



Town of Elkton, Virginia

Financial Report

June 30, 2024

Town of Elkton, Virginia

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Introductory Section



Town of Elkton, Virginia
Directory of Principal Officials
June 30, 2024

Town Council

Joshua Gooden, Mayor
Phillip “Rick” Workman, Vice Mayor

Virginia Fulginiti
Rachel Michael
Aaron Napotnik
Jan Hensley
Louis Heidel

Appointed Officials

Greg Lunsford, Town Manager
Donna Curry, Treasurer

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Financial Section



Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business -type activities, and each major fund of the Town of Elkton, Virginia, (the "Town") as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

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 Elkton, Virginia, as of June 30, 2024, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison schedule of the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.


Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town of Elkton, Virginia and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Elkton, Virginia's



ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.


In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Town of Elkton, Virginia's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Elkton, Virginia's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management, and, 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.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Elkton, Virginia's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.



Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2025 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
March 13, 2025



Basic Financial Statements



Government-Wide Financial Statements

Statement of Net Position

June 30, 2024

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents (Note 3)	\$ 1,460,983	\$ 2,587,940	\$ 4,048,923
Receivables, net: (Note 4)			
Property taxes	594,605	-	594,605
Meals taxes	111,347	-	111,347
Accounts and other	46,743	465,212	511,955
Prepays	74,167	13,216	87,383
Due from other governmental units and businesses (Note 5)	52,611	-	52,611
Inventories	6,272	248,049	254,321
Cash and cash equivalents – restricted (Note 3)	1,539,538	117,329	1,656,867
Investments – restricted (Note 3)	58,565	-	58,565
Capital assets: (Note 7)			
Nondepreciable	3,334,121	225,464	3,559,585
Depreciable, net	6,521,203	25,375,800	31,897,003
Net pension asset (Note 10)	327,825	110,792	438,617
Total assets	14,127,980	29,143,802	43,271,782
DEFERRED OUTFLOWS OF RESOURCES			
Pension-related deferred outflows (Note 10)	91,661	30,978	122,639
Other postemployment benefit-related deferred outflows (Note 11)	15,347	5,187	20,534
Total deferred outflows of resources	107,008	36,165	143,173
LIABILITIES			
Accounts payable	626,016	369,115	995,131
Customer deposits	-	117,329	117,329
Unearned revenue (Note 8)	1,539,538	-	1,539,538
Accrued payroll	79,952	18,822	98,774
Accrued interest payable	-	20,246	20,246
Long-term debt, due within one year (Note 9)	180,194	320,289	500,483
Noncurrent liabilities:			
Compensated absences (Note 9)	113,532	46,272	159,804
Long-term debt, due in more than one year (Note 9)	931,761	15,232,579	16,164,340
Net other postemployment benefit liability (Note 11)	53,154	17,965	71,119
Total liabilities	3,524,147	16,142,617	19,666,764
DEFERRED INFLOWS OF RESOURCES			
Deferred property taxes (Note 8)	479,961	-	479,961
Pension-related deferred inflows (Note 10)	116,628	39,415	156,043
Other postemployment benefit-related deferred inflows (Note 11)	7,891	2,666	10,557
Total deferred inflows of resources	604,480	42,081	646,561
NET POSITION			
Net investment in capital assets	8,743,369	9,904,944	18,648,313
Restricted for pension	327,825	110,792	438,617
Unrestricted	1,035,167	2,979,533	4,014,700
Total net position	\$ 10,106,361	\$ 12,995,269	\$ 23,101,630

Town of Elkton, Virginia

Exhibit 2

Statement of Activities
Year Ended June 30, 2024

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Governmental activities							
General government administration	\$ 1,736,234	\$ 14,401	\$ 946,198	\$ -	\$ (775,635)	\$ -	\$ (775,635)
Public safety	864,621	9,870	241,607	-	(613,144)	-	(613,144)
Public works	358,673	249,485	695,672	-	586,484	-	586,484
Cemetery services	46,405	88,766	-	-	42,361	-	42,361
Parks, recreation, and cultural	440,911	-	-	-	(440,911)	-	(440,911)
Community development	262	169,760	-	-	169,498	-	169,498
Interest on long-term debt	37,605	-	-	-	(37,605)	-	(37,605)
Total governmental activities	3,484,711	532,282	1,883,477	-	(1,068,952)	-	(1,068,952)
Business-type activities							
Electric	2,445,376	2,262,620	-	-	-	(182,756)	(182,756)
Water	572,275	636,588	-	-	-	64,313	64,313
Sewer	1,492,901	879,606	-	814,839	-	201,544	201,544
Total business-type activities	4,510,552	3,778,814	-	814,839	-	83,101	83,101
Total primary government	\$ 7,995,263	\$ 4,311,096	\$ 1,883,477	\$ 814,839	(1,068,952)	83,101	(985,851)
General revenues:							
Property taxes					544,737	-	544,737
Other local taxes					2,201,244	-	2,201,244
Gain on sale of property					290,110	-	290,110
Transfers (Note 6)					(40,000)	40,000	-
Total general revenues					2,996,091	40,000	3,036,091
Change in net position					1,927,139	123,101	2,050,240
NET POSITION AT JULY 1, AS RESTATED (NOTE 14)					8,179,222	12,872,168	21,051,390
NET POSITION AT JUNE 30					\$ 10,106,361	\$ 12,995,269	\$ 23,101,630

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



Fund Financial Statements



Town of Elkton, Virginia

Balance Sheet
Governmental Fund
June 30, 2024

ASSETS	<u>General</u>
Cash and cash equivalents (Note 3)	\$ 1,460,983
Receivables, net (Note 4)	
Property taxes	594,605
Meals taxes	111,347
Accounts and other	46,743
Prepays	74,167
Inventories	6,272
Due from other governments (Note 5)	52,611
Cash and cash equivalents – restricted (Note 3)	1,539,538
Investments – restricted (Note 3)	58,565
Total assets	<u><u>\$ 3,944,831</u></u>
LIABILITIES	
Accounts payable	\$ 626,016
Accrued payroll	79,952
Unearned revenue (Note 8)	1,539,538
Total liabilities	<u>2,245,506</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred property taxes (Note 8)	479,961
Unavailable revenue (Note 8)	137,811
Total deferred inflows of resources	<u>617,772</u>
FUND BALANCES	
Nonspendable:	
Prepays	74,167
Inventories	6,272
Committed to:	
Encumbrances	82,000
Assigned to:	
Kings Dominion and Busch Garden tickets	18,049
Recreation center	16,514
HEC holding	180,870
Community Center	43,436
Unassigned	660,245
Total fund balances	<u>1,081,553</u>
Total liabilities, deferred inflows of resources, and fund balances	<u><u>\$ 3,944,831</u></u>

**Reconciliation of the Governmental Fund Balance Sheet
to the Statement of Net Position
June 30, 2024**

Ending fund balance – governmental fund		\$ 1,081,553
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.		
Nondepreciable	\$ 3,334,121	
Depreciable, net	<u>6,521,203</u>	
		9,855,324
Certain revenues are not available in the current period and, therefore, are not reported in the governmental fund.		
		137,811
Financial statement elements related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the fund.		
Deferred outflows of resources related to pension	91,661	
Deferred outflows of resources related to OPEB	15,347	
Deferred inflows of resources related to pension	(116,628)	
Deferred inflows of resources related to OPEB	(7,891)	
Net pension asset	327,825	
Net OPEB liability	<u>(53,154)</u>	
		257,160
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund.		
Compensated absences	(113,532)	
General obligation bonds payable	(775,246)	
Notes payable	<u>(336,709)</u>	
		<u>(1,225,487)</u>
Total net position – governmental activities		<u><u>\$ 10,106,361</u></u>

Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
 Year Ended June 30, 2024

	<u>General</u>
REVENUES	
General property taxes	\$ 538,843
Other local taxes	2,201,244
Permits, privilege fees, and regulatory licenses	4,395
Fines and forfeitures	9,870
Revenues from the use of money and property	10,006
Charges for services	508,011
Intergovernmental:	
Commonwealth	937,279
Federal	946,198
Total revenues	<u>5,155,846</u>
 EXPENDITURES	
Current:	
General government administration	2,667,462
Public safety	1,030,174
Public works	974,266
Parks, recreation, and cultural	397,365
Community development	202
Cemetery services	34,957
Debt service:	
Principal retirement	171,639
Interest and other fiscal charges	37,605
Total expenditures	<u>5,313,670</u>
Deficiency of revenues over expenditures	<u>(157,824)</u>
 OTHER FINANCING SOURCES (USES)	
Sale of property	290,110
Transfers out (Note 6)	(40,000)
Total other financing sources	<u>250,110</u>
Net change in fund balance	92,286
FUND BALANCE – beginning, as restated (Note 14)	<u>989,267</u>
 FUND BALANCE – ending	<u><u>\$ 1,081,553</u></u>

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balance of the Governmental Fund to the Statement of Activities
Year Ended June 30, 2024**

Net change in fund balance – total governmental fund		\$ 92,286
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlays	\$ 1,862,566	
Depreciation expense	(395,497)	
	<hr/>	1,467,069
Governmental funds report employer pension and OPEB contributions as expenditures. However, in the Statement of Activities the cost of pension and OPEB benefits earned net of employee contributions are reported as pension and OPEB expense.		
Change in employer pension contributions	285,622	
Pension expense (income)	(99,333)	
Change in employer OPEB contributions	2,227	
OPEB expense	3,194	
	<hr/>	191,710
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
		5,896
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has an effect on net position.		
Principal repayments	171,639	
	<hr/>	171,639
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.		
Change in compensated absences		(1,461)
Change in net position of governmental activities		<u><u>\$ 1,927,139</u></u>

**Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget to Actual - General Fund
Year Ended June 30, 2024**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
REVENUES				
General property taxes	\$ 650,710	\$ 650,710	\$ 538,843	\$ (111,867)
Other local taxes	1,738,625	1,738,625	2,201,244	462,619
Permits, privilege fees, and regulatory licenses	156,300	156,300	4,395	(151,905)
Fines and forfeitures	14,250	14,250	9,870	(4,380)
Revenues from the use of money and property	225,746	225,746	10,006	(215,740)
Charges for services	533,998	533,998	508,011	(25,987)
Intergovernmental	713,284	713,284	1,883,477	1,170,193
Other	13,300	13,300	-	(13,300)
Total revenues	<u>4,046,213</u>	<u>4,046,213</u>	<u>5,155,846</u>	<u>1,109,633</u>
EXPENDITURES				
Current:				
General government administration	1,399,053	1,399,053	2,667,462	(1,268,409)
Public safety	941,619	941,619	1,030,174	(88,555)
Public works	1,164,046	1,164,046	974,266	189,780
Parks, recreation, and cultural	646,495	646,495	397,365	249,130
Community development	-	-	202	(202)
Cemetery services	45,000	45,000	34,957	10,043
Debt service	218,600	218,600	209,244	9,356
Total expenditures	<u>4,414,813</u>	<u>4,414,813</u>	<u>5,313,670</u>	<u>(898,857)</u>
Deficiency of revenues over expenditures	<u>(368,600)</u>	<u>(368,600)</u>	<u>(157,824)</u>	<u>210,776</u>
OTHER FINANCING SOURCES				
Sale of property	150,000	150,000	290,110	140,110
Transfers out (Note 6)	-	-	(40,000)	(40,000)
Total other financing sources	<u>150,000</u>	<u>150,000</u>	<u>250,110</u>	<u>100,110</u>
Net change in fund balance	<u>\$ (218,600)</u>	<u>\$ (218,600)</u>	<u>\$ 92,286</u>	<u>\$ 310,886</u>

Statement of Net Position -
Proprietary Funds
June 30, 2024

	Enterprise Funds			Total Enterprise Funds
	Electric	Water	Sewer	
ASSETS				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 704,091	\$ 1,307,323	\$ 576,526	\$ 2,587,940
Accounts receivable, net (Note 4)	158,061	38,825	268,326	465,212
Prepays	1,840	2,760	8,616	13,216
Inventories	183,289	59,797	4,963	248,049
Cash and cash equivalents – restricted (Note 3)	98,728	18,601	-	117,329
Total current assets	<u>1,146,009</u>	<u>1,427,306</u>	<u>858,431</u>	<u>3,431,746</u>
Noncurrent assets:				
Capital assets: (Note 7)				
Nondepreciable	-	41,056	184,408	225,464
Depreciable, net	243,631	1,311,231	23,820,938	25,375,800
Net pension asset (Note 10)	32,700	37,281	40,811	110,792
Total noncurrent assets	<u>276,331</u>	<u>1,389,568</u>	<u>24,046,157</u>	<u>25,712,056</u>
Total assets	<u>1,422,340</u>	<u>2,816,874</u>	<u>24,904,588</u>	<u>29,143,802</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension-related deferred outflows (Note 10)	9,143	10,424	11,411	30,978
Other postemployment benefit-related deferred outflows (Note 11)	1,531	1,745	1,911	5,187
Total deferred outflows of resources	<u>10,674</u>	<u>12,169</u>	<u>13,322</u>	<u>36,165</u>
LIABILITIES				
Current liabilities:				
Accounts payable	142,080	10,054	73,529	225,663
Retainage payable	-	-	143,452	143,452
Customer deposits	98,728	18,601	-	117,329
Accrued payroll	4,555	6,376	7,891	18,822
Accrued interest payable	-	3,784	16,462	20,246
Bonds payable and other obligations – current (Note 9)	-	28,308	291,981	320,289
Total current liabilities	<u>245,363</u>	<u>67,123</u>	<u>533,315</u>	<u>845,801</u>
Noncurrent liabilities:				
Compensated absences (Note 9)	17,661	20,424	8,187	46,272
Net other postemployment benefit liability (Note 11)	5,302	6,045	6,618	17,965
Bonds payable and other obligations (Note 9)	-	351,283	14,881,296	15,232,579
Total noncurrent liabilities	<u>22,963</u>	<u>377,752</u>	<u>14,896,101</u>	<u>15,296,816</u>
Total liabilities	<u>268,326</u>	<u>444,875</u>	<u>15,429,416</u>	<u>16,142,617</u>
DEFERRED INFLOWS OF RESOURCES				
Pension-related deferred inflows (Note 10)	11,633	13,263	14,519	39,415
Other postemployment benefit-related deferred inflows (Note 11)	787	897	982	2,666
Total deferred inflows of resources	<u>12,420</u>	<u>14,160</u>	<u>15,501</u>	<u>42,081</u>
NET POSITION				
Net investment in capital assets	243,631	972,696	8,688,617	9,904,944
Restricted for pension	32,700	37,281	40,811	110,792
Unrestricted	875,937	1,360,031	743,565	2,979,533
Total net position	<u>\$ 1,152,268</u>	<u>\$ 2,370,008</u>	<u>\$ 9,472,993</u>	<u>\$ 12,995,269</u>

**Statement of Revenues, Expenses, and Changes in
Fund Net Position - Proprietary Funds
Year Ended June 30, 2024**

	Enterprise Funds			Total Enterprise Funds
	Electric	Water	Sewer	
OPERATING REVENUES				
Charges for services	\$ 2,164,884	\$ 531,488	\$ 774,606	\$ 3,470,978
Connection fees	10,800	96,810	105,000	212,610
Local consumption tax	22,690	-	-	22,690
Reconnect fees	5,885	7,010	-	12,895
Service charges	4,645	1,280	-	5,925
Late charges	53,716	-	-	53,716
Total operating revenues	<u>2,262,620</u>	<u>636,588</u>	<u>879,606</u>	<u>3,778,814</u>
OPERATING EXPENSES				
Salaries and fringe benefits	174,496	265,347	296,647	736,490
Maintenance	5,688	18,707	42,949	67,344
Utilities	-	42,182	-	42,182
Purchased Power	2,137,203	-	-	2,137,203
Materials and Supplies	69,948	108,740	138,378	317,066
Other	15,447	20,827	152,774	189,048
Depreciation	42,594	108,667	569,025	720,286
Total operating expenses	<u>2,445,376</u>	<u>564,470</u>	<u>1,199,773</u>	<u>4,209,619</u>
Operating income (loss)	<u>(182,756)</u>	<u>72,118</u>	<u>(320,167)</u>	<u>(430,805)</u>
NON-OPERATING EXPENSES				
Interest and fiscal charges	-	(7,805)	(293,128)	(300,933)
Total non-operating expenses	<u>-</u>	<u>(7,805)</u>	<u>(293,128)</u>	<u>(300,933)</u>
Income (loss) before capital contributions and transfers	<u>(182,756)</u>	<u>64,313</u>	<u>(613,295)</u>	<u>(731,738)</u>
CAPITAL CONTRIBUTIONS				
Commonwealth grants	-	-	7,436	7,436
Federal grants	-	-	807,403	807,403
Total capital contributions	<u>-</u>	<u>-</u>	<u>814,839</u>	<u>814,839</u>
TRANSFERS IN (NOTE 6)	<u>-</u>	<u>-</u>	<u>40,000</u>	<u>40,000</u>
Change in net position	(182,756)	64,313	241,544	123,101
NET POSITION – beginning, as restated (Note 14)	<u>1,335,024</u>	<u>2,305,695</u>	<u>9,231,449</u>	<u>12,872,168</u>
NET POSITION – ending	<u>\$ 1,152,268</u>	<u>\$ 2,370,008</u>	<u>\$ 9,472,993</u>	<u>\$ 12,995,269</u>

Statement of Cash Flows - Proprietary Funds
Year Ended June 30, 2024

	Enterprise Funds			Total
	Electric	Water	Sewer	Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 2,243,415	\$ 638,035	\$ 717,184	\$ 3,598,634
Cash paid to suppliers	(2,232,748)	(126,592)	(152,851)	(2,512,191)
Cash paid to employees	(188,626)	(292,538)	(320,448)	(801,612)
Other payments	(15,447)	(63,009)	(152,774)	(231,230)
Net cash provided by (used in) operating activities	<u>(193,406)</u>	<u>155,896</u>	<u>91,111</u>	<u>53,601</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers from other the general fund	-	-	40,000	40,000
Proceeds from Commonwealth grants	-	-	7,436	7,436
Proceeds from Federal grants	-	-	856,248	856,248
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>903,684</u>	<u>903,684</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(11,895)	-	(911,960)	(923,855)
Principal paid on capital debt	-	(27,777)	(283,547)	(311,324)
Interest paid on capital debt	-	(7,805)	(381,219)	(389,024)
Net cash used in capital and related financing activities	<u>(11,895)</u>	<u>(35,582)</u>	<u>(1,576,726)</u>	<u>(1,624,203)</u>
Net increase (decrease) in cash and cash equivalents	(205,301)	120,314	(581,931)	(666,918)
CASH AND CASH EQUIVALENTS				
Beginning at July 1	1,008,120	1,205,610	1,158,457	3,372,187
Ending at June 30	<u>\$ 802,819</u>	<u>\$ 1,325,924</u>	<u>\$ 576,526</u>	<u>\$ 2,705,269</u>
CASH IS REPORTED ON EXHIBIT 8 AS				
Cash and cash equivalents	\$ 704,091	\$ 1,307,323	\$ 576,526	\$ 2,587,940
Cash and cash equivalents – restricted	98,728	18,601	-	117,329
	<u>\$ 802,819</u>	<u>\$ 1,325,924</u>	<u>\$ 576,526</u>	<u>\$ 2,705,269</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (182,756)	\$ 72,118	\$ (320,167)	\$ (430,805)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	42,594	108,667	569,025	720,286
Pension expense, net of employer contributions	(20,097)	(20,611)	(28,544)	(69,252)
Other postemployment benefit expense, net of employer contributions	123	(868)	1,673	928
(Increase) decrease in:				
Accounts receivable	(18,913)	(2,553)	(162,422)	(183,888)
Prepays	(168)	(2,760)	(5,397)	(8,325)
Inventories	(6,472)	5,064	15,703	14,295
Increase (decrease) in:				
Accounts payable	(13,269)	(1,449)	18,170	3,452
Accrued payroll and related liabilities	938	2,016	3,475	6,429
Customer deposits	(292)	4,000	-	3,708
Compensated absences and service benefits	4,906	(7,728)	(405)	(3,227)
Total adjustments	<u>(10,650)</u>	<u>83,778</u>	<u>411,278</u>	<u>484,406</u>
Net cash provided by (used in) operating activities	<u>\$ (193,406)</u>	<u>\$ 155,896</u>	<u>\$ 91,111</u>	<u>\$ 53,601</u>

Town of Elkton, Virginia
Notes to Financial Statements
June 30, 2024

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The Town of Elkton, Virginia (the “Town”) was established in 1908. It is a municipality governed by a six-member Town Council and Mayor. Daily operations are conducted by the Town Manager with oversight from the Mayor and Town Council. The Town is part of Rockingham County and has taxing powers subject to statewide restrictions and tax limits.

The Town provides a full range of municipal services including police, public works, general administrative services, community center, recreation, cemetery, electric, water, and sewer services.

Government-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Property taxes, franchise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property

Town of Elkton, Virginia
Notes to Financial Statements
June 30, 2024

taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 45 days after year-end are reflected as unavailable revenues.

Licenses, permits, fines, and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state, and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general-purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when cash is received by the Town.

The governmental fund accounts for the expendable financial resources, other than those accounted for in proprietary funds. The governmental fund uses the modified accrual basis of accounting where the measurement focus is upon determination of financial position and changes in financial position, rather than on net income determination as would apply to a commercial enterprise. The Town reports the following governmental fund:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The General Fund is considered a major fund for financial reporting purposes.

Proprietary funds account for operations that are financed in a manner similar to private business enterprises. The proprietary funds utilize the accrual basis of accounting where the measurement focus is upon determination of net income. Proprietary funds consist of enterprise and internal service funds. The government reports the following proprietary funds:

Enterprise Funds account for operations where the intent of the Town is that the cost of provided services to the Town's businesses, residents, schools, and churches be financed and recovered through user charges. Enterprise funds consist of the *Electric fund*, which accounts for the operation of the Town's electric plant and electric distribution system; the *Water fund*, which accounts for the operation of the Town's water treatment plant and water distribution system; and the *Sewer fund*, which accounts for the operation of the Town's wastewater treatment plant, sewage collection system, and pump stations. All three enterprise funds are considered major funds for financial reporting purposes.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance

Deposits and Investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the Town are reported at fair value.

Receivables and Payables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical collection data and specific account analysis. Major receivable balances for the governmental activities include sales and use taxes, meals taxes, and utility taxes. Governmental funds report receivables that are both earned and available. Business-type activities report utilities and

Town of Elkton, Virginia
Notes to Financial Statements
June 30, 2024

interest earnings as their major receivables. The Town grants credit to the customers of its electric, water, and sewer systems.

Activity between funds that is 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 inter-fund loans) or “advances to/from other funds” (i.e., the noncurrent portion of inter-fund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Property Taxes

Real estate taxes are assessed annually by Rockingham County, Virginia, for all property of record as of January 1st. Property taxes attach as an enforceable lien on property as of January 1st. The Town collects real estate taxes on an annual basis (due in full by February 5th of the following year). The portion of the tax receivable that is not collected within 45 days after year-end is shown as unavailable revenue in the fund financial statements. The tax rate assessed for the year ended June 30th was \$0.11 per \$100 valuation. A penalty of five percent of the tax is assessed after the applicable payment date. Interest is charged to all unpaid accounts at an annual rate of ten percent.

The taxes receivable balance at June 30th, includes amounts not yet billed or received from the January 1st levy. These items are included in unearned revenue since these taxes are intended for use in the following fiscal year.

Allowance for Uncollectible Accounts

The Town calculates its allowance for uncollectible delinquent property tax accounts using historical collection data and specific account analysis. The allowance at June 30, 2024, consisted of the following:

General fund (property taxes, penalties, and interest)	\$	44,353
Electric fund		34,444
Water fund		8,122
Sewer fund		15,096
	\$	<u>102,015</u>

Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories in the proprietary funds and the governmental funds consist of expendable supplies held for consumption and are accounted for under the consumption method. The cost is recorded as an expense at the time the individual inventory items are used.

Prepays

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Town defines capital assets as assets with an initial individual cost of more than \$1,000 and an estimated

Town of Elkton, Virginia
Notes to Financial Statements
June 30, 2024

useful life in excess of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

	<u>Years</u>
Buildings and improvements	15-36
Utility systems	20-50
Infrastructure	25-40
Machinery and equipment	5-20

Compensated Absences

Town employees may accumulate earned but not used vacation and sick pay benefits. The Town pays a benefit for accumulated sick leave upon an employee's separation from service, to the extent the employee meets certain criteria. All vacation and sick pay currently payable is accrued when incurred in the government-wide and proprietary fund financial statements. A liability is reported for compensated absences in the governmental fund only to the extent matured, for example, as a result of employee resignations and retirements.

Unearned Revenues

Unearned revenue represents amounts for which asset recognition criteria have been met but for which revenue recognition criteria have not been met. Unearned revenue consists of unspent federal awards and prepaid taxes.

Long-Term Obligations

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

Pensions and Other Postemployment Benefits (OPEB)

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

Town of Elkton, Virginia
Notes to Financial Statements
June 30, 2024

Deferred Outflows and Inflows of Resources

In addition to assets, the statement, which presents financial position reports a separate section for deferred outflows of resources. These items represent a consumption of net assets that applies to future periods and so will not be recognized as an outflow of resources (expense) until then.

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

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

- Contributions subsequent to the measurement date for pensions and OPEB; these will be applied to the net pension or OPEB liability in the next fiscal year.
- Differences between projected and actual earnings on pension and OPEB plan investments. These differences will be recognized in pension or OPEB expense over the closed five-year period and may be reported as a deferred outflow or inflow as appropriate.
- Changes of assumptions. This difference will be recognized in pension or OPEB expense over the closed five-year period and may be reported as a deferred outflow or inflow as appropriate.
- Changes in proportion and differences between employer contributions and the proportionate share of employer contributions, resulting from participation in cost-sharing OPEB plans, are reported as deferred outflows or inflows as appropriate.
- Property taxes collected in advance of the period for which they were levied. These amounts are recognized as revenue in the period for which they were levied.
- Governmental funds report unavailable revenue from property taxes and other receivables not collected within the availability period. These amounts are recognized as an inflow of resources in the period they become available.
- Differences between expected and actual experience for economic/demographic factors and changes of assumptions in the measurement of the total pension or OPEB liability. This difference will be recognized in pension or OPEB expense over the expected average remaining service life of all employees provided with benefits in the Plan and may be reported as a deferred inflow or outflow as appropriate.

Fund Balances

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

The classifications are as follows:

- **Nonspendable** – Amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.
- **Restricted** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed** – Amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the Town Council through adoption of a resolution. Only Town Council may modify or rescind the commitment.
- **Assigned** – Amounts are constrained by intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by Town management based on Town Council direction through adoption or amendment of the budget or through ordinance or resolution.

Town of Elkton, Virginia
Notes to Financial Statements
June 30, 2024

- **Unassigned** – Amounts that are available for any purpose; positive amounts are reported only in the general fund.

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

Net Position

Net position is the difference between assets, deferred outflows of resources, 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. Net position is presented as restricted when external requirements place restrictions on the use of resources or when a net pension or OPEB asset exists.

Use of Estimates

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

Note 2 – Stewardship, Compliance, and Accountability

Budgetary Information

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

1. Prior to June 30th, the Town Manager submits to Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1st. This budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an appropriations ordinance. Town Council may, from time to time, amend the budget, providing for additional expenditures and the means for financing them.
4. The appropriations ordinance places legal restrictions on expenditures at the function level. The appropriation for each function can be revised only by Town Council.
5. Formal budgetary integration is employed as a management control device during the year.
6. Budgets are adopted on a basis consistent with GAAP.
7. Appropriations lapse on June 30th for all Town funds.
8. All budget data presented in the accompanying financial statements includes the original and revised budgets as of June 30th.

The Town spent funds in excess of budgeted amounts in three functional area as illustrated in Exhibit 7.

Town of Elkton, Virginia
Notes to Financial Statements
June 30, 2024

Note 3 – Deposits and Investments

Deposits

As of June 30, the Town’s deposits consisted of the following:

Type	Fair Value	S & P Credit Rating
Investments reported at amortized cost:		
SNAP	\$ 58,565	AAAm
Total investments	58,565	
Cash and cash equivalents	5,705,790	
Total deposits and investments	<u>\$ 5,764,355</u>	

The items above are reflected in the financial statements as follows:

	Primary Government
Statement of net position:	
Cash and cash equivalents	\$ 4,048,923
Cash and cash equivalents - restricted	1,656,867
Investments - restricted	58,565
	<u>\$ 5,764,355</u>

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. For the purposes of this disclosure, deposits include cash and cash equivalents, as well as nonnegotiable certificates of deposit with original maturities of more than three months.

Investments

SNAP is not registered with the SEC but is overseen by the Treasurer of Virginia and the State Treasury Board. The value of the Town’s position in the pools is the same as the value of the pool shares and is stated at amortized cost in accordance with GASB Statement No. 79, which approximates fair value.

The Town’s investments are subject to credit risk, concentration of credit risk, and interest rate risk as described below. The Town’s investments are not subject to custodial risk or foreign currency risk.

Credit Risk – Statutes authorize the Town to invest in obligations of the United States of America 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, bankers acceptances, repurchase agreements, mutual funds, the State Treasurer’s Local Government Investment Pool (LGIP), and the State Non-Arbitrage Program (SNAP).

Town of Elkton, Virginia
Notes to Financial Statements
June 30, 2024

Interest Rate Risk – The primary goal of the investment policy is to maximize return on investment while minimizing risk to the investment. The Town will diversify the use of investment instruments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities. The Town may reject an investment with a higher yield when it is felt it carries an element of risk.

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

Restricted cash and investments

Restricted cash consists of the following:

Unspent Federal funding	\$ 1,539,538
Customer deposit	117,329
	\$ 1,656,867

Restricted investments consist of the following:

Unspent bond proceeds restricted for capital projects	\$ 58,565
	\$ 58,565

Note 4 – Receivables

Receivables as of June 30, 2024, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Activities	Business-Type Activities	Total
Receivables:			
Property taxes	\$ 633,125	\$ -	\$ 633,125
Meals taxes	111,347	-	111,347
Other	52,576	522,874	575,450
Gross receivables	797,048	522,874	1,319,922
Less: allowance for uncollectible	(44,353)	(57,662)	(102,015)
Net total receivables	\$ 752,695	\$ 465,212	\$ 1,217,907

Note 5 – Due from Other Governmental Units and Businesses

Due from other governmental units and businesses consists of the following:

General Fund:

Commonwealth of Virginia:

Local sales and use taxes	\$ 43,120
Communications tax	5,406
Railroad Rolling stock	4,085
	\$ 52,611

Town of Elkton, Virginia
Notes to Financial Statements
June 30, 2024

Note 6 – Interfund Receivables, Payables, and Transfers

Interfund receivables and payables are generally used by the Town to cover temporary cash deficits in individual funds until grants or similar resources are received.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs, or (3) close the residual balances of certain funds into other funds. For fiscal year 2024, there was a \$40,000 transfer between the general fund and sewer fund.

There was no outstanding interfund activity as of June 30, 2024.

Note 7 – Capital Assets

A summary of the changes in the Town’s capital assets for *governmental activities* is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 1,787,444	\$ -	\$ -	\$ 1,787,444
Construction in progress	77,350	1,509,327	40,000	1,546,677
Total capital assets not being depreciated	<u>1,864,794</u>	<u>1,509,327</u>	<u>40,000</u>	<u>3,334,121</u>
Capital assets being depreciated:				
Buildings and improvements	4,510,572	27,350	-	4,537,922
Machinery and equipment	1,510,338	272,149	-	1,782,487
Infrastructure	3,508,035	93,740	-	3,601,775
Total capital assets being depreciated	<u>9,528,945</u>	<u>393,239</u>	<u>-</u>	<u>9,922,184</u>
Less: accumulated depreciation for:				
Buildings and improvements	1,267,185	109,046	-	1,376,231
Machinery and equipment	846,239	183,578	-	1,029,817
Infrastructure	892,060	102,873	-	994,933
Total accumulated depreciation	<u>3,005,484</u>	<u>395,497</u>	<u>-</u>	<u>3,400,981</u>
Total capital assets being depreciated, net	<u>6,523,461</u>	<u>(2,258)</u>	<u>-</u>	<u>6,521,203</u>
Governmental activities capital assets, net	<u>\$ 8,388,255</u>	<u>\$ 1,507,069</u>	<u>\$ 40,000</u>	<u>\$ 9,855,324</u>

Depreciation expense was charged to functions/programs of the Town’s *governmental activities* as follows:

General government administration	\$ 75,998
Parks, recreation, and cultural	83,041
Public safety	92,932
Public works	132,078
Cemetery services	11,448
Total depreciation expense – governmental activities	<u>\$ 395,497</u>

Increases include depreciation expense and transfers in from other funds.

Town of Elkton, Virginia
Notes to Financial Statements
June 30, 2024

A summary of the changes in the Town's capital assets for *business-type activities* is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 41,056	\$ -	\$ -	\$ 41,056
Construction in progress	18,413,732	301,015	18,530,339	184,408
Total capital assets not being depreciated	<u>18,454,788</u>	<u>301,015</u>	<u>18,530,339</u>	<u>225,464</u>
Capital assets being depreciated:				
Utility system	12,860,551	18,530,339	-	31,390,890
Machinery and equipment	735,741	63,888	-	799,629
Total capital assets being depreciated	<u>13,596,292</u>	<u>18,594,227</u>	<u>-</u>	<u>32,190,519</u>
Less: accumulated depreciation for:				
Utility system	5,723,532	637,405	-	6,360,937
Machinery and equipment	370,901	82,881	-	453,782
Total accumulated depreciation	<u>6,094,433</u>	<u>720,286</u>	<u>-</u>	<u>6,814,719</u>
Total capital assets being depreciated, net	<u>7,501,859</u>	<u>17,873,941</u>	<u>-</u>	<u>25,375,800</u>
Business-type activities capital assets, net	<u>\$ 25,956,647</u>	<u>\$ 18,174,956</u>	<u>\$ 18,530,339</u>	<u>\$ 25,601,264</u>

Depreciation expense was charged to functions/programs of the Town's *business-type activities* as follows:

Electric	\$ 42,594
Water	108,667
Sewer	569,025
Total depreciation expense – business-type activities	<u>\$ 720,286</u>

Increases include depreciation expense.

Construction Commitments

The Town has active construction projects. At year-end, the Town's commitments with contractors on the projects are as follows:

	Total Contracts	Total Payments	Future Amounts to be Expended
Governmental Activities			
Water Storage System Improvements	\$ 165,000	\$ 82,500	\$ 82,500
Downtown Marketplace	1,143,152	595,495	547,657
Total governmental activities	<u>\$ 1,308,152</u>	<u>\$ 677,995</u>	<u>\$ 630,157</u>
Sewer Fund			
Waste Water Treatment Plant	17,018,730	13,996,687	3,022,043
Engineering for sewer projects	1,749,000	1,685,638	63,362
Total sewer fund	<u>\$ 18,767,730</u>	<u>\$ 15,682,325</u>	<u>\$ 3,085,405</u>

Town of Elkton, Virginia
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Note 8 – Unavailable and Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables that are not considered to be available to liquidate liabilities in the current period. Governmental funds also include unearned revenue amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. At year-end, the various components of unavailable/unearned revenue reported in the financial statements were as follows:

	Governmental Activities	General Fund
Unavailable revenue		
Delinquent property taxes	\$ -	\$ 113,645
Sales tax	-	24,166
Total unavailable revenue	<u>\$ -</u>	<u>\$ 137,811</u>
Unearned revenue		
Property taxes not yet due	\$ 479,961	\$ 479,961
American Rescue Plan Act federal funding	1,539,538	1,539,538
	<u>\$ 2,019,499</u>	<u>\$ 2,019,499</u>

Note 9 – Long-Term Liabilities

The following is a summary of changes in the long-term liabilities of the Town for the year ended June 30:

	Beginning Balances	Additions	Reductions	Ending Balances	Due Within One Year
Governmental Activities					
General obligation bonds	\$ 835,407	\$ -	\$ 60,161	\$ 775,246	\$ 61,610
Notes payable	448,187	-	111,478	336,709	118,584
Compensated absences	112,071	1,461	-	113,532	-
	<u>\$ 1,395,665</u>	<u>\$ 1,461</u>	<u>\$ 171,639</u>	<u>\$ 1,225,487</u>	<u>\$ 180,194</u>
Business-Type Activities					
General obligation bonds	\$ 407,368	\$ -	\$ 27,777	\$ 379,591	\$ 28,308
Revenue bonds	15,456,824	-	283,547	15,173,277	291,981
Compensated absences	49,499	-	3,227	46,272	-
	<u>\$ 15,913,691</u>	<u>\$ -</u>	<u>\$ 314,551</u>	<u>\$ 15,599,140</u>	<u>\$ 320,289</u>

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Details of long-term indebtedness

	Governmental Activities	Business-Type Activities
General obligation bonds:		
\$955,233 General Obligation Bond, Series 2020, issued June 10, 2020, to Truist Bank, maturing annually beginning June 10, 2021 through June 10, 2035, interest payable semi-annually at rates of 2.62%. Purpose: Improvements to Town Hall.	\$ 775,246	\$ -
\$463,348 General Obligation Refunding Bond, Series 2020B, issued October 21, 2020, to Pioneer Bank, maturing annually beginning August 1, 2006 through August 1, 2035, interest payable semi-annually at rates of 1.96%. Purpose: Refund bonds issued to fund extension of water and sewer lines.	-	379,591
Total general obligation bonds	\$ 775,246	\$ 379,591
Revenue bonds:		
Up to \$5,725,000 General Obligation Sewer Revenue Bond, Series 2020, issued January 6, 2020, to Rural Utilities Service, an agency of the United States Department of Agriculture, maturing monthly beginning February 6, 2022 through September 6, 2059, interest payable monthly at rates of 2.25%. Purpose: Refund existing debt for wastewater projects, fund new wastewater projects.	\$ -	\$ 5,459,084
Up to \$9,900,000 General Obligation Sewer Revenue Bond, Series 2021, issued October 12, 2021, to Rural Utilities Service, an agency of the United States Department of Agriculture, maturing monthly beginning November 12, 2023 through September 12, 2061, interest payable monthly at rates of 1.75%. Purpose: Refund existing debt for wastewater projects, fund new wastewater projects.	-	9,714,193
Total revenue bonds	\$ -	\$ 15,173,277
Note payable:		
\$1,700,000 loan issued January 11, 2006, to Farmers and Merchants Tank, maturing quarterly beginning June 1, 2007 through March 1, 2027, interest payable quarterly at rates of 4.50%. Purpose: Construction and remodeling of Community Center.	\$ 336,709	\$ -
Total notes payable	\$ 336,709	\$ -

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

Year Ending June 30,	Governmental Activities			
	Bonds		Notes Payable	
	Principal	Interest	Principal	Interest
2025	\$ 61,610	\$ 19,571	\$ 118,584	\$ 13,333
2026	63,244	17,938	123,195	8,301
2027	64,921	16,261	94,930	2,229
2028	66,643	14,539	-	-
2029	68,410	12,772	-	-
2030-2034	370,140	35,768	-	-
2035-2037	80,278	902	-	-
	\$ 775,246	\$ 117,751	\$ 336,709	\$ 23,863

Year Ending June 30,	Business-Type Activities			
	Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2025	\$ 28,308	\$ 7,273	\$ 291,981	\$ 290,259
2026	28,891	6,613	297,656	284,584
2027	29,466	6,115	303,442	278,798
2028	30,051	5,530	309,344	272,896
2029	30,634	4,927	315,362	266,878
2030-2034	162,614	15,134	1,671,314	1,239,886
2035-2039	69,627	1,392	1,840,642	1,070,558
2040-2044	-	-	2,027,418	883,782
2045-2049	-	-	2,233,471	677,729
2050-2054	-	-	2,460,825	450,375
2055-2059	-	-	2,711,721	199,479
2060-2062	-	-	710,101	11,669
	\$ 379,591	\$ 46,984	\$ 15,173,277	\$ 5,926,893

Subsequent to year end, on October 21, 2024, the Town issued two general obligation revenue bonds in the amount of \$4 million and \$1 million through the Virginia Resources Authority (VRA). The proceeds will be used for water and distribution upgrades.

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Note 10 – Defined Benefit Pension Plan

Plan Description

All full-time, salaried permanent employees of the Town of Elkton, (the “Political Subdivision”) are automatically covered by the VRS Retirement Plan upon employment. This multi-employer agent plan is administered by the Virginia Retirement System (the “System”) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to the 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 different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are available at:

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

Employees Covered by Benefit Terms

As of the June 30, 2022, actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Members
Inactive members or their beneficiaries currently receiving benefits	44
Inactive members:	
Vested inactive members	14
Non-vested inactive members	14
Inactive members active elsewhere in the VRS	29
Total inactive members	101
Active members	31
Total covered employees	132

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement.

The political subdivision’s contractually required contribution rate for the year ended June 30, 2024, was 8.50% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021.

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This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by the employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$122,639 and \$108,648 as per Schedule of Employer Pension Contributions for the years ended June 30, 2024 and June 30, 2023, respectively.

Net Pension Liability (Asset)

The net pension liability (asset) is calculated separately for each employer and represents that particular employer’s total pension liability determined in accordance with GASB Statement No. 68, less than employer’s fiduciary net position. For political subdivisions, the net pension liability (asset) was measured as of June 30, 2023. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation performed as of June 30, 2022, rolled forward to the measurement date of June 30, 2023.

Actuarial Assumptions

The total pension liability for General Employees and Public Safety employees with Hazardous Duty Benefits in the Political Subdivision’s Retirement Plan was based on an actuarial valuation as of June 30, 2022, 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, 2023.

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

Mortality rates: General employees – 15 to 20% of deaths are assumed to be service-related. Public Safety Employees – 45% to 70% of deaths are assumed to be service-related. Mortality is projected using the applicable Pub-2010 Mortality Table with various setbacks or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2022, valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2021. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees – Largest 10 – Non-Hazardous Duty and All Others (Non 10 Largest): Update mortality table; adjusted retirement rates to better-fit experience; adjusted withdrawal rates to better-fit experience at each year age and service through 9 years of service; no change to disability rates, no change to salary scale, no change to line of duty disability, and no change to discount rate.

Public Safety Employees – Largest 10 – Hazardous Duty and All Others (Non 10 Largest): Updated mortality table; adjusted retirement rate to better-fit experience and increased final retirement age to 70; decreased rates of withdrawal; no change to disability rates; no changes to salary scale; no change to line of duty disability; and no change to discount rate.

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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 weighing 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
Public equity	34.00%	6.14%	2.09%
Fixed income	15.00	2.56	0.38
Credit strategies	14.00	5.60	0.78
Real assets	14.00	5.02	0.70
Private equity	16.00	9.17	1.47
MAPS – Multi-Asset Public Strategies	4.00	4.50	0.18
PIP – Private Investment Partnership	2.00	7.18	0.14
Cash	1.00	1.20	0.01
Total	100.00%		5.75%
			Inflation
			2.50%
			*Expected arithmetic nominal return
			8.25%

* The above allocation provides for a one-year return of 8.25%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the System, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.14%, including expected inflation of 2.50%. On June 15, 2023, the VRS Board elected a long-term rate of 6.75% which is roughly at the 45th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions, political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2024, the alternate rate was the employer contribution rate used in the fiscal year 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2022, actuarial valuations, whichever was greater.

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From July 1, 2023 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension (Asset) Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a) – (b)
Balance at June 30, 2022	\$ 4,364,385	\$ 4,674,984	\$ (310,599)
Changes for the year:			
Service cost	217,941	-	217,941
Interest	301,855	-	301,855
Differences between expected and actual experience	(175,377)	-	(175,377)
Contributions – employer	-	108,642	(108,642)
Contributions – employee	-	64,481	(64,481)
Net investment income	-	302,169	(302,169)
Benefit payments, including refunds of employee contributions	(220,797)	(220,797)	-
Administrative expenses	-	(2,977)	2,977
Other changes	-	122	(122)
Net changes	123,622	251,640	(128,018)
Balances at June 30, 2023	<u>\$ 4,488,007</u>	<u>\$ 4,926,624</u>	<u>\$ (438,617)</u>

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

The following presents the net pension liability of the Political Subdivision using the discount rate of 6.75%, as well as what the Political Subdivision’s net pension liability would be if it was calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Political subdivision’s net pension (asset) liability	<u>\$ 193,884</u>	<u>\$ (438,617)</u>	<u>\$ (955,048)</u>

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

For the year ended June 30, 2024, the Political Subdivision recognized pension expense (income) of (\$132,909). At June 30, 2024, the Political Subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 84,508
Net difference between projected and actual earnings on pension plan investments	-	71,535
Employer contributions subsequent to the measurement date	122,639	-
Total	\$ 122,639	\$ 156,043

The \$122,639 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision’s contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the Fiscal Year ending June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Effect on Pension Income
2025	\$ (136,863)
2026	(88,585)
2027	67,066
2028	2,339
2029	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2023 Annual Report. A copy of the 2023 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2023-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

At June 30, 2024, approximately \$10,600 was payable to the Virginia Retirement System for the legally required contributions related to June 2024 payroll.

Note 11 – Other Postemployment Benefits Liability – Virginia Retirement System Plan

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

Plan Description – Group Life Insurance Program

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

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

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

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

Contributions

Contributions to the VRS OPEB programs were based on actuarially determined rates from actuarial valuations as of June 30, 2021. The actuarially determined rates were expected to finance the cost of benefits earned by employees during the year, with an additional amount to fund any unfunded accrued liability. Specific details related to the contributions for the VRS OPEB programs are as follows:

Group Life Insurance Program

Governed by:	Code of Virginia 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.
Total rate:	1.34% of covered employee compensation. Rate allocated 60/40; 0.80% employee and 0.54% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2024, contribution	\$ 8,767
June 30, 2023, contribution	\$ 7,546

In June 2023, the Commonwealth made a special contribution of approximately \$10.1 million to the Group Life Insurance plan. This special payment was authorized by Chapter 2 of the Acts of Assembly of 2022, Special Session I, as amended by Chapter 769, 2023 Acts of Assembly Reconvened Session. Our proportionate share is reflected in Note 10 of our financial statements.

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

The net OPEB liabilities were measured as of June 30, 2023, and the total OPEB liabilities used to calculate the net OPEB liabilities was determined by an actuarial valuation performed as of June 30, 2021, and rolled forward to the measurement date of June 30, 2023. The covered employer's proportion of the net OPEB liabilities, were based on the covered employer's actuarially determined employer contributions for the year ended June 30, 2023, relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program

June 30, 2024 proportionate share of liability	\$ 71,119
June 30, 2023 proportion	0.00593%

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June 30, 2022, proportion	0.00598%
June 30, 2024, expense	\$ 4,876

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

At June 30, 2024, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 7,103	\$ 2,159
Changes in assumptions	1,520	4,927
Net difference between projected and actual earnings on OPEB plan investments	-	2,858
Changes in proportion	3,144	613
Employer contributions subsequent to the measurement date	8,767	-
Total	\$ 20,534	\$ 10,557

The deferred outflows of resources related to OPEB resulting from the Town’s contributions subsequent to the measurement date will be recognized as a reduction of the Net OPEB Liability in the Fiscal Year ending June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in future reporting periods as follows:

Group Life Insurance Program

Year Ending June 30,	Increase (Reduction) To OPEB Expense
2025	\$ 684
2026	(2,310)
2027	1,753
2028	481
2029	602

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2022, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2023:

Inflation	2.50%
Salary increases, including inflation:	
• Locality – general employees	3.50 – 5.35%
• Locality – hazardous duty employees	3.50 – 4.75%
Healthcare cost trend rates:	
• Under age 65	7.00 – 4.75%
• Ages 65 and older	5.25 – 4.75%
Investment rate of return, net of expenses, including inflation	6.75%

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Mortality rates used for the various VRS OPEB plans are the same as those used for the actuarial valuations of the VRS pension plans. The mortality rates are discussed in detail at Note 10.

Net OPEB Liabilities

The net OPEB liabilities represent each program’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2023, net OPEB liability amounts for the various VRS OPEB programs are as follows (amounts expressed in thousands):

Total OPEB liability	\$ 3,907,052
Plan fiduciary net position	2,707,739
Employers’ net OPEB liability (asset)	1,199,313
Plan fiduciary net position as a percentage of total OPEB liability	69.30%

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

Long-Term Expected Rate of Return

The long-term expected rate of return on VRS investments was determined in a manner similar to that of the VRS pension described in Note 10.

Discount Rate

The discount rate used to measure the GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ended June 30, 2023, the rate contributed by the employer for the OPEB liabilities will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 113% of the actuarially determined contribution rate for GLI. From July 1, 2023 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the OPEB plans’ fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

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

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
GLI Net OPEB liability	\$ 105,421	\$ 71,119	\$ 43,386

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OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2022 *Annual Comprehensive Financial Report* (Annual Report). A copy of the 2023 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2023-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the OPEB Plan

At June 30, 2024, approximately \$760 was payable to the Virginia Retirement System for the legally required contributions related to June 2024 payroll.

Note 12 – Risk Management

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

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

Note 13 – Commitments

The Town is subject to a consent order dated May 17, 2018, and amended July 14, 2020, from the State Water Control Board through the Virginia Department of Environmental Quality to increase the wastewater treatment plant size to meet authorized capacity. The current wastewater treatment plant construction project is related to this order. The Town is required to complete construction by specified dates and submit quarterly reports to the Virginia Department of Environmental Quality until the consent order is lifted.

Note 14 – Prior Period Restatement

During 2024, it was discovered that cemetery revenue that had been recorded in FY24 was related to FY23. This resulted in a restatement of the FY23 fund balance and net position as follows:

	General Fund	Governmental Activities
Net position/fund balance, June 30, 2023, as previously reported	\$ 963,167	\$ 8,153,122
Cemetery revenue correction	26,100	26,100
Net position/fund balance, June 30, 2023, as restated	\$ 989,267	\$ 8,179,222

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Also during 2024, state grant revenue was missed during FY23 and there was retainage that had been paid in FY23 but not reflected in the proper year. These impacts are summarized below.

	Sewer Fund	Business-Type Activities
Net position, June 30, 2023, as previously reported	\$ 9,096,104	\$ 12,736,823
State grant revenue	48,845	48,845
Retainage payable	86,500	86,500
Net position, June 30, 2023, as restated	\$ 9,231,449	\$ 12,872,168

Note 15 – New Accounting Standards

In June 2022, the GASB issued **Statement No. 101**, *Compensated Absences*. This statement updates the recognition and measurement guidance for compensated absences and amends certain previously required disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023.

In December 2023, the GASB issued **Statement No. 102**, *Certain Risk Disclosures*. This statement defines and requires governments to disclose the risks related to concentrations of inflows or outflows of resources. The requirements of this Statement are effective for reporting periods beginning after June 15, 2024.

In April 2024, the GASB issued **Statement No. 103**, *Financial Reporting Model Improvements*. This statement improves key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision-making and assessing a government’s accountability, as well as addresses certain application issues. The requirements of this Statement are effective for reporting periods beginning after June 15, 2025.

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

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Required Supplementary Information

Required Supplementary Information
Schedule of Changes in Net Pension (Asset) Liability and Related Ratios
June 30, 2024

	Plan Year Ended June 30,									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability										
Service cost	\$ 217,941	\$ 132,228	\$ 137,536	\$ 127,583	\$ 103,413	\$ 95,720	\$ 88,259	\$ 97,188	\$ 108,145	\$ 109,336
Interest on total pension liability	301,855	304,170	282,404	258,848	266,258	245,802	237,845	237,927	228,434	218,067
Benefit payments, including refunds of employee contributions	(220,797)	(229,762)	(226,670)	(225,962)	(229,194)	(212,108)	(265,218)	(196,988)	(173,244)	(185,356)
Difference between expected and actual experience	(175,377)	(331,133)	(165,489)	188,867	(226,508)	171,358	36,794	(105,191)	(15,846)	-
Changes of assumptions	-	-	163,997	-	115,515	-	(10,557)	-	-	-
Net change in total pension liability (asset)	123,622	(124,497)	191,778	349,336	29,484	300,772	87,123	32,936	147,489	142,047
Total pension liability – beginning	4,364,385	4,488,882	4,297,104	3,947,768	3,918,284	3,617,512	3,530,389	3,497,453	3,349,964	3,207,917
Total pension liability – ending	4,488,007	4,364,385	4,488,882	4,297,104	3,947,768	3,918,284	3,617,512	3,530,389	3,497,453	3,349,964
Plan Fiduciary Net Position										
Contributions – employer	108,642	109,955	96,152	103,910	101,045	71,283	61,288	91,060	90,892	86,194
Contributions – employee	64,481	63,053	54,822	54,164	52,297	54,056	46,551	47,158	47,356	46,507
Net investment income (loss)	302,169	(5,693)	1,031,256	71,993	239,240	253,997	384,130	55,445	142,424	429,954
Benefit payments, including refunds of employee contributions	(220,797)	(229,762)	(226,670)	(225,962)	(229,194)	(212,108)	(265,218)	(196,988)	(173,244)	(185,356)
Administrative expenses	(2,977)	(2,931)	(2,569)	(2,455)	(2,384)	(2,219)	(2,318)	(2,023)	(1,953)	(2,344)
Other changes	122	110	97	(85)	(151)	(225)	(338)	(24)	(31)	22
Net change in plan fiduciary net position	251,640	(65,268)	953,088	1,565	160,853	164,784	224,095	(5,372)	105,444	374,977
Plan fiduciary net position – beginning	4,674,984	4,740,252	3,787,164	3,785,599	3,624,746	3,459,962	3,235,867	3,241,239	3,135,795	2,760,818
Plan fiduciary net position – ending	4,926,624	4,674,984	4,740,252	3,787,164	3,785,599	3,624,746	3,459,962	3,235,867	3,241,239	3,135,795
Net pension (asset) liability – ending	\$ (438,617)	\$ (310,599)	\$ (251,370)	\$ 509,940	\$ 162,169	\$ 293,538	\$ 157,550	\$ 294,522	\$ 256,214	\$ 214,169
Plan fiduciary net position as a percentage of total pension liability	110%	107%	106%	88%	96%	93%	96%	92%	93%	94%
Covered employee payroll	\$ 1,397,481	\$ 1,301,124	\$ 1,283,835	\$ 1,268,730	\$ 1,299,127	\$ 1,159,329	\$ 1,108,821	\$ 1,063,401	\$ 1,041,178	\$ 935,652
Net pension (asset) liability as a percentage of covered employee payroll	-31%	-24%	-20%	40%	12%	25%	14%	28%	25%	23%

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

Town of Elkton, Virginia

Required Supplementary Information Schedule of Employer Pension Contributions

June 30, 2024

Town Fiscal Year Ended June 30,	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a percentage of Covered Payroll
2024	\$ 122,639	\$ 122,639	\$ -	\$ 1,623,600	7.55 %
2023	108,648	108,648	-	1,397,481	7.77
2022	113,978	113,978	-	1,301,124	8.76
2021	101,008	101,008	-	1,283,835	7.87
2020	111,902	111,902	-	1,268,730	8.82
2019	114,583	114,583	-	1,299,127	8.82
2018	85,660	85,660	-	1,159,329	7.39
2017	64,347	64,347	-	1,108,821	5.80
2016	92,575	92,575	-	1,063,401	8.71
2015	90,416	90,416	-	1,041,178	8.68

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

Required Supplementary Information
Schedule of Employer's Share of Net OPEB Liability
June 30, 2024

<u>Plan Year Ended June 30,</u>	<u>Employer's Proportion of the Net OPEB Liability (Asset)</u>	<u>Employer's Proportionate Share of the Net OPEB Liability (Asset)</u>	<u>Employer's Covered Payroll</u>	<u>Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability</u>
Virginia Retirement System – Group Life Insurance – General Employees					
2023	0.00593 %	\$ 71,119	\$ 1,397,481	5.09 %	67.21 %
2022	0.00598	72,005	1,301,124	5.53	67.21
2021	0.00579	67,411	1,283,835	5.25	67.45
2020	0.00570	95,123	1,268,730	7.50	52.64
2019	0.00571	92,917	1,299,127	7.15	52.00
2018	0.00563	85,000	1,159,329	7.33	51.22
2017	0.00521	78,000	1,108,821	7.03	48.86

Schedules are intended to show information for 10 years. Since 2017 was the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

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

Town of Elkton, Virginia

Schedule of OPEB Contributions

June 30, 2024

Entity Fiscal Year Ended June 30,	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
Virginia Retirement System – Group Life Insurance – General Employees					
2024	\$ 8,767	\$ 8,767	\$ -	\$ 1,623,600	0.54 %
2023	7,546	7,546	-	1,397,481	0.54
2022	7,026	7,026	-	1,301,124	0.54
2021	6,446	6,446	-	1,283,835	0.50
2020	6,229	6,229	-	1,268,730	0.49
2019	6,271	6,271	-	1,299,127	0.48
2018	6,138	6,138	-	1,159,329	0.53

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

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

Town of Elkton, Virginia
Notes to Required Supplementary Information
June 30, 2024

Note 1 – Changes of Benefit Terms

Pension

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

Other Postemployment Benefits (OPEB)

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

Note 2 – Changes of Assumptions

The actuarial assumptions used in the June 30, 2022, valuation were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2021. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest 10 – Non-Hazardous Duty:

- Update mortality table to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020.
- Adjusted retirement rates to better-fit experience for Plan 1; set separate rates based on experience for Plan2/Hybrid; changed final retirement age from 75 to 80 for all.
- Adjusted withdrawal rates to better-fit experience at each age and service through 9 years of service.
- No change to disability rates.
- No change to salary scale.
- No change to line of duty rates.
- No change to discount rate.

Largest 10 – Hazardous Duty/Public Safety Employees:

- Update mortality table to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Improvement Mortality Scale MP-2020.
- Adjusted retirement rates to better-fit experience and changed final retirement age from 65 to 70.
- Decreased withdrawal rates.
- No change to disability rates.
- No change to salary scale.
- No change to line of duty rates.
- No change to discount rate.

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

- Update mortality table to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Improvement Mortality Scale MP-2020.
- Adjusted retirement rates to better-fit experience for Plan 1; set separate rates based on experience for Plan2/Hybrid; changed final retirement age from 75 to 80 for all.
- Adjusted withdrawal rates to better-fit experience at each year and service through 9 years of service.

Town of Elkton, Virginia

Notes to Required Supplementary Information

June 30, 2024

- No change to disability rates.
- No changes to salary scale.
- No change to line of duty rates.
- No change to discount rate.

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

- Update mortality table to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Improvement Mortality Scale MP-2020.
- Adjusted retirement rates to better-fit experience and changed final retirement age from 65 to 70.
- Decreased withdrawal rates and changed from rates based on age and service to rates based on service only to better-fit experience and to be more consistent with Locals Largest 10 Hazardous Duty.
- No change to disability rates.
- No change to salary scale.
- No change to line of duty rates.
- No change to discount rate.



Compliance Section



Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Elkton, Virginia (the “Town”), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements, and have issued our report thereon dated March 13, 2025.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. **We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as Items 2024-001 through 2024-003, that we consider to be material weaknesses.**



Report on Compliance and Other Matters

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

Town’s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Town’s responses to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The Town’s responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not 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 Town’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
March 13, 2025



Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

Opinion on Compliance for Each Major Federal Program

We have audited the Town of Elkton, Virginia’s (the “Town”) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the Town’s major federal program for the year ended June 30, 2024. The Town’s major federal program is identified in the summary of auditor’s results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the Town of Elkton, Virginia, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2024.


Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance 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; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Town of Elkton, Virginia and to meet our other ethical responsibilities, in accordance with relevant ethical requirements related to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal documentation of the Town of Elkton, Virginia’s compliance with compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of



laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Town of Elkton, Virginia's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Town's compliance based on our audit. Reasonable assurance is a high level of assurance, but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Town's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Town's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Town of Elkton, Virginia's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Town of Elkton, Virginia's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items **2024-004 through 2024-006**. Our opinion on the major federal program is not modified with respect to these matters.

Government Auditing Standards require the auditor to perform limited procedures on the Town's response to the noncompliance findings identified in our audit as described in the accompanying Schedule

of Findings and Questioned Costs. The Town's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. **Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.**

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
March 13, 2025

Town of Elkton, Virginia
Summary of Compliance Matters
June 30, 2024

As more fully described in the Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the Town’s compliance with certain provisions of laws, regulations, contracts, and grants shown below:

Federal Compliance Matters

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal programs selected for testing.

Local Compliance Matters

Town Charter

Town of Elkton, Virginia
Schedule of Findings and Questioned Costs
 June 30, 2024

A – Summary of Auditor’s Results

1. The auditor’s report expresses an **unmodified opinion** on the financial statements.
2. **Three material weaknesses and no significant deficiencies** relating to the audit of the financial statements was reported in the Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. **No instances of noncompliance** material to the financial statements disclosed during the audit.
4. **No significant deficiencies or material weaknesses** relating to the audit of the major federal award programs were reported in the Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance required by the Uniform Guidance.
5. The auditor’s report on compliance for the major federal award programs expresses an **unmodified opinion**.
6. The audit disclosed **three audit findings** relating to major programs.
7. The program tested as major programs was:

Name of Program	Assistance Listing Number
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027

8. The **threshold for** distinguishing Type A and B programs was **\$750,000**.
9. The Town of Elkton was **not** determined to be a **low-risk auditee**.

B – Findings – Financial Statement Audit

2024-001: Material Audit Adjustments (Material Weakness)

Condition

During the audit, we detected material misstatements in the trial balance. Generally accepted auditing standards dictate that detection of errors in an audit is a strong indicator of a significant deficiency or material weakness. Accordingly, we are required to communicate this finding as such.

Criteria

The financial statements must be presented fairly, in all material respects.

Cause

The Town does not have a formal process for annual and monthly entries.

Effect

The financial information presented to us for the audit was missing or inaccurate.

Recommendation

We recommend that management implement processes to ensure accuracy of accounts.

Town of Elkton, Virginia
Schedule of Findings and Questioned Costs
June 30, 2024

Views of Responsible Officials

The Treasurer draft a formal monthly close process which will be implemented immediately.

2024-002: Segregation of Duties (Material Weakness)

Condition

Multiple duties in a transaction cycle are performed by the same individual. Consequently, errors or irregularities may occur and not be detected.

Criteria

Ideally, no individual would perform more than one duty in connection with any transaction or series of transactions. In particular, no one individual should have access to both physical assets and the related accounting records.

Cause

Incompatible duties and the limited number of staff.

Effect

A lack of separation of duties could allow error or fraud to go undetected.

Recommendation

While we understand that limited staff can make this difficult, controls should be in place to mitigate the risk. We have suggested specific controls in a separate communication.

Views of Responsible Officials

This continues to be a work in progress. The Treasurer has divided up the duties among her employees. Now one employee is processing the utility bills and two other employees are collecting/inputting payments.

2024-003: Annual and Monthly Close Process (Material Weakness)

Condition

The Town does not have a complete monthly or annual close process in place that accurately reflects all needed adjustments.

Criteria

Each period should be closed to properly reflect accruals or other transactions not previously recorded to ensure the period reporting is materially correct.

Cause

The annual and monthly close process does not currently capture adjustments needed for all accruals.

Town of Elkton, Virginia
Schedule of Findings and Questioned Costs
June 30, 2024

Effect

Material audit adjustments were required.

Recommendation

We recommend the Town improve a monthly and annual close process to ensure financial records are accurate and complete.

Views of Responsible Officials

The Treasurer has drafted a formal monthly close process to ensure completion and accuracy of the Town's financial records. The annual close process currently consists of physically closing the Treasurer's Office on June 30th to input all utility/tax payments received by noon and then final reports for the fiscal year are printed. The actual fiscal year closure does not happen until the formal audit is completed.

C – Findings and Questioned Costs – Major Federal Award Programs Audit

2024-004: COVID-19 Coronavirus State and Local Fiscal Recovery Funds ALN 21.027, Late Filing of Data Collection Form

Condition

The Town filed the data collection form one day late due to issues with the Federal Audit Clearinghouse website.

Criteria

Under the requirements in the Uniform Guidance and the Office of Management and Budget (OMB), all entities are required to file the annual data collection form with the Federal Audit Clearinghouse the earlier of either 30 days after the issuance of the entity's annual audit or nine months after the entity's fiscal year-end (March 31st for the Town of Elkton).

Cause

Management did not complete and certify auditee portion of the form before the deadline.

Effect

The Town's form was not submitted to the Federal Audit Clearinghouse on time.

Recommendation

Management should take steps to ensure that the form is filed timely.

Views of Responsible Officials and Planned Corrective Action

As noted above, the Town Manager had issues with submitting the report through the Federal Audit Clearinghouse website. The Treasurer is aware that an annual audit needs to be completed for all major federal awards. She will work with the auditing firm and the Town Manager to ensure that the report is filed by the deadline.

Town of Elkton, Virginia
Schedule of Findings and Questioned Costs
June 30, 2024

2024-005: COVID-19 Coronavirus State and Local Fiscal Recovery Funds ALN 21.027, Controls over Reporting

Condition

The FY23 expenditures reported to the Treasury did not reconcile to the audited SEFA and the FY24 expenditures did not agree to the tracking spreadsheet.

Criteria

Reporting should reconcile to accounting records and have a review by an individual other than the preparer.

Cause

Lack of review and reconciliation to the general ledger prior to submission.

Effect

The annual reporting was inaccurate for FY23 and FY24 expenditures.

Recommendation

Ensure that all information reported as been reviewed and reconciled prior to submission to the grantor.

Views of Responsible Officials and Planned Corrective Action

Going forward, the Treasurer will compile the information and have the Town Manager approve the report prior to submitting it through the online portal.

2024-006: Federal Procurement Policies

Condition

There are no written procurement policies specific to the federal awards cost principle requirements under Uniform Grant Guidance. Existing procurement policies are minimal and do not meet federal requirements.

Criteria

Federal award recipients must have written policies, procedures, and standards of conduct as required by 2 CFR 200, Subparts D and E.

Cause

Certain required policies under 2 CFR 200, Subparts D and E are not present.

Effect

Lack of required policies may create noncompliance with regulations as stated requirements may not be followed.

Town of Elkton, Virginia
Schedule of Findings and Questioned Costs
June 30, 2024

Recommendation

Develop procurement policies and financial policies that meet federal standards.

Views of Responsible Officials and Planned Corrective Action

The Treasurer drafted a Federal Procurement Policy for consideration in May 2024; however, it was not presented to Council. Therefore, the Treasurer will get the proposed policy added to the Council's agenda for consideration and approval at the next scheduled meeting.

Town of Elkton, Virginia
Summary Schedule of Prior Audit Findings
June 30, 2024

A – Findings – Financial Statement Audit

2023-001: Material Audit Adjustments (Material Weakness)

Condition

During the audit, we detected material misstatements in the trial balance. Generally accepted auditing standards dictate that detection of errors in an audit is a strong indicator of a significant deficiency or material weakness. Accordingly, we are required to communicate this finding as such.

Recommendation

Material audit adjustments indicate that financial information presented to us for the audit was missing or inaccurate. We recommend that management implement processes to ensure accuracy of accounts.

Current Status:

Still applicable.

2023-002: Segregation of Duties (Material Weakness)

Condition

Multiple duties in a transaction cycle are performed by the same individual. Consequently, errors or irregularities may occur and not be detected.

Recommendation

In an ideal system of internal controls, no individual would perform more than one duty in connection with any transaction or series of transactions. While we understand that limited staff can make this difficult, controls should be in place to mitigate the risk. We have suggested specific controls in a separate communication.

Current Status:

Still applicable.

2023-003: Journal Entries (Material Weakness)

Condition

Journal entries were not reviewed and did not have supporting documentation. As a result, improper entries may be made and not detected.

Town of Elkton, Virginia
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Recommendation

We recommend all journal entries be reviewed and approved by an individual other than the preparer to ensure accuracy and appropriateness of the entry. Management responsible for posting the journal entry after review should not post an entry that results in unbalanced funds.

Current Status:

No longer applicable.

2023-004: Bank Reconciliations (Material Weakness)

Condition

Bank reconciliations were prepared for each month of the year; however, many were performed over a year after the reconciliation month.

Recommendation

As cash accounts are particularly vulnerable to misappropriation due to their high liquidity and volume, we recommend timely monthly reconciliation of all accounts and review of the completed reconciliations by an individual independent of the preparer.

Current Status:

No longer applicable.

2023-005: Financial System Data (Material Weakness)

Condition

Activity was not timely recorded in the financial system by staff; however, activity was recorded during bank reconciliations. Additionally, encumbrances related to open purchase orders are not tracked.

Recommendation

Activity should be recorded as it is incurred throughout the year while maintaining supporting documentation. Encumbrances should be utilized for budgeting within the financial system and a procurement process with the use of purchase orders should be established.

Current Status:

No longer applicable.

Town of Elkton, Virginia
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2023-006: Capital Assets and Construction in Progress (Material Weakness)

Condition

Construction-in-progress expenditures are not tracked per project. Consequently, expenditures were not recorded appropriately, resulting in material audit entries.

Recommendation

Management should track projects to ensure accurate recordkeeping and that projects are within budget. Upon completion of each project, the balance of expenditures should be placed in service as a capital asset and depreciated.

Current Status:

No longer applicable.

2023-007: Annual and Monthly Close Process (Material Weakness)

Condition

The Town does not have a complete monthly or annual close process in place. Monthly and annual close processes have been implemented; however, accrual entries are still not being recorded.

Recommendation

We recommend the Town improve a monthly and annual close process to ensure financial records are accurate and complete.

Current Status:

Still applicable.

2023-008: Grant Awards (Significant Deficiency)

Condition

No formal process is in place to track grant expenditures or monitor compliance with federal and state grant requirements. As a result, compliance requirements may not be met. Federal awards are subject to the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and require a single audit if expenditures exceed \$750,000. The Town is also responsible to maintain compliance with federal and state grant requirements.

Recommendation

Expenditures must be documented and monitored to ensure compliance requirements are met. Additionally, should a single audit be required, expenditure information for all federal grant programs is necessary to prepare a Schedule of Expenditure of Federal Awards. All federal program awards should be immediately communicated to the Treasurer or designated employee prior to expenditure.

Town of Elkton, Virginia
Summary Schedule of Prior Audit Findings
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Current Status:

No longer applicable.

B – Findings and Questioned Costs - Major Federal Award Programs Audit

2023-009: Water and Waste Disposal Systems for Rural Communities – AL# 10.760, Late Filing of Data Collection Form

Condition

The Town did not file the data collection forms for the years ended June 30, 2022 and June 30, 2020, timely.

Criteria

Under the requirements in the Uniform Guidance and the Office of Management and Budget (OMB), all entities are required to file the annual data collection form with the Federal Audit Clearinghouse the earlier of either 30 days after the issuance of the entity's annual audit or twelve months after the entity's fiscal year-end (June 30th for the Town of Elkton).

Cause

Management did not complete and certify auditee portion of the form before the deadline. The form was not completed for years ended June 30, 2023, 2022, and 2020.

Effect

The Town's form was not submitted to the Federal Audit Clearinghouse.

Recommendation

Management should take steps to ensure that the form is filed timely.

Current Status:

Still applicable.

2023-010: Federal Procurement Policies

Condition

There are no written procurement policies specific to the federal awards cost principle requirements under Uniform Grant Guidance. Existing procurement policies are minimal and do not meet federal requirements.

Criteria

Federal award recipients must have written policies, procedures, and standards of conduct as required by 2 CFR 200, Subparts D and E.

Town of Elkton, Virginia
Summary Schedule of Prior Audit Findings
June 30, 2024

Cause

Certain required policies under 2 CFR 200, Subparts D and E are not present.

Effect

Lack of required policies may create noncompliance with regulations as stated requirements may not be followed.

Recommendation

Develop procurement policies and financial policies that meet federal standards.

Current Status

Still applicable.

Town of Elkton, Virginia

Schedule of Expenditures of Federal Awards

June 30, 2024

Federal Grantor/Pass – Through Grantor/ Program or Cluster Title	Assistance Listing Number	Pass-Through Entity Identifying Number	FY24 FINAL BALANCE
Department of Agriculture:			
Direct Payments:			
Water and Waste Disposal Systems for Rural Communities	10.760	N/A	\$ 807,403
Total Department of Agriculture			807,403
Department of Justice:			
Direct payments:			
Bulletproof Vest Partnership Program	16.607	N/A	1,678
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	1,294
Pass-Through Payments:			
Virginia State Police			
Missing Children's Assistance	16.543	N/A	3,767
Total Department of Justice			6,739
Department of the Treasury:			
Direct Payments:			
COVID-19 – Coronavirus State and Local Fiscal Recovery Fund	21.027	N/A	946,198
Pass-Through Payments:			
Virginia Department of Criminal Justice Services			
COVID-19 DCJS - ARPA Equipment Grant	21.027	510291	153,000
Total Department of Treasury			1,099,198
Total Expenditures of Federal Awards			\$ 1,913,340

Notes:

The accompanying Schedule of Federal Expenditures includes the activity of all federally-assisted programs of the Town and is presented on the modified accrual basis of accounting. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on this schedule.

The Town did not elect to use the 10% de minimis indirect cost rate.

At June 30, 2024, the Town had \$15,173,277 in outstanding water and waste disposal system loans from Rural Development.