TOWN OF ELKTON, VIRGINIA

FINANCIAL AND COMPLIANCE REPORTS

JUNE 30, 2019

CONTENTS

YNBP & Company

David W. Black, CPA
Managing Partner

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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

Harrisonburg, VA
November 20, 2019

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 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 of resources	$ 285,278	$ 315,574	$ 10,145	$ 22,443	$ 295,423	$ 338,017
Net position:						
Net investment in 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.

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues						
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	$ 2,664,109	$ 2,645,653	$ 3,346,757	$ 3,181,099	$ 6,010,866	$ 5,826,752
Program expenses						
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	$ 2,379,271	$ 2,387,330	$ 3,162,933	$ 2,763,133	$ 5,542,204	$ 5,150,463
Operating income	$ 284,838	$ 258,323	$ 183,824	$ 417,966	$ 468,662	$ 676,289
Nonoperating						
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	$ (59,086)	$ (121,727)	$ (94,182)	$ (106,792)	$ (153,268)	$ (228,519)
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	$ 172,436	$(1,303,560)	$ 142,276	$ 1,749,195	$ 314,712	$ 445,635

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:

Account	Variance Positive (Negative)
Revenues	
Street and highway maintenance	$ 96,812
Meals tax	58,001
Motor vehicle licenses	54,300
Local sales and use taxes	26,317
Expenditures	
General Government Administration	
Salaries and wages	$ 51,252
Special events	39,325
Capital outlay	(45,772)
Professional services	(34,276)
Public Safety	
Capital outlay	25,760
Salaries and wages	15,301
Fire program funds	(20,000)
Supplies	(5,438)
Public Works - Maintenance and Streets	
Salaries and wages	13,645
Contract labor	10,000
Employee benefits	6,944
Supplies	4,194
Public Works – Sanitation	
Landfill fees	14,815
Trash removal	(9,163)
Public Works – Capital Outlays	(44,037)
Cultural & Recreation - Community Center	
Capital outlay	48,077
Professional services	9,294
Telephone and internet	(6,533)
Supplies	(3,410)
Cultural & Recreation - Recreation	
Capital outlay	26,755
Contract labor	2,500
Supplies	1,493
Employee benefits	(4,342)
Community Development	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 rehabitation 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 Activities		Business-Type 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 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	$ 5,981,472	$ 5,903,974	$10,450,125	$ 9,398,590	$ 16,431,597	$ 15,302,564

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
	$ 1,718,599

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	Outstanding June 30, 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
	$ 1,318,677	$ 1,603,158

Business-Type Activities

	Outstanding June 30, 2019	Outstanding June 30, 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
	$ 6,995,126	$ 6,093,248

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		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	$ 1,327,178	$ 1,071,469	$ 2,398,647
Receivables, net of allowances for uncollectible amounts:			
Property taxes	388,727	-	388,727
Accounts and other	20,682	287,281	307,963
Due from other governmental units 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	4,909,659	9,109,434	14,019,093
Total assets	$ 8,107,477	$ 11,994,657	$ 20,102,134
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension amounts	$ 129,608	$ 67,343	$ 196,951
Deferred OPEB amounts, life insurance	10,104	5,869	15,973
Total deferred outflows of resources	$ 139,712	$ 73,212	$ 212,924
LIABILITIES			
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	52,784	30,660	83,444
Total liabilities	$ 1,810,898	$ 7,467,577	$ 9,278,475
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	$ 258,525	$ -	$ 258,525
Deferred pension amounts	20,544	6,537	27,081
Deferred OPEB amounts, life insurance	6,209	3,608	9,817
Total deferred inflows of resources	$ 285,278	$ 10,145	$ 295,423
NET POSITION			
Net investment in capital assets	$ 4,649,181	$ 3,421,911	$ 8,071,092
Unrestricted	1,501,832	1,168,236	2,670,068
Total net position	$ 6,151,013	$ 4,590,147	$ 10,741,160

See Notes to Financial Statements.

TOWN OF ELKTON, VIRGINIA

STATEMENT OF ACTIVITIES
Year Ended June 30, 2019

Functions/ Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government:				
Governmental activities:				
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	62,193	-	-	-
Total governmental activities	$ 2,441,464	$ 356,602	$ 609,728	$ 66,500
Business-type activities:				
Electric	$ 2,033,895	$ 2,085,329	$ -	$ -
Water	453,754	493,962	-	-
Sewer	769,466	767,466	-	-
Total business-type activities	$ 3,257,115	$ 3,346,757	$ -	$ -
Total primary government	$ 5,698,579	$ 3,703,359	$ 609,728	$ 66,500

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.

Net (Expense) Revenue and Changes in Net Position		
------------ Primary Government -----------		
Governmental Activities	Business-Type Activities	Total
$ (798,811)	$ -	$ (798,811)
(396,992)	-	(396,992)
(22,873)	-	(22,873)
(125,807)	-	(125,807)
(1,958)	-	(1,958)
(62,193)	-	(62,193)
$ (1,408,634)	$ -	$ (1,408,634)
$ -	$ 51,434	$ 51,434
-	40,208	40,208
-	(2,000)	(2,000)
$ -	$ 89,642	$ 89,642
$ (1,408,634)	$ 89,642	$ (1,318,992)
$ 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
(53,316)	52,634	(682)
$ 1,581,070	$ 52,634	$ 1,633,704
$ 172,436	$ 142,276	$ 314,712
5,978,577	4,447,871	10,426,448
$ 6,151,013	$ 4,590,147	$ 10,741,160

Fund Financial Statements

TOWN OF ELKTON, VIRGINIA

----GOVERNMENTAL FUND----
BALANCE SHEET
June 30, 2019

	General Fund
ASSETS	
Cash and cash equivalents	$ 1,327,178
Receivables (net of allowance 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	11,238
Total assets	$ 2,126,005
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	
Liabilities	
Accounts payable	$ 55,914
Accrued liabilities	74,557
Total liabilities	$ 130,471
Deferred Inflows of Resources	
Unavailable revenue	$ 386,679
Total deferred inflows of resources	$ 386,679
Fund Balance	
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	1,351,495
Total fund balance	$ 1,608,855
Total liabilities, deferred inflows of resources, and fund balance	$ 2,126,005

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

FUND BALANCE-TOTAL GOVERNMENTAL FUND		$ 1,608,855
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund.		
Governmental capital assets	$ 8,558,125	
Less accumulated depreciation	(2,576,653)	5,981,472
Certain revenues not available to pay for current period expenditures are not reported in the governmental fund.		
Deferred revenues	$ 128,154	128,154
Deferred outflows of resources for deferred pension and OPEB amounts.	$ 139,713	139,713
Deferred inflows of resources for deferred pension and OPEB amounts.	$ (26,754)	(26,754)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental fund.		
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	(101,775)	(1,680,427)
NET POSITION OF GOVERNMENTAL ACTIVITIES		$ 6,151,013

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

	General Fund
REVENUES	
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	$ 2,693,741
EXPENDITURES	
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	$ 2,814,951
Excess (deficiency) of revenues over expenditures	$ (121,210)
OTHER FINANCING SOURCES (USES)	
Transfers in	$ 3,716
Transfers out	(57,032)
Total other financing sources (uses)	$ (53,316)
Net change in fund balance	$ (174,526)
FUND BALANCE AT BEGINNING OF YEAR	1,783,381
FUND BALANCE AT END OF YEAR	$ 1,608,855

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
	Electric	Water	Sewer	Total Enterprise Funds
ASSETS				
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 doubtful accounts of $71,860, $3,979, 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	$ 958,518	$ 551,579	$ 34,435	$ 1,544,532
Noncurrent assets:				
Capital assets:				
Land	$ -	$ 41,056	$ -	$ 41,056
Utility plants, distribution and 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	(806,486)	(1,647,235)	(3,045,514)	(5,499,235)
Total noncurrent assets	$ 266,057	$ 1,804,499	$ 8,379,569	$10,450,125
Total assets	$ 1,224,575	$ 2,356,078	$ 8,414,004	$11,994,657
DEFERRED OUTFLOWS OF RESOURCES				
Deferred pension amounts	$ 22,148	$ 19,092	$ 26,103	$ 67,343
Deferred OPEB amounts, life insurance	2,340	1,781	1,748	5,869
Total deferred outflows of resources	$ 24,488	$ 20,873	$ 27,851	$ 73,212
LIABILITIES				
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	$ 257,479	$ 53,897	$ 377,935	$ 689,311
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	$ 47,981	$ 495,726	$ 6,234,559	$ 6,778,266
Total liabilities	$ 305,460	$ 549,623	$ 6,612,494	$ 7,467,577

(Continued)

TOWN OF ELKTON, VIRGINIA

---- PROPRIETARY FUNDS ----
STATEMENTS OF NET POSITION
June 30, 2019

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

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 Enterprise Funds
	Electric	Water	Sewer	
OPERATING REVENUES				
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	$ 2,085,329	$ 493,962	$ 767,466	$ 3,346,757
OPERATING EXPENSES				
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	$ 2,033,895	$ 421,329	$ 707,709	$ 3,162,933
Operating income	$ 51,434	$ 72,633	$ 59,757	$ 183,824
NONOPERATING REVENUE (EXPENSE)				
Interest expense	$ -	$ (32,425)	$ (61,757)	$ (94,182)
Income before transfers	$ 51,434	$ 40,208	$ (2,000)	$ 89,642

(Continued)

TOWN OF ELKTON, VIRGINIA

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

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

See Notes to Financial Statements.

TOWN OF ELKTON, VIRGINIA

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

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

(Continued)

TOWN OF ELKTON, VIRGINIA

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

	--------- Enterprise Funds --------			Total Enterprise Funds
	Electric	Water	Sewer	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	$ 51,434	$ 72,633	$ 59,757	$ 183,824
Adjustments to reconcile operating income (loss) to net cash provided by (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 receivable	(1,758)	(902)	(2,295)	(4,955)
(Increase) decrease in prepaid expenses	-	-	(1,000)	(1,000)
Increase (decrease) in accounts payable and accrued expenses	(7,410)	(83,143)	450	(90,103)
Increase (decrease) in deposits	2,071	-	-	2,071
Net cash provided by (used in) operating activities	$ 103,300	$ 100,183	$ 412,595	$ 616,078

See Notes to Financial Statements.

TOWN OF ELKTON, VIRGINIA

----FIDUCIARY FUND----
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2019

	Cemetery Fund
ASSETS	
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	(126,709)
Total assets	$ 723,878
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pension amounts	$ 2,880
Deferred OPEB amounts, life insurance	298
Total deferred outflows of resources	$ 3,178
LIABILITIES	
Accrued liabilities	$ 7,271
Due to other funds	273,989
Net pension liability	3,697
Net OPEB liability, life insurance	1,556
Total liabilities	$ 286,513
DEFERRED INFLOWS OF RESOURCES	
Deferred pension amounts	$ (90)
Deferred OPEB amounts, life insurance	183
Total deferred inflows of resources	$ 93
NET POSITION	$ 440,450

See Notes to Financial Statements.

TOWN OF ELKTON, VIRGINIA

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

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

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 determine 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:

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

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:

	Budget Original	Budget Final	Actual
CEMETERY FUND			
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	(25,383)	(25,383)	(50,332)
	$ (139,590)	$ (139,590)	$ (43,380)

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:

	Carrying Amount	Bank Balance
General		
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
Electric		
Checking (Bank of America)	634,761	634,761
Water		
Checking (Bank of America)	480,348	480,348
Sewer		
Checking (Bank of America)	(43,640)	(43,640)
Cemetery		
Checking (Bank of America)	36,465	36,465
Savings (Bank of America)	115,716	115,716
Total reporting entity	$ 2,550,828	$ 2,569,520

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

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	78,282
	$ 96,520

Note 6. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	$ 1,071,813	$ -	$ -	$ 1,071,813
Construction in progress	149,452	-	(149,452)	-
Total capital assets not being depreciated	$ 1,221,265	$ -	$ (149,452)	$ 1,071,813

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
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	2,200,431	150,239	-	2,350,670
Total capital assets being depreciated	$ 7,088,205	$ 503,668	$ (105,561)	$ 7,486,312
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	393,861	57,458	-	451,319
Total accumulated depreciation	$ 2,405,496	$ 270,848	$ (99,691)	$ 2,576,653
Total capital assets being depreciated, net	$ 4,682,709	$ 232,820	$ (5,870)	$ 4,909,659
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	$ 5,903,974	$ 232,820	$ (155,322)	$ 5,981,472

BUSINESS-TYPE ACTIVITIES

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	$ 41,056	$ -	$ -	$ 41,056
Construction in progress	-	1,299,635	-	1,299,635
Total capital assets not being depreciated	$ 41,056	$ 1,299,635	$ -	$ 1,340,691
Capital assets being depreciated				
Utility system	$13,498,721	$ 7,338	$ -	$ 13,506,059
Machinery and equipment	849,310	255,136	(1,837)	1,102,609
Total capital assets being depreciated	$14,348,031	$ 262,474	$ (1,837)	$ 14,608,668
Less accumulated depreciation for				
Utility system	$ 4,313,220	$ 459,670	$ -	$ 4,772,890
Machinery and equipment	677,277	50,904	(1,837)	726,344
Total accumulated depreciation	$ 4,990,497	$ 510,574	$ (1,837)	$ 5,499,234
Total capital assets being depreciated, net	$ 9,357,534	$ (248,100)	$ -	$ 9,109,434
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	$ 9,398,590	$ 1,051,535	$ -	$ 10,450,125

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets (Continued)

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

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	140,088
Total depreciation expense-governmental activities	$ 270,849
BUSINESS-TYPE ACTIVITIES	
Electric	$ 50,908
Water	103,332
Sewer	356,333
Total depreciation expense-business-type activities	$ 510,573
FIDUCIARY-TYPE ACTIVITIES	
Cemetery	$ 9,434
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

	General Fund
Unavailable revenue:	
Property taxes billed in fiscal year 2020	$ 258,525
Uncollected property tax billing	128,154
	$ 386,679

Government-Wide Statements

	Governmental Activities
Unavailable revenue:	
Property taxes billed in fiscal year 2020	$ 258,525
	$ 258,525

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.

	Beginning Balances	Additions	Reductions	Ending Balances	Due within One Year
Governmental-type activities					
General Fund					
Bonds payable:					
United Bank	$ 250,000	$ -	$ (50,000)	$ 200,000	$ 50,000
Farmers and Merchants 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	93,510	-	(21,551)	71,959	22,725
	$1,603,158	$ -	$ (284,481)	$ 1,318,677	$ 215,706

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Debt (Continued)

	Beginning Balances	Additions	Reductions	Ending Balances	Due within One Year
Business-type activities					
Water Fund					
Bond payable:					
Virginia Municipal League	$ 505,000	$ -	$ (20,000)	$ 485,000	$ 20,000
Sewer Fund					
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	-
	$6,093,248	$ 1,243,041	$ (341,163)	$ 6,995,126	$ 343,784

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 United Bank		Bonds 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	-	-
	$ 200,000	$ 15,200	$ 199,990	$ 15,200	$ 71,959	$ 7,982

	Community Center Loan 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
	$ 846,728	$ 161,720	$ 1,318,677	$ 200,102

Business-Type Activities

	Virginia Municipal League		Virginia Resources Authority		Virginia Resources 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
	$ 970,000	$ 455,499	$ 1,434,533	$ -	$ 3,317,477	$ 348,484

	Rural Development		Totals	
	Principal	Interest	Principal	Interest
2020	$ 16,549	$ 1,127	$ 343,784	$ 82,319
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
	$ 30,075	$ 1,419	$ 5,752,085	$ 805,402

NOTES TO FINANCIAL STATEMENTS

Note 9. Interfund Transfers

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

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

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 PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
About VRS Plan 1 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.	**About VRS Plan 2** 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.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • 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. • 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.

NOTES TO FINANCIAL STATEMENTS

Note 10. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Eligible Members 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. **Hybrid Opt-In Election** 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. The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. 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.	**Eligible Members** 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. **Hybrid Opt-In Election** 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. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. 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.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Political subdivision employees* • 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 ***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees 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.
Retirement Contributions 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.	**Retirement Contributions** Same as Plan 1.	**Retirement Contributions** 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.

NOTES TO FINANCIAL STATEMENTS

Note 10. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Creditable Service 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.	**Creditable Service** Same as Plan 1.	**Creditable Service** **Defined Benefit Component:** 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. **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
Vesting 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. Members are always 100% vested in the contributions that they make.	**Vesting** Same as VRS Plan 1.	**Vesting** **Defined Benefit Component:** 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. **Defined Contributions Component:** 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. Members are always 100% vested in the contributions that they make. 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. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.

NOTES TO FINANCIAL STATEMENTS

Note 10. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Calculating the Benefit 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. 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.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** See definition under Plan 1. **Defined Contribution Component:** 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.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier 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.	**Service Retirement Multiplier** Same as Plan1 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.	**Service Retirement Multiplier** **Defined Benefit Component:** The retirement multiplier for the defined benefit component is 1.0%. 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. **Defined Contribution Component:** Not applicable.
Normal Retirement Age **VRS:** Age 65. **Political subdivisions hazardous duty employees:** Age 60.	**Normal Retirement Age** **VRS:** Normal Social Security retirement age. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Normal Retirement Age** **Defined Benefit Component:** **VRS:** Same as Plan 2. **Political subdivision hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility **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. **Political subdivisions hazardous duty employees:** 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.	**Earliest Unreduced Retirement Eligibility** **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. **Political subdivisions hazardous duty employees:** 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.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** **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. **Political subdivision hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

NOTES TO FINANCIAL STATEMENTS

Note 10. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Earliest Reduced Retirement Eligibility **VRS:** 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. **Political subdivisions hazardous duty employees:** 50 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. **Political subdivision hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement 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%. **Eligibility:** 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. 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. **Exceptions to COLA Effective Dates:** The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • 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. • 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.	**Cost-of-Living Adjustment (COLA) in Retirement** 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%. **Eligibility:** Same as Plan 1. **Exceptions to COLA Effective Dates:** Same as Plan 1.	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable. **Eligibility:** Same as Plan 1 and VRS Plan 2. **Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.

NOTES TO FINANCIAL STATEMENTS

Note 10. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Disability Coverage 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. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** 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. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** 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. 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.
Purchase of Prior Service 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.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **Defined Benefit Component:** Same as Plan 1, with the following exception: • Hybrid Retirement Plan members are ineligible for ported service. **Defined Contribution Component:** Not applicable.

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:

	Number
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	31
Total inactive members	47
Active members	26
Total covered employees	113

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:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
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	15.00%	9.53%	1.43%
Total	100.00%		4.80%
	Inflation		2.50%
	*Expected arithmetic nominal return		7.30%

* 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 Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (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 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 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 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 of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 85,248	$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	26,990
Employer contributions subsequent to the measurement 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:

Year ended June 30,	
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: o Accidental dismemberment benefit o Safety belt benefit o Repatriation benefit o Felonious assault benefit o 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
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	6,271	-
Total	$ 16,271	$ 10,000

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	-

<u>Actuarial Assumptions</u>

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.

<u>Mortality rates – Non-Largest Ten Locality Employers - General Employees</u>

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%

<u>Mortality rates – Non-Largest Ten Locality Employers – Hazardous Duty Employees</u>

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):

	Group Life Insurance OPEB Program
Total GLI OPEB Liability	$ 3,113,508
Plan Fiduciary Net Position	(1,594,773)
Employers' Net GLI OPEB Liability (Asset)	$ 1,518,735
Plan Fiduciary Net Position as a Percentage 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:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
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	15.00%	9.53%	1.43%
Total	100%		4.80%
	Inflation		2.50%
	*Expected arithmetic nominal return		7.30%

* 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:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Employer's proportionate share of the Group Life Insurance 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

	Orignial and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
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	$ 2,454,738	$ 2,693,741	$ 239,003
EXPENDITURES			
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	$ 2,914,936	$ 2,814,951	$ 99,985
Excess (deficiency) of revenues over expenditures	$ (460,198)	$ (121,210)	$ 338,988
OTHER FINANCING SOURCES (USES)			
Transfers in	$ -	$ 3,716	$ 3,716
Transfers out	-	(57,032)	(57,032)
Total other financing sources (uses)	$ -	$ (53,316)	$ (53,316)
Net change in fund balance	$ (460,198)	$ (174,526)	$ 285,672
FUND BALANCE AT BEGINNING OF YEAR	1,783,381	1,783,381	-
FUND BALANCE AT END OF YEAR	$ 1,323,183	$ 1,608,855	$ 285,672

TOWN OF ELKTON, VIRGINIA

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

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

	2018	2017	2016	2015	2014
Total pension liability					
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 and actual experience	171,358	36,794	(105,191)	(15,846)	-
Changes in assumptions	-	(10,557)	-	-	-
Benefit Payments, including refunds of employee contributions	(212,108)	(265,218)	(196,988)	(173,244)	(185,356)
Net change in total pension liability	300,772	87,123	32,936	147,489	142,047
Total pension liability - beginning	3,617,512	3,530,389	3,497,453	3,349,964	3,207,917
Total pension liability - ending (a)	$ 3,918,284	$ 3,617,512	$ 3,530,389	$ 3,497,453	$ 3,349,964
Plan fiduciary net position					
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 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
Net change in plan fiduciary net position	164,784	224,095	(5,372)	105,444	374,977
Plan fiduciary net position - beginning	3,459,962	3,235,867	3,241,239	3,135,795	2,760,818
Plan fiduciary net position - ending (b)	$ 3,624,746	$ 3,459,962	$ 3,235,867	$ 3,241,239	$ 3,135,795
Political subdivision's net pension (asset) liability - ending (a) - (b)	$ 293,538	$ 157,550	$ 294,522	$ 256,214	$ 214,169
Plan fiduciary net position as a percentage of the total pension liability	92.51%	95.64%	91.66%	92.67%	93.61%
Covered payroll	$ 1,159,329	$ 1,108,821	$ 1,063,401	$ 1,041,178	$ 935,652
Political subdivision's net pension (asset) liability as a percentage of covered payroll	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	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
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

	2018	2017
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) 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

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
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

	Original and Final Budget	Actual	Variance Positive (Negative)
GENERAL PROPERTY TAXES			
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
	$ 287,403	$ 260,919	$ (26,484)
OTHER LOCAL TAXES			
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)
	$ 1,228,500	$ 1,350,017	$ 121,517
PERMITS, PRIVILEGE FEES AND REGULATORY LICENSES			
Permits	$ 3,000	$ 3,030	$ 30
	$ 3,000	$ 3,030	$ 30
FINES AND FORFEITURES	$ 12,700	$ 9,430	$ (3,270)
	$ 12,700	$ 9,430	$ (3,270)
REVENUE FROM THE USE OF MONEY AND PROPERTY			
Sale of property	$ 2,500	$ -	$ (2,500)
Interest on bank deposits	-	8,977	8,977
Land rental	2,000	2,140	140
	$ 4,500	$ 11,117	$ 6,617
CHARGES FOR SERVICES			
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
	$ 333,950	$ 344,142	$ 10,192
MISCELLANEOUS			
Contributions – Donations - playground	$ -	$ 1,101	$ 1,101
Contributions - Community Center	-	7,871	7,871
Other	1,500	7,183	5,683
	$ 1,500	$ 16,155	$ 14,655

(Continued)

TOWN OF ELKTON, VIRGINIA

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

	Original and Final Budget	Actual	Variance Positive (Negative)
INTERGOVERNMENTAL REVENUES			
County			
Community Center funds	$ 66,500	$ 66,500	$ -
	$ 66,500	$ 66,500	$ -
Commonwealth			
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	-
	$ 515,185	$ 632,431	$ 117,246
Federal			
Police block grants, passed through Department of Criminal Justice Services	$ 1,500	$ -	$ (1,500)
	$ 1,500	$ -	$ (1,500)
Total revenues	$ 2,454,738	$ 2,693,741	$ 239,003

TOWN OF ELKTON, VIRGINIA

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

	Original and Final Budget	Actual	Variance Positive (Negative)
GENERAL GOVERNMENT ADMINISTRATION			
General Government			
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
	$ 810,305	$ 753,845	$ 56,460
Capital Outlay			
General government	$ 22,000	$ 67,772	$ (45,772)
	$ 22,000	$ 67,772	$ (45,772)
Total general government administration	$ 832,305	$ 821,617	$ 10,688
PUBLIC SAFETY			
Police Department			
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

	Original and Final Budget	Actual	Variance Positive (Negative)
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
	$ 458,092	$ 438,620	$ 19,472
Other			
Fire program funds	$ -	$ 20,000	$ (20,000)
	$ -	$ 20,000	$ (20,000)
Capital Outlay			
Public safety	$ 82,000	$ 56,240	$ 25,760
	$ 82,000	$ 56,240	$ 25,760
Total public safety	$ 540,092	$ 514,860	$ 25,232
PUBLIC WORKS			
Maintenance and Streets			
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)
	$ 379,084	$ 340,191	$ 38,893

(Continued)

TOWN OF ELKTON, VIRGINIA

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

	Original and Final Budget	Actual	Variance Positive (Negative)
Sanitation			
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
	$ 253,559	$ 249,012	$ 4,547
Capital Outlay			
Public works	$ 125,000	$ 169,037	$ (44,037)
	$ 125,000	$ 169,037	$ (44,037)
Total public works	$ 757,643	$ 758,240	$ (597)
CULTURAL AND RECREATION			
Community Center			
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)
	$ 226,816	$ 229,970	$ (3,154)

(Continued)

TOWN OF ELKTON, VIRGINIA

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

	Original and Final Budget	Actual	Variance Positive (Negative)
Recreation			
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
	$ 76,572	$ 77,368	$ (796)
Capital Outlay			
Community Center	$ 101,000	$ 52,923	$ 48,077
Recreation	35,000	8,245	26,755
	$ 136,000	$ 61,168	$ 74,832
Total cultural and recreation	$ 439,388	$ 368,506	$ 70,882
COMMUNITY DEVELOPMENT			
Economic development	$ 24,000	$ 1,958	$ 22,042
Total community development	$ 24,000	$ 1,958	$ 22,042
DEBT SERVICE			
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	74,325	74,325	-
Total debt service	$ 321,508	$ 349,770	$ (28,262)
Total expenditures	$ 2,914,936	$ 2,814,951	$ 99,985

TOWN OF ELKTON, VIRGINIA

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

	Original and Final Budget	Actual	Variance Positive (Negative)
OPERATING REVENUES			
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	$ 2,038,000	$ 2,085,329	$ 47,329
OPERATING EXPENSES			
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	$ 1,763,321	$ 2,033,895	$ (270,574)
Operating income	$ 274,679	$ 51,434	$ (223,245)
Income before transfers	$ 274,679	$ 51,434	$ (223,245)
TRANSFERS			
Transfers in	$ -	$ 19,371	$ 19,371
Transfers out	-	(2,893)	(2,893)
	$ -	$ 16,478	$ 16,478
Change in net position	$ 274,679	$ 67,912	$ (206,767)
NET POSITION AT BEGINNING OF YEAR	875,825	875,825	-
NET POSITION AT END OF YEAR	$ 1,150,504	$ 943,737	$ (206,767)

TOWN OF ELKTON, VIRGINIA

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

	Original and Final Budget	Actual	Variance Positive (Negative)
OPERATING REVENUES			
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	$ 481,500	$ 493,962	$ 12,462
OPERATING EXPENSES			
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	$ 233,506	$ 421,329	$ (187,823)
Operating income	$ 247,994	$ 72,633	$ (175,361)
NONOPERATING REVENUE (EXPENSE)			
Interest expense	(23,423)	(32,425)	(9,002)
Income before transfers	$ 224,571	$ 40,208	$ (184,363)
TRANSFERS			
Transfers in	$ -	$ 26,500	$ 26,500
Transfers out	-	(41,583)	(41,583)
	$ -	$ (15,083)	$ (15,083)
Change in net position	$ 224,571	$ 25,125	$ (199,446)
NET POSITION AT BEGINNING OF YEAR	1,797,989	1,797,989	-
NET POSITION AT END OF YEAR	$ 2,022,560	$ 1,823,114	$ (199,446)

TOWN OF ELKTON, VIRGINIA

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

	Original and Final Budget	Actual	Variance Positive (Negative)
OPERATING REVENUES			
Charges for services	$ 650,000	$ 642,266	$ (7,734)
Connection fees	145,000	125,200	(19,800)
Total operating revenues	$ 795,000	$ 767,466	$ (27,534)
OPERATING EXPENSES			
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	-	2,474	(2,474)
Total operating expenses	$ 288,081	$ 707,709	$ (419,628)
Operating income	$ 506,919	$ 59,757	$ (447,162)
NONOPERATING REVENUE (EXPENSE)			
Interest expense	(63,217)	(61,757)	1,460
Income (loss) before transfers	$ 443,702	$ (2,000)	$ (445,702)
TRANSFERS			
Transfers in	-	51,239	51,239
Change in net position	$ 443,702	$ 49,239	$ (394,463)
NET POSITION AT BEGINNING OF YEAR	1,774,057	1,774,057	-
NET POSITION AT END OF YEAR	$ 2,217,759	$ 1,823,296	$ (394,463)

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
Total general fund	$	354,216
ELECTRIC FUND		
Electric meter upgrades	$	200,800
2001 International 4700 line truck		13,317
Total electric fund	$	214,117
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
Total water fund	$	9,805

(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
Total sewer fund	$	1,338,186
CEMETERY FUND		
Asphalt paving	$	97,500
Northeast boundary line fencing		4,045
Frazier Quarry masonry		1,700
Total cemetery fund	$	103,245

YNBP & Company

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

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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.

Young, Nicholas, Branner & Phillips, LLP

Harrisonburg, VA
November 20, 2019