

TOWN OF ELKTON, VIRGINIA

FINANCIAL REPORT

June 30, 2021

**TOWN OF ELKTON, VIRGINIA
FINANCIAL REPORT
YEAR ENDED JUNE 30, 2021**

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INTRODUCTORY SECTION

**TOWN OF ELKTON, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2021**

TOWN COUNCIL

Joshua Gooden, Mayor
Randell Snow, Vice Mayor

Steve America
Jay Dean
Troy Eppard
Jessica Beasley
Heidi Zander

APPOINTED OFFICIALS

Greg Lunsford, Town Manager
Vacant, Treasurer

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Honorable Members of Town Council
Town of Elkton, Virginia

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, (the "Town") as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town'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.

Auditor's 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 auditor's 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.

Auditor's Responsibility (Continued)

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

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, 2021, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison schedule of the general fund 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 required supplementary information, as 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.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2022 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
April 29, 2022

**BASIC FINANCIAL
STATEMENTS**

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**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

TOWN OF ELKTON, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2021

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents (Note 3)	\$ 1,509,978	\$ 3,170,487	\$ 4,680,465
Receivables, net: (Note 4)			
Property taxes	521,642	-	521,642
Meals taxes	96,754	-	96,754
Accounts and other	18,420	250,704	269,124
Prepays	149,353	9,281	158,634
Internal balances (Note 6)	(20,856)	20,856	-
Due from other governmental units and businesses (Note 5)	22,456	-	22,456
Inventories	6,420	159,787	166,207
Cash and cash equivalents – restricted (Note 3)	1,505,955	125,126	1,631,081
Investments – restricted (Note 3)	135,706	-	135,706
Capital assets: (Note 7)			
Nondepreciable	1,387,444	10,152,453	11,539,897
Depreciable, net	6,279,896	8,169,325	14,449,221
Total assets	11,613,168	22,058,019	33,671,187
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows (Note 10)	222,077	87,194	309,271
Other postemployment benefit related deferred outflows (Note 11)	17,808	6,991	24,799
Total deferred outflows of resources	239,885	94,185	334,070
LIABILITIES			
Accounts payable	75,391	2,144,708	2,220,099
Retainage payable	-	408,971	408,971
Customer deposits	-	125,126	125,126
Unearned revenue (Note 8)	1,505,955	-	1,505,955
Accrued payroll	53,203	67,833	121,036
Accrued interest payable	6,406	53,302	59,708
Noncurrent liabilities:			
Compensated absences (Note 9)	137,846	73,175	211,021
Long-term debt, due within one year (Note 9)	279,455	7,628,015	7,907,470
Long-term debt, due in more than one year (Note 9)	1,548,950	5,457,424	7,006,374
Net pension liability (Note 10)	366,170	143,770	509,940
Net other postemployment benefit liability (Note 11)	68,306	26,817	95,123
Total liabilities	4,041,682	16,129,141	20,170,823
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue (Note 8)	380,725	-	380,725
Other postemployment benefit related deferred inflows (Note 11)	2,922	1,147	4,069
Total deferred inflows of resources	383,647	1,147	384,794
NET POSITION			
Net investment in capital assets	5,838,935	5,236,339	11,075,274
Unrestricted	1,588,789	785,577	2,374,366
Total net position	\$ 7,427,724	\$ 6,021,916	\$ 13,449,640

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

TOWN OF ELKTON, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Governmental activities							
General government administration	\$ 1,455,383	\$ 6,286	\$ 149,606	\$ -	\$ (1,299,491)	\$ -	\$ (1,299,491)
Public safety	604,538	13,795	71,658	-	(519,085)	-	(519,085)
Public works	637,392	214,481	544,159	-	121,248	-	121,248
Cemetery services	82,522	129,721	-	-	47,199	-	47,199
Parks, recreation, and cultural	62,762	-	-	-	(62,762)	-	(62,762)
Community development	242,974	68,661	66,500	-	(107,813)	-	(107,813)
Interest on long-term debt	73,087	-	-	-	(73,087)	-	(73,087)
Total governmental activities	3,158,658	432,944	831,923	-	(1,893,791)	-	(1,893,791)
Business-type activities							
Electric	1,661,371	1,888,004	-	-	-	226,633	226,633
Water	482,223	521,352	-	-	-	39,129	39,129
Sewer	891,160	798,398	-	1,386,139	-	1,293,377	1,293,377
Total business-type activities	3,034,754	3,207,754	-	1,386,139	-	1,559,139	1,559,139
Total primary government	\$ 6,193,412	\$ 3,640,698	\$ 831,923	\$ 1,386,139	(1,893,791)	1,559,139	(334,652)
General revenues and transfers:							
Property taxes					399,424	-	399,424
Other local taxes					1,551,833	-	1,551,833
Miscellaneous					7,179	-	7,179
Gain on sale of property					232,896	-	232,896
Transfers (Note 6)					192,225	(192,225)	-
Total general revenues and transfers					2,383,557	(192,225)	2,191,332
Change in net position					489,766	1,366,914	1,856,680
NET POSITION AT JULY 1, AS RESTATED (Note 16)					6,937,958	4,655,002	11,592,960
NET POSITION AT JUNE 30					\$ 7,427,724	\$ 6,021,916	\$ 13,449,640

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

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FUND
FINANCIAL STATEMENTS

TOWN OF ELKTON, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2021

	<u>General</u>
ASSETS	
Cash and cash equivalents (Note 3)	\$ 1,509,978
Receivables, net (Note 4)	
Property taxes	521,642
Meals taxes	96,754
Accounts and other	18,420
Prepays	149,353
Inventories	6,420
Due from other governments (Note 5)	22,456
Cash and cash equivalents – restricted (Note 3)	1,505,955
Investments – restricted (Note 3)	<u>135,706</u>
Total assets	<u>\$ 3,966,684</u>
LIABILITIES	
Accounts payable	\$ 75,391
Accrued payroll	53,203
Unearned revenue (Note 8)	1,505,955
Due to other funds (Note 6)	<u>20,856</u>
Total liabilities	<u>1,655,405</u>
DEFERRED INFLOWS OF RESOURCES	
Unearned revenue (Note 8)	380,725
Unavailable revenue (Note 8)	<u>140,952</u>
Total deferred inflows of resources	<u>521,677</u>
FUND BALANCES	
Nonspendable:	
Prepays	149,353
Inventory	6,420
Assigned to:	
Kings Dominion and Busch Garden tickets	13,914
Recreation donations	16,354
HEC holding	180,870
Community Center	33,397
Unassigned	<u>1,389,294</u>
Total fund balances	<u>1,789,602</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,966,684</u>

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

TOWN OF ELKTON, VIRGINIA

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2021**

Ending fund balance – governmental fund		\$ 1,789,602
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the fund.</p>		
Nondepreciable	\$ 1,387,444	
Depreciable, net	<u>6,279,896</u>	
		7,667,340
<p>Certain revenues not available in the current period and, therefore, are not reported in the governmental fund.</p>		
		140,952
<p>Financial statement elements related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the fund.</p>		
Deferred outflows of resources related to pension	222,077	
Deferred outflows of resources related to OPEB	17,808	
Deferred inflows of resources related to OPEB	(2,922)	
Net pension liability	(366,170)	
Net OPEB liability	<u>(68,306)</u>	
		(197,513)
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental fund.</p>		
Compensated absences	(137,846)	
General obligation bonds payable	(1,146,134)	
Notes payable	<u>(682,271)</u>	
		(1,966,251)
<p>Interest on long-term liabilities is not accrued in governmental funds, but is recognized as an expenditure when due.</p>		
		<u>(6,406)</u>
Total net position – governmental activities		<u><u>\$ 7,427,724</u></u>

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

TOWN OF ELKTON, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND

For the Year Ended June 30, 2021

	<u>General</u>
REVENUES	
General property taxes	\$ 392,303
Other local taxes	1,551,833
Permits, privilege fees, and regulatory licenses	4,145
Fines and forfeitures	13,795
Revenues from the use of money and property	2,141
Charges for services	412,863
Miscellaneous	7,179
Intergovernmental:	
Rockingham County	66,500
Commonwealth	615,817
Federal	149,606
	<u>3,216,182</u>
Total revenues	
EXPENDITURES	
Current:	
General government administration	2,031,251
Public safety	585,763
Public works	623,537
Parks, recreation, and cultural	59,834
Community development	238,901
Cemetery services	127,688
Debt service:	
Principal retirement	230,678
Interest and other fiscal charges	77,227
	<u>3,974,879</u>
Total expenditures	
Deficiency of revenues over expenditures	<u>(758,697)</u>
OTHER FINANCING SOURCES	
Sale of property	310,553
Transfers in (Note 6)	192,225
	<u>502,778</u>
Total other financing sources	
Net change in fund balance	(255,919)
Fund balance – beginning, as restated (Note 16)	<u>2,045,521</u>
Fund balance – ending	<u>\$ 1,789,602</u>

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

TOWN OF ELKTON, VIRGINIA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2021**

Net change in fund balance – total governmental fund \$ (255,919)

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

Governmental funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays	\$ 964,011	
Depreciation expense	(313,321)	
Gain on sale of capital assets	<u>(77,657)</u>	
		573,033

Governmental funds report employer pension and OPEB contributions as expenditures. However, in the Statement of Activities the cost of pension and OPEB benefits earned net of employee contributions are reported as pension and OPEB expense.

Change in employer pension contributions	(158,416)	
Pension expense	110,634	
Change in employer OPEB contributions	(4,245)	
OPEB expense	<u>3,363</u>	
		(48,664)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. 7,121

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has an effect on net position.

Principal repayments	<u>230,678</u>	
		230,678

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in compensated absences		(20,623)
Change in accrued interest payable		<u>4,140</u>

Change in net position of governmental activities \$ 489,766

TOWN OF ELKTON, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET TO ACTUAL – GENERAL FUND
Year Ended June 30, 2021**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
REVENUES				
General property taxes	\$ 369,000	\$ 369,000	\$ 392,303	\$ 23,303
Other local taxes	1,113,500	1,113,500	1,551,833	438,333
Permits, privilege fees, and regulatory licenses	78,250	78,250	4,145	(74,105)
Fines and forfeitures	7,750	7,750	13,795	6,045
Revenues from the use of money and property	2,000	2,000	2,141	141
Charges for services	424,600	424,600	412,863	(11,737)
Intergovernmental	666,088	666,088	831,923	165,835
Other	2,000	2,000	7,179	5,179
Total revenues	<u>2,663,188</u>	<u>2,663,188</u>	<u>3,216,182</u>	<u>552,994</u>
EXPENDITURES				
Current:				
General government administration	1,068,215	1,068,215	2,031,251	(963,036)
Public safety	655,758	655,758	585,763	69,995
Public works	694,109	694,109	623,537	70,572
Parks, recreation and cultural	120,765	120,765	59,834	60,931
Community development	306,330	306,330	238,901	67,429
Cemetery services	99,345	99,345	127,688	(28,343)
Debt service	266,730	266,730	307,905	(41,175)
Total expenditures	<u>3,211,252</u>	<u>3,211,252</u>	<u>3,974,879</u>	<u>(763,627)</u>
Excess (deficiency) of revenues over expenditures	<u>(548,064)</u>	<u>(548,064)</u>	<u>(758,697)</u>	<u>(210,633)</u>
OTHER FINANCING SOURCES				
Sale of property	-	-	310,553	310,553
Transfers in (Note 6)	-	-	192,225	192,225
Total other financing sources	<u>-</u>	<u>-</u>	<u>502,778</u>	<u>502,778</u>
Net change in fund balance	<u>\$ (548,064)</u>	<u>\$ (548,064)</u>	<u>\$ (255,919)</u>	<u>\$ 292,145</u>

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

TOWN OF ELKTON, VIRGINIA
STATEMENT OF NET POSITION –
PROPRIETARY FUNDS
June 30, 2021

	Enterprise Funds			Total
	Electric	Water	Sewer	Enterprise Funds
ASSETS				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 918,981	\$ 844,603	\$ 1,406,903	\$ 3,170,487
Accounts receivable, net (Note 4)	154,383	32,776	63,545	250,704
Prepays	5,095	2,124	2,062	9,281
Due from other funds (Note 6)	-	-	20,856	20,856
Inventories	118,410	37,414	3,963	159,787
Cash and cash equivalents – restricted (Note 3)	125,126	-	-	125,126
Total current assets	<u>1,321,995</u>	<u>916,917</u>	<u>1,497,329</u>	<u>3,736,241</u>
Noncurrent assets:				
Capital assets: (Note 7)				
Nondepreciable	-	41,056	10,111,397	10,152,453
Depreciable, net	220,303	1,560,962	6,388,060	8,169,325
Total capital assets, net	<u>220,303</u>	<u>1,602,018</u>	<u>16,499,457</u>	<u>18,321,778</u>
Total noncurrent assets	<u>220,303</u>	<u>1,602,018</u>	<u>16,499,457</u>	<u>18,321,778</u>
Total assets	<u>1,542,298</u>	<u>2,518,935</u>	<u>17,996,786</u>	<u>22,058,019</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension related deferred outflows (Note 10)	31,256	28,241	27,697	87,194
Other postemployment benefit related deferred outflows (Note 11)	2,506	2,264	2,221	6,991
Total deferred outflows of resources	<u>33,762</u>	<u>30,505</u>	<u>29,918</u>	<u>94,185</u>
LIABILITIES				
Current liabilities:				
Accounts payable	121,307	10,087	2,013,314	2,144,708
Retainage payable	-	-	408,971	408,971
Customer deposits	125,126	-	-	125,126
Accrued payroll	21,726	28,841	17,266	67,833
Accrued interest payable	-	3,784	49,518	53,302
Bonds payable and other obligations – current (Note 9)	-	28,709	7,599,306	7,628,015
Total current liabilities	<u>268,159</u>	<u>71,421</u>	<u>10,088,375</u>	<u>10,427,955</u>
Noncurrent liabilities:				
Compensated absences (Note 9)	10,042	53,677	9,456	73,175
Net pension liability (Note 10)	51,537	46,565	45,668	143,770
Net other postemployment benefit liability (Note 11)	9,613	8,686	8,518	26,817
Bonds payable and other obligations (Note 9)	-	434,639	5,022,785	5,457,424
Total noncurrent liabilities	<u>71,192</u>	<u>543,567</u>	<u>5,086,427</u>	<u>5,701,186</u>
Total liabilities	<u>339,351</u>	<u>614,988</u>	<u>15,174,802</u>	<u>16,129,141</u>
DEFERRED INFLOWS OF RESOURCES				
Other postemployment benefit related deferred inflows (Note 11)	411	372	364	1,147
Total deferred inflows of resources	<u>411</u>	<u>372</u>	<u>364</u>	<u>1,147</u>
NET POSITION				
Net investment in capital assets	220,303	1,138,670	3,877,366	5,236,339
Unrestricted	1,015,995	795,410	(1,025,828)	785,577
Total net position	<u>\$ 1,236,298</u>	<u>\$ 1,934,080</u>	<u>\$ 2,851,538</u>	<u>\$ 6,021,916</u>

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

TOWN OF ELKTON, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET POSITION – PROPRIETARY FUNDS
Year Ended June 30, 2021**

	Enterprise Funds			Total
	Electric	Water	Sewer	Enterprise Funds
OPERATING REVENUES				
Charges for services	\$ 1,845,045	\$ 419,514	\$ 687,398	\$ 2,951,957
Connection fees	3,600	98,000	105,000	206,600
Local consumption tax	6,499	-	-	6,499
Reconnect fees	3,603	2,468	-	6,071
Service charges	5,030	1,370	6,000	12,400
Late charges and interest	24,227	-	-	24,227
	<u>1,888,004</u>	<u>521,352</u>	<u>798,398</u>	<u>3,207,754</u>
OPERATING EXPENSES				
Salaries and wages	136,078	181,028	138,896	456,002
Salaries, contract labor	3,259	5,050	-	8,309
Employee benefits	37,361	46,018	29,782	113,161
Payroll taxes	11,381	9,493	10,281	31,155
Electric power	1,379,672	-	-	1,379,672
Landfill	-	-	27,131	27,131
Permit fees	-	3,800	2,889	6,689
Telephone and internet	1,130	3,470	5,564	10,164
Supplies	27,334	43,309	28,575	99,218
Repairs and maintenance	5,767	26,483	36,910	69,160
Vehicle maintenance and generator fuel	6,597	6,618	6,170	19,385
Miss utility	10	326	326	662
Professional services	1,343	2,965	4,630	8,938
Dues	374	450	123	947
Uniforms	596	582	582	1,760
Water testing	-	2,375	19,025	21,400
Utilities	-	21,869	7,505	29,374
Computer support	7,016	2,696	12,753	22,465
Postage	-	-	98	98
Insurance	-	-	12,494	12,494
Conventions and meetings	2,471	75	75	2,621
Advertising	614	-	283	897
Leases, equipment	-	500	1,100	1,600
Small equipment	17,735	11,468	45,559	74,762
Legal fees	-	-	2,096	2,096
Depreciation	22,633	100,300	354,326	477,259
	<u>1,661,371</u>	<u>468,875</u>	<u>747,173</u>	<u>2,877,419</u>
Operating income	<u>226,633</u>	<u>52,477</u>	<u>51,225</u>	<u>330,335</u>
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental – Commonwealth	-	-	1,386,139	1,386,139
Interest and fiscal charges	-	(10,848)	(143,987)	(154,835)
Bond issuance costs	-	(2,500)	-	(2,500)
	<u>-</u>	<u>(13,348)</u>	<u>1,242,152</u>	<u>1,228,804</u>
Total nonoperating revenues (expenses)	<u>-</u>	<u>(13,348)</u>	<u>1,242,152</u>	<u>1,228,804</u>
Income before transfers	226,633	39,129	1,293,377	1,559,139
TRANSFERS OUT (NOTE 6)	<u>(21,191)</u>	<u>-</u>	<u>(171,034)</u>	<u>(192,225)</u>
Change in net position	205,442	39,129	1,122,343	1,366,914
Total net position - beginning, as restated (Note 16)	<u>1,030,856</u>	<u>1,894,951</u>	<u>1,729,195</u>	<u>4,655,002</u>
Total net position, ending	<u>\$ 1,236,298</u>	<u>\$ 1,934,080</u>	<u>\$ 2,851,538</u>	<u>\$ 6,021,916</u>

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

TOWN OF ELKTON, VIRGINIA

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
Year Ended June 30, 2021

	Enterprise Funds			Total
	Electric	Water	Sewer	Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 1,869,176	\$ 528,913	\$ 808,308	\$ 3,206,397
Cash paid to suppliers	(1,408,798)	(49,331)	1,937,822	479,693
Cash paid to employees	(181,409)	(160,231)	(171,447)	(513,087)
Recovered costs and other receipts	(18,083)	(78,337)	(153,552)	(249,972)
Net cash provided by operating activities	260,886	241,014	2,421,131	2,923,031
CASH RECEIVED FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from Commonwealth grants	-	-	1,365,283	1,365,283
Transfers to other funds	(21,191)	-	(171,034)	(192,225)
Net cash (used in) provided by noncapital financing activities	(21,191)	-	1,194,249	1,173,058
CASH RECEIVED FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	-	-	(8,068,557)	(8,068,557)
Proceeds from debt issuances	-	463,348	5,882,881	6,346,229
Principal paid on capital debt	-	(465,000)	(14,875)	(479,875)
Interest paid on capital debt	-	(18,666)	(149,558)	(168,224)
Net cash used in capital and related financing activities	-	(20,318)	(2,350,109)	(2,370,427)
Net increase in cash and cash equivalents	239,695	220,696	1,265,271	1,725,662
CASH AND CASH EQUIVALENTS				
Beginning at July 1	804,412	623,907	141,632	1,569,951
Ending at June 30	<u>\$ 1,044,107</u>	<u>\$ 844,603</u>	<u>\$ 1,406,903</u>	<u>\$ 3,295,613</u>
CASH IS REPORTED ON EXHIBIT 8 AS				
Cash and cash equivalents	\$ 918,981	\$ 844,603	\$ 1,406,903	\$ 3,170,487
Cash and cash equivalents – restricted	125,126	-	-	125,126
	<u>1,044,107</u>	<u>844,603</u>	<u>1,406,903</u>	<u>3,295,613</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income	\$ 226,633	\$ 52,477	\$ 51,225	\$ 330,335
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	22,633	100,300	354,326	477,259
Pension expense, net of employer contributions	6,415	11,278	(1,561)	16,132
Other postemployment benefit expense, net of employer contributions	(1,151)	(743)	(751)	(2,645)
(Increase) decrease in:				
Accounts receivable	1,073	7,561	9,910	18,544
Prepays	(690)	(678)	(1,062)	(2,430)
Inventories	11,180	234	493	11,907
Increase (decrease) in:				
Accounts payable	(7,680)	4,821	1,998,727	1,995,868
Accrued payroll and related liabilities	14,778	22,997	11,278	49,053
Customer deposits	4,326	-	-	4,326
Compensated absences and service benefits	(16,631)	42,767	(1,454)	24,682
Total adjustments	34,253	188,537	2,369,906	2,592,696
Net cash provided by operating activities	<u>\$ 260,886</u>	<u>\$ 241,014</u>	<u>\$ 2,421,131</u>	<u>\$ 2,923,031</u>

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

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Town of Elkton, Virginia (the “Town”) was established in 1908. It 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. The Town is part of Rockingham County and has taxing powers subject to statewide restrictions and tax limits.

The Town provides a full range of municipal services including police, public works, general administrative services, community center, recreation, cemetery, electric, water, and sewer services.

Government-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

(Continued)

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

Property taxes, franchise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 45 days after year-end are reflected as unavailable revenues.

Licenses, permits, fines, and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general-purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when cash is received by the Town.

Governmental funds account for the expendable financial resources, other than those accounted for in proprietary funds. The governmental funds use the modified accrual basis of accounting where the measurement focus is upon determination of financial position and changes in financial position, rather than on net income determination as would apply to a commercial enterprise. The Town reports the following governmental fund:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The General Fund is considered a major fund for financial reporting purposes.

Proprietary funds account for operations that are financed in a manner similar to private business enterprises. The proprietary funds utilize the accrual basis of accounting where the measurement focus is upon determination of net income. Proprietary funds consist of enterprise and internal service funds. The government reports the following proprietary funds:

Enterprise Funds account for operations where the intent of the Town is that the cost of provided services to the Town's businesses, residents, schools, and churches be financed and recovered through user charges. Enterprise funds consist of the *Electric fund*, which accounts for the operation of the Town's electric plant and electric distribution system; the *Water fund*, which accounts for the operation of the Town's water treatment plant and water distribution system; and the *Sewer fund*, which accounts for the operation of the Town's wastewater treatment plan, sewage collection system, and pump stations. All three enterprise funds are considered major funds for financial reporting purposes.

(Continued)

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 1. Summary of Significant Accounting Policies (Continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance

Deposits and Investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the Town are reported at fair value.

Receivables and Payables

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. Governmental funds report receivables that are both earned and available. Business-type activities report utilities and interest earnings as their major receivables. The Town grants credit to the customers of its electric, water, and sewer systems.

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes

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

The taxes receivable balance at June 30th, includes amounts not yet billed or received from the January 1st levy (due December 5th). These items are included in unearned revenue since these taxes are intended for use in the following fiscal year.

(Continued)

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 1. Summary of Significant Accounting Policies (Continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance (Continued)

Allowance for Uncollectible Accounts

The Town calculates its allowance for uncollectible delinquent property tax accounts using historical collection data and specific account analysis. The allowance at June 30, 2021, consisted of the following:

General fund (property taxes, penalties, and interest)	\$	191,122
Electric fund		91,650
Water fund		8,576
Sewer fund		22,608
	\$	313,956

Inventories

Inventories are valued at cost using the first-in/first out (FIFO) method. Inventories in the proprietary funds and government fund consist of expendable supplies held for consumption and are accounted for under the consumption method. The cost is recorded as an expense at the time the individual inventory items are used.

Prepays

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Town defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 1. Summary of Significant Accounting Policies (Continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance (Continued)

Capital Assets (Continued)

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

	<u>Years</u>
Buildings and improvements	15-36
Utility Systems	20-50
Infrastructure	25-40
Machinery and equipment	5-20

Compensated Absences

Town employees may 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. All vacation and sick pay currently payable is accrued when incurred in the government-wide and proprietary fund financial statements. A liability is reported for compensated absences in governmental funds only to the extent matured, for example, as a result of employee resignations and retirements.

Unearned Revenues

Unearned revenue represents amounts for which asset recognition criteria have been met but for which revenue recognition criteria have not been met. Unearned revenue consists of unspent federal awards.

Long-Term Obligations

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

Pensions and Other Postemployment Benefits (OPEB)

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

(Continued)

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 1. Summary of Significant Accounting Policies (Continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance (Continued)

Deferred Outflows and Inflows of Resources

In addition to assets, the statement which presents financial position reports a separate section for deferred outflows of resources. These items represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then.

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

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

- Contributions subsequent to the measurement date for pensions and OPEB; these will be applied to the net pension or OPEB liability in the next fiscal year.
- Differences between projected and actual earnings on pension and OPEB plan investments. These differences will be recognized in pension or OPEB expense over the closed five year period and may be reported as a deferred outflow or inflow as appropriate.
- Changes in proportion and differences between employer contributions and the proportionate share of employer contributions, resulting from participation in cost-sharing OPEB plans, are reported as deferred outflows or inflows as appropriate.
- Property taxes collected in advance of the period for which they were levied. These amounts are recognized as revenue in the period for which they were levied.
- Governmental funds report unavailable revenue from property taxes and other receivables not collected within the availability period. These amounts are recognized as an inflow of resources in the period they become available.
- Differences between expected and actual experience for economic/demographic factors and changes of assumptions in the measurement of the total pension or OPEB liability. This difference will be recognized in pension or OPEB expense over the expected average remaining service life of all employees provided with benefits in the plan and may be reported as a deferred inflow or outflow as appropriate.

Fund Balances

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

(Continued)

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

Note 1. Summary of Significant Accounting Policies (Continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance (Continued)

Fund Balances (Continued)

The classifications are as follows:

- **Nonspendable** – Amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.
- **Restricted** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed** – Amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the Town Council through adoption of a resolution. Only Town Council may modify or rescind the commitment.
- **Assigned** – Amounts are constrained by intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by Town management based on Town Council direction through adoption or amendment of the budget or through ordinance or resolution.
- **Unassigned** – Amounts that are available for any purpose; positive amounts are reported only in the general fund.

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

Net Position

Net position is the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net investment in capital assets represent capital assets, less accumulated depreciation less any outstanding debt related to the acquisition, construction or improvement of those assets.

Use of Estimates

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

(Continued)

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 2. Stewardship, Compliance, and Accountability

Budgetary Information

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

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

The Town spent funds in excess of budgeted amounts in three functional areas and exceeded the budget for the general fund as illustrated in Exhibit 7.

Note 3. Deposits and Investments

Deposits

As of June 30, the Town's deposits consisted of the following:

Type	Fair Value	S & P Credit Rating
Investments reported at amortized cost:		
SNAP	\$ 135,706	AAAm
Total investments	135,706	
Cash and cash equivalents	6,147,332	
Nonnegotiable certificates of deposit	164,214	
Total deposits	6,311,546	
Total deposits and investments	\$ 6,447,252	

(Continued)

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 3. Deposits and Investments (Continued)

Deposits (Continued)

The items above are reflected in the financial statements as follows:

	<u>Primary Government</u>
Statement of Net Position:	
Cash and cash equivalents	\$ 4,680,465
Cash and cash equivalents – restricted	1,631,081
Investments – restricted	<u>135,706</u>
Total	<u>\$ 6,447,252</u>

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the “Act”) section 2.2-4400 et. seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized. For the purposes of this disclosure, deposits include cash and cash equivalents as well as nonnegotiable certificates of deposit with original maturities of more than three months.

Investments

SNAP is not registered with the SEC, but is overseen by the Treasurer of Virginia and the State Treasury Board. The value of the Town’s position in the pools is the same as the value of the pool shares and is stated at amortized cost in accordance with GASB Statement No. 79, which approximates fair value.

The Town’s investments are subject to credit risk, concentration of credit risk, and interest rate risk as described below. The Town’s investments are not subject to custodial risk or foreign currency risk.

Credit Risk – Statutes authorize the City to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes, bankers acceptances, repurchase agreements, mutual funds, the State Treasurer’s Local Government Investment Pool (LGIP), and the State Non-Arbitrage Program (SNAP).

Interest Rate Risk – The primary goal of the investment policy is to maximize return on investment while minimizing risk to the investment. The Town will diversify use of investment instruments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities. The Town may reject an investment with a higher yield when it is felt it carries an element of risk.

(Continued)

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 3. Deposits and Investments (Continued)

Investments (Continued)

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

Restricted cash and investments

Restricted cash consists of the following:

Unspent Federal funding	\$ 1,505,955
Customer deposits	<u>125,126</u>
	<u>\$ 1,631,081</u>

Restricted investments consist of the following:

Unspent bond proceeds restricted for capital projects	<u>\$ 135,706</u>
	<u>\$ 135,706</u>

Note 4. Receivables

Receivables as of June 30, 2021, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Receivables:			
Interest	\$ 39	\$ -	\$ 39
Property taxes	697,001	-	697,001
Meals taxes	96,754	-	96,754
Accounts	<u>34,144</u>	<u>373,538</u>	<u>407,682</u>
Gross receivables	827,938	373,538	1,201,476
Less: allowance for uncollectible	<u>(191,122)</u>	<u>(122,834)</u>	<u>(313,956)</u>
Net total receivables	<u>\$ 636,816</u>	<u>\$ 250,704</u>	<u>\$ 887,520</u>

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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	\$ 14,449
Communications tax	6,172
County of Rockingham:	
Court fines	<u>1,835</u>
	<u>\$ 22,456</u>

Note 6. Interfund Receivables, Payables, and Transfers

Interfund balances at June 30, consisted of the following:

Due from general fund to:	
Sewer fund	<u>\$ 20,856</u>

Interfund receivables and payables are generally used by the Town to cover temporary cash deficits in individual funds until grant or similar resources are received.

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

Transfers to general fund from:	
Electric fund	\$ 21,191
Sewer fund	<u>171,034</u>
Transfers from proprietary funds to:	
General fund	<u>\$ 192,225</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs, or (3) close the residual balances of certain funds into other funds.

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 7. Capital Assets

A summary of the changes in the Town's capital assets for *governmental activities* is as follows:

	Beginning Balance (as restated)	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 1,445,401	\$ -	\$ (57,957)	\$ 1,387,444
Construction in progress	147,794	955,968	(1,103,762)	-
Total capital assets not being depreciated	<u>1,593,195</u>	<u>955,968</u>	<u>(1,161,719)</u>	<u>1,387,444</u>
Capital assets being depreciated				
Buildings and improvements	3,440,268	1,159,462	(181,903)	4,417,827
Machinery and equipment	1,869,571	10,300	(801,293)	1,078,578
Infrastructure	3,170,135	-	(1,834)	3,168,301
Total capital assets being depreciated	<u>8,479,974</u>	<u>1,169,762</u>	<u>(985,030)</u>	<u>8,664,706</u>
Less accumulated depreciation for				
Buildings and improvements	1,114,027	91,676	(153,881)	1,051,822
Machinery and equipment	1,250,878	133,846	(751,658)	633,066
Infrastructure	613,957	87,799	(1,834)	699,922
Total accumulated depreciation	<u>2,978,862</u>	<u>313,321</u>	<u>(907,373)</u>	<u>2,384,810</u>
Total capital assets being depreciated, net	<u>5,501,112</u>	<u>856,441</u>	<u>(77,657)</u>	<u>6,279,896</u>
Governmental activities capital assets, net	<u>\$ 7,094,307</u>	<u>\$ 1,812,409</u>	<u>\$ (1,239,376)</u>	<u>\$ 7,667,340</u>

Depreciation expense was charged to functions/programs of the Town's *governmental activities* as follows:

General government administration	\$ 50,637
Community Center	71,105
Public safety	37,254
Public works	143,791
Cemetery	10,534
Total depreciation expense – governmental activities	<u>\$ 313,321</u>

(Continued)

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 7. Capital Assets (Continued)

Increases include depreciation expense and transfers in from other funds.

A summary of the changes in the Town's capital assets for *business-type activities* is as follows:

	Beginning Balance (as restated)	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 41,056	\$ -	\$ -	\$ 41,056
Construction in progress	<u>1,633,869</u>	<u>8,660,333</u>	<u>(182,805)</u>	<u>10,111,397</u>
 Total capital assets not being depreciated	 <u>1,674,925</u>	 <u>8,660,333</u>	 <u>(182,805)</u>	 <u>10,152,453</u>
Capital assets being depreciated				
Utility system	13,525,714	-	(665,163)	12,860,551
Machinery and equipment	<u>1,102,610</u>	<u>-</u>	<u>(647,189)</u>	<u>455,421</u>
 Total capital assets being depreciated	 <u>14,628,324</u>	 <u>-</u>	 <u>(1,312,352)</u>	 <u>13,315,972</u>
Less accumulated depreciation for				
Utility system	5,559,096	427,534	(1,051,739)	4,934,891
Machinery and equipment	<u>422,644</u>	<u>49,725</u>	<u>(260,613)</u>	<u>211,756</u>
 Total accumulated depreciation	 <u>5,981,740</u>	 <u>477,259</u>	 <u>(1,312,352)</u>	 <u>5,146,647</u>
 Total capital assets being depreciated, net	 <u>8,646,584</u>	 <u>(477,259)</u>	 <u>-</u>	 <u>8,169,325</u>
 Business-type activities capital assets, net	 <u>\$ 10,321,509</u>	 <u>\$ 8,183,074</u>	 <u>\$ (182,805)</u>	 <u>\$ 18,321,778</u>

Depreciation expense was charged to functions/programs of the Town's *business-type activities* as follows:

Electric	\$ 22,633
Water	100,300
Sewer	<u>354,326</u>
 Total depreciation expense – business-type activities	 <u>\$ 477,259</u>

Increases include depreciation expense.

(Continued)

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 7. Capital Assets (Continued)

Construction Commitments

The Town has active construction projects related to the Sewer fund. At year end, the Town's commitments with contractors on the projects are as follows:

	Total Contracts	Total Payments	Future Amounts to be Expended
Sewer Fund			
Waste Water Treatment Plant	\$ 13,985,000	\$ 6,945,038	\$ 7,039,962
Sanitary Sewer Rehabilitation	1,874,595	825,409	1,049,186
Engineering for sewer projects	1,490,300	1,242,725	247,575
Total sewer fund	\$ 17,349,895	\$ 9,013,172	\$ 8,336,723

Note 8. Unavailable and Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables that are not considered to be available to liquidate liabilities in the current period. Governmental funds also include unearned revenue amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. At year end, the various components of unavailable/unearned revenue reported in the financial statements were as follows:

	Governmental Activities	General Fund
Unavailable revenue		
Delinquent property taxes	\$ -	\$ 140,952
Total unavailable revenue	-	\$ 140,952
Unearned revenue:		
Property taxes not yet due	\$ 380,725	\$ 380,725
American Rescue Plan Act federal funding	1,505,955	1,505,955
	\$ 1,886,680	\$ 1,886,680

(Continued)

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 9. Long-Term Liabilities

The following is a summary of changes in the long-term liabilities of the Town for the year ended June 30:

	Beginning Balances, as restated	Additions	Reductions	Ending Balances	Due Within One Year
Governmental Activities					
General obligation bonds	\$ 1,255,503	\$ -	\$ (109,369)	\$ 1,146,134	\$ 152,268
Notes payable	803,580	-	(121,309)	682,271	127,187
Compensated absences	126,355	11,491	-	137,846	-
	\$ 2,185,438	\$ 11,491	\$ (230,678)	\$ 1,966,251	\$ 279,455
Business-Type Activities					
General obligation bonds	\$ -	\$ 463,348	\$ -	\$ 463,348	\$ 28,709
Revenue bonds	7,219,086	5,882,881	(479,875)	12,622,092	7,599,306
Compensated absences	48,493	24,682	-	73,175	-
	\$ 7,267,579	\$ 6,370,911	\$ (479,875)	\$ 13,158,615	\$ 7,628,015
				Governmental Activities	Business-Type Activities

Details of Long-Term Indebtedness

General Obligation Bonds:

\$1,000,000 General Obligation Bond, Series 2003, issued January 15, 2003 to United Bank, maturing annually through July 15, 2022, interest payable semi-annually at rates of 3.80%. Purpose: Purchase of land.

\$ 100,000 \$ -

\$1,000,000 General Obligation Bond, Series 2003, issued June 10, 2020 to Farmers and Merchants Bank maturing annually through July 15, 2022, interest payable semi-annually at rates of 3.80%. Purpose: Purchase of land.

99,990 -

(Continued)

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 9. Long-Term Liabilities (Continued)

	Governmental Activities	Business-type Activities
<u>Details of Long-Term Indebtedness (Continued)</u>		
General Obligation Bonds: (Continued)		
\$955,233 General Obligation Bond, Series 2020, issued June 10, 2020 to Truist Bank, maturing annually beginning June 10, 2021 through June 10, 2035, interest payable semi-annually at rates of 2.62%. Purpose: Improvements to Town Hall.	\$ 946,144	\$ -
\$463,348 General Obligation Refunding Bond, Series 2020B, issued October 21, 2020 to Pioneer Bank, maturing annually beginning August 1, 2006 through August 1, 2035, interest payable semi-annually at rates of 1.96%. Purpose: Refund bonds issued to fund extension of water and sewer lines.	-	463,348
Total General Obligation Bonds	\$ 1,146,134	\$ 463,348
Revenue bonds:		
Up to \$10,000,000 General Obligation Revenue Bond, Series 2019, issued March 4, 2019 to Truist Bank, interest payable semi-annually at rates of 2.75%, maturing March 4, 2022. The amount issued to date is \$7,555,400. Principal payments will begin once the issuance is completed. Purpose: Expansion of the wastewater treatment plant.	\$ -	\$ 7,533,237
Up to \$5,725,000 General Obligation Sewer Revenue Bond, Series 2020, issued January 6, 2020 to Rural Utilities Service, an agency of the United States Department of Agriculture, maturing monthly beginning February 6, 2022 through February 6, 2060, interest payable monthly at rates of 2.25%. The amount issued to date is \$5,089,796. Purpose: Refund existing debt for wastewater projects, wastewater projects.	-	5,088,855
Total Revenue Bonds	\$ -	\$ 12,622,092

(Continued)

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 9. Long-Term Liabilities (Continued)

	Governmental Activities	Business-Type Activities
<u>Details of Long-Term Indebtedness (Continued)</u>		
Notes payable:		
\$1,700,000 loan issued January 11, 2006 to Farmers and Merchants Bank, maturing quarterly beginning June 1, 2007 through March 1, 2027, interest payable quarterly at rates of 4.50%. Purpose: Construction and remodeling of Community Center.	\$ 657,001	\$ -
\$120,157 loan issued August 23, 2018 to Ford Motor Credit Company, L.L.C., maturing annually through September 25, 2022, interest payable monthly at rates of 5.45%. Purpose: Purchase of Ford trucks.	25,270	-
Total Notes Payable	\$ 682,271	\$ -

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

	Governmental Activities			
	General Obligation Bonds		Notes Payable	
	Principal	Interest	Principal	Interest
2022	\$ 152,268	\$ 29,924	\$ 127,187	\$ 29,532
2023	158,458	24,613	107,846	23,414
2024	60,019	21,163	110,340	18,617
2025	61,610	19,571	116,785	13,308
2026	63,244	17,938	121,394	7,880
2027-2031	342,283	63,626	98,719	2,209
2032-2036	308,253	16,755	-	-
	\$ 1,146,135	\$ 193,590	\$ 682,271	\$ 94,960

(Continued)

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 9. Long-Term Liabilities (Continued)

	Business-Type Activities			
	General Obligation Bonds		Notes Payable	
	Principal	Interest	Principal	Interest
2022	\$ 28,709	\$ 7,901	\$ 7,579,306	\$ 185,645
2023	27,236	8,367	112,343	112,309
2024	27,777	7,830	114,897	109,755
2025	28,308	7,273	117,509	107,143
2026	28,891	6,613	120,181	104,471
2027-2031	153,286	24,556	643,148	480,112
2032-2036	169,141	12,206	719,653	403,607
2037-2041	-	-	805,259	318,001
2042-2046	-	-	901,048	222,212
2047-2051	-	-	1,008,232	115,028
2052-2053	-	-	500,516	13,466
	\$ 463,348	\$ 74,746	\$ 12,622,092	\$ 2,171,749

Current Year Refunding of Debt

In October 2020, the Town issued a General Obligation Refunding Bond totaling \$463,347 for the purpose of refunding \$445,000 of outstanding revenue series 2005B bonds. The proceeds were placed in trust with an escrow agent to fund all future debt service payments. As a result, the refunded bonds are considered to be defeased, and the liability has been removed from the Town's long-term debt. This refunding was undertaken to reduce total debt service payments by \$108,705, resulting in an economic gain of \$100,052.

At June 30, 2021, the following bonds are considered defeased:

	Beginning Balance	Increases	Decreases	Ending Balance
Revenue bonds				
VML Series 2005B	\$ 465,000	\$ -	\$ (465,000)	\$ -
	\$ 465,000	\$ -	\$ (465,000)	\$ -

(Continued)

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 10. Defined Benefit Pension Plan

Plan Description

All full-time, salaried permanent employees of the Town of Elkton, (the “Political Subdivision”) are automatically covered by the VRS Retirement Plan upon employment. This multi-employer agent plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to 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 available at

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

Employees Covered by Benefit Terms

As of the June 30, 2019 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Members
Inactive members or their beneficiaries currently receiving benefits	43
Inactive members:	
Vested inactive members	6
Non-vested inactive members	14
Inactive members active elsewhere in the VRS	31
Total inactive members	51
Active members	30
Total covered employees	124

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 10. Defined Benefit Pension Plan (Continued)

Contributions

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

The political subdivision's contractually required contribution rate for the year ended June 30, 2021, was 7.87% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by the employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$101,008 and \$111,902 for the years ended June 30, 2021 and June 30, 2020, respectively.

Net Pension Liability

The net pension liability is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For political subdivisions, the net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2019 rolled forward to the measurement date of June 30, 2020.

Actuarial Assumptions

The total pension liability for General Employees and Public Safety employees with Hazardous Duty Benefits in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2019, 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, 2020.

Inflation	2.50%
General Employees – Salary increases, including inflation	3.50 – 5.35%
Public Safety Employees with hazardous duty benefits – Salary increases, including inflation	3.50 – 4.75%
Investment rate of return	6.75%, 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% of the market assets for all of the VRS plans. This would provide an assumed investment rate for GASB purposes of slightly more than the assumed 6.7%. However, since the difference was minimal, and a more conservative 6.75% 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% to simplify preparation of pension liabilities.

(Continued)

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

Note 10. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions (Continued)

Mortality rates: General employees – 15 to 20% of deaths are assumed to be service related. Public Safety Employees – 45% to 70% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2014 Mortality Table Projected to 2020 with various set backs or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2019 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 are as follows:

General Employees – Largest 10 – Non-Hazardous Duty and All Others (Non 10 Largest): Update mortality table; lowered retirement rates at older ages, changed final retirement from 70 to 75; adjusted withdrawal rates to better fit experience at each year age and service through 9 years of service; lowered disability rates, no change to salary scale, increased rate of line of duty disability from 14% to 20% (Largest 10) or 15% (All Others), and decreased discount rate from 7.00% to 6.75%.

Public Safety Employees – Largest 10 – Hazardous Duty and All Others (Non 10 Largest): Update mortality table; lowered retirement rate at older ages; adjusted rates of withdrawal and disability to better fit experience; changes to line of duty rates, no changes to salary scale, and decreased discount rate from 7.00% to 6.75%.

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.

(Continued)

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

Note 10. Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return (Continued)

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 %	4.65 %	1.58 %
Fixed Income	15.00	0.46	0.07
Credit Strategies	14.00	5.38	0.75
Real Assets	14.00	5.01	0.70
Private Equity	14.00	8.34	1.17
MAPS – Multi-Asset Public Strategies	6.00	3.04	0.18
PIP – Private Investment Partnership	3.00	6.49	0.19
Total	100.00 %		<u>4.64 %</u>
	Inflation		<u>2.50 %</u>
	*Expected arithmetic nominal return		<u>7.14 %</u>

* The above allocation provides for a one-year return of 7.14%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY2020 actuarial valuations, provide a median return of 6.81%.

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions, political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2020, the alternate rate was the employer contribution rate used in the fiscal year 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017 actuarial valuations, whichever is greater.

(Continued)

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

Note 10. Defined Benefit Pension Plan (Continued)

Discount Rate (Continued)

From July 1, 2020 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2019	\$ 3,947,768	\$ 3,785,599	\$ 162,169
Changes for the year:			
Service cost	127,583	-	127,583
Interest	258,848	-	258,848
Differences between expected and actual experience	188,867	-	188,867
Contributions – employer	-	103,910	(103,910)
Contributions – employee	-	54,164	(54,164)
Net investment income	-	71,993	(71,993)
Benefit payments, including refunds of employee contributions	(225,962)	(225,962)	-
Administrative expenses	-	(2,455)	2,455
Other changes	-	(85)	85
Net changes	349,336	1,565	347,771
Balances at June 30, 2020	\$ 4,297,104	\$ 3,787,164	\$ 509,940

(Continued)

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 10. Defined Benefit Pension Plan (Continued)

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%, 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%) or one percentage point higher (7.75%) than the current rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Political subdivision's net pension liability	\$ 1,045,739	\$ 509,940	\$ 69,782

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

For the year ended June 30, 2021, the political subdivision recognized pension expense of \$156,938. At June 30, 2021, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 94,903	\$ -
Net difference between projected and actual earnings on pension plan investments	113,360	-
Employer contributions subsequent to the measurement date	101,008	-
Total	\$ 309,271	\$ -

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 10. Defined Benefit Pension Plan (Continued)

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

The \$101,008 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Reduction to Pension Expense</u>
2022	\$ 96,918
2023	36,535
2024	38,580
2025	36,230
2026	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2020 Comprehensive Annual Financial Report (Annual Report). A copy of the 2020 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2020-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, 2021, approximately \$8,200 was payable to the Virginia Retirement System for the legally required contributions related to June 2021 payroll.

(Continued)

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plan

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

Plan Description – Group Life Insurance Program

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

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

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

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

Contributions

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

Group Life Insurance Program

Governed by:	<i>Code of Virginia 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.</i>
Total rate:	1.34% of covered employee compensation. Rate allocated 60/40; 0.80% employee and 0.54% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2021 Contribution	\$ 6,446
June 30, 2020 Contribution	\$ 6,229

(Continued)

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plan (Continued)

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

The net OPEB liabilities were measured as of June 30, 2020 and the total OPEB liabilities used to calculate the net OPEB liabilities was determined by an actuarial valuation performed as of June 30, 2019 and rolled forward to the measurement date of June 30, 2020. The covered employer’s proportion of the net OPEB liabilities, were based on the covered employer’s actuarially determined employer contributions for the year ended June 30, 2020 relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program

June 30, 2021 proportionate share of liability	\$	95,123
June 30, 2020 proportion		.00570%
June 30, 2019 proportion		.00571%
June 30, 2021 expense	\$	4,569

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

At June 30, 2021, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ 6,101	\$ 853
Changes in assumptions	4,757	1,986
Net difference between projected and actual earnings on OPEB plan investments	2,857	-
Changes in proportion	4,638	1,230
Employer contributions subsequent to the measurement date	<u>6,446</u>	<u>-</u>
Total	<u>\$ 24,799</u>	<u>\$ 4,069</u>

(Continued)

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plan (Continued)

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

The deferred outflows of resources related to OPEB resulting from the Town’s contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in future periods as follows:

Group Life Insurance Program

Year Ended June 30,	Increase to OPEB Expense
2022	\$ 2,374
2023	3,181
2024	4,163
2025	3,709
2026	810
Thereafter	47

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2019, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2020:

Inflation	2.50%
Salary increases, including inflation:	
• Locality – general employees	3.50 – 5.35%
• Locality – hazardous duty employees	3.50 – 4.75%
Healthcare cost trend rates:	
• Under age 65	7.00 – 4.75%
• Ages 65 and older	5.375 – 4.75%
Investment rate of return, net of expenses, including inflation*	6.75%

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment rate for GASB purposes of slightly more than the assumed percent above. However, since the difference was minimal, and a more conservative 6.75% 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 the percent noted above to simplify preparation of OPEB liabilities.

(Continued)

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plan (Continued)

Actuarial Assumptions and Other Inputs (Continued)

Mortality rates used for the various VRS OPEB plans are the same as those used for the actuarial valuations of the VRS pension plans. The mortality rates are discussed in detail at Note 10.

Net OPEB Liabilities

The net OPEB liabilities represent each program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2020, net OPEB liability amounts for the various VRS OPEB programs are as follows (amounts expressed in thousands):

Total OPEB liability	\$	3,523,937
Plan fiduciary net position		1,855,102
Employers' net OPEB liability (asset)	\$	1,668,835
Plan fiduciary net position as a percentage of total OPEB liability		52.64%

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

Long-Term Expected Rate of Return

The long-term expected rate of return on VRS investments was determined in a manner similar to that of the VRS pension described in Note 10.

(Continued)

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plan (Continued)

Discount Rate

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

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

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

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
GLI Net OPEB liability	\$ 125,047	\$ 95,123	\$ 70,823

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2020 Comprehensive Annual Financial Report (Annual Report). A copy of the 2020 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2020-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the OPEB Plan

At June 30, 2021, approximately \$600 was payable to the Virginia Retirement System for the legally required contributions related to June 2021 payroll.

(Continued)

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

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.

Note 13. Commitments

The Town is subject to a consent order dated May 17, 2018 and amended July 14, 2020 from the State Water Control Board through the Virginia Department of Environmental Quality to increase the waste water treatment plant size to meet authorized capacity. The current waste water treatment plant construction project is related to this order. The Town is required to complete construction by specified dates and submit quarterly reports to the Virginia Department of Environmental Quality until the consent order is lifted.

Note 14. Subsequent Events

Subsequent to year end, the Town approved the issuance of a \$9,900,000 revenue bond which will be used to refund the outstanding Series 2019 revenue bond.

The Town also approved an additional issuance of \$635,204 on the remaining available balance of the Series 2020 revenue bond.

Note 15. COVID-19 Impact

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude the pandemic will have on the Town's financial condition, liquidity, and future results of operations. To date, the Town has not suffered any significant impact from the pandemic. However, management continues to monitor the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce.

(Continued)

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 16. Prior Period Restatement

There were three prior period restatements recorded during the year ended June 30, 2021, as follows:

General Fund:

Capital outlays of \$97,797 related to the Jennings House project in governmental activities were improperly excluded from the year ended June 30, 2020. In order to properly account for the outlay, the Town made a prior period adjustment to expenditures as of June 30, 2020 to correct the error.

A \$940,568 debt issuance in governmental activities during the year ended June 30, 2020 and related SNAP account was not recorded. The Town made an adjustment to long-term debt and restricted cash in the governmental activities. Additionally, the debt proceeds in the general fund resulted in a prior period restatement.

Business-type activities – Sewer Fund:

Capital outlays of \$7,425 related to the wastewater treatment plant project in business-type activities were improperly expensed during the year ended June 30, 2020. To correct, the Town made a prior period adjustment to capital assets and net position as of June 30, 2020.

The following is a summary of restatements to net position and fund balance:

	<u>General</u>	<u>Sewer</u>
Fund balance/net position, June 30, 2020, as previously reported	\$ 1,202,750	\$ 1,721,770
Unrecorded Jennings House capital outlay	(97,797)	-
Correction for sewer fund capital outlay	-	7,425
Unrecorded debt issuance and related SNAP account	<u>940,568</u>	<u>-</u>
Fund balance/net position, June 30, 2020, as restated	<u>\$ 2,045,521</u>	<u>\$ 1,729,195</u>

(Continued)

TOWN OF ELKTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS June 30, 2021

Note 17. New Accounting Standards

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

In June 2017, the GASB issued **Statement No. 87, *Leases***. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for fiscal years beginning after June 15, 2021.

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

In January 2020, the GASB issued **Statement No. 92, *Omnibus***. This Statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain requirements of this Statement are effective immediately and others for reporting periods beginning after June 15, 2021.

In March 2020, the GASB issued **Statement No. 93, *Replacement of Interbank Offered Rates***. This Statement addresses accounting and financial reporting implications that result from the replacement of an IBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2022. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

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

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

In June 2020, the GASB issued **Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32***. This Statement provides a more consistent financial reporting of defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans, while mitigating the costs associated with reporting those plans. Certain requirements of this Statement are effective immediately and others for reporting periods beginning after June 15, 2021.

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

**REQUIRED
SUPPLEMENTARY INFORMATION**

TOWN OF ELKTON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
June 30, 2021

	Plan Year Ended June 30,						
	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability							
Service cost	\$ 127,583	\$ 103,413	\$ 95,720	\$ 88,259	\$ 97,188	\$ 108,145	\$ 109,336
Interest on total pension liability	258,848	266,258	245,802	237,845	237,927	228,434	218,067
Benefit payments, including refunds of employee contributions	(225,962)	(229,194)	(212,108)	(265,218)	(196,988)	(173,244)	(185,356)
Difference between expected and actual experience	188,867	(226,508)	171,358	36,794	(105,191)	(15,846)	-
Changes of assumptions	-	115,515	-	(10,557)	-	-	-
Net change in total pension liability	349,336	29,484	300,772	87,123	32,936	147,489	142,047
Total pension liability – beginning	<u>3,947,768</u>	<u>3,918,284</u>	<u>3,617,512</u>	<u>3,530,389</u>	<u>3,497,453</u>	<u>3,349,964</u>	<u>3,207,917</u>
Total pension liability – ending	<u>\$ 4,297,104</u>	<u>\$ 3,947,768</u>	<u>\$ 3,918,284</u>	<u>\$ 3,617,512</u>	<u>\$ 3,530,389</u>	<u>\$ 3,497,453</u>	<u>\$ 3,349,964</u>
Plan Fiduciary Net Position							
Contributions – employer	\$ 103,910	\$ 101,045	\$ 71,283	\$ 61,288	\$ 91,060	\$ 90,892	\$ 86,194
Contributions – employee	54,164	52,297	54,056	46,551	47,158	47,356	46,507
Net investment income	71,993	239,240	253,997	384,130	55,445	142,424	429,954
Benefit payments, including refunds of employee contributions	(225,962)	(229,194)	(212,108)	(265,218)	(196,988)	(173,244)	(185,356)
Administrative expenses	(2,455)	(2,384)	(2,219)	(2,318)	(2,023)	(1,953)	(2,344)
Other changes	(85)	(151)	(225)	(338)	(24)	(31)	22
Net change in plan fiduciary net position	1,565	160,853	164,784	224,095	(5,372)	105,444	374,977
Plan fiduciary net position – beginning	<u>3,785,599</u>	<u>3,624,746</u>	<u>3,459,962</u>	<u>3,235,867</u>	<u>3,241,239</u>	<u>3,135,795</u>	<u>2,760,818</u>
Plan fiduciary net position – ending	<u>\$ 3,787,164</u>	<u>\$ 3,785,599</u>	<u>\$ 3,624,746</u>	<u>\$ 3,459,962</u>	<u>\$ 3,235,867</u>	<u>\$ 3,241,239</u>	<u>\$ 3,135,795</u>
Net pension liability – ending	<u>\$ 509,940</u>	<u>\$ 162,169</u>	<u>\$ 293,538</u>	<u>\$ 157,550</u>	<u>\$ 294,522</u>	<u>\$ 256,214</u>	<u>\$ 214,169</u>
Plan fiduciary net position as a percentage of total pension liability	<u>88%</u>	<u>96%</u>	<u>93%</u>	<u>96%</u>	<u>92%</u>	<u>93%</u>	<u>94%</u>
Covered employee payroll	<u>\$ 1,268,730</u>	<u>\$ 1,299,127</u>	<u>\$ 1,159,329</u>	<u>\$ 1,108,821</u>	<u>\$ 1,063,401</u>	<u>\$ 1,041,178</u>	<u>\$ 935,652</u>
Net pension liability as a percentage of covered employee payroll	<u>40%</u>	<u>12%</u>	<u>25%</u>	<u>14%</u>	<u>28%</u>	<u>25%</u>	<u>23%</u>

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

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

TOWN OF ELKTON, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS**

June 30, 2021

Town Fiscal Year Ended June 30,	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a percentage of Covered Payroll
2021	\$ 101,008	\$ 101,008	\$ -	\$ 1,283,835	7.87 %
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	8.68

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

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

TOWN OF ELKTON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
June 30, 2021

Plan Year Ended June 30,	Employer's Proportion of the Net OPEB Liability (Asset)	Employer's Proportionate Share of the Net OPEB Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
Virginia Retirement System – Group Life Insurance – General Employees					
2020	0.00570 %	\$ 95,123	\$ 1,268,730	7.50 %	52.64 %
2019	0.00571	92,917	1,299,127	7.15	52.00
2018	0.00563	85,000	1,159,329	7.33	51.22
2017	0.00521	78,000	1,108,821	7.03	48.86

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

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

SCHEDULE OF OPEB CONTRIBUTIONS
June 30, 2021

Entity Fiscal Year Ended June 30,	Contractually Required Contribution	Relation to Contractually Required	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
Virginia Retirement System – Group Life Insurance – General Employees					
2021	\$ 6,446	\$ 6,446	\$ -	\$ 1,283,835	0.50 %
2020	6,229	6,229	-	1,268,730	0.49
2019	6,271	6,271	-	1,299,127	0.48
2018	6,138	6,138	-	1,159,329	0.53

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

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

TOWN OF ELKTON, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2021

Note 1. Changes of Benefit Terms

Pension

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

Other Postemployment Benefits (OPEB)

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

Note 2. Changes of Assumptions

The actuarial assumptions used in the June 30, 2019 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:

- Update mortality table to RP-2014 projected to 2020
- Lowered rates at older ages and extended final retirement age from 70 to 75
- Update withdrawal rates to better fit experience at each age and service through 9 years of service
- Lowered rates of disability retirement
- No changes to salary rates
- Increased Line of Duty disability rates from 14% to 20%
- Decrease discount rate from 7.00% to 6.75%
- Applicable to: Pension and GLI OPEB

Largest 10 – Hazardous Duty/Public Safety Employees:

- Update mortality table to RP-2014 projected to 2020
- Lowered rates of retirement at older ages
- Update withdrawal rates to better fit experience
- Increased disability rates
- No changes to salary rates
- Increased Line of Duty disability rates from 60% to 70%
- Decreased discount rate from 7.00% to 6.75%
- Applicable to: Pension and GLI OPEB

(Continued)

TOWN OF ELKTON, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2021

Note 2. Changes of Assumptions (Continued)

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

- Update mortality table to RP-2014 projected to 2020
- Lowered rates of retirement at older ages and changed final retirement from 70 to 75
- Update withdrawal rates to better fit experience at each age and service through 9 years of service
- Lowered disability rates
- No changes to salary rates
- Increased Line of Duty disability rate from 14% to 15%
- Decreased discount rate from 7.00% to 6.75%
- Applicable to: Pension and GLI OPEB

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

- Update mortality table to RP-2014 projected to 2020
- Increased retirement rate at age 50 and lowered rates at older ages
- Update withdrawal rates to better fit experience at each age and service through 9 years of service
- Update disability rates to better fit experience
- No changes to salary rates
- Lowered Line of Duty rate from 60% to 45%
- Decreased discount rate from 7.00% to 6.75%
- Applicable to: Pension and GLI OPEB

COMPLIANCE SECTION



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Elkton, Virginia (the “Town”), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements, and have issued our report thereon dated April 29, 2022.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. **We consider the deficiencies described in the accompanying schedule of findings and responses as items 2021-001 through 2021-008 to be material weaknesses.** 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. **We consider the deficiencies described in the accompanying schedule of findings and responses as items 2021-009 through 2021-011 to be significant deficiencies.**

Internal Control over Financial Reporting (Continued)

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

Compliance and Other Matters

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

Town's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not 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.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
April 29, 2022

TOWN OF ELKTON, VIRGINIA

**SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2021**

A. FINDINGS - FINANCIAL STATEMENT AUDIT

2021-001: Material Audit Adjustments (Material Weakness)

Condition:

During the audit, we detected material misstatements in the trial balance. Generally accepted auditing standards dictates that detection of errors in an audit is a strong indicator of a significant deficiency or material weakness. Accordingly, we are required to communicate this finding as such.

Recommendation:

Material audit adjustments indicate that financial information presented to us for the audit was missing or inaccurate. We recommend that management implement processes to ensure accuracy of accounts.

Views of Responsible Officials:

The Treasurer personally reviews the Budget vs Actual Report monthly to ensure that the account codes are correct and that the trial balance is balanced.

2021-002: Segregation of Duties (Material Weakness)

Condition:

Multiple duties in a transaction cycle are performed by the same individual. Consequently, errors or irregularities may occur and not be detected.

Recommendation:

In an ideal system of internal controls, no individual would perform more than one duty in connection with any transaction or series of transactions. While we understand that limited staff can make this difficult, controls should be in place to mitigate the risk. We have suggested specific controls in a separate communication.

Views of Responsible Officials:

An additional employee was hired in the Treasurer's Office in an effort to expand the duties and responsibilities of the employees. This provides additional support/cross training opportunities and depth in the office should there be an extended need for employee leave.

TOWN OF ELKTON, VIRGINIA

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2021

A. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

2021-003: Journal Entries (Material Weakness)

Condition:

Journal entries were not reviewed and did not have supporting documentation. Entries were also posted out of balance. As a result, improper entries may be made and not detected. Out of balance entries will cause the financial system to become out of balance.

Recommendation:

We recommend all journal entries be reviewed and approved by an individual other than the preparer to ensure accuracy and appropriateness of the entry. Management responsible for posting the journal entry after review should not post an entry that results in unbalanced funds.

Views of Responsible Officials:

The Treasurer routinely reviews Accounts Receivables and Accounts Payables in an effort to ensure accuracy and confirmation that the accounts are balanced. When an error is identified, the Treasurer makes journal entries to correct the error and keep the funds balanced.

2021-004: Bank Reconciliations (Material Weakness)

Condition:

Bank reconciliations were not prepared for all accounts. As a result, errors may not be detected in a timely manner.

Recommendation:

As cash accounts are particularly vulnerable to misappropriation due to their high liquidity and volume, we recommend monthly reconciliation of all accounts and review of the completed reconciliations by an individual independent of the preparer.

Views of Responsible Officials:

Previously, the Treasurer's Office staff reconciled the financial system to the bank statement rather than using the bank statement as a tool to reconcile the Town's financial system. The Treasurer now reviews the bank statement and confirms that all deposits were received and that all checks have been accounted for.

(Continued)

TOWN OF ELKTON, VIRGINIA

**SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2021**

A. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

2021-005: Financial System Data (Material Weakness)

Condition:

Activity was not regularly recorded in the financial system by staff. As a result, information may be incomplete or missing in the financial system.

Recommendation:

Activity should be recorded as it is incurred throughout the year while maintaining supporting documentation. Encumbrances should be utilized for budgeting within the financial system and a procurement process with the use of purchase orders should be established.

Views of Responsible Officials:

Upon her arrival, the new Town Treasurer discovered that the Town's financial system had not been closed out for the previous five (5) years and that all journal entries were made annually by the former auditors. As a result, the Treasurer utilized the available reports in the financial system to routinely review/maintain the information in the system and included the purchase order numbers when entering invoices into the A/P system for processing.

2021-006: Capital Assets and Construction in Progress (Material Weakness)

Condition:

Construction in progress expenditures are not tracked per project. Consequently, expenditures were not recorded appropriately, resulting in material audit entries.

Recommendation:

Management should track projects to ensure accurate recordkeeping and that projects are within budget. Upon completion of each project, the balance of expenditures should be placed in service as a capital asset and depreciated.

Views of Responsible Officials:

The new Town Treasurer now maintains spreadsheets of all CIP projects, including the status of funds coming in for the project as well as funds expended for the project.

TOWN OF ELKTON, VIRGINIA

**SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2021**

A. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

2021-007: Cash Disbursement Cycle (Material Weakness)

Condition:

We noted deficiencies in controls surrounding the cash disbursement cycle relating to processing invoices and the procurement process. For example, purchase orders are not used. Purchase orders should be completed according to the procurement policy and related invoices should be maintained with the purchase order to ensure completeness of the expenditures.

Recommendation:

We recommend the implementation of the use of purchase orders as part of the procurement process. Management's review of invoices and related purchase order should be performed prior to cash disbursement.

Views of Responsible Officials:

The Town Treasurer has requested in the fiscal year 2023 budget, a purchase requisition module to complement the financial system currently used by the Town. If approved, this will aid in the procurement process, as well as, the processing of invoices. The proposed module will also track outstanding purchase requisitions which will flag missing/unpaid invoices.

2021-008: Annual and Monthly Close Process (Material Weakness)

Condition:

The Town does not have a formal monthly or annual close process in place. The integrity of prior audited financial data may be compromised when accounting periods remain open to entry.

Recommendation:

We recommend the Town implement a monthly and annual close process to ensure financial records are accurate and complete.

Views of Responsible Officials:

The Town Treasurer routinely reviews the financial data for accuracy and makes journal entries as needed in order to correct any miscoding or other types of discrepancies. This will make the process of annual closing much easier and less time consuming.

TOWN OF ELKTON, VIRGINIA

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2021

A. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

2021-009: Maintenance of Financial Records (Significant Deficiency)

Condition:

Procedures surrounding the maintenance of accounting records are inefficient. For example, documentation of when invoices were received is not present, nor are they attached to a purchase order or recorded in the system. This documentation is important to ensure data integrity and track payments.

Recommendation:

We have provided recommendations to management to assist in maintenance of financial records and increase efficiency.

Views of Responsible Officials:

The Treasurer purchased “date received” stamps for the purpose of stamping invoices and correspondence as it is received in the Treasurer’s Office. This provides accountability for getting the information distributed in a timely manner and invoices paid more efficiently in an effort to take advantage of discounts.

2021-010: Virginia Retirement Systems (Significant Deficiency)

Condition:

Reconciliations are not performed between information maintained by the Town and Virginia Retirement Systems, thus errors may not be detected in a timely manner.

Recommendation:

We recommend the implementation of a monthly reconciliation process between Town payroll reports and VNav information.

Views of Responsible Officials:

The Director of Administration maintains a spreadsheet of information pertaining to each employee and the amount of funding that is to be reported. She confirms each month that the totals are correct and that the submissions to VRS are correct.

(Continued)

TOWN OF ELKTON, VIRGINIA

SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2021

A. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

2021-011: Grant Awards (Significant Deficiency)

Condition:

No formal process is in place to track grant expenditures or monitor compliance with federal and state grant requirements. As a result, compliance requirements may not be met. Federal awards are subject to the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and require a single audit if expenditures exceed \$750,000. The Town is also responsible to maintain compliance with federal and state grant requirements.

Recommendation:

Expenditures must be documented and monitored to ensure compliance requirements are met. Additionally, should a single audit be required, expenditure information for all federal grant programs is necessary to prepare a Schedule of Expenditure of Federal Awards. All federal program awards should be immediately communicated to the Treasurer or designated employee prior to expenditure.

Views of Responsible Officials:

The Treasurer maintains a spreadsheet and file for all grant awards and expenditure of said grant funds.