OPERATING LEASES:

The Town has operating leases with various companies for communication equipment on the water tank. Future minimum lease payment receipts are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2016	\$ 72,563
2017	75,467
2018	61,459
2019	19,647
Total	<u>\$ 229,136</u>

NOTE 7—LONG-TERM OBLIGATIONS:

Governmental Activities:

The following is a summary of long-term obligation transactions of the Town for the year ended June 30, 2015:

	<u>Balance July 1, 2014</u>	<u>Issuances/ Increases</u>	<u>Retirements/ Decreases</u>	<u>Balance June 30, 2015</u>
General Obligation Bond	\$ 1,815,000	\$ -	\$ (75,000)	\$ 1,740,000
Premium on Bond Issuance	23,290	-	(1,664)	21,626
Compensated Absences (Note 8)	32,074	-	(12,225)	19,849
Total	<u>\$ 1,870,364</u>	<u>\$ -</u>	<u>\$ (88,889)</u>	<u>\$ 1,781,475</u>

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 7—LONG-TERM OBLIGATIONS: (CONTINUED)

Governmental Activities: (Continued)

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>
2016	\$ 80,000	\$ 68,376
2017	85,000	65,097
2018	85,000	61,612
2019	90,000	58,127
2020	95,000	54,437
2021-2025	530,000	222,876
2026-2030	630,000	113,903
2031	145,000	6,183
Total	<u>\$ 1,740,000</u>	<u>\$ 650,611</u>

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% to 6.561% with final payment due February 1, 2031.	\$ 1,740,000	\$ 80,000
Total general obligation bond	<u>\$ 1,740,000</u>	<u>\$ 80,000</u>
Premium on bond issuance	\$ 21,626	\$ 1,664
Compensated absences (Note 8)	<u>\$ 19,849</u>	<u>\$ 1,985</u>
Total governmental activities obligations	<u>\$ 1,781,475</u>	<u>\$ 83,649</u>

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 7—LONG-TERM OBLIGATIONS: (CONTINUED)

Business-type Activities:

The following is a summary of long-term obligation transactions of the Town for the year ended June 30, 2015:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Issuances/</u> <u>Increases</u>	<u>Retirements/</u> <u>Decreases</u>	<u>Balance</u> <u>June 30, 2015</u>
General Obligation and Revenue Bonds	\$ 4,482,366	\$ 2,005,000	\$ (2,488,778)	\$ 3,998,588
Premium on Bond Issuance	-	331,771	-	331,771
Compensated Absences (Note 8)	<u>2,683</u>	<u>1,681</u>	<u>-</u>	<u>4,364</u>
Total	<u>\$ 4,485,049</u>	<u>\$ 2,338,452</u>	<u>\$ (2,488,778)</u>	<u>\$ 4,334,723</u>

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

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 394,448	\$ 123,205
2017	400,140	121,317
2018	410,856	112,229
2019	366,595	102,264
2020	377,360	94,193
2021-2025	1,186,395	323,503
2026-2030	<u>862,794</u>	<u>57,783</u>
Total	<u>\$ 3,998,588</u>	<u>\$ 934,494</u>

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 7—LONG-TERM OBLIGATIONS: (CONTINUED)

Business-type Activities: (Continued)

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.	\$ 1,011,780	\$ 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% to 4.1% payable in semi-annual installments. Final payment due April 1, 2018.	125,000	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% to 4.667% payable annually. Final annual principal payment due October 1, 2017.	465,000	150,000
\$2,005,000 Series 2015A Refunding Revenue bonds issued through Virginia Resource Authority on May 28, 2015. Bearing interest at 3.125% to 5.125% payable in semi-annual installments. Principal payable annually through October 1, 2027.	2,005,000	-
\$492,040 Virginia Resource Authority bond issued October 23, 2009 payable in semi-annual installments of \$17,284 bearing interest at 3.35%. Final payment due March 1, 2030. At June 30, 2011 only \$467,283 of this loan had been received.	391,808	20,489
Total general obligation bonds	<u>\$ 3,998,588</u>	<u>\$ 394,448</u>
Premium on Bond Issuance	<u>\$ 331,771</u>	<u>\$ 37,397</u>
Compensated absences (Note 8)	<u>\$ 4,364</u>	<u>\$ 436</u>
Total business-type activities	<u><u>\$ 4,334,723</u></u>	<u><u>\$ 432,281</u></u>

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 8—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 \$19,849 and the Water and Sewer Fund have outstanding accrued leave pay of \$4,364.

NOTE 9—UNAVAILABLE/DEFERRED REVENUE:

Unavailable/deferred revenue represent amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available.

Unavailable Property Tax Revenue - Unavailable revenue representing uncollected tax billings not available for funding of current expenditures totaled \$530,177 (including 2nd half tax billings of \$519,802 not due until December 5) at June 30, 2015.

Prepaid Property Taxes - Property taxes due subsequent to June 30, 2015 but paid in advance by the taxpayers totaled \$555 at June 30, 2015.

NOTE 10—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. The Town joined together with other local governments in Virginia to form the Virginia Municipal Group Self Insurance Association, a public entity risk pool currently operating as a common risk management and insurance program for participating local governments. The Town pays an annual premium to the association for its workers compensation insurance coverage. In the event of a loss deficit and depletion of all available excess insurance, the Association may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

The Town continues to carry commercial insurance for all other risks of loss, including general liability and employee health and accident insurance, through the Virginia Municipal League. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 11—PENSION PLAN:

Plan Description

Name of Plan:	Virginia Retirement System (VRS)
Identification of Plan:	Agent Multi-Employer Pension Plan
Administering Entity:	Virginia Retirement System (VRS)

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

All full-time, salaried permanent employees of the Town 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 below:

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>About Plan 2 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.

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 (Cont.)</p>	<p>About Plan 2 (Cont.)</p>	<p>About the Hybrid Retirement Plan (Cont.)</p> <ul style="list-style-type: none"> • 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.
<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 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>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>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.

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Hybrid Opt-In Election (Cont.) 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>Hybrid Opt-In Election (Cont.) 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>*Non-Eligible Members (Cont.) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions Employees contribute 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 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>

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

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

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<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 Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u> 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>

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting (Cont.)	Vesting (Cont.)	<p>Vesting (Cont.) <u>Defined Contributions Component: (Cont.)</u> 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>
<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>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1</p>

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Calculating the Benefit (Cont.) 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 (Cont.)</p>	<p>Calculating the Benefit (Cont.) <u>Defined Contribution Component:</u> 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 VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p> <p>Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p>Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p>	<p>Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p> <p>Sheriffs and regional jail superintendents: Same as Plan 1.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p>Sheriffs and regional jail superintendents: Not applicable.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p>

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<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 <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p>

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> 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><u>Eligibility:</u> 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>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><u>Eligibility:</u> Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p>

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> 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 (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	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 subdivisions (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 <u>Defined Benefit Component:</u> 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><u>Defined Contribution Component:</u> Not applicable.</p>

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2014-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Employees Covered by Benefit Terms

As of the June 30, 2013 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	0
Inactive members:	
Vested inactive members	0
Non-vested inactive members	0
Inactive members active elsewhere in VRS	<u>0</u>
Total inactive members	0
Active members	<u>5</u>
Total covered employees	<u><u>5</u></u>

Contributions

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

The Town's contractually required contribution rate for the year ended June 30, 2015 was 6.36% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$27,720 and \$23,007 for the years ended June 30, 2015 and June 30, 2014, respectively.

Net Pension Liability

The Town's net pension (asset) liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension (asset) liability was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Actuarial Assumptions - General Employees

The total pension liability for General Employees in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2013, 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, 2014.

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% 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% to simplify preparation of pension liabilities.

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

Largest 10 - Non-LEOS:

Pre-Retirement:

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

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Actuarial Assumptions - General Employees (Continued)

The actuarial assumptions used in the June 30, 2013 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% per year

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

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

Actuarial Assumptions - Public Safety Employees

The total pension liability for Public Safety employees in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2013, 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, 2014.

Inflation	2.5%
Salary increases, including inflation	3.5% - 4.75%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% 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% to simplify preparation of pension liabilities.

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Actuarial Assumptions - Public Safety Employees (Continued)

Mortality rates: 60% 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 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) - Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) - LEOS:

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

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Long-Term Expected Rate of Return

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

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

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

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Discount Rate

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

Changes in Net Pension (Asset) Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2013	\$ 51,952	\$ 64,852	\$ (12,900)
Changes for the year:			
Service cost	\$ 36,166	\$ -	\$ 36,166
Interest	3,637	-	3,637
Contributions - employer	-	23,007	(23,007)
Contributions - employee	-	32,974	(32,974)
Net investment income	-	15,109	(15,109)
Benefit payments, including refunds of employee contributions	-	-	-
Administrative expenses	-	(34)	34
Other changes	-	1	(1)
Net changes	\$ 39,803	\$ 71,057	\$ (31,254)
Balances at June 30, 2014	\$ 91,755	\$ 135,909	\$ (44,154)

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

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

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
Net Pension Liability (Asset)	(26,978)	(44,154)	(57,996)

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

For the year ended June 30, 2015, the Town recognized pension expense of (\$1,358). At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 6,889
Employer contributions subsequent to the measurement date	27,720	-
Total	\$ 27,720	\$ 6,889

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

\$27,720 reported as deferred outflows of resources related to pensions resulting from the Town'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	
2016	\$ (1,722)
2017	(1,722)
2018	(1,722)
2019	(1,722)
Thereafter	-

TOWN OF LOVETTSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2015 (Continued)

NOTE 12—LITIGATION:

At June 30, 2015, there were no matters of litigation involving the Town which would materially affect the Town's financial position should any court decisions on pending matters not be favorable to such entities.

NOTE 13—ADOPTION OF ACCOUNTING PRINCIPLES:

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68:

The Town implemented the financial reporting provisions of the above Statements for the fiscal year ended June 30, 2015. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. Note disclosure and required supplementary information requirements about pensions are also addressed. The requirements of this Statement will improve financial reporting by improving accounting and financial reporting by state and local governments for pensions. The implementation of these Statements resulted in the following restatement of net position:

	<u>Governmental Activities Net Position</u>	<u>Business - Type Activities / Water and Sewer Fund Net Position</u>	<u>Total</u>
Balance as reported at June 30, 2014	\$ 3,741,492	\$ 7,633,774	\$ 11,375,266
Implementation of GASB Statement No. 68	<u>20,885</u>	<u>15,022</u>	<u>35,907</u>
Balance as restated at June 30, 2014, as restated	<u>\$ 3,762,377</u>	<u>\$ 7,648,796</u>	<u>\$ 11,411,173</u>

NOTE 14—COMMITMENTS:

The Town has entered various construction, engineering and related contracts for Town projects. The following projects have outstanding contractual commitments at June 30, 2015:

<u>Project</u>	<u>Amount of Contract Outstanding</u>
Broad Way	\$ 1,500,000
Drainage Project at Broad Way and Berlin	200,000
WWTP Sludge Pumping	150,000

Required Supplementary Information

Note to Required Supplementary Information:

Presented budgets were prepared in accordance with accounting principles generally accepted in the United States of America.

Schedule of Revenues, Expenditures, and Change in Fund Balance- Budget and Actual- General Fund
For the Year Ended June 30, 2015

	General Fund			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:				
General property taxes	\$ 500,000	\$ 500,000	\$ 490,260	\$ (9,740)
Other local taxes/revenues	351,000	351,000	415,783	64,783
Permits, privilege fees, and regulatory licenses	13,700	13,700	7,385	(6,315)
Revenues from use of money and property	24,339	24,339	3,366	(20,973)
Charges for services	10,325	10,325	18,996	8,671
Miscellaneous revenues	3,000	3,000	17,264	14,264
Intergovernmental:				
Commonwealth	22,000	22,000	27,251	5,251
Federal	-	-	3,634	3,634
Total Revenues	<u>\$ 924,364</u>	<u>\$ 924,364</u>	<u>\$ 983,939</u>	<u>\$ 59,575</u>
EXPENDITURES:				
Current:				
General government administration	\$ 534,435	\$ 534,435	\$ 507,064	\$ 27,371
Public safety	12,000	12,000	12,167	(167)
Public works	186,340	186,340	167,976	18,364
Parks, recreation, and cultural	70,500	70,500	55,741	14,759
Community development	16,750	16,750	27,288	(10,538)
Capital outlay	681,000	681,000	389,658	291,342
Debt service:				
Principal	75,000	75,000	75,000	-
Interest and finance charges	73,234	73,234	74,485	(1,251)
Total Expenditures	<u>\$ 1,649,259</u>	<u>\$ 1,649,259</u>	<u>\$ 1,309,379</u>	<u>\$ 339,880</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (724,895)</u>	<u>\$ (724,895)</u>	<u>\$ (325,440)</u>	<u>\$ 399,455</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	\$	\$	\$ 97,681	\$ 97,681
Sale of property	-	-	319,245	319,245
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 416,926</u>	<u>\$ 416,926</u>
Net change in fund balances	\$ (724,895)	\$ (724,895)	\$ 91,486	\$ 816,381
Fund Balance at Beginning of Year	<u>724,895</u>	<u>724,895</u>	<u>2,885,828</u>	<u>2,160,933</u>
Fund Balance at End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,977,314</u>	<u>\$ 2,977,314</u>

The notes to financial statements are an integral part of this statement.

Schedule of Components of and Changes in Net Pension (Asset) Liability and Related Ratios
For the Year Ended June 30, 2015

	<u>2014</u>
Total pension liability	
Service cost	\$ 36,166
Interest	3,637
Net change in total pension liability	<u>\$ 39,803</u>
Total pension liability - beginning	51,952
Total pension liability - ending (a)	<u><u>\$ 91,755</u></u>
Plan fiduciary net position	
Contributions - employer	\$ 23,007
Contributions - employee	32,974
Net investment income	15,109
Administrative expense	(34)
Other	1
Net change in plan fiduciary net position	<u>\$ 71,057</u>
Plan fiduciary net position - beginning	64,852
Plan fiduciary net position - ending (b)	<u><u>\$ 135,909</u></u>
Town's net pension (asset) liability - ending (a) - (b)	\$ (44,154)
Plan fiduciary net position as a percentage of the total pension liability	148.12%
Covered-employee payroll	\$ 317,750
Town's net pension (asset) liability as a percentage of covered-employee payroll	-13.90%

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

Schedule of Employer Contributions
For the Year Ended June 30, 2015

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
Town					
2015	\$ 27,720	\$ 27,720	\$ -	\$ 435,845	6.36%

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

Notes to Required Supplementary Information
For the Year Ended June 30, 2015

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, 2014 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% per year

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) - LEOS:

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

Other Supplementary Information

Supporting Schedules

Schedule of Revenues - Budget and Actual
 Governmental Fund
 For the Year Ended June 30, 2015

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 497,500	\$ 497,500	\$ 487,199	\$ (10,301)
Penalties and interest	2,500	2,500	3,061	561
Total general property taxes	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ 490,260</u>	<u>\$ (9,740)</u>
Other local taxes/revenues				
Local sales and use taxes	\$ 172,000	\$ 172,000	\$ 182,793	\$ 10,793
Consumers' utility taxes	15,000	15,000	13,858	(1,142)
Cigarette tax	15,000	15,000	21,550	6,550
Motor vehicle licenses	33,000	33,000	32,763	(237)
Bank franchise taxes	11,000	11,000	27,788	16,788
Meals tax	65,000	65,000	81,441	16,441
Business License	40,000	40,000	55,590	15,590
Total other local taxes	<u>\$ 351,000</u>	<u>\$ 351,000</u>	<u>\$ 415,783</u>	<u>\$ 64,783</u>
Permits, privilege fees, and regulatory licenses:				
Planning and development fees	\$ 13,000	\$ 13,000	\$ 7,385	\$ (5,615)
Conditional use permits	700	700	-	(700)
Total permits, privilege fees, and regulatory licenses	<u>\$ 13,700</u>	<u>\$ 13,700</u>	<u>\$ 7,385</u>	<u>\$ (6,315)</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 24,339	\$ 24,339	\$ 3,366	\$ (20,973)
Charges for services:				
Miscellaneous	\$ 10,325	\$ 10,325	\$ 18,996	\$ 8,671
Miscellaneous:				
Paver donations	\$ -	\$ -	\$ 6,250	\$ 6,250
Miscellaneous	3,000	3,000	11,014	8,014
Total miscellaneous	<u>\$ 3,000</u>	<u>\$ 3,000</u>	<u>\$ 17,264</u>	<u>\$ 14,264</u>
Total revenue from local sources	<u>\$ 902,364</u>	<u>\$ 902,364</u>	<u>\$ 953,054</u>	<u>\$ 50,690</u>
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Rolling stock tax	\$ -	\$ -	\$ 94	\$ 94
Communication taxes	13,000	13,000	13,314	314
Motor vehicle carriers' tax	-	-	2,206	2,206
Total noncategorical aid	<u>\$ 13,000</u>	<u>\$ 13,000</u>	<u>\$ 15,614</u>	<u>\$ 2,614</u>
Categorical aid:				
Fire Program Grants	\$ 8,000	\$ 8,000	\$ 10,000	\$ 2,000
Emergency and disaster recovery state grant	-	-	581	581
Litter Control Grant	1,000	1,000	1,056	56
Total categorical aid	<u>\$ 9,000</u>	<u>\$ 9,000</u>	<u>\$ 11,637</u>	<u>\$ 2,637</u>
Total revenue from the Commonwealth	<u>\$ 22,000</u>	<u>\$ 22,000</u>	<u>\$ 27,251</u>	<u>\$ 5,251</u>
Revenue from the Federal Government:				
Categorical aid:				
Emergency and disaster recovery Federal grant	\$ -	\$ -	\$ 3,634	\$ 3,634
Total revenue from the Federal Government	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,634</u>	<u>\$ 3,634</u>
Total General Fund	<u><u>\$ 924,364</u></u>	<u><u>\$ 924,364</u></u>	<u><u>\$ 983,939</u></u>	<u><u>\$ 59,575</u></u>
Total Primary Government	<u><u>\$ 924,364</u></u>	<u><u>\$ 924,364</u></u>	<u><u>\$ 983,939</u></u>	<u><u>\$ 59,575</u></u>

Schedule of Expenditures - Budget and Actual
 Governmental Fund
 For the Year Ended June 30, 2014

Fund, Function, Activity, and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
General government administration:				
Legislative:				
Legislative, general, and financial administration	\$ 534,435	\$ 534,435	\$ 507,064	\$ 27,371
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 500	\$ 500	\$ 667	\$ (167)
Fire and rescue services:				
Volunteer fire department contributions and funding	\$ 11,500	\$ 11,500	\$ 11,500	\$ -
Total public safety	\$ 12,000	\$ 12,000	\$ 12,167	\$ (167)
Public works:				
General properties	\$ 186,340	\$ 186,340	\$ 167,976	\$ 18,364
Parks, recreation and cultural:				
Parks and recreation	\$ 70,500	\$ 70,500	\$ 55,741	\$ 14,759
Community development:				
Planning and community development	\$ 16,750	\$ 16,750	\$ 27,288	\$ (10,538)
Capital expenditures:				
Capital outlay	\$ 681,000	\$ 681,000	\$ 389,658	\$ 291,342
Debt service:				
Principal	\$ 75,000	\$ 75,000	\$ 75,000	\$ -
Interest	73,234	73,234	74,485	(1,251)
Total Debt Service	\$ 148,234	\$ 148,234	\$ 149,485	\$ (1,251)
Total General Fund	\$ 1,649,259	\$ 1,649,259	\$ 1,309,379	\$ 339,880
Total Primary Government	\$ 1,649,259	\$ 1,649,259	\$ 1,309,379	\$ 339,880

Compliance

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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 Members of
the Town Council
Lovettsville, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of Town of Lovettsville, Virginia as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town of Lovettsville, Virginia's basic financial statements and have issued our report thereon dated February 16, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Lovettsville, Virginia'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 Town of Lovettsville, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Lovettsville, Virginia's internal control.

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, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies (2015:001 and 2015:002) described in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Lovettsville, Virginia's financial statements are free from 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*.

Town of Lovettsville, Virginia's Response to Findings

Town of Lovettsville, Virginia's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Town of Lovettsville, Virginia'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.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia

February 16, 2016

TOWN OF LOVETTSVILLE, VIRGINIA

Schedule of Findings and Responses
For the Year Ended June 30, 2015

Section I - Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Section II - Financial Statement Findings

Repeat of Prior Year Findings:

2015:001

Criteria:	A key concept of internal controls is the segregation of duties. No one employee should have access to both accounting records and related assets.
Condition:	The Town's current internal control system does not provide adequate segregation of duties over accounting functions.
Effect of Condition:	There is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal controls over financial reporting.
Cause of Condition:	One employee is responsible for initiating, recording, and posting all transactions.
Recommendation:	It is recommended that the Town assign accounting duties to separate employees.
Management's response:	Management routinely evaluates internal controls and the segregation of duties. As necessary, Management implements controls to mitigate risks where the cost does not outweigh the benefits. Moreover, Town Council and Officials actively participate in the Town's financial operations.

TOWN OF LOVETTSVILLE, VIRGINIA

Schedule of Findings and Responses
For the Year Ended June 30, 2015

Section II - Financial Statement Findings: (Continued)

2015:002

Criteria:	The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires an adequate level of technical expertise.
Condition:	The Town currently lacks sufficient internal controls over the preparation of the financial statements to ensure the financial statements are prepared in conformity with accounting principles generally accepted in the United States of America.
Effect of Condition:	There is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal controls over financial reporting.
Cause of Condition:	Town staff do not have the skill, nor does the Town utilize a third-party consultant, to provide adequate internal controls over financial statement preparation to ensure the information provided for audit is accurate.
Recommendation:	It is recommended that Town staff obtain additional technical training or a third-party consultant is used to ensure the preparation of financial statements free of material misstatement.
Management's response:	Management is cognizant of this weakness and has evaluated the costs and benefits of additional controls. Presently, Management accepts the weakness of controls over the preparation of financial statements. Furthermore, Management reviews and approves the financial statements prepared by the auditors.