TOWN OF DAYTON, VIRGINIA

COMMENTS ON INTERNAL CONTROL AND OTHER SUGGESTIONS FOR YOUR CONSIDERATION

June 30, 2022

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BROWN EDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT ON COMMENTS AND SUGGESTIONS

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

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Dayton, Virginia as of and for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered its 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 and to comply with any other applicable standards, such as *Government Auditing Standards* and the regulations set forth in the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

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.

If material weaknesses or significant deficiencies were identified during our procedures, they are appropriately designated as such in this report. Additional information on material weaknesses or significant deficiencies and compliance and other matters is included in the ***Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*** which should be read in conjunction with this report.

Additionally, during our audit, we may have become aware of certain other matters that provide opportunities for improving your financial reporting system and/or operating efficiency. Such comments and suggestions regarding these matters, if any, are also included in the attached report, but are not designated as a material weakness or significant deficiency. Since our audit is not designed to include a detail review of all systems and procedures, these comments should not be considered as being all-inclusive of areas where improvements might be achieved. We also have included information on accounting and other matters that we believe is important enough to merit consideration by management and those charged with governance. It is our hope that our suggestions will be taken in the constructive light in which they are offered.

We have already discussed these comments and suggestions with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of the Town Council and management and is not intended to be, and should not be, used by anyone other than those specified parties.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 21, 2022

TOWN OF DAYTON, VIRGINIA
PRIOR YEAR COMMENTS AND SUGGESTIONS

AUDIT ADJUSTMENTS (Material Weakness)

Audit procedures resulted in material audit adjustments to the financial statements. We recommend that the Town perform regular reconciliations and review of the general ledger to ensure that accounts are appropriately reconciled and reflect the correct balances. See additional recommendations from the prior year concerning financial reporting, reconciliations, and segregation of duties.

Current Status:*. Comment is still applicable.*

SEGREGATION OF DUTIES (Material Weakness)

One of the more important aspects of any internal control structure is the segregation of duties. In an ideal system of internal controls, no individual would perform more than one duty in connection with any transaction or series of transactions. In particular, no one individual should have access to both physical assets and the related accounting records. Such access may allow errors or irregularities to occur and either not be detected or concealed. Most significant finance functions at the Town do not have adequate separation of duties. Mitigating controls exist, but are highly dependent upon the rigor and skepticism with which they are applied. In particular, we recommend the following:

- We recommend that personnel in the payables function be independent of the general ledger functions. This should also include restrictions on vendor setup and maintenance in the system. As an alternative, the Treasurer could run a vendor edit report and review all vendor changes made each period, assuming the system can generate such a report.

- We recommend that access to the safe where prenumbered checks are maintained be limited to only employees who need access and that use of those checks be accounted for with some type of log that cannot easily be modified.

Current Status: *Due to the small staff size, there are still segregation of duties issues with the payables function.*

TOWN OF DAYTON, VIRGINIA
PRIOR YEAR INFORMATION TECHNOLOGY COMMENTS

DOCUMENTATION REVIEWS

Review of Critical Logs – The Town has no IT department and vendor support is relied upon to keep the core system operational. However, there is no regular automated review of critical logs, including System Administrator logs or exceptions. This increases the risk of an issue or exception remaining undetected. We recommend that the Town have an independent, knowledgeable employee review critical logs including Administrator activity, failed logins, and any others deemed significant by Town administration**.**

Current Status: *Still applicable.*

ACCESS CONTROL

Logical Security – Access is restricted to that of a third party vendor with exception to the Treasurer in case there is an immediate need to access the server. In discussions with the Treasurer, management has a unique login and password for regular business use. The Treasurer does not have access to any of the software/financial application's written code. The user identification and password used is in a "generic form" (as an example, admin/admin), where it is impossible to properly identify the local user gaining access. It is important to ensure proper identification of who is accessing the information systems at all times.

Current Status*: Still applicable.*

NEW GASB PRONOUNCEMENTS

The GASB issued **Statement No. 96, *Subscription-Based Information Technology Arrangements*** in May 2020**.** This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

The subscription term includes the period during which a government has a noncancellable right to use the underlying IT assets. The subscription term also includes periods covered by an option to extend (if it is reasonably certain that the government or SBITA vendor will exercise that option) or to terminate (if it is reasonably certain that the government or SBITA vendor will *not* exercise that option).

Under this Statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term—which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods.

The subscription asset should be initially measured as the sum of (1) the initial subscription liability amount, (2) payments made to the SBITA vendor before commencement of the subscription term, and (3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. A government should recognize amortization of the subscription asset as an outflow of resources over the subscription term.

Activities associated with a SBITA, other than making subscription payments, should be grouped into the following three stages, and their costs should be accounted for accordingly:

- Preliminary Project Stage, including activities such as evaluating alternatives, determining needed technology, and selecting a SBITA vendor. Outlays in this stage should be expensed as incurred.
- Initial Implementation Stage, including all ancillary charges necessary to place the subscription asset into service. Outlays in this stage generally should be capitalized as an addition to the subscription asset.
- Operation and Additional Implementation Stage, including activities such as subsequent implementation activities, maintenance, and other activities for a government's ongoing operations related to a SBITA. Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria.

NEW GASB PRONOUNCEMENTS (Continued)

In classifying certain outlays into the appropriate stage, the nature of the activity should be the determining factor. Training costs should be expensed as incurred, regardless of the stage in which they are incurred.

If a SBITA contract contains multiple components, a government should account for each component as a separate SBITA or nonsubscription component and allocate the contract price to the different components. If it is not practicable to determine a best estimate for price allocation for some or all components in the contract, a government should account for those components as a single SBITA.

This Statement provides an exception for short-term SBITAs. Short-term SBITAs have a maximum possible term under the SBITA contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Subscription payments for short-term SBITAs should be recognized as outflows of resources.

This Statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

The GASB issued ***Statement No. 99, Omnibus 2022*** in April 2022. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.

NEW GASB PRONOUNCEMENTS (Continued)

- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, as amended, related to the focus of the government-wide financial statements.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

The GASB issued **Statement No. 100,** ***Accounting Changes and Error Corrections*** in June 2022. The primary objective of this Statement is to enhance 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.

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net

NEW GASB PRONOUNCEMENTS (Continued)

position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information

(SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

The GASB issued **Statement No. 101,** ***Compensated Absences*** in June 2022. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

NEW GASB PRONOUNCEMENTS (Continued)

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

CURRENT GASB PROJECTS

GASB currently has a variety of projects in process. Some of these projects discussed below.

Conceptual Framework – Recognition. The project's objective is to develop recognition criteria for *whether* information should be reported in state and local governmental financial statements and *when* that information should be reported. This project ultimately will lead to a Concepts Statement on recognition of elements of financial statements. This project is currently in exposure draft re-deliberations period.

Financial Reporting Model. The objective of this project is to make improvements to the financial reporting model, including Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other reporting model-related pronouncements (Statements No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, No. 41, *Budgetary Comparison Schedules – Perspective Differences*, and No. 46, *Net Assets Restricted by Enabling Legislation, and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*). The objective of these improvements would be to enhance the effectiveness of the model in providing information that is essential for decision-making and enhance the ability to assess a government's accounting and address certain application issues, based upon the results of the pre-agenda research on the financial reporting model. This project is currently in exposure draft re-deliberations period.

Revenue and Expense Recognition. The objective of this project is to develop a comprehensive application model for the classification, recognition, and measurement of revenues and expenses. The purpose for developing a comprehensive model is (1) to improve the information regarding revenues and expenses that users need to make decisions and assess accountability, (2) to provide guidance regarding exchange and exchange-like transactions that have not been specifically addressed, (3) to evaluate revenue and expense recognition in the context of the conceptual framework, and (4) to address application issues identified in practice, based upon the results of the pre-agenda research on revenue for exchange and exchange-like transactions. This project is currently in the preliminary views re-deliberations period.

Going Concern Uncertainties and Severe Financial Stress. The objective of this project is to address issues related to disclosures regarding going concern uncertainties and severe financial stress. The project will consider (1) improvements to existing guidance for going concern considerations to address diversity in practice and clarify the circumstances under which disclosure is appropriate, (2) developing a definition of severe financial stress and criteria for identifying when governments should disclose their exposure to severe financial stress, and (3) what information about a government's exposure to severe financial stress is necessary to disclose. This project is currently in the initial deliberations period.

TOWN OF DAYTON, VIRGINIA

FINANCIAL REPORT

June 30, 2022

TOWN OF DAYTON, VIRGINIA

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INTRODUCTORY SECTION

TOWN OF DAYTON, VIRGINIA

DIRECTORY OF PRINCIPAL OFFICIALS

June 30, 2022

TOWN COUNCIL

Cary Jackson, Mayor
Bradford Dyjak, Vice Mayor
Heidi Hoover
Robert Seward
Emily Estes
Susan Mathias
Robert "Bob" Woltz

APPOINTED OFFICIALS

Angela Lawrence .... Town Manager

INDEPENDENT AUDITORS

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

FINANCIAL SECTION

BROWN EDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

Honorable Members of Town Council
Town of Dayton, Virginia
Dayton, Virginia

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Dayton, Virginia, (the "Town") as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Dayton, Virginia, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town of Dayton, 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.

Responsibilities of Management for the Financial Statements (Continued)

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town of Dayton's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Dayton's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

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

Supplementary Information

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

Other Information

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

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2022 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 21, 2022

BASIC FINANCIAL STATEMENTS

TOWN OF DAYTON, VIRGINIA

STATEMENT OF NET POSITION
June 30, 2022

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents (Note 2)	$ 1,131	$ 4,791,057	$ 4,792,188
Investments (Note 2)	-	1,221,483	1,221,483
Receivables (Note 3)	64,788	440,219	505,007
Due from other governmental units (Note 4)	22,150	692,461	714,611
Inventories	-	54,127	54,127
Prepaids	15,305	3,186	18,491
Investment in electric cooperative (Note 1)	3,403	107,949	111,352
Net Pension Asset (Note 8)	532,994	109,168	642,162
Capital assets: (Note 5)			
Nondepreciable	859,916	1,900,826	2,760,742
Depreciable, net	3,818,486	6,192,339	10,010,825
Total assets	5,318,173	15,512,815	20,830,988
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows (Note 8)	139,346	28,541	167,887
OPEB related deferred outflows (Note 10)	14,223	1,940	16,163
Total deferred outflows of resources	153,569	30,481	184,050
LIABILITIES			
Accounts payable and accrued liabilities	58,252	180,094	238,346
Accrued payroll and related liabilities	29,755	10,781	40,536
Deposits payable	-	7,881	7,881
Unearned revenue (Note 6)	60,727	-	60,727
Noncurrent liabilities:			
Net OPEB liability (Notes 9 and 10)	293,606	21,543	315,149
Other noncurrent liabilities due within one year (Note 7)	4,964	10,008	14,972
Other noncurrent liabilities due in more than one year (Note 7)	78,080	-	78,080
Total liabilities	525,384	230,307	755,691
DEFERRED INFLOWS OF RESOURCES			
Pension related deferred inflows (Note 8)	493,408	101,060	594,468
OPEB related deferred inflows (Note 10)	21,107	2,878	23,985
Total deferred inflows of resources	514,515	103,938	618,453
NET POSITION			
Net investment in capital assets	4,663,509	8,093,165	12,756,674
Restricted			
Pension	532,994	109,168	642,162
Unrestricted	(764,660)	7,006,718	6,242,058
Total net position	$ 4,431,843	$ 15,209,051	$ 19,640,894

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

EXHIBIT 2

TOWN OF DAYTON, VIRGINIA

STATEMENT OF ACTIVITIES
Year Ended June 30, 2022

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
					Primary Government		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-Type Activities**	**Total**
Governmental activities							
General government administration	$ 462,990	$ 1,568	$ -	$ -	$ (461,422)	$ -	$ (461,422)
Public safety	567,448	42,837	58,229	-	(466,382)	-	(466,382)
Public works	477,998	141,946	-	25,000	(311,052)	-	(311,052)
Parks, recreation, and cultural	138,474	65,488	-	-	(72,986)	-	(72,986)
Community development	211,902	-	-	24,106	(187,796)	-	(187,796)
Total governmental activities	1,858,812	251,839	58,229	49,106	(1,499,638)	-	(1,499,638)
Business-type activities							
Water and sewer	2,570,927	3,994,739	1,517,562	-	-	2,941,374	2,941,374
Total business-type activities	2,570,927	3,994,739	1,517,562	-	-	2,941,374	2,941,374
Total primary government	$ 4,429,739	$ 4,246,578	$ 1,575,791	$ 49,106	(1,499,638)	2,941,374	1,441,736
		General revenues and transfers:					
		Property taxes			125,472	-	125,472
		Other local taxes			435,991	-	435,991
		Unrestricted revenue from the use of money and property			-	(49,350)	(49,350)
		Other			33,626	-	33,626
		Transfers (Note 1)			1,344,767	(1,344,767)	-
		Total general revenues and transfers			1,939,856	(1,394,117)	545,739
		Change in net position			440,218	1,547,257	1,987,475
		NET POSITION AT JULY 1,			3,991,625	13,661,794	17,653,419
		NET POSITION AT JUNE 30			$ 4,431,843	$ 15,209,051	$ 19,640,894

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

TOWN OF DAYTON, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2022

	General
ASSETS	
Cash and cash equivalents (Note 2)	$ 1,131
Receivables, net (Note 3)	64,788
Due from other governmental units (Note 4)	22,150
Prepaids	15,305
Total assets	$ 103,374
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	
Liabilities:	
Accounts payable and accrued liabilities	$ 58,252
Accrued payroll and related liabilities	29,755
Unearned revenue (Note 6)	60,727
Total liabilities	148,734
Deferred inflows of resources:	
Unavailable revenue (Note 6)	17,570
Total deferred inflows of resources	17,570
Fund balances:	
Nonspendable - prepaids	15,305
Committed - EDA	10,000
Unassigned	(88,235)
Total fund balances	(62,930)
Total liabilities, deferred inflows of resources, and fund balances	$ 103,374

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

EXHIBIT 4

TOWN OF DAYTON, VIRGINIA

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET POSITION
June 30, 2022

Ending fund balance – governmental fund		$ (62,930)
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the fund.		
Nondepreciable capital assets	$ 859,916	
Depreciable capital assets, net	3,818,486	
		4,678,402
Investment in electric cooperative is not available in the current period and therefore is not reported in the fund.		3,403
Certain revenues are not available to pay for current period expenditures and are not reported in the fund.		17,570
Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the fund.		
Deferred outflows of resources related to pension	139,346	
Deferred inflows of resources related to pension	(493,408)	
Deferred outflows of resources related to OPEB	14,223	
Deferred inflows of resources related to OPEB	(21,107)	
		(360,946)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund.		
Compensated absences and service benefits	(68,151)	
Net pension asset	532,994	
Net OPEB liability	(293,606)	
Long-term debt	(14,893)	
		156,344
Total net position – governmental activities		$ 4,431,843

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

TOWN OF DAYTON, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
Year Ended June 30, 2022

	General
REVENUES	
General property taxes	$ 123,855
Other local taxes	435,991
Permits, privilege fees, and regulatory licenses	793
Fines and forfeitures	45,555
Revenues from the use of money and property	775
Charges for services	141,946
Intergovernmental	107,335
Recovered costs	23,173
Other	74,498
Total revenues	953,921
EXPENDITURES	
Current:	
General government administration	510,946
Public safety	647,074
Public works	402,345
Parks, recreation, and cultural	99,164
Community development	187,796
Capital outlay	197,207
Total expenditures	2,044,532
Deficiency of revenues over expenditures	(1,090,611)
OTHER FINANCING SOURCES	
Transfers in (Note 1)	1,344,767
Total other financing sources	1,344,767
Net change in fund balance	254,156
FUND BALANCE AT JULY 1	(317,086)
FUND BALANCE AT JUNE 30	$ (62,930)

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

EXHIBIT 6

TOWN OF DAYTON, VIRGINIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2022

Net change in fund balance – total governmental fund		$ 254,156
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlays	$ 218,998	
Depreciation expense	(248,474)	
		(29,476)
Governmental funds report employer pension and OPEB contributions as expenditures. However, in the statement of activities the cost of pension and OPEB benefits earned net of employee contributions are reported as pension and OPEB expense.		
Change in employer pension contributions	3,246	
Pension expense	213,991	
Change in employer OPEB contributions	322	
OPEB expense	3,159	
		220,718
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		342
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has an effect on net position.		
Principal repayments	4,965	
		4,965
Long-term compensated absences and service benefits are reported in the statement of activities but they do not require the use of current financial resources and, therefore are not recorded as expenditures in governmental funds.		(10,487)
Change in net position of governmental activities		$ 440,218

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

EXHIBIT 7

TOWN OF DAYTON, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2022

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES				
General property taxes	$ 122,000	$ 122,500	$ 123,855	$ 1,355
Other local taxes	410,400	410,400	435,991	25,591
Permits, privilege fees, and regulatory licenses	500	500	793	293
Fines and forfeitures	21,200	21,200	45,555	24,355
Revenues from the use of money and property	2,750	2,750	775	(1,975)
Charges for services	123,926	123,926	141,946	18,020
Intergovernmental	84,200	933,707	107,335	(826,372)
Recovered costs	5,000	5,000	23,173	18,173
Other	107,000	97,000	74,498	(22,502)
Total revenues	876,976	1,716,983	953,921	(763,062)
EXPENDITURES				
Current:				
General government administration	591,550	591,550	510,946	80,604
Public safety	705,000	705,000	647,074	57,926
Public works	491,100	491,100	402,345	88,755
Parks, recreation and cultural	171,750	171,750	99,164	72,586
Community development	181,300	181,300	187,796	(6,496)
Capital outlay	205,000	205,000	197,207	7,793
Total expenditures	2,345,700	2,345,700	2,044,532	301,168
Excess (deficiency) of revenues over expenditures	(1,468,724)	(628,717)	(1,090,611)	(461,894)
OTHER FINANCING SOURCES				
Transfers in	621,415	1,266,424	1,344,767	78,343
Total other financing sources	621,415	1,266,424	1,344,767	78,343
Net change in fund balance	$ (847,309)	$ 637,707	$ 254,156	$ (383,551)

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

EXHIBIT 8

TOWN OF DAYTON, VIRGINIA

STATEMENT OF NET POSITION –
PROPRIETARY FUND
June 30, 2022

	Enterprise Fund Water and Sewer
ASSETS	
Current assets:	
Cash and cash equivalents (Note 2)	$ 4,791,057
Investments (Note 2)	1,221,483
Accounts receivable (Note 3)	440,219
Due from other governments (Note 4)	692,461
Inventories	54,127
Prepaids	3,186
Total current assets	7,202,533
Noncurrent assets:	
Investment in electric cooperative (Note 1)	107,949
Net pension asset (Note 8)	109,168
Capital assets (Note 5)	
Nondepreciable	1,900,826
Depreciable, net	6,192,339
Total noncurrent assets	8,310,282
Total assets	15,512,815
DEFERRED OUTFLOWS OF RESOURCES	
Pension related deferred outflows (Note 8)	28,541
OPEB related deferred outflows (Note 10)	1,940
Total deferred outflows of resources	30,481
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	180,094
Accrued payroll and related liabilities	10,781
Deposits payable	7,881
Total current liabilities	198,756
Noncurrent liabilities:	
Net OPEB liability (Notes 9 and 10)	21,543
Compensated absences and service benefits (Note 7)	10,008
Total noncurrent liabilities	31,551
Total liabilities	230,307
DEFERRED INFLOWS OF RESOURCES	
Pension related deferred inflows (Note 8)	101,060
OPEB related deferred inflows (Note 10)	2,878
Total deferred inflows of resources	103,938
NET POSITION	
Net investment in capital assets	8,093,165
Restricted	
Pension	109,168
Unrestricted	7,006,718
Total net position	$ 15,209,051

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

TOWN OF DAYTON, VIRGINIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION – PROPRIETARY FUND
Year Ended June 30, 2022

	Enterprise Fund Water and Sewer
OPERATING REVENUES	
Charges for services	$ 3,961,689
Connection availability fees	33,050
Intergovernmental	1,517,562
Total operating revenues	5,512,301
OPERATING EXPENSES	
Salaries and fringe beneftis	173,540
Maintenance	40,429
Utilities	135,966
Materials and supplies	99,383
Regional Sewer Authority assessment (Note 11)	1,696,098
Other	17,955
Depreciation	407,556
Total operating expenses	2,570,927
Operating income	2,941,374
NONOPERATING REVENUES	
Investment income	14,103
Loss on investments	(63,453)
Income before transfers	2,892,024
TRANSFERS OUT (NOTE 1)	(1,344,767)
Change in net position	1,547,257
NET POSITION AT JULY 1	13,661,794
NET POSITION AT JUNE 30	$ 15,209,051

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

EXHIBIT 10

TOWN OF DAYTON, VIRGINIA

STATEMENT OF CASH FLOWS – PROPRIETARY FUND
Year Ended June 30, 2022

	Enterprise Fund Water and Sewer
OPERATING ACTIVITIES	
Receipts from customers	$ 4,871,063
Payments to suppliers	(1,912,350)
Payments to employees	(207,419)
Net cash provided by operating activities	2,751,294
NON-CAPITAL AND RELATED FINANCING ACTIVITIES	
Transfers to other funds	(1,344,767)
CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(1,673,708)
INVESTING ACTIVITIES	
Purchase of investments	(853,629)
Interest received	14,103
Net cash used in investing activities	(839,526)
Net decrease in cash and cash equivalents	(1,106,707)
CASH AND CASH EQUIVALENTS	
Beginning at July 1	5,897,764
Ending at June 30	$ 4,791,057
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$ 2,941,374
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	407,556
Pension and OPEB expense net of employer contributions	(43,360)
Change in certain assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(641,108)
Prepaids	(1,548)
Investment in electric cooperative	(259)
Increase (decrease) in:	
Accounts payable and accrued liabilities	79,288
Accrued payroll and related liabilities	5,336
Deposits payable	(130)
Compensated absences and service benefits	4,145
Net cash provided by operating activities	$ 2,751,294

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

Note 1. Summary of Significant Accounting Policies

A. The Financial Reporting Entity

The Town of Dayton (the "Town") was established in 1852. It is a political subdivision of the Commonwealth of Virginia operating under the Council-Manager form of government. Town Council consists of a mayor, a vice mayor, and five other council members. The Town is part of Rockingham County and has taxing powers subject to statewide restrictions and tax limits.

The Town provides a full range of municipal services including police, refuse collection, public improvements, planning and zoning, general administrative services, recreation, and water and sewer services. Fire and emergency medical services are provided by Rockingham County and supplemented by volunteer departments and agencies.

The Town established an Economic Development Authority (the "EDA") to promote greater economic vitality and prosperity for Town residents. The EDA is excluded from this report as activity has not commenced.

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports the following major governmental fund:

> The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Town reports the following major proprietary fund:

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

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

Proprietary funds distinguish *operating* revenues and expenses from *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. Operating expenses of the water and sewer fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets and Budgetary Accounting

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

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

The Town spent funds in excess of budgeted amounts in one functional area but did not exceed the budget for the general fund as illustrated in Exhibit 7.

E. Cash and Cash Equivalents

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

F. Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include sales and use taxes, meals taxes and utility taxes. Governmental funds report receivables that are both earned and available. Business-type activities report utility services as the major receivable. The Town grants credit to the customers of its water and sewer systems.

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

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Property Taxes

Real estate taxes are assessed annually by Rockingham County, Virginia, for all property of record as of January 1st. Property taxes attach as an enforceable lien on property as of January 1. The Town collects real estate taxes on an annual basis (due in full by December 5th). The portion of the tax receivable that is not collected within 45 days after year end is shown as unavailable revenue in the fund financial statements. The tax rate assessed for the year ended June 30th was $.08 per $100 valuation. A penalty of five percent of the tax is assessed after the applicable payment date. Interest is charged to all unpaid accounts at an annual rate of ten percent.

H. **Inventories**

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

I. **Prepaids**

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

J. Investment in Electric Cooperative

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

K. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are assets with an initial, individual cost of more than $5,000 and a useful life of more than one year. Infrastructure assets capitalized have an original cost of $25,000 or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Assets received in a service concession arrangement are reported at acquisition value.

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

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

L. Capital Assets (Continued)

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

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

M. Deferred Outflows/Inflows of Resources

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

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

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

- Contributions subsequent to the measurement date for pensions and OPEB are always a deferred outflow; this will be applied to the net pension or OPEB liability in the next fiscal year.
- Differences between expected and actual experience for economic/demographic factors in the measurement of the total pension or OPEB liability. This difference will be recognized in pension or OPEB expense over the expected average remaining service life of all employees provided with benefits in the plan and may be reported as a deferred inflow or outflow as appropriate.
- Difference between projected and actual earnings on pension and OPEB plan investments. This difference will be recognized in pension or OPEB expense over a closed five year period and may be reported as a deferred outflow or inflow as appropriate.
- Changes of assumptions. This difference will be recognized in pension or OPEB expense over a closed five year period and may be reported as a deferred outflow or inflow as appropriate.
- Changes in proportionate share that will be recognized in OPEB expense over the average expected remaining service lives of all employees provided with benefits. This may be reported as a deferred outflow or a deferred inflow as appropriate.

Note 1. Summary of Significant Accounting Policies (Continued)

M. Deferred Outflows/Inflows of Resources (Continued)

- Unavailable revenue occurs only under the modified accrual basis of accounting and is reported only in the governmental fund balance sheet. The governmental fund reports unavailable revenue from property taxes and other receivables not collected within 45 days of year end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

N. Pensions and Other Postemployment Benefits (OPEB)

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

O. Compensated Absences

The Town has policies which allow for the accumulation and vesting of limited amounts of paid time off until termination or retirement. Amounts of such absences are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds when the leave is due and payable.

P. Long-Term Debt

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

Q. Net Position/Fund Balance

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

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

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Q. Net Position/Fund Balance (Continued)

The classifications are as follows:

- **Nonspendable** – Amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.
- **Restricted** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed** – Amounts constrained to specific purposes by the Town, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purposes unless the same highest level of action is taken to remove or change the constraint.
- **Assigned** – Amounts the Town intends to use for a specified purpose; intent can be expressed by Council.
- **Unassigned** – Amounts that are available for any purpose; positive amounts are reported only in the general fund.

Council establishes fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. Assigned fund balance is established by Council through adoption or amendment of the budget as intended for a specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

R. Restricted Resources

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

S. Cash Reserve Policy

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

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

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

T. Interfund Transfers

The composition of interfund transfers is as follows:

Transfer Out Fund	Transfer In Fund	Amount
Water and Sewer	General Fund	$ 1,344,767

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

U. Encumbrances

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

V. Estimates

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

Note 2. Deposits and Investments

Deposits

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

Note 2. Deposits and Investments

Investments

Investment Policy:

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); the Asian Development Bank; the African Development Bank; "prime quality" commercial paper and certain corporate notes; banker's acceptances; repurchase agreements; the Virginia State Non-Arbitrage Program (SNAP); and the State Treasurer's Local Government Investment Pool (LGIP).

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

Type	Fair Value	Credit Rating	Percent of Portfolio
Demand deposits	$ 4,575,114	N/A	76.07 %
Certificates of deposit maturing in:			
Three months or less	217,074	N/A	3.61
More than three months	1,221,483	N/A	20.32
	$ 6,013,671		100.00 %

Reconciliation of deposits and investments to Exhibit 1:	
Cash and cash equivalents	$ 4,792,188
Investments	1,221,483
Total deposits and investments	$ 6,013,671

Credit Risk:

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

(Continued)

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Concentration of Credit Risk:

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

Interest Rate Risk:

As of June 30th, all certificates of deposit have original maturities ranging from August 2022 through November 2022. The Town does not have a formal policy limiting investment maturities.

Custodial Credit Risk:

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

Note 3. Receivables

Receivables are as follows:

	General	Water and Sewer	Total
Taxes	$ 2,227	$ -	$ 2,227
Accounts	62,561	440,219	502,780
	$ 64,788	$ 440,219	$ 505,007

Note 4. Due from Other Governmental Units

Amounts due from other governmental units are as follows:

Commonwealth of Virginia:	
Department of Taxation	$ 3,825
County of Rockingham, Virginia:	
Sales tax collected for the Town	18,325
Due from the Federal Government:	
SLFRF	692,461
	$ 714,611

Note 5. Capital Assets

Capital asset activity for the year was as follows:

Governmental Activities	Beginning Balance	Transfers	Increases	Decreases	Ending Balance
Capital assets, not depreciated					
Land	$ 859,916	$ -	$ -	$ -	$ 859,916
Total capital assets, Not depreciated	859,916	-	-	-	859,916
Capital assets, depreciated					
Buildings and improvements	2,929,973	-	-	-	2,929,973
Machinery and equipment	787,717	(165,860)	88,458	9,181	701,134
Vehicles	564,593	-	101,124	-	665,717
Land improvements	767,026	164,680	29,416	-	962,302
Infrastructure	1,645,944	-	-	-	1,645,944
Total capital assets, depreciated	6,695,253	-	218,998	9,181	6,905,070
Less accumulated depreciation:					
Buildings and improvements	895,323	-	67,480	-	962,803
Machinery and equipment	588,698	-	30,553	9,181	610,070
Vehicles	510,580	-	18,884	-	529,464
Land improvements	366,352	-	46,493	-	412,845
Infrastructure	486,338	-	85,064	-	571,402
Total accumulated depreciation	2,847,291	-	248,474	9,181	3,086,584
Total capital assets, depreciated, net	3,847,962	-	(29,476)	-	3,818,486
Governmental activities capital assets, net	$ 4,707,878	$ -	$ (29,476)	$ -	$ 4,678,402

Assets were reclassified in the Fiscal Year 2022.

Note 5. Capital Assets (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	$ 303,047	$ -	$ -	$ 303,047
Construction in progress	-	1,597,779	-	1,597,779
Total capital assets, not depreciated	303,047	1,597,779	-	1,900,826
Capital assets, depreciated				
Utility systems	14,882,134	75,929	-	14,958,063
Total capital assets, depreciated	14,882,134	75,929	-	14,958,063
Less accumulated depreciation	8,358,168	407,556	-	8,765,724
Total capital assets, depreciated, net	6,523,966	(331,627)	-	6,192,339
Business-type activities capital assets, net	$ 6,827,013	$ 1,266,152	$ -	$ 8,093,165

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government administration	$ 99,315
Public safety	34,294
Public works	78,997
Parks, recreation and cultural	35,869
Total depreciation expense – governmental activities	$ 248,474
Business-type activities	
Water and sewer	$ 407,556

Note 6. Unavailable and Unearned Revenue

The following is a summary of unavailable and unearned revenue:

Autumn Celebration deposits (unearned)	$	40,960
Muddler deposits (unearned)		19,767
Total unearned	$	60,727
Vehicle license tax (unavailable)	$	6,860
Communications tax (unavailable)		1,427
Sales tax (unavailable)		9,283
Total unavailable	$	17,570

Note 7. Long-Term Liabilities

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

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Financed Purchase	$ 19,858	$ -	$ 4,965	$ 14,893	$ 4,964
Compensated absences and service benefits	57,664	10,487	-	68,151	-
Total governmental activities	$ 77,522	$ 10,487	$ 4,965	$ 83,044	$ 4,964

Details of outstanding long-term debt are as follows:

On May 25, 2021 the Town entered in a purchase agreement with Axon for acquisition of seven police tasers. Payments of $4,964 are being made annually, with the agreement ending on May 25, 2025.

Note 7. Long-Term Liabilities (Continued)

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

Fiscal Year	Principal
2023	$ 4,964
2024	4,964
2025	4,965
	$ 14,893

The only long-term liabilities in the water and sewer fund consist of compensated absences and service benefits all due within one year.

Note 8. Defined Benefit Pension Plan

Plan Description

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

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

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

Note 8. Defined Benefit Pension Plan (Continued)

Employees Covered by Benefit Terms

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

	Members
Inactive members or their beneficiaries currently receiving benefits	14
Inactive members:	
Vested inactive members	5
Non-Vested inactive members	3
Inactive members active elsewhere in VRS	19
Total inactive members	27
Active members	14
Total covered employees	55

Contributions

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

The political subdivision's contractually required contribution rate for the year ended June 30, 2022 was 9.33% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were $79,401 and $73,710 for the years ended June 30, 2022 and June 30, 2021, respectively.

Net Pension Liability/(Asset)

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

Note 8. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions

The total pension liability for General Employees and Public Safety Employee with hazardous duty benefits in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2020, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2021.

Inflation	2.50%
General Employees – Salary increases, including inflation	3.50 – 5.35%
Public Safety Employees – Salary increases, including inflation	3.50 – 4.75%
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Mortality rates: General employees – 15 to 20% of deaths are assumed to be service related. Public Safety Employees – 70% of deaths are assumed to be service related. Mortality is projected using the applicable Pub-2010 Mortality Table with various setbacks or set forwards for both males and females.

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

General Employees – Largest 10 – Non-Hazardous Duty and All Others (Non 10 Largest): Update mortality table; adjusted retirement rates at older ages, changed final retirement from 70 to 75; adjusted withdrawal rates to better fit experience at each year age and service through 9 years of service; no change to disability rates, no change to salary scale, no change to line of duty disability, and no change to discount rate.

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

(Continued)

Note 8. Defined Benefit Pension Plan (Continued)

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

* The above allocation provides for a one-year return of 7.39%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.94%, including expected inflation of 2.5%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

Note 8. Defined Benefit Pension Plan (Continued)

Discount Rate

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

Changes in Net Pension Liability/(Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) – (b)
Balances at June 30, 2020	$ 3,195,874	$ 3,067,866	$ 128,008
Changes for the year:			
Service cost	121,636	-	121,636
Interest	208,908	-	208,908
Change in Assumptions	157,615	-	157,615
Differences between expected and actual experience	(319,877)	-	(319,877)
Contributions – employer	-	73,710	(73,710)
Contributions – employee	-	36,504	(36,504)
Net investment income	-	830,257	(830,257)
Benefit payments, including refunds of employee contributions	(201,891)	(201,891)	-
Administrative expenses	-	(2,097)	2,097
Other changes	-	78	(78)
Net changes	(33,609)	736,561	(770,170)
Balances at June 30, 2021	$ 3,162,265	$ 3,804,427	$ (642,162)

Note 8. Defined Benefit Pension Plan (Continued)

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

The following presents the net pension liability/(asset) of the political subdivision using the discount rate of 6.75%, as well as what the political subdivision's net pension liability/(asset) would be if it 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:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Political subdivision's net pension liability/(asset)	$ (238,529)	$ (642,162)	$ (975,050)

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

For the year ended June 30, 2022, the political subdivision recognized pension expense (income) of $(183,166). At June 30, 2022, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 182,641
Change in assumptions	88,486	-
Net difference between projected and actual earnings on pension plan investments	-	411,827
Employer contributions subsequent to the measurement date	79,401	-
Total	$ 167,887	$ 594,468

Note 8. Defined Benefit Pension Plan (Continued)

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

The $79,401 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Reduction to Pension Expense
2023	(170,593)
2024	(114,206)
2025	(95,917)
2026	(125,266)
Thereafter	-

Pension Plan Data

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

Payables to the Pension Plan

At June 30, 2022, approximately $7,000 was payable to the Virginia Retirement System for the legally required contributions related to June 2022 payroll.

Note 9. Other Postemployment Benefits Liability – Local Plan

Plan Description

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

Note 9. Other Postemployment Benefits Liability – Local Plan (Continued)

Plan Description (Continued)

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

Benefits Provided

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

Employees Covered by Benefit Terms

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

	Members
Active plan members	14

Total OPEB Liability

The Town's total OPEB liability of $271,256 was measured as of June 30, 2022 and was determined based on an actuarial valuation performed as of June 30, 2021.

Note 9. Other Postemployment Benefits Liability – Local Plan (Continued)

Actuarial Assumptions and Other Inputs

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

Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Payroll
Inflation (Discount Rate)	3.50%
Salary increases, including inflation	2.00%
Healthcare cost trend rates	Vision 3.00% Dental 3.00-3.50% Medical 4.30-4.90%
Retirees' share of benefit-related costs	100%

Mortality rates: RP2000 Mortality Table for males and females projected 18 years; this assumption does not include a margin for future improvements in longevity.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an internal analysis performed during 2021.

Changes in the Total OPEB Liability

Balance at June 30, 2021	$ 271,256
Changes for the prior year	
Service cost	51,055
Benefit payments	(51,055)
Effect of Economic/Demographic Gains or Losses	-
Net changes	-
Balance at June 30, 2022	$ 271,256

Note 9. Other Postemployment Benefits Liability – Local Plan (Continued)

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

The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.50%) or one percentage point higher (4.50%) than the current discount rate:

	1.00% Decrease (2.50%)	Current Discount Rate (3.50%)	1.00% Increase (4.50%)
Total OPEB liability	$ 303,248	$ 271,256	$ 243,257

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

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

	1.00% Decrease (2.00% - 3.90%)	Current Healthcare Cost Trend Rates (3.00%- 4.90%)	1.00% Increase (4.00%- 5.90%)
Total OPEB liability	$ 233,697	$ 271,256	$ 315,503

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

For the year ended June 30, 2022, the Town did not have any OPEB expense. At June 30, 2022, the political subdivision did not have deferred outflows of resources and deferred inflows of resources related to OPEB to report.

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

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

Plan Description

Group Life Insurance Program

All full-time teachers and employees of political subdivisions are automatically covered by the VRS Group Life Insurance (GLI) Program upon employment.

In addition to the Basic Group Life Insurance Benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the GLI Program OPEB.

Specific information for the GLI is available at https://www.varetire.org/members/benefits/life-insurance/basic-group-life-insurance.asp

The GLI is administered by the VRS along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia. This plan is considered a multiple employer, cost sharing plans.

Contributions

Contributions to the VRS OPEB programs were based on actuarially determined rates from actuarial valuations as June 30, 2019 (GLI program). The actuarially determined rates were expected to finance the cost of benefits earned by employees during the year, with an additional amount to fund any unfunded accrued liability. Specific details related to the contributions for the VRS OPEB programs are as follows:

Group Life Insurance Program

Governed by:	*Code of Virginia* 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.
Total rate:	1.34% of covered employee compensation. Rate allocated 60/40; 0.80% employee and 0.54% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2022 Contribution	$4,550
June 30, 2021 Contribution	$4,207

Note 10. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

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

The net OPEB liabilities were measured as of June 30, 2021 and the total OPEB liabilities used to calculate the net OPEB liabilities was determined by actuarial valuation performed as of June 30, 2020 and rolled forward to the measurement date of June 30, 2021. The covered employer's proportion of the net OPEB liabilities were based on the covered employer's actuarially determined employer contributions for the year ended June 30, 2021 relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program

June 30, 2022 proportionate share of liability	$43,893
June 30, 2021 proportion	0.00377%
June 30, 2020 proportion	0.00374%
June 30, 2022 expense (income)	($601)

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

At June 30, 2022, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

Group Life Insurance Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 5,006	$ 334
Changes of assumptions	2,420	6,006
Net difference between projected and actual earnings on OPEB plan investments	-	10,476
Change in proportionate share	4,187	7,169
Employer contributions subsequent to the measurement date	4,550	-
Total	$ 16,163	$ 23,985

Note 10. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

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

The deferred outflows of resources related to OPEB resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the Net OPEB Liability in the fiscal year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in future reporting periods as follows:

Group Life Insurance Program

Year Ended June 30,	Increase (Reduction) to OPEB Expense
2023	$ (2,878)
2024	(2,236)
2025	(2,208)
2026	(4,249)
2027	(801)
Thereafter	-

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2020, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2021:

Inflation	2.5%
Salary increases, including inflation:	
• Locality- general employees	3.5 – 5.35%
• Locality – hazardous duty employees	3.5 – 4.75%
Healthcare cost trend rates:	
• Under age 65	7.00 – 4.75%
• Ages 65 and older	5.375 – 4.75%
Investment rate of return, net of expenses, including inflation	6.75%

Note 10. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Actuarial Assumptions and Other Inputs (Continued)

Mortality rates used for the various VRS OPEB plans are the same as those used for the actuarial valuations of the VRS pension plans. The mortality rates are discussed in detail at Note 8.

Net OPEB Liabilities

The net OPEB liabilities represents the VRS total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2021, net OPEB liability amounts are as follows (amounts expressed in thousands):

	Group Life Insurance Program
Total OPEB Liability	$ 3,577,346
Plan fiduciary net position	2,413,074
Employers' net OPEB liability	$ 1,164,272
Plan fiduciary net position as a percentage of total OPEB liability	67.45%

The total liability is calculated by the VRS actuary and each plan's fiduciary net position is reported in the VRS financial statements. The net OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the VRS notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on VRS investments was determined in a manner similar to that of the VRS pension described in Note 8.

Note 10. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Discount Rate

The discount rate used to measure the GLI and HIC OPEB liabilities was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2020, the rate contributed by the employer for the OPEB liabilities will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2020 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the OPEB plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

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

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
GLI Net OPEB liability	$ 64,129	$ 43,893	$ 27,551

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2021 Comprehensive Annual Financial Report (Annual Report). A copy of the 2021 VRS Annual Report may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2021-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the OPEB Plan

At June 30, 2022, the Town had $404 payable to the Virginia Retirement System for the legally required contributions related to June 2022 payroll.

Note 11. Jointly Governed Organization

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

Based on the current average usage, the Town's total assessment for the Authority's operating, debt service and capital expenditures for fiscal year 2022 approximates $1,824,000.

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

Note 12. Major Customer

The Town has one major water and sewer customer. For the current year, water and sewer revenue from this customer was approximately $3,590,000 or 90% of water and sewer operating revenues. Accounts receivable from this customer amounted to approximately $298,000 or 85% of water and sewer receivables at June 30, 2022.

Note 13. Risk Management

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

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

(Continued)

Note 14. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective. The effective dates below are updated based on **Statement No. 95**, *Postponement of the Effective Dates of Certain Authoritative Guidance* due to the COVID-19 pandemic.

In May 2019, the GASB issued **Statement No. 91**, *Conduit Debt Obligations*. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

In March 2020, the GASB issued **Statement No. 94**, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This Statement improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

In May 2020, the GASB issued **Statement No. 96**, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

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

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

(Continued)

Note 14. New Accounting Standards (Continued)

In June 2022, the GASB issued **Statement No. 101**, *Compensated Absences*. This statement updates the recognition and measurement guidance for compensated absences and amends certain previously required disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023.

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

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT 11

TOWN OF DAYTON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
June 30, 2022

	Plan Year							
	2021	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Total Pension Liability/(Asset)								
Service cost	$ 121,636	$ 112,836	$ 107,224	$ 110,272	$ 104,350	$ 92,920	$ 119,570	$ 125,709
Interest on total pension liability	208,908	202,336	218,981	213,220	214,347	196,059	196,686	185,843
Changes of assumptions	157,615	-	88,634	-	(23,806)	-	-	-
Difference between expected and actual experience	(319,877)	(18,361)	(368,912)	(32,513)	(112,947)	107,453	(149,892)	-
Benefit payments, including refunds of employee contributions	(201,891)	(197,025)	(156,272)	(261,079)	(135,009)	(135,354)	(215,295)	(97,998)
Net change in total pension liability	(33,609)	99,786	(110,345)	29,900	46,935	261,078	(48,931)	213,554
Total pension liability - beginning	3,195,874	3,096,088	3,206,433	3,176,533	3,129,598	2,868,520	2,917,451	2,703,897
Total pension liability - ending	$ 3,162,265	$ 3,195,874	$ 3,096,088	$ 3,206,433	$ 3,176,533	$ 3,129,598	$ 2,868,520	$ 2,917,451
Plan Fiduciary Net Position								
Contributions - employer	$ 73,710	$ 97,342	$ 85,739	$ 86,381	$ 82,752	$ 93,620	$ 102,969	$ 105,318
Contributions - employee	36,504	36,061	31,825	39,168	37,711	37,308	41,188	43,701
Net investment income	830,257	58,589	194,850	205,327	311,886	44,324	112,192	335,753
Benefit payments, including refunds of employee contributions	(201,891)	(197,025)	(156,272)	(261,079)	(135,009)	(135,354)	(215,295)	(97,998)
Administrative expenses	(2,097)	(2,012)	(1,917)	(1,835)	(1,779)	(1,546)	(1,586)	(1,749)
Other	78	(69)	(123)	(181)	(279)	(19)	(24)	18
Net change in plan fiduciary net position	736,561	(7,114)	154,102	67,781	295,282	38,333	39,444	385,043
Plan fiduciary net position - beginning	3,067,866	3,074,980	2,920,878	2,853,097	2,557,815	2,519,482	2,480,038	2,094,995
Plan fiduciary net position - ending	$ 3,804,427	$ 3,067,866	$ 3,074,980	$ 2,920,878	$ 2,853,097	$ 2,557,815	$ 2,519,482	$ 2,480,038
Net pension liability/(asset) - ending	$ (642,162)	$ 128,008	$ 21,108	$ 285,555	$ 323,436	$ 571,783	$ 349,038	$ 437,413
Plan fiduciary net position as a percentage of total pension liability/(ass	120%	96%	99%	91%	90%	82%	88%	85%
Covered payroll	$ 778,991	$ 769,456	$ 659,574	$ 788,229	$ 660,168	$ 801,047	$ 816,778	$ 874,018
Net pension liability as a percentage of covered payroll	-82%	17%	3%	36%	49%	71%	43%	50%

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year - i.e., plan year 2014 information was presented in the entity's fiscal year 2015 financial report.

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

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

TOWN OF DAYTON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2022

Town Fiscal Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a percentage of Covered Payroll
2022	$ 79,401	$ 79,401	$ -	$ 851,066	9.33%
2021	73,710	73,710	-	778,991	9.46%
2020	97,342	97,342	-	769,456	12.65%
2019	85,739	85,739	-	659,574	13.00%
2018	86,381	86,381	-	788,229	10.96%
2017	82,752	82,752	-	660,168	12.53%
2016	93,620	93,620	-	801,047	11.69%
2015	102,969	102,969	-	816,778	12.61%

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

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

EXHIBIT 13

TOWN OF DAYTON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY AND RELATED RATIOS
June 30, 2022

Entity Fiscal Year Ended June 30	Employer's Proportion of the Net OPEB Liability (Asset)	Employer's Proportionate Share of the Net OPEB Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
Virginia Retirement System - Group Life Insurance - General Employees					
2022	0.00377%	$ 43,893	$ 778,991	5.63%	67.45%
2021	0.00374%	62,414	769,456	8.11%	52.64%
2020	0.00337%	55,000	659,574	8.34%	52.00%
2019	0.00423%	65,000	788,229	8.25%	51.22%
2018	0.00415%	62,000	660,168	9.39%	48.86%

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

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

EXHIBIT 14

SCHEDULE OF OPEB CONTRIBUTIONS
June 30, 2022

Entity Fiscal Year Ended June 30	Contractually Required Contribution	Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
Virginia Retirement System - Group Life Insurance - General Employees					
2022	$ 4,550	$ 4,550	$ -	$ 851,066	0.53%
2021	4,207	4,207	-	778,991	0.54%
2020	4,005	4,005	-	769,656	0.52%
2019	3,430	3,430	-	659,574	0.52%
2018	4,161	4,161	-	788,229	0.63%

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

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

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

TOWN OF DAYTON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY
AND RELATED RATIOS - LOCAL PLAN
June 30, 2022

	Plan Year			
	2021	**2020**	**2019**	**2018**
Total OPEB Liability				
Service cost	$ 51,055	$ 51,055	$ 79,138	$ 79,138
Benefit payments	(51,055)	(51,055)	(79,138)	(79,138)
Change in assumptions	-	(269,767)	-	-
Net change in total OPEB liability	-	(269,767)	-	-
Total OPEB liability - beginning	271,256	541,023	541,023	541,023
Total OPEB liability - ending	$ 271,256	$ 271,256	$ 541,023	$ 541,023
Covered payroll	$ 778,991	$ 769,656	$ 659,574	$ 788,229
Net OPEB liability as a percentage of covered payroll	35%	35%	82%	69%

The plan year above is reported in the entity's financial statements in the fiscal year following the plan year - i.e., plan year 2017 information was presented in the entity's fiscal year 2018 financial report.

This schedule is intended to show information for 10 years. Since fiscal year 2018 (plan year 2017) is the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

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

Note 1. **Changes of Benefit Terms**

Pension

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

Other Postemployment Benefits (OPEB)

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

Note 2. **Changes of Assumptions**

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

Largest 10 – Non-Hazardous Duty:

- Update mortality table to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Scape MP-2020.
- Adjusted retirement rates to better fit experience for Plan 1; set separate rates based on experience for Plan2/Hybrid; changed final retirement age.
- Adjusted withdrawal rates to better fit experience at each year and service through 9 years of service.
- No change to disability rates.
- No change to salary scale.
- No change to line of duty rates.
- No change to discount rate.

Largest 10 – Hazardous Duty/Public Safety Employees:

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

(Continued)

Note 2. **Changes of Assumptions (Continued)**

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

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

COMPLIANCE SECTION

BROWN EDWARDS
certified public accountants

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Dayton, Virginia (the "Town"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 21, 2022.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Town of Dayton's Response to Findings

The Town's responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 21, 2022

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

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

Report on Compliance for Each Major Federal Program

Opinion on Compliance for Each Major Program

We have audited the Town of Dayton, Virginia's (the "town") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the town's major federal programs for the year ended June 30, 2022. The town's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Town of Dayton, Virginia, complied, in all material respects, with the types of 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, 2022.

Basis for Opinion on Each Major Program

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

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

Auditor's Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risk of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Town of Dayton, 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 the Town of Dayton, Virginia's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Town of Dayton, Virginia's internal control over compliance Accordingly, no such opinion is expressed.

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

Other Matter

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2022-001. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the town's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The town's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion the response.

Report on Internal Control over Compliance

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

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

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

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 21, 2022

TOWN OF DAYTON, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS
June 30, 2022

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

STATE COMPLIANCE MATTERS

Code of Virginia
Budget and Appropriation Laws
Cash and Investment Laws
Conflicts of Interest Act
Local Retirement Systems
Debt Provisions
Procurement Laws
Uniform Disposition of Unclaimed Property Act
Fire Programs Aid to Localities

State Agency Requirements
Urban Highway Maintenance

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State, Local Governments

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

TOWN OF DAYTON, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2022

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.

2. **Two material weaknesses,** relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Governmental Auditing Standards*.

3. **No instances of noncompliance** material to the financial statements were disclosed.

4. **No significant deficiencies** relating to the audit of the major federal award programs was reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.

5. The auditor's report on compliance for the major federal award programs expresses an **unmodified opinion**.

6. The audit disclosed **one audit finding relating to major programs**.

7. The major program of the Town is:

Name of Program	AL #
navirus State and Local Fiscal Recovery Funds	21.027

8. The **threshold for** distinguishing Type A and B programs was **$750,000**.

9. The Town of Dayton was **not** determined to be a **low-risk auditee**.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2022

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2022-001: Segregation of Duties (Material Weakness)

Condition:

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

Recommendation:

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

Management's Response:

Management understands the concern expressed with this finding and is working to correct these issues.

2022-002: Audit Adjustments (Material Weakness)

Condition:

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

Recommendation:

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

Management's Response:

The Town underwent transitions in key personnel positions. Employees will continue to be trained and more prepared for the FY23 audit.

(Continued)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2022

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

2022-001: Coronavirus State and Local Fiscal Recovery Funds – AL# 21.027, Reporting, Significant Deficiency

Condition:

During the current audit, we noted that there were no written procurement policies specific to federal awards cost principle requirements under Uniform Grant Guidance.

Criteria:

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

Cause:

Required policies are not present.

Effect:

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

Questioned Cost Amount:

N/A

Perspective Information:

Impacts all federal award programs.

Context:

N/A

Recommendation:

We recommend that procurement policies and financial policies are developed to meet federal standards.

D. FINDINGS – COMMONWEALTH OF VIRGINIA

None.

Town of Dayton, Virginia

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2022

Federal Grantor/Pass - Through Grantor/ Program or Cluster Title	Assistance Listing Number	Pass-through Entity Identifying Number	Amounts Passed Thru to Sub-recipients	Cluster Amounts	Federal Expenditures
Department of the Treasury:					
Pass Through Payments:					
County of Rockingham					
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	N/A	-	N/A	$ 1,541,668
Total Expenditures of Federal Awards					$ 1,541,668

NOTE 1 - BASIS OF PRESENTATION:

The accompanying schedule of federal expenditures includes the activity of all federally assisted programs of the Town of Dayton, Virginia and is presented on the modified accrual basis of accounting, as described in Note 1 to the Town's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on this schedule.

NOTE 2 - DE MINIMIS INDIRECT COST RATE:

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

NOTE 3 - OUTSTANDING LOAN BALANCES:

At June 30, 2022, the Town had no outstanding loan balances requiring continuing disclosure.