



Town of Elkton, Virginia

Financial Report

June 30, 2025

Town of Elkton, Virginia

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Introductory Section



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

Town Council

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

Virginia Fulginiti
Rachel Michael
Aaron Napotnik
Jan Hensley
Louis Heidel

Appointed Officials

Greg Lunsford, Town Manager
Donna Curry, Treasurer



Financial Section



Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Elkton, Virginia, (the "Town") as of and for the year ended June 30, 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 budgetary comparison schedule of the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions


We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 13 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 management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.


Supplementary Information

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

Other Information

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

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If,



based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2026 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
March 19, 2026

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Basic Financial Statements



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Government-Wide Financial Statements

Statement of Net Position

June 30, 2025

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents (Note 3)	\$ 1,402,495	\$ 2,889,117	\$ 4,291,612
Receivables, net: (Note 4)			
Property taxes	640,234	-	640,234
Meals taxes	116,516	-	116,516
Accounts and other	54,904	482,420	537,324
Prepays	29,869	12,700	42,569
Due from other governmental units and businesses (Note 5)	52,449	-	52,449
Inventories	6,272	154,726	160,998
Cash and cash equivalents – restricted (Note 3)	1,475,205	113,822	1,589,027
Investments – restricted (Note 3)	12,441	-	12,441
Capital assets: (Note 7)			
Nondepreciable	2,462,763	1,702,400	4,165,163
Depreciable, net	7,766,624	24,600,132	32,366,756
Net pension asset (Note 10)	313,235	109,162	422,397
Total assets	<u>14,333,007</u>	<u>30,064,479</u>	<u>44,397,486</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension-related deferred outflows (Note 10)	178,727	62,286	241,013
Other postemployment benefit-related deferred outflows (Note 11)	18,604	6,482	25,086
Total deferred outflows of resources	<u>197,331</u>	<u>68,768</u>	<u>266,099</u>
LIABILITIES			
Accounts payable	155,502	621,428	776,930
Customer deposits	-	113,822	113,822
Unearned revenue (Note 8)	1,475,205	-	1,475,205
Accrued payroll	85,155	19,500	104,655
Accrued interest payable	-	19,931	19,931
Long-term debt, due within one year (Note 9)	186,439	326,547	512,986
Noncurrent liabilities:			
Compensated absences (Note 9)	205,021	73,684	278,705
Long-term debt, due in more than one year (Note 9)	747,072	14,906,091	15,653,163
Net other postemployment benefit liability (Note 11)	52,300	18,226	70,526
Total liabilities	<u>2,906,694</u>	<u>16,099,229</u>	<u>19,005,923</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred property taxes (Note 8)	502,573	-	502,573
Pension-related deferred inflows (Note 10)	101,105	35,235	136,340
Other postemployment benefit-related deferred inflows (Note 11)	8,655	3,016	11,671
Total deferred inflows of resources	<u>612,333</u>	<u>38,251</u>	<u>650,584</u>
NET POSITION			
Net investment in capital assets	9,295,876	10,647,221	19,943,097
Restricted for pension	313,235	109,162	422,397
Restricted for grants	155,851	-	155,851
Unrestricted	1,246,349	3,239,384	4,485,733
Total net position	<u>\$ 11,011,311</u>	<u>\$ 13,995,767</u>	<u>\$ 25,007,078</u>

Town of Elkton, Virginia

Exhibit 2

Statement of Activities Year Ended June 30, 2025

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business- Type Activities	Total
Governmental activities							
General government administration	\$ 1,593,184	\$ 14,205	\$ 64,333	\$ -	\$ (1,514,646)	\$ -	\$ (1,514,646)
Public safety	1,016,022	12,972	95,901	-	(907,149)	-	(907,149)
Public works	659,413	249,648	714,438	-	304,673	-	304,673
Cemetery services	59,891	94,431	-	-	34,540	-	34,540
Parks, recreation, and cultural	181,397	-	159,000	-	(22,397)	-	(22,397)
Community development	222,024	197,050	35,000	-	10,026	-	10,026
Interest on long-term debt	31,947	-	-	-	(31,947)	-	(31,947)
Total governmental activities	3,763,878	568,306	1,068,672	-	(2,126,900)	-	(2,126,900)
Business-type activities							
Electric	2,265,462	2,212,773	-	-	-	(52,689)	(52,689)
Water	506,167	767,337	-	-	-	261,170	261,170
Sewer	1,549,543	1,055,375	-	1,372,545	-	878,377	878,377
Total business-type activities	4,321,172	4,035,485	-	1,372,545	-	1,086,858	1,086,858
Total primary government	\$ 8,085,050	\$ 4,603,791	\$ 1,068,672	\$ 1,372,545	(2,126,900)	1,086,858	(1,040,042)
General revenues:							
Property taxes					553,663	-	553,663
Other local taxes					2,302,864	-	2,302,864
Miscellaneous					218,076	-	218,076
Gain on sale of property					53,768	-	53,768
Total general revenues					3,128,371	-	3,128,371
Change in net position					1,001,471	1,086,858	2,088,329
NET POSITION AT JULY 1, AS PREVIOUSLY PRESENTED					10,106,361	12,995,269	23,101,630
RESTATEMENT (Note 13)					(96,521)	(86,360)	(182,881)
NET POSITION AT JULY 1, AS RESTATED					10,009,840	12,908,909	22,918,749
NET POSITION AT JUNE 30					\$ 11,011,311	\$ 13,995,767	\$ 25,007,078

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

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Fund Financial Statements



Town of Elkton, Virginia

Balance Sheet Governmental Fund

June 30, 2025

ASSETS	<u>General</u>
Cash and cash equivalents (Note 3)	\$ 1,402,495
Receivables, net (Note 4)	
Property taxes	640,234
Meals taxes	116,516
Accounts and other	54,904
Prepays	29,869
Inventories	6,272
Due from other governments (Note 5)	52,449
Cash and cash equivalents – restricted (Note 3)	1,475,205
Investments – restricted (Note 3)	12,441
Total assets	<u><u>\$ 3,790,385</u></u>
LIABILITIES	
Accounts payable	\$ 155,502
Accrued payroll	85,155
Unearned revenue (Note 8)	1,475,205
Total liabilities	<u>1,715,862</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred property taxes (Note 8)	502,573
Unavailable revenue (Note 8)	155,926
Total deferred inflows of resources	<u>658,499</u>
FUND BALANCES	
Nonspendable:	
Prepays	29,869
Inventories	6,272
Restricted:	
Grants	155,851
Committed:	
Capital projects	1,532,860
Unassigned	(308,828)
Total fund balances	<u>1,416,024</u>
Total liabilities, deferred inflows of resources, and fund balances	<u><u>\$ 3,790,385</u></u>

Town of Elkton, Virginia

Exhibit 4

**Reconciliation of the Governmental Fund Balance Sheet
to the Statement of Net Position**

June 30, 2025

Ending fund balance – governmental fund		\$ 1,416,024
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	\$ 2,462,763	
Depreciable, net	<u>7,766,624</u>	
		10,229,387
Certain revenues are not available in the current period and, therefore, are not reported in the governmental fund.		
		155,926
Financial statement elements related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the fund.		
Deferred outflows of resources related to pension	178,727	
Deferred outflows of resources related to OPEB	18,604	
Deferred inflows of resources related to pension	(101,105)	
Deferred inflows of resources related to OPEB	(8,655)	
Net pension asset	313,235	
Net OPEB liability	<u>(52,300)</u>	
		348,506
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund.		
Compensated absences	(205,021)	
General obligation bonds payable	(713,501)	
Notes payable	<u>(220,010)</u>	
		<u>(1,138,532)</u>
Total net position – governmental activities		<u><u>\$ 11,011,311</u></u>

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
Year Ended June 30, 2025**

	<u>General</u>
REVENUES	
General property taxes	\$ 535,548
Other local taxes	2,302,864
Permits, privilege fees, and regulatory licenses	6,185
Fines and forfeitures	12,972
Revenues from the use of money and property	8,020
Charges for services	541,129
Recovered costs	42,753
Gifts and contributions	175,323
Intergovernmental:	
Rockingham County	35,000
Commonwealth	966,139
Federal	67,533
Total revenues	<u>4,693,466</u>
EXPENDITURES	
Current:	
General government administration	1,782,035
Public safety	987,844
Public works	963,766
Parks, recreation, and cultural	191,476
Community development	243,997
Cemetery services	48,640
Debt service:	
Principal retirement	178,444
Interest and other fiscal charges	31,947
Total expenditures	<u>4,428,149</u>
Excess of revenues over expenditures	<u>265,317</u>
OTHER FINANCING SOURCES	
Sale of property	53,768
Total other financing sources	<u>53,768</u>
Net change in fund balance	319,085
FUND BALANCE AT JULY 1, AS PREVIOUSLY PRESENTED	1,081,553
RESTATEMENT (NOTE 13)	15,386
FUND BALANCE AT JULY 1, RESTATED	<u>1,096,939</u>
FUND BALANCE AT JUNE 30	<u><u>\$ 1,416,024</u></u>

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balance of the Governmental Fund to the Statement of Activities
Year Ended June 30, 2025**

Net change in fund balance – total governmental fund		\$ 319,085
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	\$ 797,615	
Depreciation expense	(423,259)	
Gain on sale of capital assets	<u>(293)</u>	
		374,063
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	43,321	
Pension expense (income)	44,678	
Change in employer OPEB contributions	6,002	
OPEB expense	<u>2,765</u>	
		96,766
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
		17,896
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has an effect on net position.		
Principal repayments	<u>178,444</u>	
		178,444
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Change in compensated absences		<u>15,217</u>
Change in net position of governmental activities		<u><u>\$ 1,001,471</u></u>

**Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget to Actual - General Fund
Year Ended June 30, 2025**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
REVENUES				
General property taxes	\$ 775,643	\$ 775,643	\$ 535,548	\$ (240,095)
Other local taxes	1,720,700	1,720,700	2,302,864	582,164
Permits, privilege fees, and regulatory licenses	160,630	160,630	6,185	(154,445)
Fines and forfeitures	10,650	10,650	12,972	2,322
Revenues from the use of money and property	253,871	253,871	8,020	(245,851)
Charges for services	566,500	566,500	541,129	(25,371)
Recovered costs	-	-	42,753	42,753
Gifts and contributions	-	-	175,323	175,323
Intergovernmental	713,284	713,284	1,068,672	355,388
Other	5,200	5,200	-	(5,200)
Total revenues	<u>4,206,478</u>	<u>4,206,478</u>	<u>4,693,466</u>	<u>486,988</u>
EXPENDITURES				
Current:				
General government administration	1,703,667	1,703,667	1,782,035	(78,368)
Public safety	943,537	943,537	987,844	(44,307)
Public works	977,170	977,170	963,766	13,404
Parks, recreation, and cultural	267,599	267,599	191,476	76,123
Community development	282,825	282,825	243,997	38,828
Cemetery services	70,000	70,000	48,640	21,360
Debt service	211,680	211,680	210,391	1,289
Total expenditures	<u>4,456,478</u>	<u>4,456,478</u>	<u>4,428,149</u>	<u>28,329</u>
Excess (deficiency) of revenues over expenditures	<u>(250,000)</u>	<u>(250,000)</u>	<u>265,317</u>	<u>515,317</u>
OTHER FINANCING SOURCES				
Sale of property	250,000	250,000	53,768	(196,232)
Total other financing sources	<u>250,000</u>	<u>250,000</u>	<u>53,768</u>	<u>(196,232)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 319,085</u>	<u>\$ 319,085</u>

**Statement of Net Position -
Proprietary Funds
June 30, 2025**

	Enterprise Funds			Total Enterprise Funds
	Electric	Water	Sewer	
ASSETS				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 705,682	\$ 1,595,700	\$ 587,735	\$ 2,889,117
Accounts receivable, net (Note 4)	164,781	40,498	277,141	482,420
Prepays	3,790	3,787	5,123	12,700
Inventories	107,651	44,958	2,117	154,726
Cash and cash equivalents – restricted (Note 3)	94,696	19,126	-	113,822
Total current assets	<u>1,076,600</u>	<u>1,704,069</u>	<u>872,116</u>	<u>3,652,785</u>
Noncurrent assets:				
Capital assets: (Note 7)				
Nondepreciable	-	68,358	1,634,042	1,702,400
Depreciable, net	203,958	1,251,524	23,144,650	24,600,132
Net pension asset (Note 10)	39,408	30,954	38,800	109,162
Total noncurrent assets	<u>243,366</u>	<u>1,350,836</u>	<u>24,817,492</u>	<u>26,411,694</u>
Total assets	<u>1,319,966</u>	<u>3,054,905</u>	<u>25,689,608</u>	<u>30,064,479</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension-related deferred outflows (Note 10)	22,486	17,662	22,138	62,286
Other postemployment benefit-related deferred outflows (Note 11)	2,340	1,838	2,304	6,482
Total deferred outflows of resources	<u>24,826</u>	<u>19,500</u>	<u>24,442</u>	<u>68,768</u>
LIABILITIES				
Current liabilities:				
Accounts payable	166,099	27,673	352,446	546,218
Retainage payable	-	-	75,210	75,210
Customer deposits	94,696	19,126	-	113,822
Accrued payroll	5,803	5,785	7,912	19,500
Accrued interest payable	-	3,784	16,147	19,931
Bonds payable and other obligations – current (Note 9)	-	28,891	297,656	326,547
Total current liabilities	<u>266,598</u>	<u>85,259</u>	<u>749,371</u>	<u>1,101,228</u>
Noncurrent liabilities:				
Compensated absences (Note 9)	34,289	28,159	11,236	73,684
Net other postemployment benefit liability (Note 11)	6,580	5,168	6,478	18,226
Bonds payable and other obligations (Note 9)	-	322,392	14,583,699	14,906,091
Total noncurrent liabilities	<u>40,869</u>	<u>355,719</u>	<u>14,601,413</u>	<u>14,998,001</u>
Total liabilities	<u>307,467</u>	<u>440,978</u>	<u>15,350,784</u>	<u>16,099,229</u>
DEFERRED INFLOWS OF RESOURCES				
Pension-related deferred inflows (Note 10)	12,720	9,991	12,524	35,235
Other postemployment benefit-related deferred inflows (Note 11)	1,089	855	1,072	3,016
Total deferred inflows of resources	<u>13,809</u>	<u>10,846</u>	<u>13,596</u>	<u>38,251</u>
NET POSITION				
Net investment in capital assets	203,958	968,599	9,474,664	10,647,221
Restricted for pension	39,408	30,954	38,800	109,162
Unrestricted	780,150	1,623,028	836,206	3,239,384
Total net position	<u>\$ 1,023,516</u>	<u>\$ 2,622,581</u>	<u>\$ 10,349,670</u>	<u>\$ 13,995,767</u>

**Statement of Revenues, Expenses, and Changes in
Fund Net Position - Proprietary Funds
Year Ended June 30, 2025**

	Enterprise Funds			Total
	Electric	Water	Sewer	Enterprise Funds
OPERATING REVENUES				
Charges for services	\$ 2,099,046	\$ 560,264	\$ 837,875	\$ 3,497,185
Connection fees	13,235	203,000	217,500	433,735
Local consumption tax	34,011	-	-	34,011
Reconnect fees	2,108	2,733	-	4,841
Service charges	5,010	1,340	-	6,350
Late charges	59,363	-	-	59,363
Total operating revenues	<u>2,212,773</u>	<u>767,337</u>	<u>1,055,375</u>	<u>4,035,485</u>
OPERATING EXPENSES				
Salaries and fringe benefits	237,298	219,277	258,019	714,594
Maintenance	3,813	37,708	89,759	131,280
Utilities	-	39,797	4,898	44,695
Purchased Power	1,814,377	-	-	1,814,377
Materials and Supplies	97,082	69,856	125,728	292,666
Other	69,741	23,075	90,327	183,143
Depreciation	43,151	109,202	690,809	843,162
Total operating expenses	<u>2,265,462</u>	<u>498,915</u>	<u>1,259,540</u>	<u>4,023,917</u>
Operating income (loss)	<u>(52,689)</u>	<u>268,422</u>	<u>(204,165)</u>	<u>11,568</u>
NON-OPERATING EXPENSES				
Interest and fiscal charges	-	(7,252)	(290,003)	(297,255)
Total non-operating expenses	<u>-</u>	<u>(7,252)</u>	<u>(290,003)</u>	<u>(297,255)</u>
Income (loss) before capital contributions and transfers	<u>(52,689)</u>	<u>261,170</u>	<u>(494,168)</u>	<u>(285,687)</u>
CAPITAL CONTRIBUTIONS				
Federal grants	-	-	1,372,545	1,372,545
Total capital contributions	<u>-</u>	<u>-</u>	<u>1,372,545</u>	<u>1,372,545</u>
Change in net position	<u>(52,689)</u>	<u>261,170</u>	<u>878,377</u>	<u>1,086,858</u>
NET POSITION AT JULY 1, AS PREVIOUSLY PRESENTED	<u>1,152,268</u>	<u>2,370,008</u>	<u>9,472,993</u>	<u>12,995,269</u>
RESTATEMENT (Note 13)	<u>(76,063)</u>	<u>(8,597)</u>	<u>(1,700)</u>	<u>(86,360)</u>
NET POSITION AT JULY 1, RESTATED	<u>1,076,205</u>	<u>2,361,411</u>	<u>9,471,293</u>	<u>12,908,909</u>
NET POSITION AT JUNE 30	<u>\$ 1,023,516</u>	<u>\$ 2,622,581</u>	<u>\$ 10,349,670</u>	<u>\$ 13,995,767</u>

Town of Elkton, Virginia

Exhibit 10

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2025

	Enterprise Funds			Total
	Electric	Water	Sewer	Enterprise Funds
OPERATING ACTIVITIES				
Cash received from customers	\$ 2,202,021	\$ 766,189	\$ 1,046,560	\$ 4,014,770
Cash paid to suppliers	(1,882,755)	(81,504)	(81,171)	(2,045,430)
Cash paid to employees	(248,488)	(220,554)	(267,803)	(736,845)
Other payments	(69,741)	(62,872)	(95,225)	(227,838)
Net cash provided by operating activities	1,037	401,259	602,361	1,004,657
NONCAPITAL FINANCING ACTIVITIES				
Proceeds from Federal grants	-	-	1,372,545	1,372,545
Net cash provided by noncapital financing activities	-	-	1,372,545	1,372,545
CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(3,478)	(76,797)	(1,381,457)	(1,461,732)
Principal paid on capital debt	-	(28,308)	(291,922)	(320,230)
Interest paid on capital debt	-	(7,252)	(290,318)	(297,570)
Net cash used in capital and related financing activities	(3,478)	(112,357)	(1,963,697)	(2,079,532)
Net increase (decrease) in cash and cash equivalents	(2,441)	288,902	11,209	297,670
CASH AND CASH EQUIVALENTS				
Beginning at July 1	802,819	1,325,924	576,526	2,705,269
Ending at June 30	\$ 800,378	\$ 1,614,826	\$ 587,735	\$ 3,002,939
CASH IS REPORTED ON EXHIBIT 8 AS				
Cash and cash equivalents	\$ 705,682	\$ 1,595,700	\$ 587,735	\$ 2,889,117
Cash and cash equivalents – restricted	94,696	19,126	-	113,822
	\$ 800,378	\$ 1,614,826	\$ 587,735	\$ 3,002,939
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (52,689)	\$ 268,422	\$ (204,165)	\$ 11,568
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	43,151	109,202	690,809	843,162
Pension expense, net of employer contributions	(18,964)	(4,183)	(10,711)	(33,858)
Other postemployment benefit expense, net of employer contributions	771	(1,012)	(443)	(684)
(Increase) decrease in:				
Accounts receivable	(6,720)	(1,673)	(8,815)	(17,208)
Prepays	(1,950)	(1,027)	3,493	516
Inventories	10,446	9,467	2,846	22,759
Increase (decrease) in:				
Accounts payable	24,020	17,620	127,977	169,617
Accrued payroll and related liabilities	1,248	(591)	21	678
Customer deposits	(4,032)	525	-	(3,507)
Compensated absences and service benefits	5,756	4,509	1,349	11,614
Total adjustments	53,726	132,837	806,526	993,089
Net cash provided by operating activities	\$ 1,037	\$ 401,259	\$ 602,361	\$ 1,004,657
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital asset purchases included in accounts payable at year end	\$ -	\$ -	\$ 347,463	\$ 347,463

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

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

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

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

Government-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

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

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

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

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

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

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

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

Deposits and Investments

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

Investments for the Town are reported at fair value.

Receivables and Payables

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

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

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

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

Property Taxes

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

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

Allowance for Uncollectible Accounts

The Town calculates its allowance for uncollectible delinquent property tax accounts using historical collection data and specific account analysis. The allowance at June 30, 2025, consisted of the following:

General fund (property taxes, penalties, and interest)	\$ 59,012
Electric fund	52,237
Water fund	10,578
Sewer fund	19,925
	<u>\$ 141,752</u>

Inventories

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

Prepays

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

Capital Assets

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

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

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

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

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

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

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

Compensated Absences

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

Unearned Revenues

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

Long-Term Obligations

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

Pensions and Other Postemployment Benefits (OPEB)

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

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

Deferred Outflows and Inflows of Resources

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

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

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

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

Fund Balances

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

The classifications are as follows:

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

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

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

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

Net Position

Net position is the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction, or improvement of those assets. Net position is presented as restricted when external requirements place restrictions on the use of resources or when a net pension or OPEB asset exists.

Use of Estimates

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

Note 2 – Stewardship, Compliance, and Accountability

Budgetary Information

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

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

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

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

Note 3 – Deposits and Investments

Deposits

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

Type	Fair Value	S & P Credit Rating
Investments reported at amortized cost:		
SNAP	\$ 12,441	AAAm
Total investments	12,441	
Cash and cash equivalents	5,880,639	
Total deposits and investments	<u>\$ 5,893,080</u>	

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

	Primary Government
Statement of net position:	
Cash and cash equivalents	\$ 4,291,612
Cash and cash equivalents - restricted	1,589,027
Investments - restricted	12,441
	<u>\$ 5,893,080</u>

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the “Act”) section 2.2-4400 et. seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized. For the purposes of this disclosure, deposits include cash and cash equivalents, as well as nonnegotiable certificates of deposit with original maturities of more than three months.

Investments

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

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

Credit Risk – Statutes authorize the Town to invest in obligations of the United States of America or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes, bankers acceptances, repurchase agreements, mutual funds, the State Treasurer’s Local Government Investment Pool (LGIP), and the State Non-Arbitrage Program (SNAP).

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

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

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

Restricted cash and investments

Restricted cash consists of the following:

Unspent Federal funding	\$ 1,475,205
Customer deposit	113,822
	\$ 1,589,027

Restricted investments consist of the following:

Unspent bond proceeds restricted for capital projects	\$ 12,441
	\$ 12,441

Note 4 – Receivables

Receivables as of June 30, 2025, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Activities	Business-Type Activities	Total
Receivables:			
Property taxes	\$ 691,158	\$ -	\$ 691,158
Meals taxes	116,516	-	116,516
Other	62,992	565,160	628,152
Gross receivables	870,666	565,160	1,435,826
Less: allowance for uncollectible	(59,012)	(82,740)	(141,752)
Net total receivables	\$ 811,654	\$ 482,420	\$ 1,294,074

Note 5 – Due from Other Governmental Units and Businesses

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

General Fund:

Commonwealth of Virginia:

Local sales and use taxes	\$ 42,891
Communications tax	5,457
Railroad Rolling stock	4,101
	\$ 52,449

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

Note 6 – Interfund Receivables, Payables, and Transfers

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

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs, or (3) close the residual balances of certain funds into other funds.

There was no outstanding interfund activity as of June 30, 2025.

Note 7 – Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 1,787,444	\$ -	\$ -	\$ 1,787,444
Construction in progress	1,546,677	376,863	1,248,221	675,319
Total capital assets not being depreciated	<u>3,334,121</u>	<u>376,863</u>	<u>1,248,221</u>	<u>2,462,763</u>
Capital assets being depreciated:				
Buildings and improvements	4,537,922	1,230,282	-	5,768,204
Machinery and equipment	1,782,487	174,641	48,996	1,908,132
Infrastructure	3,601,775	264,050	-	3,865,825
Total capital assets being depreciated	<u>9,922,184</u>	<u>1,668,973</u>	<u>48,996</u>	<u>11,542,161</u>
Less: accumulated depreciation for:				
Buildings and improvements	1,376,231	129,732	-	1,505,963
Machinery and equipment	1,029,817	182,474	48,703	1,163,588
Infrastructure	994,933	111,053	-	1,105,986
Total accumulated depreciation	<u>3,400,981</u>	<u>423,259</u>	<u>48,703</u>	<u>3,775,537</u>
Total capital assets being depreciated, net	<u>6,521,203</u>	<u>1,245,714</u>	<u>293</u>	<u>7,766,624</u>
Governmental activities capital assets, net	<u>\$ 9,855,324</u>	<u>\$ 1,622,577</u>	<u>\$ 1,248,514</u>	<u>\$ 10,229,387</u>

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

General government administration	\$ 98,775
Parks, recreation, and cultural	81,238
Public safety	93,552
Public works	138,443
Cemetery services	11,251
Total depreciation expense – governmental activities	<u>\$ 423,259</u>

Increases include depreciation expense and transfers in from other funds.

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

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 41,056	\$ -	\$ -	\$ 41,056
Construction in progress	184,408	1,476,936	-	1,661,344
Total capital assets not being depreciated	<u>225,464</u>	<u>1,476,936</u>	<u>-</u>	<u>1,702,400</u>
Capital assets being depreciated:				
Utility system	31,390,890	-	-	31,390,890
Machinery and equipment	799,629	67,494	-	867,123
Total capital assets being depreciated	<u>32,190,519</u>	<u>67,494</u>	<u>-</u>	<u>32,258,013</u>
Less: accumulated depreciation for:				
Utility system	6,360,937	758,757	-	7,119,694
Machinery and equipment	453,782	84,405	-	538,187
Total accumulated depreciation	<u>6,814,719</u>	<u>843,162</u>	<u>-</u>	<u>7,657,881</u>
Total capital assets being depreciated, net	<u>25,375,800</u>	<u>(775,668)</u>	<u>-</u>	<u>24,600,132</u>
Business-type activities capital assets, net	<u>\$ 25,601,264</u>	<u>\$ 701,268</u>	<u>\$ -</u>	<u>\$ 26,302,532</u>

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

Electric	\$ 43,151
Water	109,202
Sewer	690,809
Total depreciation expense – business-type activities	<u>\$ 843,162</u>

Increases include depreciation expense.

Construction Commitments

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

	<u>Total Contracts</u>	<u>Total Payments</u>	<u>Future Amounts to be Expended</u>
Governmental Activities			
Drinking Water	\$ 1,488,895	\$ -	\$ 1,488,895
24/7 Gym	87,930	43,965	43,965
Total governmental activities	<u>\$ 1,576,825</u>	<u>\$ 43,965</u>	<u>\$ 1,532,860</u>
Sewer Fund			
Waste Water Treatment Plant	\$ 17,018,730	\$ 15,363,303	\$ 1,655,427
Engineering for sewer projects	1,480,250	1,445,988	34,262
Total sewer fund	<u>\$ 18,498,980</u>	<u>\$ 16,809,291</u>	<u>\$ 1,689,689</u>

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

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

	Governmental Activities	General Fund
Unavailable revenue		
Delinquent property taxes	\$ -	\$ 133,671
Sales tax	-	22,255
Total unavailable revenue	<u>\$ -</u>	<u>\$ 155,926</u>
Unearned revenue		
Property taxes not yet due	\$ 502,573	\$ 502,573
American Rescue Plan Act federal funding	1,475,205	1,475,205
	<u>\$ 1,977,778</u>	<u>\$ 1,977,778</u>

Note 9 – Long-Term Liabilities

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

	Beginning Balances	Additions	Reductions	Ending Balances	Due Within One Year
Governmental Activities					
General obligation bonds	\$ 775,246	\$ -	\$ 61,745	\$ 713,501	\$ 63,244
Notes payable	336,709	-	116,699	220,010	123,195
Compensated absences*	220,238	-	15,217	205,021	-
	<u>\$ 1,332,193</u>	<u>\$ -</u>	<u>\$ 193,661</u>	<u>\$ 1,138,532</u>	<u>\$ 186,439</u>
Business-Type Activities					
General obligation bonds	\$ 379,591	\$ -	\$ 28,308	\$ 351,283	\$ 28,891
Revenue bonds	15,173,277	-	291,922	14,881,355	297,656
Compensated absences *	85,715	-	12,031	73,684	-
	<u>\$ 15,638,583</u>	<u>\$ -</u>	<u>\$ 332,261</u>	<u>\$ 15,306,322</u>	<u>\$ 326,547</u>

*Balances have been restated as a result of GASB 101, *Compensated Absences*. In governmental activities, the restatement includes a portion previously included in the general fund. For further information, see Note 13.

Compensated absences change is netted.

Town of Elkton, Virginia
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Details of long-term indebtedness

	Governmental Activities	Business-Type Activities
General obligation bonds:		
\$955,233 General Obligation Bond, Series 2020, issued June 10, 2020, to Truist Bank, maturing annually beginning June 10, 2021 through June 10, 2035, interest payable semi-annually at rates of 2.62%. Purpose: Improvements to Town Hall.	\$ 713,501	\$ -
\$463,348 General Obligation Refunding Bond, Series 2020B, issued October 21, 2020, to Pioneer Bank, maturing annually beginning August 1, 2006 through August 1, 2035, interest payable semi-annually at rates of 1.96%. Purpose: Refund bonds issued to fund extension of water and sewer lines.	-	351,283
Total general obligation bonds	\$ 713,501	\$ 351,283
Revenue bonds:		
Up to \$5,725,000 General Obligation Sewer Revenue Bond, Series 2020, issued January 6, 2020, to Rural Utilities Service, an agency of the United States Department of Agriculture, maturing monthly beginning February 6, 2022 through September 6, 2059, interest payable monthly at rates of 2.25%. Purpose: Refund existing debt for wastewater projects, fund new wastewater projects.	\$ -	\$ 5,356,208
Up to \$9,900,000 General Obligation Sewer Revenue Bond, Series 2021, issued October 12, 2021, to Rural Utilities Service, an agency of the United States Department of Agriculture, maturing monthly beginning November 12, 2023 through September 12, 2061, interest payable monthly at rates of 1.75%. Purpose: Refund existing debt for wastewater projects, fund new wastewater projects.	-	9,525,147
Total revenue bonds	\$ -	\$ 14,881,355
Note payable:		
\$1,700,000 loan issued January 11, 2006, to Farmers and Merchants Tank, maturing quarterly beginning June 1, 2007 through March 1, 2027, interest payable quarterly at rates of 4.50%. Purpose: Construction and remodeling of Community Center.	\$ 220,010	\$ -
Total notes payable	\$ 220,010	\$ -

Town of Elkton, Virginia
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Annual requirements to amortize long-term debt and related interest are as follows:

Year Ending June 30,	Governmental Activities			
	Bonds		Notes Payable	
	Principal	Interest	Principal	Interest
2026	\$ 63,244	\$ 17,938	\$ 123,195	\$ 8,301
2027	64,921	16,261	96,815	2,229
2028	66,643	14,539	-	-
2029	68,410	12,772	-	-
2030	70,224	10,958	-	-
2031-2035	380,059	25,846	-	-
	\$ 713,501	\$ 98,314	\$ 220,010	\$ 10,530

Year Ending June 30,	Business-Type Activities			
	Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2026	\$ 28,891	\$ 6,613	\$ 297,656	\$ 284,584
2027	29,466	6,115	303,442	278,798
2028	30,051	5,530	309,344	272,896
2029	30,634	4,927	315,362	266,878
2030	31,257	4,305	321,497	260,743
2031-2035	165,846	11,871	1,703,866	1,207,334
2036-2040	35,138	350	1,876,545	1,034,655
2041-2045	-	-	2,067,025	844,175
2046-2050	-	-	2,277,169	634,031
2051-2055	-	-	2,509,045	402,155
2056-2060	-	-	2,584,386	147,710
2061-2062	-	-	316,018	2,675
	\$ 351,283	\$ 39,711	\$ 14,881,355	\$ 5,636,634

Town of Elkton, Virginia
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Note 10 – Defined Benefit Pension Plan

Plan Description

All full-time, salaried permanent employees of the Town of Elkton, (the “Political Subdivision”) are automatically covered by the VRS Retirement Plan upon employment. This multi-employer agent plan is administered by the Virginia Retirement System (“VRS”) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to the VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

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

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

Employees Covered by Benefit Terms

As of the June 30, 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	44
Inactive members:	
Vested inactive members	11
Non-vested inactive members	15
Long-Term Disability	1
Inactive members active elsewhere in the VRS	31
Total inactive members	102
Active members	30
Total covered employees	132

Contributions

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

The political subdivision’s contractually required contribution rate for the year ended June 30, 2025, was 11.03% 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 the employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the

Town of Elkton, Virginia
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pension plan from the political subdivision were \$182,105 and \$122,639 as per Schedule of Employer Pension Contributions 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 \$7,192 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 \$7,795 for the year ended June 30, 2025. The total Hybrid plan participant covered payroll totaled \$751,635 for the year ended June 30, 2025.

Net Pension Liability (Asset)

The net pension liability (asset) is calculated separately for each employer and represents that particular employer’s total pension liability determined in accordance with GASB Statement No. 68, less than employer’s fiduciary net position. For political subdivisions, the net pension liability (asset) was measured as of June 30, 2024. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation performed as of June 30, 2023, rolled forward to the measurement date of June 30, 2024.

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 with hazardous duty benefits – salary increases, including inflation	3.50 – 4.75%
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Mortality rates: General employees – 15 to 20% of deaths are assumed to be service-related. Public Safety Employees – 45% to 70% of deaths are assumed to be service-related. Mortality is projected using the applicable Pub-2010 Mortality Table 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, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2021. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

Town of Elkton, Virginia
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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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public equity	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,

Town of Elkton, Virginia
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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. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension (Asset) Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a) – (b)
Balance at June 30, 2023	\$ 4,488,007	\$ 4,926,624	\$ (438,617)
Changes for the year:			
Service cost	248,173	-	248,173
Interest	309,811	-	309,811
Differences between expected and actual experience	127,406	-	127,406
Contributions – employer	-	122,639	(122,639)
Contributions – employee	-	73,897	(73,897)
Net investment income	-	475,647	(475,647)
Benefit payments, including refunds of employee contributions	(292,768)	(292,768)	-
Administrative expenses	-	(3,114)	3,114
Other changes	-	101	(101)
Net changes	392,622	376,402	(16,220)
Balances at June 30, 2024	<u>\$ 4,880,629</u>	<u>\$ 5,303,026</u>	<u>\$ (422,397)</u>

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

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

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Political subdivision's net pension (asset) liability	<u>\$ 199,832</u>	<u>\$ (422,397)</u>	<u>\$ (903,617)</u>

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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 pension expense (income) of \$60,248. 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	\$ 58,908	\$ -
Net difference between projected and actual earnings on pension plan investments	-	136,340
Employer contributions subsequent to the measurement date	182,105	-
Total	\$ 241,013	\$ 136,340

The \$182,105 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 Income
2026	\$ (58,967)
2027	37,776
2028	(26,951)
2029	(29,290)
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 \$15,715 was payable to the Virginia Retirement System for the legally required contributions related to June 2025 payroll.

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

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

Town of Elkton, Virginia
Notes to Financial Statements
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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 of 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, with the exception of GLI, which was also 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.
June 30, 2025, contribution	\$ 7,760
June 30, 2024, contribution	\$ 8,767

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.

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Group Life Insurance Program

June 30, 2025 proportionate share of liability	\$	70,526
June 30, 2024 proportion		0.00632%
June 30, 2023, proportion		0.00593%
June 30, 2025, expense	\$	3,729

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 11,124	\$ 1,723
Changes in assumptions	402	3,495
Net difference between projected and actual earnings on OPEB plan investments	-	5,945
Changes in proportion	5,800	508
Employer contributions subsequent to the measurement date	7,760	-
Total	\$ 25,086	\$ 11,671

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:

Group Life Insurance Program

Year Ending June 30,	Increase (Reduction) To OPEB Expense
2026	\$ (1,655)
2027	2,678
2028	1,337
2029	1,494
2030	1,801
Thereafter	-

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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	2.50%
Salary increases, including inflation:	
• Locality – general employees	3.50 – 5.35%
• Locality – hazardous duty employees	3.50 – 4.75%
Healthcare cost trend rates:	
• Under age 65	7.25 – 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 at Note 10.

Net OPEB Liabilities

The net OPEB liabilities represent each program’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2024, net OPEB liability amounts for the various VRS OPEB programs are as follows (amounts expressed in thousands):

Total OPEB liability	\$ 4,196,055
Plan fiduciary net position	<u>3,080,133</u>
Employers’ net OPEB liability (asset)	<u>1,115,922</u>
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 10.

Discount Rate

The discount rate used to measure the GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ended June 30, 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. 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.

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

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

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
GLI Net OPEB liability	\$ 109,678	\$ 70,526	\$ 38,897

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.

Note 12 – Risk Management

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

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

Note 13 – Prior Period Restatement

During 2025, the Town adopted GASB Statement No. 101, *Compensated Absences*. The purpose of this standard is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences, and to align the recognition and measurement guidance under the unified model by amending certain previously required disclosures.

Additionally, there was a restatement related to mis-recorded donations in the general fund, and a restatement to inventory in the electric, water, and sewer funds to write down balances related to obsolete inventory.

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

The following is a summary of the restatements:

	Governmental Activities	Business-Type Activities
Net position, June 30, 2024, as previously reported	\$ 10,106,361	\$ 12,995,269
GASB 101 implementation	(96,521)	(15,798)
Inventory adjustments	-	(70,562)
Net position, June 30, 2024, as restated	\$ 10,009,840	\$ 12,908,909

	General Fund	Electric Fund	Water Fund	Sewer Fund
Net position/fund balance, June 30, 2024, as previously reported	\$ 1,081,553	\$ 1,152,268	\$ 2,370,008	\$ 9,472,993
GASB 101 implementation	10,185	(10,872)	(3,226)	(1,700)
Mis-recorded donation	5,201	-	-	-
Inventory adjustments	-	(65,191)	(5,371)	-
Net position/fund balance, June 30, 2024, as restated	\$ 1,096,939	\$ 1,076,205	\$ 2,361,411	\$ 9,471,293

Note 14 – 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

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

	Plan Year Ended June 30,									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total Pension Liability										
Service cost	\$ 248,173	\$ 217,941	\$ 132,228	\$ 137,536	\$ 127,583	\$ 103,413	\$ 95,720	\$ 88,259	\$ 97,188	\$ 108,145
Interest on total pension liability	309,811	301,855	304,170	282,404	258,848	266,258	245,802	237,845	237,927	228,434
Benefit payments, including refunds of employee contributions	(292,768)	(220,797)	(229,762)	(226,670)	(225,962)	(229,194)	(212,108)	(265,218)	(196,988)	(173,244)
Difference between expected and actual experience	127,406	(175,377)	(331,133)	(165,489)	188,867	(226,508)	171,358	36,794	(105,191)	(15,846)
Changes of assumptions	-	-	-	163,997	-	115,515	-	(10,557)	-	-
Net change in total pension liability (asset)	392,622	123,622	(124,497)	191,778	349,336	29,484	300,772	87,123	32,936	147,489
Total pension liability – beginning	4,488,007	4,364,385	4,488,882	4,297,104	3,947,768	3,918,284	3,617,512	3,530,389	3,497,453	3,349,964
Total pension liability – ending	4,880,629	4,488,007	4,364,385	4,488,882	4,297,104	3,947,768	3,918,284	3,617,512	3,530,389	3,497,453
Plan Fiduciary Net Position										
Contributions – employer	122,639	108,642	109,955	96,152	103,910	101,045	71,283	61,288	91,060	90,892
Contributions – employee	73,897	64,481	63,053	54,822	54,164	52,297	54,056	46,551	47,158	47,356
Net investment income (loss)	475,647	302,169	(5,693)	1,031,256	71,993	239,240	253,997	384,130	55,445	142,424
Benefit payments, including refunds of employee contributions	(292,768)	(220,797)	(229,762)	(226,670)	(225,962)	(229,194)	(212,108)	(265,218)	(196,988)	(173,244)
Administrative expenses	(3,114)	(2,977)	(2,931)	(2,569)	(2,455)	(2,384)	(2,219)	(2,318)	(2,023)	(1,953)
Other changes	101	122	110	97	(85)	(151)	(225)	(338)	(24)	(31)
Net change in plan fiduciary net position	376,402	251,640	(65,268)	953,088	1,565	160,853	164,784	224,095	(5,372)	105,444
Plan fiduciary net position – beginning	4,926,624	4,674,984	4,740,252	3,787,164	3,785,599	3,624,746	3,459,962	3,235,867	3,241,239	3,135,795
Plan fiduciary net position – ending	5,303,026	4,926,624	4,674,984	4,740,252	3,787,164	3,785,599	3,624,746	3,459,962	3,235,867	3,241,239
Net pension (asset) liability – ending	\$ (422,397)	\$ (438,617)	\$ (310,599)	\$ (251,370)	\$ 509,940	\$ 162,169	\$ 293,538	\$ 157,550	\$ 294,522	\$ 256,214
Plan fiduciary net position as a percentage of total pension liability	109%	110%	107%	106%	88%	96%	93%	96%	92%	93%
Covered payroll	\$ 1,623,600	\$ 1,397,481	\$ 1,301,124	\$ 1,283,835	\$ 1,268,730	\$ 1,299,127	\$ 1,159,329	\$ 1,108,821	\$ 1,063,401	\$ 1,041,178
Net pension (asset) liability as a percentage of covered employee payroll	-26%	-31%	-24%	-20%	40%	12%	25%	14%	28%	25%

The plan years above are reported in the entity’s financial statements in the fiscal year following the plan year – i.e., plan year 2015 information was presented in the entity’s fiscal year 2016 financial report.

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

Town Fiscal Year Ended June 30,	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a percentage of Covered Payroll
2025	\$ 182,105	\$ 182,105	\$ -	\$ 1,650,995	11.03 %
2024	122,639	122,639	-	1,623,600	7.55
2023	108,648	108,648	-	1,397,481	7.77
2022	113,978	113,978	-	1,301,124	8.76
2021	101,008	101,008	-	1,283,835	7.87
2020	111,902	111,902	-	1,268,730	8.82
2019	114,583	114,583	-	1,299,127	8.82
2018	85,660	85,660	-	1,159,329	7.39
2017	64,347	64,347	-	1,108,821	5.80
2016	92,575	92,575	-	1,063,401	8.71

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

Required Supplementary Information
Schedule of Employer's Share of Net OPEB Liability
 June 30, 2025

<u>Plan Year Ended June 30,</u>	<u>Employer's Proportion of the Net OPEB Liability (Asset)</u>	<u>Employer's Proportionate Share of the Net OPEB Liability (Asset)</u>	<u>Employer's Covered Payroll</u>	<u>Employer's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability</u>
Virginia Retirement System – Group Life Insurance – General Employees					
2024	0.00632 %	\$ 70,526	\$ 1,623,600	4.34 %	73.41 %
2023	0.00593	71,119	1,397,481	5.09	67.21
2022	0.00598	72,005	1,301,124	5.53	67.21
2021	0.00579	67,411	1,283,835	5.25	67.45
2020	0.00570	95,123	1,268,730	7.50	52.64
2019	0.00571	92,917	1,299,127	7.15	52.00
2018	0.00563	85,000	1,159,329	7.33	51.22
2017	0.00521	78,000	1,108,821	7.03	48.86

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

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

Town of Elkton, Virginia
Schedule of OPEB Contributions
June 30, 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	\$ 7,760	\$ 7,760	\$ -	\$ 1,650,995	0.47 %
2024	8,767	8,767	-	1,623,600	0.54
2023	7,546	7,546	-	1,397,481	0.54
2022	7,026	7,026	-	1,301,124	0.54
2021	6,446	6,446	-	1,283,835	0.50
2020	6,229	6,229	-	1,268,730	0.49
2019	6,271	6,271	-	1,299,127	0.48
2018	6,138	6,138	-	1,159,329	0.53

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

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

Town of Elkton, Virginia
Notes to Required Supplementary Information
June 30, 2025

Note 1 – Changes of Benefit Terms

Pension

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

Other Postemployment Benefits (OPEB)

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

Note 2 – Changes of Assumptions

The actuarial assumptions used in the June 30, 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 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 Improvement Mortality Scale MP-2020.
- Adjusted retirement rates to better-fit experience for Plan 1; set separate rates based on experience for Plan2/Hybrid; changed final retirement age from 75 to 80 for all.
- Adjusted withdrawal rates to better-fit experience at each year and service through 9 years of service.
- No change to disability rates.

Town of Elkton, Virginia

Notes to Required Supplementary Information

June 30, 2025

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

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

- Update mortality table to PUB2010 public sector mortality tables. 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.

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Compliance Section





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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Elkton, Virginia (the “Town”), as of and for the year ended June 30, 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 March 19, 2026.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. **We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as Items 2025-001 through 2025-003, that we consider to be material weaknesses.**



Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. **The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.**

Town's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
March 19, 2026



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

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

Report on Compliance for Each Major Federal Program

Opinion on Compliance for Each Major Federal Program

We have audited the Town of Elkton, Virginia's (the "Town") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the Town's major federal program for the year ended June 30, 2025. The Town's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2025.


Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Town's federal programs.



Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and is described in the accompanying Schedule of Findings and Questioned Costs as item **2025-004**. Our opinion on the major federal program is not modified with respect to these matters.

Government Auditing Standards require the auditor to perform limited procedures on the Town's response to the noncompliance findings identified in our audit as described in the accompanying Schedule of Findings and Questioned Costs. The Town's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

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

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

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

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
March 19, 2026

Town of Elkton, Virginia
Summary of Compliance Matters
June 30, 2025

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

Federal Compliance Matters

Compliance Supplement for Single Audits of State and Local Governments

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

Local Compliance Matters

Town Charter

Town of Elkton, Virginia
Schedule of Findings and Questioned Costs
 June 30, 2025

A – Summary of Auditor’s Results

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

Name of Program	Assistance Listing Number
Water and Waste Disposal Systems for Rural Communities	10.760

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

B – Findings – Financial Statement Audit

2025-001: Material Audit Adjustments (Material Weakness)

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

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

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

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

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

View of Responsible Officials The Treasurer has drafted a Monthly Close Process and has been following it each month without fail. This has provided the opportunity to find errors and get them corrected in a timely manner, which alleviates issues during the audit review.

2025-002: Segregation of Duties (Material Weakness)

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

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

Town of Elkton, Virginia
Schedule of Findings and Questioned Costs
June 30, 2025

Cause Incompatible duties and the limited number of staff.

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

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

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

2025-003: Annual and Monthly Close Process (Material Weakness)

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

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

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

Effect Material audit adjustments were required.

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

View of Responsible Officials The Treasurer has drafted a Monthly Close Process and has been following it each month without fail. This has provided the opportunity to find errors and get them corrected in a timely manner, which alleviates issues during the audit review. The Treasurer is also drafting an Annual Close Process that will assist with collecting information for review by the auditing firm.

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

2025-004: Federal Procurement Policies

Condition The policy created in 2024 specific to the federal awards cost principle requirements under Uniform Grant Guidance is not compliant.

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

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

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

Recommendation Develop compliant procurement policy that meets federal standards.

View of Responsible Officials The Treasurer will review the Policy and submit recommended edits to the Town Council for review and approval.

Town of Elkton, Virginia
Summary Schedule of Prior Audit Findings
June 30, 2025

A – Findings – Financial Statement Audit

2024-001: Material Audit Adjustments (Material Weakness)

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

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

Current Status Still applicable.

2024-002: Segregation of Duties (Material Weakness)

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

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

Current Status Still applicable.

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

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

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

Current Status Still applicable.

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

2024-004: COVID-19 Coronavirus State and Local Fiscal Recovery Funds ALN 21.027, Controls over Reporting

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

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

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

Town of Elkton, Virginia
Summary Schedule of Prior Audit Findings
June 30, 2025

Effect The annual reporting was inaccurate for FY23 and FY24 expenditures.

Current Status Not applicable.

2024-005: Federal Procurement Policies

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

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

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

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

Current Status See the current year comment for updates.

Town of Elkton, Virginia

Schedule of Expenditures of Federal Awards

June 30, 2025

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Agriculture:			
Direct Payments:			
Water and Waste Disposal Systems for Rural Communities	10.760	N/A	\$ 1,372,545
Total Department of Agriculture			<u>1,372,545</u>
Department of Environmental Quality:			
Pass-through payments:			
Department of Environmental Quality Watershed Implementation Plan Program	66.466	N/A	3,500
Total Department of Environmental Quality			<u>3,500</u>
Department of Justice:			
Pass-through payments:			
Virginia Department of Criminal Justice Services Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	3,200
Total Department of Justice			<u>3,200</u>
Department of the Treasury:			
Direct Payments:			
COVID-19 – Coronavirus State and Local Fiscal Recovery Fund	21.027	N/A	64,333
Total Department of Treasury			<u>64,333</u>
Total Expenditures of Federal Awards			<u>\$ 1,443,578</u>

Notes:

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

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

At June 30, 2025, the Town had \$14,881,355 in outstanding water and waste disposal system loans from Rural Development.