



TOWN OF MIDDLETOWN, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2023

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FINANCIAL REPORT
YEAR ENDED JUNE 30, 2023**

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ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Town of Middletown, Virginia, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Town of Middletown, Virginia, as of and for the year ended June 30, 2023, and the respective 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 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 Auditors' 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 audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about 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.

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 is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. 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 the 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 Town of Middletown, Virginia's basic financial statements. The accompanying supporting schedules and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supporting schedules and schedule of expenditures of federal awards 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 February 7, 2025, 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, Finner, Cox Associates

Staunton, Virginia
February 7, 2025

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Statement of Net Position
June 30, 2023

| | Primary Government | | |
|--|------------------------------------|-------------------------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Cash and cash equivalents | \$ 249,857 | \$ 1,087,234 | \$ 1,337,091 |
| Restricted cash and cash equivalents | - | 157,697 | 157,697 |
| Receivables (net of allowance for uncollectibles): | | | |
| Property taxes | 267,778 | - | 267,778 |
| Accounts | 70,002 | 284,749 | 354,751 |
| Internal balances | (1,911,347) | 1,911,347 | - |
| Due from other governmental units | 80,054 | - | 80,054 |
| Prepaid items | 17,822 | - | 17,822 |
| Net pension asset | 160,026 | 62,233 | 222,259 |
| Capital assets not being depreciated: | | | |
| Land | 697,849 | 315,460 | 1,013,309 |
| Construction in progress | - | 6,009,674 | 6,009,674 |
| Capital assets, net of accumulated depreciation: | | | |
| Buildings and improvements | 417,101 | 74,167 | 491,268 |
| Machinery and equipment | 322,948 | 44,706 | 367,654 |
| Infrastructure | - | 3,379,707 | 3,379,707 |
| Total capital assets, net | \$ 1,437,898 | \$ 9,823,714 | \$ 4,238,629 |
| Total Assets | \$ 372,090 | \$ 13,326,974 | \$ 13,699,064 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pension related items | \$ 47,001 | \$ 18,278 | \$ 65,279 |
| Total Deferred Outflows of Resources | \$ 47,001 | \$ 18,278 | \$ 65,279 |
| LIABILITIES | | | |
| Accounts payable | \$ 152,891 | \$ 109,794 | \$ 262,685 |
| Contracts payable | - | 1,575,363 | 1,575,363 |
| Retainage payable | - | 282,244 | 282,244 |
| Accrued interest payable | - | 15,921 | 15,921 |
| Customer deposits | - | 111,100 | 111,100 |
| Noncurrent liabilities: | | | |
| Due within one year | - | 779,680 | 779,680 |
| Due in more than one year | 19,419 | 704,946 | 724,365 |
| Total Liabilities | \$ 172,310 | \$ 3,579,048 | \$ 3,751,358 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred revenue-property taxes | \$ 127,082 | \$ - | \$ 127,082 |
| Pension related items | 35,968 | 13,987 | 49,955 |
| Total Deferred Inflows of Resources | \$ 163,050 | \$ 13,987 | \$ 177,037 |
| NET POSITION | | | |
| Net investment in capital assets | \$ 1,437,898 | \$ 6,487,031 | \$ 7,924,929 |
| Restricted for pension benefits | 160,026 | 62,233 | 222,259 |
| Unrestricted (deficit) | (1,514,193) | 3,202,953 | 1,688,760 |
| Total Net Position | \$ 83,731 | \$ 9,752,217 | \$ 9,835,948 |

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

Town of Middletown, Virginia

Statement of Activities
Year Ended June 30, 2023

| Functions/Programs | Program Revenues | | | |
|--|------------------|----------------------|------------------------------------|----------------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| PRIMARY GOVERNMENT: | | | | |
| Governmental activities: | | | | |
| General government administration | \$ 703,073 | \$ 10,286 | \$ 1,011,753 | \$ - |
| Public safety | 486,190 | 20,050 | 136,187 | - |
| Public works | 470,634 | - | 1,642 | - |
| Community development | 41,267 | - | - | - |
| Total governmental activities | \$ 1,701,164 | \$ 30,336 | \$ 1,149,582 | \$ - |
| Business-type activities: | | | | |
| Water | \$ 986,709 | \$ 1,014,532 | \$ - | \$ 442,357 |
| Sewer | 494,806 | 1,135,008 | - | 877,000 |
| Total business-type activities | \$ 1,481,515 | \$ 2,149,540 | \$ - | \$ 1,319,357 |
| Total primary government | \$ 3,182,679 | \$ 2,179,876 | \$ 1,149,582 | \$ 1,319,357 |
| 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 | | | | |
| Net position - ending | | | | |

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

Exhibit 2

| <hr/> Net (Expense) Revenue and Change in Net Position Primary Government <hr/> | | |
|---|--------------------------------|--------------------------------|
| Governmental Activities | Business-type Activities | Total |
| <hr/> | <hr/> | <hr/> |
| \$ 318,966 | \$ - | \$ 318,966 |
| (329,953) | - | (329,953) |
| (468,992) | - | (468,992) |
| <u>(41,267)</u> | <u>-</u> | <u>(41,267)</u> |
| \$ <u>(521,246)</u> | \$ <u>-</u> | \$ <u>(521,246)</u> |
| \$ - | \$ 470,180 | \$ 470,180 |
| <u>-</u> | <u>1,517,202</u> | <u>1,517,202</u> |
| \$ <u>-</u> | \$ <u>1,987,382</u> | \$ <u>1,987,382</u> |
| \$ <u>(521,246)</u> | \$ <u>1,987,382</u> | \$ <u>1,466,136</u> |
| \$ 316,170 | \$ - | \$ 316,170 |
| 181,259 | - | 181,259 |
| 51,525 | - | 51,525 |
| 41,631 | - | 41,631 |
| 250,147 | - | 250,147 |
| 30,388 | - | 30,388 |
| 85,519 | - | 85,519 |
| 31,478 | - | 31,478 |
| 52,808 | - | 52,808 |
| 152,241 | - | 152,241 |
| <u>(1,085,353)</u> | <u>1,085,353</u> | <u>-</u> |
| \$ <u>107,813</u> | \$ <u>1,085,353</u> | \$ <u>1,193,166</u> |
| \$ (413,433) | \$ 3,072,735 | \$ 2,659,302 |
| <u>497,164</u> | <u>6,679,482</u> | <u>7,176,646</u> |
| \$ <u><u>83,731</u></u> | \$ <u><u>9,752,217</u></u> | \$ <u><u>9,835,948</u></u> |

FUND FINANCIAL STATEMENTS

Balance Sheet
Governmental Fund
June 30, 2023

| | General Fund |
|---|-------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 249,857 |
| Receivables (net of allowance for uncollectibles): | |
| Property taxes | 267,778 |
| Accounts receivable | 70,002 |
| Due from other funds | 10,527 |
| Due from other governmental units | 80,054 |
| Prepaid items | 17,822 |
| Total assets | \$ <u>696,040</u> |
| LIABILITIES | |
| Accounts payable | \$ 107,034 |
| Due to other funds | 1,921,874 |
| Total liabilities | \$ <u>2,028,908</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Unavailable revenue - property taxes | \$ 270,763 |
| Total deferred inflows of resources | \$ <u>270,763</u> |
| FUND BALANCE | |
| Nonspendable: | |
| Prepaid items | \$ 17,822 |
| Unassigned (deficit) | (1,621,453) |
| Total fund balance (deficit) | \$ <u>(1,603,631)</u> |
| Total liabilities, deferred inflows of resources, and fund balances | \$ <u>696,040</u> |

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

**Reconciliation of the Balance Sheet of Governmental Fund
to the Statement of Net Position
June 30, 2023**

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

| | | |
|--|----|-------------|
| Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds | \$ | (1,649,488) |
|--|----|-------------|

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

| | | | |
|----------------------------|----|----------------|-----------|
| Land | \$ | 697,849 | |
| Buildings and improvements | | 417,101 | |
| Machinery and equipment | | <u>322,948</u> | 1,437,898 |

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

| | |
|--------------------------------------|---------|
| Unavailable revenue - property taxes | 143,681 |
|--------------------------------------|---------|

The net pension asset is not an available resource and, therefore, is not reported in the funds

| |
|---------|
| 160,026 |
|---------|

Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds.

| | |
|-----------------------|--------|
| Pension related items | 47,001 |
|-----------------------|--------|

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

| | |
|----------------------|----------|
| Compensated absences | (19,419) |
|----------------------|----------|

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>(35,968)</u> |
|-----------------------|-----------------|

Net position of governmental activities

| |
|-------------------------|
| \$ <u><u>83,731</u></u> |
|-------------------------|

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

Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
Year Ended June 30, 2023

| | General Fund |
|---|------------------------------|
| REVENUES | |
| General property taxes | \$ 251,705 |
| Other local taxes | 640,457 |
| Permits, privilege fees, and regulatory licenses | 10,286 |
| Fines and forfeitures | 20,050 |
| Revenue from the use of money and property | 31,478 |
| Miscellaneous | 152,241 |
| Intergovernmental: | |
| Commonwealth | 136,697 |
| Federal | 1,065,705 |
| Total revenues | <u>\$ 2,308,619</u> |
| EXPENDITURES | |
| General government administration | \$ 677,382 |
| Public safety | 527,744 |
| Public works | 955,993 |
| Community development | 45,812 |
| Total expenditures | <u>\$ 2,206,931</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>\$ 101,688</u> |
| OTHER FINANCING SOURCES (USES) | |
| Transfers out | \$ (1,085,353) |
| Total other financing sources (uses) | <u>\$ (1,085,353)</u> |
| Net change in fund balance | \$ (983,665) |
| Fund balance (deficit) - beginning | (619,966) |
| Fund balance (deficit) - ending | <u><u>\$ (1,603,631)</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 Balance of Governmental Fund to the Statement of Activities
Year Ended June 30, 2023**

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

Net change in fund balances - total governmental funds \$ (1,029,522)

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 | \$ 632,560 | |
| Depreciation expense | <u>(97,840)</u> | 534,720 |

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

| | | |
|----------------|--|--------|
| Property taxes | | 64,465 |
|----------------|--|--------|

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.

| | | |
|----------------------|---------------|--------|
| Compensated absences | \$ (2,100) | |
| Pension expense | <u>19,004</u> | 16,904 |

| | | |
|---|--|----------------------------|
| Change in net position of governmental activities | | \$ <u><u>(413,433)</u></u> |
|---|--|----------------------------|

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

Statement of Net Position
Proprietary Funds
June 30, 2023

| | Water Fund | Sewer Fund | Total |
|--|-----------------------|-----------------------|---------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 535,455 | \$ 551,779 | \$ 1,087,234 |
| Accounts receivable | 135,451 | 149,298 | 284,749 |
| Due from other funds | 955,588 | 984,886 | 1,940,474 |
| Restricted current assets: | | | |
| Cash and cash equivalents | 157,697 | - | 157,697 |
| Total current assets | \$ 1,784,191 | \$ 1,685,963 | \$ 3,470,154 |
| Noncurrent assets: | | | |
| Net pension asset | \$ 35,561 | \$ 26,672 | \$ 62,233 |
| Capital assets: | | | |
| Land | \$ - | \$ 315,460 | \$ 315,460 |
| Construction in progress | - | 6,009,674 | 6,009,674 |
| Utility plants | 465,984 | 6,588,536 | 7,054,520 |
| Machinery and equipment | - | 132,203 | 132,203 |
| Accumulated depreciation | (372,734) | (3,315,409) | (3,688,143) |
| Total capital assets, net | \$ 93,250 | \$ 9,730,464 | \$ 9,823,714 |
| Total noncurrent assets | \$ 128,811 | \$ 9,757,136 | \$ 9,885,947 |
| Total assets | \$ 1,913,002 | \$ 11,443,099 | \$ 13,356,101 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pension related items | \$ 10,445 | \$ 7,833 | \$ 18,278 |
| Total deferred outflows of resources | \$ 10,445 | \$ 7,833 | \$ 18,278 |
| Total assets and deferred outflows of resources | \$ 1,923,447 | \$ 11,450,932 | \$ 13,374,379 |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 70,395 | \$ 39,399 | \$ 109,794 |
| Interest payable | - | 15,921 | 15,921 |
| Contracts payable | - | 1,575,363 | 1,575,363 |
| Retainage payable | - | 282,244 | 282,244 |
| Due to other funds | 10,527 | 18,600 | 29,127 |
| Customer deposits | 111,100 | - | 111,100 |
| Note payable, current portion | - | 600,000 | 600,000 |
| General obligation bond, current portion | - | 179,680 | 179,680 |
| Total current liabilities | \$ 192,022 | \$ 2,711,207 | \$ 2,903,229 |
| Noncurrent liabilities: | | | |
| General obligation bond, net of current portion | \$ - | \$ 683,475 | \$ 683,475 |
| Compensated absences | 8,497 | 12,974 | 21,471 |
| Total noncurrent liabilities | \$ 8,497 | \$ 696,449 | \$ 704,946 |
| Total liabilities | \$ 200,519 | \$ 3,407,656 | \$ 3,608,175 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Pension related items | \$ 7,993 | \$ 5,994 | \$ 13,987 |
| Total deferred inflows of resources | \$ 7,993 | \$ 5,994 | \$ 13,987 |
| NET POSITION | | | |
| Net investment in capital assets | \$ 93,250 | \$ 6,393,781 | \$ 6,487,031 |
| Restricted for pension benefits | 35,561 | 26,672 | 62,233 |
| Unrestricted | 1,586,124 | 1,616,829 | 3,202,953 |
| Total net position | \$ 1,714,935 | \$ 8,037,282 | \$ 9,752,217 |
| Total liabilities, deferred inflows of resources, and net position | \$ 1,923,447 | \$ 11,450,932 | \$ 13,374,379 |

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, 2023

| | Water Fund | Sewer Fund | Total |
|--|----------------------------|----------------------------|----------------------------|
| OPERATING REVENUES | | | |
| Water service billings | \$ 978,611 | \$ - | \$ 978,611 |
| Sewer service billings | - | 984,551 | 984,551 |
| Supply charge | 21,739 | 150,457 | 172,196 |
| Other | 14,182 | - | 14,182 |
| Total operating revenues | <u>\$ 1,014,532</u> | <u>\$ 1,135,008</u> | <u>\$ 2,149,540</u> |
| OPERATING EXPENSES | | | |
| Water services | \$ 959,168 | \$ - | \$ 959,168 |
| Sewer services | - | 287,497 | 287,497 |
| Depreciation | 27,541 | 191,388 | 218,929 |
| Total operating expenses | <u>\$ 986,709</u> | <u>\$ 478,885</u> | <u>\$ 1,465,594</u> |
| Net operating income (loss) | <u>\$ 27,823</u> | <u>\$ 656,123</u> | <u>\$ 683,946</u> |
| NONOPERATING REVENUE (EXPENSE) | | | |
| Interest expense | \$ - | \$ (15,921) | \$ (15,921) |
| Income (loss) before contributions and transfers | \$ 27,823 | \$ 640,202 | \$ 668,025 |
| Capital contributions | 442,357 | 877,000 | 1,319,357 |
| Transfers in | <u>73,600</u> | <u>1,011,753</u> | <u>1,085,353</u> |
| Change in net position | \$ 543,780 | \$ 2,528,955 | \$ 3,072,735 |
| Net position - beginning | <u>1,171,155</u> | <u>5,508,327</u> | <u>6,679,482</u> |
| Net position - ending | <u><u>\$ 1,714,935</u></u> | <u><u>\$ 8,037,282</u></u> | <u><u>\$ 9,752,217</u></u> |

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

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2023

| | Water Fund | Sewer Fund | Total |
|---|-----------------------|-----------------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash received from customers | \$ 1,082,829 | \$ 1,159,536 | \$ 2,242,365 |
| Cash payments to suppliers of goods and services | (854,996) | (222,363) | (1,077,359) |
| Cash payments to employees | (39,453) | (36,834) | (76,287) |
| Net cash provided by (used for) operating activities | \$ 188,380 | \$ 900,339 | \$ 1,088,719 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Transfers from other funds | \$ 73,600 | \$ 1,011,753 | \$ 1,085,353 |
| Transfers to other funds | (585,739) | (132,858) | (718,597) |
| Net cash provided by (used for) noncapital financing activities | \$ (512,139) | \$ 878,895 | \$ 366,756 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Purchase and construction of capital assets | \$ (17,808) | \$ (3,437,788) | \$ (3,455,596) |
| Proceeds from indebtedness | - | 600,000 | 600,000 |
| Principal payments on bonds | - | (339,840) | (339,840) |
| Capital contributions from others | 442,357 | 877,000 | 1,319,357 |
| Net cash provided by (used for) capital and related financing activities | \$ 424,549 | \$ (2,300,628) | \$ (1,876,079) |
| Net increase (decrease) in cash and cash equivalents | \$ 100,790 | \$ (521,394) | \$ (420,604) |
| Cash and cash equivalents - beginning - including restricted | 592,362 | 1,073,173 | 1,665,535 |
| Cash and cash equivalents - ending - including restricted | \$ 693,152 | \$ 551,779 | \$ 1,244,931 |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | | | |
| Operating income (loss) | \$ 27,823 | \$ 656,123 | \$ 683,946 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | | |
| Depreciation and amortization expense | 27,541 | 191,388 | 218,929 |
| (Increase) decrease in accounts receivable | 36,797 | 24,528 | 61,325 |
| (Increase) decrease in deferred outflows of resources | 2,239 | 281 | 2,520 |
| Increase (decrease) in accounts payable | 65,527 | 22,779 | 88,306 |
| (Increase) decrease in net pension asset | 8,008 | 6,005 | 14,013 |
| Increase (decrease) in deferred inflows of resources | (12,988) | (9,741) | (22,729) |
| Increase (decrease) in compensated absences | 1,933 | 8,976 | 10,909 |
| Increase (decrease) in customer deposits | 31,500 | - | 31,500 |
| Net cash provided by (used for) operating activities | \$ 188,380 | \$ 900,339 | \$ 1,088,719 |

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

Town of Middletown, Virginia

**Notes to Financial Statements
June 30, 2023**

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.

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.

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.

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 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.

Taxes receivable includes amounts not yet billed or received from the first-half January 1, 2023, levy (due December 5, 2023). These items are included in deferred revenue since these taxes are restricted for use until fiscal year 2023.

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, 2023 respectively were \$19,310, \$4,740, and \$2,031.

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, and in the proprietary fund column in the fund 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 |

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.

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 can 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 other governmental fund types is reported as unassigned.

The Town has not adopted a fund balance policy.

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. 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 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.

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 asset, 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.

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 | \$ 354,082 |
| General | Public works | 577,993 |
| Total General Fund | | <u>\$ 932,075</u> |

C. Deficit fund equity

At June 30, 2023, the General Fund reported deficit fund equity of \$1,603,631.

Town of Middletown, Virginia

Notes to Financial Statements June 30, 2023 (Continued)

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, 2023, are as follows:

| | <u>General</u> |
|-----------------------------|------------------|
| Commonwealth of Virginia: | |
| Communications tax | \$ 1,580 |
| Auto rental tax | 549 |
| Sales tax | 29,419 |
| Federal Government: | |
| Coronavirus relief fund | 47,481 |
| Transportation safety grant | 1,025 |
| Total | <u>\$ 80,054</u> |

Town of Middletown, Virginia

**Notes to Financial Statements
June 30, 2023 (Continued)**

NOTE 5 – CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2023, was as follows:

| | Balance June 30, 2022 | Increases | Decreases | Balance June 30, 2023 |
|--|-----------------------------|-------------------|-------------|-----------------------------|
| Governmental Activities | | | | |
| Capital asset not being depreciated: | | | | |
| Land | \$ 141,184 | \$ 556,665 | \$ - | \$ 697,849 |
| Total capital assets not being depreciated | \$ 141,184 | \$ 556,665 | \$ - | \$ 697,849 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | \$ 774,963 | \$ - | \$ - | \$ 774,963 |
| Machinery and equipment | 1,098,732 | 75,895 | - | 1,174,627 |
| Total capital assets being depreciated | \$ 1,873,695 | \$ 75,895 | \$ - | \$ 1,949,590 |
| Accumulated depreciation: | | | | |
| Buildings and improvements | \$ 346,918 | \$ 10,944 | \$ - | \$ 357,862 |
| Machinery and equipment | 764,783 | 86,896 | - | 851,679 |
| Total accumulated depreciation | \$ 1,111,701 | \$ 97,840 | \$ - | \$ 1,209,541 |
| Total capital assets being depreciated, net | \$ 761,994 | \$ (21,945) | \$ - | \$ 740,049 |
| Governmental activities capital assets, net | <u>\$ 903,178</u> | <u>\$ 534,720</u> | <u>\$ -</u> | <u>\$ 1,437,898</u> |

Town of Middletown, Virginia

Notes to Financial Statements
June 30, 2023 (Continued)

NOTE 5 – CAPITAL ASSETS: (CONTINUED)

| | Balance June 30, 2022 | Increases | Decreases | Balance June 30, 2023 |
|---|-----------------------------|----------------------------|--------------------|-----------------------------|
| Business-type Activities | | | | |
| Capital asset not being depreciated: | | | | |
| Land | \$ 315,460 | \$ - | \$ - | \$ 315,460 |
| Construction in progress | <u>2,440,780</u> | <u>3,568,894</u> | <u>-</u> | <u>6,009,674</u> |
| Total capital assets not being depreciated | <u>\$ 2,756,240</u> | <u>\$ 3,568,894</u> | <u>\$ -</u> | <u>\$ 6,325,134</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | \$ 134,390 | \$ - | \$ - | \$ 134,390 |
| Machinery and equipment | 132,203 | - | - | 132,203 |
| Utility plants | <u>6,902,322</u> | <u>17,808</u> | <u>-</u> | <u>6,920,130</u> |
| Total capital assets being depreciated | <u>\$ 7,168,915</u> | <u>\$ 17,808</u> | <u>\$ -</u> | <u>\$ 7,186,723</u> |
| Accumulated depreciation: | | | | |
| Buildings and improvements | \$ 56,777 | \$ 3,446 | \$ - | \$ 60,223 |
| Machinery and equipment | 79,684 | 7,813 | - | 87,497 |
| Utility plants | <u>3,332,753</u> | <u>207,670</u> | <u>-</u> | <u>3,540,423</u> |
| Total accumulated depreciation | <u>\$ 3,469,214</u> | <u>\$ 218,929</u> | <u>\$ -</u> | <u>\$ 3,688,143</u> |
| Total capital assets being depreciated, net | <u>\$ 3,699,701</u> | <u>\$ (201,121)</u> | <u>\$ -</u> | <u>\$ 3,498,580</u> |
| Business-type activities capital assets, net | <u><u>\$ 6,455,941</u></u> | <u><u>\$ 3,367,773</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 9,823,714</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 | 35,572 |
| Public works | <u>52,506</u> |
| Total depreciation expense-governmental activities | <u><u>\$ 97,840</u></u> |

Business-type activities

| | |
|--|--------------------------|
| Water | \$ 27,541 |
| Sewer | <u>191,388</u> |
| Total depreciation and amortization expense-business-type activities | <u><u>\$ 218,929</u></u> |

Town of Middletown, Virginia

**Notes to Financial Statements
June 30, 2023 (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, 2023:

| | Balance July 1, 2022 | Additions | Reductions | Balance June 30, 2023 |
|----------------------|----------------------------|-----------|------------|-----------------------------|
| Compensated absences | \$ 17,319 | \$ 12,491 | \$ 10,391 | \$ 19,419 |
| Total | \$ 17,319 | \$ 12,491 | \$ 10,391 | \$ 19,419 |

Business-type Activities Obligations:

The following is a summary of changes in long-term obligation transactions for the year ended June 30, 2023:

| | Balance July 1, 2022 | Issuances/ Additions | Retirements/ Reductions | Balance June 30, 2023 |
|--|----------------------------|-------------------------|----------------------------|-----------------------------|
| Direct Borrowings and Direct Placements: | | | | |
| General obligation bond | \$ 1,202,995 | \$ - | \$ 339,840 | \$ 863,155 |
| Note payable | - | 600,000 | - | 600,000 |
| Total Direct Borrowings and Direct Placements | \$ 1,202,995 | \$ 600,000 | \$ 339,840 | \$ 1,463,155 |
| Other Long-Term Obligations: | | | | |
| Compensated absences | \$ 10,562 | \$ 17,246 | \$ 6,337 | \$ 21,471 |
| Total Other Long-Term Obligations | \$ 10,562 | \$ 17,246 | \$ 6,337 | \$ 21,471 |
| Total Long-Term Obligations | \$ 1,213,557 | \$ 617,246 | \$ 346,177 | \$ 1,484,626 |

Annual retirements to amortize long-term obligations and related interest at June 30, 2023, are as follows:

| Year Ending June 30, | Direct Borrowings and Placements | | | |
|-------------------------|----------------------------------|----------|--------------|----------|
| | General Obligation Bond | | Note Payable | |
| | Principal | Interest | Principal** | Interest |
| 2024 | \$ 179,680 | \$ - | \$ 600,000 | \$ - |
| 2025 | 179,680 | - | - | - |
| 2026 | 179,680 | - | - | - |
| 2027 | 179,680 | - | - | - |
| 2028 | 179,680 | - | - | - |
| 2029-3033 | 898,400 | - | - | - |
| less prepayments | (933,645) | - | - | - |
| Total | \$ 863,155 | \$ - | \$ 600,000 | \$ - |

**The \$600,000 note payable is interim financing and will be refinanced in fiscal year 2024.

Town of Middletown, Virginia

**Notes to Financial Statements
June 30, 2023 (Continued)**

NOTE 6 – LONG-TERM OBLIGATIONS: (CONTINUED)

Business-type Activities Obligations: (continued)

Details of obligations:

| | Total Amount Due | Amount Due Within One Year |
|--|---------------------------------|---|
| <u>Direct Borrowings and Direct Placements</u> | | |
| <u>General Obligation Bond</u> | | |
| \$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. | \$ 863,155 | \$ 179,680 |
| <u>Note Payable</u> | | |
| \$600,000 interim note for construction of the waste water treatment plant, payable to The Village at Middletown, LC, issued January 3, 2023, to be subsequently refinanced with a general obligation bond. At the time of refinancing, the entire outstanding principal will be due along with reimbursement for any interest incurred by The Village at Middletown, LC for funding of the note from Bank of Clarke line of credit. | 600,000 | 600,000 |
| Total direct borrowings and direct placements | 1,463,155 | 779,680 |
| Compensated absences | 21,471 | - |
| Total long-term obligations | <u>\$ 1,484,626</u> | <u>\$ 779,680</u> |

The Town's outstanding general obligation bonds from direct borrowings and direct placements related to business-type activities of \$863,155 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 \$19,419 in the Governmental Funds, and \$21,471 in the Enterprise Funds.

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, 2023 (Continued)

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, 2021 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 | 3 |
| Non-vested inactive members | 13 |
| Inactive members active elsewhere in VRS | <u>17</u> |
| Total inactive members | 33 |
| Active members | <u>14</u> |
| Total covered employees | <u><u>51</u></u> |

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, 2023 was 9.10% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$65,279 and \$43,025 for the years ended June 30, 2023 and June 30, 2022, respectively.

Net Pension Asset

The net pension asset is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. The Town's net pension asset was measured as of June 30, 2022. The total pension (asset) liability used to calculate the net pension (asset) liability was determined by an actuarial valuation performed as of June 30, 2021, and rolled forward to the measurement date of June 30, 2022.

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, 2021, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022.

| | |
|---------------------------------------|--|
| Inflation | 2.50% |
| 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, 2023 (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, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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 |

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, 2021, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022.

| | |
|---------------------------------------|--|
| Inflation | 2.50% |
| 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, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Town of Middletown, Virginia

Notes to Financial Statements June 30, 2023 (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% | 5.71% | 1.94% |
| Fixed Income | 15.00% | 2.04% | 0.31% |
| Credit Strategies | 14.00% | 4.78% | 0.67% |
| Real Assets | 14.00% | 4.47% | 0.63% |
| Private Equity | 14.00% | 9.73% | 1.36% |
| MAPS - Multi-Asset Public Strategies | 6.00% | 3.73% | 0.22% |
| PIP - Private Investment Partnership | 3.00% | 6.55% | 0.20% |
| Total | 100.00% | | 5.33% |
| | | Inflation | 2.50% |
| | | Expected arithmetic nominal return* | 7.83% |

*The above allocation provides an expected one-year return of 7.83%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected 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 6.72%, including expected inflation of 2.50%.

Town of Middletown, Virginia

Notes to Financial Statements June 30, 2023 (Continued)

NOTE 8 – PENSION PLAN: (CONTINUED)

Long-Term Expected Rate of Return (continued)

On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75% which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%. including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension (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, 2023, 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, 2021 actuarial valuations, whichever was greater. From July 1, 2022 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Asset

| | Increase (Decrease) | | |
|--|--|--|--|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Asset (a) - (b) |
| Balances at June 30, 2021 | \$ 882,528 | \$ 1,154,835 | \$ (272,307) |
| Changes for the year: | | | |
| Service cost | \$ 96,843 | \$ - | \$ 96,843 |
| Interest | 65,086 | - | 65,086 |
| Changes of assumptions | - | - | - |
| Differences between expected and actual experience | (42,192) | - | (42,192) |
| Contributions - employer | - | 39,642 | (39,642) |
| Contributions - employee | - | 33,401 | (33,401) |
| Net investment income | - | (2,691) | 2,691 |
| Benefit payments, including refunds of employee contributions | (30,268) | (30,268) | - |
| Administrative expenses | - | (691) | 691 |
| Other changes | - | 28 | (28) |
| Net changes | \$ 89,469 | \$ 39,421 | \$ 50,048 |
| Balances at June 30, 2022 | \$ 971,997 | \$ 1,194,256 | \$ (222,259) |

Town of Middletown, Virginia

**Notes to Financial Statements
June 30, 2023 (Continued)**

NOTE 8 – PENSION PLAN: (CONTINUED)

Sensitivity of the Net Pension Asset to Changes in the Discount Rate

The following presents the net pension asset of the Town using the discount rate of 6.75%, as well as what the Town's net pension asset 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:

| | Rate | | |
|--------------------------|-------------|------------------|--------------|
| | 1% Decrease | Current Discount | 1% Increase |
| | (5.75%) | (6.75%) | (7.75%) |
| Town's Net Pension Asset | \$ (57,544) | \$ (222,259) | \$ (352,521) |

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

For the year ended June 30, 2023, the Town recognized pension expense of \$36,696. At June 30, 2023, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ - | \$ 22,101 |
| Net difference between projected and actual earnings on pension plan investments | - | 27,854 |
| Employer contributions subsequent to the measurement date | 65,279 | - |
| Total | \$ 65,279 | \$ 49,955 |

Town of Middletown, Virginia

Notes to Financial Statements June 30, 2023 (Continued)

NOTE 8 – PENSION PLAN: (CONTINUED)

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

\$65,279 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, 2024. 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:

| Year ended June 30, | Town |
|--------------------------------|-------------|
| 2024 | \$ (31,874) |
| 2025 | (14,182) |
| 2026 | (20,310) |
| 2027 | 16,411 |
| 2028 | - |
| Thereafter | - |

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2022 Annual Financial Report (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2022-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

NOTE 9 – 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.

Town of Middletown, Virginia

Notes to Financial Statements June 30, 2023 (Continued)

NOTE 10—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 \$127,082 and \$270,763, respectively, is comprised of the following:

- A. Prepaid Property Taxes – Property taxes due subsequent to June 30, 2023, but paid in advance by the taxpayers totaled \$5,762 at June 30, 2023.
- B. Unbilled Property Taxes – Property taxes for the second half of 2023 that had not been billed as of June 30, 2023 amounted to \$121,320.
- C. Unavailable Property Taxes – Uncollected tax billings not available for funding of current expenditures totaled \$143,681 at June 30, 2023.

NOTE 11 – 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 12—INTERFUND TRANSFERS:

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

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|------------------------|---------------------|----------------------|
| General Fund | \$ - | \$ 1,085,353 |
| Water Fund | 73,600 | - |
| Sewer Fund | 1,011,753 | - |
| Total reporting entity | <u>\$ 1,085,353</u> | <u>\$ 1,085,353</u> |

NOTE 13 – LITIGATION:

At June 30, 2023, 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 14 – UPCOMING PRONOUNCEMENTS:

Statement No. 99, *Omnibus 2022*, enhances the comparability in accounting and financial reporting and improves consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The effective dates differ based on the requirements of the Statement, ranging from April 2022 to reporting periods beginning after June 15, 2023.

Statement No. 100, *Accounting Changes and Error Corrections* – an amendment of GASB Statement No. 62, enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2023.

Statement No. 101, *Compensated Absences*, updates the recognition and measurement guidance for compensated absences. It aligns the recognition and measurement guidance under a unified model and amends certain previously required disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023.

Implementation Guide No. 2021-1, Implementation Guidance Update—2021, with dates ranging from reporting periods beginning after June 15, 2022 to reporting periods beginning after June 15, 2023.

Implementation Guide No. 2023-1, Implementation Guidance Update—2023, effective for fiscal years beginning after June 15, 2023.

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

NOTE 15 – OTHER SUBSEQUENT DISCLOSURES:

In November 2023, the Town paid off the note payable to The Village at Middletown, LC in its entirety and refinanced the debt to a general obligation bond of the Town.

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. Court proceedings for the embezzlement case is scheduled for May 2025. At February 7, 2025, 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, 2023

| | Budgeted Amounts | | | Variance with Final Budget - Positive (Negative) |
|--|---------------------|---------------------|-----------------------|---|
| | Original | Final | Actual Amounts | |
| REVENUES | | | | |
| General property taxes | \$ 226,500 | \$ 226,500 | \$ 251,705 | \$ 25,205 |
| Other local taxes | 487,150 | 487,150 | 640,457 | 153,307 |
| Permits, privilege fees, and regulatory licenses | 4,000 | 4,000 | 10,286 | 6,286 |
| Fines and forfeitures | - | - | 20,050 | 20,050 |
| Revenue from the use of money and property | - | - | 31,478 | 31,478 |
| Miscellaneous | 336,113 | 336,113 | 152,241 | (183,872) |
| Intergovernmental: | | | | |
| Commonwealth | 86,017 | 86,017 | 136,697 | 50,680 |
| Federal | 3,700 | 3,700 | 1,065,705 | 1,062,005 |
| Total revenues | <u>\$ 1,143,480</u> | <u>\$ 1,143,480</u> | <u>\$ 2,308,619</u> | <u>\$ 1,165,139</u> |
| EXPENDITURES | | | | |
| General government administration | \$ 323,300 | \$ 323,300 | \$ 677,382 | \$ (354,082) |
| Public safety | 587,985 | 587,985 | 527,744 | 60,241 |
| Public works | 378,000 | 378,000 | 955,993 | (577,993) |
| Community development | 71,000 | 71,000 | 45,812 | 25,188 |
| Total expenditures | <u>\$ 1,360,285</u> | <u>\$ 1,360,285</u> | <u>\$ 2,206,931</u> | <u>\$ (846,646)</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>\$ (216,805)</u> | <u>\$ (216,805)</u> | <u>\$ 101,688</u> | <u>\$ 318,493</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | \$ - | \$ - | \$ (1,085,353) | \$ (1,085,353) |
| Total other financing sources (uses) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (1,085,353)</u> | <u>\$ (1,085,353)</u> |
| Net change in fund balance | \$ (216,805) | \$ (216,805) | \$ (983,665) | \$ (766,860) |
| Fund balance - beginning (deficit) | 216,805 | 216,805 | (619,966) | (836,771) |
| Fund balance - ending (deficit) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (1,603,631)</u> | <u>\$ (1,603,631)</u> |

Schedule of Changes in Net Pension Asset and Related Ratios
Pension Plan
For the Measurement Dates of June 30, 2019 through June 30, 2022

| | 2022 | 2021 | 2020 | 2019 |
|---|---------------------|---------------------|---------------------|--------------------|
| Total pension liability | | | | |
| Service cost | \$ 96,843 | \$ 85,185 | \$ 72,411 | \$ 65,650 |
| Interest | 65,086 | 47,506 | 49,880 | 42,243 |
| Changes of assumptions | - | 47,476 | - | 28,597 |
| Differences between expected and actual experience | (42,192) | 11,672 | (129,621) | 26,328 |
| Benefit payments, including refunds of employee contributions | (30,268) | (26,198) | (29,502) | (25,146) |
| Net change in total pension liability | \$ 89,469 | \$ 165,641 | \$ (36,832) | \$ 137,672 |
| Total pension liability - beginning | 882,528 | 716,887 | 753,719 | 616,047 |
| Total pension liability - ending (a) | \$ 971,997 | \$ 882,528 | \$ 716,887 | \$ 753,719 |
| Plan fiduciary net position | | | | |
| Contributions - employer | \$ 39,642 | \$ 39,523 | \$ 10,175 | \$ 9,884 |
| Contributions - employee | 33,401 | 35,043 | 28,779 | 26,719 |
| Net investment income | (2,691) | 243,522 | 16,183 | 52,681 |
| Benefit payments, including refunds of employee contributions | (30,268) | (26,198) | (29,502) | (25,146) |
| Administrative expense | (691) | (541) | (528) | (492) |
| Other | 28 | 24 | (19) | (33) |
| Net change in plan fiduciary net position | \$ 39,421 | \$ 291,373 | \$ 25,088 | \$ 63,613 |
| Plan fiduciary net position - beginning | 1,154,835 | 863,462 | 838,374 | 774,761 |
| Plan fiduciary net position - ending (b) | \$ 1,194,256 | \$ 1,154,835 | \$ 863,462 | \$ 838,374 |
| Town's net pension asset - ending (a) - (b) | \$ (222,259) | \$ (272,307) | \$ (146,575) | \$ (84,655) |
| Plan fiduciary net position as a percentage of the total pension liability | 122.87% | 130.86% | 120.45% | 111.23% |
| Covered payroll | \$ 715,882 | \$ 709,992 | \$ 620,335 | \$ 573,863 |
| Town's net pension asset as a percentage of covered payroll | -31.05% | -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, 2023

| 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) |
|-------------|--|---|---|---|--|
| 2023 | \$ 65,279 | \$ 65,279 | \$ - | \$ 771,443 | 8.46% |
| 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
Pension Plans
Year Ended June 30, 2023

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, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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 |

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 |

OTHER SUPPLEMENTARY INFORMATION

SUPPORTING SCHEDULES

**Schedule of Revenues - Budget and Actual
Governmental Fund
Year Ended June 30, 2023**

| Fund, Major and Minor Revenue Source | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|--|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| General Fund: | | | | |
| Revenue from local sources: | | | | |
| General property taxes: | | | | |
| Real estate taxes | \$ 160,000 | \$ 160,000 | \$ 128,815 | \$ (31,185) |
| Personal property taxes | 65,000 | 65,000 | 116,632 | 51,632 |
| Penalties and interest | 1,500 | 1,500 | 6,258 | 4,758 |
| Total general property taxes | <u>\$ 226,500</u> | <u>\$ 226,500</u> | <u>\$ 251,705</u> | <u>\$ 25,205</u> |
| Other local taxes: | | | | |
| Sales tax | \$ 140,000 | \$ 140,000 | \$ 181,259 | \$ 41,259 |
| Utility taxes | 38,000 | 38,000 | 41,631 | 3,631 |
| Cigarette tax | 44,000 | 44,000 | 51,525 | 7,525 |
| Meals tax | 150,000 | 150,000 | 250,147 | 100,147 |
| Transient occupancy tax | 20,000 | 20,000 | 30,388 | 10,388 |
| Business and professional licenses | 75,150 | 75,150 | 65,918 | (9,232) |
| Motor vehicle licenses | 20,000 | 20,000 | 19,589 | (411) |
| Total other local taxes | <u>\$ 487,150</u> | <u>\$ 487,150</u> | <u>\$ 640,457</u> | <u>\$ 153,307</u> |
| Permits, privilege fees and regulatory licenses: | | | | |
| Building permits and zoning fees | <u>\$ 4,000</u> | <u>\$ 4,000</u> | <u>\$ 10,286</u> | <u>\$ 6,286</u> |
| Fines and forfeitures: | | | | |
| Court fines | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 20,050</u> | <u>\$ 20,050</u> |
| Revenue from the use of money and property: | | | | |
| Interest earned | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 31,478</u> | <u>\$ 31,478</u> |
| Miscellaneous: | | | | |
| Donations - police | \$ 1,000 | \$ 1,000 | \$ - | \$ (1,000) |
| Donations - 4th of July | 15,000 | 15,000 | 41,880 | 26,880 |
| Donations - other | - | - | 7,970 | 7,970 |
| Police department | 2,070 | 2,070 | 1,448 | (622) |
| Other | 42,043 | 42,043 | 56,150 | 14,107 |
| Proffers | 276,000 | 276,000 | 44,793 | (231,207) |
| Total miscellaneous | <u>\$ 336,113</u> | <u>\$ 336,113</u> | <u>\$ 152,241</u> | <u>\$ (183,872)</u> |
| Total revenue from local sources | <u>\$ 1,053,763</u> | <u>\$ 1,053,763</u> | <u>\$ 1,106,217</u> | <u>\$ 52,454</u> |

**Schedule of Revenues - Budget and Actual
Governmental Fund
Year Ended June 30, 2023 (Continued)**

| | Budgeted Amounts | | | Variance with Final Budget - Positive (Negative) |
|--|----------------------|----------------------|-----------------------|---|
| Fund, Major and Minor Revenue Source | Original | Final | Actual Amounts | |
| General Fund: (Continued) | | | | |
| Intergovernmental: | | | | |
| Revenue from the Commonwealth: | | | | |
| Noncategorical aid: | | | | |
| Personal property tax reimbursement | \$ 42,017 | \$ 42,017 | \$ 42,017 | \$ - |
| Communication tax | - | - | 9,950 | 9,950 |
| DMV auto rental tax | 1,000 | 1,000 | 841 | (159) |
| Total noncategorical aid | <u>\$ 43,017</u> | <u>\$ 43,017</u> | <u>\$ 52,808</u> | <u>\$ 9,791</u> |
| Other categorical aid: | | | | |
| Fire program funds | \$ 10,000 | \$ 10,000 | \$ 15,000 | \$ 5,000 |
| Law enforcement assistance | 1,000 | 1,000 | 35,558 | 34,558 |
| 599 program funds - law enforcement | 31,000 | 31,000 | 31,677 | 677 |
| Litter control grant | 1,000 | 1,000 | 1,642 | 642 |
| Rolling stock tax | - | - | 12 | 12 |
| Total other categorical aid | <u>\$ 43,000</u> | <u>\$ 43,000</u> | <u>\$ 83,889</u> | <u>\$ 40,889</u> |
| Total revenue from the Commonwealth | <u>\$ 86,017</u> | <u>\$ 86,017</u> | <u>\$ 136,697</u> | <u>\$ 50,680</u> |
| Revenue from the federal government: | | | | |
| Categorical aid: | | | | |
| DMV highway safety program grants | \$ 3,700 | \$ 3,700 | \$ 6,470 | \$ 2,770 |
| Coronavirus state and local fiscal recovery fund | - | - | 1,059,235 | 1,059,235 |
| Total categorical aid | <u>\$ 3,700</u> | <u>\$ 3,700</u> | <u>\$ 1,065,705</u> | <u>\$ 1,062,005</u> |
| Total revenue from the federal government | <u>\$ 3,700</u> | <u>\$ 3,700</u> | <u>\$ 1,065,705</u> | <u>\$ 1,062,005</u> |
| Total General Fund | <u>\$ 1,143,480</u> | <u>\$ 1,143,480</u> | <u>\$ 2,308,619</u> | <u>\$ 1,165,139</u> |
| Total Primary Government | <u>\$ 1,143,480</u> | <u>\$ 1,143,480</u> | <u>\$ 2,308,619</u> | <u>\$ 1,165,139</u> |

**Schedule of Expenditures - Budget and Actual
Governmental Fund
Year Ended June 30, 2023**

| Fund, Function, Activity, and Elements | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|----------------------------|-------------------------|---------------|---|
| General Fund: | | | | |
| General government administration: | | | | |
| Legislative: | | | | |
| Town council and planning commission | \$ 16,000 | \$ 16,000 | \$ 19,176 | \$ (3,176) |
| General and financial administration: | | | | |
| Treasurer | \$ 179,900 | \$ 179,900 | \$ 345,870 | \$ (165,970) |
| Administrative | 127,400 | 127,400 | 312,336 | (184,936) |
| Total general and financial administration | \$ 307,300 | \$ 307,300 | \$ 658,206 | \$ (350,906) |
| Total general government administration | \$ 323,300 | \$ 323,300 | \$ 677,382 | \$ (354,082) |
| Public safety: | | | | |
| Law enforcement and traffic control: | | | | |
| Police department | \$ 567,985 | \$ 567,985 | \$ 512,744 | \$ 55,241 |
| Fire and rescue services: | | | | |
| Fire department | \$ 20,000 | \$ 20,000 | \$ 15,000 | \$ 5,000 |
| Total public safety | \$ 587,985 | \$ 587,985 | \$ 527,744 | \$ 60,241 |
| Public works: | | | | |
| Maintenance of general buildings and grounds: | | | | |
| General properties | \$ 378,000 | \$ 378,000 | \$ 399,328 | \$ (21,328) |
| Real estate purchase | - | - | 556,665 | (556,665) |
| Total public works | \$ 378,000 | \$ 378,000 | \$ 955,993 | \$ (577,993) |
| Community development: | | | | |
| General: | | | | |
| Zoning | \$ 71,000 | \$ 71,000 | \$ 45,812 | \$ 25,188 |
| Total zoning | \$ 71,000 | \$ 71,000 | \$ 45,812 | \$ 25,188 |
| Total community development | \$ 71,000 | \$ 71,000 | \$ 45,812 | \$ 25,188 |
| Total General Fund | \$ 1,360,285 | \$ 1,360,285 | \$ 2,206,931 | \$ (846,646) |
| Total Primary Government | \$ 1,360,285 | \$ 1,360,285 | \$ 2,206,931 | \$ (846,646) |

COMPLIANCE



ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

**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**

**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, and each major fund of Town of Middletown, Virginia, as of and for the year ended June 30, 2023, 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 February 7, 2025.

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 2023-001, 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
February 7, 2025

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Town of Middletown, Virginia's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Town of Middletown, Virginia's major federal programs for the year ended June 30, 2023. Town of Middletown, Virginia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Town of Middletown, Virginia complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

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

We are required to be independent of Town of Middletown, Virginia and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Town of Middletown, Virginia's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

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

Auditors' Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control over Compliance

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

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

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

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

Robinson, Farmer, Cox Associates

Staunton, Virginia

February 7, 2025

Town of Middletown, Virginia
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

| Federal Grantor/State Pass - Through Grantor/ Program Title or Cluster Title | Assistance Listing Number | Pass-through Entity Identifying Number | Federal Expenditures |
|---|---------------------------------|--|----------------------------|
| Department of Transportation: | | | |
| Pass Through Payments: | | | |
| Virginia Department of Motor Vehicles: | | | |
| Highway Safety Cluster: | | | |
| State and Community Highway Safety | 20.600 | Not available | \$ <u>6,470</u> |
| Total Department of Transportation | | | \$ <u>6,470</u> |
| Department of Treasury: | | | |
| Direct Payments: | | | |
| COVID-19 Coronavirus State and Local Fiscal Recovery Fund | 21.027 | Not applicable | \$ 1,011,753 |
| Pass Through Payments: | | | |
| Virginia Department of Criminal Justice Services: | | | |
| COVID-19 Coronavirus State and Local Fiscal Recovery Fund | 21.027 | 509606 | <u>47,482</u> |
| Subtotal Assistance Listing 21.027 | | | \$ <u>1,059,235</u> |
| Total Department of Treasury | | | \$ <u>1,059,235</u> |
| Total Expenditures of Federal Awards | | | \$ <u><u>1,065,705</u></u> |

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Town of Middletown, Virginia under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Town of Middletown, Virginia, it is not intended to and does not present the financial position, change in net position, or cash flows of the Town of Middletown, Virginia.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Town of Middletown, Virginia has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Pass-through identifying numbers are presented where available.

NOTE C - SUBRECIPIENTS

No awards were passed through to subrecipients.

NOTE D - LOANS

The Town did not have any loans or loan guarantees which are subject to reporting requirements in the current year.

NOTE E - RELATIONSHIP TO FINANCIAL STATEMENTS

Federal expenditures, revenues, and capital contributions are reported in the Town's basic financial statements as follows:

Intergovernmental federal revenues per the basic financial statements:

| | |
|---|----------------------------|
| Governmental funds: | |
| General fund | \$ 1,065,705 |
| Total primary government | \$ <u>1,065,705</u> |
| Total federal expenditures per the Schedule of Expenditures of Federal Awards | \$ <u><u>1,065,705</u></u> |

**Town of Middletown, Virginia
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023**

Section I-Summary of Auditors' Results

Financial Statements

Type of auditors' report issued unmodified

Internal control over financial reporting:

- Material weakness(es) identified? x yes no

- Significant deficiency(ies) identified? yes x none reported

Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes x no

- Significant deficiency(ies) identified? yes x none reported

Type of auditors' report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported
in accordance with 2 CFR section 200.516(a)? yes x no

Identification of major programs:

Assistance Listing # Name of Federal Program or Cluster

21.027 COVID-19 Coronavirus State and Local Fiscal Recovery Fund

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? yes x no

Section II-Financial Statement Findings

2023-001 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.

**Town of Middletown, Virginia
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023 (continued)**

2023-001 Segregation of Duties (continued)

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.

Section III-Federal Award Findings and Questioned Costs

None

Town of Middletown, Virginia
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023 (continued)

Section IV-Summary of Prior Year Findings

2022-001 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 2023.

2022-002 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 policies be adopted and monitored on a routine basis by management and Council.

Current Status: Condition was corrected for FY 2023 through implementation of stricter policies over approvals for financial transactions.

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 was corrected for FY 2023 through hiring of third-party CPA to assist with Treasurer duties, as well as a CPA being appointed to Town Council.