



Town of Dayton, Virginia

Financial Report

June 30, 2025

Town of Dayton, Virginia

Contents

Introductory Section

| | |
|--|---|
| Directory of Principal Officials | i |
|--|---|

Financial Section

| | |
|------------------------------------|---|
| Independent Auditor's Report | 1 |
|------------------------------------|---|

Basic Financial Statements

Government-Wide Financial Statements

| | |
|--|---|
| Exhibit 1 Statement of Net Position..... | 4 |
| Exhibit 2 Statement of Activities..... | 5 |

Fund Financial Statements

| | |
|---|----|
| Exhibit 3 Balance Sheet – Governmental Fund..... | 6 |
| Exhibit 4 Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position..... | 7 |
| Exhibit 5 Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund..... | 8 |
| Exhibit 6 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities..... | 9 |
| Exhibit 7 Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund | 10 |
| Exhibit 8 Statement of Net Position – Proprietary Fund | 11 |
| Exhibit 9 Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund..... | 12 |
| Exhibit 10 Statement of Cash Flows – Proprietary Fund | 13 |

| | |
|-------------------------------------|----|
| Notes to Financial Statements | 14 |
|-------------------------------------|----|

Required Supplementary Information

| | |
|--|----|
| Exhibit 11 Schedule of Changes in Net Pension Liability (Asset) and Related Ratios | 38 |
| Exhibit 12 Schedule of Pension Contributions | 39 |
| Exhibit 13 Schedule of Employer's Share of Net OPEB Liability and Related Ratios | 40 |
| Exhibit 14 Schedule of OPEB Contributions | 40 |
| Exhibit 15 Schedule of Changes in Net OPEB Liability and Related Ratios | 41 |

| | |
|---|----|
| Notes to Required Supplementary Information | 42 |
|---|----|

Town of Dayton, Virginia

Contents (Continued)

Compliance Section

Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* 44

Schedule of Findings and Responses 46



Introductory Section



Town of Dayton, Virginia
Directory of Principal Officials
June 30, 2025

Town Council

Sam Lee, Mayor
Bradford Dyjak, Vice Mayor
Melody Pannell
Emily Estes
Susan Mathias
J.D. Sager
Ralph Hensley

Appointed Officials

Brian Borne Town Manager

Independent Auditors

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



Financial Section





Independent Auditor's Report

Honorable Members of Town Council
Town of Dayton, Virginia
Dayton, 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 Dayton, Virginia, (the "Town") as of and for the year ended June 30, 2025, 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, as of June 30, 2025, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for 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 and 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, 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.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2025, the Town adopted new accounting guidance, GASB Statement No. 101, *Compensated Absences*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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



In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town'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'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's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management, and, although not a part of

the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

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

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or 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 October 29, 2025, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia

October 29, 2025



Financial Statements



Town of Dayton, Virginia

Statement of Net Position

June 30, 2025

| | Primary Government | | |
|---|----------------------------|----------------------|----------------------|
| | Governmental Activities | Business- | Total |
| | | Type Activities | |
| ASSETS | | | |
| Cash and cash equivalents (Note 2) | \$ 200 | \$ 1,274,189 | \$ 1,274,389 |
| Investments (Note 2) | - | 4,106,197 | 4,106,197 |
| Receivables (Note 3) | 160,493 | 451,268 | 611,761 |
| Due from other governmental units (Note 4) | 28,689 | - | 28,689 |
| Inventories | - | 97,495 | 97,495 |
| Prepays | 14,747 | 473 | 15,220 |
| Investment in electric cooperative (Note 1) | 4,316 | 109,077 | 113,393 |
| Net pension asset (Note 8) | 145,917 | 26,410 | 172,327 |
| Capital assets: (Note 5) | | | |
| Nondepreciable | 859,916 | 543,934 | 1,403,850 |
| Depreciable, net | 3,791,391 | 8,901,323 | 12,692,714 |
| Lease right-to-use asset, net | 50,853 | - | 50,853 |
| Subscription right-to-use asset, net | 9,752 | - | 9,752 |
| Total assets | <u>5,066,274</u> | <u>15,510,366</u> | <u>20,576,640</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pension-related deferred outflows (Note 8) | 166,992 | 30,224 | 197,216 |
| OPEB-related deferred outflows (Note 10) | 15,339 | 2,922 | 18,261 |
| Total deferred outflows of resources | <u>182,331</u> | <u>33,146</u> | <u>215,477</u> |
| LIABILITIES | | | |
| Accounts payable and accrued liabilities | 43,856 | 49,257 | 93,113 |
| Accrued payroll and related liabilities | 38,808 | 6,077 | 44,885 |
| Deposits payable | - | 8,416 | 8,416 |
| Unearned revenue (Note 6) | 42,060 | - | 42,060 |
| Noncurrent liabilities: | | | |
| Net OPEB liabilities (Notes 9 and 10) | 347,756 | 66,239 | 413,995 |
| Other noncurrent liabilities due within one year (Note 7) | 28,290 | - | 28,290 |
| Other noncurrent liabilities due in more than one year (Note 7) | 140,019 | 27,845 | 167,864 |
| Total liabilities | <u>640,789</u> | <u>157,834</u> | <u>798,623</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Pension-related deferred inflows (Note 8) | 92,276 | 16,701 | 108,977 |
| OPEB-related deferred inflows (Note 10) | 7,636 | 1,455 | 9,091 |
| Total deferred inflows of resources | <u>99,912</u> | <u>18,156</u> | <u>118,068</u> |
| NET POSITION | | | |
| Net investment in capital assets | 4,651,307 | 9,445,257 | 14,096,564 |
| Restricted: | | | |
| Pension | 145,917 | 26,410 | 172,327 |
| Unrestricted (Deficit) | (289,320) | 5,895,855 | 5,606,535 |
| Total net position | <u>\$ 4,507,904</u> | <u>\$ 15,367,522</u> | <u>\$ 19,875,426</u> |

Town of Dayton, Virginia

Statement of Activities

Year Ended June 30, 2025

| 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 | \$ 898,191 | \$ 1,661 | \$ - | \$ - | \$ (896,530) | \$ - | \$ (896,530) |
| Public safety | 842,476 | 70,114 | 87,141 | - | (685,221) | - | (685,221) |
| Public works | 581,179 | 192,853 | - | 10,051 | (378,275) | - | (378,275) |
| Parks, recreation, and cultural | 101,016 | 59,308 | - | - | (41,708) | - | (41,708) |
| Community development | 220,353 | - | - | 50,000 | (170,353) | - | (170,353) |
| Total governmental activities | 2,643,215 | 323,936 | 87,141 | 60,051 | (2,172,087) | - | (2,172,087) |
| Business-type activities | | | | | | | |
| Water and sewer | 3,061,436 | 4,284,553 | - | - | - | 1,223,117 | 1,223,117 |
| Total business-type activities | 3,061,436 | 4,284,553 | - | - | - | 1,223,117 | 1,223,117 |
| Total primary government | \$ 5,704,651 | \$ 4,608,489 | \$ 87,141 | \$ 60,051 | (2,172,087) | 1,223,117 | (948,970) |
| General revenues and transfers: | | | | | | | |
| Property taxes | | | | | 165,395 | - | 165,395 |
| Other local taxes | | | | | 515,860 | - | 515,860 |
| Unrestricted revenue from the use of money and property | | | | | - | 132,661 | 132,661 |
| Other | | | | | 108,082 | - | 108,082 |
| Transfers (Note 1) | | | | | 1,265,144 | (1,265,144) | - |
| Total general revenues and transfers | | | | | 2,054,481 | (1,132,483) | 921,998 |
| Change in net position | | | | | (117,606) | 90,634 | (26,972) |
| NET POSITION AT JULY 1, AS RESTATED (NOTE 16) | | | | | 4,625,510 | 15,276,888 | 19,902,398 |
| NET POSITION AT JUNE 30 | | | | | \$ 4,507,904 | \$ 15,367,522 | \$ 19,875,426 |

Town of Dayton, Virginia

Balance Sheet Governmental Fund June 30, 2025

| | General |
|--|-------------------|
| ASSETS | |
| Cash and cash equivalents (Note 2) | \$ 200 |
| Receivables, net (Note 3) | 160,493 |
| Due from other governmental units (Note 4) | 28,689 |
| Prepays | 14,747 |
| Total assets | \$ 204,129 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | |
| Liabilities: | |
| Accounts payable and accrued liabilities | \$ 43,856 |
| Accrued payroll and related liabilities | 38,808 |
| Unearned revenue (Note 6) | 42,060 |
| Total liabilities | 124,724 |
| Deferred inflows of resources: | |
| Unavailable revenue (Note 6) | 95,356 |
| Total deferred inflows of resources | 95,356 |
| Fund balances: | |
| Nonspendable - prepaids | 14,747 |
| Unassigned (Deficit) | (30,698) |
| Total fund balances | (15,951) |
| Total liabilities, deferred inflows of resources, and fund balances | \$ 204,129 |

Town of Dayton, Virginia

Reconciliation of the Governmental Fund Balance Sheet To the Statement of Net Position

June 30, 2025

| | | |
|--|-----------------|-----------------------------------|
| Ending fund balance – governmental fund | | \$ (15,951) |
| 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 capital assets | \$ 859,916 | |
| Depreciable capital assets, net | 3,791,391 | |
| Equipment - Leases, net | 50,853 | |
| Equipment - SBITA, net | <u>9,752</u> | |
| | | 4,711,912 |
| Investment in electric cooperatives is not available in the current period and, therefore, is not reported in the fund. | | |
| | | 4,316 |
| Certain revenues are not available to pay for current period expenditures and are not reported in the fund. | | |
| | | 95,356 |
| Deferred outflows and inflows of resources 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 | 166,992 | |
| Deferred inflows of resources related to pension | (92,276) | |
| Deferred outflows of resources related to OPEB | 15,339 | |
| Deferred inflows of resources related to OPEB | <u>(7,636)</u> | |
| | | 82,419 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the fund. | | |
| Compensated absences and service benefits | (107,704) | |
| Net pension asset | 145,917 | |
| Net OPEB liabilities | (347,756) | |
| Long-term debt | <u>(60,605)</u> | |
| | | <u>(370,148)</u> |
| Total net position – governmental activities | | <u><u>\$ 4,507,904</u></u> |

Town of Dayton, Virginia

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Fund

Year Ended June 30, 2025

| | General |
|--|--------------------|
| REVENUES | |
| General property taxes | \$ 170,082 |
| Other local taxes | 515,860 |
| Permits, privilege fees, and regulatory licenses | 1,236 |
| Fines and forfeitures | 75,869 |
| Revenues from the use of money and property | 425 |
| Charges for services | 192,853 |
| Intergovernmental | 147,192 |
| Recovered costs | 66,833 |
| Other | 91,974 |
| Total revenues | 1,262,324 |
| EXPENDITURES | |
| Current: | |
| General government administration | 696,716 |
| Public safety | 799,300 |
| Public works | 501,213 |
| Parks, recreation, and cultural | 61,477 |
| Community development | 190,789 |
| Capital outlay | 325,951 |
| Debt Service | |
| Principal retirement | 40,187 |
| Interest and other fiscal charges | 3,162 |
| Total expenditures | 2,618,795 |
| Deficiency of revenues under expenditures | (1,356,471) |
| OTHER FINANCING SOURCES | |
| Proceeds from sale of capital assets | 2,319 |
| Issuance of lease and subscription liabilities | 66,760 |
| Transfers in (Note 1) | 1,265,144 |
| Total other financing sources | 1,334,223 |
| Net change in fund balance | (22,248) |
| FUND BALANCE AT JULY 1, AS RESTATED (NOTE 16) | 6,297 |
| FUND BALANCE AT JUNE 30 | \$ (15,951) |

Town of Dayton, Virginia

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities

Year Ended June 30, 2025

Net change in fund balance – total governmental fund \$ (22,248)

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 | \$ 296,903 | |
| Depreciation expense | (376,282) | |
| Amortization expense | (35,222) | |
| | | (114,601) |

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 | 62,273 | |
| Pension expense | (7,440) | |
| Change in employer OPEB contributions | (243) | |
| OPEB expense | 4,245 | |
| | | 58,835 |

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (4,178)

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.

| | | |
|--------------------------|----------|----------|
| Lease and SBITA proceeds | (66,760) | |
| Principal repayments | 40,187 | |
| | | (26,573) |

Long-term compensated absences and service benefits are reported in the statement of activities but they do not require the use of current financial resources and, therefore, are not recorded as expenditures in governmental funds. (8,841)

Change in net position of governmental activities \$ (117,606)

Town of Dayton, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2025

| | Budgeted Amounts | | Actual | Variance with |
|--|---------------------|---------------------|--------------------|------------------------|
| | Original | Final | | Final Budget |
| | | | | Positive (Negative) |
| REVENUES | | | | |
| General property taxes | \$ 166,500 | \$ 166,500 | \$ 170,082 | \$ 3,582 |
| Other local taxes | 426,750 | 426,750 | 515,860 | 89,110 |
| Permits, privilege fees, and regulatory licenses | 1,500 | 1,500 | 1,236 | (264) |
| Fines and forfeitures | 51,000 | 51,000 | 75,869 | 24,869 |
| Revenues from the use of money and property | 500 | 500 | 425 | (75) |
| Charges for services | 193,842 | 193,842 | 192,853 | (989) |
| Intergovernmental | 121,200 | 135,071 | 147,192 | 12,121 |
| Recovered costs | 15,000 | 15,000 | 66,833 | 51,833 |
| Other | 75,000 | 75,000 | 91,974 | 16,974 |
| Total revenues | <u>1,051,292</u> | <u>1,065,163</u> | <u>1,262,324</u> | <u>197,161</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government administration | 798,505 | 817,505 | 696,716 | 120,789 |
| Public safety | 822,755 | 836,646 | 799,300 | 37,346 |
| Public works | 627,555 | 627,555 | 501,213 | 126,342 |
| Parks, recreation, and cultural | 168,303 | 168,303 | 61,477 | 106,826 |
| Community development | 191,572 | 213,069 | 190,789 | 22,280 |
| Capital outlay | 258,000 | 565,559 | 325,951 | 239,608 |
| Debt service | - | - | 43,349 | (43,349) |
| Total expenditures | <u>2,866,690</u> | <u>3,228,637</u> | <u>2,618,795</u> | <u>609,842</u> |
| Deficiency of revenues under expenditures | <u>(1,815,398)</u> | <u>(2,163,474)</u> | <u>(1,356,471)</u> | <u>807,003</u> |
| OTHER FINANCING SOURCES | | | | |
| Proceeds from sale of capital assets | 1,000 | 1,000 | 2,319 | 1,319 |
| Issuance of lease and subscription liabilities | - | - | 66,760 | 66,760 |
| Transfers in | 1,556,418 | 1,556,418 | 1,265,144 | (291,274) |
| Total other financing sources | <u>1,557,418</u> | <u>1,557,418</u> | <u>1,334,223</u> | <u>(223,195)</u> |
| Net change in fund balance | <u>\$ (257,980)</u> | <u>\$ (606,056)</u> | <u>\$ (22,248)</u> | <u>\$ 583,808</u> |

Town of Dayton, Virginia

Statement of Net Position -

Proprietary Fund

June 30, 2025

| | <u>Enterprise Fund</u> <u>Water and Sewer</u> |
|--|--|
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents (Note 2) | \$ 1,274,189 |
| Investments (Note 2) | 4,106,197 |
| Accounts receivable (Note 3) | 451,268 |
| Inventories | 97,495 |
| Prepays | 473 |
| Total current assets | <u>5,929,622</u> |
| Noncurrent assets: | |
| Investment in electric cooperative (Note 1) | 109,077 |
| Net pension asset (Note 8) | 26,410 |
| Capital assets (Note 5) | |
| Nondepreciable | 543,934 |
| Depreciable, net | 8,901,323 |
| Total noncurrent assets | <u>9,580,744</u> |
| Total assets | <u>15,510,366</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Pension-related deferred outflows (Note 8) | 30,224 |
| OPEB-related deferred outflows (Note 10) | 2,922 |
| Total deferred outflows of resources | <u>33,146</u> |
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable and accrued liabilities | 49,257 |
| Accrued payroll and related liabilities | 6,077 |
| Deposits payable | 8,416 |
| Total current liabilities | <u>63,750</u> |
| Noncurrent liabilities: | |
| Net OPEB liabilities (Notes 9 and 10) | 66,239 |
| Compensated absences and service benefits (Note 7) | 27,845 |
| Total noncurrent liabilities | <u>94,084</u> |
| Total liabilities | <u>157,834</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Pension-related deferred inflows (Note 8) | 16,701 |
| OPEB-related deferred inflows (Note 10) | 1,455 |
| Total deferred inflows of resources | <u>18,156</u> |
| NET POSITION | |
| Net investment in capital assets | 9,445,257 |
| Restricted: | |
| Pension | 26,410 |
| Unrestricted | 5,895,855 |
| Total net position | <u>\$ 15,367,522</u> |

Town of Dayton, Virginia
Statement of Revenues, Expenses, and Changes in
Fund Net Position - Proprietary Fund
Year Ended June 30, 2025

| | Enterprise Fund |
|--|------------------------|
| | Water and Sewer |
| OPERATING REVENUES | |
| Charges for services | \$ 4,259,553 |
| Connection availability fees | 25,000 |
| | 4,284,553 |
| OPERATING EXPENSES | |
| Salaries and fringe benefits | 252,327 |
| Maintenance | 40,013 |
| Utilities | 139,728 |
| Materials and supplies | 130,138 |
| Regional Sewer Authority assessment (Note 11) | 1,970,677 |
| Other | 9,613 |
| Depreciation | 518,940 |
| | 3,061,436 |
| Total operating expenses | 3,061,436 |
| Operating income | 1,223,117 |
| NONOPERATING REVENUES | |
| Investment income | 132,661 |
| Income before transfers | 1,355,778 |
| TRANSFERS OUT (NOTE 1) | (1,265,144) |
| Change in net position | 90,634 |
| NET POSITION AT JULY 1, AS RESTATED (NOTE 16) | 15,276,888 |
| NET POSITION AT JUNE 30 | \$ 15,367,522 |

Town of Dayton, Virginia
Statement of Cash Flows - Proprietary Fund
Year Ended June 30, 2025

| | Enterprise Fund |
|---|------------------------|
| | Water and Sewer |
| OPERATING ACTIVITIES | |
| Receipts from customers | \$ 4,327,109 |
| Payments to suppliers | (2,246,103) |
| Payments to employees | (265,647) |
| Net cash provided by operating activities | 1,815,359 |
| NON-CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Transfers to other funds | (1,265,144) |
| CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Purchases of capital assets | (159,656) |
| INVESTING ACTIVITIES | |
| Purchase of investments | (825,711) |
| Interest received | 215,398 |
| Net cash used in investing activities | (610,313) |
| Net decrease in cash and cash equivalents | (219,754) |
| CASH AND CASH EQUIVALENTS | |
| Beginning at July 1, as restated (Note 16) | 1,493,943 |
| Ending at June 30 | \$ 1,274,189 |
| RECONCILIATION OF OPERATING INCOME TO NET | |
| CASH PROVIDED BY OPERATING ACTIVITIES | |
| Operating income | \$ 1,223,117 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 518,940 |
| Pension and OPEB expense net of employer contributions | (11,436) |
| Change in certain assets and liabilities: | |
| (Increase) decrease in: | |
| Accounts receivable | 42,331 |
| Prepays | 2,760 |
| Investment in electric cooperative | (933) |
| Increase (decrease) in: | |
| Accounts payable and accrued liabilities | 42,239 |
| Accrued payroll and related liabilities | (1,884) |
| Deposits payable | 225 |
| Net cash provided by operating activities | \$ 1,815,359 |

Town of Dayton, Virginia
Notes to Financial Statements
June 30, 2025

Note 1 – Summary of Significant Accounting Policies

A – The Financial Reporting Entity

The Town of Dayton (the “Town”) was established in 1852. It is a political subdivision of the Commonwealth of Virginia operating under the Council-Manager form of government. Town Council consists of a mayor, a vice mayor, and five other council members. 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, refuse collection, public improvements, planning and zoning, general administrative services, recreation, and water and sewer services. Fire and emergency medical services are provided by Rockingham County and supplemented by volunteer departments and agencies.

The Town established an Economic Development Authority (the “EDA”) to promote greater economic vitality and prosperity for Town residents. The EDA is included under the general fund on this report.

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

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

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 45 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is

Town of Dayton, Virginia
Notes to Financial Statements
June 30, 2025

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, licenses, 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports the following major 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 Town reports the following major proprietary fund:

The *water and sewer fund* accounts for the financing of services to the general public where all or most of the operating expenses involved are intended to be recovered in the form of user charges. The water and sewer enterprise fund consists of activities relating to water and sewer services.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's proprietary funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise fund are charges to customers for sales and services. Operating expenses of the water and sewer fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D — Budgets and Budgetary Accounting

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

1. Prior to June 30th, the Town Manager submits to Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1st. This budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30th, the budget is legally enacted through the 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 accounting principles generally accepted in the United States of America.
7. Appropriations lapse on June 30th for all Town units.
8. All budget data presented in the accompanying financial statements includes the original and revised budgets as of June 30th.

Town of Dayton, Virginia
Notes to Financial Statements
June 30, 2025

The Town did not exceed the budget for the general fund as illustrated in Exhibit 7.

E – Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term highly liquid investments with an original maturity of three months or less when purchased. Certificates of deposit with a maturity greater than three months are considered investments.

F – Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. 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 utility services as the major receivable. The Town grants credit to the customers of its water and sewer systems.

The Town does not have an allowance for uncollectible accounts as historically there has not been difficulty in collecting payments. Management believes any allowance would be immaterial.

G – Property Taxes

Real estate taxes are assessed annually by Rockingham County, Virginia, for all property of record as of January 1st. Property taxes are attached 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 \$.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.

H – Inventories

Inventories consist of expendable supplies held for consumption. Inventories are estimated by the Town.

I – Prepaids

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.

J – Investment in Electric Cooperative

Investment in electric cooperative reflects the Town's member equity in a cooperative. The Town receives an allocation each year based on patronage. The current policy of the cooperative Board of Directors is to retire allocations on a 15-year schedule, and thus the investment is considered long-term.

K – Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are assets with an initial, individual cost of more than \$5,000 and a useful life of more than one year. Infrastructure assets capitalized have an original cost of \$25,000 or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Town of Dayton, Virginia
Notes to Financial Statements
June 30, 2025

Donated capital assets are recorded at estimated fair value at the date of donation. Assets received in a service concession arrangement are reported at acquisition value.

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

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

| | |
|---------------------------------|-------------|
| Buildings and land improvements | 10-50 years |
| Utility systems | 10-35 years |
| Machinery, equipment, vehicles | 5-15 years |
| Infrastructure | 20-35 years |

Leased assets and subscription-based information technology arrangements are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method.

L – Deferred Outflows/Inflows of Resources

In addition to assets, the statements that present financial position report a separate section for deferred outflows of resources, which represents a consumption of net assets that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements that represent financial condition report a separate section for deferred inflows of resources. This separate financial 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 are always a deferred outflow; this will be applied to the net pension or OPEB liability in the next fiscal year.
- Differences between expected and actual experience for economic/demographic factors 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.
- Difference between projected and actual earnings on pension and OPEB plan investments. This difference will be recognized in pension or OPEB expense over a closed five-year period and may be reported as a deferred outflow or inflow as appropriate.
- Changes of assumptions. This difference will be recognized in OPEB expense over a closed five-year period and may be reported as a deferred outflow or inflow as appropriate.
- Changes in a proportionate share that will be recognized in OPEB expense over the average expected remaining service lives of all employees provided with benefits. This may be reported as a deferred outflow or a deferred inflow as appropriate.
- Unavailable revenue occurs only under the modified accrual basis of accounting and is reported only in the governmental fund balance sheet. The governmental fund reports unavailable revenue from property taxes and other receivables not collected within 45 days of year-end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Town of Dayton, Virginia
Notes to Financial Statements
June 30, 2025

M – 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.

N – Compensated Absences

The Town has policies that allow for the accumulation and vesting of limited amounts of paid time off until termination or retirement. The amounts of such absences are accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is recorded when the leave: (1) has been earned for service previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled during or upon separation from employment.

O – Long-Term Debt

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.

P – Net Position/Fund Balance

Net position in the government-wide and proprietary financial statements is classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through state statute.

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 fund.

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 inter-fund 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 constrained to specific purposes by the Town, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purposes unless the same highest level of action is taken to remove or change the constraint.
- **Assigned** – Amounts the Town intends to use for a specified purpose; intent can be expressed by Council.
- **Unassigned** – Amounts that are available for any purpose; positive amounts are reported only in the general fund.

Council establishes fund balance commitments by passage of an ordinance or resolution. This is typically done through the adoption and amendment of the budget. The assigned fund balance is established by Council through the adoption or

Town of Dayton, Virginia
Notes to Financial Statements
June 30, 2025

amendment of the budget as intended for a specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes). The fund balance is restricted to the net pension asset.

Q – Restricted Resources

Unless stipulated by 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.

R – Cash Reserve Policy

Town Council has formally adopted by resolution a requirement to establish and maintain a reserve equal to a minimum of \$2,400,000 to provide the Town adequate funds to pay sewer authority fees and six months of budgeted general fund expenditures. The purpose of the safety net reserve is to protect the Town from unplanned changes at its major utility customer. Funds are currently held in the water and sewer fund.

Funds to be used from the reserve must be appropriated through the annual budget ordinance or by a budget amendment ordinance approved and adopted by Town Council. The Town is required to restore the minimum balance within the following three fiscal years.

S – Interfund Transfers

The composition of inter-fund transfers is as follows:

| Transfer Out Fund | Transfer In Fund | Amount |
|------------------------------|-----------------------------|---------------------|
| Water and Sewer Fund | General Fund | \$ 1,265,144 |

The transfer from the water and sewer fund to the general fund is to support the general operating expenditures of the Town.

T – Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. The Town does not have any encumbrances as of year-end.

U – Estimates

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and reported revenues, expenditures, and expenses. Actual results could differ from those estimates.

Town of Dayton, Virginia
Notes to Financial Statements
June 30, 2025

V - Change in Accounting Principle

During 2025, the Town adopted GASB Statement No. 101, *Compensated Absences*. GASB Statement No. 101 established new guidance by updating the recognition and measurement for compensated absences. A liability should be recognized for leave that has not been used if the leave is attributable to services already rendered, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. As stated in GASB Statement No. 100, *Accounting Changes and Error Corrections*, a change in accounting principle should be reported retroactively by restating beginning net position for the cumulative effect of the change of the newly adopted accounting principle on prior periods. The Town determined the cumulative effect on beginning net position was minimal and, therefore, no restatement of the prior year net position was necessary.

Note 2 – Deposits and Investments

Deposits

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

Investments

Investment Policy

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; banker’s acceptances; repurchase agreements; the Virginia State Non-Arbitrage Program (SNAP); and the State Treasurer’s Local Government Investment Pool (LGIP).

As of June 30th, the Town had the following deposits and investments:

| <u>Type</u> | <u>Fair Value</u> | <u>Credit Rating</u> | <u>Percent of Portfolio</u> |
|--|---------------------|----------------------|-----------------------------|
| Demand deposits | \$ 1,274,389 | N/A | 23.68% |
| Certificates of deposit maturing in: | | | |
| More than three months | 4,106,197 | N/A | 76.32 |
| | <u>\$ 5,380,586</u> | | <u>100.00%</u> |
| Reconciliation of deposits and investments to Exhibit 1: | | | |
| Cash and cash equivalents | \$ 1,274,389 | | |
| Investments | 4,106,197 | | |
| Total deposits and investments | <u>\$ 5,380,586</u> | | |

Town of Dayton, Virginia
Notes to Financial Statements
June 30, 2025

Credit Risk

As required by state statute, commercial paper must have a short-term debt rating of no less than “A-1” (or its equivalent) from at least two of the following; Moody’s Investors Service, Standard & Poor’s, and Fitch Investor’s Service, provided that the issuing corporation has a net worth of \$50 million and its long-term debt is rated A or better by Moody’s and Standard & Poor’s. Bankers acceptances and Certificates of Deposit maturing in less than one year must have a short-term debt rating of at least “A-1” by Standard & Poor’s and “P-1” by Moody’s Investor Service and a rating of at least AA by Standard & Poor’s and AA by Moody’s Investor Service for maturities over one year and not exceeding five years. Open-end investment funds must be registered under the Securities Act of the Commonwealth or the Federal Investment Company Act of 1940, provided that they invest only in securities approved for investment herein. Commonwealth of Virginia and Virginia Local Government Obligations secured by debt service reserve funds not subject to annual appropriation must be rated AA or higher by Moody’s or Standard & Poor’s. Repurchase agreements require that the counterparty be rated “A” or better by Moody’s and Standard & Poor’s.

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.

Interest Rate Risk

As of June 30th, all certificates of deposit have original maturities ranging from October 2025 through April 2028. The Town does not have a formal policy limiting investment maturities.

Custodial Credit Risk

As required by the *Code of Virginia*, all security holdings with maturities over 30 days must be registered in the Town’s name. As of June 30th, the Town has no investments subject to custodial credit risk.

Note 3 – Receivables

Receivables are as follows:

| | General | Water and Sewer | Total |
|----------|-------------------|----------------------------|-------------------|
| Taxes | \$ 90,245 | \$ - | \$ 90,245 |
| Accounts | 70,248 | 451,268 | 521,516 |
| | \$ 160,493 | \$ 451,268 | \$ 611,761 |

Town of Dayton, Virginia
Notes to Financial Statements
June 30, 2025

Note 4 – Due from Other Governmental Units

Amounts due from other governmental units are as follows:

| | | |
|----------------------------------|-----------|---------------|
| Commonwealth of Virginia | | |
| Department of Taxation | \$ | 2,640 |
| County of Rockingham, Virginia | | |
| Sales tax collected for the Town | | 26,049 |
| | \$ | 28,689 |

Note 5 – Capital Assets

Capital asset activity for the year was as follows:

| Governmental Activities | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|---------------------|-------------|---------------------|
| Capital assets, not depreciated | | | | |
| Land | \$ 859,916 | \$ - | \$ - | \$ 859,916 |
| Total capital assets, not depreciated | 859,916 | - | - | 859,916 |
| Capital assets, depreciated | | | | |
| Buildings and improvements | 2,929,973 | - | - | 2,929,973 |
| Machinery and equipment | 750,569 | 49,251 | 16,382 | 783,438 |
| Vehicles | 763,663 | 106,292 | 33,000 | 836,955 |
| Land improvements | 982,689 | 74,600 | - | 1,057,289 |
| Infrastructure | 1,968,446 | - | - | 1,968,446 |
| Total capital assets, depreciated | 7,395,340 | 230,143 | 49,382 | 7,576,101 |
| Less: Accumulated depreciation: | | | | |
| Buildings and improvements | 1,097,764 | 67,480 | - | 1,165,244 |
| Machinery and equipment | 653,770 | 64,134 | 16,382 | 701,522 |
| Vehicles | 435,010 | 97,000 | 33,000 | 499,010 |
| Land improvements | 516,190 | 48,430 | - | 564,620 |
| Infrastructure | 755,076 | 99,238 | - | 854,314 |
| Total accumulated depreciated | 3,457,810 | 376,282 | 49,382 | 3,784,710 |
| Total capital assets, depreciated, net | 3,937,530 | (146,139) | - | 3,791,391 |
| Lease assets: | | | | |
| Equipment | 34,313 | 47,705 | - | 82,018 |
| Less: Accumulated amortization | (13,179) | (17,986) | - | (31,165) |
| Total lease assets, net | 21,134 | 29,719 | - | 50,853 |
| Subscription assets: | | | | |
| Subscriptions | 18,626 | 19,055 | 18,626 | 19,055 |
| Less: Accumulated amortization | (10,693) | (17,236) | (18,626) | (9,303) |
| Total subscription assets, net | 7,933 | 1,819 | - | 9,752 |
| Governmental activities capital assets, net | \$ 4,826,513 | \$ (114,601) | \$ - | \$ 4,711,912 |

Town of Dayton, Virginia
Notes to Financial Statements
June 30, 2025

| Business-Type Activities | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------------|----------------------------|--------------------|----------------------------|
| Capital assets, not depreciated | | | | |
| Land | \$ 543,934 | \$ - | \$ - | \$ 543,934 |
| Total capital assets, not depreciated | <u>543,934</u> | <u>-</u> | <u>-</u> | <u>543,934</u> |
| Capital assets, depreciated | | | | |
| Utility systems | 19,109,981 | 159,656 | - | 19,269,637 |
| Total capital assets, depreciated | <u>19,109,981</u> | <u>159,656</u> | <u>-</u> | <u>19,269,637</u> |
| Less: Accumulated depreciation | 9,849,374 | 518,940 | - | 10,368,314 |
| Total capital assets, depreciated, net | <u>9,260,607</u> | <u>(359,284)</u> | <u>-</u> | <u>8,901,323</u> |
| Business-type activities capital assets, net | <u>\$ 9,804,541</u> | <u>\$ (359,284)</u> | <u>\$ -</u> | <u>\$ 9,445,257</u> |

Depreciation and amortization expense were charged to functions/programs as follows:

| | |
|---|--------------------------|
| Governmental activities | |
| General government administration | \$ 202,301 |
| Public safety | 90,429 |
| Public works | 83,060 |
| Parks, recreation, and cultural | 35,714 |
| Total depreciation and amortization expense – governmental activities | <u>\$ 411,504</u> |
| Business-type activities | |
| Water and sewer | <u>\$ 518,940</u> |

Note 6 – Unavailable and Unearned Revenue

The following is a summary of unavailable and unearned revenue:

| | |
|--|-------------------------|
| Autumn Celebration deposits (unearned) | \$ 42,060 |
| Total unearned | <u>\$ 42,060</u> |
| Vehicle license tax (unavailable) | \$ 3,846 |
| Communications tax (unavailable) | 1,265 |
| Real estate tax (unavailable) | 90,245 |
| Total unavailable | <u>\$ 95,356</u> |

Town of Dayton, Virginia
Notes to Financial Statements
June 30, 2025

Note 7 – Long-Term Liabilities

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

| Governmental Activities | Beginning Balance | Increases | Decreases | Ending Balance | Due Within One Year |
|---|-------------------|------------------|------------------|-------------------|---------------------|
| Financed purchase | \$ 4,965 | \$ - | \$ 4,965 | \$ - | \$ - |
| Leases | 21,134 | 47,705 | 17,986 | 50,853 | 18,538 |
| Subscriptions | 7,933 | 19,055 | 17,236 | 9,752 | 9,752 |
| Compensated absences and service benefits | 98,863 | 8,841* | - | 107,704 | - |
| Total governmental activities | <u>\$ 132,895</u> | <u>\$ 75,601</u> | <u>\$ 40,187</u> | <u>\$ 168,309</u> | <u>\$ 28,290</u> |

*The change in compensated absences above is a net change for the year.

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

| Fiscal Year | Leases | | Subscriptions | |
|-------------|------------------|-----------------|-----------------|---------------|
| | Principal | Interest | Principal | Interest |
| 2026 | \$ 18,538 | \$ 1,783 | \$ 9,752 | \$ 296 |
| 2027 | 18,769 | 1,031 | - | - |
| 2028 | 7,249 | 451 | - | - |
| 2029 | 6,297 | 142 | - | - |
| | <u>\$ 50,853</u> | <u>\$ 3,407</u> | <u>\$ 9,752</u> | <u>\$ 296</u> |

The only long-term liabilities in the water and sewer fund consist of compensated absences and service benefits.

Note 8 – Defined Benefit Pension Plan

Plan Description

All full-time, salaried permanent employees of the Town of Dayton, Virginia (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 VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each Plan and the eligibility for covered groups within each Plan are available at:

- <https://www.varetire.org/retirement-plans/defined-benefit/plan1/>
- <https://www.varetire.org/retirement-plans/defined-benefit/plan2/>
- <https://www.varetire.org/retirement-plans/hybrid/>

Town of Dayton, Virginia
Notes to Financial Statements
June 30, 2025

Employees Covered by Benefit Terms

As of the June 30, 2023 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

| | Members |
|--|----------------|
| Inactive members or their beneficiaries currently receiving benefits | 16 |
| Inactive members: | |
| Vested inactive members | 6 |
| Non-Vested inactive members | 5 |
| Inactive members active elsewhere in VRS | 19 |
| Total inactive members | 46 |
| Active members | 15 |
| Total covered employees | 61 |

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, 2025, was 15.21% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2023.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Political Subdivision were \$175,305 and \$113,032 for the years ended June 30, 2025 and June 30, 2024, respectively.

The defined contributions component of the Hybrid plan includes member and employer mandatory and voluntary contributions. The Hybrid plan member must contribute a mandatory rate of 1% of their covered payroll. The employer must also contribute a mandatory rate of 1% of this covered payroll, which totaled \$6,152 for the year ended June 30, 2025. Hybrid plan members may also elect to contribute an additional voluntary rate of up to 4% of their covered payroll; which would require the employer a mandatory additional contribution rate of up to 2.5%. This additional employer mandatory contribution totaled \$9,141 for the year ended June 30, 2025. The total Hybrid plan participant covered payroll totaled \$645,886 for the year ended June 30, 2025.

Net Pension Asset

The net pension 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 that employer’s fiduciary net position. For Political Subdivisions, the net pension asset was measured as of June 30, 2024. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation performed as of June 30, 2023, rolled forward to the measurement date of June 30, 2024.

Town of Dayton, Virginia
Notes to Financial Statements
June 30, 2025

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, 2023, 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, 2024.

| | |
|---|--|
| Inflation | 2.50% |
| General Employees – Salary increases, including inflation | 3-50 – 5.35% |
| Public Safety Employees – 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 – 70% of deaths are assumed to be service related. Mortality is projected using the applicable Pub-2010 Mortality Table and a Modified MP-2020 Improvement Scale with various setbacks or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020. 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): Updated mortality table; adjusted retirement rates to better fit experience; adjusted withdrawal rates to better fit experience at each year age and service through 9 years of service; no change to disability rates; no change to salary scale; no change to line of duty disability; and no change to discount rate.

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

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

Town of Dayton, Virginia
Notes to Financial Statements
June 30, 2025

percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class (Strategy) | Target Allocation | Arithmetic Long-Term Expected Rate of Return | Weighted Average Long-Term Expected Rate of Return |
|--------------------------------------|-------------------|--|--|
| Public Equity | 32.00% | 6.70% | 2.14% |
| Fixed Income | 16.00 | 5.40 | 0.86 |
| Credit Strategies | 16.00 | 8.10 | 1.30 |
| Real Assets | 15.00 | 7.20 | 1.08 |
| Private Equity | 15.00 | 8.70 | 1.31 |
| PIP – Private Investment Partnership | 1.00 | 8.00 | 0.08 |
| Diversifying Strategies | 6.00 | 5.80 | 0.35 |
| Cash | 2.00 | 3.00 | 0.06 |
| Leverage | (3.00) | 3.50 | (0.11) |
| Total | 100.00% | | 7.07% |
| | | | 7.07% |

*Expected arithmetic nominal return

- * The above allocation provides for a one-year return of 7.07% (includes 2.50% inflation assumption). However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the System, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.10%, including expected inflation of 2.50%. On June 15, 2023, the VRS Board elected a long-term rate of 6.75%, which is roughly at the 45th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. For the year ended June 30, 2024, the employer contribution was 100% of the actuarially determined employer contribution rate from the June 30, 2023 actuarial valuations. From July 1, 2024, on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rate. 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.

Town of Dayton, Virginia
Notes to Financial Statements
June 30, 2025

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

| | Increase (Decrease) | | |
|--|--------------------------------------|--|--|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability/(Asset) (a) – (b) |
| Balance at June 30, 2023 | \$ 3,769,932 | \$ 3,866,584 | \$ (96,652) |
| Changes for the year: | | | |
| Services cost | 165,489 | - | 165,489 |
| Interest | 258,138 | - | 258,138 |
| Difference between expected and actual experience | 33,113 | - | 33,113 |
| Contributions – employer | - | 113,032 | (113,032) |
| Contributions – employee | - | 47,769 | (47,769) |
| Net investment income | - | 373,997 | (373,997) |
| Benefit payments, including refunds of employee contributions | (222,302) | (222,302) | - |
| Administrative expenses | - | (2,462) | 2,462 |
| Other changes | - | 79 | (79) |
| Net changes | 234,438 | 310,113 | (75,675) |
| Balances at June 30, 2024 | <u>\$ 4,004,370</u> | <u>\$ 4,176,697</u> | <u>\$ (172,327)</u> |

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

The following presents the net pension liability/(asset) of the Political Subdivision using the discount rate of 6.75%, as well as what the Political Subdivision’s net pension liability/(asset) 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 liability/(asset) | <u>\$ 278,021</u> | <u>\$ (172,327)</u> | <u>\$ (537,681)</u> |

Town of Dayton, Virginia
Notes to Financial Statements
June 30, 2025

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

For the year ended June 30, 2025, the Political Subdivision recognized a pension expense of \$109,797. At June 30, 2025, 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 | \$ 21,911 | \$ - |
| Net difference between projected and actual earnings on pension plan investments | - | 108,977 |
| Employer contributions subsequent to the measurement date | 175,305 | - |
| Total | \$ 197,216 | \$ 108,977 |

The \$175,305 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, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ending June 30, | Effect on Pension Expense |
|---------------------------------|--|
| 2026 | \$ (76,405) |
| 2027 | 33,510 |
| 2028 | (21,140) |
| 2029 | (23,031) |
| 2030 | - |
| Thereafter | - |

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2024 Annual Report. A copy of the 2024 VRS Annual Report may be downloaded from the VRS website at varetire.org/media/shared/pdf/publications/2024-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, 2025, approximately \$14,780 was payable to the Virginia Retirement System for the legally required contributions related to June 2025 payroll.

Town of Dayton, Virginia
Notes to Financial Statements
June 30, 2025

Note 9 – Other Postemployment Benefits Liability – Local Plan

Plan Description

The Town provides postemployment medical coverage for retired employees through a single-employer defined benefit plan. The Plan is established under the authority of Town Council, which may also amend the Plan as deemed appropriate.

Participants in the Town’s OPEB plan must meet eligibility requirements based on service earned with the Town to be eligible to receive benefits upon retirement. Participants who do not retire directly from active service are not eligible for the benefit. Participants must meet eligibility for retirement or disability retirement with VRS to be eligible for health benefits. Assets in this Plan are not administered through a trust.

Benefits Provided

Health benefits include medical, dental, and vision insurance. Retirees may also elect to cover eligible spouses and/or dependents. Participating retirees pay 100% of the monthly premium cost to continue with the Town’s insurance plans. Benefits end at the earlier of the retiree’s death or attainment of age 65.

Employees Covered by Benefit Terms

As of the June 30, 2024 actuarial valuation, the following employees were covered by the benefit terms of the Plan:

| | |
|---------------------|------------------|
| | <u>Members</u> |
| Active plan members | <u><u>25</u></u> |

Total OPEB Liability

The Town’s total OPEB liability of \$368,354 was measured as of June 30, 2024, and was determined based on an actuarial valuation performed as of June 30, 2024.

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions, applied to all periods included in the measurement unless otherwise specified:

| | |
|--|--|
| Actuarial cost method | Entry Age Normal |
| Amortization method | Level Percentage of Payroll |
| Inflation (Discount Rate) | 3.89% |
| Salary increases, including inflation | 6.00% |
| Healthcare cost trend rates | Vision 3.00% Dental 3.00 - 3.50% Medical 4.20 – 4.80% Pharmacy 4.20 – 5.20% |
| Retirees’ share of benefit-related costs | 100% |

Mortality rates: Pub-2010 Public Retirement Plans Mortality Tables, with mortality improvement projected for ten years.

Town of Dayton, Virginia
Notes to Financial Statements
June 30, 2025

Actuarial Assumptions and Other Inputs

The actuarial assumptions used in the June 30, 2025 valuation were based on the results of an internal analysis performed during 2024.

Changes in the Total OPEB Liability

| | |
|----------------------------|------------|
| Balance at June 30, 2024 | \$ 368,354 |
| Changes for the prior year | |
| Service cost | 51,055 |
| Benefit payments | (51,055) |
| Net changes | - |
| Balance at June 30, 2025 | \$ 368,354 |

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

The following presents the total OPEB liability of the Town, as well as what the Town’s total OPEB liability would be if it was calculated using a discount rate that is one-percentage-point lower (2.89%) or one-percentage-point higher (4.89%) than the current discount rate:

| | 1.00% Decrease (2.89%) | Current Discount Rate (3.89%) | 1.00% Increase (4.89%) |
|----------------------|------------------------------|-------------------------------------|------------------------------|
| Total OPEB liability | \$ 416,736 | \$ 368,354 | \$ 328,518 |

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the Town, as well as what the Town’s total OPEB liability would be if it was calculated using healthcare cost trend rates that are one-percentage-point lower or one-percentage-point higher than the current healthcare cost trend rates:

| | 1.00% Decrease (2.00%-4.20%) | Current Healthcare Cost Trend Rates (3.00%-5.20%) | 1.00% Increase (4.00%-6.20%) |
|----------------------|------------------------------------|---|------------------------------------|
| Total OPEB liability | \$ 316,160 | \$ 368,354 | \$ 432,148 |

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

For the year ended June 30, 2025, the Town did not have any OPEB expense. At June 30, 2025, the Town did not have deferred outflows of resources and deferred inflows of resources related to OPEB to report.

Note 10 – Other Postemployment Benefits Liability – Virginia Retirement System Plans

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

Town of Dayton, Virginia
Notes to Financial Statements
June 30, 2025

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/benefits-and-programs/benefits/life-insurance/>.

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 June 30, 2023. 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 combined with employee contributions. Specific details related to the contributions for the VRS OPEB programs are as follows:

Group Life Insurance Program

Governed by:

Code of Virginia 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.

Total rate:

1.18% of covered employee compensation. Rate allocated 60/40; 0.71% employee and 0.47% employer. Employers may elect to pay all or part of the employee contribution

| | |
|---|---------|
| ³ June 30, 2025 Contribution | \$5,417 |
| June 30, 2024 Contribution | \$5,676 |

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

The net OPEB liabilities were measured as of June 30, 2024 and the total OPEB liabilities used to calculate the net OPEB liabilities was determined by an actuarial valuation performed as of June 30, 2023 and rolled forward to the measurement date of June 30, 2024. 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, 2024 relative to the total of the actuarially determined employer contributions for all participating employers.

Town of Dayton, Virginia
Notes to Financial Statements
June 30, 2025

Group Life Insurance Program

| | |
|--|----------|
| June 30, 2025 proportionate share of liability | \$45,641 |
| June 30, 2024 proportion | 0.00409% |
| June 30, 2025 proportion | 0.00378% |
| June 30, 2025 expense | \$652 |

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

At June 30, 2025, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

Group Life Insurance Program

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual experience | \$ 7,199 | \$ 1,115 |
| Changes of assumptions | 260 | 2,262 |
| Net difference between projected and actual earnings on OPEB plan investments | - | 3,847 |
| Change in proportionate share | 5,385 | 1,867 |
| Employer contributions subsequent to the measurement date | 5,417 | - |
| Total | \$ 18,261 | \$ 9,091 |

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, 2026. 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:

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

| Year Ending June 30, | Effect on To OPEB Expense |
|---------------------------------|--|
| 2026 | \$ (1,033) |
| 2027 | 1,821 |
| 2028 | 813 |
| 2029 | 881 |
| 2030 | 1,271 |
| Thereafter | - |

Town of Dayton, Virginia
Notes to Financial Statements
June 30, 2025

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2023, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2024:

| | |
|--|--------------|
| Inflation | 2.5% |
| Salary increases, including inflation: | |
| • Locality – general employees | 3.5 – 5.35% |
| • Locality – hazardous duty employees | 3.5 – 4.75% |
| Healthcare cost trend rates: | |
| • Under age 65 | 7.25 – 4.25% |
| • Ages 65 and older | 6.50 – 4.25% |
| 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 in Note 8.

Net OPEB Liabilities

The net OPEB liabilities represent the VRS 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, 2024, net OPEB liability amounts are as follows (amounts expressed in thousands):

| | |
|---|---|
| | Group Life Insurance Program |
| Total OPEB Liability | \$ 4,196,055 |
| Plan fiduciary net position | 3,080,133 |
| Employers' net OPEB liability | 1,115,922 |
| Plan fiduciary net position as a percentage of total OPEB liability | 73.41% |

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 8.

Discount Rate

The discount rate used to measure the GLI OPEB liabilities 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 ending

Town of Dayton, Virginia
Notes to Financial Statements
June 30, 2025

June 30, 2024, the rate contributed by the employer for the OPEB liabilities will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 113% of the actuarially determined contribution rate for GLI and 100% of the actuarially determined contribution rate for all other OPEB plans. From July 1, 2024 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the OPEB plans' fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following presents the net OPEB liability of the Town, as well as what the Town's net OPEB liability 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 | \$ 70,978 | \$ 45,641 | \$ 25,172 |

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2024 *Annual Comprehensive Financial Report* (Annual Report). A copy of the 2024 VRS Annual Report may be downloaded from the VRS website at <https://www.varetire.org/media/shared/pdf/publications/2024-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, 2025, the Town had \$457 payable to the Virginia Retirement System for the legally required contributions related to June 2025 payroll.

Note 11 – Jointly Governed Organization

The Town is a full member of the Harrisonburg-Rockingham Regional Sewer Authority whereby the Authority has agreed to provide wastewater treatment for the benefit of the Town and the other member municipalities. Each member pays its pro rata share of the operating expenses and debt service of the Authority. Members include the City of Harrisonburg, the County of Rockingham, and the Towns of Bridgewater, Dayton, and Mt. Crawford. Charges are submitted to the members monthly based on their respective usage of the sewage treatment facilities. The Town does not have an ongoing financial interest in the Authority since it does not have access to the Authority's resources or surpluses, nor is it liable for the Authority's debts or deficits.

Based on the current average usage, the Town's total assessment for the Authority's operating, debt service, and capital expenditures for fiscal year 2025 approximates \$1,997,000.

A copy of the annual audit report can be obtained by contacting the Harrisonburg-Rockingham Regional Sewer Authority, P.O. Box 8, 856 North River Rd, Mt. Crawford, Virginia 22841.

Town of Dayton, Virginia
Notes to Financial Statements
June 30, 2025

Note 12 – Major Customer

The Town has one major water and sewer customer. For the current year, water and sewer revenue from this customer was approximately \$3,876,000, or 90% of water and sewer operating revenues. Accounts receivable from this customer amounted to approximately \$284,000 or 85% of water and sewer receivables at June 30, 2025.

Note 13 – Risk Management

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

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

Note 14 – Leases

Under the guidance of GASBS No. 87, *Leases*, in instances where the Town is the lessee, the right-to-use asset information can be found in Note 5, and the corresponding liabilities and maturity schedules are provided in Note 7. Details of significant leases are described below.

During 2023, the Town entered into a lease for server equipment for a term of 60 months. Minimum lease payments are \$636 on a monthly basis. For the purpose of discounting future payments, the Town imputed an interest rate of 3.65%.

During 2025, the Town entered into two new leases. A copier lease is for a term of 60 months. Minimum lease payments are \$584 on a monthly basis. The second lease is for various computers with a term of 36 months and lease payments are \$473 a month. The imputed interest rate for both of these leases is 4.20%.

Note 15 – Subscription-Based Information Technology Arrangements

Under the guidance of GASBS No. 96, *Subscription-Based Information Technology Arrangements*. In instances where the Town is the lessee, the right-to-use asset information can be found in Note 5, and the corresponding liabilities and maturity schedules are provided in Note 7. Details of significant leases are described below.

During 2025, the Town entered a subscription-based technology arrangement for a term of 24 months. Minimum payments are \$831 on a monthly basis. For the purpose of discounting future payments, the Town imputed an interest rate of 4.81%.

Town of Dayton, Virginia
Notes to Financial Statements
June 30, 2025

Note 16 – Prior Period Restatement

During 2025, there were several errors discovered relating to cash and improper recording of the related expenses. The beginning fund balance and net position had to be restated as follows:

| | General Fund | Water and Sewer |
|---|---------------------|------------------------|
| Fund balance, June 30, 2024, as previously reported | \$ 5,522 | \$ 15,253,588 |
| Cash and expense errors | 775 | 23,300 |
| Net position, June 30, 2024, as restated | \$ 6,297 | \$ 15,276,888 |

| | Governmental Activities | Business-Type Activities |
|---|--------------------------------|---------------------------------|
| Net position, June 30, 2024, as previously reported | \$ 4,624,735 | \$ 15,253,588 |
| Cash and expense errors | 775 | 23,300 |
| Net position, June 30, 2024, as restated | \$ 4,625,510 | \$ 15,276,888 |

Note 17 – New Accounting Standards

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

In September 2024, the GASB issued **Statement No. 104**, *Disclosure of Certain Capital Assets*. This statement requires certain information regarding capital assets to be presented by major class. Certain types of capital assets are to be disclosed separately in the capital assets note disclosures required by Statement No. 34. The requirements of this Statement are effective for reporting periods beginning after June 15, 2025.

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



Required Supplementary Information

Town of Dayton, Virginia
Required Supplementary Information
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
June 30, 2025

| | Plan Year | | | | | | | |
|--|---------------------|--------------------|---------------------|---------------------|-------------------|-------------------|-------------------|-------------------|
| | 2024 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 |
| Total Pension Liability (Asset) | | | | | | | | |
| Service cost | \$ 165,489 | \$ 139,351 | \$ 122,564 | \$ 121,636 | \$ 112,836 | \$ 107,224 | \$ 110,272 | \$ 104,350 |
| Interest on total pension liability | 258,138 | 244,029 | 214,728 | 208,908 | 202,336 | 218,981 | 213,220 | 214,347 |
| Changes of assumptions | - | - | - | 157,615 | - | 88,634 | - | (23,806) |
| Difference between expected and actual experience | 33,113 | 18,876 | 291,907 | (319,877) | (18,361) | (368,912) | (32,513) | (112,947) |
| Benefit payments, including refunds of employee contributions | (222,302) | (216,443) | (207,345) | (201,891) | (197,025) | (156,272) | (261,079) | (135,009) |
| Net change in total pension liability (asset) | 234,438 | 185,813 | 421,854 | (33,609) | 99,786 | (110,345) | 29,900 | 46,935 |
| Total pension liability - beginning | 3,769,932 | 3,584,119 | 3,162,265 | 3,195,874 | 3,096,088 | 3,206,433 | 3,176,533 | 3,129,598 |
| Total pension liability - ending | 4,004,370 | 3,769,932 | 3,584,119 | 3,162,265 | 3,195,874 | 3,096,088 | 3,206,433 | 3,176,533 |
| Plan Fiduciary Net Position | | | | | | | | |
| Contributions - employer | 113,032 | 95,964 | 79,358 | 73,710 | 97,342 | 85,739 | 86,381 | 82,752 |
| Contributions - employee | 47,769 | 41,134 | 38,991 | 36,504 | 36,061 | 31,825 | 39,168 | 37,711 |
| Net investment income (loss) | 373,997 | 238,218 | (3,145) | 830,257 | 58,589 | 194,850 | 205,327 | 311,886 |
| Benefit payments, including refunds of employee contributions | (222,302) | (216,443) | (207,345) | (201,891) | (197,025) | (156,272) | (261,079) | (135,009) |
| Administrative expenses | (2,462) | (2,384) | (2,374) | (2,097) | (2,012) | (1,917) | (1,835) | (1,779) |
| Other | 79 | 96 | 87 | 78 | (69) | (123) | (181) | (279) |
| Net change in plan fiduciary net position | 310,113 | 156,585 | (94,428) | 736,561 | (7,114) | 154,102 | 67,781 | 295,282 |
| Plan fiduciary net position - beginning | 3,866,584 | 3,709,999 | 3,804,427 | 3,067,866 | 3,074,980 | 2,920,878 | 2,853,097 | 2,557,815 |
| Plan fiduciary net position - ending | 4,176,697 | 3,866,584 | 3,709,999 | 3,804,427 | 3,067,866 | 3,074,980 | 2,920,878 | 2,853,097 |
| Net pension liability/(asset) - ending | \$ (172,327) | \$ (96,652) | \$ (125,880) | \$ (642,162) | \$ 128,008 | \$ 21,108 | \$ 285,555 | \$ 323,436 |
| Plan fiduciary net position as a percentage of total pension liability/(asset) | 104% | 103% | 104% | 120% | 96% | 99% | 91% | 90% |
| Covered payroll | \$ 984,263 | \$ 811,417 | \$ 851,066 | \$ 778,991 | \$ 769,456 | \$ 659,574 | \$ 788,229 | \$ 660,168 |
| Net pension liability (asset) as a percentage of covered payroll | -18% | -12% | -15% | -82% | 17% | 3% | 36% | 49% |

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.

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.

Town of Dayton, Virginia
Required Supplementary Information
Schedule of Pension Contributions
June 30, 2025

| Town Fiscal Year Ended June 30 | Actuarially Determined Contribution | Contributions in Relation to Actuarially Determined Contribution | Contribution Deficiency (Excess) | Covered Payroll | Contributions as a percentage of Covered Payroll |
|---|--|---|---|------------------------|---|
| 2025 | \$ 175,305 | \$ 175,305 | \$ - | \$ 1,061,036 | 16.52% |
| 2024 | 113,032 | 113,032 | - | 984,263 | 11.48% |
| 2023 | 95,968 | 95,968 | - | 811,417 | 11.83% |
| 2022 | 79,401 | 79,401 | - | 851,066 | 9.33% |
| 2021 | 73,710 | 73,710 | - | 778,991 | 9.46% |
| 2020 | 97,342 | 97,342 | - | 769,456 | 12.65% |
| 2019 | 85,739 | 85,739 | - | 659,574 | 13.00% |
| 2018 | 86,381 | 86,381 | - | 788,229 | 10.96% |
| 2017 | 82,752 | 82,752 | - | 660,168 | 12.53% |
| 2016 | 93,620 | 93,620 | - | 801,047 | 11.69% |

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 Dayton, Virginia
Required Supplementary Information
Schedule of Employer's Share of Net OPEB Liability and Related Ratios
June 30, 2025

| 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 | | | | | |
| 2024 | 0.00409% | \$ 45,641 | \$ 984,263 | 4.64% | 73.41% |
| 2023 | 0.00378% | 45,334 | 811,417 | 5.59% | 69.30% |
| 2022 | 0.00391% | 47,080 | 851,066 | 5.53% | 67.21% |
| 2021 | 0.00377% | 43,893 | 778,991 | 5.63% | 67.45% |
| 2020 | 0.00374% | 62,414 | 769,456 | 8.11% | 52.64% |
| 2019 | 0.00337% | 55,000 | 659,574 | 8.34% | 52.00% |

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.

Schedule of OPEB Contributions
June 30, 2025

| 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 | | | | | |
| 2025 | \$ 5,417 | \$ 5,417 | \$ - | \$ 1,061,036 | 0.51% |
| 2024 | 5,676 | 5,676 | - | 984,263 | 0.58% |
| 2023 | 4,811 | 4,811 | - | 811,417 | 0.59% |
| 2022 | 4,550 | 4,550 | - | 851,066 | 0.53% |
| 2021 | 4,207 | 4,207 | - | 778,991 | 0.54% |
| 2020 | 4,005 | 4,005 | - | 769,456 | 0.52% |

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 Dayton, Virginia

Required Supplementary Information Schedule of Changes in Net OPEB Liability and Related Ratios - Local Plan

June 30, 2025

| | Plan Year | | | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2024 | 2023 | 2022 | 2021 |
| Total OPEB Liability | | | | |
| Service cost | \$ 51,055 | \$ 51,055 | \$ 51,055 | \$ 51,055 |
| Interest on total OPEB liability | - | 17,220 | 11,281 | - |
| Effect of economic/demographic gains or losses | - | (109,923) | 95,421 | - |
| Benefit payments | (51,055) | - | - | (51,055) |
| Change in assumptions | - | (10,737) | (8,274) | - |
| Net change in total OPEB liability | - | (52,385) | 149,483 | - |
| Total OPEB liability - beginning | 368,354 | 420,739 | 271,256 | 271,256 |
| Total OPEB liability - ending | \$ 368,354 | \$ 368,354 | \$ 420,739 | \$ 271,256 |
| | | | | |
| Covered payroll | \$ 984,263 | \$ 811,417 | \$ 851,066 | \$ 778,991 |
| | | | | |
| Net OPEB liability as a percentage of covered payroll | 37% | 45% | 49% | 35% |

The Plan year above is reported in the entity's financial statements in the fiscal year following the Plan year - i.e., Plan year 2020 information was presented in the entity's fiscal year 2021 financial report.

This schedule is intended to show information for 10 years. Since fiscal year 2021 (Plan year 2020) is the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

Change in assumptions for the Plan year 2020 is due to the Town no longer providing post-65 coverage.

Town of Dayton, Virginia

Notes to Required Supplementary Information Statements

June 30, 2025

Note 1 – Changes of Benefit Terms

Pension

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

Other Postemployment Benefits (OPEB)

There have been no actuarial 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, 2023, valuation were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020. 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 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 rates.
- No change to discount rate.

Largest 10 – Hazardous Duty/Public Safety Employees:

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

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

- Update mortality table to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified 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 year age and service through 9 years of service.

Town of Dayton, Virginia

Notes to Required Supplementary Information Statements

June 30, 2025

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

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

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



Compliance Section





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

To the Honorable Members of Town Council
Town of Dayton, Virginia
Dayton, 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 Dayton, Virginia (the "Town"), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated October 29, 2025.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. **We identified certain deficiencies in internal control described in the accompanying schedule of findings and questioned costs as items 2025-001 and 2025-002 that we consider to be material weaknesses.**



Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 of Dayton's Response to Findings

The Town's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Town's responses were not subjected to the 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 provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia

October 29, 2025

Town of Dayton, Virginia
Schedule of Findings and Responses
June 30, 2025

A – Findings – Financial Statement Audit

2025-001: Segregation of Duties (Material Weakness)

Condition A fundamental concept of internal controls is the separation of duties. No one employee should have access to both physical assets and the related accounting records, or to all phases of a transaction. A proper segregation of duties has not been established in functions related to cash receipts, accounts receivable, cash disbursements, and accounts payable.

Recommendation Steps should continue to be taken to eliminate performance of conflicting duties where possible or to implement effective compensating controls.

Management’s Response Management acknowledges the finding and recognizes the importance of maintaining strong internal controls. The Town continues to make progress toward improving segregation of duties where feasible and has implemented measures to strengthen internal controls within its accounting processes. Due to the Town’s limited staffing, achieving complete segregation of duties remains a challenge; however, management has implemented, and will continue to maintain, compensating controls—including enhanced supervisory review and oversight—to mitigate related risks.

2025-002: Audit Adjustments (Material Weakness)

Condition Audit procedures resulted in material audit adjustments to the financial statements.

Recommendation We recommend that the Town create monthly and annual checklists for accrual entries.

Management’s Response Management acknowledges the finding and recognizes the importance of accurate and timely financial reporting. The Town continues to enhance its knowledge and understanding of accrual accounting procedures. The Town will work toward establishing standardized monthly and annual checklists to ensure that all necessary accrual entries are properly identified and recorded.