

TOWN OF MIDDLETOWN, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2022

TOWN OF MIDDLETOWN, VIRGINIA

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FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2022**

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**TOWN OF MIDDLETOWN, VIRGINIA  
FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2022 (CONTINUED)**

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**INDEPENDENT AUDITORS' REPORT**

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**TO THE HONORABLE MEMBERS OF  
THE TOWN COUNCIL  
TOWN OF MIDDLETOWN, VIRGINIA**

**Report on the Audit of the Financial Statements**

***Qualified Opinions***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Middletown, Virginia, as of and for the year ended June 30, 2022, 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, except for the possible effects of the matter discussed in the "Basis for Qualified Opinions" section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of the Town of Middletown, Virginia, as of June 30, 2022, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Qualified 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 of Middletown, Virginia, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinions.

**Matters Giving Rise to the Qualified Opinions**

During the period under audit, there were of undocumented expenditures to petty cash totaling \$11,325, lack of documentation for accounts payable expenditures, cash receipts collected that were not deposited approximating \$20,000 and numerous unapproved additional payroll disbursements to the Town's former Treasurer totaling \$29,205.

***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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Middletown, Virginia's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditors' 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 auditors' 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 Town of Middletown, Virginia's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Town of Middletown, Virginia's ability to continue as a going concern for a reasonable period of time.

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

### ***Restatement of Beginning Balances***

As described in Note 9 to the financial statements, in 2022, the Town restated beginning balances to correct prior period errors. Our opinions are not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and schedules related to pension funding as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the

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

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

### **Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Middletown, Virginia's basic financial statements. The accompanying schedules 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 schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2024, on our consideration of Town of Middletown, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Town of Middletown, Virginia'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 Town of Middletown, Virginia's internal control over financial reporting and compliance.

*Robinson, Farmer, Cox Associates*

Staunton, Virginia  
January 19, 2024

## **BASIC FINANCIAL STATEMENTS**



**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**Statement of Net Position**  
**June 30, 2022**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 845,720	\$ 1,531,677	\$ 2,377,397
Restricted cash and cash equivalents	-	133,858	133,858
Receivables (net of allowance for uncollectibles):			
Property taxes	186,185	-	186,185
Accounts	28,867	346,074	374,941
Internal balances	(1,192,750)	1,192,750	-
Due from other governmental units	32,498	-	32,498
Prepaid items	8,500	-	8,500
Net pension asset	196,061	76,246	272,307
Capital assets not being depreciated:			
Land	141,184	315,460	456,644
Construction in progress	-	2,440,780	2,440,780
Capital assets, net of accumulated depreciation:			
Buildings and improvements	428,045	77,614	505,659
Machinery and equipment	333,949	52,519	386,468
Infrastructure	-	3,569,568	3,569,568
Total capital assets, net	<u>761,994</u>	<u>6,455,941</u>	<u>4,461,695</u>
<b>Total Assets</b>	<u>\$ 1,008,259</u>	<u>\$ 9,736,546</u>	<u>\$ 10,744,805</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension related items	\$ 50,407	\$ 20,798	\$ 71,205
<b>Total Deferred Outflows of Resources</b>	<u>\$ 50,407</u>	<u>\$ 20,798</u>	<u>\$ 71,205</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 54,833	\$ 21,488	\$ 76,321
Contracts payable	-	1,618,900	1,618,900
Retainage payable	-	107,601	107,601
Unearned revenue	287,566	-	287,566
Customer deposits	-	79,600	79,600
Noncurrent liabilities:			
Due within one year	-	179,680	179,680
Due in more than one year	17,319	1,033,877	1,051,196
<b>Total Liabilities</b>	<u>\$ 359,718</u>	<u>\$ 3,041,146</u>	<u>\$ 3,400,864</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred revenue-property taxes	\$ 107,371	-	\$ 107,371
Pension related items	94,413	36,716	131,129
<b>Total Deferred Inflows of Resources</b>	<u>\$ 201,784</u>	<u>\$ 36,716</u>	<u>\$ 238,500</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 903,178	\$ 3,526,445	\$ 4,429,623
Restricted for pension benefits	196,061	76,246	272,307
Unrestricted	(602,075)	3,076,791	2,474,716
<b>Total Net Position</b>	<u>\$ 497,164</u>	<u>\$ 6,679,482</u>	<u>\$ 7,176,646</u>

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

Town of Middletown, Virginia

Statement of Activities  
Year Ended June 30, 2022

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>PRIMARY GOVERNMENT:</b>				
<b>Governmental activities:</b>				
General government administration	\$ 476,107	\$ 3,782	\$ 436,621	\$ -
Public safety	628,515	21,546	48,123	-
Public works	322,539	-	1,329	-
Community development	71,414	-	-	-
Total governmental activities	\$ 1,498,575	\$ 25,328	\$ 486,073	\$ -
<b>Business-type activities:</b>				
Water	\$ 1,005,591	\$ 1,015,599	\$ -	\$ 157,600
Sewer	664,062	1,128,150	-	300,180
Total business-type activities	\$ 1,669,653	\$ 2,143,749	\$ -	\$ 457,780
Total primary government	\$ 3,168,228	\$ 2,169,077	\$ 486,073	\$ 457,780

General revenues:

- General Property Taxes
- Sales tax
- Cigarette tax
- Utility taxes
- Meals tax
- Transient occupancy tax
- Other local taxes
- Unrestricted revenue from the use of money
- Grants and contributions not restricted to specific programs
- Miscellaneous
- Transfers

Total general revenues and transfers

Change in net position

Net position - beginning, as restated

Net position - ending

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

**Exhibit 2**

<u>Net (Expense) Revenue and</u> <u>Change in Net Position</u> <u>Primary Government</u>		
<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
\$ (35,704)	\$ -	\$ (35,704)
(558,846)	-	(558,846)
(321,210)	-	(321,210)
<u>(71,414)</u>	<u>-</u>	<u>(71,414)</u>
\$ <u>(987,174)</u>	\$ <u>-</u>	\$ <u>(987,174)</u>
\$ -	\$ 167,608	\$ 167,608
<u>-</u>	<u>764,268</u>	<u>764,268</u>
\$ <u>-</u>	\$ <u>931,876</u>	\$ <u>931,876</u>
\$ <u>(987,174)</u>	\$ <u>931,876</u>	\$ <u>(55,298)</u>
\$ 203,208	\$ -	\$ 203,208
170,875	-	170,875
51,337	-	51,337
36,242	-	36,242
196,800	-	196,800
27,414	-	27,414
93,851	-	93,851
224	-	224
53,252	-	53,252
100,975	-	100,975
<u>(409,724)</u>	<u>409,724</u>	<u>-</u>
\$ <u>524,454</u>	\$ <u>409,724</u>	\$ <u>934,178</u>
\$ (462,720)	\$ 1,341,600	\$ 878,880
<u>959,884</u>	<u>5,337,882</u>	<u>6,297,766</u>
\$ <u><u>497,164</u></u>	\$ <u><u>6,679,482</u></u>	\$ <u><u>7,176,646</u></u>

## **FUND FINANCIAL STATEMENTS**

**Balance Sheet  
Governmental Funds  
June 30, 2022**

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	<b>General Fund</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 845,720
Receivables (net of allowance for uncollectibles):	
Property taxes	186,185
Accounts receivable	28,867
Due from other governmental units	32,498
Prepaid items	8,500
Total assets	\$ 1,101,770
<b>LIABILITIES</b>	
Accounts payable	\$ 54,833
Due to other funds	1,192,750
Unearned revenue	287,566
Total liabilities	\$ 1,535,149
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable revenue - property taxes	\$ 186,587
Total deferred inflows of resources	\$ 186,587
<b>FUND BALANCES</b>	
<b>Nonspendable:</b>	
Prepaid items	\$ 8,500
<b>Unassigned</b>	
Total fund balances	\$ (619,966)
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,101,770

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

**Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Position  
June 30, 2021**

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$	(619,966)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Land	\$	141,184
Buildings and improvements		428,045
Machinery and equipment		<u>333,949</u>
		903,178
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Unavailable revenue - property taxes		79,216
The net pension assets is not an available resource and therefore is not reported in the funds		
		196,061
Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds.		
Pension related items		50,407
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Compensated absences		(17,319)
Deferred inflows of resources are not due and payable in the current-period and, therefore, are not reported in the funds.		
Pension related items		<u>(94,413)</u>
Net position of governmental activities	\$	<u><u>497,164</u></u>

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

**Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2022**

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	<u>General Fund</u>
<b>REVENUES</b>	
General property taxes	\$ 193,552
Other local taxes	576,519
Permits, privilege fees, and regulatory licenses	3,782
Fines and forfeitures	21,546
Revenue from the use of money and property	224
Miscellaneous	100,975
Intergovernmental:	
Commonwealth	98,395
Federal	440,930
Total revenues	<u>\$ 1,435,923</u>
<b>EXPENDITURES</b>	
General government administration	\$ 482,938
Public safety	657,797
Public works	294,417
Community development	72,299
Total expenditures	<u>\$ 1,507,451</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (71,528)</u>
<b>OTHER FINANCING SOURCES (USES)</b>	
Transfers in	47,597
Transfers out	<u>\$ (457,321)</u>
Total other financing sources (uses)	<u>\$ (409,724)</u>
Net change in fund balances	\$ (481,252)
Fund balances - beginning, as restated	<u>(138,714)</u>
Fund balances - ending	<u><u>\$ (619,966)</u></u>

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



**Reconciliation of the Statement of Revenues, Expenditures, and Changes in  
Fund Balances of Governmental Funds  
to the Statement of Activities  
Year Ended June 30, 2022**

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

Net change in fund balances - total governmental funds	\$	(481,252)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. The following is a summary of items supporting this adjustment:

Capital outlays	\$	80,476	
Depreciation expense		<u>(111,730)</u>	(31,254)

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

Property taxes			9,656
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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	\$	(498)	
Pension expense		<u>40,628</u>	40,130

Change in net position of governmental activities	\$	<u><u>(462,720)</u></u>
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The notes to the financial statements are an integral part of this statement.

**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2022**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 458,504	\$ 1,073,173	\$ 1,531,677
Accounts receivable	172,248	173,826	346,074
Due from other funds	359,322	852,028	1,211,350
Restricted Current Assets:			
Cash and cash equivalents	133,858	-	133,858
Total current assets	<u>\$ 1,123,932</u>	<u>\$ 2,099,027</u>	<u>\$ 3,222,959</u>
Noncurrent assets:			
Net pension asset	\$ 43,569	\$ 32,677	\$ 76,246
Capital assets:			
Land	-	315,460	315,460
Construction in progress	-	2,440,780	2,440,780
Utility plants	448,176	6,588,536	7,036,712
Machinery and equipment	-	132,203	132,203
Accumulated amortization and depreciation	<u>(345,193)</u>	<u>(3,124,021)</u>	<u>(3,469,214)</u>
Total capital assets, net	<u>102,983</u>	<u>6,352,958</u>	<u>6,455,941</u>
Total noncurrent assets	<u>\$ 146,552</u>	<u>\$ 6,385,635</u>	<u>\$ 6,532,187</u>
Total assets	<u>\$ 1,270,484</u>	<u>\$ 8,484,662</u>	<u>\$ 9,755,146</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension related items	\$ 12,684	\$ 8,114	\$ 20,798
Total deferred outflows of resources	<u>\$ 12,684</u>	<u>\$ 8,114</u>	<u>\$ 20,798</u>
Total assets and deferred outflows of resources	<u>\$ 1,283,168</u>	<u>\$ 8,492,776</u>	<u>\$ 9,775,944</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 4,868	\$ 16,620	\$ 21,488
Contracts payable	-	1,618,900	1,618,900
Retainage payable	-	107,601	107,601
Due to other funds	-	18,600	18,600
Customer deposits	79,600	-	79,600
General obligation bonds, current portion	-	179,680	179,680
Total current liabilities	<u>\$ 84,468</u>	<u>\$ 1,941,401</u>	<u>\$ 2,025,869</u>
Noncurrent liabilities:			
General obligation bonds, net of current portion	\$ -	\$ 1,023,315	\$ 1,023,315
Compensated absences	6,564	3,998	10,562
Total noncurrent liabilities	<u>\$ 6,564</u>	<u>\$ 1,027,313</u>	<u>\$ 1,033,877</u>
Total liabilities	<u>\$ 91,032</u>	<u>\$ 2,968,714</u>	<u>\$ 3,059,746</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension related items	\$ 20,981	\$ 15,735	\$ 36,716
Total deferred inflows of resources	<u>\$ 20,981</u>	<u>\$ 15,735</u>	<u>\$ 36,716</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 102,983	\$ 3,423,462	\$ 3,526,445
Restricted for pension benefits	43,569	32,677	76,246
Unrestricted	1,024,603	2,052,188	3,076,791
Total net position	<u>\$ 1,171,155</u>	<u>\$ 5,508,327</u>	<u>\$ 6,679,482</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 1,283,168</u>	<u>\$ 8,492,776</u>	<u>\$ 9,775,944</u>

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

**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
**Year Ended June 30, 2022**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Water service billings	\$ 932,021	\$ -	\$ 932,021
Sewer service billings	-	982,573	982,573
Supply charge	64,001	145,577	209,578
Other	19,577	-	19,577
Total operating revenues	<u>\$ 1,015,599</u>	<u>\$ 1,128,150</u>	<u>\$ 2,143,749</u>
<b>OPERATING EXPENSES</b>			
Water services	\$ 980,722	\$ -	\$ 980,722
Sewer services	-	328,470	328,470
Depreciation	24,869	335,592	360,461
Total operating expenses	<u>\$ 1,005,591</u>	<u>\$ 664,062</u>	<u>\$ 1,669,653</u>
Net operating income (loss)	<u>\$ 10,008</u>	<u>\$ 464,088</u>	<u>\$ 474,096</u>
Income (loss) before contributions and transfers	<u>\$ 10,008</u>	<u>\$ 464,088</u>	<u>\$ 474,096</u>
Capital contributions	\$ 157,600	\$ 300,180	\$ 457,780
Transfers in	-	478,580	478,580
Transfers (out)	<u>(68,856)</u>	<u>-</u>	<u>(68,856)</u>
Change in net position	\$ 98,752	\$ 1,242,848	\$ 1,341,600
Net position - beginning	<u>1,072,403</u>	<u>4,265,479</u>	<u>5,337,882</u>
Net position - ending	<u>\$ 1,171,155</u>	<u>\$ 5,508,327</u>	<u>\$ 6,679,482</u>

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

**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2022**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 1,014,697	\$ 1,113,069	\$ 2,127,766
Cash payments to suppliers of goods and services	(812,845)	(199,874)	(1,012,719)
Cash payments to employees	(203,099)	(118,765)	(321,864)
Net cash provided by (used for) operating activities	<u>\$ (1,247)</u>	<u>\$ 794,430</u>	<u>\$ 793,183</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers from other funds	\$ -	\$ 478,580	\$ 478,580
Transfers to other funds	(385,520)	(832,695)	(1,218,215)
Net cash provided by (used for) noncapital financing activities	<u>\$ (385,520)</u>	<u>\$ (354,115)</u>	<u>\$ (739,635)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase and construction of capital assets	\$ (18,805)	\$ (611,732)	\$ (630,537)
Principal payments on bonds	-	(793,000)	(793,000)
Capital contributions from others	157,600	300,180	457,780
Net cash provided by (used for) capital and related financing activities	<u>\$ 138,795</u>	<u>\$ (1,104,552)</u>	<u>\$ (965,757)</u>
Net increase (decrease) in cash and cash equivalents	\$ (247,972)	\$ (664,237)	\$ (912,209)
Cash and cash equivalents - beginning - including restricted	840,334	1,737,410	2,577,744
Cash and cash equivalents - ending - including restricted	<u>\$ 592,362</u>	<u>\$ 1,073,173</u>	<u>\$ 1,665,535</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>			
Operating income (loss)	\$ 10,008	\$ 464,088	\$ 474,096
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation and amortization expense	24,869	335,592	360,461
(Increase) decrease in accounts receivable	(10,302)	(15,081)	(25,383)
(Increase) decrease in deferred outflows of resources	(319)	1,341	1,022
Increase (decrease) in accounts payable	(24,674)	16,162	(8,512)
(Increase) decrease in net pension asset	(20,117)	(15,087)	(35,204)
Increase (decrease) in deferred inflows of resources	9,888	7,415	17,303
Increase (decrease) in customer deposits	9,400	-	9,400
Net cash provided by (used for) operating activities	<u>\$ (1,247)</u>	<u>\$ 794,430</u>	<u>\$ 793,183</u>

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

**TOWN OF MIDDLETOWN, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**A. Financial Reporting Entity**

The financial statements of Town of Middletown, Virginia (the Town) conform with accounting principles generally accepted in the United States of America as applied to governmental units promulgated by the Governmental Activities Standards Board (GASB). The more significant of the Town's accounting policies are described below.

Town of Middletown, Virginia is a municipality governed by a six-member Town Council and Mayor. Daily operations are conducted by a Town Manager.

As required by accounting principles generally accepted in the United States of America, these financial statements present the Town's financial position. There are no separate governmental units that meet the criteria as a component unit.

**B. Government-Wide and Fund Financial Statements**

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

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

TOWN OF MIDDLETOWN, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 (CONTINUED)

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**B. Government-Wide and Fund Financial Statements (Continued)**

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

Budgetary Comparison Schedule – Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in one way or another in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. Many governments revise their original budgets over the course of the year for a variety of reasons. The budgetary comparison schedules present the original budget, the final budget, and the actual activity of the major governmental funds.

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund 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.

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they have been earned and they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service principal and interest expenditures on general long-term debt as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

TOWN OF MIDDLETOWN, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 (CONTINUED)

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

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

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as unavailable revenues. Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the Town.

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 government.

The Town reports the following major governmental fund:

The *General Fund* is the Town's primary operating fund. It accounts for and reports all financial resources of the general government, except those required to be accounted for or reported in another fund.

The Town reports the following major proprietary funds:

The *Water Fund* accounts for the activities related to the provision of water services to the Town's businesses, residents, schools, and churches. The Town purchases its water from the County of Frederick, Virginia.

The Sewer Fund operates the sewer treatment plant, water distribution systems, sewer collection systems, and pump stations.

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

TOWN OF MIDDLETOWN, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 (CONTINUED)

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

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

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

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

Cash and cash equivalents

The Town's cash and cash equivalents include cash on hand and amounts in demand deposits as well as short-term investments with original maturities of three months or less from the date of acquisition. For purposes of the statement of cash flows, the government's proprietary funds consider their demand deposits and all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). 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 and personal property taxes are assessed annually by Frederick County, Virginia, for all property of record as of January 1. Property taxes attach as an enforceable lien on property as of September 30. The town collects real estate and personal property taxes on an annual basis due December 5. The portion of the tax receivable that is not collected within 60 days after June 30 is shown as unavailable revenue in the fund financial statements.

The taxes receivable balance at June 30, 2022, includes amounts not yet billed or received from the first-half January 1, 2022, levy (due December 5, 2022). These items are included in deferred revenue since these taxes are restricted for use until fiscal year 2022.



TOWN OF MIDDLETOWN, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 (CONTINUED)

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

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

Allowance for uncollectible accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and specific account analysis. The allowance is composed of property taxes, refuse, and water and sewer accounts receivable, and amounts for June 30, 2022 respectively were \$22,675, \$6,288, and \$2,695.

Prepaid items

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

Use of estimates

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

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

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

Property, plant and equipment and infrastructure of the Town, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	20-40 years
Utility System	25-40 years
Machinery and Equipment	5-15 years
Parks and Improvements	20-40 years

TOWN OF MIDDLETOWN, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 (CONTINUED)

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

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

Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities in the governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

Compensated absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the government-wide financial statements. No expenditure is reported for these amounts in the fund financial statements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement. The Town accrues salary-related payments associated with the payment of compensated absences.

**TOWN OF MIDDLETOWN, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 (CONTINUED)**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

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

Fund balance

In governmental fund types, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called “fund balance.” The Town’s governmental funds report the following categories of fund balance, based on the nature of any limitations requiring the use of resources for specific purposes:

- Nonspendable fund balance – amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance – amounts that can be spent only for the specific purposes stipulated by external resource providers such as grantors or enabling federal, state, or local legislation. Restrictions may be changed or lifted only with the consent of the resource providers;
- Committed fund balance – amounts that can be used only for the specific purposes determined by the adoption of an ordinance committing fund balance for a specified purpose by the City Council/Board of Supervisors/Town Council prior to the end of the fiscal year. Once adopted, the limitation imposed by the ordinance remains in place until the resources have been spent for the specified purpose or the Council/Board adopts another ordinance to remove or revise the limitation;
- Assigned fund balance – amounts a government intends to use for a specific purpose but do not meet the criteria to be classified as committed; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. Unlike commitments, assignments general only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment;
- Unassigned fund balance – amounts that are available for any purpose; positive amounts are only reported in the general fund. Additionally, any deficit fund balance within the other governmental fund types is reported as unassigned

The Town has not adopted a fund balance policy.

TOWN OF MIDDLETOWN, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 (CONTINUED)

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**D. Assets, Liabilities and Deferred Outflows/Inflows of Resources and Net Position/Fund Balance (continued)**

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has one item that qualifies for reporting in this category. It is comprised of certain items related to pension and OPEB. For more detailed information on these items, reference the related notes.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net asset that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has multiple items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30, 2nd half installments levied during the fiscal year but due after June 30th, and amounts prepaid on the 2nd half installments and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2nd half installments levied during the fiscal year but due after June 30th and amounts prepaid on the 2nd half installments are reported as deferred inflows of resources. In addition, certain items related to pension, OPEB, and leases are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

Net position

For government-wide reporting as well as in proprietary funds, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

**TOWN OF MIDDLETOWN, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 (CONTINUED)**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**D. Assets, Liabilities and Deferred Outflows/Inflows of Resources and Net Position/Fund Balance (continued)**

Net position (continued)

- Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.
- Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.
- Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

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

**E. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Town’s Retirement Plan and the additions to/deductions from the Town’s Retirement Plan’s fiduciary net 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 MIDDLETOWN, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 (CONTINUED)**

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:**

**A. Budgetary information**

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

1. Prior to March 30, the Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them. All funds have legally adopted budgets.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the function level. The appropriation for each department or category can be revised only by the Town Council. The Town Manager is authorized to transfer budgeted amounts within general government departments.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30 for all Town units.
8. All budgetary data presented in the accompanying financial statements is the revised budget as of June 30.

**B. Excess of expenditures over appropriations**

Fund	Department	Excess of Expenditures Over Appropriations
General	Government administration	\$ 142,531
General	Public safety	187,619
General	Community development	22,299
Total General Fund		<u>\$ 352,449</u>

**C. Deficit fund equity**

At June 30, 2022, there were no funds with deficit fund equity.

**TOWN OF MIDDLETOWN, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 (CONTINUED)**

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**NOTE 3 – DEPOSITS AND INVESTMENTS:**

Deposits

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

Investments

Statutes authorize the Town to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), Asian Development Bank, the African Development Bank, “prime quality” commercial paper that has received at least two of the following ratings: P-1 by Moody’s Investors Service, Inc.; A-1 by Standard & Poor’s; or F1 by Fitch Ratings, Inc. (Section 2.2-4502), banker’s acceptances, repurchase agreements, and the State Treasurer’s Local Government Investment Pool (LGIP).

Credit Risk of Debt Securities

Custodial credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town’s investing activities are managed under the custody of the Treasurer. The Town has not adopted a policy regarding credit risk of debt securities.

Interest Rate Risk

The Town has no policy regarding interest rate risk.

**NOTE 4 – DUE FROM OTHER GOVERNMENTAL UNITS:**

Amounts due from other governmental units at June 30, 2022, are as follows:

	<u>General</u>
Commonwealth of Virginia:	
Department of Taxation, communications tax collected for the Town	\$ 1,638
Department of Taxation, local sales tax	30,731
Department of Taxation, auto rental tax	<u>129</u>
Total	<u>\$ 32,498</u>

TOWN OF MIDDLETOWN, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 (CONTINUED)

**NOTE 5 – CAPITAL ASSETS:**

Capital asset activity for the year ended June 30, 2022, was as follows:

	Beginning Balance, as Restated	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital asset not being depreciated:				
Land	\$ 134,184	\$ 7,000	\$ -	\$ 141,184
Total capital assets not being depreciated	<u>\$ 134,184</u>	<u>\$ 7,000</u>	<u>\$ -</u>	<u>\$ 141,184</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 715,636	\$ -	\$ -	\$ 715,636
Park and improvements	59,327	-	-	59,327
Machinery and equipment	1,025,256	73,476	-	1,098,732
Total capital assets being depreciated	<u>\$ 1,800,219</u>	<u>\$ 73,476</u>	<u>\$ -</u>	<u>\$ 1,873,695</u>
Accumulated depreciation:				
Buildings and improvements	\$ 276,646	\$ 10,945	\$ -	\$ 287,591
Park and improvements	56,760	2,567	-	59,327
Machinery and equipment	666,565	98,218	-	764,783
Total accumulated depreciation	<u>\$ 999,971</u>	<u>\$ 111,730</u>	<u>\$ -</u>	<u>\$ 1,111,701</u>
Total capital assets being depreciated, net	<u>\$ 800,248</u>	<u>\$ (38,254)</u>	<u>\$ -</u>	<u>\$ 761,994</u>
<b>Governmental activities     capital assets, net</b>	<u><u>\$ 934,432</u></u>	<u><u>\$ (31,254)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 903,178</u></u>



**TOWN OF MIDDLETOWN, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 (CONTINUED)**

**NOTE 5 – CAPITAL ASSETS: (CONTINUED)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type Activities</b>				
Capital asset not being depreciated:				
Land	\$ 315,460	\$ -	\$ -	\$ 315,460
Construction in progress	123,345	2,317,435	-	2,440,780
Total capital assets not being depreciated	<u>\$ 438,805</u>	<u>\$ 2,317,435</u>	<u>\$ -</u>	<u>\$ 2,756,240</u>
Capital assets being depreciated:				
Utility plants	\$ 7,007,109	\$ 29,603	\$ -	\$ 7,036,712
Machinery and equipment	122,203	10,000	-	132,203
Total capital assets being depreciated	<u>\$ 7,129,312</u>	<u>\$ 39,603</u>	<u>\$ -</u>	<u>\$ 7,168,915</u>
Accumulated depreciation:				
Utility plants	\$ 3,035,549	\$ 353,981	\$ -	\$ 3,389,530
Machinery and equipment	73,204	6,480	-	79,684
Total accumulated depreciation	<u>\$ 3,108,753</u>	<u>\$ 360,461</u>	<u>\$ -</u>	<u>\$ 3,469,214</u>
Total capital assets being depreciated, net	<u>\$ 4,020,559</u>	<u>\$ (320,858)</u>	<u>\$ -</u>	<u>\$ 3,699,701</u>
<b>Business-type activities capital assets, net</b>	<u><u>\$ 4,459,364</u></u>	<u><u>\$ 1,996,577</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,455,941</u></u>

Depreciation and amortization expenses were charged to functions/programs of the Town as follows:

**Governmental activities**

General government administration	\$ 9,762
Public safety	44,137
Public works	55,264
Parks and recreation	2,567
Total depreciation expense-governmental activities	<u>\$ 111,730</u>

**Business-type activities**

Water	\$ 24,869
Sewer	335,592
Total depreciation and amortization expense-business-type activities	<u>\$ 360,461</u>

TOWN OF MIDDLETOWN, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 (CONTINUED)

**NOTE 6 – LONG-TERM OBLIGATIONS:**

**Governmental Activities Obligations:**

The following is a summary of changes in long-term obligation transactions for the year ended June 30, 2022:

	Balance July 1, 2021	Additions	Reductions	Balance June 30, 2022
Compensated absences	\$ 16,821	\$ 10,591	\$ 10,093	\$ 17,319
Total	<u>\$ 16,821</u>	<u>\$ 10,591</u>	<u>\$ 10,093</u>	<u>\$ 17,319</u>

**Business-type Activities Obligations:**

The following is a summary of changes in long-term obligation transactions for the year ended June 30, 2022:

	Balance July 1, 2021	Issuances/ Additions	Retirements/ Reductions	Balance June 30, 2022
Direct Borrowings and Direct Placements:				
General obligation bonds	\$ 1,995,995	\$ -	\$ 793,000	\$ 1,202,995
Total Direct Borrowings and Direct Placements	<u>1,995,995</u>	<u>-</u>	<u>793,000</u>	<u>1,202,995</u>
Other Long-Term Obligations:				
Compensated absences	\$ 10,562	\$ 6,337	\$ 6,337	\$ 10,562
Total Other Long-Term Obligations	<u>\$ 10,562</u>	<u>\$ 6,337</u>	<u>\$ 6,337</u>	<u>\$ 10,562</u>
Total Long-Term Obligations	<u>\$ 2,006,557</u>	<u>\$ 6,337</u>	<u>\$ 799,337</u>	<u>\$ 1,213,557</u>

Annual retirements to amortize long-term obligations and related interest at June 30, 2022, are as follows:

Year Ending June 30,	Direct Borrowings and Placements	
	Principal	Interest
2023	\$ 179,680	-
2024	179,680	-
2025	179,680	-
2026	179,680	-
2027	179,680	-
2028	179,680	-
2029	46,855	-
2030	19,515	-
2031	19,515	-
2032	19,515	-
2033	19,515	-
Total	<u>\$ 1,202,995</u>	<u>\$ -</u>

**TOWN OF MIDDLETOWN, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 (CONTINUED)**

**NOTE 6 – LONG-TERM OBLIGATIONS: (CONTINUED)**

**Business-type Activities Obligations: (continued)**

Details of obligations:

	<b>Total Amount Due</b>	<b>Amount Due Within One Year</b>
	<u>          </u>	<u>          </u>
<b><u>Direct Borrowings and Direct Placements</u></b>		
\$5,161,526 VRA General Obligation Bond, Series 1998A, issued August 16, 2006, bearing interest at 0%, with payments due semi-annually commencing March 1, 2008, and continuing through September 1, 2032. Installments are due semi-annually in the amount of \$89,840.	\$ 1,202,995	\$ 179,680
	<u>          </u>	<u>          </u>
Total direct borrowings and direct placements	\$ 1,202,995	\$ 179,680
Compensated absences	10,562	-
	<u>          </u>	<u>          </u>
Total long-term obligations	\$ 1,213,557	\$ 179,680
	<u>          </u>	<u>          </u>

The Town’s outstanding general obligation bonds from direct borrowings and direct placements related to business-type activities of \$1,995,995 contains a provision that in the event of default the entire unpaid principal and interest become immediately due and payable. The Town has pledged the secure payment and performance of the Town’s obligations with the Town’s right, title, and interest to the revenues collected by the Town.

**NOTE 7 – COMPENSATED ABSENCES:**

It is the Town’s policy to permit employees to accumulate earned but not used annual leave and sick leave benefits. The Town pays a benefit for accumulated annual leave upon an employee’s separation from service to the extent the employee meets certain criteria. Annual leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability is reported for compensated absences in governmental funds only to the extent that it is expected to be liquidated with expendable available financial resources as a result of employee resignations and retirements. The Town has no policy to pay unused sick leave when employees resign. The Town has outstanding accrued compensated absences totaling \$17,319 in the Governmental Funds, and \$10,562 in the Enterprise Funds.

## TOWN OF MIDDLETOWN, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 (CONTINUED)

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#### **NOTE 8 – PENSION PLAN:**

##### ***Plan Description***

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

##### ***Benefit Structures***

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, as detailed below:

- a. Employees with a membership date before July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of service credit or age 50 with at least 30 years of service credit. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit. Hazardous duty employees (law enforcement officers, firefighters, and sheriffs) are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of service credit.
- b. Employees with a membership date from July 1, 2010 to December 31, 2013, that have not taken a refund or employees with a membership date prior to July 1, 2010 and not vested before January 1, 2013, are covered under Plan 2, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit or when the sum of their age plus service credit equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit. Hazardous duty employees are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of service credit.
- c. Non-hazardous duty employees with a membership date on or after January 1, 2014 are covered by the Hybrid Plan combining the features of a defined benefit plan and a defined contribution plan. Plan 1 and Plan 2 members also had the option of opting into this plan during the election window held January 1 – April 30, 2014 with an effective date of July 1, 2014. Employees covered by this plan are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit, or when the sum of their age plus service credit equals 90. Employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit. For the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions.

**TOWN OF MIDDLETOWN, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 (CONTINUED)**

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**NOTE 8 – PENSION PLAN: (CONTINUED)**

***Average Final Compensation and Service Retirement Multiplier***

The VRS defined benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the employee's average final compensation multiplied by the employee's total service credit. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.70% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents, and 1.70% or 1.85% for hazardous duty employees as elected by the employer. Under Plan 2, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the retirement multiplier is 1.65% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents, and 1.70% or 1.85% for hazardous duty employees as elected by the employer. Under the Hybrid Plan, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the multiplier is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

***Cost-of-Living Adjustment (COLA) in Retirement and Death and Disability Benefits***

Retirees with an unreduced benefit or with a reduced benefit with at least 20 years of service credit are eligible for an annual COLA beginning July 1 after one full calendar year from the retirement date. Retirees with a reduced benefit and who have less than 20 years of service credit are eligible for an annual COLA beginning on July 1 after one calendar year following the unreduced retirement eligibility date. Under Plan 1, the COLA cannot exceed 5.00%. Under Plan 2 and the Hybrid Plan, the COLA cannot exceed 3.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia, as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

***Employees Covered by Benefit Terms***

As of the June 30, 2020 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Town</u>
Inactive members or their beneficiaries currently receiving benefits	4
Inactive members:	
Vested inactive members	4
Non-vested inactive members	11
Inactive members active elsewhere in VRS	<u>16</u>
Total inactive members	31
Active members	<u>12</u>
Total covered employees	<u><u>47</u></u>

**TOWN OF MIDDLETOWN, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 (CONTINUED)**

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**NOTE 8 – PENSION PLAN: (CONTINUED)**

***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 Town's contractually required employer contribution rate for the year ended June 30, 2022 was 6.01% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$43,025 and \$38,375 for the years ended June 30, 2022 and June 30, 2021, respectively.

***Net Pension (Asset) Liability***

The net pension (asset) liability is calculated separately for each employer and represents that particular employer's total pension (asset) liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. The Town's net pension (asset) liability was measured as of June 30, 2021. The total pension (asset) liability used to calculate the net pension (asset) liability was determined by an actuarial valuation performed as of June 30, 2020, and rolled forward to the measurement date of June 30, 2021.

***Actuarial Assumptions – General Employees***

The total pension liability for General Employees in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2020, 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, 2021.

Inflation	2.50%
Salary increases, including inflation	3.50% – 5.35%
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

**TOWN OF MIDDLETOWN, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 (CONTINUED)**

**NOTE 8 – PENSION PLAN: (CONTINUED)**

***Actuarial Assumptions – General Employees (Continued)***

Mortality rates:

All Others (Non-10 Largest) – Non-Hazardous Duty: 15% of deaths are assumed to be service related

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

**TOWN OF MIDDLETOWN, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 (CONTINUED)**

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**NOTE 8 – PENSION PLAN: (CONTINUED)**

***Actuarial Assumptions – Public Safety Employees with Hazardous Duty Benefits***

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the Town’s Retirement Plan was based on an actuarial valuation as of June 30, 2020, 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, 2021.

Inflation	2.50%
Salary increases, including inflation	3.50% – 4.75%
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Mortality rates:

All Others (Non-10 Largest) – Hazardous Duty: 45% of deaths are assumed to be service related

**Pre-Retirement:**

Pub-2010 Amount Weighted Safety Employee Rates projected generationally with a Modified MP-2020 Improvement Scale; 95% of rates for males; 105% of rates for females set forward 2 years

**Post-Retirement:**

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally with a Modified MP-2020 Improvement Scale; 110% of rates for males; 105% of rates for females set forward 3 years

**Post-Disablement:**

Pub-2010 Amount Weighted General Disabled Rates projected generationally with a Modified MP-2020 Improvement Scale; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

**Beneficiaries and Survivors:**

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally with a Modified MP-2020 Improvement Scale; 110% of rates for males and females set forward 2 years

**Mortality Improvement:**

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:



TOWN OF MIDDLETOWN, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 (CONTINUED)

**NOTE 8 – PENSION PLAN: (CONTINUED)**

**Actuarial Assumptions – Public Safety Employees with Hazardous Duty Benefits (Continued)**

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased 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
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

**Long-Term Expected Rate of Return**

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

Asset Class (Strategy)	Asset Allocation	Expected Rate of Return	Expected Rate of Return*
Public Equity	34.00%	5.00%	1.70%
Fixed Income	15.00%	0.57%	0.09%
Credit Strategies	14.00%	4.49%	0.63%
Real Assets	14.00%	4.76%	0.67%
Private Equity	14.00%	9.94%	1.39%
MAPS - Multi-Asset Public Strategies	6.00%	3.29%	0.20%
PIP - Private Investment Partnership	3.00%	6.84%	0.21%
Total	100.00%		4.89%
		Inflation	2.50%
		Expected arithmetic nominal return*	7.39%

\*The above allocation provides an expected one-year return of 7.39%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 6.94%, including expected inflation of 2.50%. On October 10, 2019, the VRS

**TOWN OF MIDDLETOWN, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 (CONTINUED)**

**NOTE 8 – PENSION PLAN: (CONTINUED)**

***Long-Term Expected Rate of Return (continued)***

Board elected a long-term rate of return of 6.75% which was roughly at the 40<sup>th</sup> percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%. including expected inflation of 2.50%.

***Discount Rate***

The discount rate used to measure the total pension (asset) liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; the Town was also provided with an opportunity to use an alternative employer contribution rate. For the year ended June 30, 2021, the alternate rate was the employer contribution rate used in FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017 actuarial valuations, whichever was greater. From July 1, 2021 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

***Changes in Net Pension (Asset) Liability***

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension (Asset) Liability (a) - (b)</b>
Balances at June 30, 2020	\$ 716,887	\$ 863,462	\$ (146,575)
Changes for the year:			
Service cost	\$ 85,185	\$ -	\$ 85,185
Interest	47,506	-	47,506
Changes of assumptions	47,476	-	47,476
Differences between expected and actual experience	11,672	-	11,672
Contributions - employer	-	39,523	(39,523)
Contributions - employee	-	35,043	(35,043)
Net investment income	-	243,522	(243,522)
Benefit payments, including refunds of employee contributions	(26,198)	(26,198)	-
Administrative expenses	-	(541)	541
Other changes	-	24	(24)
Net changes	\$ 165,641	\$ 291,373	\$ (125,732)
Balances at June 30, 2021	\$ 882,528	\$ 1,154,835	\$ (272,307)

TOWN OF MIDDLETOWN, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 (CONTINUED)

**NOTE 8 – PENSION PLAN: (CONTINUED)**

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

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

	<u>Rate</u>		
	<u>1% Decrease</u>	<u>Current Discount</u>	<u>1% Increase</u>
	<u>(5.75%)</u>	<u>(6.75%)</u>	<u>(7.75%)</u>
Town's Net Pension Liability	\$ (126,726)	\$ (272,307)	\$ (387,662)

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

For the year ended June 30, 2022, the Town recognized pension expense of (\$13,334). At June 30, 2022, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 5,561	\$ 9,043
Change in assumptions	22,619	-
Net difference between projected and actual earnings on pension plan investments	-	122,086
Employer contributions subsequent to the measurement date	<u>43,025</u>	<u>-</u>
Total	<u>\$ 71,205</u>	<u>\$ 131,129</u>

**TOWN OF MIDDLETOWN, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 (CONTINUED)**

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**NOTE 8 – PENSION PLAN: (CONTINUED)**

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

\$43,025 reported as deferred outflows of resources related to pensions resulting from the Town’s contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30,</u>	<u>Town</u>
2023	\$ (9,445)
2024	(28,196)
2025	(28,585)
2026	(36,723)
2027	-
Thereafter	-

***Pension Plan Data***

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2021 Annual Financial Report (Annual Report). A copy of the 2021 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2021-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

**NOTE 9—RESTATEMENT OF BEGINNING FUND BALANCE/NET POSITION:**

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The beginning fund balance and net position of the General Fund was restated to properly reflect ARPA funding received in FY 2022 and to correct beginning accumulated depreciation as follows:

	<u>Fund Balance</u>	<u>Net Position</u>
Balances as previously stated at July 1, 2021	\$ 585,473	\$ 2,026,238
Adjustment for previously received ARPA funding	(724,187)	(724,187)
Adjustment to correct accumulated depreciation	-	(342,167)
Balances as restated July 1, 2021	<u>\$ (138,714)</u>	<u>\$ 959,884</u>

**NOTE 10—UNEARNED REVENUE:**

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Unearned revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Unearned revenue totaling \$287,566 is comprised of the following:

ARPA Funding – ARPA funds received but unspent at June 30, 2022 totaled \$287,566.

**TOWN OF MIDDLETOWN, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 (CONTINUED)**

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**NOTE 11 – 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 Virginia Municipal Group Self Insurance Association and VA Risk. 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 12—DEFERRED AND UNAVAILABLE REVENUE-PROPERTY TAXES:**

Unavailable revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Deferred and unavailable revenue in the government-wide and fund financial statements totaling \$107,371 and \$186,587, respectively, is comprised of the following:

- A. Prepaid Property Taxes – Property taxes due subsequent to June 30, 2022, but paid in advance by the taxpayers totaled \$3,710 at June 30, 2022.
- B. Unbilled Property Taxes – Property taxes for the second half of 2022 that had not been billed as of June 30, 2022 amounted to \$103,661.
- C. Unavailable Property Taxes – Uncollected tax billings not available for funding of current expenditures totaled \$79,216 at June 30, 2022.

**NOTE 13 – CONTINGENT LIABILITIES:**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

**NOTE 14—INTERFUND TRANSFERS:**

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Interfund transfers for the year ended June 30, 2023 consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 47,597	\$ 457,321
Water Fund	-	68,856
Sewer Fund	478,580	-
Total reporting entity	<u>\$ 526,177</u>	<u>\$ 526,177</u>

**TOWN OF MIDDLETOWN, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 (CONTINUED)**

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**NOTE 15 – LITIGATION:**

At June 30, 2022, there were no matters of litigation involving the Town of which would materially affect the Town’s financial position should any court decisions on pending matters not be favorable to such entities.

**NOTE 16 – UPCOMING PRONOUNCEMENTS:**

Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions in the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financing of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

Statement No. 92, *Omnibus 2020*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics such as leases, assets related to pension and postemployment benefits, and reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature. The effective dates differ by topic, ranging from January 2020 to periods beginning after June 15, 2022.

Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

**ARPA Funding**

On March 11, 2022, the American Rescue Plan (ARPA) Act of 2022 was passed by the federal government. A primary component of the ARPA was the establishment of the Coronavirus State and Local Fiscal Recovery Fund (CSLFRF). Local governments are to receive funds in two tranches, with 50% provided beginning in May 2022 and the balance delivered approximately 12 months later.

In July 2023, the Town received its share of the second half of CSLFRF funds, \$724,187. As a condition of receiving CSLFRF funds, any funds unobligated by December 31, 2024, and unexpended by December 31, 2026, will be returned to the federal government.

**NOTE 17 – OTHER SUBSEQUENT DISCLOSURE:**

On November 14, 2022, Town Council made a motion to approve the termination of the Town Manager/Treasurer for potential misuse of Town funds and improper financial reporting. At January 19, 2024, the investigation is ongoing related to the potential misuse of Town funds.

**REQUIRED SUPPLEMENTARY INFORMATION**

## General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Year Ended June 30, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
General property taxes	\$ 228,500	\$ 228,500	\$ 193,552	\$ (34,948)
Other local taxes	457,000	457,000	576,519	119,519
Permits, privilege fees, and regulatory licenses	1,500	1,500	3,782	2,282
Fines and forfeitures	10,000	10,000	21,546	11,546
Revenue from the use of money and property	-	-	224	224
Miscellaneous	70,970	70,970	100,975	30,005
Intergovernmental:				
Commonwealth	81,717	81,717	98,395	16,678
Federal	4,700	4,700	440,930	436,230
Total revenues	<u>\$ 854,387</u>	<u>\$ 854,387</u>	<u>\$ 1,435,923</u>	<u>\$ 581,536</u>
<b>EXPENDITURES</b>				
General government administration	\$ 340,407	\$ 340,407	\$ 482,938	\$ (142,531)
Public safety	470,178	470,178	657,797	(187,619)
Public works	348,000	348,000	294,417	53,583
Community development	50,000	50,000	72,299	(22,299)
Total expenditures	<u>\$ 1,208,585</u>	<u>\$ 1,208,585</u>	<u>\$ 1,507,451</u>	<u>\$ (298,866)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (354,198)</u>	<u>\$ (354,198)</u>	<u>\$ (71,528)</u>	<u>\$ 282,670</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ -	\$ -	\$ 47,597	\$ 47,597
Transfers out	-	-	(457,321)	(457,321)
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (409,724)</u>	<u>\$ (409,724)</u>
Net change in fund balances	\$ (354,198)	\$ (354,198)	\$ (481,252)	\$ (127,054)
Fund balance - beginning, as restated	354,198	354,198	(138,714)	(492,912)
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (619,966)</u>	<u>\$ (619,966)</u>



## TOWN OF MIDDLETOWN, VIRGINIA

Schedule of Changes in Net Pension Liability (Asset) and Related Ratios  
Pension Plan  
For the Measurement Dates of June 30, 2020 through June 30, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>
<b>Total pension liability</b>			
Service cost	\$ 85,185	\$ 72,411	\$ 65,650
Interest	47,506	49,880	42,243
Changes of assumptions	47,476	-	28,597
Differences between expected and actual experience	11,672	(129,621)	26,328
Benefit payments, including refunds of employee contributions	<u>(26,198)</u>	<u>(29,502)</u>	<u>(25,146)</u>
<b>Net change in total pension liability</b>	\$ 165,641	\$ (36,832)	\$ 137,672
<b>Total pension liability - beginning</b>	716,887	753,719	616,047
<b>Total pension liability - ending (a)</b>	<u>\$ 882,528</u>	<u>\$ 716,887</u>	<u>\$ 753,719</u>
<b>Plan fiduciary net position</b>			
Contributions - employer	\$ 39,523	\$ 10,175	\$ 9,884
Contributions - employee	35,043	28,779	26,719
Net investment income	243,522	16,183	52,681
Benefit payments, including refunds of employee contributions	(26,198)	(29,502)	(25,146)
Administrative expense	(541)	(528)	(492)
Other	24	(19)	(33)
<b>Net change in plan fiduciary net position</b>	\$ 291,373	\$ 25,088	\$ 63,613
<b>Plan fiduciary net position - beginning</b>	<u>863,462</u>	<u>838,374</u>	<u>774,761</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 1,154,835</u>	<u>\$ 863,462</u>	<u>\$ 838,374</u>
<b>Town's net pension liability (asset) - ending (a) - (b)</b>	\$ (272,307)	\$ (146,575)	\$ (84,655)
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	130.86%	120.45%	111.23%
<b>Covered payroll</b>	\$ 709,992	\$ 620,335	\$ 573,863
<b>Town's net pension liability as a percentage of covered payroll</b>	-38.35%	-23.63%	-14.75%

Schedule is intended to show information for 10 years. Information prior to the 2020 valuation is not available. However, additional years will be included as they become available.

Schedule of Employer Contributions  
 Pension Plan  
 Years Ended June 30, 2020 through June 30, 2022

Date	Contractually Required Contribution (1) *	Contributions in Relation to Contractually Required Contribution (2) *	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2022	\$ 43,025	\$ 43,025	\$ -	\$ 715,882	6.01%
2021	38,375	38,375	-	709,992	5.40%
2020	13,151	13,151	-	620,335	2.12%

\*Excludes contributions (mandatory and match on voluntary) to the defined contributions portion of the Hybrid plan.

Schedule is intended to show information for 10 years. Information prior to the 2020 valuation is not available. However, additional years will be included as they become available.

Notes to Required Supplementary Information  
For the Year Ended June 30, 2022

**Changes of benefit terms** – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

**Changes of assumptions** – The actuarial assumptions used in the June 30, 2020, valuations were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

All Others (Non 10 Largest) – Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

**OTHER SUPPLEMENTARY INFORMATION**

## **SUPPORTING SCHEDULES**

**Schedule of Revenues - Budget and Actual  
Governmental Funds  
Year Ended June 30, 2022**

<u>Fund, Major and Minor Revenue Source</u>	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>General Fund:</b>				
Revenue from local sources:				
General property taxes:				
Real estate taxes	\$ 160,000	\$ 160,000	\$ 126,906	\$ (33,094)
Personal property taxes	65,000	65,000	65,317	317
Penalties and interest	3,500	3,500	1,329	(2,171)
Total general property taxes	<u>\$ 228,500</u>	<u>\$ 228,500</u>	<u>\$ 193,552</u>	<u>\$ (34,948)</u>
Other local taxes:				
Sales tax	\$ 128,000	\$ 128,000	\$ 170,875	\$ 42,875
Utility taxes	35,000	35,000	36,242	1,242
Cigarette tax	44,000	44,000	51,337	7,337
Meals tax	150,000	150,000	196,800	46,800
Transient occupancy tax	18,000	18,000	27,414	9,414
Business and professional licenses	64,000	64,000	75,417	11,417
Motor vehicle licenses	18,000	18,000	18,434	434
Total other local taxes	<u>\$ 457,000</u>	<u>\$ 457,000</u>	<u>\$ 576,519</u>	<u>\$ 119,519</u>
Permits, privilege fees and regulatory licenses:				
Building permits	<u>\$ 1,500</u>	<u>\$ 1,500</u>	<u>\$ 3,782</u>	<u>\$ 2,282</u>
Fines and forfeitures:				
Court fines	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 21,546</u>	<u>\$ 11,546</u>
Revenue from the use of money and property:				
Interest earned	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 224</u>	<u>\$ 224</u>
Miscellaneous:				
Donations, police	\$ -	\$ -	\$ 980	\$ 980
Donations 4th of July	15,000	15,000	30,860	15,860
Donations ball field	-	-	12,950	12,950
Police department	2,070	2,070	7,404	5,334
Other	9,400	9,400	47,600	38,200
Proffers	44,500	44,500	1,181	(43,319)
Total miscellaneous	<u>\$ 70,970</u>	<u>\$ 70,970</u>	<u>\$ 100,975</u>	<u>\$ 30,005</u>
Total revenue from local sources	<u>\$ 767,970</u>	<u>\$ 767,970</u>	<u>\$ 896,598</u>	<u>\$ 128,628</u>

**Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2022 (Continued)**

<u>Fund, Major and Minor Revenue Source</u>	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>General Fund: (Continued)</b>				
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Personal property tax reimbursement	\$ 42,017	\$ 42,017	\$ 42,017	\$ -
Communication tax	-	-	10,247	10,247
DMV auto rental tax	-	-	988	988
Total noncategorical aid	<u>\$ 42,017</u>	<u>\$ 42,017</u>	<u>\$ 53,252</u>	<u>\$ 11,235</u>
Other categorical aid:				
Fire program funds	\$ 10,000	\$ 10,000	\$ 15,000	\$ 5,000
Law enforcement assistance	28,700	28,700	28,814	114
Litter control grant	1,000	1,000	1,329	329
Total other categorical aid	<u>\$ 39,700</u>	<u>\$ 39,700</u>	<u>\$ 45,143</u>	<u>\$ 5,443</u>
Total revenue from the Commonwealth	<u>\$ 81,717</u>	<u>\$ 81,717</u>	<u>\$ 98,395</u>	<u>\$ 16,678</u>
Revenue from the federal government:				
Categorical aid:				
DMV highway safety program grants	\$ 4,700	\$ 4,700	\$ 4,309	\$ (391)
Coronavirus state and local fiscal recovery fund	-	-	436,621	436,621
Total categorical aid	<u>\$ 4,700</u>	<u>\$ 4,700</u>	<u>\$ 440,930</u>	<u>\$ 436,230</u>
Total revenue from the federal government	<u>\$ 4,700</u>	<u>\$ 4,700</u>	<u>\$ 440,930</u>	<u>\$ 436,230</u>
Total General Fund	<u>\$ 854,387</u>	<u>\$ 854,387</u>	<u>\$ 1,432,213</u>	<u>\$ 577,826</u>
Total Primary Government	<u>\$ 854,387</u>	<u>\$ 854,387</u>	<u>\$ 1,432,213</u>	<u>\$ 577,826</u>

**Schedule of Expenditures - Budget and Actual  
Governmental Funds  
Year Ended June 30, 2022**

<u>Fund, Function, Activity, and Elements</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>General Fund:</b>				
General government administration:				
Legislative:				
Town council and planning commission	\$ 16,000	\$ 16,000	\$ 20,952	\$ (4,952)
General and financial administration:				
Treasurer	\$ 173,900	\$ 173,900	\$ 192,012	\$ (18,112)
Administrative	150,507	150,507	207,791	(57,284)
Financial discrepancies	-	-	62,183	(62,183)
Total general and financial administration	<u>\$ 324,407</u>	<u>\$ 324,407</u>	<u>\$ 461,986</u>	<u>\$ (137,579)</u>
Total general government administration	<u>\$ 340,407</u>	<u>\$ 340,407</u>	<u>\$ 482,938</u>	<u>\$ (142,531)</u>
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 460,178	\$ 460,178	\$ 568,807	\$ (108,629)
Fire and rescue services:				
Fire department	\$ 10,000	\$ 10,000	\$ 25,000	\$ (15,000)
Proffers	-	-	63,990	(63,990)
Total fire and rescue services	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 88,990</u>	<u>\$ (78,990)</u>
Total public safety	<u>\$ 470,178</u>	<u>\$ 470,178</u>	<u>\$ 657,797</u>	<u>\$ (187,619)</u>
Public works:				
Maintenance of general buildings and grounds:				
General properties	\$ 348,000	\$ 348,000	\$ 294,417	\$ 53,583
Total maintenance of general buildings and grounds	<u>348,000</u>	<u>348,000</u>	<u>294,417</u>	<u>53,583</u>
Total public works	<u>\$ 348,000</u>	<u>\$ 348,000</u>	<u>\$ 294,417</u>	<u>\$ 53,583</u>
Community development				
General:				
Zoning	\$ 50,000	\$ 50,000	\$ 72,299	\$ (22,299)
Total zoning	<u>\$ 50,000</u>	<u>\$ 50,000</u>	<u>\$ 72,299</u>	<u>\$ (22,299)</u>
Total community development	<u>\$ 50,000</u>	<u>\$ 50,000</u>	<u>\$ 72,299</u>	<u>\$ (22,299)</u>
Total General Fund	<u>\$ 1,208,585</u>	<u>\$ 1,208,585</u>	<u>\$ 1,507,451</u>	<u>\$ (298,866)</u>
Total Primary Government	<u>\$ 1,208,585</u>	<u>\$ 1,208,585</u>	<u>\$ 1,507,451</u>	<u>\$ (298,866)</u>



## **COMPLIANCE**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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**TO THE HONORABLE MEMBERS OF  
THE TOWN COUNCIL  
TOWN OF MIDDLETOWN, 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, each major fund, and the remaining fund information of Town of Middletown, Virginia, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Town of Middletown, Virginia's basic financial statements, and have issued our report thereon dated January 19, 2024. Our report qualifies an opinion on such financial statements because of undocumented expenditures to petty cash totaling \$11,325, lack of documentation for accounts payable expenditures, cash receipts collected that were not deposited approximating \$20,000 and numerous unapproved additional payroll disbursements to the Town's former Treasurer totaling \$29,205.

**Report on Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2022-001, 2022-002, and 2022-003, that we consider to be material weaknesses.

## Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Middletown, Virginia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

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

*Robinson, Farmer, Cox Associates*

Staunton, Virginia  
January 19, 2024

**TOWN OF MIDDLETOWN, VIRGINIA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Year Ended June 30, 2022**

**Section II-Financial Statement Findings**

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**2022-001 Segregation of Duties**

*Criteria:* A key concept of internal controls is the segregation of duties. No one employee should have access to both accounting records and related assets.

*Condition:* There is a lack of segregation of duties among Town personnel. Proper internal control is not always possible due to the relatively small number of persons involved in processing transactions.

The Town has segregated certain duties of its employees to help prevent or promptly detect errors in financial reporting. With a small staff, it is difficult to totally divide the functions of executing a transaction, recording the transaction, and keeping custody of the assets.

*Cause:* There is a limited number of personnel for certain functions. There was no financial oversight provided by the Town Council Finance Committee.

*Effect:* There is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected by the entity's internal control over financial reporting.

*Recommendation:* The recommendation is for government to continue to segregate employee duties as much as possible. We encourage the government to mitigate risk by requiring as much independent review, reconciliation and approval of accounting functions by qualified members of management or Council as possible.

*Management's response:* In the future, the Town plans to continue to segregate employee duties as much as possible. The Town Council and management also plan to become actively involved in overseeing the Town's financial operations.

**2022-002 Lack of Approvals for Financial Transactions**

*Criteria:* The management or designated official of the Town should approve all disbursements and payroll check runs at a minimum on a monthly basis. Two original signatures should be required for a checks over a predetermined threshold.

*Condition:* The Town Manager/Treasurer of the Town had authority to write all checks without any approval by other Town Officials.

*Cause:* The cause of this condition is that here was no financial oversight provided by the Town Council finance Committee.

**TOWN OF MIDDLETOWN, VIRGINIA**

**SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2022**

**Section II-Financial Statement Findings (Continued)**

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*Effect:* There is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected by the entity's internal control over financial reporting.

*Recommendation:* The recommendation is for the Town to continue to segregate employee duties as much as possible. We encourage the Town to mitigate risk by requiring as much independent review, reconciliation and approval of accounting functions by qualified members of management or Council as possible. We also recommend that stringent financial polices be adopted and monitored on a routine basis by management and Council.

*Management's response:* In the future, the Town plans to continue to segregate employee duties as much as possible. The Town Council and Officials also plan to become actively involved in overseeing the Town's financial operations.

**2022-003 Financial Statement Presentation**

*Criteria:* The management and staff of the Town should prepare financial statements in accordance with generally accepted accounting standards.

*Condition:* The management and staff of the Town lack the expertise to prepare financial statements in accordance with generally accepted accounting standards.

*Cause:* The Town cannot afford to hire a full-time, in-house Certified Public Accountant skilled in governmental accounting standards at this time.

*Effect:* There is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected by the entity's internal control over financial reporting.

*Recommendation:* The recommendation is for management of the Town to enlist the auditor to provide assistance in drafting the Town's financial statements. Professional standards indicate that it is acceptable for the auditor to perform such nonaudit service providing independence is not impaired. However, the auditor cannot be considered part of the Town's internal control and this matter is required to be communicated to you.

*Management's response:* Management believes the current practice to be acceptable and cost beneficial to the Town. The management of the Town plans to continue to enlist the auditor to provide assistance in drafting the Town's financial statements.

**Section III-Federal Award Findings and Questioned Costs**

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None

TOWN OF MIDDLETOWN, VIRGINIA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended June 30, 2022

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**Section IV-Summary of Prior Year Findings**

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**2021-001 Segregation of Duties**

*Condition:* There is a lack of segregation of duties among Town personnel. Proper internal control is not always possible due to the relatively small number of persons involved in processing transactions.

The Town has segregated certain duties of its employees to help prevent or promptly detect errors in financial reporting. With a small staff, it is difficult to totally divide the functions of executing a transaction, recording the transaction, and keeping custody of the assets.

*Recommendation:* The recommendation is for government to continue to segregate employee duties as much as possible. We encourage the government to mitigate risk by requiring as much independent review, reconciliation and approval of accounting functions by qualified members of management or Council as possible.

Current Status: Condition still applicable for FY 2022.

**2021-002 Lack of Approvals for Financial Transactions**

*Condition:* The Town Manager/Treasurer of the Town had authority to write all checks without any approval by other Town Officials.

*Recommendation:* The recommendation is for the Town to continue to segregate employee duties as much as possible. We encourage the Town to mitigate risk by requiring as much independent review, reconciliation and approval of accounting functions by qualified members of management or Council as possible. We also recommend that stringent financial polices be adopted and monitored on a routine basis by management and Council.

Current Status: Condition still applicable for FY 2022.

**2021-003 Financial Statement Presentation**

*Condition:* The management and staff of the Town lack the expertise to prepare financial statements in accordance with generally accepted accounting standards.

*Recommendation:* The recommendation is for management of the Town to enlist the auditor to provide assistance in drafting the Town's financial statements. Professional standards indicate that it is acceptable for the auditor to perform such nonaudit service providing independence is not impaired. However, the auditor cannot be considered part of the Town's internal control and this matter is required to be communicated to you.

Current Status: Condition still applicable for FY 2022.