

TOWN OF ELKTON, VIRGINIA

FINANCIAL REPORT

June 30, 2023

**TOWN OF ELKTON, VIRGINIA
FINANCIAL REPORT
YEAR ENDED JUNE 30, 2023**

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FINANCIAL REPORT
YEAR ENDED JUNE 30, 2023**

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INTRODUCTORY SECTION

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**TOWN OF ELKTON, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2023**

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

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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, 2023, 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, 2023, 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.

Report on the Audit of the Financial Statements (Continued)

Responsibilities of Management for the Financial Statements (Continued)

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.

Report on the Audit of the Financial Statements (Continued)

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, which 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.

Report on the Audit of the Financial Statements (Continued)

Other Information (Continued)

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 15, 2024 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 15, 2024

BASIC FINANCIAL STATEMENTS

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**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

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TOWN OF ELKTON, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2023

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents (Note 3)	\$ 869,464	\$ 3,258,566	\$ 4,128,030
Receivables, net: (Note 4)			
Property taxes	591,414	-	591,414
Meals taxes	102,940	-	102,940
Accounts and other	20,251	281,324	301,575
Prepays	60,403	4,891	65,294
Due from other governmental units and businesses (Note 5)	47,796	-	47,796
Inventories	6,653	262,344	268,997
Cash and cash equivalents – restricted (Note 3)	2,485,735	113,621	2,599,356
Investments – restricted (Note 3)	55,416	-	55,416
Capital assets: (Note 7)			
Nondepreciable	1,864,794	18,454,788	20,319,582
Depreciable, net	6,523,461	7,501,859	14,025,320
Net pension asset (Note 10)	241,905	68,694	310,599
Total assets	12,870,232	29,946,087	42,816,319
DEFERRED OUTFLOWS OF RESOURCES			
Pension-related deferred outflows (Note 10)	84,619	24,029	108,648
Other postemployment benefit related deferred outflows (Note 11)	16,405	4,659	21,064
Total deferred outflows of resources	101,024	28,688	129,712
LIABILITIES			
Accounts payable	116,367	222,210	338,577
Retainage payable	-	788,905	788,905
Customer deposits	-	113,621	113,621
Unearned revenue (Note 8)	2,485,735	-	2,485,735
Accrued payroll	74,130	12,393	86,523
Accrued interest payable	-	108,337	108,337
Noncurrent liabilities:			
Compensated absences (Note 9)	112,071	49,499	161,570
Long-term debt, due within one year (Note 9)	171,559	251,924	423,483
Long-term debt, due in more than one year (Note 9)	1,112,035	15,612,268	16,724,303
Net other postemployment benefit liability (Note 11)	56,080	15,925	72,005
Total liabilities	4,127,977	17,175,082	21,303,059
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue (Note 8)	468,756	-	468,756
Pension-related deferred inflows (Note 10)	209,956	59,620	269,576
Other postemployment benefit related deferred inflows (Note 11)	11,445	3,250	14,695
Total deferred inflows of resources	690,157	62,870	753,027
NET POSITION			
Net investment in capital assets	7,104,661	9,303,550	16,408,211
Restricted for pension	241,905	68,694	310,599
Unrestricted	806,556	3,364,579	4,171,135
Total net position	\$ 8,153,122	\$ 12,736,823	\$ 20,889,945

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

TOWN OF ELKTON, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2023

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	\$ 1,587,363	\$ 15,236	\$ 187,425	\$ -	\$ (1,384,702)	\$ -	\$ (1,384,702)
Public safety	732,122	10,711	77,957	-	(643,454)	-	(643,454)
Public works	843,799	232,268	638,948	-	27,417	-	27,417
Cemetery services	53,610	57,050	-	-	3,440	-	3,440
Parks, recreation, and cultural	23,350	-	-	-	(23,350)	-	(23,350)
Community development	47,412	150,214	50,015	-	152,817	-	152,817
Interest on long-term debt	41,051	-	-	-	(41,051)	-	(41,051)
Total governmental activities	3,328,707	465,479	954,345	-	(1,908,883)	-	(1,908,883)
Business-type activities							
Electric	2,228,016	2,395,963	-	-	-	167,947	167,947
Water	497,004	575,999	-	-	-	78,995	78,995
Sewer	956,357	906,470	-	789,613	-	739,726	739,726
Total business-type activities	3,681,377	3,878,432	-	789,613	-	986,668	986,668
Total primary government	\$ 7,010,084	\$ 4,343,911	\$ 954,345	\$ 789,613	(1,908,883)	986,668	(922,215)
General revenues:							
Property taxes					580,759	-	580,759
Other local taxes					1,868,680	-	1,868,680
Gain on sale of property					20,974	-	20,974
Total general revenues					2,470,413	-	2,470,413
Change in net position					561,530	986,668	1,548,198
NET POSITION AT JULY 1, AS RESTATED (NOTE					7,591,592	11,750,155	19,341,747
NET POSITION AT JUNE 30					\$ 8,153,122	\$ 12,736,823	\$ 20,889,945

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

FUND
FINANCIAL STATEMENTS

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TOWN OF ELKTON, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2023

	<u>General</u>
ASSETS	
Cash and cash equivalents (Note 3)	\$ 869,464
Receivables, net (Note 4)	
Property taxes	591,414
Meals taxes	102,940
Accounts and other	20,251
Prepays	60,403
Inventories	6,653
Due from other governments (Note 5)	47,796
Cash and cash equivalents – restricted (Note 3)	2,485,735
Investments – restricted (Note 3)	55,416
	<u> </u>
Total assets	<u>\$ 4,240,072</u>
LIABILITIES	
Accounts payable	\$ 116,367
Accrued payroll	74,130
Unearned revenue (Note 8)	2,485,735
	<u> </u>
Total liabilities	<u>2,676,232</u>
DEFERRED INFLOWS OF RESOURCES	
Unearned revenue (Note 8)	468,756
Unavailable revenue (Note 8)	131,917
	<u> </u>
Total deferred inflows of resources	<u>600,673</u>
FUND BALANCES	
Nonspendable:	
Prepays	60,403
Inventories	6,653
Assigned to:	
Encumbrances	13,587
Kings Dominion and Busch Garden tickets	18,049
Recreation donations	15,812
HEC holding	180,870
Community Center	42,572
Unassigned	625,221
	<u> </u>
Total fund balances	<u>963,167</u>
	<u> </u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 4,240,072</u>

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

TOWN OF ELKTON, VIRGINIA

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2023**

Ending fund balance – governmental fund \$ 963,167

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	\$ 1,864,794	
Depreciable, net	6,523,461	
		8,388,255

Certain revenues are not available in the current period and, therefore, are not reported in the governmental fund.		131,917
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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	84,619	
Deferred outflows of resources related to OPEB	16,405	
Deferred inflows of resources related to pension	(209,956)	
Deferred inflows of resources related to OPEB	(11,445)	
Net pension asset	241,905	
Net OPEB liability	(56,080)	
		65,448

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund.

Compensated absences	(112,071)	
General obligation bonds payable	(835,407)	
Notes payable	(448,187)	
		(1,395,665)

Total net position – governmental activities \$ 8,153,122

TOWN OF ELKTON, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
Year Ended June 30, 2023

	General
REVENUES	
General property taxes	\$ 596,484
Other local taxes	1,868,680
Permits, privilege fees, and regulatory licenses	12,015
Fines and forfeitures	10,711
Revenues from the use of money and property	3,221
Charges for services	439,532
Intergovernmental:	
Rockingham County	50,015
Commonwealth	716,905
Federal	187,425
Total revenues	3,884,988
EXPENDITURES	
Current:	
General government administration	1,662,671
Public safety	811,333
Public works	852,419
Parks, recreation, and cultural	55,235
Community development	219,670
Cemetery services	41,028
Debt service:	
Principal retirement	265,490
Interest and other fiscal charges	46,502
Total expenditures	3,954,348
Deficiency of revenues over expenditures	(69,360)
OTHER FINANCING SOURCES	
Sale of property	20,974
Total other financing sources	20,974
Net change in fund balance	(48,386)
FUND BALANCE – beginning	1,011,553
FUND BALANCE – ending	\$ 963,167

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

TOWN OF ELKTON, VIRGINIA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2023**

Net change in fund balance – total governmental fund \$ (48,386)

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	\$ 526,844	
Depreciation expense	(353,967)	
Loss on sale of capital assets	(6,166)	
	166,711	166,711

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	362,988	
Pension expense (income)	(153,788)	
Change in employer OPEB contributions	(10,595)	
OPEB expense	1,595	
	200,200	200,200

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (15,725)

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	265,490	
	265,490	265,490

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		(12,211)
Change in accrued interest payable		5,451
		(6,760)

Change in net position of governmental activities **\$ 561,530**

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

TOWN OF ELKTON, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET TO ACTUAL – GENERAL FUND
Year Ended June 30, 2023**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
REVENUES				
General property taxes	\$ 546,643	\$ 546,643	\$ 596,484	\$ 49,841
Other local taxes	1,617,000	1,617,000	1,868,680	251,680
Permits, privilege fees, and regulatory licenses	135,400	135,400	12,015	(123,385)
Fines and forfeitures	14,250	14,250	10,711	(3,539)
Revenues from the use of money and property	2,239	2,239	3,221	982
Charges for services	462,500	462,500	439,532	(22,968)
Intergovernmental	608,996	608,996	954,345	345,349
Other	13,500	13,500	-	(13,500)
	<u>3,400,528</u>	<u>3,400,528</u>	<u>3,884,988</u>	<u>484,460</u>
EXPENDITURES				
Current:				
General government administration	1,469,675	1,469,675	1,662,671	(192,996)
Public safety	836,518	836,518	811,333	25,185
Public works	959,271	959,271	852,419	106,852
Parks, recreation, and cultural	168,058	168,058	55,235	112,823
Community development	395,674	395,674	219,670	176,004
Cemetery services	52,175	52,175	41,028	11,147
Debt service	343,175	343,175	311,992	31,183
	<u>4,224,546</u>	<u>4,224,546</u>	<u>3,954,348</u>	<u>270,198</u>
Deficiency of revenues over expenditures	<u>(824,018)</u>	<u>(824,018)</u>	<u>(69,360)</u>	<u>754,658</u>
OTHER FINANCING SOURCES				
Sale of property	-	-	20,974	20,974
	<u>-</u>	<u>-</u>	<u>20,974</u>	<u>20,974</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>20,974</u>	<u>20,974</u>
Net change in fund balance	<u>\$ (824,018)</u>	<u>\$ (824,018)</u>	<u>\$ (48,386)</u>	<u>\$ 775,632</u>

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

TOWN OF ELKTON, VIRGINIA

STATEMENT OF NET POSITION –
PROPRIETARY FUNDS

June 30, 2023

	Enterprise Funds			Total
	Electric	Water	Sewer	Enterprise Funds
ASSETS				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 909,100	\$ 1,191,009	\$ 1,158,457	\$ 3,258,566
Accounts receivable, net (Note 4)	139,148	36,272	105,904	281,324
Prepays	1,672	-	3,219	4,891
Inventories	176,817	64,861	20,666	262,344
Cash and cash equivalents – restricted (Note 3)	99,020	14,601	-	113,621
Total current assets	1,325,757	1,306,743	1,288,246	3,920,746
Noncurrent assets:				
Capital assets: (Note 7)				
Nondepreciable	-	41,056	18,413,732	18,454,788
Depreciable, net	274,330	1,419,897	5,807,632	7,501,859
Net pension asset (Note 10)	20,986	28,702	19,006	68,694
Total noncurrent assets	295,316	1,489,655	24,240,370	26,025,341
Total assets	1,621,073	2,796,398	25,528,616	29,946,087
DEFERRED OUTFLOWS OF RESOURCES				
Pension-related deferred outflows (Note 10)	7,341	10,040	6,648	24,029
Other postemployment benefit related deferred outflows (Note 11)	1,423	1,947	1,289	4,659
Total deferred outflows of resources	8,764	11,987	7,937	28,688
LIABILITIES				
Current liabilities:				
Accounts payable	155,349	11,502	55,359	222,210
Retainage payable	-	-	788,905	788,905
Customer deposits	99,020	14,601	-	113,621
Accrued payroll	3,617	4,360	4,416	12,393
Accrued interest payable	-	3,784	104,553	108,337
Bonds payable and other obligations – current (Note 9)	-	27,777	224,147	251,924
Total current liabilities	257,986	62,024	1,177,380	1,497,390
Noncurrent liabilities:				
Compensated absences (Note 9)	12,755	28,152	8,592	49,499
Net other postemployment benefit liability (Note 11)	4,865	6,654	4,406	15,925
Bonds payable and other obligations (Note 9)	-	379,591	15,232,677	15,612,268
Total noncurrent liabilities	17,620	414,397	15,245,675	15,677,692
Total liabilities	275,606	476,421	16,423,055	17,175,082
DEFERRED INFLOWS OF RESOURCES				
Pension-related deferred inflows (Note 10)	18,214	24,911	16,495	59,620
Other postemployment benefit related deferred inflows (Note 11)	993	1,358	899	3,250
Total deferred inflows of resources	19,207	26,269	17,394	62,870
NET POSITION				
Net investment in capital assets	274,330	1,053,585	7,975,635	9,303,550
Restricted for pension	20,986	28,702	19,006	68,694
Unrestricted	1,039,708	1,223,408	1,101,463	3,364,579
Total net position	\$ 1,335,024	\$ 2,305,695	\$ 9,096,104	\$ 12,736,823

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

TOWN OF ELKTON, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET POSITION – PROPRIETARY FUNDS
Year Ended June 30, 2023**

	Enterprise Funds			Total Enterprise Funds
	Electric	Water	Sewer	
OPERATING REVENUES				
Charges for services	\$ 2,285,796	\$ 461,177	\$ 783,470	\$ 3,530,443
Connection fees	6,035	105,000	120,000	231,035
Local consumption tax	32,379	-	-	32,379
Reconnect fees	7,833	7,212	-	15,045
Service charges	16,920	2,610	3,000	22,530
Late charges	47,000	-	-	47,000
	<u>2,395,963</u>	<u>575,999</u>	<u>906,470</u>	<u>3,878,432</u>
Total operating revenues				
OPERATING EXPENSES				
Salaries and fringe benefits	131,216	198,362	85,795	415,373
Maintenance	6,569	12,393	7,623	26,585
Utilities	-	34,786	3,525	38,311
Purchased Power	1,963,982	-	-	1,963,982
Materials and Supplies	74,984	121,481	162,110	358,575
Other	9,738	11,099	65,292	86,129
Depreciation	41,527	110,540	332,636	484,703
	<u>2,228,016</u>	<u>488,661</u>	<u>656,981</u>	<u>3,373,658</u>
Total operating expenses				
Operating income	<u>167,947</u>	<u>87,338</u>	<u>249,489</u>	<u>504,774</u>
NON-OPERATING REVENUES (EXPENSES)				
Intergovernmental – Commonwealth	-	-	84,973	84,973
Intergovernmental – Federal	-	-	704,640	704,640
Interest and fiscal charges	-	(8,343)	(299,376)	(307,719)
	<u>-</u>	<u>(8,343)</u>	<u>490,237</u>	<u>481,894</u>
Total non-operating revenues (expenses)				
Change in net position	167,947	78,995	739,726	986,668
NET POSITION – beginning, as restated (Note 14)	<u>1,167,077</u>	<u>2,226,700</u>	<u>8,356,378</u>	<u>11,750,155</u>
NET POSITION – ending	<u>\$ 1,335,024</u>	<u>\$ 2,305,695</u>	<u>\$ 9,096,104</u>	<u>\$ 12,736,823</u>

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

TOWN OF ELKTON, VIRGINIA

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
Year Ended June 30, 2023

	Enterprise Funds			Total
	Electric	Water	Sewer	Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 2,425,986	\$ 589,501	\$ 1,000,529	\$ 4,016,016
Cash paid to suppliers	(2,056,334)	(132,001)	(235,291)	(2,423,626)
Cash paid to employees	(166,531)	(223,651)	(137,864)	(528,046)
Other payments	(9,738)	(45,885)	(68,817)	(124,440)
Net cash provided by operating activities	<u>193,383</u>	<u>187,964</u>	<u>558,557</u>	<u>939,904</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from Commonwealth grants	-	-	105,829	105,829
Proceeds from Federal grants	-	-	704,640	704,640
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>810,469</u>	<u>810,469</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(97,592)	(13,536)	(1,087,050)	(1,198,178)
Principal paid on capital debt	-	(27,272)	(101,200)	(128,472)
Interest paid on capital debt	-	(8,343)	(327,079)	(335,422)
Net cash used in capital and related financing activities	<u>(97,592)</u>	<u>(49,151)</u>	<u>(1,515,329)</u>	<u>(1,662,072)</u>
Net increase (decrease) in cash and cash equivalents	95,791	138,813	(146,303)	88,301
CASH AND CASH EQUIVALENTS				
Beginning at July 1	912,329	1,066,797	1,304,760	3,283,886
Ending at June 30	<u>\$ 1,008,120</u>	<u>\$ 1,205,610</u>	<u>\$ 1,158,457</u>	<u>\$ 3,372,187</u>
CASH IS REPORTED ON EXHIBIT 8 AS				
Cash and cash equivalents	\$ 909,100	\$ 1,191,009	\$ 1,158,457	\$ 3,258,566
Cash and cash equivalents – restricted	99,020	14,601	-	113,621
	<u>\$ 1,008,120</u>	<u>\$ 1,205,610</u>	<u>\$ 1,158,457</u>	<u>\$ 3,372,187</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income	\$ 167,947	\$ 87,338	\$ 249,489	\$ 504,774
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	41,527	110,540	332,636	484,703
Pension expense, net of employer contributions	(32,498)	(33,322)	(31,088)	(96,908)
Other postemployment benefit expense, net of employer contributions	(5,744)	(2,798)	(5,956)	(14,498)
(Increase) decrease in:				
Accounts receivable	46,200	(1,099)	94,059	139,160
Prepays	(136)	-	(262)	(398)
Inventories	(63)	(682)	2,851	2,106
Increase (decrease) in:				
Accounts payable	(10,600)	2,555	(68,147)	(76,192)
Accrued payroll and related liabilities	936	(1,007)	52	(19)
Customer deposits	(16,177)	14,601	-	(1,576)
Compensated absences and service benefits	1,991	11,838	(15,077)	(1,248)
Total adjustments	<u>25,436</u>	<u>100,626</u>	<u>309,068</u>	<u>435,130</u>
Net cash provided by operating activities	<u>\$ 193,383</u>	<u>\$ 187,964</u>	<u>\$ 558,557</u>	<u>\$ 939,904</u>

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

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

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 governmental funds and proprietary funds. Major individual governmental funds 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 and fiduciary 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.

(Continued)

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

Note 1. Summary of Significant Accounting Policies (Continued)

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are 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 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.

Governmental funds account for the expendable financial resources, other than those accounted for in proprietary funds. The governmental funds use 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 plan, sewage collection system, and pump stations. All three enterprise funds are considered major funds for financial reporting purposes.

(Continued)

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 1. Summary of Significant Accounting Policies (Continued)

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 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 non-current 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 1. The Town collects real estate taxes on an annual basis (due in full by December 5th). 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 \$0.08 per \$100 valuation. A penalty of five percent of the tax is assessed after the applicable payment date. Interest is charged to all unpaid accounts at an annual rate of ten percent.

The taxes receivable balance at June 30th, includes amounts not yet billed or received from the January 1st levy (due December 5th). These items are included in unearned revenue since these taxes are intended for use in the following fiscal year.

(Continued)

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 1. Summary of Significant Accounting Policies (Continued)

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

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, 2023, consisted of the following:

General fund (property taxes, penalties, and interest)	\$	52,963
Electric fund		25,079
Water fund		6,496
Sewer fund		11,479
	\$	96,017

Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories in the proprietary funds and 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 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.

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 1. Summary of Significant Accounting Policies (Continued)

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

Capital Assets (Continued)

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

	Years
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 governmental funds 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 governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest is reported as an expenditure. The accounting for the proprietary funds is the same in the fund financial statements as it is in the government-wide statements.

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.

(Continued)

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 1. Summary of Significant Accounting Policies (Continued)

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

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 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.

(Continued)

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 1. Summary of Significant Accounting Policies (Continued)

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

Fund Balances (Continued)

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.
- **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.

(Continued)

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

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 30, the Town Manager submits to Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. 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 30 for all Town funds.
8. All budget data presented in the accompanying financial statements includes the original and revised budgets as of June 30.

The Town spent funds in excess of budgeted amounts in one functional area and exceeded the budget for the general fund as illustrated in Exhibit 7.

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	\$ 55,416	AAAm
Total investments	55,416	
Cash and cash equivalents	6,727,386	
Total deposits and investments	\$ 6,782,802	

(Continued)

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 3. Deposits and Investments (Continued)

Deposits (Continued)

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

	Primary Government
Statement of Net Position:	
Cash and cash equivalents	\$ 4,128,030
Cash and cash equivalents – restricted	2,599,356
Investments – restricted	55,416
	\$ 6,782,802

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).

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.

(Continued)

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 3. Deposits and Investments (Continued)

Investments (Continued)

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	\$ 2,485,735
Customer deposits	113,621
	\$ 2,599,356
	\$ 2,599,356

Restricted investments consist of the following:

Unspent bond proceeds restricted for capital projects	\$ 55,416
	\$ 55,416
	\$ 55,416

Note 4. Receivables

Receivables as of June 30, 2023, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Activities	Business-Type Activities	Total
Receivables:			
Interest	\$ 39	\$ -	\$ 39
Property taxes	629,272	-	629,272
Meals taxes	102,940	-	102,940
Accounts	35,317	324,378	359,695
	767,568	324,378	1,091,946
Gross receivables	767,568	324,378	1,091,946
Less: allowance for uncollectible	(52,963)	(43,054)	(96,017)
Net total receivables	\$ 714,605	\$ 281,324	\$ 995,929

(Continued)

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

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	\$ 38,257
Communications tax	5,807
Railroad Rolling stock	<u>3,732</u>
	<u><u>\$ 47,796</u></u>

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 2023, there were no transfers between funds.

There was no outstanding interfund activity as of June 30, 2023.

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 7. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 1,787,444	\$ -	\$ -	\$ 1,787,444
Construction in progress	10,000	85,130	17,780	77,350
Total capital assets not being depreciated	<u>1,797,444</u>	<u>85,130</u>	<u>17,780</u>	<u>1,864,794</u>
Capital assets being depreciated				
Buildings and improvements	4,450,477	60,095	-	4,510,572
Machinery and equipment	1,252,315	285,791	27,768	1,510,338
Infrastructure	3,394,427	113,608	-	3,508,035
Total capital assets being depreciated	<u>9,097,219</u>	<u>459,494</u>	<u>27,768</u>	<u>9,528,945</u>
Less accumulated depreciation for:				
Buildings and improvements	1,158,967	108,218	-	1,267,185
Machinery and equipment	720,533	147,308	21,602	846,239
Infrastructure	793,619	98,441	-	892,060
Total accumulated depreciation	<u>2,673,119</u>	<u>353,967</u>	<u>21,602</u>	<u>3,005,484</u>
Total capital assets being depreciated, net	<u>6,424,100</u>	<u>105,527</u>	<u>6,166</u>	<u>6,523,461</u>
Governmental activities capital assets, net	<u>\$ 8,221,544</u>	<u>\$ 190,657</u>	<u>\$ 23,946</u>	<u>\$ 8,388,255</u>

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

General government administration	\$ 68,942
Community Center	78,063
Public safety	77,062
Public works	117,318
Cemetery	12,582
Total depreciation expense – governmental activities	<u>\$ 353,967</u>

(Continued)

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 7. Capital Assets (Continued)

Increases include depreciation expense and transfers in from other funds.

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	17,304,549	1,109,183	-	18,413,732
Total capital assets not being depreciated	<u>17,345,605</u>	<u>1,109,183</u>	<u>-</u>	<u>18,454,788</u>
Capital assets being depreciated				
Utility system	12,860,551	-	-	12,860,551
Machinery and equipment	610,205	125,536	-	735,741
Total capital assets being depreciated	<u>13,470,756</u>	<u>125,536</u>	<u>-</u>	<u>13,596,292</u>
Less accumulated depreciation for				
Utility system	5,329,400	394,132	-	5,723,532
Machinery and equipment	280,330	90,571	-	370,901
Total accumulated depreciation	<u>5,609,730</u>	<u>484,703</u>	<u>-</u>	<u>6,094,433</u>
Total capital assets being depreciated, net	<u>7,861,026</u>	<u>(359,167)</u>	<u>-</u>	<u>7,501,859</u>
Business-type activities capital assets, net	<u>\$ 25,206,631</u>	<u>\$ 750,016</u>	<u>\$ -</u>	<u>\$ 25,956,647</u>

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

Electric	\$ 41,527
Water	110,540
Sewer	<u>332,636</u>
Total depreciation expense – business-type activities	<u>\$ 484,703</u>

Increases include depreciation expense.

(Continued)

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 7. Capital Assets (Continued)

Construction Commitments

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

	Total Contracts	Total Payments	Future Amounts to be Expended
Sewer Fund			
Waste Water Treatment Plant	\$ 14,124,606	\$ 13,345,684	\$ 778,922
Engineering for sewer projects	1,693,100	1,242,725	450,375
Total sewer fund	\$ 15,817,706	\$ 14,588,409	\$ 1,229,297

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	\$ -	\$ 111,497
Sales tax	-	20,420
Total unavailable revenue	\$ -	\$ 131,917
Unearned revenue:		
Property taxes not yet due	\$ 468,756	\$ 468,756
American Rescue Plan Act federal funding	2,485,735	2,485,735
	\$ 2,954,491	\$ 2,954,491

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

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	\$ 993,866	\$ -	\$ 158,459	\$ 835,407	\$ 60,019
Notes payable	555,219	-	107,032	448,187	111,540
Compensated absences	99,860	12,211	-	112,071	-
	<u>\$ 1,648,945</u>	<u>\$ 12,211</u>	<u>\$ 265,491</u>	<u>\$ 1,395,665</u>	<u>\$ 171,559</u>
Business-Type Activities					
General obligation bonds	\$ 434,640	\$ -	\$ 27,272	\$ 407,368	\$ 27,777
Revenue bonds	15,558,024	-	101,200	15,456,824	224,147
Compensated absences	50,747	-	1,248	49,499	-
	<u>\$16,043,411</u>	<u>\$ -</u>	<u>\$ 129,720</u>	<u>\$15,913,691</u>	<u>\$ 251,924</u>

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.	\$ 835,407	\$ -
\$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.	-	407,368
Total General Obligation Bonds	<u>\$ 835,407</u>	<u>\$ 407,368</u>

(Continued)

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 9. Long-Term Liabilities (Continued)

Details of long-term indebtedness (Continued)

	Governmental Activities	Business-Type Activities
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.	\$ -	\$ 5,559,672
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.	-	9,897,152
Total Revenue Bonds	\$ -	\$ 15,456,824
Notes payable:		
\$1,700,000 loan issued January 11, 2006, to Farmers and Merchants Bank, 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.	\$ 448,187	\$ -
Total Notes Payable	\$ 448,187	\$ -

(Continued)

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 9. Long-Term Liabilities (Continued)

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

Governmental Activities					
		General Obligation Bonds		Notes Payable	
		Principal	Interest	Principal	Interest
2024	\$	60,019	\$ 21,163	\$ 111,540	\$ 18,617
2025		61,610	19,571	116,785	13,308
2026		63,244	17,938	121,394	7,880
2027		64,921	16,261	98,468	2,209
2028		66,643	14,539	-	-
2029-2033		360,576	45,332	-	-
2034-2035		158,394	3,968	-	-
		\$ 835,407	\$ 138,772	\$ 448,187	\$ 27,926

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 9. Long-Term Liabilities (Continued)

Business-Type Activities					
General Obligation Bonds			Revenue Bonds		
	Principal	Interest		Principal	Interest
2024	\$ 27,777	\$ 7,830	\$	224,147	\$ 253,330
2025	28,308	7,273		290,933	291,307
2026	28,891	6,613		296,589	285,651
2027	29,466	6,115		302,357	279,883
2028	30,051	5,530		308,240	274,000
2029-2033	159,431	18,341		1,633,575	1,277,625
2034-2038	103,444	3,112		1,799,083	1,112,117
2039-2043	-	-		1,981,648	929,552
2044-2048	-	-		2,183,056	728,144
2049-2053	-	-		2,405,285	505,915
2054-2058	-	-		2,650,531	260,669
2059-2062	-	-		1,381,380	36,294
	\$ 407,368	\$ 54,814		\$ 15,456,824	\$ 6,234,487

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>.

(Continued)

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 10. Defined Benefit Pension Plan (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2021 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Members
Inactive members or their beneficiaries currently receiving benefits	41
Inactive members:	
Vested inactive members	15
Non-vested inactive members	15
Inactive members active elsewhere in the VRS	30
Total inactive members	60
Active members	26
Total covered employees	127

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, 2023, was 7.77% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021.

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 \$108,648 and \$113,978 for the years ended June 30, 2023 and June 30, 2022, 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, 2022. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation performed as of June 30, 2021 rolled forward to the measurement date of June 30, 2022.

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 10. Defined Benefit Pension Plan (Continued)

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, 2021, 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, 2022.

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, 2021 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, 2019. 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; 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.

Long-Term Expected Rate of Return

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

(Continued)

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 10. Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return (Continued)

The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	34.00 %	5.71 %	1.94 %
Fixed Income	15.00	2.04	0.31
Credit Strategies	14.00	4.78	0.67
Real Assets	14.00	4.47	0.63
Private Equity	14.00	9.73	1.36
MAPS – Multi-Asset Public Strategies	6.00	3.73	0.22
PIP – Private Investment Partnership	3.00	6.55	0.20
Total	100.00 %		<u>5.33 %</u>
	Inflation		<u>2.50 %</u>
	*Expected arithmetic nominal return		<u>7.83 %</u>

- * The above allocation provides for a one-year return of 7.83%. 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 6.72%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, 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, 2023, 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, 2021 actuarial valuations, whichever was greater.

(Continued)

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 10. Defined Benefit Pension Plan (Continued)

Discount Rate (Continued)

From July 1, 2022 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

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension (Asset) Liability (a) – (b)</u>
Balances at June 30, 2021	\$ 4,488,882	\$ 4,740,252	\$ (251,370)
Changes for the year:			
Service cost	132,228	-	132,228
Interest	304,170	-	304,170
Differences between expected and actual experience	(331,133)	-	(331,133)
Contributions – employer	-	109,955	(109,955)
Contributions – employee	-	63,053	(63,053)
Net investment income	-	(5,693)	5,693
Benefit payments, including refunds of employee contributions	(229,762)	(229,762)	-
Administrative expenses	-	(2,931)	2,931
Other changes	-	110	(110)
Net changes	<u>(124,497)</u>	<u>(65,268)</u>	<u>(59,229)</u>
Balances at June 30, 2022	<u>\$ 4,364,385</u>	<u>\$ 4,674,984</u>	<u>\$ (310,599)</u>

(Continued)

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 10. Defined Benefit Pension Plan (Continued)

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

The following presents the net pension liability of the political subdivision using the discount rate of 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	\$ 291,225	\$ (310,559)	\$ (796,238)

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

For the year ended June 30, 2023, the political subdivision recognized pension expense (income) of (\$191,672). At June 30, 2023, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 136,349
Net difference between projected and actual earnings on pension plan investments	-	133,227
Employer contributions subsequent to the measurement date	108,648	-
Total	\$ 108,648	\$ 269,576

(Continued)

TOWN OF ELKTON, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

Note 10. Defined Benefit Pension Plan (Continued)

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

The \$108,648 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, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Reduction to Pension Income</u>
2024	\$ (188,691)
2025	(54,692)
2026	(90,922)
2027	64,729
2028	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2022 *Annual Comprehensive Financial Report* (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2022-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, 2023, approximately \$9,500 was payable to the Virginia Retirement System for the legally required contributions related to June 2023 payroll.

(Continued)

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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.

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:	<i>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.</i>
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, 2023 Contribution	\$ 7,546
June 30, 2022 Contribution	\$ 7,026

In June 2022, the Commonwealth made a special contribution of approximately \$30.4 million to the Group Life Insurance plan. This special payment was authorized by a Budget Amendment included in Chapter 1 of the 2022 Appropriation Act.

(Continued)

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plan (Continued)

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

The net OPEB liabilities were measured as of June 30, 2022, 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, 2022. 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, 2022, relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program

June 30, 2023 proportionate share of liability	\$	72,005
June 30, 2022 proportion		0.00598%
June 30, 2021 proportion		0.00579%
June 30, 2023 expense	\$	3,868

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, 2023, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 5,702	\$ 2,889
Changes in assumptions	2,686	7,014
Net difference between projected and actual earnings on OPEB plan investments	-	4,499
Changes in proportion	5,130	293
Employer contributions subsequent to the measurement date	<u>7,546</u>	<u>-</u>
Total	<u>\$ 21,064</u>	<u>\$ 14,695</u>

(Continued)

TOWN OF ELKTON, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plan (Continued)

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

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, 2024. 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 Ended June 30,	Reduction to OPEB Expense
2024	\$ 551
2025	100
2026	(2,914)
2027	1,183
2028	(97)
Thereafter	-

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2021, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022:

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%

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.

(Continued)

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plan (Continued)

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, 2022, net OPEB liability amounts for the various VRS OPEB programs are as follows (amounts expressed in thousands):

Total OPEB liability	\$	3,672,085
Plan fiduciary net position		2,467,989
Employers’ net OPEB liability (asset)	\$	1,204,096
Plan fiduciary net position as a percentage of total OPEB liability		67.21%

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, 2022, 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. From July 1, 2020 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 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 OPEB liability.

TOWN OF ELKTON, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plan (Continued)

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	\$ 104,776	\$ 72,005	\$ 45,522

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 2022 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2022-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, 2023, approximately \$660 was payable to the Virginia Retirement System for the legally required contributions related to June 2023 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.

(Continued)

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2023

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

There was a prior period restatement recorded during the year ended June 30, 2023, for the electric fund and business-type activities related to a missed invoice. The following is a summary of the restatement to net position:

	Electric Funds	Business-Type Activities
Net position, June 30, 2022, as previously reported	\$ 1,301,721	\$ 11,884,799
Correction for missed invoice	(134,644)	(134,644)
Net position, June 30, 2022, as restated	\$ 1,167,077	\$ 11,750,155

Note 15. New Accounting Standards

In April 2022, the GASB issued **Statement No. 99, Omnibus 2022**. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

Note 15. New Accounting Standards (Continued)

In June 2022, the GASB issued **Statement No. 100**, *Accounting Changes and Error Corrections*. This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

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.

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

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**REQUIRED
SUPPLEMENTARY INFORMATION**

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TOWN OF ELKTON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION (ASSET) LIABILITY AND RELATED RATIOS
June 30, 2023

	Plan Year Ended June 30,								
	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability									
Service cost	\$ 132,228	\$ 137,536	\$ 127,583	\$ 103,413	\$ 95,720	\$ 88,259	\$ 97,188	\$ 108,145	\$ 109,336
Interest on total pension liability	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	(229,762)	(226,670)	(225,962)	(229,194)	(212,108)	(265,218)	(196,988)	(173,244)	(185,356)
Difference between expected and actual experience	(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)	(124,497)	191,778	349,336	29,484	300,772	87,123	32,936	147,489	142,047
Total pension liability – beginning	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	4,364,385	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	109,955	96,152	103,910	101,045	71,283	61,288	91,060	90,892	86,194
Contributions – employee	63,053	54,822	54,164	52,297	54,056	46,551	47,158	47,356	46,507
Net investment income	(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	(229,762)	(226,670)	(225,962)	(229,194)	(212,108)	(265,218)	(196,988)	(173,244)	(185,356)
Administrative expenses	(2,931)	(2,569)	(2,455)	(2,384)	(2,219)	(2,318)	(2,023)	(1,953)	(2,344)
Other changes	110	97	(85)	(151)	(225)	(338)	(24)	(31)	22
Net change in plan fiduciary net position	(65,268)	953,088	1,565	160,853	164,784	224,095	(5,372)	105,444	374,977
Plan fiduciary net position – beginning	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	4,674,984	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	\$ (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	107%	106%	88%	96%	93%	96%	92%	93%	94%
Covered employee payroll	\$ 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	-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.

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

The Notes to Required Supplementary Information are an integral part of this statement.

TOWN OF ELKTON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
June 30, 2023

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
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

Schedule is intended to show information for 10 years. Since 2015 is 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 fiscal year – i.e., the covered payroll on which required contributions were based for the same year.

TOWN OF ELKTON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
June 30, 2023

Plan Year Ended June 30,	Employer's Proportion of the Net OPEB Liability (Asset)	Employer's Proportionate Share of the Net OPEB Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
Virginia Retirement System – Group Life Insurance – General Employees					
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 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 measurement period, which is twelve months prior to the entity's fiscal year.

TOWN OF ELKTON, VIRGINIA

SCHEDULE OF OPEB CONTRIBUTIONS

June 30, 2023

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					
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, 2023

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, 2021, 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, 2019. 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 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.

(Continued)

TOWN OF ELKTON, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2023

Note 2. Changes of Assumptions (Continued)

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 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.
- 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 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

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**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, 2023, 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 15, 2024.

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.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. **We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2023-001 through 2023-007 to be material weaknesses.** *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. **We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2023-008 to be significant a deficiency.**

Your Success is Our Focus

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.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
March 15, 2024



**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, 2023. 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, 2023.

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.

Report on Compliance for Each Major Federal Program (Continued)

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 two 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 2023-009 and 2023-010. Our opinion on each major federal program is not modified with respect to these matters.

Report on Compliance for Each Major Federal Program (Continued)

Other Matters (Continued)

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 15, 2024

TOWN OF ELKTON, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2023

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, 2023

A. SUMMARY OF AUDITOR’S RESULTS

1. The auditor’s report expresses an **unmodified opinion** on the financial statements.
2. **One significant deficiency and seven material weaknesses** 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. **There were 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 **two audit findings** relating to major programs.
7. The program tested as major programs was:

<u>Name of Program:</u>	<u>Assistance Listing #</u>
Water and Waste Disposal Systems for Rural Communities	10.760

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

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.

Views of Responsible Officials:

The Treasurer has implemented a two-step process, which includes one person reviewing the General Ledger for errors and creating a list of correcting journal entries. The proposed list would be presented to Council for review and approval. Once approved, a different individual would input the adjustments.

TOWN OF ELKTON, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2023**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

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.

Views of Responsible Officials:

This is a work in progress. The Treasurer has solicited advice/assistance from the Virginia Treasurer's Association for the segregation of duties with a limited number of staff. The requested information and the suggestions submitted by Brown Edwards will be compiled and drafted into a formal process for the Treasurer's Office staff to follow.

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.

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.

Views of Responsible Officials:

The Treasurer has implemented a process, which consists of journal entries being compiled by one individual (to include supporting documentation for each proposed journal entry) and reviewed/keyed by a different individual in an effort to mitigate inaccuracies, and out of balance entries.

TOWN OF ELKTON, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2023

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

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.

Views of Responsible Officials:

The Treasurer has implemented a process for monthly reconciliations of the bank accounts, which consists of one individual performing the reconciliations and a separate individual reviewing/keying the adjustments. This should mitigate the vulnerability for undetected errors.

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.

Views of Responsible Officials:

The Treasurer has implemented a process for the timely recordation of transactions which will be in harmony with the monthly bank reconciliations.

TOWN OF ELKTON, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2023**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

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.

Views of Responsible Officials:

The Treasurer has implemented a process for tracking separate capital projects and managing expenditures within the project. This will aid in appropriately recording transactions as they occur. In addition, the Town has purchased new software to aid in the management of capital assets and capital construction projects.

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.

Views of Responsible Officials:

The Treasurer is currently drafting a 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.

TOWN OF ELKTON, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2023

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

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.

Views of Responsible Officials:

The Treasurer has implemented a process for recording and maintaining all grant expenditures to include: establishing a spreadsheet for each project based on the award document; the requirements for the grant, the amount of the award, and the tracking of approved expenditures as they occur.

TOWN OF ELKTON, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2023

C. 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 either years ended June 30, 2022 and June 30, 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.

Views of Responsible Officials and Planned Corrective Action:

The Treasurer is aware that an annual audit needs to be completed for all major federal awards and will work with the auditing firm to provide the necessary information for compilation of the report by the stated deadline.

TOWN OF ELKTON, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2023**

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT
(Continued)**

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.

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.

Views of Responsible Officials and Planned Corrective Action:

The Treasurer has drafted a Procurement Policy for Council to review and approve for implementation.

TOWN OF ELKTON, VIRGINIA

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2023**

A. FINDINGS – FINANCIAL STATEMENT AUDIT

2022-001: 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:

Condition still exists in the current year. See finding 2023-001.

2022-002: 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:

Condition still exists in the current year. See finding 2023-002.

TOWN OF ELKTON, VIRGINIA

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2023**

A. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

2022-003: Journal Entries (Material Weakness)

Condition:

Journal entries were not reviewed and did not have supporting documentation. Entries were also posted out of balance. As a result, improper entries may be made and not detected. Out of balance entries will cause the financial system to become out of balance.

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:

Condition still exists in the current year. See finding 2023-003.

2022-004: Bank Reconciliations (Material Weakness)

Condition:

Bank reconciliations were not prepared for all accounts. As a result, errors may not be detected in a timely manner.

Recommendation:

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

Current Status:

Condition has improved. See the update in current year finding 2023-004.

TOWN OF ELKTON, VIRGINIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2023

A. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

2022-005: Financial System Data (Material Weakness)

Condition:

Activity was not regularly recorded in the financial system by staff. As a result, information may be incomplete or missing in the financial system.

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:

Condition has improved. See the update in current year finding 2023-005.

2022-006: 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:

Condition still exists in the current year. See finding 2023-006.

TOWN OF ELKTON, VIRGINIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2023

A. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

2022-007: Cash Disbursement Cycle (Material Weakness)

Condition:

We noted deficiencies in controls surrounding the cash disbursement cycle relating to processing invoices and the procurement process. For example, purchase orders are not used. Purchase orders should be completed according to the procurement policy and related invoices should be maintained with the purchase order to ensure completeness of the expenditures.

Recommendation:

We recommend the implementation of the use of purchase orders as part of the procurement process. Management's review of invoices and related purchase order should be performed prior to cash disbursement.

Current Status: No longer applicable.

2022-008: Annual and Monthly Close Process (Material Weakness)

Condition:

The Town does not have a formal monthly or annual close process in place. The integrity of prior audited financial data may be compromised when accounting periods remain open to entry.

Recommendation:

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

Current Status:

Condition has improved. See the update in current year finding 2023-007.

TOWN OF ELKTON, VIRGINIA

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2023**

A. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

2022-009: 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.

Current Status:

Condition still exists in the current year. See finding 2023-008.

B. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

2022-010: 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.

Recommendation:

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

Current Status:

Still applicable.

(Continued)

TOWN OF ELKTON, VIRGINIA

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2023**

**B. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT
(Continued)**

2022-011: 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.

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
Year Ended June 30, 2023**

Federal Grantor/Pass – Through Grantor/ Program or Cluster Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Agriculture:			
Direct Payments:			
Water and Waste Disposal Systems for Rural Communities	10.760	N/A	\$ 704,640
Total Department of Agriculture			<u>704,640</u>
Department of Justice:			
Direct payments:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	431
Total Department of Justice			<u>431</u>
Department of the Treasury:			
Direct Payments:			
COVID-19 – Coronavirus State and Local Fiscal Recovery Fund	21.027	N/A	187,425
Total Department of Treasury			<u>187,425</u>
Total Expenditures of Federal Awards			<u><u>\$ 892,496</u></u>

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, 2023, the Town had \$15,456,824 in outstanding water and waste disposal system loans from Rural Development.