

TOWN OF ELKTON, VIRGINIA
FINANCIAL AND COMPLIANCE REPORTS
JUNE 30, 2020

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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, and each major fund of the Town of Elkton, Virginia, as of and for the year ended June 30, 2020, 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, and each major fund of the Town of Elkton, Virginia, as of June 30, 2020, 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 December 30, 2020, on our consideration of the Town of Elkton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Elkton's internal control over financial reporting and compliance.

Young, Nicholas, Branner & Phillips, LLP

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Town of Elkton's financial performance provides an overview of the Town's financial activities for the year ended June 30, 2020. 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 \$11,585,535 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 \$57,430, and net position of the governmental activities increased by \$346,495.
- In the Town's business-type activities, operating revenues decreased by \$262,024 from the previous year and operating expenses decreased by \$223,579.
- In the Town's governmental activities, operating revenues increased by \$545,022 from the previous year and operating expenses increased by \$392,980.
- Actual revenues were \$266,385 more than budgeted for the General Fund. General Fund expenditures were \$300,142 more than budgeted.
- Operating revenues were \$129,321 less than budgeted for the Electric Fund. Electric Fund operating expenses, excluding depreciation, were \$223,396 less than budgeted.
- Operating revenues were \$46,801 less than budgeted for the Water Fund. Water Fund operating expenses, excluding depreciation, were \$989 more than budgeted.
- Operating revenues were \$117,645 less than budgeted for the Sewer Fund. Sewer Fund operating expenses, excluding depreciation, were \$345,522 less than budgeted.
- The Town spent \$1,078,776 for capital additions during the current fiscal year.
- The Town's long-term debt increased by \$23,888 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 A WHOLE

The Town's *combined* net position changed significantly from a year ago - *increasing* from \$10,741,160 to \$11,585,535. During the year, the net position of the governmental activities increased by 12.79 percent and the business-type activities increased by 1.25 percent. Below is a summary of the net position as of June 30, 2020 and 2019.

	NET POSITION					
	Governmental Activities		Business-Type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 1,946,242	\$ 2,126,005	\$ 2,017,744	\$ 1,544,532	\$ 3,963,986	\$ 3,670,537
Capital assets	<u>6,996,509</u>	<u>5,981,472</u>	<u>10,314,084</u>	<u>10,450,125</u>	<u>17,310,593</u>	<u>16,431,597</u>
Total assets	<u>\$ 8,942,751</u>	<u>\$ 8,107,477</u>	<u>\$ 12,331,828</u>	<u>\$ 11,994,657</u>	<u>\$ 21,274,579</u>	<u>\$ 20,102,134</u>
Total deferred outflow of resources	<u>\$ 128,387</u>	<u>\$ 139,712</u>	<u>\$ 65,500</u>	<u>\$ 73,212</u>	<u>\$ 193,887</u>	<u>\$ 212,924</u>
Long-term liabilities	\$ 1,289,351	\$ 1,565,038	\$ 7,303,426	\$ 7,122,050	\$ 8,592,777	\$ 8,687,088
Other liabilities	<u>402,588</u>	<u>245,860</u>	<u>401,112</u>	<u>345,527</u>	<u>803,700</u>	<u>591,387</u>
Total liabilities	<u>\$ 1,691,939</u>	<u>\$ 1,810,898</u>	<u>\$ 7,704,538</u>	<u>\$ 7,467,577</u>	<u>\$ 9,396,477</u>	<u>\$ 9,278,475</u>
Total deferred inflows of resources	<u>\$ 441,241</u>	<u>\$ 285,278</u>	<u>\$ 45,213</u>	<u>\$ 10,145</u>	<u>\$ 486,454</u>	<u>\$ 295,423</u>
Net position:						
Net investment in capital assets	\$ 5,867,449	\$ 4,649,181	\$ 3,030,808	\$ 3,421,911	\$ 8,898,257	\$ 8,071,092
Unrestricted	<u>1,070,509</u>	<u>1,501,832</u>	<u>1,616,769</u>	<u>1,168,236</u>	<u>2,687,278</u>	<u>2,670,068</u>
Total net position	<u>\$ 6,937,958</u>	<u>\$ 6,151,013</u>	<u>\$ 4,647,577</u>	<u>\$ 4,590,147</u>	<u>\$ 11,585,535</u>	<u>\$ 10,741,160</u>

The largest portion of the Town's net position (76.80 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 (\$2,687,278) 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, 2020 and 2019.

	Governmental Activities		Business-Type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Revenues						
Charges for services	\$ 439,348	\$ 356,602	\$ 3,084,733	\$ 3,346,757	\$ 3,524,081	\$ 3,703,359
General property taxes	304,776	239,499	-	-	304,776	239,499
Other local taxes	1,389,564	1,350,782	-	-	1,389,564	1,350,782
Intergovernmental	1,033,655	698,931	-	-	1,033,655	698,931
Miscellaneous	41,788	18,295	-	-	41,788	18,295
Total revenues	<u>\$ 3,209,131</u>	<u>\$ 2,664,109</u>	<u>\$ 3,084,733</u>	<u>\$ 3,346,757</u>	<u>\$ 6,293,864</u>	<u>\$ 6,010,866</u>
Program expenses						
General government	\$ 920,640	\$ 798,811	\$ -	\$ -	\$ 920,640	\$ 798,811
Public safety	593,434	478,366	-	-	593,434	478,366
Public works	761,230	738,398	-	-	761,230	738,398
Cultural and recreation	373,833	361,738	-	-	373,833	361,738
Community development	35,404	1,958	-	-	35,404	1,958
Cemetery services	87,710	-	-	-	87,710	-
Electric	-	-	1,853,743	2,033,895	1,853,743	2,033,895
Water	-	-	385,497	421,329	385,497	421,329
Sewer	-	-	700,114	707,709	700,114	707,709
Total expenses	<u>\$ 2,772,251</u>	<u>\$ 2,379,271</u>	<u>\$ 2,939,354</u>	<u>\$ 3,162,933</u>	<u>\$ 5,711,605</u>	<u>\$ 5,542,204</u>
Operating income	<u>\$ 436,880</u>	<u>\$ 284,838</u>	<u>\$ 145,379</u>	<u>\$ 183,824</u>	<u>\$ 582,259</u>	<u>\$ 468,662</u>
Nonoperating						
Interest income	\$ 6,960	\$ 8,977	\$ -	\$ -	\$ 6,960	\$ 8,977
Gain (loss) on disposal of assets	-	(5,870)	-	-	-	(5,870)
Interest expense	<u>(53,920)</u>	<u>(62,193)</u>	<u>(131,374)</u>	<u>(94,182)</u>	<u>(185,294)</u>	<u>(156,375)</u>
Total nonoperating	<u>\$ (46,960)</u>	<u>\$ (59,086)</u>	<u>\$ (131,374)</u>	<u>\$ (94,182)</u>	<u>\$ (178,334)</u>	<u>\$ (153,268)</u>
Income before transfers	\$ 389,920	\$ 225,752	\$ 14,005	\$ 89,642	\$ 403,925	\$ 315,394
Transfers	<u>(43,425)</u>	<u>(53,316)</u>	<u>43,425</u>	<u>52,634</u>	<u>-</u>	<u>(682)</u>
Change in net position	<u>\$ 346,495</u>	<u>\$ 172,436</u>	<u>\$ 57,430</u>	<u>\$ 142,276</u>	<u>\$ 403,925</u>	<u>\$ 314,712</u>

The Town's total revenues increased by \$282,998 (4.7 percent), also the total cost of all programs and services increased by \$169,401 (3.0 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 \$545,022 (20.46 percent). The total operating expenses increased by \$392,980 (16.52 percent). The factors driving these results include:

Revenues

- *Intergovernmental* increased by \$334,724. This was due to the Town receiving the streambank stabilization grant of \$340,375.
- *Charges for services* increased by \$82,746. This increase is due to the consolidation of the cemetery activities into the governmental activities. The cemetery revenues were \$84,125 for fiscal year 2020.
- *General property taxes* increased by \$65,277. Real estate tax revenue increased by \$55,472, which was due to a tax rate increase from 8.5 cents per \$100 to 11.0 cents per \$100.

Expenses

- *General government* increased by \$121,829. The combination of wages, employee benefits, and payroll taxes increased by \$52,590. Part of this was due to having a town manager resign and the hiring of a new town manager within the fiscal year. The rest was due to annual salary increases. The following expenses: insurance and surety bonds, professional services, and supplies increased by \$20,935, \$19,173, and \$14,467 respectively. Lease expense increased by \$8,345 due to a new copier lease and also leasing 6 additional computers.
- *Public Safety* increased by \$115,068. The combination of wages, employee benefits, and payroll taxes increased by \$68,447. This is due to the addition of new officers as the Town was understaffed in this department in the prior fiscal year. Supplies also increased by \$17,323.
- *Cemetery* increased by \$87,710. This is due to the consolidation of the cemetery activities into the governmental activities. The cemetery was a separate fund last year.

Business-Type Activities

Operating revenues for the Town's business-type activities decreased by \$262,024 (7.83 percent) and operating expenses decreased by \$223,579 (7.07 percent). The factors driving these results include:

Revenues

- *Electric revenues* decreased overall by \$152,650. The most significant decrease was in charges for services of \$133,711. The decrease was attributable to the decrease in consumption.
- *Water revenues* decreased overall by \$51,763. While charges for services increased by \$14,927, connection fees are down this year by \$69,300. There was significant new development in the Town last year.
- *Sewer revenues* decreased overall by \$57,611. While charges for services increased by \$20,689, connection fees are down this year by \$78,300. There was significant new development in the Town last year.

Expenses

- *Electric expenses* decreased overall by \$180,152. The cost of purchasing electric power decreased by \$141,665, which corresponds with the decrease in usage of electric power. Salaries and wages, employee benefits, and payroll taxes decreased by \$42,381 due to staffing changes.
- *Water expenses* decreased overall by \$35,832. Supplies decreased by \$34,300 this year due to a lower demand for supplies from the previous year.
- *Sewer expenses* decreased overall by \$7,595. Water testing fees decreased by \$6,359 this fiscal year.

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 \$1,202,750, which is a decrease of \$279,355 over last year's total of \$1,482,105.

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 \$732,312 on capital additions (see page 81). 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 \$4,647,577, which is an increase of \$57,430 over last year's total of \$4,590,147. Significant changes in the change in net position are noted in the previous section under "business-type" activities. In addition to this, significant transfers were made between the funds.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

<u>Account</u>	<u>Variance Positive (Negative)</u>
Revenues	
Streambank stabilization grant	\$ 340,375
Meals tax	96,292
Motor vehicle licenses	53,342
Local sales and use taxes	51,082
Charges for sanitation and waste removal	(40,362)
Personal property taxes	(293,031)
Expenditures	
<i>General Government Administration</i>	
Salaries and wages	\$ 33,185
Supplies	(23,788)
Capital outlay	(45,235)
Professional services	90,131
<i>Public Safety</i>	
Capital outlay	21,884
Salaries and wages	(15,612)
Computer support	24,935
Supplies	(21,561)
<i>Public Works - Maintenance and Streets</i>	
Salaries and wages	12,339
<i>Public Works – Sanitation</i>	
Salaries and wages	(16,559)
Trash removal	(12,353)
<i>Public Works – Capital Outlays</i>	
	(385,646)
<i>Cultural & Recreation - Community Center</i>	
Capital outlay	10,785
<i>Cultural & Recreation - Recreation</i>	
Capital outlay	40,000
<i>Community Development</i>	
	(11,404)
<i>Cemetery Services</i>	
Capital outlay	40,500
Salaries and wages	(12,901)

The Town did not budget for the streambank stabilization grant that they received. 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. Sanitation and waste removal fees were below budget this year.

The Town budget for salaries and wages was based on having a town manager all year; however, there were several months the Town went without a town manager causing the expense to come in under budget. Supplies and capital outlay both exceeded the budget for general government while the professional services items were less than expected. In the public safety department, supplies and wages were more than budgeted. The Town has hired more officers for a fully staffed police department. Also in the public safety department, the Town overbudgeted for computer support and capital outlays this year. The Town slightly overbudgeted for wages in the maintenance and streets division of public works, while it underbudgeted in the sanitation division. This is due to employee wage classification and where they are working at that time. Trash removal fees were slightly more than expected this year. The capital outlays for the public works were increased this year over budget due to the Streambank stabilization project. The capital outlay in the community center and recreation was less than expected this year. The Town also spent more than anticipated in the community on economic development. The cemetery section is new to general government this year. The Town had no cemetery capital outlays during the year and was under budget on wages.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2020, the Town had 17.3 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 \$878,996 or 5.34 percent, over last year.

	Governmental Activities		Business-Type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Land	\$ 1,445,401	\$ 1,071,813	\$ 41,056	\$ 41,056	\$ 1,486,457	\$ 1,112,869
Construction in progress	49,996	-	1,626,444	1,299,635	1,676,440	1,299,635
Buildings	2,326,241	2,405,381	-	-	2,326,241	2,405,381
Equipment	618,693	604,927	679,966	376,265	1,298,659	981,192
Infrastructure	2,556,178	1,899,351	-	-	2,556,178	1,899,351
Utility system	-	-	7,966,618	8,733,169	7,966,618	8,733,169
Totals	<u>\$ 6,996,509</u>	<u>\$ 5,981,472</u>	<u>\$ 10,314,084</u>	<u>\$ 10,450,125</u>	<u>\$ 17,310,593</u>	<u>\$ 16,431,597</u>

This year's major additions included:

Streambank stabilization	\$ 412,395
WWTP expansion, in progress	346,464
Asphalt paving	114,680
Jennings House renovation, in progress	49,996
2020 Ford Explorer	39,810
	<u>\$ 963,345</u>

Debt

At year-end, the Town had \$8,337,691 in outstanding loans compared to \$8,313,803 last year. This is an increase of .28 percent as shown in the following tables.

Governmental-Type Activities

	Outstanding June 30,	
	2020	2019
General Obligation Bond, United Bank	\$ 150,000	\$ 200,000
General Obligation Bond, Farmers and Merchants	149,990	199,990
Farmers and Merchants (Community Center)	754,436	846,728
General Obligation Bond, Truist Bank	14,945	-
Ford Motor Credit	49,234	71,959
	<u>\$ 1,118,605</u>	<u>\$ 1,318,677</u>

Business-Type Activities

	Outstanding June 30,	
	2020	2019
Branch Banking & Trust	\$ 1,650,356	\$ 1,243,041
Sewer loan payable	13,934	30,075
Virginia Resources Authority loans payable	-	4,752,010
Virginia Municipal League (Pentecostal Hill project)	465,000	970,000
Rural Utilities Service (Bond Series 2020)	5,089,796	-
	<u>\$ 7,219,086</u>	<u>\$ 6,995,126</u>

New debt issued this year included an advance from Branch Banking and Trust Company in the amount of \$409,477 to finance a wastewater treatment plant upgrade. The Town also issued a general obligation bond for improvements to the Jennings House. Bond proceeds in the amount of \$14,945 were drawn as of June 30, 2020. Finally, a sewer revenue bond (series 2020) was issued to refinance existing debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The budgeted revenues are projected to drop 40.5 percent in the upcoming fiscal year and the decreases are primarily in the enterprise fund revenue. The decrease in budgeted revenues is due to a reduction in expected grant revenue of \$4,281,000 from the United States Department of Agriculture for the Wastewater Treatment Plant.

The budgeted expenses also reflect a 40.5 percent decrease in response to the decrease in budgeted revenues. The biggest change was in the amount budgeted for capital outlays. In the Sewer Fund, the Town is expected a decrease in capital spending of \$4,200,000.

In the 2021 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 is moving forward with a new wastewater treatment plant. It has begun construction on the multi-year project. It has received 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 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, 2020

	----- Primary Government -----		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 1,216,401	\$ 1,569,951	\$ 2,786,352
Receivables, net of allowances for uncollectible amounts:			
Property taxes	469,027	-	469,027
Accounts and other	22,872	269,248	292,120
Due from other governmental units and businesses	99,000	-	99,000
Inventories	7,675	171,694	179,369
Prepaid expenses	131,267	6,851	138,118
Capital assets:			
Non-depreciable	1,495,397	1,667,500	3,162,897
Depreciable, net of accumulated depreciation	<u>5,501,112</u>	<u>8,646,584</u>	<u>14,147,696</u>
Total assets	<u>\$ 8,942,751</u>	<u>\$ 12,331,828</u>	<u>\$ 21,274,579</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension amounts	\$ 111,673	\$ 57,986	\$ 169,659
Deferred OPEB amounts, life insurance	<u>16,714</u>	<u>7,514</u>	<u>24,228</u>
Total deferred outflows of resources	<u>\$ 128,387</u>	<u>\$ 65,500</u>	<u>\$ 193,887</u>
LIABILITIES			
Accounts payable	\$ 216,716	\$ 148,849	\$ 365,565
Accrued liabilities	49,062	18,780	67,842
Accrued compensated absences	126,355	48,493	174,848
Accrued interest payable	10,455	64,190	74,645
Customer deposits	-	120,800	120,800
Long-term liabilities:			
Long-term debt, due within one year	221,351	33,934	255,285
Long-term debt, due in more than one year	897,254	7,185,152	8,082,406
Net pension liability	106,645	55,524	162,169
Net OPEB liability, life insurance	<u>64,101</u>	<u>28,816</u>	<u>92,917</u>
Total liabilities	<u>\$ 1,691,939</u>	<u>\$ 7,704,538</u>	<u>\$ 9,396,477</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	\$ 334,751	\$ -	\$ 334,751
Deferred pension amounts	101,339	42,897	144,236
Deferred OPEB amounts, life insurance	<u>5,151</u>	<u>2,316</u>	<u>7,467</u>
Total deferred inflows of resources	<u>\$ 441,241</u>	<u>\$ 45,213</u>	<u>\$ 486,454</u>
NET POSITION			
Net investment in capital assets	\$ 5,867,449	\$ 3,030,808	\$ 8,898,257
Unrestricted	<u>1,070,509</u>	<u>1,616,769</u>	<u>2,687,278</u>
Total net position	<u>\$ 6,937,958</u>	<u>\$ 4,647,577</u>	<u>\$ 11,585,535</u>

See Notes to Financial Statements.

TOWN OF ELKTON, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2020

Functions/ Programs	Expenses	Charges for Services	----- Program Revenues----- Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government administration	\$ 920,640	\$ -	\$ -	\$ -
Public safety	593,434	25,207	66,308	-
Public works	761,230	215,423	528,815	340,375
Cultural and recreation	373,833	114,593	7,213	66,500
Community development	35,404	-	-	-
Cemetery services	87,710	84,125	-	-
Interest on long-term debt	53,920	-	-	-
Total governmental activities	<u>\$ 2,826,171</u>	<u>\$ 439,348</u>	<u>\$ 602,336</u>	<u>\$ 406,875</u>
Business-type activities:				
Electric	\$ 1,853,743	\$ 1,932,679	\$ -	\$ -
Water	407,720	442,199	-	-
Sewer	809,265	709,855	-	-
Total business-type activities	<u>\$ 3,070,728</u>	<u>\$ 3,084,733</u>	<u>\$ -</u>	<u>\$ -</u>
Total primary government	<u>\$ 5,896,899</u>	<u>\$ 3,524,081</u>	<u>\$ 602,336</u>	<u>\$ 406,875</u>

General revenues:

General property taxes

Other local taxes

Unrestricted revenue from the use of money and property

Grants and contributions not restricted to specific programs

Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net position at beginning of year

Net position at end of year

Net (Expense) Revenue and Changes in Net Assets

----- Primary Government -----		
Governmental Activities	Business-Type Activities	Total
<u> </u>	<u> </u>	<u> </u>
\$ (920,640)	\$ -	\$ (920,640)
(501,919)	-	(501,919)
323,383	-	323,383
(185,527)	-	(185,527)
(35,404)	-	(35,404)
(3,585)	-	(3,585)
<u>(53,920)</u>	<u>-</u>	<u>(53,920)</u>
\$ (1,377,612)	\$ -	\$ (1,377,612)
\$ -	\$ 78,936	\$ 78,936
-	34,479	34,479
<u>-</u>	<u>(99,410)</u>	<u>(99,410)</u>
\$ -	\$ 14,005	\$ 14,005
\$ (1,377,612)	\$ 14,005	\$ (1,363,607)
\$ 304,776	\$ -	\$ 304,776
1,389,564	-	1,389,564
9,100	-	9,100
31,657	-	31,657
32,435	-	32,435
<u>(43,425)</u>	<u>43,425</u>	<u>-</u>
\$ 1,724,107	\$ 43,425	\$ 1,767,532
\$ 346,495	\$ 57,430	\$ 403,925
<u>6,591,463</u>	<u>4,590,147</u>	<u>11,181,610</u>
<u>\$ 6,937,958</u>	<u>\$ 4,647,577</u>	<u>\$ 11,585,535</u>

Fund Financial Statements

TOWN OF ELKTON, VIRGINIA

----GOVERNMENTAL FUND----
 BALANCE SHEET
 June 30, 2020

	General Fund
ASSETS	
Cash and cash equivalents	\$ 1,216,401
Receivables (net of allowance for uncollectibles):	
Property taxes	469,027
Accounts	22,833
Accrued interest	39
Due from other governmental units and businesses	99,000
Inventory	7,675
Prepaid expenses	<u>131,267</u>
Total assets	<u>\$ 1,946,242</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 216,716
Accrued liabilities	<u>58,194</u>
Total liabilities	<u>\$ 274,910</u>
Deferred Inflows of Resources	
Unavailable revenue	<u>\$ 468,582</u>
Total deferred inflows of resources	<u>\$ 468,582</u>
Fund Balance	
Nonspendable:	
Prepaid expenses	\$ 131,267
Inventory	7,675
Assigned to:	
Kings Dominion and Busch Garden tickets	13,914
Recreation donations	15,039
HEC holding	180,870
Community Center	30,492
Unassigned	<u>823,493</u>
Total fund balance	<u>\$ 1,202,750</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 1,946,242</u>

See Notes to Financial Statements.

TOWN OF ELKTON, VIRGINIA

----GOVERNMENTAL FUND----
**RECONCILIATION OF THE BALANCE SHEET
 TO THE STATEMENT OF NET POSITION**
June 30, 2020

FUND BALANCE-TOTAL GOVERNMENTAL FUND **\$ 1,202,750**

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	\$ 9,975,371	
Less accumulated depreciation	<u>(2,978,862)</u>	6,996,509

Certain revenues not available to pay for current period expenditures are not reported in the governmental fund.

Deferred revenues	\$ <u>133,831</u>	133,831
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Deferred outflows of resources for deferred pension and OPEB amounts.

	\$ <u>128,387</u>	128,387
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Deferred inflows of resources for deferred pension and OPEB amounts.

	\$ <u>(106,490)</u>	(106,490)
--	---------------------	-----------

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	\$ (64,101)	
Net pension liability	(106,645)	
General obligation bonds payable	(314,935)	
Notes payable	(803,670)	
Accrued interest payable	(10,455)	
Compensated absences	<u>(117,223)</u>	<u>(1,417,029)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 6,937,958**

See Notes to Financial Statements.

TOWN OF ELKTON, VIRGINIA
----GOVERNMENTAL FUND----
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
Year Ended June 30, 2020

	<u>General Fund</u>
REVENUES	
General property taxes	\$ 298,141
Other local taxes	1,390,521
Permits, privilege fees, and regulatory licenses	2,745
Fines and forfeitures	25,207
Revenue from the use of money and property	9,100
Charges for services	327,271
Miscellaneous	39,648
Cemetery services	84,125
Intergovernmental revenues:	
County	66,500
Commonwealth	964,815
Federal	2,340
Total revenues	<u>\$ 3,210,413</u>
EXPENDITURES	
General government administration	\$ 931,401
Public safety	641,319
Public works	1,156,698
Cultural and recreation	349,678
Community development	35,404
Cemetery services	74,693
Debt service	272,095
Total expenditures	<u>\$ 3,461,288</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (250,875)</u>
OTHER FINANCING SOURCES (USES)	
Debt proceeds	\$ 14,945
Transfers out	<u>(43,425)</u>
Total other financing sources (uses)	<u>\$ (28,480)</u>
Net change in fund balance	\$ (279,355)
FUND BALANCE AT BEGINNING OF YEAR	<u>1,482,105</u>
FUND BALANCE AT END OF YEAR	<u>\$ 1,202,750</u>

See Notes to Financial Statements.

TOWN OF ELKTON, VIRGINIA

----GOVERNMENTAL FUND----

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN THE FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2020

NET CHANGE IN FUND BALANCE-TOTAL GOVERNMENTAL FUND \$ (279,355)

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	\$ 732,311	
Less current year depreciation	<u>(288,959)</u>	443,352

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	\$ 6,635	
Vehicle license fees	<u>(958)</u>	5,677

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	\$ (2,218)	
Difference between pension expenditures and pension expense	(11,074)	
Change in accrued interest	3,158	
Change in long-term compensated absences	<u>(13,117)</u>	(23,251)

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	\$ (14,945)	
Principal repayments	<u>215,017</u>	<u>200,072</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 346,495

TOWN OF ELKTON, VIRGINIA
---- PROPRIETARY FUNDS ----
STATEMENTS OF NET POSITION
June 30, 2020

	----- Enterprise Funds -----			Total
	Electric	Water	Sewer	Enterprise Funds
ASSETS				
Current assets:				
Cash and cash equivalents (overdrafts)	\$ 683,612	\$ 623,907	\$ 141,632	\$ 1,449,151
Restricted cash and cash equivalents, deposits	120,800	-	-	120,800
Accounts receivable, less allowance for doubtful accounts of \$81,034, \$4,754, and \$16,133, respectively	155,456	40,337	73,455	269,248
Prepaid expenses	4,405	1,446	1,000	6,851
Inventories	129,590	37,648	4,456	171,694
Total current assets	<u>\$ 1,093,863</u>	<u>\$ 703,338</u>	<u>\$ 220,543</u>	<u>\$ 2,017,744</u>
Noncurrent assets:				
Capital assets:				
Land	\$ -	\$ 41,056	\$ -	\$ 41,056
Construction in progress	-	-	1,626,444	1,626,444
Utility plants, distribution and collection systems	388,531	3,273,529	9,863,654	13,525,714
Equipment	684,012	137,149	281,449	1,102,610
Less accumulated depreciation	(829,607)	(1,749,416)	(3,402,717)	(5,981,740)
Total noncurrent assets	<u>\$ 242,936</u>	<u>\$ 1,702,318</u>	<u>\$ 8,368,830</u>	<u>\$10,314,084</u>
Total assets	<u>\$ 1,336,799</u>	<u>\$ 2,405,656</u>	<u>\$ 8,589,373</u>	<u>\$12,331,828</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred pension amounts	\$ 18,713	\$ 16,106	\$ 23,167	\$ 57,986
Deferred OPEB amounts, life insurance	2,758	2,398	2,358	7,514
Total deferred outflows of resources	<u>\$ 21,471</u>	<u>\$ 18,504</u>	<u>\$ 25,525</u>	<u>\$ 65,500</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 128,987	\$ 5,275	\$ 14,587	\$ 148,849
Accrued payroll	6,948	5,844	5,988	18,780
Accrued interest payable	-	9,102	55,088	64,190
Compensated absences	26,673	10,910	10,910	48,493
Deposits	120,800	-	-	120,800
Bonds, notes and loans payable	-	20,000	13,934	33,934
Total current liabilities	<u>\$ 283,408</u>	<u>\$ 51,131</u>	<u>\$ 100,507</u>	<u>\$ 435,046</u>
Noncurrent liabilities:				
Net pension liability	\$ 20,805	\$ 8,421	\$ 26,298	\$ 55,524
Net OPEB liability, life insurance	10,577	9,196	9,043	28,816
Bonds, notes and loans payable	-	445,000	6,740,152	7,185,152
Total noncurrent liabilities	<u>\$ 31,382</u>	<u>\$ 462,617</u>	<u>\$ 6,775,493</u>	<u>\$ 7,269,492</u>
Total liabilities	<u>\$ 314,790</u>	<u>\$ 513,748</u>	<u>\$ 6,876,000</u>	<u>\$ 7,704,538</u>

(Continued)

TOWN OF ELKTON, VIRGINIA
---- PROPRIETARY FUNDS ----
STATEMENTS OF NET POSITION
June 30, 2020

	----- Enterprise Funds -----			Total Enterprise Funds
	Electric	Water	Sewer	
DEFERRED INFLOWS OF RESOURCES				
Deferred pension amounts	\$ 11,774	\$ 14,722	\$ 16,401	\$ 42,897
Deferred OPEB amounts, life insurance	<u>850</u>	<u>739</u>	<u>727</u>	<u>2,316</u>
Total deferred inflows of resources	<u>\$ 12,624</u>	<u>\$ 15,461</u>	<u>\$ 17,128</u>	<u>\$ 45,213</u>
 NET POSITION				
Net investment in capital assets	\$ 242,936	\$ 1,228,216	\$ 1,559,656	\$ 3,030,808
Unrestricted	<u>787,920</u>	<u>666,735</u>	<u>162,114</u>	<u>1,616,769</u>
Total net position	<u>\$ 1,030,856</u>	<u>\$ 1,894,951</u>	<u>\$ 1,721,770</u>	<u>\$ 4,647,577</u>

See Notes to Financial Statements.

TOWN OF ELKTON, VIRGINIA

---PROPRIETARY FUNDS---
**STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION**
Year Ended June 30, 2020

	----- Enterprise Funds -----			Total
	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Enterprise Funds</u>
OPERATING REVENUES				
Charges for services	\$ 1,883,960	\$ 351,681	\$ 662,955	\$ 2,898,596
Connection fees	-	36,200	46,900	83,100
Local consumption tax	6,015	-	-	6,015
Reconnect fees	4,632	3,764	-	8,396
Service charges	4,350	1,237	-	5,587
Late charges and interest	33,722	-	-	33,722
Water haulers	-	49,317	-	49,317
Total operating revenues	<u>\$ 1,932,679</u>	<u>\$ 442,199</u>	<u>\$ 709,855</u>	<u>\$ 3,084,733</u>
OPERATING EXPENSES				
Salaries and wages	\$ 155,974	\$ 137,699	\$ 135,017	\$ 428,690
Salaries, contract labor	1,788	-	-	1,788
Employee benefits	28,951	25,462	37,568	91,981
Payroll taxes	10,851	8,697	9,701	29,249
Electric power	1,519,419	-	-	1,519,419
Landfill	-	-	30,543	30,543
Permit fees	-	3,765	2,825	6,590
Telephone and internet	1,361	2,627	4,504	8,492
Supplies	85,606	54,764	34,272	174,642
Repairs and maintenance	10,359	18,262	19,369	47,990
Vehicle maintenance and generator fuel	10,405	4,832	5,829	21,066
Miss Utility	30	140	154	324
Professional services	650	1,531	1,065	3,246
Dues	422	460	1,350	2,232
Uniforms	147	275	275	697
Water testing	-	615	6,876	7,491
Utilities	-	23,624	217	23,841
Computer support	1,435	-	12,553	13,988
Postage	-	8	167	175
Insurance	-	-	10,065	10,065
Conventions and meetings	3,224	-	300	3,524
Advertising	-	554	2,202	2,756
Leases, equipment	-	-	514	514
Small equipment	-	-	334	334
Legal fees	-	-	27,211	27,211
Depreciation	23,121	102,182	357,203	482,506
Total operating expenses	<u>\$ 1,853,743</u>	<u>\$ 385,497</u>	<u>\$ 700,114</u>	<u>\$ 2,939,354</u>
Operating income	<u>\$ 78,936</u>	<u>\$ 56,702</u>	<u>\$ 9,741</u>	<u>\$ 145,379</u>

(Continued)

TOWN OF ELKTON, VIRGINIA
---PROPRIETARY FUNDS---
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
Year Ended June 30, 2020

	----- Enterprise Funds -----			Total
	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Enterprise</u> <u>Funds</u>
NONOPERATING REVENUE (EXPENSE)				
Interest expense	\$ -	\$ (22,223)	\$ (109,151)	\$ (131,374)
Income (loss) before transfers	\$ 78,936	\$ 34,479	\$ (99,410)	\$ 14,005
TRANSFERS				
Transfers in	\$ 8,183	\$ 37,358	\$ 8,958	\$ 54,499
Transfers out	-	-	(11,074)	(11,074)
Total transfers	<u>\$ 8,183</u>	<u>\$ 37,358</u>	<u>\$ (2,116)</u>	<u>\$ 43,425</u>
Change in net position	\$ 87,119	\$ 71,837	\$ (101,526)	\$ 57,430
NET POSITION AT BEGINNING OF YEAR	<u>943,737</u>	<u>1,823,114</u>	<u>1,823,296</u>	<u>4,590,147</u>
NET POSITION AT END OF YEAR	<u>\$ 1,030,856</u>	<u>\$ 1,894,951</u>	<u>\$ 1,721,770</u>	<u>\$ 4,647,577</u>

See Notes to Financial Statements.

TOWN OF ELKTON, VIRGINIA

----PROPRIETARY FUNDS----
STATEMENTS OF CASH FLOWS
 Year Ended June 30, 2020

	----- Enterprise Funds -----			Total
	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Enterprise Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 1,960,289	\$ 438,876	\$ 705,550	\$ 3,104,715
Cash payments to suppliers of good and services	(1,616,579)	(128,112)	(166,340)	(1,911,031)
Cash payments to employees	<u>(182,242)</u>	<u>(161,991)</u>	<u>(171,618)</u>	<u>(515,851)</u>
Net cash provided by (used in) operating activities	<u>\$ 161,468</u>	<u>\$ 148,773</u>	<u>\$ 367,592</u>	<u>\$ 677,833</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating transfers in from other funds	\$ 8,183	\$ 37,358	\$ 8,958	\$ 54,499
Operating transfers out to other funds	<u>-</u>	<u>-</u>	<u>(11,074)</u>	<u>(11,074)</u>
Net cash provided by (used in) noncapital financing activities	<u>\$ 8,183</u>	<u>\$ 37,358</u>	<u>\$ (2,116)</u>	<u>\$ 43,425</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Loan proceeds from Branch Banking & Trust	\$ -	\$ -	\$ 409,477	\$ 409,477
Loan proceeds from Rural Utilities Service	-	-	5,089,796	5,089,796
Acquisition and construction of capital assets	-	-	(346,464)	(346,464)
Principal paid on bonds and loans	-	(20,000)	(5,255,313)	(5,275,313)
Interest paid	<u>-</u>	<u>(22,572)</u>	<u>(77,700)</u>	<u>(100,272)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ -</u>	<u>\$ (42,572)</u>	<u>\$ (180,204)</u>	<u>\$ (222,776)</u>
Net increase (decrease) in cash and cash equivalents	\$ 169,651	\$ 143,559	\$ 185,272	\$ 498,482
Cash and cash equivalents:				
Beginning	<u>634,761</u>	<u>480,348</u>	<u>(43,640)</u>	<u>1,071,469</u>
Ending	<u>\$ 804,412</u>	<u>\$ 623,907</u>	<u>\$ 141,632</u>	<u>\$ 1,569,951</u>

(Continued)

TOWN OF ELKTON, VIRGINIA

----PROPRIETARY FUNDS----
STATEMENTS OF CASH FLOWS
 Year Ended June 30, 2020

	----- Enterprise Funds -----			Total
	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Enterprise Funds</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$ 78,936	\$ 56,702	\$ 9,741	\$ 145,379
Adjustments to reconcile operating income (loss) to net cash provided by(used in) operating activities:				
Pension and OPEB costs (earnings)	(824)	506	513	195
Depreciation	23,121	102,182	357,203	482,506
Change in assets and liabilities:				
(Increase) decrease in inventories	13,050	(3,431)	3,469	13,088
(Increase) decrease in accounts receivable	25,661	(3,323)	(4,305)	18,033
(Increase) decrease in prepaid expenses	(4,405)	(1,446)	-	(5,851)
Increase (decrease) in accounts payable and accrued expenses	23,980	(2,417)	971	22,534
Increase (decrease) in deposits	<u>1,949</u>	<u>-</u>	<u>-</u>	<u>1,949</u>
Net cash provided by (used in) operating activities	<u>\$ 161,468</u>	<u>\$ 148,773</u>	<u>\$ 367,592</u>	<u>\$ 677,833</u>

See Notes to Financial Statements.

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

B. Governmental Accounting Standards

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

C. Government-Wide and Fund Financial Statements

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)Government-Wide Financial Statements

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

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

Governmental Fund Financial Statements

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

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

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

Proprietary Fund Financial Statements

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

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

The Town reports the following major proprietary funds:

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

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.

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, 2020, includes amounts not yet billed or received from the January 1, 2020, levy (due December 5, 2020). These items are included in deferred inflows of resources since these taxes are restricted for use until fiscal year 2021.

The Town calculates its allowance for uncollectible delinquent property tax accounts using historical collection data and specific account analysis. The allowance at June 30, 2020, amounted to \$147,775.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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

NOTES TO FINANCIAL STATEMENTS

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

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.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)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 \$7,372, for the year ended June 30, 2020. Advertising expenses in the Electric, Water, and Sewer Funds for the year ended June 30, 2020, were \$ - , \$554, and \$2,202, respectively.

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.

NOTES TO FINANCIAL STATEMENTS

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

The Virginia Retirement System (VRS) Political Subdivision Retirement Plan is a multi-employer, agent plan. For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Political Subdivision's Retirement Plan and the additions to/deductions from the Political Subdivision's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

H. Estimates and Assumptions

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

I. Use of Restricted Resources

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

J. Group Life Insurance

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

NOTES TO FINANCIAL STATEMENTS

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

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

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the General Fund. Amounts shown in the accompanying financial statements as "budget" represent the original and final operating budgets for the fiscal year 2020.

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 &Final	Actual
ELECTRIC FUND		
Capital outlay	\$ (1,000)	\$ -
WATER FUND		
Capital outlay	(56,500)	-
Principal paid on loan	(20,000)	(20,000)
SEWER FUND		
Capital outlay	(5,013,000)	(346,464)
Principal paid on loans	(323,799)	(5,255,313)
USDA bond/loan proceeds	<u>5,220,000</u>	<u>5,499,273</u>
	<u>\$ (194,299)</u>	<u>\$ (122,504)</u>

B. Excess of Expenditures Over Appropriations

For the year ended June 30, 2020, General Fund expenditures exceeded appropriations in Public Safety by \$12,127, Public Works by \$413,802, Community Development by \$11,404, and Debt Service by \$2,165. These expenditures were funded by greater than anticipated revenues.

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Cash EquivalentsDeposits

Below is a summary of the Town's accounts/deposits at June 30, 2020:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
<u>General</u>		
Checking (Bank of America)	\$ (461,745)	\$ (307,700)
Investment Account (Infinex Financial Group)	466,863	466,863
Certificate of deposit (Bank of America)	164,214	164,214
Checking (First Bank)	100	22,076
Petty cash	270	270
Checking (First Bank)	100	15,369
Checking (Farmers & Merchants Bank)	11,398	11,398
Checking (Farmers & Merchants Bank)	250,000	250,034
Investment Account (Sweep)	329,533	329,533
Checking (United Bank)	450,668	450,668
Checking (United Bank)	5,000	5,000
<u>Electric</u>		
Checking (Bank of America)	804,412	804,412
<u>Water</u>		
Checking (Bank of America)	623,907	623,907
<u>Sewer</u>		
Checking (Bank of America)	<u>141,632</u>	<u>141,632</u>
Total reporting entity	<u>\$ 2,786,352</u>	<u>\$ 2,977,676</u>

All cash of the Town is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the *Code of Virginia* or covered by federal depository insurance. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in amounts from 50 percent to 130 percent of excess deposits. Accordingly, all deposits are considered fully collateralized.

NOTES TO FINANCIAL STATEMENTS

Note 4. Receivables

Receivables as of June 30, 2020, for the government's individual major funds including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Activities	Business-Type Activities	Total
Receivables:			
Interest	\$ 39	\$ -	\$ 39
Property taxes	616,802	-	616,802
Accounts	<u>35,679</u>	<u>371,169</u>	<u>406,848</u>
Gross receivables	\$ 652,520	\$ 371,169	\$ 1,023,689
Less: allowance for uncollectibles	<u>(160,621)</u>	<u>(101,921)</u>	<u>(262,542)</u>
Net total receivables	<u>\$ 491,899</u>	<u>\$ 269,248</u>	<u>\$ 761,147</u>

Note 5. Due from Other Governmental Units and Businesses

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

General Fund:

Commonwealth of Virginia:		
Local sales and use taxes	\$ 12,912	
Communications tax	3,548	
County of Rockingham:		
Court fines	740	
Local restaurants:		
Meals taxes	<u>81,800</u>	
	<u>\$ 99,000</u>	

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2020, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 1,445,401	\$ -	\$ -	\$ 1,445,401
Construction in progress	<u>-</u>	<u>49,996</u>	<u>-</u>	<u>49,996</u>
Total capital assets not being depreciated	<u>\$ 1,445,401</u>	<u>\$ 49,996</u>	<u>\$ -</u>	<u>\$ 1,495,397</u>

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated				
Buildings	\$ 3,440,268	\$ -	\$ -	\$ 3,440,268
Machinery and equipment	1,735,316	147,714	(13,459)	1,869,571
Infrastructure	<u>2,635,534</u>	<u>534,601</u>	<u>-</u>	<u>3,170,135</u>
Total capital assets being depreciated	<u>\$ 7,811,118</u>	<u>\$ 682,315</u>	<u>\$ (13,459)</u>	<u>\$ 8,479,974</u>
Less accumulated depreciation for				
Buildings	\$ 1,034,805	\$ 79,222	\$ -	\$ 1,114,027
Machinery and equipment	1,124,547	139,790	(13,459)	1,250,878
Infrastructure	<u>544,010</u>	<u>69,947</u>	<u>-</u>	<u>613,957</u>
Total accumulated depreciation	<u>\$ 2,703,362</u>	<u>\$ 288,959</u>	<u>\$ (13,459)</u>	<u>\$ 2,978,862</u>
Total capital assets being depreciated, net	<u>\$ 5,107,756</u>	<u>\$ 393,356</u>	<u>\$ -</u>	<u>\$ 5,501,112</u>
GOVERNMENTAL ACTIVITIES				
CAPITAL ASSETS, NET	<u>\$ 6,553,157</u>	<u>\$ 443,352</u>	<u>\$ -</u>	<u>\$ 6,996,509</u>
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 41,056	\$ -	\$ -	\$ 41,056
Construction in progress	<u>1,279,980</u>	<u>346,464</u>	<u>-</u>	<u>1,626,444</u>
Total capital assets not being depreciated	<u>\$ 1,321,036</u>	<u>\$ 346,464</u>	<u>\$ -</u>	<u>\$ 1,667,500</u>
Capital assets being depreciated				
Utility system	\$13,525,714	\$ -	\$ -	\$13,525,714
Machinery and equipment	<u>1,102,610</u>	<u>-</u>	<u>-</u>	<u>1,102,610</u>
Total capital assets being depreciated	<u>\$14,628,324</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$14,628,324</u>
Less accumulated depreciation for				
Utility system	\$ 5,130,470	\$ 428,626	\$ -	\$ 5,559,096
Machinery and equipment	<u>368,764</u>	<u>53,880</u>	<u>-</u>	<u>422,644</u>
Total accumulated depreciation	<u>\$ 5,499,234</u>	<u>\$ 482,506</u>	<u>\$ -</u>	<u>\$ 5,981,740</u>
Total capital assets being depreciated, net	<u>\$ 9,129,090</u>	<u>\$ (482,506)</u>	<u>\$ -</u>	<u>\$ 8,646,584</u>
BUSINESS-TYPE ACTIVITIES				
CAPITAL ASSETS, NET	<u>\$10,450,126</u>	<u>\$ (136,042)</u>	<u>\$ -</u>	<u>\$10,314,084</u>

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets (Continued)

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

GOVERNMENTAL ACTIVITIES

General government administration	\$ 41,753
Community Center	67,780
Public safety	34,721
Public works	133,868
Cemetery	<u>10,837</u>

Total depreciation expense-governmental activities	<u>\$ 288,959</u>
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BUSINESS-TYPE ACTIVITIES

Electric	\$ 23,121
Water	102,182
Sewer	<u>357,203</u>

Total depreciation expense-business-type activities	<u>\$ 482,506</u>
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Note 7. Unavailable Revenue

The following is a summary of unavailable revenue at June 30, 2020:

Fund Statements

	<u>General Fund</u>
Unavailable revenue:	
Property taxes billed in fiscal year 2021	\$ 334,751
Uncollected property tax billing	<u>133,831</u>
	<u>\$ 468,582</u>

Government-Wide Statements

	<u>Governmental Activities</u>
Unavailable revenue:	
Property taxes billed in fiscal year 2021	\$ <u>334,751</u>
	<u>\$ 334,751</u>

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Debt

A summary of long-term debt activity for the year ended June 30, 2020, is as follows. Additional detailed information is available below and on the following pages.

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due within One Year</u>
<u>Governmental-type activities</u>					
<i>General Fund</i>					
Bonds payable:					
United Bank	\$ 200,000	\$ -	\$ (50,000)	\$ 150,000	\$ 50,000
Farmers and Merchants Bank	199,990	-	(50,000)	149,990	50,000
Truist Bank (Series 2020)	-	14,945	-	14,945	-
Notes payable:					
Farmers and Merchants Bank	846,728	-	(92,292)	754,436	97,387
Ford Motor Credit	71,959	-	(22,725)	49,234	23,964
	<u>\$ 1,318,677</u>	<u>\$ 14,945</u>	<u>\$ (215,017)</u>	<u>\$ 1,118,605</u>	<u>\$ 221,351</u>
<u>Business-type activities</u>					
<i>Water Fund</i>					
Bond payable:					
Virginia Municipal League	\$ 485,000	\$ -	\$ (20,000)	\$ 465,000	\$ 20,000
<i>Sewer Fund</i>					
Bonds payable:					
Virginia Municipal League	485,000	-	(485,000)	-	-
Virginia Resources Authority	1,434,533	-	(1,434,533)	-	-
Rural Development (Series 1977)	30,075	-	(16,141)	13,934	13,934
Virginia Resources Authority	3,317,477	-	(3,317,477)	-	-
BB&T	1,243,041	409,477	(2,162)	1,650,356	-
Rural Utilities Service (Series 2020)	-	5,089,796	-	5,089,796	-
	<u>\$ 6,995,126</u>	<u>\$ 5,499,273</u>	<u>\$ (5,275,313)</u>	<u>\$ 7,219,086</u>	<u>\$ 33,934</u>

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Debt (Continued)

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, 2020, \$850,000 has been applied against the principal portion of the bond. Total interest expense incurred on the loan for year ended June 30, 2020, was \$5,713.

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, 2020, \$850,000 has been applied against the principal portion of the bond. Total interest expense incurred on the loan for year ended June 30, 2020, was \$5,692.

On June 10, 2020, the Town issued a general obligation bond (series 2020) in the amount of \$955,233. The bond payable to Truist Bank. As of June 30, 2020, proceeds in the amount of \$14,945 have been drawn on the bond. Proceeds on the bond are to be used for various improvements to the Jennings House property for use as a Town Hall. Monthly interest payments commence July 10, 2020 and continue until June 10, 2021, when monthly principal and interest payments begin. The bond matures June 10, 2035. The bond bears interest at a fixed rate of 2.62 percent. A pledge of the full faith and credit of the Town has been made.

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, 2020, \$945,564 has been applied against the principal portion of the loan. Total interest expense incurred on the loan for the year ended June 30, 2020, was \$37,450.

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, 2020, \$70,923 has been applied against the principal portion of the note. Total interest expense incurred for the year ended June 30, 2020, was \$2,978.

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, 2020, \$885,000 has been applied against the principal portion of the bond. Total interest expense incurred on the bond for the year ended June 30, 2020, was \$33,930.

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Debt (Continued)

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, 2020, \$286,066 has been applied against the principal portion of the bond. Total interest expense incurred on the loan for the year ended June 30, 2020, was \$1,478.

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, 2020, proceeds from this general obligation and revenue bond (series 2019) were \$1,652,518. Monthly interest payments on the bond were commenced April 5, 2019, at a rate of 2.75 percent accrued from the date of disbursement. As of June 30, 2020, \$2,162 has been applied against the principal portion of the loan. Total interest expense incurred on the loan for the year ended June 30, 2020, was \$34,881.

On January 6, 2020, the Town issued a general obligation sewer revenue bond (series 2020) not to exceed \$5,725,000. The bond is payable to Rural Utilities Service, an Agency of the United States Department of Agriculture. As of June 30, 2020, proceeds in the amount of \$5,089,796 have been used to retire existing debt for wastewater projects. The bond is payable over a forty-year term. The payments due the first 24 months of the term shall consist of annual interest payments only, and shall be payable on January 6, 2021 and January 6, 2022, respectively. Commencing on February 6, 2022 and continuing monthly thereafter for a total of 456 months, equal monthly principal and interest payments are payable in the amount of \$18,721. The bond bears interest at a fixed rate of 2.250 percent. The bond is secured by the revenues of the sewer system and a pledge of the full faith and credit of the Town. Total interest expense accrued on the bond as of June 30, 2020, was \$55,041.

Annual requirements to amortize long-term debt and related interest at June 30, 2020, are as follows:

Governmental-Type Activities

	Bonds		Bonds		Bonds	
	United Bank		Farmers and Merchants		Ford Motor Credit	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 50,000	\$ 4,750	\$ 50,000	\$ 4,750	\$ 23,964	\$ 2,683
2022	50,000	2,850	50,000	2,850	25,270	1,377
2023	50,000	950	49,990	950	-	-
	<u>\$ 150,000</u>	<u>\$ 8,550</u>	<u>\$ 149,990</u>	<u>\$ 8,550</u>	<u>\$ 49,234</u>	<u>\$ 4,060</u>
	Community Center Loan		Truist Bank			
	Farmers and Merchants		(Series 2020)			
	Principal	Interest	Principal	Interest		
2021	\$ 97,387	\$ 30,502	<i>To be determined</i>			
2022	101,918	28,165				
2023	106,097	23,381				
2024	111,548	18,535				
2025	115,799	14,305				
2026 - 2027	221,687	10,096				
	<u>\$ 754,436</u>	<u>\$ 124,984</u>				

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Debt (Continued)*Business-Type Activities*

	Virginia Municipal League		Rural Development (Series 1977)		Branch Banking & Trust Company	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 20,000	\$ 21,717	\$ 13,934	\$ 292	<i>To be determined</i>	
2022	20,000	20,850	-	-		
2023	22,500	19,920	-	-		
2024	22,500	18,934	-	-		
2025	25,000	17,881	-	-		
2026 - 2030	140,000	71,403	-	-		
2031 - 2035	175,000	33,438	-	-		
2036 - 2037	40,000	1,025	-	-		
	<u>\$ 465,000</u>	<u>\$ 205,168</u>	<u>\$ 13,934</u>	<u>\$ 292</u>		

	Rural Utilities Service (Series 2020)	
	Principal	Interest
2021	<i>To be determined</i>	
2022		
2023		
2024		
2025		
2026 - 2030		
2031 - 2035		
2036 - 2037		

Note 9. Interfund Transfers

Interfund transfers during the year ended June 30, 2020, were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 43,425
Electric Fund	8,183	-
Water Fund	37,358	-
Sewer Fund	8,958	11,074
	<u>\$ 54,499</u>	<u>\$ 54,499</u>

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

NOTES TO FINANCIAL STATEMENTS

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 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
<p>About VRS Plan 1 VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, service credit and average final compensation at retirement using a formula.</p>	<p>About VRS Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, service credit and average final compensation at retirement using a formula.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, service credit 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.
<p>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.</p> <p>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.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>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.</p> <p>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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • 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 <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or VRS Plan 2 (as applicable) or ORP.</p>

NOTES TO FINANCIAL STATEMENTS

Note 10. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>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.</p>	<p>Retirement Contributions Same as Plan 1.</p>	<p>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.</p>
<p>Service Credit Service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Service Credit Same as Plan 1.</p>	<p>Service Credit Defined Benefit Component: Under the defined benefit component of the plan, service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p>Defined Contributions Component: Under the defined contribution component, service credit is used to determine vesting for the employer contribution portion of the plan.</p>

NOTES TO FINANCIAL STATEMENTS

Note 10. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>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 service credit. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as VRS Plan 1.</p>	<p>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 service credit. Plan 1 or Plan 2 members with at least five years (60 months) of service credit who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p>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.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • 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. <p>Distribution is not required except as governed by law.</p>
<p>Calculating the Benefit The basic benefit is determined using the average final compensation, service credit and plan multiplier. An early retirement reduction is applied to this amount if the member is retiring with a reduced benefit. In cases where the member has elected an optional form of retirement payment, an option factor specific to the option chosen is then applied.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit Defined Benefit Component: See definition under Plan 1.</p> <p>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.</p>
<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>

NOTES TO FINANCIAL STATEMENTS

Note 10. Pension Plan (Continued)

<p style="text-align: center;">VRS PLAN 1</p>	<p style="text-align: center;">VRS PLAN 2</p>	<p style="text-align: center;">HYBRID RETIREMENT PLAN</p>
<p>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.</p>	<p>Service Retirement Multiplier Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for service credit earned, purchased or granted on or after January 1, 2013. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.</p>	<p>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.</p>
<p>Normal Retirement Age VRS: Age 65. Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age. Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>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.</p>
<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of service credit or at age 50 with at least 30 years of service credit. Political subdivisions hazardous duty employees: Age 60 with at least five years of service credit or age 50 with at least 25 years of service credit.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of service credit or when their age plus service credit equals 90. Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility Defined Benefit Component: VRS: Normal Social Security retirement age with at least five years (60 months) of service credit or when their age plus service credit equals 90. Political subdivision hazardous duty employees: Not applicable. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of service credit or age 50 with at least 10 years of service credit. Political subdivisions hazardous duty employees: Age 50 with at least five years of service credit.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of service credit. Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility Defined Benefit Component: VRS: Age 60 with at least five years (60 months) of service credit. Political subdivision hazardous duty employees: Not applicable. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

NOTES TO FINANCIAL STATEMENTS

Note 10. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>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%.</p> <p>Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of service credit, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of service credit, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p>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:</p> <ul style="list-style-type: none"> • 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. 	<p>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%.</p> <p>Eligibility: Same as Plan 1.</p> <p>Exceptions to COLA Effective Dates: Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement Defined Benefit Component: Same as Plan 2.</p> <p>Defined Contribution Component: Not applicable.</p> <p>Eligibility: Same as Plan 1 and VRS Plan 2.</p> <p>Exceptions to COLA Effective Dates: Same as Plan 1 and Plan 2.</p>
<p>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.</p>	<p>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.</p>	<p>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.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>

NOTES TO FINANCIAL STATEMENTS

Note 10. Pension Plan (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>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 service credit in their plan. Prior service credit counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service Defined Benefit Component: Same as Plan 1, with the following exception:</p> <ul style="list-style-type: none"> Hybrid Retirement Plan members are ineligible for ported service. <p>Defined Contribution Component: Not applicable.</p>

Employees Covered by Benefit Terms

As of the June 30, 2018 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	40
Inactive members:	
Vested inactive members	7
Non-vested inactive members	13
LTD	-
Inactive members active elsewhere in the VRS	<u>32</u>
Total inactive members	52
Active members	<u>27</u>
Total covered employees	<u>119</u>

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, 2020, 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 \$111,902 and \$114,583 for the years ended June 30, 2020, and June 30, 2019, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 10. Pension Plan (Continued)Net Pension Liability

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For the political subdivision, the net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2018, rolled forward to the measurement date of June 30, 2019.

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, 2018, 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, 2019.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent – 5.35 percent
Investment rate of return	6.75 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 6.75 percent. However, since the difference was minimal, and a more conservative 6.75 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 6.75 percent to simplify preparation of pension liabilities.

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

NOTES TO FINANCIAL STATEMENTS

Note 10. Pension Plan (Continued)

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, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest 10 – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated 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	Increased rate from 14% to 20%
Discount Rate	Decreased rate from 7% to 6.75%

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated 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	Increased rate from 14% to 15%
Discount Rate	Decreased rate from 7% to 6.75%

NOTES TO FINANCIAL STATEMENTS

Note 10. Pension Plan (Continued)Actuarial Assumptions – Public Safety Employees with Hazardous Duty Benefits

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the Political Subdivision Retirement Plan was based on an actuarial valuation as of June 30, 2018, 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, 2019.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent – 4.75 percent
Investment rate of return	6.75 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 6.75 percent. However, since the difference was minimal, and a more conservative 6.75 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 6.75 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, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest 10 – Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated 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	Increased rate from 60% to 70%
Discount Rate	Decreased rate from 7% to 6.75%

All Others (Non 10 Largest) – Hazardous Duty:

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 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	Decreased rate from 60% to 45%
Discount Rate	Decreased rate from 7% to 6.75%

NOTES TO FINANCIAL STATEMENTS

Note 10. Pension Plan (Continued)

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS – Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP – Private Investment Partnership	<u>3.00%</u>	6.29%	<u>0.19%</u>
Total	<u>100.00%</u>		5.13%
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.63%</u>

* The above allocation provides a one-year return of 7.63 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 7.11 percent, including expected inflation of 2.50 percent. The VRS Board elected a long-term rate of 6.75 percent which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Discount Rate

The discount rate used to measure the total pension liability was 6.75 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, 2019, the alternate rate was the employer contribution rate used in FY 2012 or 100 percent of the actuarially determined employer contribution rate from the June 30, 2017, actuarial valuations, whichever was greater. From July 1, 2019 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	Plan	Net
	Pension Liability (a)	Fiduciary Net Position (b)	Pension Liability (a) – (b)
Balances at June 30, 2018	\$ 3,918,284	\$ 3,624,746	\$ 293,538
Changes for the year:			
Service cost	\$ 103,413	\$ -	\$ 103,413
Interest	266,258	-	266,258
Change of assumptions	115,515	-	115,515
Differences between expected and actual experience	(226,508)	-	(226,508)
Contributions - employer	-	101,045	(101,045)
Contributions - employee	-	52,297	(52,297)
Net investment income	-	239,240	(239,240)
Benefit payments, including refunds of employee contributions	(229,194)	(229,194)	-
Administrative expenses	-	(2,384)	2,384
Other changes	-	(151)	151
Net changes	<u>\$ 29,484</u>	<u>\$ 160,853</u>	<u>\$ (131,369)</u>
Balances at June 30, 2019	<u>\$ 3,947,768</u>	<u>\$ 3,785,599</u>	<u>\$ 162,169</u>

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 6.75 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 (5.75 percent) or one percentage point higher (7.75 percent) than the current rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Political Subdivision's Net Pension (Asset) Liability	\$ 685,889	\$ 162,169	\$(250,480)

NOTES TO FINANCIAL STATEMENTS

Note 10. Pension Plan (Continued)Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2020, the political subdivision recognized pension expense (earnings) of \$127,952. At June 30, 2020, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 113,254
Change in assumptions	57,757	-
Net difference between projected and actual earnings on pension plan investments	-	30,983
Employer contributions subsequent to the measurement date	<u>111,902</u>	<u>-</u>
Total	<u>\$ 169,659</u>	<u>\$ 144,237</u>

The amount of \$111,902 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 fiscal year ending June 30, 2021. 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,

2021	\$ (54,914)
2022	(33,278)
2023	(636)
2024	2,348
2025	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2019 *Comprehensive Annual Financial Report* (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2019-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, 2020, the Town reported a payable of \$14,229 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2020.

NOTES TO FINANCIAL STATEMENTS

Note 11. Group Life Insurance PlanPlan 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:

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS
<p>Eligible Employees</p> <p>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:</p> <ul style="list-style-type: none"> • City of Richmond • City of Portsmouth • City of Roanoke • City of Norfolk • Roanoke City School Board <p>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 accumulated retirement member contributions and accrued interest.</p>
<p>Benefit Amounts</p> <p>The benefits payable under the Group Life Insurance Program have several components.</p> <ul style="list-style-type: none"> • <u>Natural Death Benefit</u> – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. • <u>Accidental Death Benefit</u> – The accidental death benefit is double the natural death benefit. • <u>Other Benefit Provisions</u> – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include: <ul style="list-style-type: none"> ○ Accidental dismemberment benefit ○ Safety belt benefit ○ Repatriation benefit ○ Felonious assault benefit ○ Accelerated death benefit option ○

NOTES TO FINANCIAL STATEMENTS

Note 11. Group Life Insurance Plan (Continued)**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 service credit, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$8,463 as of June 30, 2020.

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, 2020 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. Contributions to the Group Life Insurance Program from the entity were \$6,181 and \$15,679 for the years ended June 30, 2020 and June 30, 2019, 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, 2020, the entity reported a liability of \$92,917 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2019 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of June 30, 2018 and rolled forward to the measurement date of June 30, 2019. 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, 2019, the participating employer's proportion was .00571 percent as compared to .00563 percent at June 30, 2018.

For the year ended June 30, 2020, the participating employer recognized GLI OPEB expense of \$3,656. 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.

NOTES TO FINANCIAL STATEMENTS

Note 11. Group Life Insurance Plan (Continued)

At June 30, 2020, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 6,180	\$ 1,205
Net difference between projected and actual earnings on GLI OPEB program investments	-	1,909
Change in assumptions	5,866	2,802
Changes in proportion	5,953	1,551
Employer contributions subsequent to the measurement date	<u>6,229</u>	<u>-</u>
Total	<u>\$ 24,228</u>	<u>\$ 7,467</u>

\$6,229 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:

<u>Year ended June 30,</u>	
2021	\$ (1,000)
2022	(1,000)
2023	-
2024	1,000
2025	1,000
Thereafter	-

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2018, 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, 2019.

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	6.75 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 6.75 percent. However, since the difference was minimal, and a more conservative 6.75 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 6.75 percent to simplify preparation of the OPEB liabilities.

NOTES TO FINANCIAL STATEMENTS

Note 11. Group Life Insurance Plan (Continued)Mortality rates – Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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%
Discount Rate	Decreased rate from 7% to 6.75%

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

NOTES TO FINANCIAL STATEMENTS

Note 11. Group Life Insurance Plan (Continued)

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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%
Discount Rate	Decreased rate from 7% to 6.75%

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, 2019, NOL amounts for the Group Life Insurance Program are as follows (amounts expressed in thousands):

	<u>Group Life Insurance OPEB Program</u>
Total GLI OPEB Liability	\$ 3,390,238
Plan Fiduciary Net Position	<u>(1,762,972)</u>
Employers' Net GLI OPEB Liability (Asset)	<u>\$ 1,627,266</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	52.00%

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.

NOTES TO FINANCIAL STATEMENTS

Note 11. Group Life Insurance Plan (Continued)

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	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS – Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP – Private Investment Partnership	3.00%	6.29%	0.19%
Total	100.00%		5.13%
	Inflation		2.50%
	*Expected arithmetic nominal return		7.63%

* The above allocation provides a one-year return of 7.63 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 7.11 percent, including expected inflation of 2.50 percent. The VRS Board elected a long-term rate of 6.75 percent which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 6.75 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, 2019, 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, 2019 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.

NOTES TO FINANCIAL STATEMENTS

Note 11. Group Life Insurance Plan (Continued)

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 6.75 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 (5.75 percent) or one percentage point higher (7.75 percent) than the current rate:

	<u>1.00% Decrease</u> <u>(5.75%)</u>	<u>Current Discount</u> <u>Rate (6.75%)</u>	<u>1.00% Increase</u> <u>(7.75%)</u>
Employer’s proportionate share of the Group Life Insurance Program Net OPEB Liability	\$ 122,067	\$ 92,917	\$ 69,277

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 2019 *Comprehensive Annual Financial Report* (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2019-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at PO 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 \$1,330.

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.

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.

NOTES TO FINANCIAL STATEMENTS

Note 13. Change to Beginning Fund Balance and Net Assets

On July 1, 2019, the Town combined the Cemetery Fund, previously reported as a fiduciary fund, into the General Fund. This action was taken by approval of the Town Council.

The beginning fund balance of the General Fund and the beginning net assets of the governmental activities have been restated as a result of combining the applicable assets and liabilities from the Cemetery Fund.

	<u>General Fund</u>
Beginning fund balance, prior to combining	\$ 1,608,855
Add current assets and liabilities (net) from Cemetery Fund on July 1, 2019	<u>(126,750)</u>
Beginning fund balance, after combining	<u>\$ 1,482,105</u>
	 <u>Governmental</u> <u>Net Assets</u>
Beginning net assets, prior to combining	\$ 6,151,013
Add all assets and liabilities (net) from Cemetery Fund on July 1, 2019	<u>440,450</u>
Beginning net assets, after combining	<u>\$ 6,591,463</u>

**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, 2020

	Original & Final Budget	Actual	Variance Positive (Negative)
REVENUES			
General property taxes	\$ 562,133	\$ 298,141	\$ (263,992)
Other local taxes	1,213,660	1,390,521	176,861
Permits, privilege fees and regulatory licenses	3,000	2,745	(255)
Fines and forfeitures	7,750	25,207	17,457
Use of money and property	4,500	9,100	4,600
Charges for services	410,800	327,271	(83,529)
Miscellaneous	1,500	39,648	38,148
Cemetery services	61,500	84,125	22,625
Intergovernmental revenues:			
County	66,500	66,500	-
Commonwealth	611,185	964,815	353,630
Federal	1,500	2,340	840
Total revenues	<u>\$ 2,944,028</u>	<u>\$ 3,210,413</u>	<u>\$ 266,385</u>
EXPENDITURES			
General government administration	\$ 989,625	\$ 931,401	\$ 58,224
Public safety	629,192	641,319	(12,127)
Public works	742,896	1,156,698	(413,802)
Cultural and recreation	405,513	349,678	55,835
Community development	24,000	35,404	(11,404)
Cemetery services	99,990	74,693	25,297
Debt service	269,930	272,095	(2,165)
Total expenditures	<u>\$ 3,161,146</u>	<u>\$ 3,461,288</u>	<u>\$ (300,142)</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (217,118)</u>	<u>\$ (250,875)</u>	<u>\$ (33,757)</u>
OTHER FINANCING SOURCES (USES)			
Debt proceeds	\$ -	\$ 14,945	\$ 14,945
Transfers out	-	(43,425)	(43,425)
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ (28,480)</u>	<u>\$ (28,480)</u>
Net change in fund balance	\$ (217,118)	\$ (279,355)	\$ (62,237)
FUND BALANCE AT BEGINNING OF YEAR	<u>1,482,105</u>	<u>1,482,105</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 1,264,987</u>	<u>\$ 1,202,750</u>	<u>\$ (62,237)</u>

TOWN OF ELKTON, VIRGINIA

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

	2019	2018	2017
Total pension liability			
Service cost	\$ 103,413	\$ 95,720	\$ 88,259
Interest	266,258	245,802	237,845
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(226,508)	171,358	36,794
Changes in assumptions	115,515	-	(10,557)
Benefit Payments, including refunds of employee contributions	(229,194)	(212,108)	(265,218)
Net change in total pension liability	29,484	300,772	87,123
Total pension liability - beginning	3,918,284	3,617,512	3,530,389
Total pension liability - ending (a)	<u>\$ 3,947,768</u>	<u>\$ 3,918,284</u>	<u>\$ 3,617,512</u>
Plan fiduciary net position			
Contributions – employer	\$ 101,045	\$ 71,283	\$ 61,288
Contributions - employee	52,297	54,056	46,551
Net investment income	239,240	253,997	384,130
Benefit payments, including refunds of employee contributions	(229,194)	(212,108)	(265,218)
Administrative expense	(2,384)	(2,219)	(2,318)
Other	(151)	(225)	(338)
Net change in plan fiduciary net position	160,853	164,784	224,095
Plan fiduciary net position - beginning	3,624,746	3,459,962	3,235,867
Plan fiduciary net position - ending (b)	<u>\$ 3,785,599</u>	<u>\$ 3,624,746</u>	<u>\$ 3,459,962</u>
Political subdivision's net pension (asset) liability - ending (a) - (b)	<u>\$ 162,169</u>	<u>\$ 293,538</u>	<u>\$ 157,550</u>
Plan fiduciary net position as a percentage of the total pension liability	95.89%	92.51%	95.64%
Covered payroll	\$ 1,299,127	\$ 1,159,329	\$ 1,108,821
Political subdivision's net pension (asset) liability as a percentage of covered payroll	12.48%	25.32%	14.21%

TOWN OF ELKTON, VIRGINIA

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

	2016	2015	2014
Total pension liability			
Service cost	\$ 97,188	\$ 108,145	\$ 109,336
Interest	237,927	228,434	218,067
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(105,191)	(15,846)	-
Changes in assumptions	-	-	-
Benefit Payments, including refunds of employee contributions	<u>(196,988)</u>	<u>(173,244)</u>	<u>(185,356)</u>
Net change in total pension liability	32,936	147,489	142,047
Total pension liability - beginning	<u>3,497,453</u>	<u>3,349,964</u>	<u>3,207,917</u>
Total pension liability - ending (a)	<u>\$ 3,530,389</u>	<u>\$ 3,497,453</u>	<u>\$ 3,349,964</u>
Plan fiduciary net position			
Contributions – employer	\$ 91,060	\$ 90,892	\$ 86,194
Contributions - employee	47,158	47,356	46,507
Net investment income	55,445	142,424	429,954
Benefit payments, including refunds of employee contributions	(196,988)	(173,244)	(185,356)
Administrative expense	(2,023)	(1,953)	(2,344)
Other	<u>(24)</u>	<u>(31)</u>	<u>22</u>
Net change in plan fiduciary net position	(5,372)	105,444	374,977
Plan fiduciary net position - beginning	<u>3,241,239</u>	<u>3,135,795</u>	<u>2,760,818</u>
Plan fiduciary net position - ending (b)	<u>\$ 3,235,867</u>	<u>\$ 3,241,239</u>	<u>\$ 3,135,795</u>
Political subdivision's net pension (asset) liability - ending (a) - (b)	<u>\$ 294,522</u>	<u>\$ 256,214</u>	<u>\$ 214,169</u>
Plan fiduciary net position as a percentage of the total pension liability	91.66%	92.67%	93.61%
Covered payroll	\$ 1,063,401	\$ 1,041,178	\$ 935,652
Political subdivision's net pension (asset) liability as a percentage of covered payroll	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 CONTRIBUTIONSSCHEDULE OF EMPLOYER CONTRIBUTIONS
Years Ended June 30, 2015 through 2020

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)
2020	\$ 111,902	\$ 111,902	\$ -	\$ 1,268,730	8.82%
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 2020 is the sixth year for this presentation, only six 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, 2020

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

Changes of assumptions – The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest 10 – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated 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	Increased rate from 14% to 20%
Discount Rate	Decreased rate from 7% to 6.75%

TOWN OF ELKTON, VIRGINIA

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

Notes to Required Supplemental Information For the Year Ended June 30, 2020 (Continued)

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated 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	Increased rate from 14% to 15%
Discount Rate	Decreased rate from 7% to 6.75%

Largest 10 – Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated 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	Increased rate from 60% to 70%
Discount Rate	Decreased rate from 7% to 6.75%

All Others (Non 10 Largest) – Hazardous Duty:

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 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	Decreased rate from 60% to 45%
Discount Rate	Decreased rate from 7% to 6.75%

TOWN OF ELKTON, VIRGINIA

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

SCHEDULE OF EMPLOYER’S SHARE OF NET OPEB LIABILITY
- GROUP LIFE INSURANCE PROGRAM

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Employer’s Proportion of the Net GLI OPEB Liability (Asset)	.00571%	.00563%	.00521%
Employer’s Proportionate Share of the Net GLI OPEB Liability (Asset)	\$ 92,917	\$ 85,000	\$ 78,000
Employer’s Covered Payroll	\$ 1,299,127	\$ 1,159,329	\$ 1,108,821
Employer’s Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered Payroll	7.15%	7.33%	7.03%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	52.00%	51.22%	48.86%

SCHEDULE OF EMPLOYER CONTRIBUTIONS
Years Ended June 30, 2018 through 2020

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)
2020	\$ 6,229	\$ 6,229	\$ -	\$ 1,268,730	.049%
2019	6,271	6,271	-	1,299,127	.048%
2018	6,138	6,138	-	1,159,329	.053%

Schedules are intended to show information for 10 years. Since 2020 is the third year for this presentation, only three 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, 2020

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

Changes of assumptions – The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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%
Discount Rate	Decreased rate from 7% to 6.75%

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%
Discount Rate	Decreased rate from 7% to 6.75%

Other Supplementary Information

TOWN OF ELKTON, VIRGINIA

GENERAL FUND
STATEMENT OF REVENUES, COMPARED TO BUDGET
Year Ended June 30, 2020

	Original & Final Budget	Actual	Variance Positive (Negative)
GENERAL PROPERTY TAXES			
Real estate	\$ 204,000	\$ 232,650	\$ 28,650
Personal property	353,133	60,102	(293,031)
Penalties and interest	5,000	5,389	389
	<u>\$ 562,133</u>	<u>\$ 298,141</u>	<u>\$ (263,992)</u>
OTHER LOCAL TAXES			
Local sales and use	\$ 100,000	\$ 151,082	\$ 51,082
Consumer utility	40,000	44,675	4,675
Business licenses	117,660	79,220	(38,440)
Motor vehicle licenses	-	53,342	53,342
Bank stock	100,000	106,328	6,328
Cigarette	55,000	59,582	4,582
Meals	800,000	896,292	96,292
Cable pole	1,000	-	(1,000)
	<u>\$ 1,213,660</u>	<u>\$ 1,390,521</u>	<u>\$ 176,861</u>
PERMITS, PRIVILEGE FEES AND REGULATORY LICENSES			
Permits	\$ 3,000	\$ 2,745	\$ (255)
	<u>\$ 3,000</u>	<u>\$ 2,745</u>	<u>\$ (255)</u>
FINES AND FORFEITURES			
	\$ 7,750	\$ 25,207	\$ 17,457
	<u>\$ 7,750</u>	<u>\$ 25,207</u>	<u>\$ 17,457</u>
REVENUE FROM THE USE OF MONEY AND PROPERTY			
Sale of property	\$ 2,500	\$ -	\$ (2,500)
Interest on bank deposits	-	6,960	6,960
Land rental	2,000	2,140	140
	<u>\$ 4,500</u>	<u>\$ 9,100</u>	<u>\$ 4,600</u>
CHARGES FOR SERVICES			
Charges for sanitation and waste removal	\$ 252,000	\$ 211,638	\$ (40,362)
Community Center revenue	87,850	58,071	(29,779)
Charges for recreation	69,700	56,522	(13,178)
Mowing and brush grinding	1,250	1,040	(210)
	<u>\$ 410,800</u>	<u>\$ 327,271</u>	<u>\$ (83,529)</u>
MISCELLANEOUS			
Contributions – Donations - playground	\$ -	\$ 2,300	\$ 2,300
Contributions - Community Center	-	4,913	4,913
Other	1,500	32,435	30,935
	<u>\$ 1,500</u>	<u>\$ 39,648</u>	<u>\$ 38,148</u>

(Continued)

TOWN OF ELKTON, VIRGINIA

GENERAL FUND
 STATEMENT OF REVENUES, COMPARED TO BUDGET
 Year Ended June 30, 2020

	Original & Final Budget	Actual	Variance Positive (Negative)
CEMETERY SERVICES			
Sale of lots	\$ 40,500	\$ 56,325	\$ 15,825
Open and close revenue	<u>21,000</u>	<u>27,800</u>	<u>6,800</u>
	<u>\$ 61,500</u>	<u>\$ 84,125</u>	<u>\$ 22,625</u>
INTERGOVERNMENTAL REVENUES			
County			
Community Center funds	\$ 66,500	\$ 66,500	\$ -
	<u>\$ 66,500</u>	<u>\$ 66,500</u>	<u>\$ -</u>
Commonwealth			
Fire program grant	\$ -	\$ 10,000	\$ 10,000
Rolling stock taxes	5,000	3,560	(1,440)
Street and highway maintenance	528,000	528,815	815
Law enforcement grants, 599 funds	50,088	53,968	3,880
Personal property tax reimbursement	28,097	28,097	-
Streambank Stabilization grant	-	340,375	340,375
	<u>\$ 611,185</u>	<u>\$ 964,815</u>	<u>\$ 353,630</u>
Federal			
Police block grants, passed through Department of Criminal Justice Services	\$ 1,500	\$ 2,340	\$ 840
	<u>\$ 1,500</u>	<u>\$ 2,340</u>	<u>\$ 840</u>
Total revenues	<u>\$ 2,944,028</u>	<u>\$ 3,210,413</u>	<u>\$ 266,385</u>

TOWN OF ELKTON, VIRGINIA

GENERAL FUND
STATEMENT OF EXPENDITURES, COMPARED TO BUDGET
Year Ended June 30, 2020

	Original & Final Budget	Actual	Variance Positive (Negative)
GENERAL GOVERNMENT ADMINISTRATION			
General Government			
Salaries and wages	\$ 311,717	\$ 278,532	\$ 33,185
Codefication	-	1,787	(1,787)
Computer support	23,000	18,040	4,960
Contract labor	500	-	500
Conventions and meetings	10,000	10,163	(163)
Employee benefits	66,724	57,084	9,640
Insurance and surety bonds	104,000	118,857	(14,857)
Professional services	306,080	215,949	90,131
Planning Commission	500	-	500
Payroll taxes	20,389	20,205	184
Repairs and maintenance	4,500	8,927	(4,427)
Supplies	11,000	34,788	(23,788)
Telephone and internet	34,500	24,701	9,799
Utilities	7,500	5,956	1,544
Leases	20,000	27,185	(7,185)
Return check fees	9,500	8,752	748
Postage	17,000	16,845	155
Small equipment	500	771	(271)
Dues	3,000	5,552	(2,552)
Special events	10,000	9,078	922
Advertising	6,000	4,745	1,255
Vehicle fuel mileage	1,250	3,978	(2,728)
Uniforms	500	708	(208)
Donations	2,000	1,450	550
Miscellaneous	7,465	113	7,352
	<u>\$ 977,625</u>	<u>\$ 874,166</u>	<u>\$ 103,459</u>
Capital Outlay			
General government	\$ 12,000	\$ 57,235	\$ (45,235)
	<u>\$ 12,000</u>	<u>\$ 57,235</u>	<u>\$ (45,235)</u>
Total general government administration	<u>\$ 989,625</u>	<u>\$ 931,401</u>	<u>\$ 58,224</u>
PUBLIC SAFETY			
Police Department			
Salaries and wages	\$ 337,197	\$ 352,809	\$ (15,612)
Computer support	28,000	3,065	24,935
Conventions and meetings	1,000	672	328
Employee benefits	75,758	83,388	(7,630)
Professional services	1,750	4,227	(2,477)
Miscellaneous	3,000	-	3,000
Payroll taxes	18,987	24,140	(5,153)

(Continued)

TOWN OF ELKTON, VIRGINIA

GENERAL FUND
STATEMENT OF EXPENDITURES, COMPARED TO BUDGET
Year Ended June 30, 2020

	Original & Final Budget	Actual	Variance Positive (Negative)
Repairs and maintenance	\$ 1,000	\$ 3,454	\$ (2,454)
Supplies	6,200	27,761	(21,561)
Telephone and internet	2,000	5,396	(3,396)
Insurance	1,000	-	1,000
Uniforms	6,000	7,681	(1,681)
Vehicle maintenance	20,000	18,078	1,922
Small equipment	7,000	340	6,660
Advertising	300	425	(125)
Dues	5,000	4,578	422
Special events	750	3,019	(2,269)
Postage	150	70	80
	<u>\$ 515,092</u>	<u>\$ 539,103</u>	<u>\$ (24,011)</u>
Other			
Fire program funds	\$ -	\$ 10,000	\$ (10,000)
	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ (10,000)</u>
Capital Outlay			
Public safety	\$ 114,100	\$ 92,216	\$ 21,884
	<u>\$ 114,100</u>	<u>\$ 92,216</u>	<u>\$ 21,884</u>
Total public safety	<u>\$ 629,192</u>	<u>\$ 641,319</u>	<u>\$ (12,127)</u>
PUBLIC WORKS			
Maintenance and Streets			
Salaries and wages	\$ 218,728	\$ 206,389	\$ 12,339
Dues	1,000	216	784
Contract labor	5,000	-	5,000
Employee benefits	71,801	80,625	(8,824)
Professional services	5,000	7,560	(2,560)
Advertising	250	651	(401)
Payroll taxes	14,208	15,067	(859)
Repairs and maintenance	12,000	12,409	(409)
Supplies	30,250	37,707	(7,457)
Telephone and internet	3,000	4,897	(1,897)
Vehicle maintenance	9,500	5,967	3,533
Small equipment	500	622	(122)
Uniforms	-	258	(258)
Miscellaneous	250	141	109
Conventions and meetings	-	225	(225)
	<u>\$ 371,487</u>	<u>\$ 372,734</u>	<u>\$ (1,247)</u>

(Continued)

TOWN OF ELKTON, VIRGINIA

GENERAL FUND
STATEMENT OF EXPENDITURES, COMPARED TO BUDGET
Year Ended June 30, 2020

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Sanitation			
Salaries and wages	\$ 19,357	\$ 35,916	\$ (16,559)
Employee benefits	6,171	3,268	2,903
Payroll taxes	1,481	2,667	(1,186)
Landfill fees	65,000	65,766	(766)
Trash removal	125,000	137,353	(12,353)
Telephone and internet	200	-	200
Advertising	250	-	250
Supplies	300	245	55
Vehicle maintenance	400	103	297
Uniforms	250	-	250
	<u>\$ 218,409</u>	<u>\$ 245,318</u>	<u>\$ (26,909)</u>
Capital Outlay			
Public works	<u>\$ 153,000</u>	<u>\$ 538,646</u>	<u>\$ (385,646)</u>
	<u>\$ 153,000</u>	<u>\$ 538,646</u>	<u>\$ (385,646)</u>
Total public works	<u>\$ 742,896</u>	<u>\$ 1,156,698</u>	<u>\$ (413,802)</u>
CULTURAL AND RECREATION			
Community Center			
Salaries and wages	\$ 132,194	\$ 135,382	\$ (3,188)
Conventions and meetings	500	150	350
Employee benefits	32,292	29,348	2,944
Advertising	1,500	724	776
Payroll taxes	8,430	9,992	(1,562)
Repairs and maintenance	23,000	17,374	5,626
Supplies	4,500	9,474	(4,974)
Small equipment	1,000	503	497
Uniforms	500	-	500
Dues	250	247	3
Computer support	2,400	2,000	400
Telephone and internet	7,750	12,017	(4,267)
Professional services	6,000	87	5,913
Special events	6,000	4,101	1,899
Postage	100	-	100
Resale vending	-	1,233	(1,233)
Leases, equipment	-	48	(48)
	<u>\$ 226,416</u>	<u>\$ 222,680</u>	<u>\$ 3,736</u>

(Continued)

TOWN OF ELKTON, VIRGINIA
GENERAL FUND
STATEMENT OF EXPENDITURES, COMPARED TO BUDGET
Year Ended June 30, 2020

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Recreation			
Salaries and wages	\$ 54,671	\$ 44,257	\$ 10,414
Contract labor	1,000	833	167
Conventions and meetings	300	-	300
Employee benefits	6,098	10,033	(3,935)
Telephone and internet	700	1,792	(1,092)
Advertising	400	610	(210)
Payroll taxes	1,428	3,361	(1,933)
Repairs and maintenance	7,000	15,817	(8,817)
Supplies	8,300	4,160	4,140
Special events	1,000	122	878
Dues	300	405	(105)
Professional services	1,000	500	500
Small equipment	300	142	158
Vehicle maintenance	1,600	740	860
Postage	-	11	(11)
	<u>\$ 84,097</u>	<u>\$ 82,783</u>	<u>\$ 1,314</u>
Capital Outlay			
Community Center	\$ 55,000	\$ 44,215	\$ 10,785
Recreation	40,000	-	40,000
	<u>\$ 95,000</u>	<u>\$ 44,215</u>	<u>\$ 50,785</u>
Total cultural and recreation	<u>\$ 405,513</u>	<u>\$ 349,678</u>	<u>\$ 55,835</u>
COMMUNITY DEVELOPMENT			
Economic development	\$ 24,000	\$ 35,404	\$ (11,404)
Total community development	<u>\$ 24,000</u>	<u>\$ 35,404</u>	<u>\$ (11,404)</u>
CEMETERY SERVICES			
Cemetery			
Salaries and wages	\$ 35,207	\$ 48,108	\$ (12,901)
Employee benefits	11,753	14,100	(2,347)
Supplies	3,890	3,071	819
Payroll taxes	2,540	1,532	1,008
Other deductions	6,100	7,882	(1,782)
	<u>\$ 59,490</u>	<u>\$ 74,693</u>	<u>\$ (15,203)</u>
Capital Outlay			
Cemetery	\$ 40,500	\$ -	\$ 40,500
	<u>\$ 40,500</u>	<u>\$ -</u>	<u>\$ 40,500</u>
Total cemetery services	<u>\$ 99,990</u>	<u>\$ 74,693</u>	<u>\$ 25,297</u>

(Continued)

TOWN OF ELKTON, VIRGINIA

GENERAL FUND
STATEMENT OF EXPENDITURES, COMPARED TO BUDGET
Year Ended June 30, 2020

	Original & Final Budget	Actual	Variance Positive (Negative)
DEBT SERVICE			
General obligation bond principal	\$ 100,000	\$ 100,000	\$ -
General obligation bond interest	13,200	15,365	(2,165)
Community Center loan principal	92,981	92,292	689
Community Center loan interest	37,102	37,791	(689)
Ford Motor credit - principal	22,725	22,725	-
Ford Motor credit – interest	<u>3,922</u>	<u>3,922</u>	<u>-</u>
Total debt service	<u>\$ 269,930</u>	<u>\$ 272,095</u>	<u>\$ (2,165)</u>
Total expenditures	<u>\$ 3,161,146</u>	<u>\$ 3,461,288</u>	<u>\$ (300,142)</u>

TOWN OF ELKTON, VIRGINIA

ELECTRIC FUND
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION - BUDGET AND ACTUAL
Year Ended June 30, 2020

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
OPERATING REVENUES			
Charges for services	\$ 2,000,000	\$ 1,883,960	\$ (116,040)
Late charges and interest	40,000	33,722	(6,278)
Local consumption tax	6,000	6,015	15
Connection fees	5,000	-	(5,000)
Reconnect fees	5,000	4,632	(368)
Service charges	<u>6,000</u>	<u>4,350</u>	<u>(1,650)</u>
Total operating revenues	<u>\$ 2,062,000</u>	<u>\$ 1,932,679</u>	<u>\$ (129,321)</u>
OPERATING EXPENSES			
Salaries and wages	\$ 166,443	\$ 155,974	\$ 10,469
Salary, contract labor	-	1,788	(1,788)
Employee benefits	53,182	28,951	24,231
Computer support	5,000	1,435	3,565
Dues	400	422	(22)
Electric power	1,780,000	1,519,419	260,581
Professional services	500	650	(150)
Repairs and maintenance	7,000	10,359	(3,359)
Telephone and internet	1,000	1,361	(361)
Supplies	17,500	85,606	(68,106)
Conventions and meetings	-	3,224	(3,224)
Payroll taxes	12,618	10,851	1,767
Vehicle maintenance	9,500	10,405	(905)
Depreciation	-	23,121	(23,121)
Uniforms	750	147	603
Miss Utility	<u>125</u>	<u>30</u>	<u>95</u>
Total operating expenses	<u>\$ 2,054,018</u>	<u>\$ 1,853,743</u>	<u>\$ 200,275</u>
Operating income	<u>\$ 7,982</u>	<u>\$ 78,936</u>	<u>\$ 70,954</u>
Income before transfers	<u>\$ 7,982</u>	<u>\$ 78,936</u>	<u>\$ 70,954</u>
TRANSFERS			
Transfers in	<u>-</u>	<u>8,183</u>	<u>8,183</u>
Change in net position	<u>\$ 7,982</u>	<u>\$ 87,119</u>	<u>\$ 79,137</u>
NET POSITION AT BEGINNING OF YEAR	<u>943,737</u>	<u>943,737</u>	<u>-</u>
NET POSITION AT END OF YEAR	<u>\$ 951,719</u>	<u>\$ 1,030,856</u>	<u>\$ 79,137</u>

TOWN OF ELKTON, VIRGINIA

WATER FUND
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION - BUDGET AND ACTUAL
Year Ended June 30, 2020

	Original & Final Budget	Actual	Variance Positive (Negative)
OPERATING REVENUES			
Charges for services	\$ 367,500	\$ 351,681	\$ (15,819)
Connection fees	70,000	36,200	(33,800)
Water haulers	45,000	49,317	4,317
Reconnect fees	5,000	3,764	(1,236)
Service charges	1,500	1,237	(263)
Total operating revenues	\$ 489,000	\$ 442,199	\$ (46,801)
OPERATING EXPENSES			
Salaries and wages	\$ 139,418	\$ 137,699	\$ 1,719
Contract labor	300	-	300
Employee benefits	33,466	25,462	8,004
Advertising	300	554	(254)
Professional services	-	1,531	(1,531)
Repairs and maintenance	10,500	18,262	(7,762)
Telephone and internet	1,300	2,627	(1,327)
Supplies	40,500	54,764	(14,264)
Payroll taxes	8,292	8,697	(405)
Vehicle maintenance and generator fuel	5,500	4,832	668
Depreciation	-	102,182	(102,182)
Water testing	2,000	615	1,385
Miss Utility	200	140	60
Dues	2,000	460	1,540
Postage	-	8	(8)
Equipment rental	500	-	500
Permit fees	14,300	3,765	10,535
Uniforms	750	275	475
Utilities	22,000	23,624	(1,624)
Conventions and meetings	1,000	-	1,000
Total operating expenses	\$ 282,326	\$ 385,497	\$ (103,171)
Operating income	\$ 206,674	\$ 56,702	\$ (149,972)
NONOPERATING REVENUE (EXPENSE)			
Interest expense	(22,573)	(22,223)	350
Income before transfers	\$ 184,101	\$ 34,479	\$ (149,622)
TRANSFERS			
Transfers in	-	37,358	37,358
Change in net position	\$ 184,101	\$ 71,837	\$ (112,264)
NET POSITION AT BEGINNING OF YEAR	1,823,114	1,823,114	-
NET POSITION AT END OF YEAR	\$ 2,007,215	\$ 1,894,951	\$ (112,264)

TOWN OF ELKTON, VIRGINIA
SEWER FUND
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION - BUDGET AND ACTUAL
Year Ended June 30, 2020

	Original & Final Budget	Actual	Variance Positive (Negative)
OPERATING REVENUES			
Charges for services	\$ 682,500	\$ 662,955	\$ (19,545)
Connection fees	<u>145,000</u>	<u>46,900</u>	<u>(98,100)</u>
Total operating revenues	<u>\$ 827,500</u>	<u>\$ 709,855</u>	<u>\$ (117,645)</u>
OPERATING EXPENSES			
Salaries and wages	\$ 285,500	\$ 135,017	\$ 150,483
Contract labor	1,000	-	1,000
Employee benefits	33,466	37,568	(4,102)
Insurance	8,500	10,065	(1,565)
Advertising	7,000	2,202	4,798
Landfill	30,000	30,543	(543)
Permit fees	8,000	2,825	5,175
Professional services	20,000	1,065	18,935
Repairs and maintenance	21,500	19,369	2,131
Telephone and internet	5,000	4,504	496
Supplies	36,000	34,272	1,728
Postage	50	167	(117)
Small equipment	500	334	166
Payroll taxes	8,292	9,701	(1,409)
Vehicle maintenance	5,500	5,829	(329)
Depreciation	-	357,203	(357,203)
Uniforms	750	275	475
Miss Utility	125	154	(29)
Dues	750	1,350	(600)
Water testing	11,000	6,876	4,124
Computer support	5,000	12,553	(7,553)
Conventions and meetings	500	300	200
Legal fees	200,000	27,211	172,789
Lease, equipment	-	514	(514)
Utilities	-	217	(217)
Total operating expenses	<u>\$ 688,433</u>	<u>\$ 700,114</u>	<u>\$ (11,681)</u>
Operating income	\$ 139,067	\$ 9,741	\$ (129,326)
NONOPERATING REVENUE (EXPENSE)			
Interest expense	<u>(59,732)</u>	<u>(109,151)</u>	<u>(49,419)</u>
Income (loss) before transfers	<u>\$ 79,335</u>	<u>\$ (99,410)</u>	<u>\$ (178,745)</u>

(Continued)

TOWN OF ELKTON, VIRGINIA
SEWER FUND
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION - BUDGET AND ACTUAL
Year Ended June 30, 2020

	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
TRANSFERS			
Transfers in	\$ -	\$ 8,958	\$ 8,958
Transfers out	<u>-</u>	<u>(11,074)</u>	<u>(11,074)</u>
	<u>\$ -</u>	<u>\$ (2,116)</u>	<u>\$ (2,116)</u>
Change in net position	\$ 79,335	\$ (101,526)	\$ (180,861)
NET POSITION AT BEGINNING OF YEAR	<u>1,823,296</u>	<u>1,823,296</u>	<u>-</u>
NET POSITION AT END OF YEAR	<u>\$ 1,902,631</u>	<u>\$ 1,721,770</u>	<u>\$ (180,861)</u>

TOWN OF ELKTON, VIRGINIA
SCHEDULE OF CAPITAL ADDITIONS
Year Ended June 30, 2020

GENERAL FUND

iPhone XS Max Gold 64GB	\$ 1,099
Eagle 3 Radar Unit	2,622
Dell Optiplex 3000 Desktop Computer (6)	7,685
RecTrac Software 2019	13,967
Lift gate for F-150	2,835
Police Radios	8,261
Snack Machine	2,998
Axon Body Cameras	12,628
Curb, gutter, and sidewalk for Miller Kite House	6,475
Entrance, curb, and pad for 4 th and Summit Street	1,050
Rope venture vertex and orb rocker	27,250
Axon Cradlepoint IRB 9000 router	23,687
Camera system	3,305
2020 Ford Explorer	39,810
Lenovo laptop	1,569
Shenandoah river bank stabilization project	412,395
Jennings House renovations, in progress	49,996
Asphalt paving	<u>114,680</u>
Total general fund	<u>\$ 732,312</u>

SEWER FUND

WWTP expansion, in progress	<u>\$ 346,464</u>
Total sewer fund	<u>\$ 346,464</u>



David W. Black, CPA
Managing Partner

Christopher R. Montgomery, CPA
Tax Partner

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the fiduciary fund of the Town of Elkton, Virginia, as of and for the year ended June 30, 2020, 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 December 30, 2020.

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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, items 2020-1 through 2020-3, which we consider to be material weaknesses.

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
December 30, 2020

TOWN OF ELKTON, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2020

FINDINGS – FINANCIAL STATEMENT AUDIT

A. Material Weaknesses in Internal Control

2020-1 Segregation of Duties

Criteria: The criteria for internal control include adequate segregation of duties to prevent fraud or error. Duties should be divided among more than one person in the functions of authorization, custody, record keeping and reconciliation. In a perfect system, no one person should handle more than one type of function.

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

The Town has segregated certain duties of its employees to help prevent or promptly detect errors in financial reporting. 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.

Cause: There is a limited number of personnel for certain functions. This condition is primarily the result of staffing constraints typical of smaller governmental units.

Effect: The effect of not having adequately segregated duties is the government is exposed to increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented, or detected and corrected by management on a timely basis.

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

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

2020-2 Accounting Assistance

Criteria: The management and staff of the Town should reconcile accounts, maintain depreciation schedules, and make all adjusting entries necessary to prepare financial statements in accordance with generally accepted accounting standards.

Condition: 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.

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

TOWN OF ELKTON, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2020

FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

Effect: 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.

Recommendation: The recommendation is for management of the Town to enlist the auditor 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's response: Management believes the current practice to be acceptable and cost beneficial to the Town. The management of the Town plans to continue to enlist the auditor to provide basic accounting assistance such as reconciling certain accounts, maintaining depreciation schedules, and proposing journal entries.

2020-3 Financial Statement Presentation

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

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

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

Effect: 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.

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

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

B. Significant Deficiencies in Internal Control - None