

**TOWN OF ELKTON, VIRGINIA**  
**FINANCIAL AND COMPLIANCE REPORTS**  
**JUNE 30, 2019**

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Town Council  
Town of Elkton  
20593 Blue & Gold Drive  
Elkton, VA 22827

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the fiduciary fund of the Town of Elkton, Virginia, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town of Elkton's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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## Opinions

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, each major fund, and the fiduciary fund of the Town of Elkton, Virginia, as of June 30, 2019, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information, listed in the table of contents, be presented to supplement the basic financial statements. Such 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. 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Elkton's basic financial statements. The other supplementary information, listed in the table of contents, is presented for purposes of additional analysis and is 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. Such 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2019, on our consideration of the Town of Elkton'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 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 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 of Elkton's internal control over financial reporting and compliance.

*Young, Nicholas, Branner & Phillips, LLP*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Town of Elkton's financial performance provides an overview of the Town's financial activities for the year ended June 30, 2019. Please read it in conjunction with the Town's financial statements, which begin on page 13.

### FINANCIAL HIGHLIGHTS

- The assets of the Town exceeded its liabilities by \$10,741,160 at the close of the most recent fiscal year.
- The Town's net position increased as a result of this year's operations. Net position of the business-type activities increased by \$142,276, and net position of the governmental activities increased by \$172,436.
- In the Town's business-type activities, operating revenues increased by \$165,658 from the previous year and operating expenses increased by \$399,800.
- In the Town's governmental activities, operating revenues increased by \$18,456 from the previous year and operating expenses decreased by \$8,059.
- Actual revenues were \$239,003 more than budgeted for the General Fund. General Fund expenditures were \$99,985 less than budgeted.
- Operating revenues were \$47,329 more than budgeted for the Electric Fund. Electric Fund operating expenses, excluding depreciation, were \$219,666 more than budgeted.
- Operating revenues were \$12,462 more than budgeted for the Water Fund. Water Fund operating expenses, excluding depreciation, were \$84,491 more than budgeted.
- Operating revenues were \$27,534 less than budgeted for the Sewer Fund. Sewer Fund operating expenses, excluding depreciation, were \$63,295 more than budgeted.
- The Town spent \$1,916,324 for capital additions during the current fiscal year.
- The Town's long-term debt increased by \$617,397 during the current fiscal year.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 13 and 14) provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements start on page 15. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds.

## Reporting the Town as a Whole

One of the most important questions asked about the Town's finances is, "Is the Town as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Town as a whole and about its activities in a way that help answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's *net position* and changes in it. You can think of the Town's net position—the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources—as one way to measure the Town's financial health, or *financial position*. Over time, *increases* or *decreases* in the Town's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Town's property base and condition of the Town's roads, to assess the *overall health* of the Town.

In the Statement of Net Position and the Statement of Activities, we divide the Town into two kinds of activities:

- *Governmental activities*—Most of the Town's basic services are reported here, including public safety, public works, cultural and recreation, and general administration. Property taxes, other local taxes and state and federal grants finance most of these activities.
- *Business-type activities*—The Town charges a fee to customers/users to help it cover all or most of the cost of certain services it provides. The Town's water, sewer, and electric systems are reported here.

## Reporting the Town's Most Significant Funds

The fund financial statements begin on page 15 and provide detailed information about the Town's funds—not the Town as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town uses fund accounting to ensure and reflect compliance (or noncompliance) with finance-related legal requirements, such as the budget ordinance. The Town's two kinds of funds—*governmental* and *proprietary*—use different accounting approaches.

- *Governmental fund*—Most of the Town's basic services are reported in the governmental fund, which focuses on how money flows into and out of the fund and the balances left at year-end that are nonspendable, restricted, committed, assigned, or unassigned. These classifications of fund balance show the nature and extent of constraints placed on the Town's fund balances by law, creditors, Town Council, and the Town's annually adopted budget. Unassigned fund balance is available for spending for any purpose. This fund is reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Town's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and the governmental *fund* in reconciliations following the fund financial statements.
- *Proprietary funds*—When the Town charges customers/users for the services provided it is reported in the proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the Town's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

## THE TOWN AS TRUSTEE

The Town is the trustee, or fiduciary, for the cemetery. It is also responsible for other assets that - because of a trust arrangement - can be used only for the trust beneficiary. All of the Town's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position on pages 25 and 26. We exclude these activities from the Town's other financial statements because the Town cannot use these assets to finance its operations. The Town is responsible for ensuring that the assets reported in this fund are used for their intended purposes.

## THE TOWN AS A WHOLE

The Town's *combined* net position changed significantly from a year ago - *increasing* from \$10,426,448 to \$10,741,160. During the year, the net position of the governmental activities increased by 2.88 percent and the business-type activities increased by 3.20 percent. Below is a summary of the net position as of June 30, 2019 and 2018.

|  | NET POSITION            |              |                          |              |               |               |
|--|-------------------------|--------------|--------------------------|--------------|---------------|---------------|
|  | Governmental Activities |              | Business-Type Activities |              | Total         |               |
|  | 2019                    | 2018         | 2019                     | 2018         | 2019          | 2018          |
| Current and other assets               | \$ 2,126,005            | \$ 2,327,888 | \$ 1,544,532             | \$ 1,633,125 | \$ 3,670,537  | \$ 3,961,013  |
| Capital assets                         | 5,981,472               | 5,903,974    | 10,450,125               | 9,398,590    | 16,431,597    | 15,302,564    |
| Total assets                           | \$ 8,107,477            | \$ 8,231,862 | \$ 11,994,657            | \$11,031,715 | \$ 20,102,134 | \$ 19,263,577 |
| Total deferred outflow<br>of resources | \$ 139,712              | \$ 74,443    | \$ 73,212                | \$ 34,347    | \$ 212,924    | \$ 108,790    |
| Long-term liabilities                  | \$ 1,565,038            | \$ 1,768,023 | \$ 7,122,050             | \$ 6,160,733 | \$ 8,687,088  | \$ 7,928,756  |
| Other liabilities                      | 245,860                 | 244,131      | 345,527                  | 435,015      | 591,387       | 679,146       |
| Total liabilities                      | \$ 1,810,898            | \$ 2,012,154 | \$ 7,467,577             | \$ 6,595,748 | \$ 9,278,475  | \$ 8,607,902  |
| Total deferred inflows<br>of resources | \$ 285,278              | \$ 315,574   | \$ 10,145                | \$ 22,443    | \$ 295,423    | \$ 338,017    |
| Net position:                          |                         |              |                          |              |               |               |
| Net investment in<br>capital assets    | \$ 4,649,181            | \$ 4,284,105 | \$ 3,421,911             | \$ 3,270,797 | \$ 8,071,092  | \$ 7,554,902  |
| Unrestricted                           | 1,501,832               | 1,694,472    | 1,168,236                | 1,177,074    | 2,670,068     | 2,871,546     |
| Total net position                     | \$ 6,151,013            | \$ 5,978,577 | \$ 4,590,147             | \$ 4,447,871 | \$ 10,741,160 | \$ 10,426,448 |

The largest portion of the Town's net position (75.14 percent) reflects its investments in capital assets (e.g., land, buildings, equipment and improvements), less any debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of unrestricted net position (\$2,670,068) may be used to meet the government's ongoing obligation to citizens and creditors.

The following is a summary of the changes in net position for the governmental and business-type activities for the years ended June 30, 2019 and 2018.

|                                   | <u>Governmental Activities</u> |                       | <u>Business-Type Activities</u> |                     | <u>Total</u>        |                     |
|-----------------------------------|--------------------------------|-----------------------|---------------------------------|---------------------|---------------------|---------------------|
|                                   | <u>2019</u>                    | <u>2018</u>           | <u>2019</u>                     | <u>2018</u>         | <u>2019</u>         | <u>2018</u>         |
| <b>Revenues</b>                   |                                |                       |                                 |                     |                     |                     |
| Charges for services              | \$ 356,602                     | \$ 351,139            | \$ 3,346,757                    | \$ 3,181,099        | \$ 3,703,359        | \$ 3,532,238        |
| General property taxes            | 239,499                        | 234,334               | -                               | -                   | 239,499             | 234,334             |
| Other local taxes                 | 1,350,782                      | 1,335,342             | -                               | -                   | 1,350,782           | 1,335,342           |
| Intergovernmental                 | 698,931                        | 711,340               | -                               | -                   | 698,931             | 711,340             |
| Miscellaneous                     | 18,295                         | 13,498                | -                               | -                   | 18,295              | 13,498              |
| Total revenues                    | <u>\$ 2,664,109</u>            | <u>\$ 2,645,653</u>   | <u>\$ 3,346,757</u>             | <u>\$ 3,181,099</u> | <u>\$ 6,010,866</u> | <u>\$ 5,826,752</u> |
| <b>Program expenses</b>           |                                |                       |                                 |                     |                     |                     |
| General government                | \$ 798,811                     | \$ 749,773            | \$ -                            | \$ -                | \$ 798,811          | \$ 749,773          |
| Public safety                     | 478,366                        | 479,200               | -                               | -                   | 478,366             | 479,200             |
| Public works                      | 738,398                        | 751,739               | -                               | -                   | 738,398             | 751,739             |
| Cultural and recreation           | 361,738                        | 368,946               | -                               | -                   | 361,738             | 368,946             |
| Community development             | 1,958                          | 37,672                | -                               | -                   | 1,958               | 37,672              |
| Electric                          | -                              | -                     | 2,033,895                       | 1,797,391           | 2,033,895           | 1,797,391           |
| Water                             | -                              | -                     | 421,329                         | 363,262             | 421,329             | 363,262             |
| Sewer                             | -                              | -                     | 707,709                         | 602,480             | 707,709             | 602,480             |
| Total expenses                    | <u>\$ 2,379,271</u>            | <u>\$ 2,387,330</u>   | <u>\$ 3,162,933</u>             | <u>\$ 2,763,133</u> | <u>\$ 5,542,204</u> | <u>\$ 5,150,463</u> |
| Operating income                  | <u>\$ 284,838</u>              | <u>\$ 258,323</u>     | <u>\$ 183,824</u>               | <u>\$ 417,966</u>   | <u>\$ 468,662</u>   | <u>\$ 676,289</u>   |
| <b>Nonoperating</b>               |                                |                       |                                 |                     |                     |                     |
| Interest income                   | \$ 8,977                       | \$ 8,909              | \$ -                            | \$ -                | \$ 8,977            | \$ 8,909            |
| Gain (loss) on disposal of assets | (5,870)                        | (64,690)              | -                               | -                   | (5,870)             | (64,690)            |
| Interest expense                  | (62,193)                       | (65,946)              | (94,182)                        | (106,792)           | (156,375)           | (172,738)           |
| Total nonoperating                | <u>\$ (59,086)</u>             | <u>\$ (121,727)</u>   | <u>\$ (94,182)</u>              | <u>\$ (106,792)</u> | <u>\$ (153,268)</u> | <u>\$ (228,519)</u> |
| Income before transfers           | \$ 225,752                     | \$ 136,596            | \$ 89,642                       | \$ 311,174          | \$ 315,394          | \$ 447,770          |
| Transfers                         | (53,316)                       | (1,440,156)           | 52,634                          | 1,438,021           | (682)               | (2,135)             |
| Change in net position            | <u>\$ 172,436</u>              | <u>\$ (1,303,560)</u> | <u>\$ 142,276</u>               | <u>\$ 1,749,195</u> | <u>\$ 314,712</u>   | <u>\$ 445,635</u>   |

The Town's total revenues increased by \$184,114 (3.16 percent), also the total cost of all programs and services increased by \$391,741 (7.61 percent). Our analysis that follows separately considers the operations of governmental and business-type activities.

## Governmental Activities

Operating revenues for the Town's governmental activities increased by \$18,456 (0.70 percent). The total operating expenses decreased by \$8,059 (0.34 percent). The factors driving these results include:

### Revenues

- *General property taxes* increased by \$5,165. Personal property tax revenue increased by \$17,297. However, deferred income due to unpaid personal property tax was \$12,797.
- *Other local taxes* increased by \$15,440. The increase is due to increases in business licenses and motor vehicle licenses. Business licenses increased by \$7,291. Motor vehicle licenses increased by \$9,705 due to an increased effort to collect delinquent accounts.

### Expenses

- *General government* increased by \$49,038. The combination of wages, employee benefits, and payroll taxes increased by \$49,689. Part of this was due to the hiring of a town manager during the year. The rest was due to annual salary increases.
- *Community development* decreased by \$35,714. This was due to prior year charges for the streambank development project.

## Business-Type Activities

Operating revenues for the Town's business-type activities increased by \$165,658 (5.21 percent) and operating expenses increased by \$399,800 (14.47 percent). The factors driving these results include:

### Revenues

- *Electric revenues* increased overall by \$35,277. The most significant increase was in charges for services of \$35,150. The increase was attributable to the increase in consumption particularly during the colder winter months.
- *Water revenues* increased overall by \$38,864. Charges for services decreased by \$16,701. However, connection fees are up this year by \$65,700 because of new customers connecting to the system.
- *Sewer revenues* increased overall by \$91,514. Charges for services increased by \$6,214 due to a 2.5 percent rate increase. Connection fees are up this year by \$85,300 due to continued development in the Town.

Expenses

- *Electric expenses* increased overall by \$236,501. The cost of purchasing electric power increased by \$106,861. This difference is attributable to the timing of when VMEA passes on credits that it receives from Dominion for demand and energy rate true-ups. The Town recognizes the credits when the adjustments are made to the VMEA invoices. Salaries and wages, employee benefits, and payroll taxes increased by \$72,106 due to annual salary increases and the addition of an employee to the department. Supplies expense increased by \$30,457 due to the replenishment of items used in repairs and maintenance.
- *Water expenses* increased overall by \$58,067. Supplies increased by \$52,575. Water pulsers were down for periods of time extending 3-4 months, allowing residents to use water without proper metering due to the water hauling system. Repair services were performed by Four Star Petroleum Services and Syn-Tech Systems, Inc. to repair and replace faulty water pulsers.
- *Sewer expenses* increased overall by \$105,229. Depreciation expense increased by \$101,215, which was due to the completion of the clarifier upgrade at the wastewater treatment plant near the end of last year allowing for a full year of depreciation.

**THE TOWN'S FUNDS**

As the Town completed the year, its governmental fund (as presented in the balance sheet on page 15) reported a fund balance of \$1,608,855, which is a decrease of \$174,526 over last year's total of \$1,783,381.

The primary reasons for the General Fund's decrease mirror the changes noted in the previous section under "governmental" activities. In addition, the Town expended \$354,216 on capital additions (see page 79). Also, significant transfers were made between the funds.

As the Town completed the year, its proprietary funds (as presented in the statements of net position on pages 19 and 20) reported a net position of \$4,590,147, which is an increase of \$142,276 over last year's total of \$4,447,871. Significant changes in the change in net position are noted in the previous section under "business-type" activities. In addition to this, significant transfers were made between the funds.

## GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Town Council did not make any revisions to the General Fund budget. The significant variations of actual results to the General Fund budget (original and final) are summarized as follows:

| <u>Account</u>                                      | <u>Variance<br/>Positive<br/>(Negative)</u> |
|---|---|
| <b>Revenues</b>                                     |   |
| Street and highway maintenance                      | \$ 96,812                                   |
| Meals tax   | 58,001                                      |
| Motor vehicle licenses                              | 54,300                                      |
| Local sales and use taxes                           | 26,317                                      |
| <b>Expenditures</b>                                 |   |
| <i>General Government Administration</i>            |   |
| Salaries and wages                                  | \$ 51,252                                   |
| Special events                                      | 39,325                                      |
| Capital outlay                                      | (45,772)                                    |
| Professional services                               | (34,276)                                    |
| <i>Public Safety</i>                                |   |
| Capital outlay                                      | 25,760                                      |
| Salaries and wages                                  | 15,301                                      |
| Fire program funds                                  | (20,000)                                    |
| Supplies  | (5,438)                                     |
| <i>Public Works - Maintenance and Streets</i>       |   |
| Salaries and wages                                  | 13,645                                      |
| Contract labor                                      | 10,000                                      |
| Employee benefits                                   | 6,944                                       |
| Supplies  | 4,194                                       |
| <i>Public Works – Sanitation</i>                    |   |
| Landfill fees                                       | 14,815                                      |
| Trash removal                                       | (9,163)                                     |
| <i>Public Works – Capital Outlays</i>               |   |
| (44,037)  |   |
| <i>Cultural &amp; Recreation - Community Center</i> |   |
| Capital outlay                                      | 48,077                                      |
| Professional services                               | 9,294                                       |
| Telephone and internet                              | (6,533)                                     |
| Supplies  | (3,410)                                     |
| <i>Cultural &amp; Recreation - Recreation</i>       |   |
| Capital outlay                                      | 26,755                                      |
| Contract labor                                      | 2,500                                       |
| Supplies  | 1,493                                       |
| Employee benefits                                   | (4,342)                                     |
| <i>Community Development</i>                        |   |
| 22,042  |   |

The Town did not budget enough for the increase in revenues due to the street and highway maintenance funding increase. The Town did not budget separately for motor vehicle license revenue; instead they included this in the personal property tax budget item. The Town received both more local sales and use taxes and meal taxes than expected.

The Town budget for salaries and wages was based on hiring a new town manager; however, the budgeted amount still exceeded actual salaries and wages. Professional fees, primarily composed of attorney fees, were expected to increase from last year's expenses, but actual expenses exceeded expectations. The Town budgeted \$50,000 for special events, but expenses were similar to past years instead of the budgeted amount. The Town decreased the capital outlay budget based on historical expenditures. The actual costs were more than budgeted due to preliminary drawings and engineering costs for the old Town Hall. In public safety, the budget had a decrease in salaries and wages from the previous year. The actual cost of salaries and wages were less than spent in the previous fiscal year. The Town received a fire program grant that passed to the Elkton Fire Department. The Town budgeted for more in capital outlay for the Police Department; however, actual expenditures were less than the budget in the previous year. In maintenance and streets, salaries and wages were less than budget to do the manhole rehabilitation project. In sanitation, landfill fees were budgeted at \$5,000 under the prior year when expenses were similar to actual expenses in previous years. Trash removal fees were budgeted to remain about the same as the prior year expenses when actual expenses were similar to actual expenses in previous years. The Town budgeted a reduction in capital outlay expenses when actual expenses exceed last years expenditures. In cultural and recreation, capital outlay decreased due to the purchase of the playground equipment in the prior year. In community development, actual expenditures were \$22,042 less than budget.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2019, the Town had 16.4 million invested in capital assets including public works and police equipment, buildings, park facilities, sidewalks, and the water, electric, and sewer systems. (See table below.) This represents a net increase of \$1,129,033 or 7.38 percent, over last year.

|                             | Governmental<br>Activities |                     | Business-Type<br>Activities |                     | Totals               |                      |
|-----------------------------|----------------------------|---------------------|-----------------------------|---------------------|----------------------|----------------------|
|                             | 2019                       | 2018                | 2019                        | 2018                | 2019                 | 2018                 |
| Land                        | \$ 1,071,813               | \$ 1,071,813        | \$ 41,056                   | \$ 41,056           | \$ 1,112,869         | \$ 1,112,869         |
| Construction<br>in progress | -                          | 149,452             | 1,299,635                   | -                   | 1,299,635            | 149,452              |
| Buildings                   | 2,405,381                  | 2,259,881           | -                           | -                   | 2,405,381            | 2,259,881            |
| Equipment                   | 604,927                    | 616,258             | 376,265                     | 143,037             | 981,192              | 759,295              |
| Infrastructure              | 1,899,351                  | 1,806,570           | -                           | -                   | 1,899,351            | 1,806,570            |
| Utility system              | -                          | -                   | 8,733,169                   | 9,214,497           | 8,733,169            | 9,214,497            |
| Totals                      | <u>\$ 5,981,472</u>        | <u>\$ 5,903,974</u> | <u>\$ 10,450,125</u>        | <u>\$ 9,398,590</u> | <u>\$ 16,431,597</u> | <u>\$ 15,302,564</u> |

This year's major additions included:

|  |                     |
|--|---------------------|
| WWTP: design phase                     | \$ 1,279,980        |
| Electric meter upgrades                | 200,800             |
| 2018 Ford F-150                        | 47,978              |
| Terrace Avenue paving                  | 47,956              |
| Heat pump system                       | 35,637              |
| Old town hall renovations              | 30,930              |
| Ashby Street paving                    | 30,720              |
| Rectrac software                       | 24,943              |
| Water and sewer installation for annex | 19,655              |
|  | <u>\$ 1,718,599</u> |

### Debt

At year-end, the Town had \$8,313,803 in outstanding loans compared to \$7,696,406 last year. This is an increase of 8.02 percent as shown in the following tables.

#### Governmental-Type Activities

|   | Outstanding June 30, |                     |
|---|----------------------|---------------------|
|   | 2019                 | 2018                |
| General Obligation Bonds, United Bank           | \$ 200,000           | \$ 250,000          |
| General Obligation Bonds, Farmers and Merchants | 199,990              | 249,990             |
| Farmers and Merchants (Community Center)        | 846,728              | 935,333             |
| Joseph H. Kite, Jr. (Land, Spotswood Trail)     | -                    | 74,325              |
| Ford Motor Credit                               | 71,959               | 93,510              |
|   | <u>\$ 1,318,677</u>  | <u>\$ 1,603,158</u> |

#### Business-Type Activities

|  | Outstanding June 30, |                     |
|--|----------------------|---------------------|
|  | 2019                 | 2018                |
| Branch Banking & Trust                               | \$ 1,243,041         | \$ -                |
| Sewer loan payable                                   | 30,075               | 45,818              |
| Virginia Resources Authority loans payable           | 4,752,010            | 5,037,430           |
| Virginia Municipal League (Pentecostal Hill project) | 970,000              | 1,010,000           |
|  | <u>\$ 6,995,126</u>  | <u>\$ 6,093,248</u> |

The only new debt issued this year was an advance from Branch Banking and Trust Company in the amount of \$1,243,041 to finance a wastewater treatment plant upgrade.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The budgeted revenues are projected to rise 96.9 percent in the upcoming fiscal year and the increases are primarily in the enterprise fund revenue. The increase in budgeted revenues is due to a grant in the amount of \$5,220,000 from the United States Department of Agriculture for the Wastewater Treatment Plant.

The budgeted expenses also reflect a 96.9 percent increase in response to the increase in budgeted revenues. The biggest change was in the amount budgeted for capital outlays. In the Sewer Fund, the Town is expecting a capital project of \$5,000,000.

In the 2020 fiscal year, the Town chose not to budget for transfers between the various funds. In analyzing the budget, transfers are expected.

The Town has decided to continue the trend of raising water and sewer rates in order to avoid one-time large increases in the future that could devastate many of the fixed income citizens residing within the Town. These increases help to fund the increased debt service costs from the wastewater treatment plant upgrades as well as other capital projects taken on by the Town. The Town also plans to continue to replace damaged or inappropriately designed sewer pipes throughout the Town. This will reduce the inflow and infiltration problem and reduce the amount of groundwater that is unnecessarily treated at the plant. It will also reduce bottlenecks in the system which could cause a major backup as the system expands.

In addition, the Town has plans to move forward with a new wastewater treatment plant. It has received a commitment for significant grant money to assist in this project from state agencies in compliance with the Department of Environmental Quality mandate that the Town is currently operating under.

### **CONTACTING THE TOWN'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Town Office at 20593 Blue and Gold Drive, Elkton, VA.

## **Government-Wide Financial Statements**

**TOWN OF ELKTON, VIRGINIA**  
**STATEMENT OF NET POSITION**  
**June 30, 2019**

|  | ----- Primary Government -----     |                                     |                      |
|--|------------------------------------|-------------------------------------|----------------------|
|  | <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Activities</u> | <u>Total</u>         |
| <b>ASSETS</b>  |                                    |                                     |                      |
| Cash and cash equivalents                                    | \$ 1,327,178                       | \$ 1,071,469                        | \$ 2,398,647         |
| Receivables, net of allowances<br>for uncollectible amounts: |                                    |                                     |                      |
| Property taxes   | 388,727                            | -                                   | 388,727              |
| Accounts and other   | 20,682                             | 287,281                             | 307,963              |
| Due from other governmental units<br>and businesses          | 96,520                             | -                                   | 96,520               |
| Due from fiduciary fund                                      | 273,989                            | -                                   | 273,989              |
| Inventories  | 7,671                              | 184,782                             | 192,453              |
| Prepaid expenses   | 11,238                             | 1,000                               | 12,238               |
| Capital assets:  |                                    |                                     |                      |
| Non-depreciable  | 1,071,813                          | 1,340,691                           | 2,412,504            |
| Depreciable, net of accumulated depreciation                 | <u>4,909,659</u>                   | <u>9,109,434</u>                    | <u>14,019,093</u>    |
| <b>Total assets</b>  | <b>\$ 8,107,477</b>                | <b>\$ 11,994,657</b>                | <b>\$ 20,102,134</b> |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                        |                                    |                                     |                      |
| Deferred pension amounts                                     | \$ 129,608                         | \$ 67,343                           | \$ 196,951           |
| Deferred OPEB amounts, life insurance                        | <u>10,104</u>                      | <u>5,869</u>                        | <u>15,973</u>        |
| <b>Total deferred outflows of resources</b>                  | <b>\$ 139,712</b>                  | <b>\$ 73,212</b>                    | <b>\$ 212,924</b>    |
| <b>LIABILITIES</b>   |                                    |                                     |                      |
| Accounts payable   | \$ 55,914                          | \$ 130,940                          | \$ 186,854           |
| Accrued liabilities  | 62,278                             | 23,961                              | 86,239               |
| Accrued compensated absences                                 | 114,054                            | 38,687                              | 152,741              |
| Accrued interest payable                                     | 13,614                             | 33,088                              | 46,702               |
| Customer deposits  | -                                  | 118,851                             | 118,851              |
| Long-term liabilities:                                       |                                    |                                     |                      |
| Long-term debt, due within one year                          | 215,706                            | 343,784                             | 559,490              |
| Long-term debt, due in more than one year                    | 1,102,971                          | 6,651,342                           | 7,754,313            |
| Net pension liability  | 193,577                            | 96,264                              | 289,841              |
| Net OPEB liability, life insurance                           | <u>52,784</u>                      | <u>30,660</u>                       | <u>83,444</u>        |
| <b>Total liabilities</b>                                     | <b>\$ 1,810,898</b>                | <b>\$ 7,467,577</b>                 | <b>\$ 9,278,475</b>  |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                         |                                    |                                     |                      |
| Unavailable revenue  | \$ 258,525                         | \$ -                                | \$ 258,525           |
| Deferred pension amounts                                     | 20,544                             | 6,537                               | 27,081               |
| Deferred OPEB amounts, life insurance                        | <u>6,209</u>                       | <u>3,608</u>                        | <u>9,817</u>         |
| <b>Total deferred inflows of resources</b>                   | <b>\$ 285,278</b>                  | <b>\$ 10,145</b>                    | <b>\$ 295,423</b>    |
| <b>NET POSITION</b>  |                                    |                                     |                      |
| Net investment in capital assets                             | \$ 4,649,181                       | \$ 3,421,911                        | \$ 8,071,092         |
| Unrestricted   | <u>1,501,832</u>                   | <u>1,168,236</u>                    | <u>2,670,068</u>     |
| <b>Total net position</b>                                    | <b>\$ 6,151,013</b>                | <b>\$ 4,590,147</b>                 | <b>\$ 10,741,160</b> |

See Notes to Financial Statements.

**TOWN OF ELKTON, VIRGINIA**

**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2019**

| <u>Functions/ Programs</u>        | <u>Expenses</u>     | ----- Program Revenues -----          |   |   |
|-----------------------------------|---------------------|---------------------------------------|---|---|
|                                   |                     | <u>Charges for</u><br><u>Services</u> | <u>Operating</u><br><u>Grants and</u><br><u>Contributions</u> | <u>Capital</u><br><u>Grants and</u><br><u>Contributions</u> |
| <b>Primary Government:</b>        |                     |                                       |   |   |
| <b>Governmental activities:</b>   |                     |                                       |   |   |
| General government administration | \$ 798,811          | \$ -                                  | \$ -  | \$ -  |
| Public safety                     | 478,366             | 9,430                                 | 71,944  | -   |
| Public works                      | 738,398             | 186,713                               | 528,812   | -   |
| Cultural and recreation           | 361,738             | 160,459                               | 8,972   | 66,500  |
| Community development             | 1,958               | -                                     | -   | -   |
| Interest on long-term debt        | <u>62,193</u>       | <u>-</u>                              | <u>-</u>  | <u>-</u>  |
| Total governmental activities     | <u>\$ 2,441,464</u> | <u>\$ 356,602</u>                     | <u>\$ 609,728</u>   | <u>\$ 66,500</u>  |
| <b>Business-type activities:</b>  |                     |                                       |   |   |
| Electric                          | \$ 2,033,895        | \$ 2,085,329                          | \$ -  | \$ -  |
| Water                             | 453,754             | 493,962                               | -   | -   |
| Sewer                             | <u>769,466</u>      | <u>767,466</u>                        | <u>-</u>  | <u>-</u>  |
| Total business-type activities    | <u>\$ 3,257,115</u> | <u>\$ 3,346,757</u>                   | <u>\$ -</u>   | <u>\$ -</u>   |
| Total primary government          | <u>\$ 5,698,579</u> | <u>\$ 3,703,359</u>                   | <u>\$ 609,728</u>   | <u>\$ 66,500</u>  |

General revenues:

General property taxes

Other local taxes

Unrestricted revenue from the use of money and property

Grants and contributions not restricted to specific programs

Gain (loss) on disposal of assets

Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net position at beginning of year

Net position at end of year

**See Notes to Financial Statements.**

| <b>Net (Expense) Revenue and Changes in Net Position</b> |                                     |                       |
|--|-------------------------------------|-----------------------|
| ----- Primary Government -----                           |                                     |                       |
| <u>Governmental<br/>Activities</u>                       | <u>Business-Type<br/>Activities</u> | <u>Total</u>          |
| \$ (798,811)   | \$ -                                | \$ (798,811)          |
| (396,992)  | -                                   | (396,992)             |
| (22,873)   | -                                   | (22,873)              |
| (125,807)  | -                                   | (125,807)             |
| (1,958)  | -                                   | (1,958)               |
| <u>(62,193)</u>  | <u>-</u>                            | <u>(62,193)</u>       |
| <u>\$ (1,408,634)</u>                                    | <u>\$ -</u>                         | <u>\$ (1,408,634)</u> |
| \$ -   | \$ 51,434                           | \$ 51,434             |
| -  | 40,208                              | 40,208                |
| <u>-</u>   | <u>(2,000)</u>                      | <u>(2,000)</u>        |
| <u>\$ -</u>  | <u>\$ 89,642</u>                    | <u>\$ 89,642</u>      |
| <u>\$ (1,408,634)</u>                                    | <u>\$ 89,642</u>                    | <u>\$ (1,318,992)</u> |
| \$ 239,499   | \$ -                                | \$ 239,499            |
| 1,350,782  | -                                   | 1,350,782             |
| 11,117   | -                                   | 11,117                |
| 31,675   | -                                   | 31,675                |
| (5,870)  | -                                   | (5,870)               |
| 7,183  | -                                   | 7,183                 |
| <u>(53,316)</u>  | <u>52,634</u>                       | <u>(682)</u>          |
| <u>\$ 1,581,070</u>                                      | <u>\$ 52,634</u>                    | <u>\$ 1,633,704</u>   |
| \$ 172,436   | \$ 142,276                          | \$ 314,712            |
| <u>5,978,577</u>   | <u>4,447,871</u>                    | <u>10,426,448</u>     |
| <u>\$ 6,151,013</u>                                      | <u>\$ 4,590,147</u>                 | <u>\$ 10,741,160</u>  |

## **Fund Financial Statements**

## TOWN OF ELKTON, VIRGINIA

## ----GOVERNMENTAL FUND----

## BALANCE SHEET

June 30, 2019

|   | <u>General<br/>Fund</u> |
|---|-------------------------|
| <b>ASSETS</b>   |                         |
| Cash and cash equivalents   | \$ 1,327,178            |
| Receivables (net of allowance<br>for uncollectibles):                         |                         |
| Property taxes  | 388,727                 |
| Accounts  | 20,644                  |
| Accrued interest  | 38                      |
| Due from other governmental units and businesses                              | 96,520                  |
| Due from other funds  | 273,989                 |
| Inventory   | 7,671                   |
| Prepaid expenses  | <u>11,238</u>           |
| <b>Total assets</b>   | <u>\$ 2,126,005</u>     |
| <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES,<br/>AND FUND BALANCE</b>       |                         |
| <b>Liabilities</b>  |                         |
| Accounts payable  | \$ 55,914               |
| Accrued liabilities   | <u>74,557</u>           |
| <b>Total liabilities</b>  | <u>\$ 130,471</u>       |
| <b>Deferred Inflows of Resources</b>  |                         |
| Unavailable revenue   | <u>\$ 386,679</u>       |
| <b>Total deferred inflows of resources</b>                                    | <u>\$ 386,679</u>       |
| <b>Fund Balance</b>   |                         |
| Nonspendable:   |                         |
| Prepaid expenses  | \$ 11,238               |
| Inventory   | 7,671                   |
| Assigned to:  |                         |
| Kings Dominion and Busch Garden tickets                                       | 15,101                  |
| Recreation donations  | 12,740                  |
| HEC holding   | 180,870                 |
| Community Center  | 29,740                  |
| Unassigned  | <u>1,351,495</u>        |
| <b>Total fund balance</b>   | <u>\$ 1,608,855</u>     |
| <b>Total liabilities, deferred inflows of resources,<br/>and fund balance</b> | <u>\$ 2,126,005</u>     |

See Notes to Financial Statements.

**TOWN OF ELKTON, VIRGINIA**  
**----GOVERNMENTAL FUND----**  
**RECONCILIATION OF THE BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**June 30, 2019**

|   |                    |                                |
|---|--------------------|--------------------------------|
| <b>FUND BALANCE-TOTAL GOVERNMENTAL FUND</b>   |                    | <b>\$ 1,608,855</b>            |
| <p>Amounts reported for governmental activities in the statement of net position are different because:</p>   |                    |                                |
| <p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund.</p>                    |                    |                                |
| Governmental capital assets   | \$ 8,558,125       |                                |
| Less accumulated depreciation   | <u>(2,576,653)</u> | 5,981,472                      |
| <p>Certain revenues not available to pay for current period expenditures are not reported in the governmental fund.</p>                                       |                    |                                |
| Deferred revenues   | \$ <u>128,154</u>  | 128,154                        |
| Deferred outflows of resources for deferred pension and OPEB amounts.   | \$ <u>139,713</u>  | 139,713                        |
| Deferred inflows of resources for deferred pension and OPEB amounts.  | \$ <u>(26,754)</u> | (26,754)                       |
| <p>Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental fund.</p> |                    |                                |
| Net OPEB liability, life insurance  | \$ (52,784)        |                                |
| Net pension liability   | (193,577)          |                                |
| General obligation bonds payable  | (399,990)          |                                |
| Notes payable   | (918,687)          |                                |
| Accrued interest payable  | (13,614)           |                                |
| Compensated absences  | <u>(101,775)</u>   | <u>(1,680,427)</u>             |
| <br><b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>  |                    | <br><b><u>\$ 6,151,013</u></b> |

See Notes to Financial Statements.

**TOWN OF ELKTON, VIRGINIA**  
**---GOVERNMENTAL FUND---**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
**Year Ended June 30, 2019**

|  | <u>General<br/>Fund</u> |
|--|-------------------------|
| <b>REVENUES</b>                                      |                         |
| General property taxes                               | \$ 260,919              |
| Other local taxes                                    | 1,350,017               |
| Permits, privilege fees, and regulatory licenses     | 3,030                   |
| Fines and forfeitures                                | 9,430                   |
| Revenue from the use of money and property           | 11,117                  |
| Charges for services                                 | 344,142                 |
| Miscellaneous  | 16,155                  |
| Intergovernmental revenues:                          |                         |
| County   | 66,500                  |
| Commonwealth   | 632,431                 |
| Total revenues                                       | <u>\$ 2,693,741</u>     |
| <b>EXPENDITURES</b>                                  |                         |
| General government administration                    | \$ 821,617              |
| Public safety  | 514,860                 |
| Public works   | 758,240                 |
| Cultural and recreation                              | 368,506                 |
| Community development                                | 1,958                   |
| Debt service   | 349,770                 |
| Total expenditures                                   | <u>\$ 2,814,951</u>     |
| Excess (deficiency) of revenues over<br>expenditures | <u>\$ (121,210)</u>     |
| <b>OTHER FINANCING SOURCES (USES)</b>                |                         |
| Transfers in   | \$ 3,716                |
| Transfers out  | (57,032)                |
| Total other financing sources (uses)                 | <u>\$ (53,316)</u>      |
| Net change in fund balance                           | \$ (174,526)            |
| <b>FUND BALANCE AT BEGINNING OF YEAR</b>             | <u>1,783,381</u>        |
| <b>FUND BALANCE AT END OF YEAR</b>                   | <u>\$ 1,608,855</u>     |

See Notes to Financial Statements.

## TOWN OF ELKTON, VIRGINIA

## ----GOVERNMENTAL FUND----

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN THE FUND BALANCE OF THE GOVERNMENTAL FUND  
TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2019**

**NET CHANGE IN FUND BALANCE-TOTAL GOVERNMENTAL FUND** **\$ (174,526)**

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

Governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over the estimated useful lives.

|                                     |            |        |
|-------------------------------------|------------|--------|
| Expenditures for capital assets     | \$ 354,216 |        |
| Less current year depreciation      | (270,848)  |        |
| Unrecovered cost of disposed assets | (5,870)    | 77,498 |

Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the governmental fund. This amount is the net change in these revenues.

|                      |             |          |
|----------------------|-------------|----------|
| Property taxes       | \$ (21,421) |          |
| Vehicle license fees | 766         | (20,655) |

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund.

|  |           |       |
|--|-----------|-------|
| Difference between life insurance expenditure and life insurance expense | \$ 11,035 |       |
| Difference between pension expenditures and pension expense              | (2,877)   |       |
| Change in accrued interest   | 3,096     |       |
| Change in long-term compensated absences                                 | (5,616)   | 5,638 |

Bond proceeds provide current financial resources to the governmental fund, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.

|                      |         |         |
|----------------------|---------|---------|
| Principal proceeds   | \$ -    |         |
| Principal repayments | 284,481 | 284,481 |

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** **\$ 172,436**

See Notes to Financial Statements.

## TOWN OF ELKTON, VIRGINIA

---- PROPRIETARY FUNDS ----  
STATEMENTS OF NET POSITION

June 30, 2019

|  | ----- Enterprise Funds ----- |                     |                     | Total<br>Enterprise<br>Funds |
|--|------------------------------|---------------------|---------------------|------------------------------|
|  | Electric                     | Water               | Sewer               |                              |
| <b>ASSETS</b>  |                              |                     |                     |                              |
| Current assets:  |                              |                     |                     |                              |
| Cash and cash equivalents (overdrafts)   | \$ 515,910                   | \$ 480,348          | \$ (43,640)         | \$ 952,618                   |
| Restricted cash and cash equivalents, deposits   | 118,851                      | -                   | -                   | 118,851                      |
| Accounts receivable, less allowance for<br>doubtful accounts of \$71,860, \$3,979,<br>and \$14,276, respectively | 181,117                      | 37,014              | 69,150              | 287,281                      |
| Prepaid insurance  | -                            | -                   | 1,000               | 1,000                        |
| Inventories  | 142,640                      | 34,217              | 7,925               | 184,782                      |
| Total current assets   | <u>\$ 958,518</u>            | <u>\$ 551,579</u>   | <u>\$ 34,435</u>    | <u>\$ 1,544,532</u>          |
| Noncurrent assets:   |                              |                     |                     |                              |
| Capital assets:  |                              |                     |                     |                              |
| Land   | \$ -                         | \$ 41,056           | \$ -                | \$ 41,056                    |
| Utility plants, distribution and<br>collection systems   | 388,531                      | 3,273,529           | 11,143,634          | 14,805,694                   |
| Equipment  | 684,012                      | 137,149             | 281,449             | 1,102,610                    |
| Less accumulated depreciation  | <u>(806,486)</u>             | <u>(1,647,235)</u>  | <u>(3,045,514)</u>  | <u>(5,499,235)</u>           |
| Total noncurrent assets  | <u>\$ 266,057</u>            | <u>\$ 1,804,499</u> | <u>\$ 8,379,569</u> | <u>\$10,450,125</u>          |
| <b>Total assets</b>  | <u>\$ 1,224,575</u>          | <u>\$ 2,356,078</u> | <u>\$ 8,414,004</u> | <u>\$11,994,657</u>          |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>  |                              |                     |                     |                              |
| Deferred pension amounts   | \$ 22,148                    | \$ 19,092           | \$ 26,103           | \$ 67,343                    |
| Deferred OPEB amounts, life insurance  | <u>2,340</u>                 | <u>1,781</u>        | <u>1,748</u>        | <u>5,869</u>                 |
| <b>Total deferred outflows of<br/>resources</b>  | <u>\$ 24,488</u>             | <u>\$ 20,873</u>    | <u>\$ 27,851</u>    | <u>\$ 73,212</u>             |
| <b>LIABILITIES</b>   |                              |                     |                     |                              |
| Current liabilities:   |                              |                     |                     |                              |
| Accounts payable   | \$ 108,514                   | \$ 8,356            | \$ 14,070           | \$ 130,940                   |
| Accrued payroll  | 9,241                        | 7,183               | 7,537               | 23,961                       |
| Accrued interest payable   | -                            | 9,451               | 23,637              | 33,088                       |
| Compensated absences   | 20,873                       | 8,907               | 8,907               | 38,687                       |
| Deposits   | 118,851                      | -                   | -                   | 118,851                      |
| Bonds, notes and loans payable   | -                            | 20,000              | 323,784             | 343,784                      |
| Total current liabilities  | <u>\$ 257,479</u>            | <u>\$ 53,897</u>    | <u>\$ 377,935</u>   | <u>\$ 689,311</u>            |
| Noncurrent liabilities:  |                              |                     |                     |                              |
| Net pension liability  | \$ 35,759                    | \$ 21,422           | \$ 39,083           | \$ 96,264                    |
| Net OPEB liability, life insurance   | 12,222                       | 9,304               | 9,134               | 30,660                       |
| Bonds, notes and loans payable   | -                            | 465,000             | 6,186,342           | 6,651,342                    |
| Total noncurrent liabilities   | <u>\$ 47,981</u>             | <u>\$ 495,726</u>   | <u>\$ 6,234,559</u> | <u>\$ 6,778,266</u>          |
| <b>Total liabilities</b>   | <u>\$ 305,460</u>            | <u>\$ 549,623</u>   | <u>\$ 6,612,494</u> | <u>\$ 7,467,577</u>          |

(Continued)

**TOWN OF ELKTON, VIRGINIA**  
**---- PROPRIETARY FUNDS ----**  
**STATEMENTS OF NET POSITION**  
**June 30, 2019**

|  | ----- Enterprise Funds ----- |                     |                     | <u>Total<br/>Enterprise<br/>Funds</u> |
|--|------------------------------|---------------------|---------------------|---------------------------------------|
|  | <u>Electric</u>              | <u>Water</u>        | <u>Sewer</u>        |                                       |
| <b>DEFERRED INFLOWS OF RESOURCES</b>           |                              |                     |                     |                                       |
| Deferred pension amounts                       | \$ (1,572)                   | \$ 3,119            | \$ 4,990            | \$ 6,537                              |
| Deferred OPEB amounts, life insurance          | <u>1,438</u>                 | <u>1,095</u>        | <u>1,075</u>        | <u>3,608</u>                          |
| <b>Total deferred inflows of<br/>resources</b> | <u>\$ (134)</u>              | <u>\$ 4,214</u>     | <u>\$ 6,065</u>     | <u>\$ 10,145</u>                      |
| <b>NET POSITION</b>                            |                              |                     |                     |                                       |
| Net investment in capital assets               | \$ 266,057                   | \$ 1,310,048        | \$ 1,845,806        | \$ 3,421,911                          |
| Unrestricted                                   | <u>677,680</u>               | <u>513,066</u>      | <u>(22,510)</u>     | <u>1,168,236</u>                      |
| <b>Total net position</b>                      | <u>\$ 943,737</u>            | <u>\$ 1,823,114</u> | <u>\$ 1,823,296</u> | <u>\$ 4,590,147</u>                   |

See Notes to Financial Statements.

## TOWN OF ELKTON, VIRGINIA

---PROPRIETARY FUNDS---  
**STATEMENTS OF REVENUES, EXPENSES,  
 AND CHANGES IN FUND NET POSITION**  
 Year Ended June 30, 2019

|  | ----- Enterprise Funds ----- |                   |                   | Total<br>Enterprise<br>Funds |
|--|------------------------------|-------------------|-------------------|------------------------------|
|  | <u>Electric</u>              | <u>Water</u>      | <u>Sewer</u>      |                              |
| <b>OPERATING REVENUES</b>              |                              |                   |                   |                              |
| Charges for services                   | \$ 2,017,671                 | \$ 336,754        | \$ 642,266        | \$ 2,996,691                 |
| Connection fees                        | 5,438                        | 105,500           | 125,200           | 236,138                      |
| Local consumption tax                  | 6,526                        | -                 | -                 | 6,526                        |
| Reconnect fees                         | 5,248                        | 4,450             | -                 | 9,698                        |
| Service charges                        | 5,634                        | 1,754             | -                 | 7,388                        |
| Late charges and interest              | 44,812                       | -                 | -                 | 44,812                       |
| Water haulers                          | -                            | 45,504            | -                 | 45,504                       |
| Total operating revenues               | <u>\$ 2,085,329</u>          | <u>\$ 493,962</u> | <u>\$ 767,466</u> | <u>\$ 3,346,757</u>          |
| <b>OPERATING EXPENSES</b>              |                              |                   |                   |                              |
| Salaries and wages                     | \$ 177,494                   | \$ 137,161        | \$ 134,982        | \$ 449,637                   |
| Employee benefits                      | 48,623                       | 26,904            | 38,472            | 113,999                      |
| Payroll taxes                          | 12,040                       | 8,990             | 10,079            | 31,109                       |
| Electric power                         | 1,661,084                    | -                 | -                 | 1,661,084                    |
| Landfill                               | -                            | -                 | 24,125            | 24,125                       |
| Permit fees                            | -                            | 14,252            | 8,626             | 22,878                       |
| Telephone and internet                 | 937                          | 1,539             | 4,973             | 7,449                        |
| Supplies                               | 37,214                       | 89,064            | 18,629            | 144,907                      |
| Repairs and maintenance                | 29,471                       | 5,650             | 20,622            | 55,743                       |
| Vehicle maintenance and generator fuel | 15,129                       | 5,862             | 5,915             | 26,906                       |
| Miss Utility                           | 101                          | 109               | 52                | 262                          |
| Professional services                  | 100                          | 3,993             | 43,326            | 47,419                       |
| Dues                                   | 365                          | 450               | 145               | 960                          |
| Uniforms                               | 117                          | 297               | 605               | 1,019                        |
| Water testing                          | -                            | 1,198             | 13,235            | 14,433                       |
| Utilities                              | -                            | 21,073            | 2,474             | 23,547                       |
| Computer support                       | -                            | -                 | 10,600            | 10,600                       |
| Postage                                | -                            | 666               | 36                | 702                          |
| Insurance                              | -                            | -                 | 7,224             | 7,224                        |
| Miscellaneous                          | 312                          | 572               | 444               | 1,328                        |
| Advertising                            | -                            | 217               | 6,812             | 7,029                        |
| Depreciation                           | 50,908                       | 103,332           | 356,333           | 510,573                      |
| Total operating expenses               | <u>\$ 2,033,895</u>          | <u>\$ 421,329</u> | <u>\$ 707,709</u> | <u>\$ 3,162,933</u>          |
| Operating income                       | <u>\$ 51,434</u>             | <u>\$ 72,633</u>  | <u>\$ 59,757</u>  | <u>\$ 183,824</u>            |
| <b>NONOPERATING REVENUE (EXPENSE)</b>  |                              |                   |                   |                              |
| Interest expense                       | \$ -                         | \$ (32,425)       | \$ (61,757)       | \$ (94,182)                  |
| Income before transfers                | <u>\$ 51,434</u>             | <u>\$ 40,208</u>  | <u>\$ (2,000)</u> | <u>\$ 89,642</u>             |

(Continued)

**TOWN OF ELKTON, VIRGINIA**  
**---PROPRIETARY FUNDS---**  
**STATEMENTS OF REVENUES, EXPENSES,**  
**AND CHANGES IN FUND NET POSITION**  
**Year Ended June 30, 2019**

|  | ----- Enterprise Funds ----- |                     |                     | <u>Total<br/>Enterprise<br/>Funds</u> |
|--|------------------------------|---------------------|---------------------|---------------------------------------|
|  | <u>Electric</u>              | <u>Water</u>        | <u>Sewer</u>        |                                       |
| <b>TRANSFERS</b>                         |                              |                     |                     |                                       |
| Transfers in                             | \$ 19,371                    | \$ 26,500           | \$ 51,239           | \$ 97,110                             |
| Transfers out                            | <u>(2,893)</u>               | <u>(41,583)</u>     | <u>-</u>            | <u>(44,476)</u>                       |
| Total transfers                          | <u>\$ 16,478</u>             | <u>\$ (15,083)</u>  | <u>\$ 51,239</u>    | <u>\$ 52,634</u>                      |
| Change in net position                   | \$ 67,912                    | \$ 25,125           | \$ 49,239           | \$ 142,276                            |
| <b>NET POSITION AT BEGINNING OF YEAR</b> | <u>875,825</u>               | <u>1,797,989</u>    | <u>1,774,057</u>    | <u>4,447,871</u>                      |
| <b>NET POSITION AT END OF YEAR</b>       | <u>\$ 943,737</u>            | <u>\$ 1,823,114</u> | <u>\$ 1,823,296</u> | <u>\$ 4,590,147</u>                   |

See Notes to Financial Statements.

**TOWN OF ELKTON, VIRGINIA**  
**----PROPRIETARY FUNDS----**  
**STATEMENTS OF CASH FLOWS**  
**Year Ended June 30, 2019**

|   | ----- Enterprise Funds ----- |                    |                     | <b>Total<br/>Enterprise<br/>Funds</b> |
|---|------------------------------|--------------------|---------------------|---------------------------------------|
|   | <u>Electric</u>              | <u>Water</u>       | <u>Sewer</u>        |                                       |
| <b>CASH FLOWS FROM OPERATING<br/>ACTIVITIES</b>                               |                              |                    |                     |                                       |
| Cash received from customers  | \$ 2,085,642                 | \$ 493,060         | \$ 765,171          | \$ 3,343,873                          |
| Cash payments to suppliers of goods<br>and services                           | (1,757,938)                  | (223,654)          | (172,782)           | (2,154,374)                           |
| Cash payments to employees  | <u>(224,404)</u>             | <u>(169,223)</u>   | <u>(179,794)</u>    | <u>(573,421)</u>                      |
| Net cash provided by (used in)<br>operating activities                        | <u>\$ 103,300</u>            | <u>\$ 100,183</u>  | <u>\$ 412,595</u>   | <u>\$ 616,078</u>                     |
| <b>CASH FLOWS FROM NONCAPITAL<br/>FINANCING ACTIVITIES</b>                    |                              |                    |                     |                                       |
| Operating transfers in from other funds                                       | \$ 19,371                    | \$ 26,500          | \$ 51,239           | \$ 97,110                             |
| Operating transfers out to other funds  | <u>(2,893)</u>               | <u>(41,583)</u>    | <u>-</u>            | <u>(44,476)</u>                       |
| Net cash provided by (used in)<br>noncapital financing activities             | <u>\$ 16,478</u>             | <u>\$ (15,083)</u> | <u>\$ 51,239</u>    | <u>\$ 52,634</u>                      |
| <b>CASH FLOWS FROM CAPITAL<br/>AND RELATED FINANCING<br/>ACTIVITIES</b>       |                              |                    |                     |                                       |
| Loan proceeds from Branch Banking & Trust                                     | \$ -                         | \$ -               | \$ 1,243,041        | \$ 1,243,041                          |
| Acquisition and construction of capital assets                                | (214,117)                    | (9,805)            | (1,338,186)         | (1,562,108)                           |
| Principal paid on bond and loans  | -                            | (20,000)           | (321,163)           | (341,163)                             |
| Interest paid   | <u>-</u>                     | <u>(32,774)</u>    | <u>(62,864)</u>     | <u>(95,638)</u>                       |
| Net cash provided by (used in)<br>capital and related financing<br>activities | <u>\$ (214,117)</u>          | <u>\$ (62,579)</u> | <u>\$ (479,172)</u> | <u>\$ (755,868)</u>                   |
| Net increase (decrease) in cash<br>and cash equivalents                       | \$ (94,339)                  | \$ 22,521          | \$ (15,338)         | \$ (87,156)                           |
| <b>Cash and cash equivalents:</b>   |                              |                    |                     |                                       |
| <b>Beginning</b>  | <u>729,100</u>               | <u>457,827</u>     | <u>(28,302)</u>     | <u>1,158,625</u>                      |
| <b>Ending</b>   | <u>\$ 634,761</u>            | <u>\$ 480,348</u>  | <u>\$ (43,640)</u>  | <u>\$ 1,071,469</u>                   |

(Continued)

## TOWN OF ELKTON, VIRGINIA

----PROPRIETARY FUNDS----  
**STATEMENTS OF CASH FLOWS**  
 Year Ended June 30, 2019

|   | ----- Enterprise Funds ----- |                   |                   | <b>Total<br/>Enterprise<br/>Funds</b> |
|---|------------------------------|-------------------|-------------------|---------------------------------------|
|   | <u>Electric</u>              | <u>Water</u>      | <u>Sewer</u>      |                                       |
| <b>RECONCILIATION OF OPERATING<br/>INCOME (LOSS) TO NET CASH PROVIDED<br/>BY (USED IN) OPERATING ACTIVITIES</b> |                              |                   |                   |                                       |
| Operating income (loss)   | \$ 51,434                    | \$ 72,633         | \$ 59,757         | \$ 183,824                            |
| Adjustments to reconcile operating<br>income (loss) to net cash provided by<br>(used in) operating activities:  |                              |                   |                   |                                       |
| Pension and OPEB costs (earnings)   | 5,305                        | 1,718             | 1,252             | 8,275                                 |
| Depreciation  | 50,908                       | 103,332           | 356,333           | 510,573                               |
| Change in assets and liabilities:   |                              |                   |                   |                                       |
| (Increase) decrease in inventories  | 2,750                        | 6,545             | (1,902)           | 7,393                                 |
| (Increase) decrease in accounts<br>receivable   | (1,758)                      | (902)             | (2,295)           | (4,955)                               |
| (Increase) decrease in prepaid expenses   | -                            | -                 | (1,000)           | (1,000)                               |
| Increase (decrease) in accounts<br>payable and accrued expenses   | (7,410)                      | (83,143)          | 450               | (90,103)                              |
| Increase (decrease) in deposits   | <u>2,071</u>                 | <u>-</u>          | <u>-</u>          | <u>2,071</u>                          |
| Net cash provided by (used in)<br>operating activities  | <u>\$ 103,300</u>            | <u>\$ 100,183</u> | <u>\$ 412,595</u> | <u>\$ 616,078</u>                     |

See Notes to Financial Statements.

**TOWN OF ELKTON, VIRGINIA**  
**----FIDUCIARY FUND----**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**June 30, 2019**

|   | <u>Cemetery<br/>Fund</u> |
|---|--------------------------|
| <b>ASSETS</b>                               |                          |
| Cash and cash equivalents                   | \$ 152,181               |
| Receivables:                                |                          |
| Accrued interest                            | 12                       |
| Land  | 373,588                  |
| Buildings                                   | 2,052                    |
| Infrastructure                              | 284,864                  |
| Equipment                                   | 37,890                   |
| Less accumulated depreciation               | <u>(126,709)</u>         |
| <b>Total assets</b>                         | <b>\$ <u>723,878</u></b> |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>       |                          |
| Deferred pension amounts                    | \$ 2,880                 |
| Deferred OPEB amounts, life insurance       | <u>298</u>               |
| <b>Total deferred outflows of resources</b> | <b>\$ <u>3,178</u></b>   |
| <b>LIABILITIES</b>                          |                          |
| Accrued liabilities                         | \$ 7,271                 |
| Due to other funds                          | 273,989                  |
| Net pension liability                       | 3,697                    |
| Net OPEB liability, life insurance          | <u>1,556</u>             |
| <b>Total liabilities</b>                    | <b>\$ <u>286,513</u></b> |
| <b>DEFERRED INFLOWS OF RESOURCES</b>        |                          |
| Deferred pension amounts                    | \$ (90)                  |
| Deferred OPEB amounts, life insurance       | <u>183</u>               |
| <b>Total deferred inflows of resources</b>  | <b>\$ <u>93</u></b>      |
| <b>NET POSITION</b>                         | <b>\$ <u>440,450</u></b> |

See Notes to Financial Statements.

## TOWN OF ELKTON, VIRGINIA

----FIDUCIARY FUND----  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**Year Ended June 30, 2019**

|  | <u>Cemetery<br/>Fund</u> |
|--|--------------------------|
| <b>ADDITIONS</b>                         |                          |
| Sale of lots                             | \$ 30,650                |
| Interest income                          | 26                       |
| Grave digging revenue                    | 15,450                   |
| Sale of land                             | <u>32,706</u>            |
| Total additions                          | <u>\$ 78,832</u>         |
| <br>                                     |                          |
| <b>DEDUCTIONS</b>                        |                          |
| Salaries and wages                       | \$ 39,174                |
| Employee benefits                        | 13,038                   |
| Supplies                                 | 5,009                    |
| Depreciation                             | 9,434                    |
| Payroll taxes                            | 3,069                    |
| Other deductions                         | <u>19,772</u>            |
| Total deductions                         | <u>\$ 89,496</u>         |
| Change in net position before transfers  | \$ (10,664)              |
| <br>                                     |                          |
| <b>TRANSFERS</b>                         |                          |
| Transfers in                             | <u>682</u>               |
| Change in net position                   | \$ (9,982)               |
| <b>NET POSITION AT BEGINNING OF YEAR</b> | <u>450,432</u>           |
| <b>NET POSITION AT END OF YEAR</b>       | <u>\$ 440,450</u>        |

See Notes to Financial Statements.

**TOWN OF ELKTON, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 1. Summary of Significant Accounting Policies**

The financial statements of the Town of Elkton, Virginia, conform to generally accepted accounting principles (GAAP) applicable to government units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the most significant policies:

**A. Reporting Entity**

The Town of Elkton, Virginia, is a municipality governed by a six-member Town Council and Mayor. Daily operations are conducted by the Town Manager with oversight from the Mayor and Town Council. In determining the reporting entity, the Town complies with the provisions of GASB Statement No. 14, "The Financial Reporting Entity." Based on the criteria provided in that Statement there are no agencies or entities that should be presented with the Town.

**B. Governmental Accounting Standards**

The Town follows the general provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This Statement identifies the financial reporting requirements of state and local governments.

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

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. 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 identifiable activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. 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 governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies (Continued)

#### Government-Wide Financial Statements

The Town government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of governmental and business-type activities for the Town accompanied by a total column.

These statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the Town’s assets and liabilities, including capital assets as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the Town are reported in three categories: (1) charges for services, (2) operating grants and contributions, and (3) capital grants and contributions.

#### Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the government-wide financial statements.

All governmental funds are accounted for on a spending or “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 45 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Town, are property taxes, sales and use taxes, intergovernmental revenues, and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The General Fund is the Town’s only governmental fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

#### Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows for each major proprietary fund.

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

## NOTES TO FINANCIAL STATEMENTS

**Note 1. Summary of Significant Accounting Policies (Continued)**

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

The Town reports the following major proprietary funds:

Electric, Water, and Sewer Funds-account for the activities related to the provision of electric, water, and sewer services to Town's business, residents, schools, and churches. They operate the electric plant, electric distribution system, water treatment and sewer treatment plants, water distribution systems, sewer collection systems, and pump stations.

Fiduciary Fund Financial Statements

The Town's fiduciary fund is presented in the fund financial statements by type (private purpose). Since by definition these assets are being held for the benefit of a third party (private purpose) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

Fiduciary funds are used to account for assets held by the Town in a trustee capacity or as agent for individuals, private organizations, and other governments. The fiduciary fund of the Town is the Cemetery Fund. For accounting measurement purposes, the Cemetery Fund is accounted for in essentially the same manner as proprietary funds.

**E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Equity**Cash and Cash Equivalents

For purposes of reporting cash flows, the Town considers all cash on hand, checking accounts, savings accounts, money market funds, and highly liquid instruments with a maturity of three months or less, to be cash and cash equivalents. All certificates of deposit, regardless of maturity, are considered to be cash and cash equivalents.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical collection data and specific account analysis. Major receivable balances for the governmental activities include sales and use taxes, meals taxes, and utility taxes. Business-type activities report utilities and interest earnings as their major receivables. The Town grants credit to the customers of its electric, water, sewer, and trash systems. The customers are either local businesses or residents.

In the fund financial statements, major receivable balances and the allowances for uncollectible accounts are the same as those in the governmental and business-type activities.

## NOTES TO FINANCIAL STATEMENTS

**Note 1. Summary of Significant Accounting Policies (Continued)**Property Taxes

Real estate and personal property taxes are assessed annually by Rockingham County, Virginia, for all property on record as of January 1. Property taxes attach as an enforceable lien on property as of January 1. The Town collects real estate and personal property taxes on an annual basis (due December 5). The portion of the tax receivable that is not collected within 45 days after June 30, is shown as deferred inflows of resources in the fund financial statements. A penalty of 10 percent of the tax is assessed after the applicable payment date.

The taxes receivable balance at June 30, 2019, includes amounts not yet billed or received from the January 1, 2019, levy (due December 5, 2019). These items are included in deferred inflows of resources since these taxes are restricted for use until fiscal year 2020.

The Town calculates its allowance for uncollectible delinquent property tax accounts using historical collection data and specific account analysis. The allowance at June 30, 2019, amounted to \$115,103.

Inventory

Proprietary fund inventory is reported at the lower of cost (first-in, first-out method) or net realizable value. Inventory in the Governmental Fund is reported at cost (first-in, first-out method) and consists of expendable supplies held for consumption.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Interfund Receivables and Payables

During the course of operations, transactions occur that may result in amounts owed between funds. Those related to goods and service type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds are eliminated in the Statement of Net Position.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in the governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

*Government-Wide Statements*

In the government-wide financial statements, fixed assets are accounted for as capital assets. Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns. In general, the Town defines capital assets as assets with an initial, individual cost of more than \$1,000 (not rounded) and an estimated useful life in excess of one year. Capital assets are carried at historical cost except for donated capital assets that are recorded at their estimated fair value on the date received.

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies (Continued)

The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

|                    |             |
|--------------------|-------------|
| Generation Project | 15 years    |
| Electric Plant     | 25-36 years |
| Utility System     | 20-50 years |
| Equipment          | 5-20 years  |
| Infrastructure     | 25-40 years |

#### *Fund Financial Statements*

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

#### Long-Term Debt

The accounting treatment of the long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of notes payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for the proprietary funds is the same in the fund financial statements as it is in the government-wide statements.

#### Compensated Absences

It is the Town's policy to permit employees to accumulate earned but not used vacation and sick pay benefits. The Town pays a benefit for accumulated sick leave upon an employee's separation from service, to the extent the employee meets certain criteria. Vacation and sick pay are accrued when incurred in the government-wide and proprietary fund financial statements. A liability is reported for compensated absences in governmental funds only to the extent that it is expected to be liquidated with expendable available financial resources.

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies (Continued)

#### Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position, or balance sheet, will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town currently has two items (deferred pension amounts and deferred OPEB amounts, life insurance) that qualifies for reporting in this category.

In addition to liabilities, the statement of net position, or balance sheet, will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town currently has three items (property taxes, deferred pension amounts and deferred OPEB amounts, life insurance) that qualify for reporting in this category.

#### Equity Classifications

##### *Government-Wide Statements*

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets-consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- b. Restricted net position-consists of assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. These assets are reduced by liabilities and deferred inflows of resources related to those assets.
- c. Unrestricted-all other net position is reported in this category.

##### *Fund Statements*

In the governmental fund financial statements, fund balances are classified as follows:

- **Nonspendable** - Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- **Restricted** - Amounts that can be spent only for specific purposes because of the Town Charter, the Town Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- **Committed** - Amounts that can be used only for specific purposes determined by a formal action by Town Council ordinance or resolution. This includes the Budget Reserve Account.
- **Assigned** - Amounts that are designated by the Town Council for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by Town Council.
- **Unassigned** - All amounts not included in other spendable classifications.

Proprietary fund equity is classified the same as in the government-wide statements.

## NOTES TO FINANCIAL STATEMENTS

## Note 1. Summary of Significant Accounting Policies (Continued)

## F. Revenues, Expenditures, and Expenses

Governmental Fund Revenues

As mentioned above, governmental fund revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, property taxes not collected within 45 days after year-end are reflected as deferred revenues-uncollected property taxes. The Town recognizes sales and utility taxes remitted to the Town as revenues and receivables in the month preceding receipt. Licenses and permits are recorded as revenues when received. Intergovernmental revenues, consisting primarily of Federal, State, and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of specific expenditure.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services, and producing and delivering goods and/or services. They also include all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified by function for the governmental fund and by operating and nonoperating for the proprietary funds.

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to the use of economic resources.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers.

Advertising

The Town expenses advertising production costs as they are incurred and advertising communication costs the first time the advertising takes place. Advertising expenditures in the General Fund were \$7,894, for the year ended June 30, 2019. Advertising expenses in the Electric, Water, and Sewer Funds for the year ended June 30, 2019, were \$ - , \$217, and \$6,812, respectively. Advertising expense in the Cemetery Fund for the year ended June 30, 2019, was \$ - .

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies (Continued)

#### Fringe benefits

Fringe benefits of the Town include:

- a. Pension Plan - Employees of the Town participate in the Virginia Retirement System (VRS). The VRS is administered by the Commonwealth, which bills the Town for the employer share of contributions. The VRS is obligated to pay a monthly benefit to participants upon retirement with the amount of the benefit depending on length of service and earnings.
- b. Social Security System - All employees participate in the Federal Social Security Program. The employer share of FICA taxes for the employees is the responsibility of the Town.
- c. Health Insurance - The Town provides health insurance coverage for all full-time, salaried permanent employees.

#### **G. Pensions**

The Virginia Retirement System (VRS) Political Subdivision Retirement Plan is a multi-employer, agent plan. For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Political Subdivision's Retirement Plan and the additions to/deductions from the Political Subdivision's Retirement 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.

#### **H. Estimates and Assumptions**

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

#### **I. Use of Restricted Resources**

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Town's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the Town's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications – committed, and then assigned fund balances before using unassigned fund balances.

#### **J. Group Life Insurance**

The Virginia Retirement System (VRS) Group Life Insurance Program is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The Group Life Insurance Program was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The Group Life Insurance Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net Group Life Insurance Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance Program OPEB, and Group Life Insurance Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Group Life Insurance program OPEB and the additions to/deductions from the VRS Group Life Insurance Program OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## NOTES TO FINANCIAL STATEMENTS

**Note 2. Stewardship, Compliance, and Accountability****A. Budgetary Information**

The Town Council's control is exercised through budgeting. The Town budget is developed for informative and fiscal planning purposes only and presents an itemized listing of contemplated expenditures and estimated revenues for the ensuing fiscal year. The Town Council approves the budget after a public hearing.

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the General Fund. Amounts shown in the accompanying financial statements as "budget" represent the original and final operating budgets for the fiscal year 2019.

A budget was also adopted for the Enterprise Funds as an operating guideline. Budget to actual information is shown as other supplementary information. Below is a summary of budgeted information that is not included in the Enterprise Fund's Statements of Revenues, Expenses, and Changes in Fund Net Position - Budget and Actual:

|                         | <u>Budget<br/>Original</u> | <u>Budget<br/>Final</u> | <u>Actual</u>         |
|-------------------------|----------------------------|-------------------------|-----------------------|
| <b>ELECTRIC FUND</b>    |                            |                         |                       |
| Capital outlay          | \$ (1,000)                 | \$ (1,000)              | \$ (214,117)          |
| <b>WATER FUND</b>       |                            |                         |                       |
| Capital outlay          | (81,500)                   | (81,500)                | (9,805)               |
| Principal paid on loan  | (20,000)                   | (20,000)                | (20,000)              |
| <b>SEWER FUND</b>       |                            |                         |                       |
| Capital outlay          | (23,000)                   | (563,000)               | (1,338,186)           |
| Principal paid on loans | (321,163)                  | (321,163)               | (321,164)             |
| Transfer from Savings   | <u>-</u>                   | <u>500,000</u>          | <u>500,000</u>        |
|                         | <u>\$ (446,663)</u>        | <u>\$ (486,663)</u>     | <u>\$ (1,403,272)</u> |

A budget was also adopted for the Fiduciary Fund as an operating guideline. Below is a summary of budgeted information that is not included in the Fiduciary Fund's Statement of Changes in Fiduciary Net Position:

|                       | <u>Budget<br/>Original</u> | <u>Budget<br/>Final</u> | <u>Actual</u>      |
|-----------------------|----------------------------|-------------------------|--------------------|
| <b>CEMETERY FUND</b>  |                            |                         |                    |
| Grave digging revenue | \$ 21,000                  | \$ 21,000               | \$ 15,450          |
| Lot sales             | -                          | -                       | 30,650             |
| Interest income       | -                          | -                       | 26                 |
| Salaries and wages    | (35,207)                   | (35,207)                | (39,174)           |
| Capital outlay        | (100,000)                  | (100,000)               | -                  |
| Other deductions      | <u>(25,383)</u>            | <u>(25,383)</u>         | <u>(50,332)</u>    |
|                       | <u>\$ (139,590)</u>        | <u>\$ (139,590)</u>     | <u>\$ (43,380)</u> |

**B. Excess of Expenditures Over Appropriations**

For the year ended June 30, 2019, General Fund expenditures exceeded appropriations in Public Works by \$597 and Debt Service by \$28,262. These expenditures were funded by greater than anticipated revenues.

## NOTES TO FINANCIAL STATEMENTS

## Note 3. Cash and Cash Equivalents

Deposits

Below is a summary of the Town's accounts/deposits at June 30, 2019:

|  | <u>Carrying<br/>Amount</u> | <u>Bank<br/>Balance</u> |
|--|----------------------------|-------------------------|
| <u>General</u>                               |                            |                         |
| Checking (Bank of America)                   | \$ (344,014)               | \$ (361,523)            |
| Investment Account (Infinex Financial Group) | 463,157                    | 463,157                 |
| Certificate of deposit (Bank of America)     | 163,967                    | 163,967                 |
| Checking (First Bank)                        | 100                        | 34,146                  |
| Petty cash                                   | 270                        | 270                     |
| Checking (First Bank)                        | 100                        | 2,223                   |
| Checking (Farmers & Merchants Bank)          | 10,964                     | 10,964                  |
| Checking (Farmers & Merchants Bank)          | 250,000                    | 250,032                 |
| Investment Account (Sweep)                   | 326,966                    | 326,966                 |
| Checking (United Bank)                       | 450,668                    | 450,668                 |
| Checking (United Bank)                       | 5,000                      | 5,000                   |
| <u>Electric</u>                              |                            |                         |
| Checking (Bank of America)                   | 634,761                    | 634,761                 |
| <u>Water</u>                                 |                            |                         |
| Checking (Bank of America)                   | 480,348                    | 480,348                 |
| <u>Sewer</u>                                 |                            |                         |
| Checking (Bank of America)                   | (43,640)                   | (43,640)                |
| <u>Cemetery</u>                              |                            |                         |
| Checking (Bank of America)                   | 36,465                     | 36,465                  |
| Savings (Bank of America)                    | <u>115,716</u>             | <u>115,716</u>          |
| Total reporting entity                       | <u>\$ 2,550,828</u>        | <u>\$ 2,569,520</u>     |

All cash of the Town is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. 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 amounts from 50 percent to 130 percent of excess deposits. Accordingly, all deposits are considered fully collateralized.

## NOTES TO FINANCIAL STATEMENTS

**Note 4. Receivables**

Receivables as of June 30, 2019, for the government's individual major funds including the applicable allowances for uncollectible accounts, are as follows:

|                                       | Governmental<br>Activities | Business-Type<br>Activities | Fiduciary<br>Fund | Total             |
|---------------------------------------|----------------------------|-----------------------------|-------------------|-------------------|
| Receivables:                          |                            |                             |                   |                   |
| Interest                              | \$ 38                      | \$ -                        | \$ 12             | \$ 50             |
| Property taxes                        | 503,830                    | -                           | -                 | 503,830           |
| Other taxes:                          |                            |                             |                   |                   |
| Consumption tax                       | -                          | 524                         | -                 | 524               |
| Accounts                              | <u>32,130</u>              | <u>376,872</u>              | <u>-</u>          | <u>409,002</u>    |
| Gross receivables                     | \$ 535,998                 | \$ 377,396                  | \$ 12             | \$ 913,406        |
| Less: allowance for<br>uncollectibles | <u>(126,589)</u>           | <u>(90,115)</u>             | <u>-</u>          | <u>(216,704)</u>  |
| Net total receivables                 | <u>\$ 409,409</u>          | <u>\$ 287,281</u>           | <u>\$ 12</u>      | <u>\$ 696,702</u> |

**Note 5. Due from Other Governmental Units and Businesses**

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

*General Fund:*

|                           |                  |
|---------------------------|------------------|
| Commonwealth of Virginia: |                  |
| Local sales and use taxes | \$ 11,626        |
| Communications tax        | 3,815            |
| County of Rockingham:     |                  |
| Court fines               | 2,797            |
| Local restaurants:        |                  |
| Meals taxes               | <u>78,282</u>    |
|                           | <u>\$ 96,520</u> |

**Note 6. Capital Assets**

Capital asset activity for the year ended June 30, 2019, was as follows:

|   | <u>Beginning<br/>Balance</u> | <u>Increases</u> | <u>Decreases</u>    | <u>Ending<br/>Balance</u> |
|---|------------------------------|------------------|---------------------|---------------------------|
| <b>GOVERNMENTAL ACTIVITIES</b>                |                              |                  |                     |                           |
| Capital assets not being depreciated          |                              |                  |                     |                           |
| Land  | \$ 1,071,813                 | \$ -             | \$ -                | \$ 1,071,813              |
| Construction in progress                      | <u>149,452</u>               | <u>-</u>         | <u>(149,452)</u>    | <u>-</u>                  |
| Total capital assets not being<br>depreciated | <u>\$ 1,221,265</u>          | <u>\$ -</u>      | <u>\$ (149,452)</u> | <u>\$ 1,071,813</u>       |

## NOTES TO FINANCIAL STATEMENTS

## Note 6. Capital Assets (Continued)

|   | <u>Beginning<br/>Balance</u> | <u>Increases</u>    | <u>Decreases</u>    | <u>Ending<br/>Balance</u> |
|---|------------------------------|---------------------|---------------------|---------------------------|
| Capital assets being depreciated            |                              |                     |                     |                           |
| Buildings                                   | \$ 3,215,060                 | \$ 223,156          | \$ -                | \$ 3,438,216              |
| Machinery and equipment                     | 1,672,714                    | 130,273             | (105,561)           | 1,697,426                 |
| Infrastructure                              | <u>2,200,431</u>             | <u>150,239</u>      | <u>-</u>            | <u>2,350,670</u>          |
| Total capital assets being depreciated      | <u>\$ 7,088,205</u>          | <u>\$ 503,668</u>   | <u>\$ (105,561)</u> | <u>\$ 7,486,312</u>       |
| Less accumulated depreciation for           |                              |                     |                     |                           |
| Buildings                                   | \$ 955,180                   | \$ 77,655           | \$ -                | \$ 1,032,835              |
| Machinery and equipment                     | 1,056,455                    | 135,735             | (99,691)            | 1,092,499                 |
| Infrastructure                              | <u>393,861</u>               | <u>57,458</u>       | <u>-</u>            | <u>451,319</u>            |
| Total accumulated depreciation              | <u>\$ 2,405,496</u>          | <u>\$ 270,848</u>   | <u>\$ (99,691)</u>  | <u>\$ 2,576,653</u>       |
| Total capital assets being depreciated, net | <u>\$ 4,682,709</u>          | <u>\$ 232,820</u>   | <u>\$ (5,870)</u>   | <u>\$ 4,909,659</u>       |
| <b>GOVERNMENTAL ACTIVITIES</b>              |                              |                     |                     |                           |
| <b>CAPITAL ASSETS, NET</b>                  | <u>\$ 5,903,974</u>          | <u>\$ 232,820</u>   | <u>\$ (155,322)</u> | <u>\$ 5,981,472</u>       |
| <b>BUSINESS-TYPE ACTIVITIES</b>             |                              |                     |                     |                           |
| Capital assets not being depreciated        |                              |                     |                     |                           |
| Land  | \$ 41,056                    | \$ -                | \$ -                | \$ 41,056                 |
| Construction in progress                    | <u>-</u>                     | <u>1,299,635</u>    | <u>-</u>            | <u>1,299,635</u>          |
| Total capital assets not being depreciated  | <u>\$ 41,056</u>             | <u>\$ 1,299,635</u> | <u>\$ -</u>         | <u>\$ 1,340,691</u>       |
| Capital assets being depreciated            |                              |                     |                     |                           |
| Utility system                              | \$13,498,721                 | \$ 7,338            | \$ -                | \$ 13,506,059             |
| Machinery and equipment                     | <u>849,310</u>               | <u>255,136</u>      | <u>(1,837)</u>      | <u>1,102,609</u>          |
| Total capital assets being depreciated      | <u>\$14,348,031</u>          | <u>\$ 262,474</u>   | <u>\$ (1,837)</u>   | <u>\$ 14,608,668</u>      |
| Less accumulated depreciation for           |                              |                     |                     |                           |
| Utility system                              | \$ 4,313,220                 | \$ 459,670          | \$ -                | \$ 4,772,890              |
| Machinery and equipment                     | <u>677,277</u>               | <u>50,904</u>       | <u>(1,837)</u>      | <u>726,344</u>            |
| Total accumulated depreciation              | <u>\$ 4,990,497</u>          | <u>\$ 510,574</u>   | <u>\$ (1,837)</u>   | <u>\$ 5,499,234</u>       |
| Total capital assets being depreciated, net | <u>\$ 9,357,534</u>          | <u>\$ (248,100)</u> | <u>\$ -</u>         | <u>\$ 9,109,434</u>       |
| <b>BUSINESS-TYPE ACTIVITIES</b>             |                              |                     |                     |                           |
| <b>CAPITAL ASSETS, NET</b>                  | <u>\$ 9,398,590</u>          | <u>\$ 1,051,535</u> | <u>\$ -</u>         | <u>\$ 10,450,125</u>      |

## NOTES TO FINANCIAL STATEMENTS

## Note 6. Capital Assets (Continued)

|   | <u>Beginning<br/>Balance</u> | <u>Increases</u>  | <u>Decreases</u>  | <u>Ending<br/>Balance</u> |
|---|------------------------------|-------------------|-------------------|---------------------------|
| <b>FIDUCIARY-TYPE ACTIVITIES</b>            |                              |                   |                   |                           |
| Capital assets not being depreciated        |                              |                   |                   |                           |
| Land  | \$ 381,578                   | \$ -              | \$ (7,990)        | \$ 373,588                |
| Total capital assets not being depreciated  | <u>\$ 381,578</u>            | <u>\$ -</u>       | <u>\$ (7,990)</u> | <u>\$ 373,588</u>         |
| Capital assets being depreciated            |                              |                   |                   |                           |
| Buildings                                   | \$ 2,052                     | \$ -              | \$ -              | \$ 2,052                  |
| Infrastructure                              | 181,619                      | 103,245           | -                 | 284,864                   |
| Machinery and equipment                     | <u>37,890</u>                | <u>-</u>          | <u>-</u>          | <u>37,890</u>             |
| Total capital assets being depreciated      | <u>\$ 221,561</u>            | <u>\$ 103,245</u> | <u>\$ -</u>       | <u>\$ 324,806</u>         |
| Less accumulated depreciation for           |                              |                   |                   |                           |
| Buildings                                   | \$ 1,888                     | \$ 82             | \$ -              | \$ 1,970                  |
| Infrastructure                              | 85,621                       | 7,070             | -                 | 92,691                    |
| Machinery and equipment                     | <u>29,766</u>                | <u>2,282</u>      | <u>-</u>          | <u>32,048</u>             |
| Total accumulated depreciation              | <u>\$ 117,275</u>            | <u>\$ 9,434</u>   | <u>\$ -</u>       | <u>\$ 126,709</u>         |
| Total capital assets being depreciated, net | <u>\$ 104,286</u>            | <u>\$ 93,811</u>  | <u>\$ -</u>       | <u>\$ 198,097</u>         |
| <b>FIDUCIARY-TYPE ACTIVITIES</b>            |                              |                   |                   |                           |
| <b>CAPITAL ASSETS, NET</b>                  | <u>\$ 485,864</u>            | <u>\$ 93,811</u>  | <u>\$ (7,990)</u> | <u>\$ 571,685</u>         |

Depreciation expense was charged to functions/programs of the primary government as follows:

**GOVERNMENTAL ACTIVITIES**

|                                   |                |
|-----------------------------------|----------------|
| General government administration | \$ 44,021      |
| Community Center                  | 57,004         |
| Public safety                     | 29,736         |
| Public works                      | <u>140,088</u> |

Total depreciation expense-governmental activities \$ 270,849

**BUSINESS-TYPE ACTIVITIES**

|          |                |
|----------|----------------|
| Electric | \$ 50,908      |
| Water    | 103,332        |
| Sewer    | <u>356,333</u> |

Total depreciation expense-business-type activities \$ 510,573

**FIDUCIARY-TYPE ACTIVITIES**

|          |                 |
|----------|-----------------|
| Cemetery | <u>\$ 9,434</u> |
|----------|-----------------|

Total depreciation expense-fiduciary-type activities \$ 9,434

## NOTES TO FINANCIAL STATEMENTS

**Note 7. Unavailable Revenue**

The following is a summary of unavailable revenue at June 30, 2019:

**Fund Statements**

|   | <u>General Fund</u> |
|---|---------------------|
| Unavailable revenue:                      |                     |
| Property taxes billed in fiscal year 2020 | \$ 258,525          |
| Uncollected property tax billing          | <u>128,154</u>      |
|   | <u>\$ 386,679</u>   |

**Government-Wide Statements**

|   | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| Unavailable revenue:                      |                                    |
| Property taxes billed in fiscal year 2020 | \$ 258,525                         |
|   | <u>\$ 258,525</u>                  |

**Note 8. Long-Term Debt**

A summary of long-term debt activity for the year ended June 30, 2019, is as follows. Additional detailed information is available below and on the following pages.

|  | <u>Beginning<br/>Balances</u> | <u>Additions</u> | <u>Reductions</u>   | <u>Ending<br/>Balances</u> | <u>Due within<br/>One Year</u> |
|--|-------------------------------|------------------|---------------------|----------------------------|--------------------------------|
| <b><u>Governmental-type activities</u></b> |                               |                  |                     |                            |                                |
| <i>General Fund</i>                        |                               |                  |                     |                            |                                |
| Bonds payable:                             |                               |                  |                     |                            |                                |
| United Bank                                | \$ 250,000                    | \$ -             | \$ (50,000)         | \$ 200,000                 | \$ 50,000                      |
| Farmers and Merchants<br>Bank              | 249,990                       | -                | (50,000)            | 199,990                    | 50,000                         |
| Notes payable:                             |                               |                  |                     |                            |                                |
| Farmers and Merchants Bank                 | 935,333                       | -                | (88,605)            | 846,728                    | 92,981                         |
| Joseph H. Kite, Jr.                        | 74,325                        | -                | (74,325)            | -                          | -                              |
| Ford Motor Credit                          | <u>93,510</u>                 | <u>-</u>         | <u>(21,551)</u>     | <u>71,959</u>              | <u>22,725</u>                  |
|  | <u>\$1,603,158</u>            | <u>\$ -</u>      | <u>\$ (284,481)</u> | <u>\$ 1,318,677</u>        | <u>\$ 215,706</u>              |

## NOTES TO FINANCIAL STATEMENTS

## Note 8. Long-Term Debt (Continued)

|  | <u>Beginning<br/>Balances</u> | <u>Additions</u>    | <u>Reductions</u>   | <u>Ending<br/>Balances</u> | <u>Due within<br/>One Year</u> |
|--|-------------------------------|---------------------|---------------------|----------------------------|--------------------------------|
| <b><u>Business-type activities</u></b> |                               |                     |                     |                            |                                |
| <i>Water Fund</i>                      |                               |                     |                     |                            |                                |
| Bond payable:                          |                               |                     |                     |                            |                                |
| Virginia Municipal League              | \$ 505,000                    | \$ -                | \$ (20,000)         | \$ 485,000                 | \$ 20,000                      |
| <i>Sewer Fund</i>                      |                               |                     |                     |                            |                                |
| Bonds payable:                         |                               |                     |                     |                            |                                |
| Virginia Municipal League              | 505,000                       | -                   | (20,000)            | 485,000                    | 20,000                         |
| Virginia Resources Authority           | 1,554,078                     | -                   | (119,545)           | 1,434,533                  | 119,544                        |
| Rural Development                      | 45,818                        | -                   | (15,743)            | 30,075                     | 16,549                         |
| Virginia Resources Authority           | 3,483,352                     | -                   | (165,875)           | 3,317,477                  | 167,691                        |
| BB&T                                   | -                             | 1,243,041           | -                   | 1,243,041                  | -                              |
|  | <u>\$6,093,248</u>            | <u>\$ 1,243,041</u> | <u>\$ (341,163)</u> | <u>\$ 6,995,126</u>        | <u>\$ 343,784</u>              |

On January 15, 2003, the Town issued a general obligation bond to United Bank in the amount of \$1,000,000. Proceeds from the note were used to pay for land. The note is being repaid in annual installments of \$50,000, with semi-annual interest payments at 3.80 percent. The bond matures July 15, 2022. The note is payable from funds available and appropriated for payment of the note. A pledge of the full faith and credit of the Town has been made. As of June 30, 2019, \$800,000 has been applied against the principal portion of the bond. Total interest expense incurred on the loan for year ended June 30, 2019, was \$7,613.

On January 15, 2003, the Town issued a general obligation bond to Farmers and Merchants Bank in the amount of \$1,000,000. Proceeds from the note were used to pay for land. The note is being repaid in annual installments of \$50,000, with semi-annual interest payments at 3.80 percent. The bond matures July 15, 2022. The note is payable from funds available and appropriated for payment of the note. A pledge of the full faith and credit of the Town has been made. As of June 30, 2019, \$800,000 has been applied against the principal portion of the bond. Total interest expense incurred on the loan for year ended June 30, 2019, was \$7,602.

The Town signed a line of credit in the amount of \$1,700,000 with Farmers and Merchants Bank on January 11, 2006. Proceeds from the loan were to be used for construction and remodeling of the Community Center. This loan was refinanced on March 1, 2007, into a twenty-year loan. The loan is backed by the full faith and credit of the Town. The financing agreement states that commencing June 1, 2007, and continuing quarterly thereafter, the Town is required to make installment payments of \$32,521 on the loan. The current interest rate is 4.50 percent. The loan matures March 1, 2027. As of June 30, 2019, \$853,272 has been applied against the principal portion of the loan. Total interest expense incurred on the loan for the year ended June 30, 2019, was \$42,777.

The Town signed a note in the amount of \$120,157 with Ford Motor Credit Company, LLC on August 23, 2017, to purchase a 2017 Ford F-350, a 2017 Ford F-250, and 2018 Ford F-150. The note is being repaid in annual installments of \$26,647, with annual interest payments at 5.45 percent. As of June 30, 2019, \$48,198 has been applied against the principal portion of the note. Total interest expense incurred for the year ended June 30, 2019, was \$4,202.

## NOTES TO FINANCIAL STATEMENTS

**Note 8. Long-Term Debt (Continued)**

The Town signed a financing agreement with the Virginia Municipal League on December 1, 2005. On December 22, 2005, the Town issued water and sewer revenue bonds (Series 2005B) in the amount of \$1,350,000. As part of the financing agreement, the Town sold the local bonds to US Bank (trustee for Virginia Municipal League) for \$1,350,000. Proceeds from the bonds were used to pay for extending water and sewer lines to recently acquired land. Annual principal payments on the bond commenced August 1, 2006, and will continue through August 1, 2035. The initial principal payment will begin at \$15,000 and will increase periodically until the final principal payment of \$80,000. In addition to the annual principal payments, the Town is making semi-annual interest payments on the outstanding balance at a rate between 4.0 percent and 5.125 percent. The bond is payable from funds available and appropriated for payment of the bond. A pledge of the full faith and credit of the Town has been made. As of June 30, 2019, \$380,000 has been applied against the principal portion of the bond. Total interest expense incurred on the bond for the year ended June 30, 2019, was \$46,146.

On June 9, 2010, the Town signed a zero percent interest bond with the Virginia Resources Authority in the amount of \$2,393,552. The loan was to finance a wastewater treatment plant upgrade in order to comply with the requirements ordered by the Department of Environmental Quality. The loan is being repaid in equal, semi-annual installments of \$59,772 until it matures on April 1, 2031, and is secured by the revenues from electric, water, and sewer systems, and a pledge of the full faith and credit of the Town. As of June 30, 2019, \$959,019 has been applied against the principal portion of the loan.

On May 5, 1981, the Town signed a loan with the Rural Development in the amount of \$300,000. Proceeds from the loan were used to pay for sewer upgrades. The note is being repaid in monthly installments of \$1,473, including interest payments at 5.00 percent. The note matures March 5, 2021. The note is payable from funds available and appropriated for payment of the note. A pledge of the full faith and credit of the Town has been made. As of June 30, 2019, \$269,925 has been applied against the principal portion of the bond. Total interest expense incurred on the loan for the year ended June 30, 2019, was \$1,877.

The Town signed a financing agreement with the Virginia Resources Authority on June 1, 2016. On June 2, 2016, the Town issued a 1.10 percent interest general obligation and revenue bond in the amount of \$3,566,900. The loan is to finance a wastewater treatment plant upgrade in order to comply with requirements ordered by the Department of Environmental Quality. The loan is being repaid in equal semi-annual installments of \$101,868 until it matures on May 1, 2037. As of June 30, 2019, \$249,423 has been applied against the principal portion of the loan. Total interest expense incurred on the loan for the year ended June 30, 2019, was \$37,862.

The Town signed a financing agreement with Branch Banking and Trust Company on March 4, 2019. The financing agreement committed up to \$10,000,000 from Branch Banking and Trust Company to the Town for use towards expansion of the wastewater treatment plant. As of June 30, 2019, proceeds from this general obligation and revenue bond (series 2019) were \$1,243,041. Monthly interest payments on the bond were commenced April 5, 2019, at a rate of 2.75 percent accrued from the date of disbursement. Total interest expense incurred on the loan for the year ended June 30, 2019, was \$8,923.

Annual requirements to amortize long-term debt and related interest at June 30, 2019, are as follows:

## NOTES TO FINANCIAL STATEMENTS

## Note 8. Long-Term Debt (Continued)

*Governmental-Type Activities*

## ---- General Obligation Bonds ----

|      | Bonds             |                  | Bonds                 |                  | Ford Motor Credit |                 |
|------|-------------------|------------------|-----------------------|------------------|-------------------|-----------------|
|      | United Bank       |                  | Farmers and Merchants |                  | Ford Motor Credit |                 |
|      | Principal         | Interest         | Principal             | Interest         | Principal         | Interest        |
| 2020 | \$ 50,000         | \$ 6,650         | \$ 50,000             | \$ 6,650         | \$ 22,725         | \$ 3,922        |
| 2021 | 50,000            | 4,750            | 50,000                | 4,750            | 23,964            | 2,683           |
| 2022 | 50,000            | 2,850            | 50,000                | 2,850            | 25,270            | 1,377           |
| 2023 | 50,000            | 950              | 49,990                | 950              | -                 | -               |
|      | <u>\$ 200,000</u> | <u>\$ 15,200</u> | <u>\$ 199,990</u>     | <u>\$ 15,200</u> | <u>\$ 71,959</u>  | <u>\$ 7,982</u> |

|             | Community Center Loan |                   | Totals              |                   |
|-------------|-----------------------|-------------------|---------------------|-------------------|
|             | Farmers and Merchants |                   | Totals              |                   |
|             | Principal             | Interest          | Principal           | Interest          |
| 2020        | \$ 92,981             | \$ 36,502         | \$ 215,706          | \$ 53,724         |
| 2021        | 97,387                | 30,502            | 221,351             | 42,685            |
| 2022        | 101,918               | 28,165            | 227,188             | 35,242            |
| 2023        | 106,097               | 23,381            | 206,087             | 25,281            |
| 2024        | 111,548               | 18,535            | 111,548             | 18,535            |
| 2025 - 2027 | 336,797               | 24,635            | 336,797             | 24,635            |
|             | <u>\$ 846,728</u>     | <u>\$ 161,720</u> | <u>\$ 1,318,677</u> | <u>\$ 200,102</u> |

*Business-Type Activities*

|             | Virginia          |                   | Virginia Resources  |             | Virginia Resources  |                   |
|-------------|-------------------|-------------------|---------------------|-------------|---------------------|-------------------|
|             | Municipal League  |                   | Authority           |             | Authority           |                   |
|             | Principal         | Interest          | Principal           | Interest    | Principal           | Interest          |
| 2020        | \$ 40,000         | \$ 45,145         | \$ 119,544          | \$ -        | \$ 167,691          | \$ 36,047         |
| 2021        | 40,000            | 43,435            | 119,544             | -           | 169,540             | 34,197            |
| 2022        | 40,000            | 41,700            | 119,544             | -           | 171,410             | 32,327            |
| 2023        | 45,000            | 39,841            | 119,544             | -           | 173,301             | 30,436            |
| 2024        | 45,000            | 37,872            | 119,544             | -           | 175,213             | 28,525            |
| 2025 - 2029 | 270,000           | 155,188           | 597,720             | -           | 905,482             | 113,204           |
| 2030 - 2034 | 335,000           | 84,247            | 239,093             | -           | 956,595             | 62,152            |
| 2035 - 2037 | 155,000           | 8,071             | -                   | -           | 598,245             | 11,596            |
|             | <u>\$ 970,000</u> | <u>\$ 455,499</u> | <u>\$ 1,434,533</u> | <u>\$ -</u> | <u>\$ 3,317,477</u> | <u>\$ 348,484</u> |

|             | Rural Development |                 | Totals              |                   |
|-------------|-------------------|-----------------|---------------------|-------------------|
|             | Principal         | Interest        | Principal           | Interest          |
|             | 2020              | \$ 16,549       | \$ 1,127            | \$ 343,784        |
| 2021        | 13,526            | 292             | 342,610             | 77,924            |
| 2022        | -                 | -               | 330,954             | 74,027            |
| 2023        | -                 | -               | 337,845             | 70,277            |
| 2024        | -                 | -               | 339,757             | 66,397            |
| 2025 - 2029 | -                 | -               | 1,773,202           | 268,392           |
| 2030 - 2034 | -                 | -               | 1,530,688           | 146,399           |
| 2035 - 2037 | -                 | -               | 753,245             | 19,667            |
|             | <u>\$ 30,075</u>  | <u>\$ 1,419</u> | <u>\$ 5,752,085</u> | <u>\$ 805,402</u> |

## NOTES TO FINANCIAL STATEMENTS

**Note 9. Interfund Transfers**

Interfund transfers during the year ended June 30, 2019, were as follows:

| <u>Fund</u>   | <u>Transfers In</u> | <u>Transfers Out</u> |
|---------------|---------------------|----------------------|
| General Fund  | \$ 3,716            | \$ 57,032            |
| Electric Fund | 19,371              | 2,893                |
| Water Fund    | 26,500              | 41,583               |
| Sewer Fund    | 51,239              | -                    |
| Cemetery Fund | <u>682</u>          | <u>-</u>             |
|               | <u>\$ 101,508</u>   | <u>\$ 101,508</u>    |

Transfers are used to (a) move revenues from the fund that statute or budget requires them to collect from, to the fund that statute or budget requires them to expend from, and to (b) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**Note 10. Pension Plan**Plan Description

All full-time, salaried permanent employees of the Political Subdivision are automatically covered by the VRS Retirement Plan upon employment. This 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 the VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

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

| VRS<br>PLAN 1  | VRS<br>PLAN 2  | HYBRID<br>RETIREMENT PLAN  |
|--|--|--|
| <p><b>About VRS Plan 1</b><br/>VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</p> | <p><b>About VRS Plan 2</b><br/>Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</p> | <p><b>About the Hybrid Retirement Plan</b><br/>The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</p> <ul style="list-style-type: none"> <li>• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</li> <li>• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.</li> <li>• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.</li> </ul> |

## NOTES TO FINANCIAL STATEMENTS

## Note 10. Pension Plan (Continued)

| VRS<br>PLAN 1  | VRS<br>PLAN 2   | HYBRID<br>RETIREMENT PLAN   |
|--|---|---|
| <p><b>Eligible Members</b><br/>Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.</p> <p><b>Hybrid Opt-In Election</b><br/>VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p> | <p><b>Eligible Members</b><br/>Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b><br/>Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p> | <p><b>Eligible Members</b><br/>Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> <li>• Political subdivision employees*</li> <li>• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014</li> </ul> <p><b>*Non-Eligible Members</b><br/>Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> <li>• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees</li> </ul> <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or VRS Plan 2 (as applicable) or ORP.</p> |
| <p><b>Retirement Contributions</b><br/>Employees contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>  | <p><b>Retirement Contributions</b><br/>Same as Plan 1.</p>  | <p><b>Retirement Contributions</b><br/>A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>   |

## NOTES TO FINANCIAL STATEMENTS

## Note 10. Pension Plan (Continued)

| VRS<br>PLAN 1   | VRS<br>PLAN 2  | HYBRID<br>RETIREMENT PLAN   |
|---|--|---|
| <p><b>Creditable Service</b><br/>Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> | <p><b>Creditable Service</b><br/>Same as Plan 1.</p> | <p><b>Creditable Service</b><br/><b>Defined Benefit Component:</b><br/>Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><b>Defined Contributions Component:</b><br/>Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>  |
| <p><b>Vesting</b><br/>Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>                        | <p><b>Vesting</b><br/>Same as VRS Plan 1.</p>        | <p><b>Vesting</b><br/><b>Defined Benefit Component:</b><br/>Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><b>Defined Contributions Component:</b><br/>Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distribution is not required by law until age 70½.</p> |

## NOTES TO FINANCIAL STATEMENTS

## Note 10. Pension Plan (Continued)

| VRS<br>PLAN 1   | VRS<br>PLAN 2  | HYBRID<br>RETIREMENT PLAN  |
|---|--|--|
| <p><b>Calculating the Benefit</b><br/>The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>   | <p><b>Calculating the Benefit</b><br/>See definition under Plan 1.</p>   | <p><b>Calculating the Benefit</b><br/><b>Defined Benefit Component:</b><br/>See definition under Plan 1.</p> <p><b>Defined Contribution Component:</b><br/>The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>  |
| <p><b>Average Final Compensation</b><br/>A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>   | <p><b>Average Final Compensation</b><br/>A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>  | <p><b>Average Final Compensation</b><br/>Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>   |
| <p><b>Service Retirement Multiplier</b><br/>The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.</p>   | <p><b>Service Retirement Multiplier</b><br/>Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.</p>                        | <p><b>Service Retirement Multiplier</b><br/><b>Defined Benefit Component:</b><br/>The retirement multiplier for the defined benefit component is 1.0%.</p> <p>For members that opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. Not applicable to sheriffs, regional jail superintendents and political subdivision hazardous duty employees.</p> <p><b>Defined Contribution Component:</b><br/>Not applicable.</p> |
| <p><b>Normal Retirement Age</b><br/>VRS: Age 65.</p> <p><b>Political subdivisions hazardous duty employees:</b> Age 60.</p>   | <p><b>Normal Retirement Age</b><br/>VRS: Normal Social Security retirement age.</p> <p><b>Political subdivisions hazardous duty employees:</b> Same as Plan 1.</p>   | <p><b>Normal Retirement Age</b><br/><b>Defined Benefit Component:</b><br/>VRS: Same as Plan 2.</p> <p><b>Political subdivision hazardous duty employees:</b> Not applicable.</p> <p><b>Defined Contribution Component:</b><br/>Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>   |
| <p><b>Earliest Unreduced Retirement Eligibility</b><br/>VRS: Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p><b>Political subdivisions hazardous duty employees:</b> Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p> | <p><b>Earliest Unreduced Retirement Eligibility</b><br/>VRS: Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p><b>Political subdivisions hazardous duty employees:</b> Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p> | <p><b>Earliest Unreduced Retirement Eligibility</b><br/><b>Defined Benefit Component:</b><br/>VRS: Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p><b>Political subdivision hazardous duty employees:</b> Not applicable.</p> <p><b>Defined Contribution Component:</b><br/>Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>     |

## NOTES TO FINANCIAL STATEMENTS

## Note 10. Pension Plan (Continued)

| VRS<br>PLAN 1   | VRS<br>PLAN 2   | HYBRID<br>RETIREMENT PLAN  |
|---|---|--|
| <p><b>Earliest Reduced Retirement Eligibility</b><br/><b>VRS:</b> Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p><b>Political subdivisions hazardous duty employees:</b> 50 with at least five years of creditable service.</p>   | <p><b>Earliest Reduced Retirement Eligibility</b><br/><b>VRS:</b> Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p><b>Political subdivisions hazardous duty employees:</b> Same as Plan 1.</p>   | <p><b>Earliest Unreduced Retirement Eligibility</b><br/><b>Defined Benefit Component:</b><br/><b>VRS:</b> Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p><b>Political subdivision hazardous duty employees:</b> Not applicable.</p> <p><b>Defined Contribution Component:</b><br/>Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p> |
| <p><b>Cost-of-Living Adjustment (COLA) in Retirement</b><br/>The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><b>Eligibility:</b><br/>For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><b>Exceptions to COLA Effective Dates:</b><br/>The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> <li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>• The member retires on disability.</li> <li>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</li> <li>• The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.</li> <li>• The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.</li> </ul> | <p><b>Cost-of-Living Adjustment (COLA) in Retirement</b><br/>The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><b>Eligibility:</b><br/>Same as Plan 1.</p> <p><b>Exceptions to COLA Effective Dates:</b><br/>Same as Plan 1.</p> | <p><b>Cost-of-Living Adjustment (COLA) in Retirement</b><br/><b>Defined Benefit Component:</b><br/>Same as Plan 2.</p> <p><b>Defined Contribution Component:</b><br/>Not applicable.</p> <p><b>Eligibility:</b><br/>Same as Plan 1 and VRS Plan 2.</p> <p><b>Exceptions to COLA Effective Dates:</b><br/>Same as Plan 1 and Plan 2.</p>  |

## NOTES TO FINANCIAL STATEMENTS

## Note 10. Pension Plan (Continued)

| VRS<br>PLAN 1  | VRS<br>PLAN 2  | HYBRID<br>RETIREMENT PLAN   |
|--|--|---|
| <p><b>Disability Coverage</b><br/>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>  | <p><b>Disability Coverage</b><br/>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p> | <p><b>Disability Coverage</b><br/>Employees of political subdivision (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p> |
| <p><b>Purchase of Prior Service</b><br/>Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.</p> | <p><b>Purchase of Prior Service</b><br/>Same as Plan 1.</p>  | <p><b>Purchase of Prior Service</b><br/><b>Defined Benefit Component:</b><br/>Same as Plan 1, with the following exception:</p> <ul style="list-style-type: none"> <li>Hybrid Retirement Plan members are ineligible for ported service.</li> </ul> <p><b>Defined Contribution Component:</b><br/>Not applicable.</p>   |

Employees Covered by Benefit Terms

As of the June 30, 2017 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

|  | <u>Number</u> |
|--|---------------|
| Inactive members or their beneficiaries currently receiving benefits | 40            |
| Inactive members:  |               |
| Vested inactive members  | 6             |
| Non-vested inactive members  | 10            |
| LTD  | -             |
| Inactive members active elsewhere in the VRS                         | <u>31</u>     |
| Total inactive members   | 47            |
| Active members   | <u>26</u>     |
| Total covered employees  | <u>113</u>    |

## NOTES TO FINANCIAL STATEMENTS

**Note 10. Pension Plan (Continued)**Contributions

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

The political subdivision's contractually required contribution rate for the year ended June 30, 2019, was 8.82 percent of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by the employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$114,583 and \$85,817 for the years ended June 30, 2019, and June 30, 2018, respectively.

Net Pension Liability

The political subdivision's net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2017, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2017, 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, 2018.

|                                       |   |
|---------------------------------------|---|
| Inflation                             | 2.5 percent   |
| Salary increases, including inflation | 3.5 percent – 5.35 percent  |
| Investment rate of return             | 7.0 percent, net of pension plan investment expense, including inflation* |

\* Administrative expenses, as a percent of the market value of assets for the last experience study, were found to be approximately 0.06 percent of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0 percent. However, since the difference was minimal, and a more conservative 7.0 percent investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0 percent to simplify preparation of pension liabilities.

## NOTES TO FINANCIAL STATEMENTS

**Note 10. Pension Plan (Continued)**

Mortality rates:

Largest 10 – Non-Hazardous Duty: 20% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

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

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions, used in the June 30, 2017 valuation, were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-Hazardous Duty:

|   |   |
|---|---|
| Mortality Rates Pre-retirement, post-retirement healthy, and disabled | Update to a more current mortality table – RP-2014 projected to 2020                            |
| Retirement Rates  | Lowered rates at older ages and changed final retirement from 70 to 75                          |
| Withdrawal Rates  | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates  | Lowered rates   |
| Salary Scale  | No change   |
| Line of Duty Disability   | Increase rate from 14% to 20%   |

## NOTES TO FINANCIAL STATEMENTS

**Note 10. Pension Plan (Continued)**

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

|   |   |
|---|---|
| Mortality Rates Pre-retirement, post-retirement healthy, and disabled | Update to a more current mortality table – RP-2014 projected to 2020                            |
| Retirement Rates  | Lowered rates at older ages and changed final retirement from 70 to 75                          |
| Withdrawal Rates  | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates  | Lowered rates   |
| Salary Scale  | No change   |
| Line of Duty Disability   | Increase rate from 14% to 15%   |

Actuarial Assumptions – Public Safety Employees with Hazardous Duty Benefits

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the Political Subdivision Retirement Plan was based on an actuarial valuation as of June 30, 2017, 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, 2018.

|                                       |   |
|---------------------------------------|---|
| Inflation                             | 2.5 percent   |
| Salary increases, including inflation | 3.5 percent – 4.75 percent  |
| Investment rate of return             | 7.0 percent, net of pension plan investment expense, including inflation* |

\* Administrative expenses, as a percent of the market value of assets for the last experience study, were found to be approximately 0.06 percent of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0 percent. However, since the difference was minimal, and a more conservative 7.0 percent investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0 percent to simplify preparation of pension liabilities.

Mortality rates:

Largest 10 – Hazardous Duty: 70% of deaths are assumed to be service related:

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

## NOTES TO FINANCIAL STATEMENTS

**Note 10. Pension Plan (Continued)**

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

## Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

## Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

## Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions, used in the June 30, 2017 valuation, were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

## Largest 10 – Hazardous Duty:

|   |  |
|---|--|
| Mortality Rates Pre-retirement, post-retirement healthy, and disabled | Update to a more current mortality table – RP-2014 projected to 2020 |
| Retirement Rates  | Lowered rates at older ages  |
| Withdrawal Rates  | Adjusted rates to better fit experience                              |
| Disability Rates  | Increased rates  |
| Salary Scale  | No change  |
| Line of Duty Disability   | Increase rate from 60% to 70%  |

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

|   |   |
|---|---|
| Mortality Rates Pre-retirement, post-retirement healthy, and disabled | Update to a more current mortality table – RP-2014 projected to 2020                            |
| Retirement Rates  | Increased age 50 rates, and lowered rates at older ages   |
| Withdrawal Rates  | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates  | Adjusted rates to better fit experience   |
| Salary Scale  | No change   |
| Line of Duty Disability   | Increase rate from 60% to 45%   |

## NOTES TO FINANCIAL STATEMENTS

## Note 10. 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:

| <u>Asset Class (Strategy)</u> | <u>Target<br/>Allocation</u>        | <u>Arithmetic<br/>Long-Term<br/>Expected<br/>Rate of Return</u> | <u>Weighted<br/>Average<br/>Long-Term<br/>Expected<br/>Rate of Return</u> |
|-------------------------------|-------------------------------------|---|---|
| Public Equity                 | 40.00%                              | 4.54%   | 1.82%   |
| Fixed Income                  | 15.00%                              | 0.69%   | 0.10%   |
| Credit Strategies             | 15.00%                              | 3.96%   | 0.59%   |
| Real Assets                   | 15.00%                              | 5.76%   | 0.86%   |
| Private Equity                | <u>15.00%</u>                       | <u>9.53%</u>  | <u>1.43%</u>  |
| Total                         | <u>100.00%</u>                      |   | 4.80%   |
|                               | Inflation                           |   | <u>2.50%</u>  |
|                               | *Expected arithmetic nominal return |   | <u>7.30%</u>  |

\* The above allocation provides a one-year return of 7.30 percent. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83 percent, including expected inflation of 2.50 percent.

Discount Rate

The discount rate used to measure the total pension liability was 7.00 percent. 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, 2018, the alternate rate was the employer contribution rate used in FY 2012 or 90 percent of the actuarially determined employer contribution rate from the June 30, 2015, actuarial valuations, whichever was greater. From July 1, 2018 on, participating employers are assumed to contribute 100 percent 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.

## NOTES TO FINANCIAL STATEMENTS

## Note 10. Pension Plan (Continued)

Changes in Net Pension Liability

|  | Increase (Decrease)           |                                   |                             |
|--|-------------------------------|-----------------------------------|-----------------------------|
|  | Total<br>Pension<br>Liability | Plan<br>Fiduciary<br>Net Position | Net<br>Pension<br>Liability |
|  | (a)                           | (b)                               | (a) – (b)                   |
| Balances at June 30, 2017  | \$ 3,617,512                  | \$ 3,459,962                      | \$ 157,550                  |
| Changes for the year:  |                               |                                   |                             |
| Service cost   | \$ 95,720                     | \$ -                              | \$ 95,720                   |
| Interest   | 245,802                       | -                                 | 245,802                     |
| Change of assumptions  | -                             | -                                 | -                           |
| Differences between expected and actual<br>experience            | 171,358                       | -                                 | 171,358                     |
| Contributions - employer   | -                             | 71,283                            | (71,283)                    |
| Contributions - employee   | -                             | 54,056                            | (54,056)                    |
| Net investment income  | -                             | 253,997                           | (253,997)                   |
| Benefit payments, including refunds of<br>employee contributions | (212,108)                     | (212,108)                         | -                           |
| Administrative expenses  | -                             | (2,219)                           | 2,219                       |
| Other changes  | -                             | (225)                             | 225                         |
| Net changes  | \$ 300,772                    | \$ 164,784                        | \$ 135,988                  |
| Balances at June 30, 2018  | \$ 3,918,284                  | \$ 3,624,746                      | \$ 293,538                  |

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

The following presents the net pension liability of the political subdivision using the discount rate of 7.00 percent, as well as what the political subdivision's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

|  | Rate       |            |              |
|--|------------|------------|--------------|
|  | (6.00%)    | (7.00%)    | (8.00%)      |
| Political subdivision's<br>Net Pension Liability | \$ 788,036 | \$ 293,538 | \$ (114,172) |

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

For the year ended June 30, 2019, the political subdivision recognized pension expense (earnings) of (\$119,217). At June 30, 2019, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual<br>experience                               | \$ 85,248                         | \$ -                             |
| Change in assumptions   | -                                 | -                                |
| Net difference between projected and actual earnings<br>on pension plan investments | -                                 | 26,990                           |
| Employer contributions subsequent to the measurement<br>date                        | 114,583                           | -                                |
| Total   | \$ 199,831                        | \$ 26,990                        |

## NOTES TO FINANCIAL STATEMENTS

**Note 10. Pension Plan (Continued)**

The amount of \$114,583 reported as deferred outflows of resources related to pensions resulting from the subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year ended June 30,</u> |          |
|----------------------------|----------|
| 2020                       | 98,639   |
| 2021                       | (1,767)  |
| 2022                       | (35,628) |
| 2023                       | (2,986)  |
| 2024                       | -        |
| Thereafter                 | -        |

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-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, 2019, the Town reported a payable of \$10,254 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2019.

**Note 11. Group Life Insurance Plan**Plan Description

All full-time, salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OBEB plans, for public employer groups in the Commonwealth of Virginia.

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 Group Life Insurance Program OPEB.

The specific information for Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

## NOTES TO FINANCIAL STATEMENTS

## Note 11. Group Life Insurance Plan (Continued)

## GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS

**Eligible Employees**

The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:

- City of Richmond
- City of Portsmouth
- City of Roanoke
- City of Norfolk
- Roanoke City Schools Board

Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.

**Benefit Amounts**

The benefits payable under the Group Life Insurance Program have several components.

- **Natural Death Benefit** – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.
- **Accidental Death Benefit** – The accidental death benefit is double the natural death benefit.
- **Other Benefit Provisions** – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:
  - Accidental dismemberment benefit
  - Safety belt benefit
  - Repatriation benefit
  - Felonious assault benefit
  - Accelerated death benefit option

**Reduction in benefit Amounts**

The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.

**Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)**

For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and was increased to \$8,279 effective July 1, 2018.

## NOTES TO FINANCIAL STATEMENTS

## Note 11. Group Life Insurance Plan (Continued)

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31 percent of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79 percent (1.31 percent X 60 percent) and the employer component was 0.52 percent (1.31 percent X 40 percent). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2019 was 0.52 percent of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the Group Life Insurance Program from the entity were \$15,679 and \$15,345 for the years ended June 30, 2019 and June 30, 2018, respectively.

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB

At June 30, 2019, the entity reported a liability of \$85,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2018 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the participating employer's proportion was .00563 percent as compared to .00521 percent at June 30, 2017.

For the year ended June 30, 2019, the participating employer recognized GLI OPEB expense of \$1,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2019, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

|  | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|--|---|--|
| Differences between expected and actual experience                                   | \$ 4,000                                  | \$ 1,000                                 |
| Net difference between projected and actual earnings on GLI OPEB program investments | -   | 3,000                                    |
| Change in assumptions  | -   | 4,000                                    |
| Changes in proportion  | 6,000                                     | 2,000                                    |
| Employer contributions subsequent to the measurement date                            | <u>6,271</u>                              | <u>-</u>                                 |
| Total  | <u>\$ 16,271</u>                          | <u>\$ 10,000</u>                         |

## NOTES TO FINANCIAL STATEMENTS

**Note 11. Group Life Insurance Plan (Continued)**

\$6,271 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year ended June 30:

|            |            |
|------------|------------|
| 2020       | \$ (1,000) |
| 2021       | (1,000)    |
| 2022       | -          |
| 2023       | 1,000      |
| 2024       | 1,000      |
| Thereafter | -          |

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2017, 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, 2018.

|   |   |
|---|---|
| Inflation                               | 2.5 percent   |
| Salary increases, including inflation – |   |
| Locality – General employees            | 3.5 percent – 5.35 percent                                    |
| Locality – Hazardous Duty employees     | 3.5 percent – 4.75 percent                                    |
| Investment rate of return               | 7.0 Percent, net of investment expenses, including inflation* |

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06 percent of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0 percent. However, since the difference was minimal, and a more conservative 7.0 percent investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0 percent to simplify preparation of the OPEB liabilities.

Mortality rates – Non-Largest Ten Locality Employers - General Employees

## Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

## Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

## Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

## NOTES TO FINANCIAL STATEMENTS

**Note 11. Group Life Insurance Plan (Continued)**

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

|   |   |
|---|---|
| Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table – RP-2014 projected to 2020                   |
| Retirement Rates  | Lowered retirement rates at older ages and extended final retirement age from 70 to 75. |
| Withdrawal Rates  | Adjusted termination rates to better fit experience at each age and service year        |
| Disability Rates  | Lowered disability rates  |
| Salary Scale  | No change   |
| Line of Duty Disability   | Increased rate from 14 to 15%   |

Mortality rates – Non-Largest Ten Locality Employers – Hazardous Duty Employees

## Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

## Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

## Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

|   |  |
|---|--|
| Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table – RP-2014 projected to 2020            |
| Retirement Rates  | Increased age 50 rates and lowered rates at older ages                           |
| Withdrawal Rates  | Adjusted termination rates to better fit experience at each age and service year |
| Disability Rates  | Adjusted rates to better match experience  |
| Salary Scale  | No change  |
| Line of Duty Disability   | Decreased rate from 60% to 45%   |

## NOTES TO FINANCIAL STATEMENTS

## Note 11. Group Life Insurance Plan (Continued)

Net GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2018, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

|  | <b>Group Life Insurance<br/>OPEB Program</b> |
|--|--|
| Total GLI OPEB Liability   | \$ 3,113,508                                 |
| Plan Fiduciary Net Position  | <u>(1,594,773)</u>                           |
| Employers' Net GLI OPEB Liability (Asset)                                      | <u>\$ 1,518,735</u>                          |
| Plan Fiduciary Net Position as a Percentage<br>of the Total GLI OPEB Liability | 51.22%                                       |

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

Long-Term Expected Rate of Return

The long-term expected rate of return on the System's 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 System's 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:

| <u>Asset Class (Strategy)</u> | <u>Target<br/>Allocation</u>        | <u>Arithmetic<br/>Long-Term<br/>Expected<br/>Rate of Return</u> | <u>Weighted Average<br/>Long-Term<br/>Expected<br/>Rate of Return</u> |
|-------------------------------|-------------------------------------|---|---|
| Public Equity                 | 40.00%                              | 4.54%   | 1.82%   |
| Fixed Income                  | 15.00%                              | 0.69%   | 0.10%   |
| Credit Strategies             | 15.00%                              | 3.96%   | 0.59%   |
| Real Assets                   | 15.00%                              | 5.76%   | 0.86%   |
| Private Equity                | <u>15.00%</u>                       | <u>9.53%</u>  | <u>1.43%</u>  |
| Total                         | <u>100%</u>                         |   | 4.80%   |
|                               | Inflation                           |   | <u>2.50%</u>  |
|                               | *Expected arithmetic nominal return |   | <u>7.30%</u>  |

\* The above allocation provides a one-year return of 7.30 percent. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83 percent, including expected inflation of 2.50 percent.

## NOTES TO FINANCIAL STATEMENTS

**Note 11. Group Life Insurance Plan (Continued)**Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that 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, 2018, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100 percent of the actuarially determined contribution rate. From July 1, 2018 on, employers are assumed to contribute 100 percent of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The following presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 7.00 percent, as well as what the employer's proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

|   | <u>1.00% Decrease</u><br><u>(6.00%)</u> | <u>Current Discount</u><br><u>Rate (7.00%)</u> | <u>1.00% Increase</u><br><u>(8.00%)</u> |
|---|---|--|---|
| Employer's proportionate share<br>of the Group Life Insurance<br>Program Net OPEB Liability | \$ 112,000                              | \$ 85,000                                      | \$ 64,000                               |

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-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 VRS Group Life Insurance OPEB Plan

At June 30, 2019, there was an outstanding payable from the Town to the VRS Group Life Insurance OPEB Plan in the amount of \$1,316.

**Note 12. Risk Management**

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

## NOTES TO FINANCIAL STATEMENTS

**Note. 12. Risk Management (Continued)**

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

**Required Supplementary Information-  
Other than Management's Discussion and Analysis**

## TOWN OF ELKTON, VIRGINIA

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE-BUDGET AND ACTUAL**  
**Year Ended June 30, 2019**

|  | <u>Original<br/>and<br/>Final<br/>Budget</u> | <u>Actual</u>       | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--|--|---------------------|---|
| <b>REVENUES</b>                                      |  |                     |   |
| General property taxes                               | \$ 287,403                                   | \$ 260,919          | \$ (26,484)                                 |
| Other local taxes                                    | 1,228,500                                    | 1,350,017           | 121,517                                     |
| Permits, privilege fees and regulatory licenses      | 3,000  | 3,030               | 30  |
| Fines and forfeitures                                | 12,700                                       | 9,430               | (3,270)                                     |
| Use of money and property                            | 4,500  | 11,117              | 6,617                                       |
| Charges for services                                 | 333,950                                      | 344,142             | 10,192                                      |
| Miscellaneous  | 1,500  | 16,155              | 14,655                                      |
| Intergovernmental revenues:                          |  |                     |   |
| County   | 66,500                                       | 66,500              | -   |
| Commonwealth   | 515,185                                      | 632,431             | 117,246                                     |
| Federal  | 1,500  | -                   | (1,500)                                     |
| Total revenues                                       | <u>\$ 2,454,738</u>                          | <u>\$ 2,693,741</u> | <u>\$ 239,003</u>                           |
| <b>EXPENDITURES</b>                                  |  |                     |   |
| General government administration                    | \$ 832,305                                   | \$ 821,617          | \$ 10,688                                   |
| Public safety  | 540,092                                      | 514,860             | 25,232                                      |
| Public works   | 757,643                                      | 758,240             | (597)                                       |
| Cultural and recreation                              | 439,388                                      | 368,506             | 70,882                                      |
| Community development                                | 24,000                                       | 1,958               | 22,042                                      |
| Debt service   | 321,508                                      | 349,770             | (28,262)                                    |
| Total expenditures                                   | <u>\$ 2,914,936</u>                          | <u>\$ 2,814,951</u> | <u>\$ 99,985</u>                            |
| Excess (deficiency) of revenues<br>over expenditures | <u>\$ (460,198)</u>                          | <u>\$ (121,210)</u> | <u>\$ 338,988</u>                           |
| <b>OTHER FINANCING SOURCES (USES)</b>                |  |                     |   |
| Transfers in   | \$ -   | \$ 3,716            | \$ 3,716                                    |
| Transfers out  | -  | (57,032)            | (57,032)                                    |
| Total other financing sources (uses)                 | <u>\$ -</u>                                  | <u>\$ (53,316)</u>  | <u>\$ (53,316)</u>                          |
| Net change in fund balance                           | \$ (460,198)                                 | \$ (174,526)        | \$ 285,672                                  |
| <b>FUND BALANCE AT BEGINNING<br/>OF YEAR</b>         | <u>1,783,381</u>                             | <u>1,783,381</u>    | <u>-</u>                                    |
| <b>FUND BALANCE AT END OF YEAR</b>                   | <u>\$ 1,323,183</u>                          | <u>\$ 1,608,855</u> | <u>\$ 285,672</u>                           |

## TOWN OF ELKTON, VIRGINIA

SCHEDULE OF CHANGES IN THE TOWN'S NET PENSION LIABILITY  
AND RELATED RATIOS AND SCHEDULE OF EMPLOYER CONTRIBUTIONSSCHEDULE OF CHANGES IN THE TOWN'S NET PENSION LIABILITY  
AND RELATED RATIOS

|   | <u>2018</u>         | <u>2017</u>         | <u>2016</u>         | <u>2015</u>         | <u>2014</u>         |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Total pension liability</b>  |                     |                     |                     |                     |                     |
| Service cost  | \$ 95,720           | \$ 88,259           | \$ 97,188           | \$ 108,145          | \$ 109,336          |
| Interest  | 245,802             | 237,845             | 237,927             | 228,434             | 218,067             |
| Changes of benefit terms  | -                   | -                   | -                   | -                   | -                   |
| Differences between expected<br>and actual experience   | 171,358             | 36,794              | (105,191)           | (15,846)            | -                   |
| Changes in assumptions  | -                   | (10,557)            | -                   | -                   | -                   |
| Benefit Payments, including refunds of<br>employee contributions  | (212,108)           | (265,218)           | (196,988)           | (173,244)           | (185,356)           |
| <b>Net change in total pension liability</b>  | 300,772             | 87,123              | 32,936              | 147,489             | 142,047             |
| <b>Total pension liability - beginning</b>  | <u>3,617,512</u>    | <u>3,530,389</u>    | <u>3,497,453</u>    | <u>3,349,964</u>    | <u>3,207,917</u>    |
| <b>Total pension liability - ending (a)</b>   | <u>\$ 3,918,284</u> | <u>\$ 3,617,512</u> | <u>\$ 3,530,389</u> | <u>\$ 3,497,453</u> | <u>\$ 3,349,964</u> |
| <b>Plan fiduciary net position</b>  |                     |                     |                     |                     |                     |
| Contributions – employer  | \$ 71,283           | \$ 61,288           | \$ 91,060           | \$ 90,892           | \$ 86,194           |
| Contributions - employee  | 54,056              | 46,551              | 47,158              | 47,356              | 46,507              |
| Net investment income   | 253,997             | 384,130             | 55,445              | 142,424             | 429,954             |
| Benefit payments, including refunds of<br>employee contributions  | (212,108)           | (265,218)           | (196,988)           | (173,244)           | (185,356)           |
| Administrative expense  | (2,219)             | (2,318)             | (2,023)             | (1,953)             | (2,344)             |
| Other   | (225)               | (338)               | (24)                | (31)                | 22                  |
| <b>Net change in plan fiduciary<br/>net position</b>  | 164,784             | 224,095             | (5,372)             | 105,444             | 374,977             |
| <b>Plan fiduciary net position - beginning</b>  | <u>3,459,962</u>    | <u>3,235,867</u>    | <u>3,241,239</u>    | <u>3,135,795</u>    | <u>2,760,818</u>    |
| <b>Plan fiduciary net position - ending (b)</b>   | <u>\$ 3,624,746</u> | <u>\$ 3,459,962</u> | <u>\$ 3,235,867</u> | <u>\$ 3,241,239</u> | <u>\$ 3,135,795</u> |
| <b>Political subdivision's net pension<br/>(asset) liability - ending (a) - (b)</b>                     | <u>\$ 293,538</u>   | <u>\$ 157,550</u>   | <u>\$ 294,522</u>   | <u>\$ 256,214</u>   | <u>\$ 214,169</u>   |
| <b>Plan fiduciary net position as a<br/>percentage of the total pension<br/>liability</b>               | 92.51%              | 95.64%              | 91.66%              | 92.67%              | 93.61%              |
| <b>Covered payroll</b>  | \$ 1,159,329        | \$ 1,108,821        | \$ 1,063,401        | \$ 1,041,178        | \$ 935,652          |
| <b>Political subdivision's net pension<br/>(asset) liability as a percentage<br/>of covered payroll</b> | 25.32%              | 14.21%              | 27.70%              | 24.61%              | 22.89%              |

## TOWN OF ELKTON, VIRGINIA

**SCHEDULE OF CHANGES IN THE TOWN'S NET PENSION LIABILITY  
AND RELATED RATIOS AND SCHEDULE OF EMPLOYER CONTRIBUTIONS**

**SCHEDULE OF EMPLOYER CONTRIBUTIONS  
Years Ended June 30, 2015 through 2019**

| Date | Contributions in<br>Relation to                  |  |   | Employer's<br>Covered<br>Payroll<br>(4) | Contributions<br>as a % of<br>Covered<br>Payroll<br>(5) |
|------|--|--|---|---|---|
|      | Contractually<br>Required<br>Contribution<br>(1) | Contractually<br>Required<br>Contribution<br>(2) | Contribution<br>Deficiency<br>(Excess)<br>(3) |   |   |
| 2019 | \$ 114,583                                       | \$ 114,583                                       | \$ -  | \$ 1,299,127                            | 8.82%   |
| 2018 | 85,660   | 85,660   | -   | 1,159,329                               | 7.39%   |
| 2017 | 64,347   | 64,347   | -   | 1,108,821                               | 5.80%   |
| 2016 | 92,575   | 92,575   | -   | 1,063,401                               | 8.71%   |
| 2015 | 90,416   | 90,416   | -   | 1,041,178                               | 8.69%   |

*Schedules are intended to show information for 10 years. Since 2018 is the fifth year for this presentation, only five years of data are available. However, additional years will be included as they become available.*

**Notes to Required Supplemental Information For the Year Ended June 30, 2018**

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

**(Continued)**

## TOWN OF ELKTON, VIRGINIA

**SCHEDULE OF CHANGES IN THE TOWN'S NET PENSION LIABILITY  
AND RELATED RATIOS AND SCHEDULE OF EMPLOYER CONTRIBUTIONS**

**Changes of assumptions** – The following changes in actuarial assumptions were made effective June 30, 2016, based on the most recent experience study of the System for the four-year period ended June 30, 2016:

## Largest 10 – Non-Hazardous Duty:

|   |   |
|---|---|
| Mortality Rates Pre-retirement, post-retirement healthy, and disabled | Update to a more current mortality table – RP-2014 projected to 2020                            |
| Retirement Rates  | Lowered rates at older ages and changed final retirement from 70 to 75                          |
| Withdrawal Rates  | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates  | Lowered rates   |
| Salary Scale  | No change   |
| Line of Duty Disability   | Increase rate from 14% to 20%   |

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

|   |   |
|---|---|
| Mortality Rates Pre-retirement, post-retirement healthy, and disabled | Update to a more current mortality table – RP-2014 projected to 2020                            |
| Retirement Rates  | Lowered rates at older ages and changed final retirement from 70 to 75                          |
| Withdrawal Rates  | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates  | Lowered rates   |
| Salary Scale  | No change   |
| Line of Duty Disability   | Increase rate from 14% to 15%   |

## Largest 10 – Hazardous Duty:

|   |  |
|---|--|
| Mortality Rates Pre-retirement, post-retirement healthy, and disabled | Update to a more current mortality table – RP-2014 projected to 2020 |
| Retirement Rates  | Lowered rates at older ages  |
| Withdrawal Rates  | Adjusted rates to better fit experience                              |
| Disability Rates  | Increased rates  |
| Salary Scale  | No change  |
| Line of Duty Disability   | Increase rate from 60% to 70%  |

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

|   |   |
|---|---|
| Mortality Rates Pre-retirement, post-retirement healthy, and disabled | Update to a more current mortality table – RP-2014 projected to 2020                            |
| Retirement Rates  | Increased age 50 rates, and lowered rates at older ages   |
| Withdrawal Rates  | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates  | Adjusted rates to better fit experience   |
| Salary Scale  | No change   |
| Line of Duty Disability   | Increase rate from 60% to 45%   |

## TOWN OF ELKTON, VIRGINIA

**SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY –  
GROUP LIFE INSURANCE PROGRAM AND SCHEDULE OF EMPLOYER CONTRIBUTIONS**

**Schedule of Employer's Share of Net OPEB Liability - Group Life Insurance Program**

|  | <u>2018</u>  | <u>2017</u>  |
|--|--------------|--------------|
| Employer's Proportion of the Net GLI OPEB Liability (Asset)  | .00563%      | .00521%      |
| Employer's Proportionate Share of the Net GLI OPEB Liability (Asset)   | \$ 85,000    | \$ 78,000    |
| Employer's Covered Payroll   | \$ 1,159,329 | \$ 1,108,821 |
| Employer's Proportionate Share of the Net GLI OPEB Liability (Asset)<br>as a Percentage of its Covered Payroll | 7.33%        | 7.03%        |
| Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability                                    | 51.22%       | 48.86%       |

**Schedule of Employer Contributions Year Ended June 30, 2019**

| <u>Date</u> | <u>Contractually<br/>Required<br/>Contribution<br/>(1)</u> | <u>Contributions<br/>in Relation to<br/>Contractually<br/>Required<br/>Contribution<br/>(2)</u> | <u>Contribution<br/>Deficiency<br/>(Excess)<br/>(3)</u> | <u>Employer's<br/>Covered<br/>Payroll<br/>(4)</u> | <u>Contributions<br/>as a % of<br/>Covered<br/>Payroll<br/>(5)</u> |
|-------------|--|---|---|---|--|
| 2018        | \$ 6,138   | \$ 6,138  | \$ -  | \$1,159,329                                       | .053%  |
| 2019        | 6,271  | 6,271   | -   | 1,299,127   | .048%  |

*Schedules are intended to show information for 10 years. Since 2018 is the second year for this presentation, only two years of data are available. However, additional years will be included as they become available.*

## TOWN OF ELKTON, VIRGINIA

**SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY –  
GROUP LIFE INSURANCE PROGRAM AND SCHEDULE OF EMPLOYER CONTRIBUTIONS**

**Notes to Required Supplemental Information For the Year Ended June 30, 2019**

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

**Changes of assumptions** – The following changes in actuarial assumptions were made effective June 30, 2016, based on the most recent experience study of the System for the four-year period ending June 30, 2016:

**Non-Largest Ten Locality Employers - General Employees**

|   |   |
|---|---|
| Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table – RP-2014 projected to 2020                   |
| Retirement Rates  | Lowered retirement rates at older ages and extended final retirement age from 70 to 75. |
| Withdrawal Rates  | Adjusted termination rates to better fit experience at each age and service year        |
| Disability Rates  | Lowered disability rates  |
| Salary Scale  | No change   |
| Line of Duty Disability   | Increased rate from 14 to 15%   |

**Non-Largest Ten Locality Employers – Hazardous Duty Employees**

|   |  |
|---|--|
| Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table – RP-2014 projected to 2020            |
| Retirement Rates  | Increased age 50 rates and lowered rates at older ages                           |
| Withdrawal Rates  | Adjusted termination rates to better fit experience at each age and service year |
| Disability Rates  | Adjusted rates to better match experience  |
| Salary Scale  | No change  |
| Line of Duty Disability   | Decreased rate from 60% to 45%   |

## **Other Supplementary Information**

## TOWN OF ELKTON, VIRGINIA

**GENERAL FUND**  
**STATEMENT OF REVENUES, COMPARED TO BUDGET**  
**Year Ended June 30, 2019**

|  | <u>Original<br/>and<br/>Final<br/>Budget</u> | <u>Actual</u>       | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--|--|---------------------|---|
| <b>GENERAL PROPERTY TAXES</b>                              |  |                     |   |
| Real estate  | \$ 182,500                                   | \$ 177,178          | \$ (5,322)                                  |
| Personal property  | 99,903                                       | 75,905              | (23,998)                                    |
| Penalties and interest                                     | 5,000  | 7,836               | 2,836                                       |
|  | <u>\$ 287,403</u>                            | <u>\$ 260,919</u>   | <u>\$ (26,484)</u>                          |
| <b>OTHER LOCAL TAXES</b>                                   |  |                     |   |
| Local sales and use  | \$ 100,000                                   | \$ 126,317          | \$ 26,317                                   |
| Consumer utility   | 40,000                                       | 46,437              | 6,437                                       |
| Business licenses  | 117,500                                      | 101,907             | (15,593)                                    |
| Motor vehicle licenses                                     | -  | 54,300              | 54,300                                      |
| Bank stock   | 100,000                                      | 105,236             | 5,236                                       |
| Cigarette  | 75,000                                       | 62,819              | (12,181)                                    |
| Meals  | 795,000                                      | 853,001             | 58,001                                      |
| Cable pole   | 1,000  | -                   | (1,000)                                     |
|  | <u>\$ 1,228,500</u>                          | <u>\$ 1,350,017</u> | <u>\$ 121,517</u>                           |
| <b>PERMITS, PRIVILEGE FEES AND<br/>REGULATORY LICENSES</b> |  |                     |   |
| Permits  | \$ 3,000                                     | \$ 3,030            | \$ 30                                       |
|  | <u>\$ 3,000</u>                              | <u>\$ 3,030</u>     | <u>\$ 30</u>                                |
| <b>FINES AND FORFEITURES</b>                               |  |                     |   |
|  | \$ 12,700                                    | \$ 9,430            | \$ (3,270)                                  |
|  | <u>\$ 12,700</u>                             | <u>\$ 9,430</u>     | <u>\$ (3,270)</u>                           |
| <b>REVENUE FROM THE USE OF<br/>MONEY AND PROPERTY</b>      |  |                     |   |
| Sale of property   | \$ 2,500                                     | \$ -                | \$ (2,500)                                  |
| Interest on bank deposits                                  | -  | 8,977               | 8,977                                       |
| Land rental  | 2,000  | 2,140               | 140   |
|  | <u>\$ 4,500</u>                              | <u>\$ 11,117</u>    | <u>\$ 6,617</u>                             |
| <b>CHARGES FOR SERVICES</b>                                |  |                     |   |
| Charges for sanitation and waste removal                   | \$ 165,000                                   | \$ 181,863          | \$ 16,863                                   |
| Community Center revenue                                   | 87,850                                       | 85,146              | (2,704)                                     |
| Charges for recreation                                     | 79,850                                       | 75,313              | (4,537)                                     |
| Mowing and brush grinding                                  | 1,250  | 1,820               | 570   |
|  | <u>\$ 333,950</u>                            | <u>\$ 344,142</u>   | <u>\$ 10,192</u>                            |
| <b>MISCELLANEOUS</b>                                       |  |                     |   |
| Contributions – Donations - playground                     | \$ -   | \$ 1,101            | \$ 1,101                                    |
| Contributions - Community Center                           | -  | 7,871               | 7,871                                       |
| Other  | 1,500  | 7,183               | 5,683                                       |
|  | <u>\$ 1,500</u>                              | <u>\$ 16,155</u>    | <u>\$ 14,655</u>                            |

(Continued)

## TOWN OF ELKTON, VIRGINIA

**GENERAL FUND**  
**STATEMENT OF REVENUES, COMPARED TO BUDGET**  
**Year Ended June 30, 2019**

|  | <u>Original<br/>and<br/>Final<br/>Budget</u> | <u>Actual</u>       | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--|--|---------------------|---|
| <b>INTERGOVERNMENTAL REVENUES</b>  |  |                     |   |
| <b>County</b>  |  |                     |   |
| Community Center funds   | \$ 66,500                                    | \$ 66,500           | \$ -  |
|  | <u>\$ 66,500</u>                             | <u>\$ 66,500</u>    | <u>\$ -</u>                                 |
| <b>Commonwealth</b>  |  |                     |   |
| Fire program grant   | \$ -   | \$ 20,000           | \$ 20,000                                   |
| Rolling stock taxes  | 5,000  | 3,578               | (1,422)                                     |
| Street and highway maintenance   | 432,000                                      | 528,812             | 96,812                                      |
| Law enforcement grants, 599 funds  | 50,088                                       | 51,944              | 1,856                                       |
| Personal property tax reimbursement  | 28,097                                       | 28,097              | -   |
|  | <u>\$ 515,185</u>                            | <u>\$ 632,431</u>   | <u>\$ 117,246</u>                           |
| <b>Federal</b>   |  |                     |   |
| Police block grants, passed through Department<br>of Criminal Justice Services | \$ 1,500                                     | \$ -                | \$ (1,500)                                  |
|  | <u>\$ 1,500</u>                              | <u>\$ -</u>         | <u>\$ (1,500)</u>                           |
| <b>Total revenues</b>  | <u>\$ 2,454,738</u>                          | <u>\$ 2,693,741</u> | <u>\$ 239,003</u>                           |

**TOWN OF ELKTON, VIRGINIA**  
**GENERAL FUND**  
**STATEMENT OF EXPENDITURES, COMPARED TO BUDGET**  
**Year Ended June 30, 2019**

|  | <b>Original<br/>and<br/>Final<br/>Budget</b> | <b>Actual</b>     | <b>Variance<br/>Positive<br/>(Negative)</b> |
|--|--|-------------------|---|
| <b>GENERAL GOVERNMENT<br/>ADMINISTRATION</b>       |  |                   |   |
| <b>General Government</b>                          |  |                   |   |
| Salaries and wages                                 | \$ 277,277                                   | \$ 226,025        | \$ 51,252                                   |
| Computer support                                   | 21,000                                       | 24,735            | (3,735)                                     |
| Contract labor                                     | 500  | -                 | 500   |
| Conventions and meetings                           | 1,500  | 2,998             | (1,498)                                     |
| Employee benefits                                  | 66,724                                       | 60,504            | 6,220                                       |
| Insurance and surety bonds                         | 110,000                                      | 97,922            | 12,078                                      |
| Professional services                              | 162,500                                      | 196,776           | (34,276)                                    |
| Planning Commission                                | 500  | 43                | 457   |
| Payroll taxes                                      | 23,389                                       | 16,702            | 6,687                                       |
| Repairs and maintenance                            | 9,000  | 5,718             | 3,282                                       |
| Supplies   | 8,500  | 20,321            | (11,821)                                    |
| Telephone and internet                             | 27,750                                       | 30,523            | (2,773)                                     |
| Utilities  | 6,000  | 5,306             | 694   |
| Leases   | 7,000  | 18,840            | (11,840)                                    |
| Return check fees                                  | 6,500  | 8,724             | (2,224)                                     |
| Postage  | 15,000                                       | 16,969            | (1,969)                                     |
| Small equipment                                    | 250  | 573               | (323)                                       |
| Dues   | 1,500  | 1,642             | (142)                                       |
| Special events                                     | 50,000                                       | 10,675            | 39,325                                      |
| Advertising  | 5,000  | 6,303             | (1,303)                                     |
| Vehicle fuel mileage                               | 750  | 579               | 171   |
| Uniforms   | 500  | -                 | 500   |
| Donations  | 2,000  | -                 | 2,000                                       |
| Miscellaneous                                      | 7,165  | 1,967             | 5,198                                       |
|  | <u>\$ 810,305</u>                            | <u>\$ 753,845</u> | <u>\$ 56,460</u>                            |
| <b>Capital Outlay</b>                              |  |                   |   |
| General government                                 | \$ 22,000                                    | \$ 67,772         | \$ (45,772)                                 |
|  | <u>\$ 22,000</u>                             | <u>\$ 67,772</u>  | <u>\$ (45,772)</u>                          |
| <b>Total general government<br/>administration</b> |  |                   |   |
|  | <u>\$ 832,305</u>                            | <u>\$ 821,617</u> | <u>\$ 10,688</u>                            |
| <b>PUBLIC SAFETY</b>                               |  |                   |   |
| <b>Police Department</b>                           |  |                   |   |
| Salaries and wages                                 | \$ 310,197                                   | \$ 294,896        | \$ 15,301                                   |
| Computer support                                   | 6,000  | 3,720             | 2,280                                       |
| Conventions and meetings                           | 2,000  | 126               | 1,874                                       |
| Employee benefits                                  | 75,758                                       | 76,111            | (353)                                       |
| Professional services                              | 3,500  | 1,366             | 2,134                                       |
| Miscellaneous                                      | 1,000  | -                 | 1,000                                       |
| Payroll taxes                                      | 18,987                                       | 20,883            | (1,896)                                     |

(Continued)

## TOWN OF ELKTON, VIRGINIA

**GENERAL FUND**  
**STATEMENT OF EXPENDITURES, COMPARED TO BUDGET**  
**Year Ended June 30, 2019**

|                                | <u>Original<br/>and<br/>Final<br/>Budget</u> | <u>Actual</u>     | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--------------------------------|--|-------------------|---|
| Repairs and maintenance        | \$ 1,000                                     | \$ 366            | \$ 634                                      |
| Supplies                       | 5,000  | 10,438            | (5,438)                                     |
| Telephone and internet         | 2,000  | 1,610             | 390   |
| Insurance                      | 1,000  | -                 | 1,000                                       |
| Uniforms                       | 4,000  | 5,683             | (1,683)                                     |
| Vehicle maintenance            | 18,500                                       | 17,739            | 761   |
| Small equipment                | 3,000  | 526               | 2,474                                       |
| Advertising                    | 300  | 736               | (436)                                       |
| Dues                           | 5,000  | 4,140             | 860   |
| Special events                 | 750  | 202               | 548   |
| Postage                        | 100  | 78                | 22  |
|                                | <u>\$ 458,092</u>                            | <u>\$ 438,620</u> | <u>\$ 19,472</u>                            |
| <b>Other</b>                   |  |                   |   |
| Fire program funds             | \$ -   | \$ 20,000         | \$ (20,000)                                 |
|                                | <u>\$ -</u>                                  | <u>\$ 20,000</u>  | <u>\$ (20,000)</u>                          |
| <b>Capital Outlay</b>          |  |                   |   |
| Public safety                  | \$ 82,000                                    | \$ 56,240         | \$ 25,760                                   |
|                                | <u>\$ 82,000</u>                             | <u>\$ 56,240</u>  | <u>\$ 25,760</u>                            |
| <b>Total public safety</b>     | <u>\$ 540,092</u>                            | <u>\$ 514,860</u> | <u>\$ 25,232</u>                            |
| <b>PUBLIC WORKS</b>            |  |                   |   |
| <b>Maintenance and Streets</b> |  |                   |   |
| Salaries and wages             | \$ 218,728                                   | \$ 205,083        | \$ 13,645                                   |
| Dues                           | 500  | 1,050             | (550)                                       |
| Contract labor                 | 10,000                                       | -                 | 10,000                                      |
| Employee benefits              | 75,898                                       | 68,954            | 6,944                                       |
| Professional services          | 5,000  | 2,788             | 2,212                                       |
| Advertising                    | 500  | 102               | 398   |
| Payroll taxes                  | 14,208                                       | 15,185            | (977)                                       |
| Repairs and maintenance        | 12,500                                       | 8,671             | 3,829                                       |
| Supplies                       | 28,500                                       | 24,306            | 4,194                                       |
| Telephone and internet         | 2,000  | 3,181             | (1,181)                                     |
| Vehicle maintenance            | 10,500                                       | 8,786             | 1,714                                       |
| Small equipment                | 500  | -                 | 500   |
| Uniforms                       | -  | 805               | (805)                                       |
| Miscellaneous                  | 250  | 1,280             | (1,030)                                     |
|                                | <u>\$ 379,084</u>                            | <u>\$ 340,191</u> | <u>\$ 38,893</u>                            |

(Continued)

## TOWN OF ELKTON, VIRGINIA

**GENERAL FUND**  
**STATEMENT OF EXPENDITURES, COMPARED TO BUDGET**  
**Year Ended June 30, 2019**

|                                | <u>Original<br/>and<br/>Final<br/>Budget</u> | <u>Actual</u>     | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--------------------------------|--|-------------------|---|
| <b>Sanitation</b>              |  |                   |   |
| Salaries and wages             | \$ 19,357                                    | \$ 24,161         | \$ (4,804)                                  |
| Employee benefits              | 6,171  | 2,569             | 3,602                                       |
| Payroll taxes                  | 1,481  | 1,852             | (371)                                       |
| Landfill fees                  | 75,000                                       | 60,185            | 14,815                                      |
| Trash removal                  | 150,000                                      | 159,163           | (9,163)                                     |
| Telephone and internet         | 400  | 15                | 385   |
| Advertising                    | 250  | -                 | 250   |
| Supplies                       | 300  | 599               | (299)                                       |
| Vehicle maintenance            | 350  | 468               | (118)                                       |
| Uniforms                       | 250  | -                 | 250   |
|                                | <u>\$ 253,559</u>                            | <u>\$ 249,012</u> | <u>\$ 4,547</u>                             |
| <b>Capital Outlay</b>          |  |                   |   |
| Public works                   | \$ 125,000                                   | \$ 169,037        | \$ (44,037)                                 |
|                                | <u>\$ 125,000</u>                            | <u>\$ 169,037</u> | <u>\$ (44,037)</u>                          |
| <b>Total public works</b>      | <u>\$ 757,643</u>                            | <u>\$ 758,240</u> | <u>\$ (597)</u>                             |
| <b>CULTURAL AND RECREATION</b> |  |                   |   |
| <b>Community Center</b>        |  |                   |   |
| Salaries and wages             | \$ 137,694                                   | \$ 136,820        | \$ 874                                      |
| Conventions and meetings       | 500  | -                 | 500   |
| Employee benefits              | 32,292                                       | 32,258            | 34  |
| Advertising                    | 1,500  | 449               | 1,051                                       |
| Payroll taxes                  | 8,430  | 10,105            | (1,675)                                     |
| Repairs and maintenance        | 18,500                                       | 19,758            | (1,258)                                     |
| Supplies                       | 4,500  | 7,910             | (3,410)                                     |
| Small equipment                | 800  | 828               | (28)  |
| Uniforms                       | 1,000  | 799               | 201   |
| Dues                           | 350  | 60                | 290   |
| Computer support               | 2,400  | 2,200             | 200   |
| Telephone and internet         | 2,750  | 9,283             | (6,533)                                     |
| Professional services          | 10,000                                       | 706               | 9,294                                       |
| Special events                 | 6,000  | 6,713             | (713)                                       |
| Postage                        | 100  | -                 | 100   |
| Contract labor                 | -  | 153               | (153)                                       |
| Resale vending                 | -  | 1,928             | (1,928)                                     |
|                                | <u>\$ 226,816</u>                            | <u>\$ 229,970</u> | <u>\$ (3,154)</u>                           |

(Continued)

**TOWN OF ELKTON, VIRGINIA**  
**GENERAL FUND**  
**STATEMENT OF EXPENDITURES, COMPARED TO BUDGET**  
**Year Ended June 30, 2019**

|                                      | <u>Original<br/>and<br/>Final<br/>Budget</u> | <u>Actual</u>       | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--------------------------------------|--|---------------------|---|
| <b>Recreation</b>                    |  |                     |   |
| Salaries and wages                   | \$ 46,171                                    | \$ 46,076           | \$ 95                                       |
| Contract labor                       | 2,500  | -                   | 2,500                                       |
| Conventions and meetings             | 250  | 15                  | 235   |
| Employee benefits                    | 6,098  | 10,440              | (4,342)                                     |
| Telephone and internet               | 700  | 1,882               | (1,182)                                     |
| Advertising                          | 300  | 304                 | (4)   |
| Payroll taxes                        | 1,428  | 3,485               | (2,057)                                     |
| Repairs and maintenance              | 7,000  | 5,932               | 1,068                                       |
| Supplies                             | 8,100  | 6,607               | 1,493                                       |
| Special events                       | 1,000  | 479                 | 521   |
| Dues                                 | 300  | 60                  | 240   |
| Professional services                | 1,000  | 550                 | 450   |
| Small equipment                      | 300  | 158                 | 142   |
| Vehicle maintenance                  | 1,400  | 1,380               | 20  |
| Postage                              | 25   | -                   | 25  |
|                                      | <u>\$ 76,572</u>                             | <u>\$ 77,368</u>    | <u>\$ (796)</u>                             |
| <b>Capital Outlay</b>                |  |                     |   |
| Community Center                     | \$ 101,000                                   | \$ 52,923           | \$ 48,077                                   |
| Recreation                           | 35,000                                       | 8,245               | 26,755                                      |
|                                      | <u>\$ 136,000</u>                            | <u>\$ 61,168</u>    | <u>\$ 74,832</u>                            |
| <b>Total cultural and recreation</b> | <u>\$ 439,388</u>                            | <u>\$ 368,506</u>   | <u>\$ 70,882</u>                            |
| <b>COMMUNITY DEVELOPMENT</b>         |  |                     |   |
| Economic development                 | <u>\$ 24,000</u>                             | <u>\$ 1,958</u>     | <u>\$ 22,042</u>                            |
| <b>Total community development</b>   | <u>\$ 24,000</u>                             | <u>\$ 1,958</u>     | <u>\$ 22,042</u>                            |
| <b>DEBT SERVICE</b>                  |  |                     |   |
| General obligation bond principal    | \$ 100,000                                   | \$ 100,000          | \$ -  |
| General obligation bond interest     | 17,100                                       | 17,089              | 11  |
| Community Center loan principal      | 88,951                                       | 88,604              | 347   |
| Community Center loan interest       | 41,132                                       | 43,105              | (1,973)                                     |
| Ford Motor credit - principal        | -  | 21,551              | (21,551)                                    |
| Ford Motor credit – interest         | -  | 5,096               | (5,096)                                     |
| Hiram Kite property payment          | <u>74,325</u>                                | <u>74,325</u>       | <u>-</u>                                    |
| <b>Total debt service</b>            | <u>\$ 321,508</u>                            | <u>\$ 349,770</u>   | <u>\$ (28,262)</u>                          |
| <b>Total expenditures</b>            | <u>\$ 2,914,936</u>                          | <u>\$ 2,814,951</u> | <u>\$ 99,985</u>                            |

## TOWN OF ELKTON, VIRGINIA

**ELECTRIC FUND**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET POSITION-BUDGET AND ACTUAL**  
**Year Ended June 30, 2019**

|  | <u>Original<br/>and<br/>Final<br/>Budget</u> | <u>Actual</u>       | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--|--|---------------------|---|
| <b>OPERATING REVENUES</b>                    |  |                     |   |
| Charges for services                         | \$ 1,976,000                                 | \$ 2,017,671        | \$ 41,671                                   |
| Late charges and interest                    | 40,000                                       | 44,812              | 4,812                                       |
| Local consumption tax                        | 6,000  | 6,526               | 526   |
| Connection fees                              | 5,000  | 5,438               | 438   |
| Reconnect fees                               | 5,000  | 5,248               | 248   |
| Service charges                              | 6,000  | 5,634               | (366)                                       |
| Total operating revenues                     | <u>\$ 2,038,000</u>                          | <u>\$ 2,085,329</u> | <u>\$ 47,329</u>                            |
| <b>OPERATING EXPENSES</b>                    |  |                     |   |
| Salaries and wages                           | \$ 165,943                                   | \$ 177,494          | \$ (11,551)                                 |
| Employee benefits                            | 44,985                                       | 48,623              | (3,638)                                     |
| Computer support                             | 6,000  | -                   | 6,000                                       |
| Dues   | 400  | 365                 | 35  |
| Electric power                               | 1,500,000                                    | 1,661,084           | (161,084)                                   |
| Professional services                        | 500  | 100                 | 400   |
| Repairs and maintenance                      | 4,500  | 29,471              | (24,971)                                    |
| Telephone and internet                       | 1,000  | 937                 | 63  |
| Supplies                                     | 15,000                                       | 37,214              | (22,214)                                    |
| Conventions and meetings                     | -  | 312                 | (312)                                       |
| Payroll taxes                                | 12,618                                       | 12,040              | 578   |
| Vehicle maintenance                          | 11,500                                       | 15,129              | (3,629)                                     |
| Depreciation                                 | -  | 50,908              | (50,908)                                    |
| Uniforms                                     | 750  | 117                 | 633   |
| Miss Utility                                 | 125  | 101                 | 24  |
| Total operating expenses                     | <u>\$ 1,763,321</u>                          | <u>\$ 2,033,895</u> | <u>\$ (270,574)</u>                         |
| Operating income                             | <u>\$ 274,679</u>                            | <u>\$ 51,434</u>    | <u>\$ (223,245)</u>                         |
| Income before transfers                      | <u>\$ 274,679</u>                            | <u>\$ 51,434</u>    | <u>\$ (223,245)</u>                         |
| <b>TRANSFERS</b>                             |  |                     |   |
| Transfers in                                 | \$ -   | \$ 19,371           | \$ 19,371                                   |
| Transfers out                                | -  | (2,893)             | (2,893)                                     |
|  | <u>\$ -</u>                                  | <u>\$ 16,478</u>    | <u>\$ 16,478</u>                            |
| Change in net position                       | <u>\$ 274,679</u>                            | <u>\$ 67,912</u>    | <u>\$ (206,767)</u>                         |
| <b>NET POSITION AT BEGINNING<br/>OF YEAR</b> |  |                     |   |
|  | <u>875,825</u>                               | <u>875,825</u>      | <u>-</u>                                    |
| <b>NET POSITION AT END OF YEAR</b>           |  |                     |   |
|  | <u>\$ 1,150,504</u>                          | <u>\$ 943,737</u>   | <u>\$ (206,767)</u>                         |

## TOWN OF ELKTON, VIRGINIA

**WATER FUND**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET POSITION-BUDGET AND ACTUAL**  
**Year Ended June 30, 2019**

|  | <u>Original<br/>and<br/>Final<br/>Budget</u> | <u>Actual</u>       | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--|--|---------------------|---|
| <b>OPERATING REVENUES</b>                    |  |                     |   |
| Charges for services                         | \$ 350,000                                   | \$ 336,754          | \$ (13,246)                                 |
| Connection fees                              | 70,000                                       | 105,500             | 35,500                                      |
| Water haulers                                | 55,000                                       | 45,504              | (9,496)                                     |
| Reconnect fees                               | 5,000  | 4,450               | (550)                                       |
| Service charges                              | 1,500  | 1,754               | 254   |
| Total operating revenues                     | <u>\$ 481,500</u>                            | <u>\$ 493,962</u>   | <u>\$ 12,462</u>                            |
| <b>OPERATING EXPENSES</b>                    |  |                     |   |
| Salaries and wages                           | \$ 109,898                                   | \$ 137,161          | \$ (27,263)                                 |
| Contract labor                               | 500  | -                   | 500   |
| Employee benefits                            | 33,466                                       | 26,904              | 6,562                                       |
| Advertising                                  | 400  | 217                 | 183   |
| Professional services                        | 5,000  | 3,993               | 1,007                                       |
| Repairs and maintenance                      | 5,500  | 5,650               | (150)                                       |
| Telephone and internet                       | 1,000  | 1,539               | (539)                                       |
| Supplies                                     | 30,500                                       | 89,064              | (58,564)                                    |
| Payroll taxes                                | 8,292  | 8,990               | (698)                                       |
| Vehicle maintenance and generator fuel       | 3,750  | 5,862               | (2,112)                                     |
| Depreciation                                 | -  | 103,332             | (103,332)                                   |
| Water testing                                | 2,000  | 1,198               | 802   |
| Miss Utility                                 | 250  | 109                 | 141   |
| Dues   | 3,500  | 450                 | 3,050                                       |
| Postage                                      | -  | 666                 | (666)                                       |
| Equipment rental                             | 500  | -                   | 500   |
| Permit fees                                  | 6,000  | 14,252              | (8,252)                                     |
| Uniforms                                     | 750  | 297                 | 453   |
| Utilities                                    | 22,000                                       | 21,073              | 927   |
| Conventions and meetings                     | 200  | 572                 | (372)                                       |
| Total operating expenses                     | <u>\$ 233,506</u>                            | <u>\$ 421,329</u>   | <u>\$ (187,823)</u>                         |
| Operating income                             | \$ 247,994                                   | \$ 72,633           | \$ (175,361)                                |
| <b>NONOPERATING REVENUE (EXPENSE)</b>        |  |                     |   |
| Interest expense                             | <u>(23,423)</u>                              | <u>(32,425)</u>     | <u>(9,002)</u>                              |
| Income before transfers                      | <u>\$ 224,571</u>                            | <u>\$ 40,208</u>    | <u>\$ (184,363)</u>                         |
| <b>TRANSFERS</b>                             |  |                     |   |
| Transfers in                                 | \$ -   | \$ 26,500           | \$ 26,500                                   |
| Transfers out                                | <u>-</u>                                     | <u>(41,583)</u>     | <u>(41,583)</u>                             |
|  | <u>\$ -</u>                                  | <u>\$ (15,083)</u>  | <u>\$ (15,083)</u>                          |
| Change in net position                       | \$ 224,571                                   | \$ 25,125           | \$ (199,446)                                |
| <b>NET POSITION AT BEGINNING<br/>OF YEAR</b> |  |                     |   |
|  | <u>1,797,989</u>                             | <u>1,797,989</u>    | <u>-</u>                                    |
| <b>NET POSITION AT END OF YEAR</b>           |  |                     |   |
|  | <u>\$ 2,022,560</u>                          | <u>\$ 1,823,114</u> | <u>\$ (199,446)</u>                         |

## TOWN OF ELKTON, VIRGINIA

**SEWER FUND**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET POSITION-BUDGET AND ACTUAL**  
**Year Ended June 30, 2019**

|  | <u>Original<br/>and<br/>Final<br/>Budget</u> | <u>Actual</u>       | <u>Variance<br/>Positive<br/>(Negative)</u> |
|--|--|---------------------|---|
| <b>OPERATING REVENUES</b>                    |  |                     |   |
| Charges for services                         | \$ 650,000                                   | \$ 642,266          | \$ (7,734)                                  |
| Connection fees                              | <u>145,000</u>                               | <u>125,200</u>      | <u>(19,800)</u>                             |
| Total operating revenues                     | <u>\$ 795,000</u>                            | <u>\$ 767,466</u>   | <u>\$ (27,534)</u>                          |
| <b>OPERATING EXPENSES</b>                    |  |                     |   |
| Salaries and wages                           | \$ 108,898                                   | \$ 134,982          | \$ (26,084)                                 |
| Contract labor                               | 3,000  | -                   | 3,000                                       |
| Employee benefits                            | 33,466                                       | 38,472              | (5,006)                                     |
| Insurance                                    | 8,500  | 7,224               | 1,276                                       |
| Advertising                                  | 1,000  | 6,812               | (5,812)                                     |
| Landfill                                     | 30,000                                       | 24,125              | 5,875                                       |
| Permit fees                                  | 8,000  | 8,626               | (626)                                       |
| Professional services                        | 10,000                                       | 43,326              | (33,326)                                    |
| Repairs and maintenance                      | 19,000                                       | 20,622              | (1,622)                                     |
| Telephone and internet                       | 4,500  | 4,973               | (473)                                       |
| Supplies                                     | 30,500                                       | 18,629              | 11,871                                      |
| Postage                                      | 50   | 36                  | 14  |
| Small equipment                              | 500  | -                   | 500   |
| Payroll taxes                                | 8,292  | 10,079              | (1,787)                                     |
| Vehicle maintenance                          | 4,500  | 5,915               | (1,415)                                     |
| Depreciation                                 | -  | 356,333             | (356,333)                                   |
| Uniforms                                     | 750  | 605                 | 145   |
| Miss Utility                                 | 125  | 52                  | 73  |
| Dues   | 750  | 145                 | 605   |
| Water testing                                | 11,000                                       | 13,235              | (2,235)                                     |
| Computer support                             | 5,000  | 10,600              | (5,600)                                     |
| Conventions and meetings                     | 250  | 444                 | (194)                                       |
| Utilities                                    | <u>-</u>                                     | <u>2,474</u>        | <u>(2,474)</u>                              |
| Total operating expenses                     | <u>\$ 288,081</u>                            | <u>\$ 707,709</u>   | <u>\$ (419,628)</u>                         |
| Operating income                             | \$ 506,919                                   | \$ 59,757           | \$ (447,162)                                |
| <b>NONOPERATING REVENUE (EXPENSE)</b>        |  |                     |   |
| Interest expense                             | <u>(63,217)</u>                              | <u>(61,757)</u>     | <u>1,460</u>                                |
| Income (loss) before transfers               | \$ 443,702                                   | \$ (2,000)          | \$ (445,702)                                |
| <b>TRANSFERS</b>                             |  |                     |   |
| Transfers in                                 | <u>-</u>                                     | <u>51,239</u>       | <u>51,239</u>                               |
| Change in net position                       | \$ 443,702                                   | \$ 49,239           | \$ (394,463)                                |
| <b>NET POSITION AT BEGINNING<br/>OF YEAR</b> |  |                     |   |
|  | <u>1,774,057</u>                             | <u>1,774,057</u>    | <u>-</u>                                    |
| <b>NET POSITION AT END OF YEAR</b>           |  |                     |   |
|  | <u>\$ 2,217,759</u>                          | <u>\$ 1,823,296</u> | <u>\$ (394,463)</u>                         |

**TOWN OF ELKTON, VIRGINIA**  
**SCHEDULE OF CAPITAL ADDITIONS**  
**Year Ended June 30, 2019**

**GENERAL FUND**

|  |                          |
|--|--------------------------|
| 2018 Ford F-150                            | \$ 47,978                |
| Terrace Avenue paving                      | 47,956                   |
| Heat pump system                           | 35,637                   |
| Old town hall renovations                  | 30,930                   |
| Ashby Street paving                        | 30,720                   |
| RecTrac software                           | 24,943                   |
| Ferris mowers (2)                          | 18,798                   |
| Water Street paving                        | 17,472                   |
| Hill Avenue paving                         | 15,840                   |
| F Street paving                            | 11,808                   |
| Police radios                              | 8,261                    |
| Asphalt paving - various                   | 7,639                    |
| Concrete sidewalk and ramp, Stonewall Park | 7,300                    |
| Water Street concrete curbs and gutters    | 5,826                    |
| HP business desktop (5)                    | 4,549                    |
| Playground – wood carpet                   | 4,177                    |
| Park benches (6)                           | 4,068                    |
| Riverbank project - engineering            | 4,066                    |
| Meeting room TV & mount                    | 3,615                    |
| Historical Society Sign                    | 3,578                    |
| Heat pump                                  | 3,559                    |
| Body Solid dumbbell set                    | 2,107                    |
| York weight plates                         | 2,058                    |
| Life Fitness smith machine                 | 1,658                    |
| StairMaster stair stepper                  | 1,658                    |
| Concrete, Route 33 - Business              | 1,612                    |
| HP desktop computer                        | 1,424                    |
| Bouncy house                               | 1,350                    |
| Telecom and server                         | 1,188                    |
| Council Chamber audio system               | 1,160                    |
| Octane glider                              | 758                      |
| Hampton weight plate tree                  | 523                      |
| <b>Total general fund</b>                  | <u><u>\$ 354,216</u></u> |

**ELECTRIC FUND**

|                                    |                          |
|------------------------------------|--------------------------|
| Electric meter upgrades            | \$ 200,800               |
| 2001 International 4700 line truck | 13,317                   |
| <b>Total electric fund</b>         | <u><u>\$ 214,117</u></u> |

**WATER FUND**

|                              |                        |
|------------------------------|------------------------|
| Well house pump motor        | \$ 2,581               |
| Berkeley pump 6THM-300       | 2,559                  |
| Pulser transmitter E7000-002 | 2,468                  |
| Fuel master 2500             | 2,197                  |
| <b>Total water fund</b>      | <u><u>\$ 9,805</u></u> |

(Continued)

## TOWN OF ELKTON, VIRGINIA

SCHEDULE OF CAPITAL ADDITIONS  
Year Ended June 30, 2019**SEWER FUND**

|  |                     |
|--|---------------------|
| WWTP: design phase                     | \$ 1,279,980        |
| Water and sewer installation for annex | 19,655              |
| Grinder Liberty pumps (6)              | 10,686              |
| Pump motor                             | 6,526               |
| Sump pump                              | 5,144               |
| Sewage pump                            | 4,577               |
| Pump motor                             | 4,185               |
| VFD pump                               | 3,122               |
| Sump pump                              | 1,761               |
| Sewage probe                           | 1,097               |
| AC drive 3 phase NEMA 4X               | 1,075               |
| Weed eater                             | 378                 |
| <b>Total sewer fund</b>                | <u>\$ 1,338,186</u> |

**CEMETERY FUND**

|                                 |                   |
|---------------------------------|-------------------|
| Asphalt paving                  | \$ 97,500         |
| Northeast boundary line fencing | 4,045             |
| Frazier Quarry masonry          | 1,700             |
| <b>Total cemetery fund</b>      | <u>\$ 103,245</u> |



David W. Black, CPA  
Managing Partner

Christopher R. Montgomery, CPA  
Tax Partner

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

To the Honorable Town Council  
Town of Elkton  
20593 Blue & Gold Drive  
Elkton, VA 22827

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the fiduciary fund of the Town of Elkton, Virginia, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town of Elkton's basic financial statements, and have issued our report thereon dated November 20, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town of Elkton's internal control over financial reporting (internal control) to determine the 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 of Elkton's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Elkton'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.

**Young, Nicholas, Branner & Phillips, LLP**  
Certified Public Accountants

Located at 1041 South High Street  
Mailing P.O. Box 2187  
Harrisonburg, VA 22801-9506  
(540) 433-2581 • FAX (540) 433-0147

**Retired Partners**

Edward M. Young, CPA  
Jack D. Nicholas, CPA  
J. Robert Branner, CPA  
Richard E. Phillips, CPA

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. However, we identified certain deficiencies in internal control that we consider to be material weaknesses.

1. Proper internal control is not always possible due to the relatively small number of persons involved in processing transactions. We recognize that because of the small size of the Town, it may not be economically feasible to have adequate segregation of duties but we are required to report this condition under our professional responsibilities.

The Town has segregated certain duties of its employees to help prevent or promptly detect errors in financial reporting. The employees appear to perform their duties in a structured and conscientious manner. The problem is that with a small staff, it is hard to totally divide the functions of executing a transaction, recording the transaction, and keeping custody of the assets.

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

2. The management and staff of the Town lack the expertise to reconcile certain accounts, maintain depreciation schedules, and make all adjusting entries necessary to prepare financial statements in accordance with generally accepted accounting standards. As a result of this deficiency in internal control, the Town's financial statements may be misstated without the assistance and expertise of a third party.

The management of the Town has enlisted our firm to provide basic accounting assistance such as reconciling certain accounts, maintaining depreciation schedules, and proposing journal entries. Professional standards indicate that it is acceptable for the auditor to perform such nonaudit services providing independence is not impaired. However, the auditor cannot be considered part of the Town's internal control and this matter is required to be communicated to you.

Management believes this practice to be acceptable and cost beneficial to the Town.

3. The management and staff of the Town lack the expertise to prepare financial statements in accordance with generally accepted accounting standards. As a result of this deficiency in internal control, the Town's financial statements may be misstated without the assistance and expertise of a third party.

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

Management believes this practice to be acceptable and cost beneficial to the Town.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Elkton'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Response to Findings**

The Town of Elkton's response to the findings identified in our audit is described under the material weaknesses and significant deficiency reported on the previous page. The Town of Elkton's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

*Yeung, Nicholas, Branner & Phillips, LLP*

Harrisonburg, VA  
November 20, 2019