



**FOR THE FISCAL YEAR ENDED
June 30, 2015**

TOWN OF ELKTON, MARYLAND

For Fiscal Year Ended
June 30, 2015



Prepared by: Town of Elkton Finance Department

Robert J. Alt, Mayor
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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Commissioners
Town of Elkton, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Elkton, Maryland, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Elkton, Maryland as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principles

During fiscal year ended June 30, 2015, the Town adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. As a result of the implementation of these standards, the Town reported a restatement for the change in accounting principle (See Note 12). Our auditor's opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, budgetary comparison statement of the general fund, the schedule of funding progress for Other Post Employment Benefits Trust, schedule of funding progress for the Police Pension Plan Trust, schedule of changes in net pension liability, schedule of employers contributions, investment returns and employers net pension liability, and the notes to required supplemental information as listed on the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Elkton, Maryland’s basic financial statements. The detailed schedule of budgetary comparison for the general fund and combining schedules of fiduciary funds as listed on the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The detailed schedule of budgetary comparison for the general fund and the combining schedules of fiduciary funds as listed in the table of contents are the responsibility of management, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the detailed schedule of budgetary comparison for the general fund and the combining schedules of fiduciary funds as listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2016 on our consideration of the Town of Elkton, Maryland’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Elkton, Maryland’s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Baltimore, Maryland
April 29, 2016

TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

INTRODUCTION

As management of the Town of Elkton, Maryland, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2015. The Management's Discussion and Analysis (MD&A) is best understood if read in conjunction with the Town's basic financial statements. We encourage users to read it in conjunction with the Town's basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FY 2015

The Town's assets and deferred outflows exceeded its liabilities and deferred inflows at the close of the 2015 fiscal year by approximately \$70.9 million (total net position). Approximately 83% of this amount is attributable to the Town's utilities (Water and Sewer). Of the total net position, \$16.0 million (unrestricted) may be used to meet ongoing obligations to citizens and creditors, and \$53.4 million is the investment in capital assets.

As of the close of the 2015 fiscal year, the Town's only governmental fund (General Fund) reported an ending fund balance of \$6.5 million. Of this total amount, \$2.7 million is unassigned and represents working capital available to support governmental operating needs and future years' expenditures. The unassigned fund balance for the General Fund is 24% of total expenditures and represents funding for less than three months of expenditures.

The General Fund, on a current financial resources basis, reported expenditures in excess of revenues of approximately \$967,000.

The Town's total debt decreased by approximately \$1.3 million during the current fiscal year, from \$17.5 million to \$16.2 million. This is the result of the retirement of existing debt in the Governmental Activities of \$327,000 and the Business-Type Activity of \$1.1 million, offset by increases to other post employment benefit costs and compensated absences.

USING THIS ANNUAL REPORT

The basic financial statements in the financial section include two kinds of statements that present different views of the Town as described in more detail below:

- The government-wide financial statements, which are the Statement of Net Position and the Statement of Activities, provide information about the activities of the Town as a whole. They present both short-term and long-term information about the Town's overall financial status.

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- For governmental activities, fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's General fund. The remaining statements are fiduciary fund statements and provide financial information about activities for which the Town acts solely as a trustee for the benefit of those outside of the government. The basic financial statements also include notes that provide explanation of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Town's budget for the year. The chart below shows how the various parts of this annual report are arranged and flow in the Financial Section:

Independent Auditor's Report

Provides the opinion of the Independent Auditor on the fair presentation of the financial statements.

Management's Discussion and Analysis

This supplementary information is required for state and local government financial statements, and is intended to provide a narrative introduction, overview and analysis.

**Government-Wide
Financial Statements**

Provides information on governmental and business-type activities of the primary government.

Fund

Financial Statements

Provides information on the financial position of specific funds of the primary government.

Notes to Financial Statements

Provides a summary of significant accounting policies and related disclosures.

Required Supplementary Information

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The chart below summarizes the major features of the Town's two financial statements, including the portion of the activities they cover and the types of information they contain.

Fund Financial Statements				
	Government-Wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Town (except fiduciary funds)	The activities of the Town that are not proprietary or fiduciary, such as Police, Parks, Recreation & Culture, and General Administration	The activities of the Town which are the same functions as presented in the Business-type Activities of the Government-Wide statements. These are activities which generally are operated to recover all or a significant portion of their costs through user fees and charges.	Instances in which the Town administers resources on behalf of someone else, such as the Pension Plan
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses and changes in Net Position • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and deferred outflows and liabilities and deferred inflows both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities. Does include deferred inflows and outflows where applicable.	All assets and deferred outflows and liabilities and deferred inflows, both financial and capital, short-term and long-term;	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of in-flow/out-flow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liabilities are due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

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The following highlights are the structure and contents of each of the statements.

Government-Wide Financial Statements

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

The Statement of Net Position is designed to provide bottom line results for the Town's governmental and business-type activities. This statement reports the Town's governmental fund's current financial resources (i.e., short-term spendable resources) with capital assets and long-term obligations. All infrastructure assets built or purchased by the Town, and infrastructure dedicated by developers, are included in the accompanying government-wide financial statements.

You can think of the Town's Net Position, the difference between assets and liabilities, as one way to measure the Town's financial health or financial position. Over time, increases or decreases in the Town's Net Position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the Town's property tax base and the conditions of the Town's infrastructure, to assess the overall health of the Town.

The Statement of Activities is focused on both the gross and net cost of various functions. This is intended to summarize and simplify the users' analysis of the cost of various governmental services. In the government-wide financial statements, the activities of the Town are maintained within governmental and business-type activities. Most of the Town's basic services are reported here, including police, public works, recreation and general administration. These activities are financed with revenues from property taxes, other state and county taxes, state and federal grants and charges for services. Additionally, the Town's water and sewer services are reported here.

The Town implemented GASB No. 68 and 71 during the year ended June 30, 2015. As part of the implementation, the Town restated net position as of June 30, 2014. The amount of the restatement was a decrease of \$3,423,958.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the Town as a whole. Funds are accounting devices used to track specific sources of funding and spending on particular programs. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Town can be divided into three categories - governmental funds, proprietary funds and fiduciary funds.

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Governmental Funds:

Most of the Town's basic services are reported in one governmental fund, which focuses on how money flows into and out of the fund and the balance left at year-end that is available for spending. The fund is reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided in a Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position, and a separate Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities. The Town of Elkton maintains only one major governmental fund (the General Fund).

Proprietary Funds:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

The Town uses enterprise funds to account for its Water, Sewer, and Major Facility funds. Proprietary funds provide the same type of information as the government-wide financial statement, only in more detail.

Fiduciary Funds:

The Town is the trustee, or fiduciary, for assets that belong to its employees' pension plans. The Town is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. These activities are excluded from the government-wide financial statements because the assets cannot be used to finance operations.

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GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

The following tables present a summary of the Statement of Net Position for the Town as of June 30, 2015 and 2014, respectively:

NET POSITION - JUNE 30, 2015

	Governmental	Business-type	
	Activities	Activities	Total Activities
ASSETS			
Current and other assets	\$ 8,338,120	\$ 15,392,931	\$ 23,731,051
Capital assets	9,473,537	59,158,985	68,632,522
Total assets	17,811,657	74,551,916	92,363,573
DEFERRED OUTFLOWS OF RESOURCES	237,215	-	237,215
LIABILITIES			
Long-term liabilities outstanding	5,831,360	14,128,733	19,960,093
Other liabilities	363,507	1,376,827	1,740,334
Total liabilities	6,194,867	15,505,560	21,700,427
DEFERRED INFLOWS OF RESOURCES	10,635	-	10,635
Net Position			
Net Investment in capital assets	8,229,381	45,186,288	53,415,669
Restricted	1,485,987	-	1,485,987
Unrestricted	2,128,002	13,860,068	15,988,070
TOTAL NET POSITION	\$ 11,843,370	\$ 59,046,356	\$ 70,889,726

NET POSITION - JUNE 30, 2014

	Governmental	Business-type	
	Activities	Activities	Total Activities
ASSETS			
Current and other assets	\$ 8,566,577	\$ 13,332,421	\$ 21,898,998
Non-current assets	31,847	-	31,847
Capital assets	9,721,825	60,211,173	69,932,998
Total assets	18,320,249	73,543,594	91,863,843
LIABILITIES			
Long-term liabilities outstanding	2,308,005	15,188,941	17,496,946
Other liabilities	524,790	696,321	1,221,111
Total liabilities	2,832,795	15,885,262	18,718,057
Net Position			
Net Investment in capital assets	8,150,505	45,159,910	53,310,415
Restricted	1,592,916	-	1,592,916
Unrestricted	5,744,033	12,498,422	18,242,455
TOTAL NET POSITION	\$ 15,487,454	\$ 57,658,332	\$ 73,145,786

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The Town's assets exceeded its liabilities at the close of the 2015 fiscal year by \$70.9 million. Approximately \$53.4 million of the Town's net position reflect its investment in capital assets, (e.g., land, buildings, improvements, vehicles, furniture and equipment, infrastructure). The Town uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending.

Changes in Net Position

The following tables present a summary of the changes in net position for governmental and business-type activities for the years ending June 30, 2015 and 2014, respectively:

Changes in Net Position
Fiscal Year Ending June 30, 2015

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total Activities</u>
REVENUES			
Program Revenues			
Charges for services	\$ 1,399,258	\$ 8,509,584	\$ 9,908,842
Operating grants and contributions	520,080	-	520,080
Capital grants and contributions	-	242,869	242,869
General Revenues			
Property taxes	8,105,419	-	8,105,419
State and County shared taxes	1,331,286	-	1,331,286
Investments earnings	1,453	16,940	18,393
Miscellaneous	200,804	199,831	400,635
Total revenues	<u>11,558,300</u>	<u>8,969,224</u>	<u>20,527,524</u>
Program Expenses			
General government	1,507,657	-	1,507,657
Public safety	5,957,693	-	5,957,693
Public works	3,859,840	-	3,859,840
Recreation and culture	420,770	-	420,770
Interest on long-term debt	32,466	-	32,466
Utilities and other proprietary funds	-	7,581,200	7,581,200
Total expenses	<u>11,778,426</u>	<u>7,581,200</u>	<u>19,359,626</u>
CHANGE IN NET POSITION	(220,126)	1,388,024	1,167,898
NET POSITION - BEGINNING OF YEAR, as restated	<u>12,063,496</u>	<u>57,658,332</u>	<u>69,721,828</u>
NET POSITION - END OF YEAR	<u>\$ 11,843,370</u>	<u>\$ 59,046,356</u>	<u>\$ 70,889,726</u>

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Changes in Net Position
Fiscal Year Ending June 30, 2014

	<u>Governmental</u>	<u>Business-type</u>	<u>Total Activities</u>
	<u>Activities</u>	<u>Activities</u>	
REVENUES			
Program Revenues			
Charges for services	\$ 1,454,017	\$ 8,803,203	\$ 10,257,220
Operating grants and contributions	1,117,121	-	1,117,121
Capital grants and contributions	-	491,500	491,500
			-
General Revenues			
Property taxes	8,020,517	-	8,020,517
State and County shared taxes	1,194,375	-	1,194,375
Investments earnings	5,410	9,387	14,797
Miscellaneous	<u>111,562</u>	<u>148,809</u>	<u>260,371</u>
Total revenues	<u>11,903,002</u>	<u>9,452,899</u>	<u>21,355,901</u>
Program Expenses			
General government	1,986,515	-	1,986,515
Public safety	5,947,504	-	5,947,504
Public works	3,311,832	-	3,311,832
Recreation and culture	446,737	-	446,737
Interest on long-term debt	59,506	-	59,506
Utilities and other proprietary funds	<u>-</u>	<u>7,433,273</u>	<u>7,433,273</u>
Total expenses	<u>11,752,094</u>	<u>7,433,273</u>	<u>19,185,367</u>
CHANGE IN NET POSITION	150,908	2,019,626	2,170,534
NET POSITION - BEGINNING OF YEAR	<u>15,336,546</u>	<u>55,638,706</u>	<u>70,975,252</u>
NET POSITION - END OF YEAR *	<u>\$ 15,487,454</u>	<u>\$ 57,658,332</u>	<u>\$ 73,145,786</u>

*The 2014 net position has not been restated for the effects of GASB Statement Nos. 68 and 71.

The Town's total revenues were \$20.5 million, a decrease of approximately \$828,000. The majority of the overall decrease, \$597,000, was attributable to a decrease in operating grant revenue, along with other program revenue decreases of \$348,000 and \$249,000 in charges for services and capital grants and contributions, respectively, netted against \$366,000 increase in general revenues.

TOWN OF ELKTON, MARYLAND
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Governmental Activities

General revenues for the governmental activities were \$9.6 million, while total expenses, net of charges for services and grants and contributions, were \$9.9 million.

Total general revenues from governmental activities increased by \$307,000 and total governmental activities net expenses increased by \$678,000. The majority of the overall revenue increase, \$137,000, was due to an increase in state shared income tax. An additional \$89,000 in miscellaneous revenue was primarily attributable to a \$66,000 Delmarva Power capital improvement grant.

While total expenses were virtually unchanged, the \$678,000 increase in net expenses was due primarily to a \$597,000 decrease in total operating grants and contributions, specifically a \$500,000 CDBG grant, \$52,000 Program Open Space Grant, and \$45,000 in various Public Safety Grants. The impact of the GASB No. 68 implementation was \$142,000.

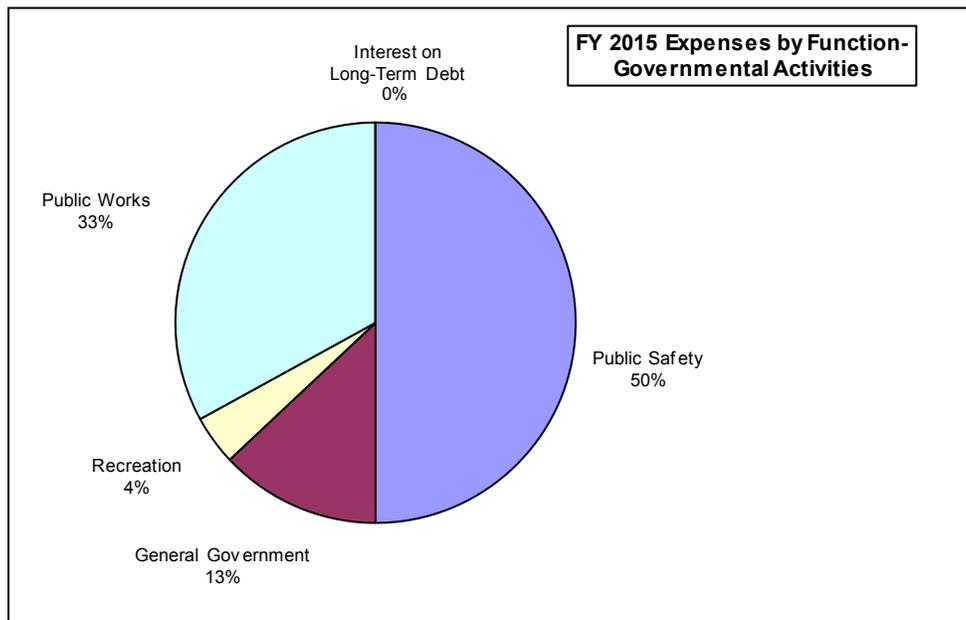
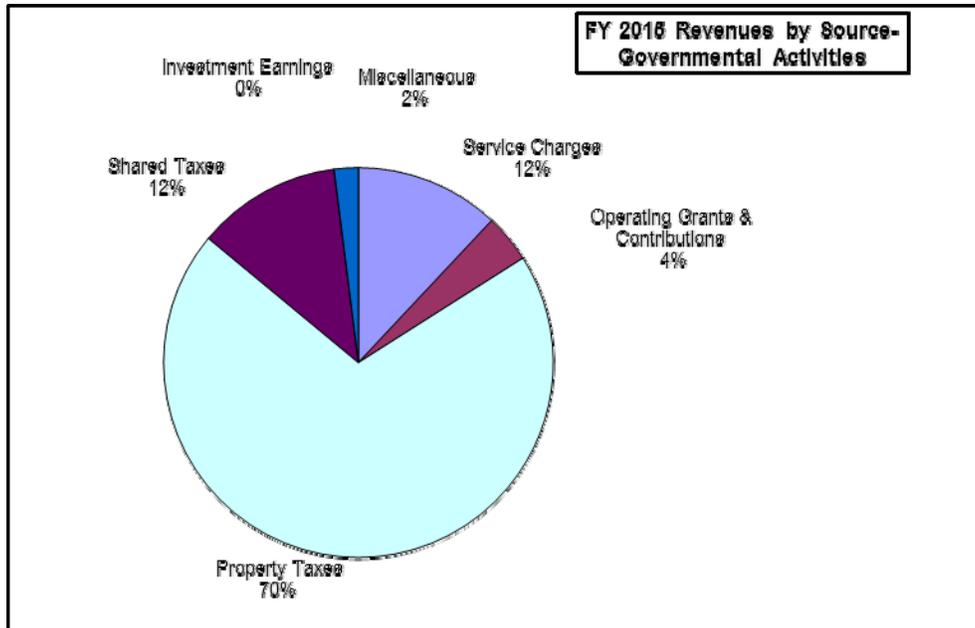
Business-type Activities

The total net position increased by \$1.4 million in business-type activities, or 2.4%. Total revenues for business-type activities decreased by \$542,000, while expenses increased by \$148,000. The key elements for the reduced revenue include a \$249,000 decrease in a CDBG grant for water tower renovations, a \$442,000 decrease in the Major Facility fees, due to decrease in construction activity, offset by a \$149,000 increase in charges for services in the Sewer Fund.

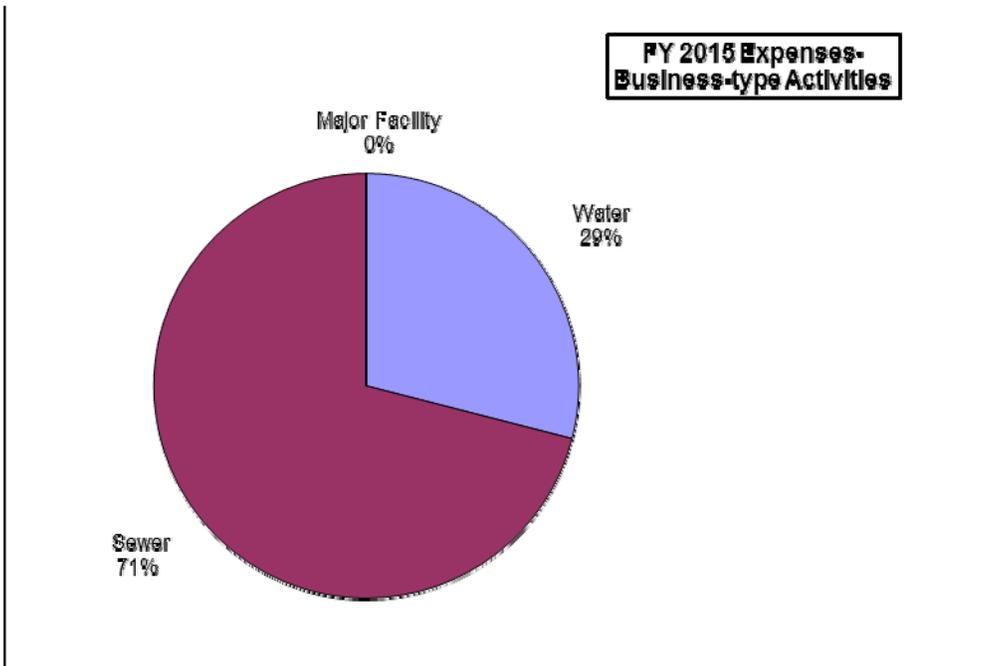
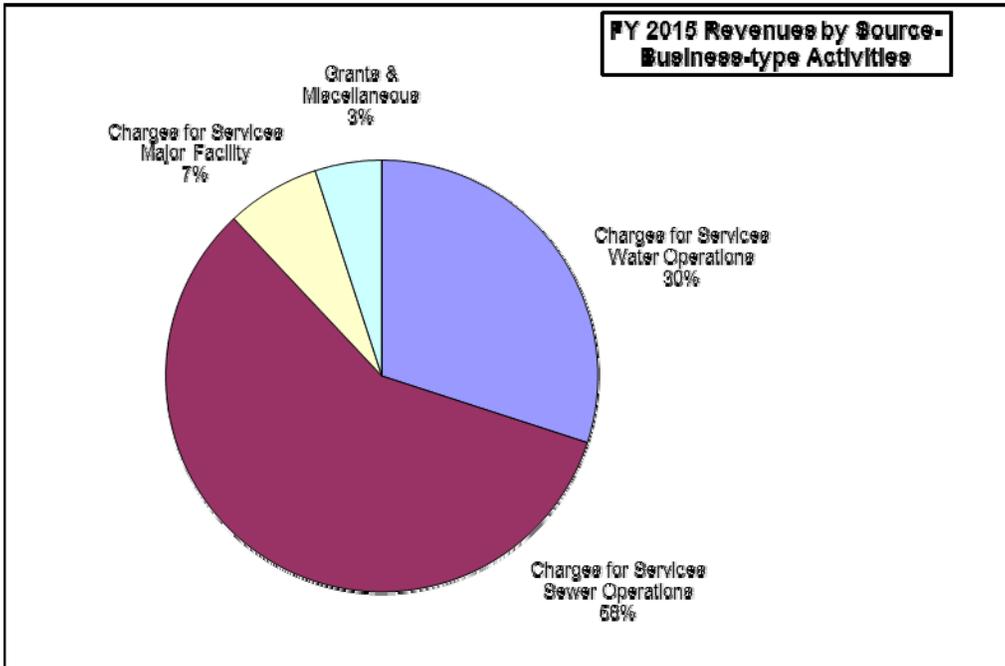
The \$148,000 increase in expenses was primarily the result of increased salary and fringe benefits, \$99,000 in the water fund and \$46,000 in the sewer fund.

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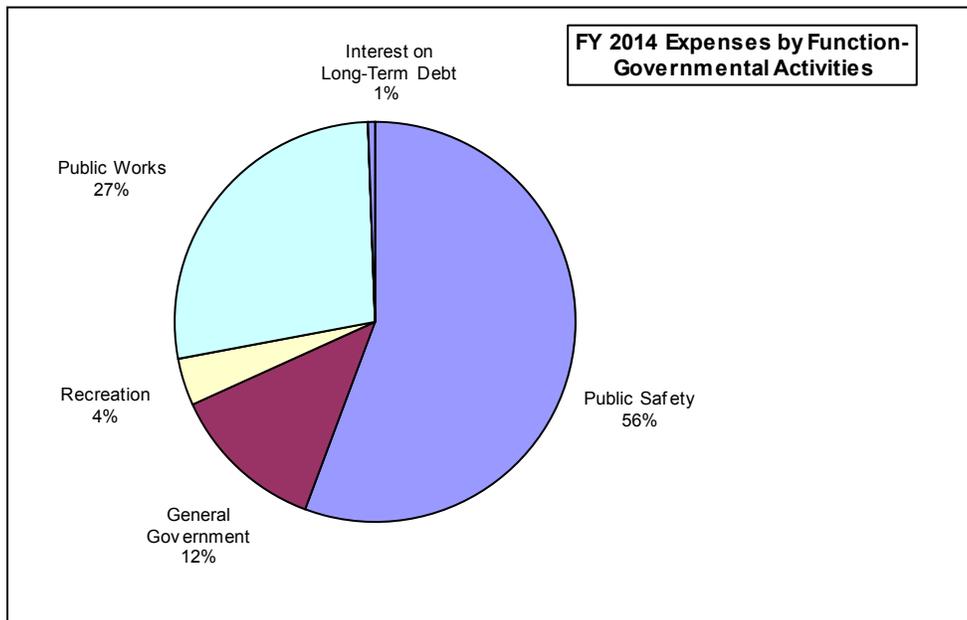
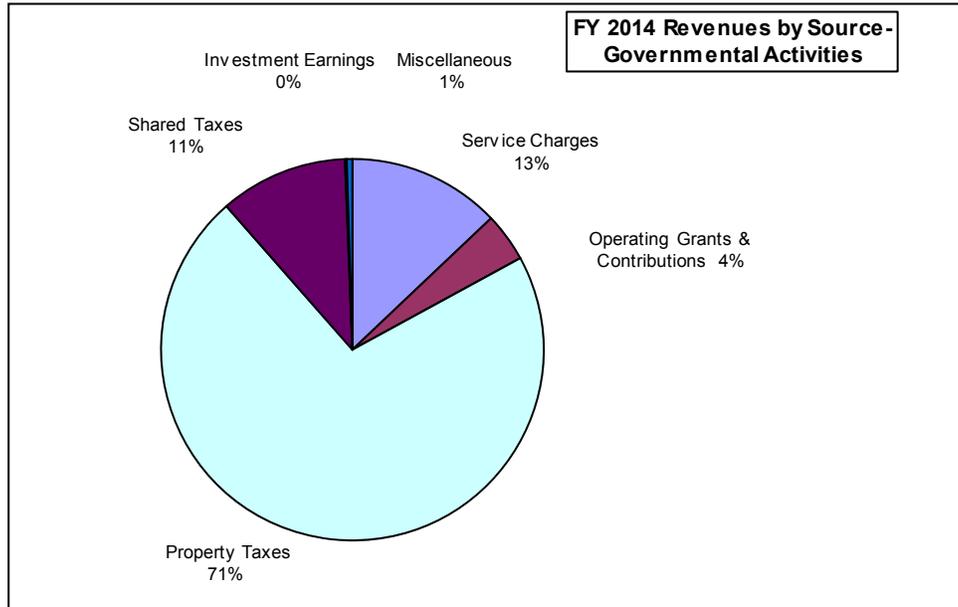
The following is a graphical presentation of the Town's revenues and expenses for the years ending June 30, 2015 and 2014:



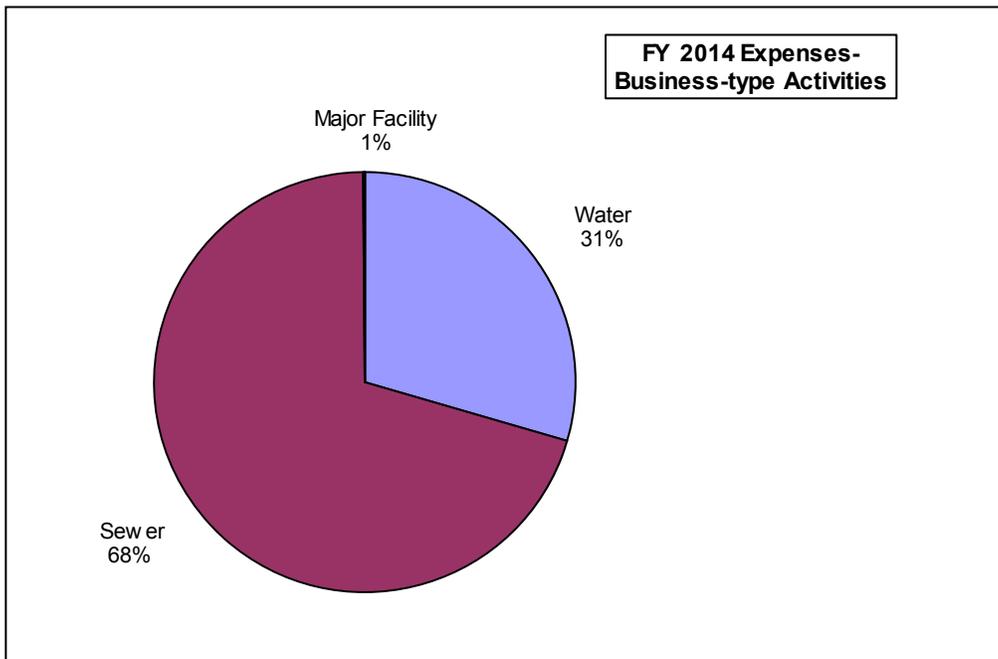
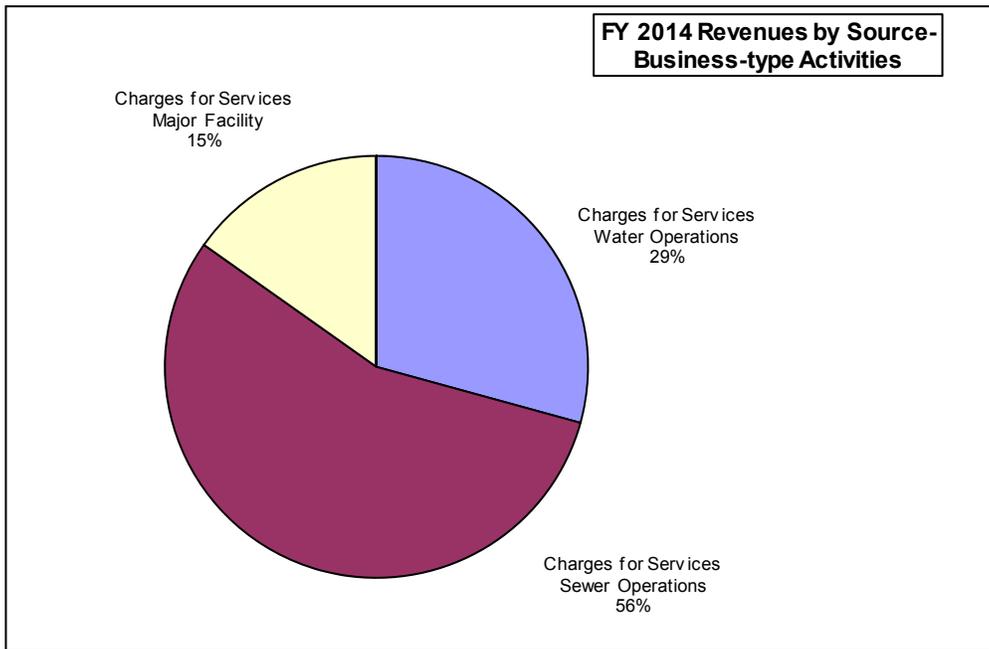
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The following tables present the costs and program revenues of each of the Town's activities and capital outlays for the years ending June 30, 2015 and 2014, respectively. The tables also show each activity's net cost (total cost less fees generated by the activities and program specific intergovernmental aid). The net cost shows the financial burden placed upon local taxpayers for each of these functions.

Net Cost of Activities			
Year Ended June 30, 2015			
	Expenses	Revenues	Net Expense (Revenue)
Governmental Activities			
General government	\$ 1,507,657	\$ 272,275	\$ 1,235,382
Public safety	5,957,693	580,662	5,377,031
Public works	3,859,840	940,678	2,919,162
Recreation and culture	420,770	125,723	295,047
Interest on long-term debt	32,466	-	32,466
Total governmental activities	11,778,426	1,919,338	9,859,088
Business-type Activities			
Major Facility	4,080	638,475	(634,395)
Water	2,203,035	2,817,407	(614,372)
Sewer	5,374,085	5,296,571	77,514
Total business-type activities	7,581,200	8,752,453	(1,171,253)
Total Governmental and Business-type Activities	\$ 19,359,626	\$ 10,671,791	\$ 8,687,835

Net Cost of Activities			
Year Ended June 30, 2014			
	Expenses	Revenues	Net Expense (Revenue)
Governmental Activities			
General government	\$ 1,986,515	\$ 258,914	\$ 1,727,601
Public safety	5,947,504	1,151,782	4,795,722
Public works	3,311,832	952,627	2,359,205
Recreation and culture	446,737	207,815	238,922
Interest on long-term debt	59,506	-	59,506
Total governmental activities	11,752,094	2,571,138	9,180,956
Business-type Activities			
Major Facility	5,913	1,080,813	(1,074,900)
Water	2,115,753	3,066,718	(950,965)
Sewer	5,311,607	5,147,172	164,435
Total business-type activities	7,433,273	9,294,703	(1,861,430)
Total Governmental and Business-type Activities	\$ 19,185,367	\$ 11,865,841	\$ 7,319,526

TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

The cost of governmental activities this year was \$11.8 million, an increase of \$26,000. The overall increase was minimal, but there were some fluctuations within the functions when compared to the prior year expenses. Public works increased by \$548,000, largely the result of a \$192,000 increase in street paving, \$64,000 increase in snow and ice removal, and \$43,000 increase in salary and related fringe benefits. There was a decrease of \$479,000 in general government, primarily the result of a one time \$500,000 CDBG grant expense in FY 14. Some of the cost of government activities was paid by those who directly benefited from the programs (\$1.4 million) and other governments and organizations that subsidized certain programs with grants and contributions (\$520,000). Taxpayers paid the remaining net cost of services of \$9.9 million.

The total cost of business-type activities this year was \$7.6 million, an increase of \$148,000 due to an increase of \$87,000 in the Water Fund and \$63,000 in the Sewer Fund and a decrease of \$2,000 in Major Facilities. Each of these increases was primarily the result of increases in salary and related fringed benefits and other operating expenses. The cost of the activities was primarily paid for by service charges, grants, and lease agreements. Water Fund revenues exceeded expenses by \$614,000. Sewer Fund expenses exceeded charges for services by \$78,000. The Major Facility Fund shows that charges for services were greater than expenses by \$634,000.

Financial Analysis of the Town's Funds

At year-end, the General Fund reported a combined fund balance of \$6.5 million, a decrease from the previous year's \$7.5 million. This \$967,000 decrease was primarily the result of an \$899,000 increase to unavailable tax revenue related to business personal taxes.

The Proprietary Funds Net Position increased by \$1.4 million. This was primarily the result of a \$634,000 operating income in the major facility fund, a \$561,000 operating income in the water fund, and a \$53,000 operating income in the sewer fund, investment earnings and capital grant contributions of \$260,000, and interest expense of \$121,000.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues were \$427,000, or 3.9% less than the final budgeted amount, primarily the result of a negative variance of \$721,000 in total property and real taxes, a \$248,000 positive variance in total other taxes, and a \$36,000 positive variance in total intergovernmental revenue.

The negative variance of \$721,000 in total property and real taxes is primarily due to a total negative variance of \$801,000 in business personal property tax offset by positive variances of \$78,000 in real property tax. The negative variance in business personal property tax was the result of a delay in the annual billing cycle while the positive variance in real property tax was due to an underestimation of total assessments by the State Department of Assessments and Taxation. The positive variance in other local taxes, specifically local income tax of \$231,000, is due to the fact that historically that revenue source does not lend itself to accurate forecasting, thus, is very conservatively budgeted. The positive variance in intergovernmental revenue of \$36,000 is primarily due to various grants obtained by the Elkton Police Department for operating supplies and overtime.

Actual expenditures were \$666,000, or 5.4%, less than the final budgeted amount. Each expenditure category had a positive variance. The \$505,000 positive variance in Public Safety was attributable to salary and fringe benefit savings from positions budgeted, but not filled, for extended periods during the fiscal year. In addition, general services had a positive variance of \$28,000 primarily due to lower than budgeted utility costs.

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June 30, 2015

The positive variance of \$33,000 in Personnel was also due to salary and fringe benefit savings from budgeted, but not filled, positions along with a personnel software package that was budgeted but not purchased. Lastly, the positive variance of \$45,000 in Parks and Recreation was primarily due to \$19,000 of salary and fringe benefit savings due to savings from budgeted, but not filled, part-time positions, \$12,000 unexpended for special events, and \$8,000 unexpended for facility upgrades.

During the year, there was a \$331,589 increase in appropriations between the original and final amended budget. The following are the main components of the increase:

- A supplemental appropriation of \$110,527 from the restricted fund balance for road paving expenses in excess of current year revenue.
- A supplemental appropriation of \$84,507 from unassigned fund balance for snow and ice removal expenses greater than budgeted.
- A supplemental appropriation to recognize grant revenue of \$65,999 from Delmarva Power for the purpose of installing energy efficient lighting fixtures in the municipal building.
- A supplemental appropriation of \$29,071 from unassigned fund balance for salary and fringe benefits in Administration.
- A supplemental appropriation to recognize \$15,375 from insurance proceeds for the purchase of a replacement vehicle.

TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town of Elkton's capital assets (net of accumulated depreciation) for its governmental and business-type activities as of June 30, 2015, amounts to \$68.6 million. These capital assets include land, buildings, machinery and equipment (including vehicles), infrastructure (including park facilities, roads, highways and bridges) and construction in progress. The total decrease in the Town's capital assets for the current fiscal year was 1.9 %, a 2.6% decrease for governmental activities and a 1.7% increase for business-type activities.

The following table presents capital assets (net of accumulated depreciation) by category for fiscal years ending June 30, 2015 and 2014, respectively:

Town of Elkton's Capital Assets						
(Net of Depreciation)						
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 2,657,608	\$ 2,657,608	\$ 865,270	\$ 865,270	\$ 3,522,878	\$ 3,522,878
Other improvements	2,139,371	2,436,813	-	-	2,139,371	2,436,813
Buildings	3,738,650	3,843,794	-	-	3,738,650	3,843,794
Plants, mains & other improvements	-	-	56,425,826	57,516,901	56,425,826	57,516,901
Equipment	713,989	596,865	700,860	749,892	1,414,849	1,346,757
Construction-in-progress	223,919	186,745	1,167,029	1,079,110	1,390,948	1,265,855
Total	<u>\$ 9,473,537</u>	<u>\$ 9,721,825</u>	<u>\$ 59,158,985</u>	<u>\$ 60,211,173</u>	<u>\$ 68,632,522</u>	<u>\$ 69,932,998</u>

Major capital asset events during the fiscal year ending June 30, 2015 included the following:

In the Town's governmental activities:

- Equipment purchased for the police department cost \$166,218.
- Equipment purchased for public works cost \$104,858.
- Equipment purchased for building inspection cost \$48,662.
- \$75,404 was spent on LED lighting upgrades in the municipal building.
- Depreciation expense was \$684,086 for the year.

**TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015**

In the Town's business-type activities:

- \$25,604 was sent for 2 pressure reducing valves.
- \$127,177 was spent for engineering and testing to develop two additional groundwater sources.
- Engineering services and contractor expenses for the dredging of the raceway into the surface water treatment plant cost \$264,691.
- \$19,460 was spent on the engineering of a new influent screen into the wastewater treatment plant.
- The purchase of a 2016 5 Ton International dump truck split between the water and sewer funds for a total cost of \$69,937.
- \$46,924 was spent for a 150 KW generator for Well No. 2R.
- Depreciation expense was \$1,672,738 for the year.

Additional information on the Town's capital assets can be found in Note 6 on pages 43-44 of this report.

Long-term Debt

At the end of fiscal year 2015, the Town of Elkton had \$15,216,853 in outstanding loans, compared to \$16,622,583 last year. The following chart compares the level of long-term debt for fiscal years 2015 and 2014, respectively:

Town of Elkton's Outstanding Debt						
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Loans	<u>\$ 1,244,156</u>	<u>\$ 1,571,320</u>	<u>\$ 13,972,697</u>	<u>\$ 15,051,263</u>	<u>\$ 15,216,853</u>	<u>\$ 16,622,583</u>

The Town of Elkton's total debt decreased by \$1,405,730 during the current fiscal year. In compliance with debt amortization schedules, the Town made total debt repayments in Governmental Activities of \$327,164, and in Business-type Activities, \$1,078,566. The Town did not incur any new debt during fiscal year 2015.

Additional information on the Town's long-term debt can be found in Note 7 on pages 45-47 of this report.

**TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The Town is required, by Charter, to have a balanced budget each fiscal year and has always complied with this requirement. Annually, the Town develops and updates financial models for all of its major funds, which enables the Town to evaluate both short and long-term implications of proposed operational and capital decisions regarding Town finances.
- The fiscal year 2016 budget for the Town's only governmental fund, the General Fund, was adopted at \$979,836 greater than the fiscal year 2015 final budget.
- For fiscal year 2016, the Town adopted \$0.5856 per \$100.00 of assessed value as the real property tax rate, \$0.0003 greater than the constant yield tax rate, generating \$3,300 more revenue.
- The water and sewer rates were unchanged for fiscal year 2016.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers and creditors with a general overview of the Town's finances, and to show the Town's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Finance Department, ATTENTION: Finance Director, at 100 Railroad Avenue, Elkton, Maryland 21921, Telephone 410.398.4170.

TOWN OF ELKTON, MARYLAND
STATEMENT OF NET POSITION
June 30, 2015

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 5,662,555	\$ 14,072,950	\$ 19,735,505
Accounts receivable, net	1,689,279	1,705,788	3,395,067
Other assets	103,499	-	103,499
Internal balances	385,807	(385,807)	-
Due from other governments	496,980	-	496,980
Non-current assets:			
Capital assets, not being depreciated	2,881,527	2,032,299	4,913,826
Capital assets being depreciated, net of accumulated depreciation	6,592,010	57,126,686	63,718,696
Total Assets	<u>17,811,657</u>	<u>74,551,916</u>	<u>92,363,573</u>
Deferred outflow - pension plan	<u>237,215</u>	<u>-</u>	<u>237,215</u>
Total Assets and Deferred outflows	<u>18,048,872</u>	<u>74,551,916</u>	<u>92,600,788</u>
LIABILITIES			
Current liabilities:			
Accounts payable	323,859	1,247,307	1,571,166
Accrued liabilities	39,648	46,025	85,673
Other liabilities	-	83,495	83,495
Net pension liability	3,760,955	-	3,760,955
Non-current liabilities:			
Due within one year	440,208	1,103,243	1,543,451
Due in more than one year	1,630,197	13,025,490	14,655,687
Total liabilities	<u>6,194,867</u>	<u>15,505,560</u>	<u>21,700,427</u>
Deferred inflow - pension plan	<u>10,635</u>	<u>-</u>	<u>10,635</u>
Total Liabilities and Deferred inflows	<u>6,205,502</u>	<u>15,505,560</u>	<u>21,711,062</u>
NET POSITION			
Net investment in capital assets	8,229,381	45,186,288	53,415,669
Restricted - Highways	1,148,859	-	1,148,859
Restricted - Sized funds	148,987	-	148,987
Restricted - Recreation and culture	188,141	-	188,141
Unrestricted	<u>2,128,002</u>	<u>13,860,068</u>	<u>15,988,070</u>
TOTAL NET POSITION	<u>\$ 11,843,370</u>	<u>\$ 59,046,356</u>	<u>\$ 70,889,726</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF ELKTON, MARYLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
Year Ended June 30, 2015

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Functions/Programs							
Primary Government							
Governmental activities:							
General government	\$ 1,507,657	\$ 269,329	\$ 2,946	\$ -	\$ (1,235,382)	\$ -	\$ (1,235,382)
Public safety	5,957,693	63,528	517,134	-	(5,377,031)	-	(5,377,031)
Public works	3,859,840	940,678	-	-	(2,919,162)	-	(2,919,162)
Recreation and culture	420,770	125,723	-	-	(295,047)	-	(295,047)
Interest on long-term debt	32,466	-	-	-	(32,466)	-	(32,466)
Total governmental activities	<u>11,778,426</u>	<u>1,399,258</u>	<u>520,080</u>	<u>-</u>	<u>(9,859,088)</u>	<u>-</u>	<u>(9,859,088)</u>
Business-type activities							
Major facility	4,080	638,475	-	-	-	634,395	634,395
Water	2,203,035	2,666,038	-	151,369	-	614,372	614,372
Sewer	5,374,085	5,205,071	-	91,500	-	(77,514)	(77,514)
Total business-type activities	<u>7,581,200</u>	<u>8,509,584</u>	<u>-</u>	<u>242,869</u>	<u>-</u>	<u>1,171,253</u>	<u>1,171,253</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 19,359,626</u>	<u>\$ 9,908,842</u>	<u>\$ 520,080</u>	<u>\$ 242,869</u>	<u>(9,859,088)</u>	<u>1,171,253</u>	<u>(8,687,835)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purpose					8,105,419	-	8,105,419
Unrestricted state shared income taxes					1,331,286	-	1,331,286
Investment earnings					1,453	16,940	18,393
Miscellaneous					200,804	199,831	400,635
Total general revenues					<u>9,638,962</u>	<u>216,771</u>	<u>9,855,733</u>
CHANGE IN NET POSITION					(220,126)	1,388,024	1,167,898
NET POSITION - BEGINNING OF YEAR, as restated					<u>12,063,496</u>	<u>57,658,332</u>	<u>69,721,828</u>
NET POSITION - END OF YEAR					<u>\$ 11,843,370</u>	<u>\$ 59,046,356</u>	<u>\$ 70,889,726</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF ELKTON, MARYLAND
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2015

	General Fund
ASSETS	
Cash and cash equivalents	\$ 5,662,555
Receivables, net	1,689,279
Other assets	103,499
Due from other governments	496,980
Due from other funds	565,806
TOTAL ASSETS	\$ 8,518,119
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	
Liabilities	
Accounts payable	\$ 323,859
Accrued liabilities	35,946
Due to other funds	179,999
Total liabilities	539,804
Deferred inflows of resources	
Unavailable tax revenue	1,459,003
Fund Balances	
Restricted	1,485,987
Committed	500,000
Assigned	1,799,948
Unassigned	2,733,377
Total fund balances	6,519,312
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	\$ 8,518,119

The accompanying notes are an integral part of the financial statements.

TOWN OF ELKTON, MARYLAND
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2015

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 6,519,312
 Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources, and therefore, are not reported as assets in governmental funds. The cost of these assets is \$28,222,084, and the accumulated depreciation is \$18,748,547.	9,473,537
Long-term liabilities are not due and payable in the current period, and therefore, are not reported as liabilities in the funds.	(2,070,405)
Accrued interest is not recorded in the governmental funds.	(3,702)
Net pension obligations are not due and payable in the current period and, therefore, are not reported in the funds.	(3,760,955)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	226,580
Certain receivables are offset by deferred inflows in the governmental funds since they are not available to pay for current-period expenditures. This is the amount of deferred inflows related to these receivables.	<u>1,459,003</u>
 TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	 <u>\$ 11,843,370</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF ELKTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS
Year Ended June 30, 2015

	<u>General Fund</u>
REVENUES	
Taxes and utility fees	\$ 8,559,909
Licenses and permits	326,514
Fines and forfeitures	9,880
Investment revenues	1,453
Charges for services	736,267
Intergovernmental	824,936
Miscellaneous	<u>183,865</u>
Total revenues	<u>10,642,824</u>
EXPENDITURES	
Current operations:	
General government	1,458,173
Public safety	5,806,057
Public works	3,615,334
Recreation and culture	369,341
Debt service:	
Principal	327,164
Interest	<u>33,439</u>
Total expenditures	<u>11,609,508</u>
NET CHANGE IN FUND BALANCE	(966,684)
FUND BALANCES - BEGINNING OF YEAR	<u>7,485,996</u>
FUND BALANCES - END OF YEAR	<u>\$ 6,519,312</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF ELKTON, MARYLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2015

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ (966,684)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated lives as depreciation expense. This is the amount by which depreciation expense (\$684,086) exceeds capital outlay (\$442,953).	(241,133)
In the Statement of Activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for compensated absences are measured by the amount of financial resources used (essentially, the amounts actually paid or expected to be paid within one year). This amount represents the net increase in compensated absences liability.	(11,980)
Long-term debt repayments are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount of long-term debt repayments during 2015.	327,164
Governmental funds do not recognize loss on disposal of fixed assets. However, in the Statement of Activities the difference between the cost and accumulated depreciation of fixed assets is recorded as a loss on disposal of fixed assets. This amount is the amount in which the cost of disposed assets of \$174,027 exceeded accumulated depreciation of \$166,872 .	(7,155)
Interest expense in the Statement of Activities differs from the amount reported in governmental funds due to the net increase in accrued interest.	973
Under the modified accrual basis of accounting, revenues are not recognized unless they are deemed "available" to finance current expenditures. Accrual-basis recognition is not limited by availability, so certain revenues need to be reduced by the amounts that were unavailable at the beginning of the year and increased by the amounts that were unavailable at the end of the year. This adjustment records a net increase in "unavailable" revenues at the end of the year over the amount at the beginning of the year.	898,537
Governmental funds report Town pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.	(142,264)
OPEB expenses reported in the Statement of Activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.	<u>(77,584)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (220,126)</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF ELKTON, MARYLAND
STATEMENT OF NET POSITION –
PROPRIETARY FUNDS
June 30, 2015

	Business-type Activities - Enterprise Funds			
	Major			
	Facility	Water	Sewer	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 4,660,196	\$ 2,213,573	\$ 7,199,181	\$ 14,072,950
Receivables, net	97,725	551,650	1,056,413	1,705,788
Due from other funds	1,372,696	638,130	-	2,010,826
Total current assets	6,130,617	3,403,353	8,255,594	17,789,564
Non-current assets:				
Capital assets, net	-	7,985,611	51,173,374	59,158,985
Total assets	6,130,617	11,388,964	59,428,968	76,948,549
LIABILITIES				
Current liabilities:				
Accounts payable	39,951	105,988	1,101,368	1,247,307
Accrued expenses	-	3,287	42,738	46,025
Other liabilities	-	-	83,495	83,495
Due to other funds	214,847	-	2,181,786	2,396,633
Due within one year	-	7,827	1,095,416	1,103,243
Total current liabilities	254,798	117,102	4,504,803	4,876,703
Non-current liabilities:				
Due in more than one year	-	62,071	12,963,419	13,025,490
Total liabilities	254,798	179,173	17,468,222	17,902,193
NET POSITION				
Net investment in capital assets	-	7,985,611	37,200,677	45,186,288
Unrestricted	5,875,819	3,224,180	4,760,069	13,860,068
TOTAL NET POSITION	\$ 5,875,819	\$ 11,209,791	\$ 41,960,746	\$ 59,046,356

The accompanying notes are an integral part of the financial statements.

TOWN OF ELKTON, MARYLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION –
PROPRIETARY FUNDS
Year Ended June 30, 2015

	Business-type Activities - Enterprise Funds			
	Major Facility	Water	Sewer	Total
OPERATING REVENUES				
Charges for services	\$ 638,475	\$ 2,666,038	\$ 5,205,071	\$ 8,509,584
Other operating revenues	-	4,740	85	4,825
Miscellaneous	-	93,662	101,344	195,006
Total operating revenues	<u>638,475</u>	<u>2,764,440</u>	<u>5,306,500</u>	<u>8,709,415</u>
OPERATING EXPENSES				
Cost of service	4,080	1,938,434	3,844,939	5,787,453
Depreciation	-	264,601	1,408,137	1,672,738
Total operating expenses	<u>4,080</u>	<u>2,203,035</u>	<u>5,253,076</u>	<u>7,460,191</u>
Operating income	<u>634,395</u>	<u>561,405</u>	<u>53,424</u>	<u>1,249,224</u>
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings	1,940	12,346	2,654	16,940
Interest expense	-	-	(121,009)	(121,009)
Total non-operating revenues (expenses)	<u>1,940</u>	<u>12,346</u>	<u>(118,355)</u>	<u>(104,069)</u>
Income before transfers and capital contributions	636,335	573,751	(64,931)	1,145,155
Capital contributions - grants	-	151,369	91,500	242,869
Transfers in (out)	<u>(210,005)</u>	<u>210,005</u>	<u>-</u>	<u>-</u>
CHANGES IN FUND NET POSITION	426,330	935,125	26,569	1,388,024
TOTAL NET POSITION - BEGINNING OF YEAR	<u>5,449,489</u>	<u>10,274,666</u>	<u>41,934,177</u>	<u>57,658,332</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ 5,875,819</u>	<u>\$ 11,209,791</u>	<u>\$ 41,960,746</u>	<u>\$ 59,046,356</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF ELKTON, MARYLAND
STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS
Year Ended June 30, 2015

	Business-type Activities - Enterprise Funds			
	Major Facility	Water	Sewer	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 677,250	\$ 2,797,190	\$ 5,307,316	\$ 8,781,756
Payments to suppliers	24,868	(1,527,110)	(2,650,568)	(4,152,810)
Payments to employees	-	(454,443)	(598,125)	(1,052,568)
Net cash provided by operating activities	<u>702,118</u>	<u>815,637</u>	<u>2,058,623</u>	<u>3,576,378</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
(Advances) receipts from other funds	(210,005)	210,005	-	-
Proceeds from grants	-	151,369	91,500	242,869
Interest paid on capital debt	-	-	(121,009)	(121,009)
Acquisition and construction of capital assets	-	(563,869)	(56,681)	(620,550)
Principal payments of loans	-	-	(1,078,566)	(1,078,566)
Net cash used in capital and related financing activities	<u>(210,005)</u>	<u>(202,495)</u>	<u>(1,164,756)</u>	<u>(1,577,256)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from investment earnings	1,940	12,346	2,654	16,940
NET INCREASE IN CASH AND CASH EQUIVALENTS	494,053	625,488	896,521	2,016,062
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>4,166,143</u>	<u>1,588,085</u>	<u>6,302,660</u>	<u>12,056,888</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 4,660,196</u>	<u>\$ 2,213,573</u>	<u>\$ 7,199,181</u>	<u>\$ 14,072,950</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income	\$ 634,395	\$ 561,405	\$ 53,424	\$ 1,249,224
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	-	264,601	1,408,137	1,672,738
Effects of changes in operating assets and liabilities:				
Accounts receivable	38,775	32,750	816	72,341
Accounts payable	33,045	4,701	646,714	684,460
Accrued expenses	-	(13,002)	(39,061)	(52,063)
Other liabilities	-	-	48,109	48,109
Interfund receivables	(4,097)	(43,323)	(69,369)	(116,789)
Compensated absences liability	-	964	1,139	2,103
Accrued liability for OPEB benefits	-	7,541	8,714	16,255
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 702,118</u>	<u>\$ 815,637</u>	<u>\$ 2,058,623</u>	<u>\$ 3,576,378</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF ELKTON, MARYLAND
STATEMENT OF FIDUCIARY NET POSITION –
FIDUCIARY FUNDS
June 30, 2015

	<u>Total Pension Trusts</u>
ASSETS	
Cash Equivalents	\$ 4,288,611
Investments	
Equity mutual funds	1,175,776
Fixed income mutual funds	<u>1,345,951</u>
Total Investments	<u>2,521,727</u>
TOTAL ASSETS	<u>\$ 6,810,338</u>
 NET POSITION	
Held in trust for pension benefits	<u><u>\$ 6,810,338</u></u>

The accompanying notes are an integral part of the financial statements.

TOWN OF ELKTON, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION –
FIDUCIARY FUNDS
Year Ended June 30, 2015

	<u>Total Pension Trusts</u>
ADDITIONS	
Employer contributions	\$ 567,747
Employee contributions	174,754
Miscellaneous cash receipts	6,878
Investment gains	<u>114,662</u>
Total additions	<u>864,041</u>
 DEDUCTIONS	
Benefit payments	180,810
Administrative fees	<u>5,513</u>
Total deductions	<u>186,323</u>
 CHANGE IN NET POSITION	 677,718
 NET POSITION - BEGINNING OF YEAR	 <u>6,132,620</u>
 NET POSITION - END OF YEAR	 <u><u>\$ 6,810,338</u></u>

The accompanying notes are an integral part of the financial statements.

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Elkton (the Town) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town's accounting policies are described below. These policies should be recognized by the reader as integral to the preparation and use of the accompanying basic financial statements.

Reporting Entity

The Town of Elkton, Maryland was incorporated in 1787 with its legal authority derived from Chapter 310, Section 2 of the Annotated Code of Maryland. The Town is to be construed to mean both the Town and its inhabitants. Since inception, the Town has operated under the Mayor - Council form of government. Services provided include safety, highways and streets, sanitation, recreation, public improvement, planning and zoning, water and sewer and general administrative services.

For financial reporting purposes, in conformance with GAAP, the reporting entity includes the Mayor and Town Council, the primary government and the following fiduciary funds:

Town of Elkton, Defined Contribution Plan: This pension plan is a defined contribution pension plan established by the Town of Elkton to provide benefits at retirement to employees of the Town Council, who are not eligible to participate in the Police Pension Plan.

Town of Elkton, Police Pension Plan: This pension plan is a defined benefit pension plan established by the Town of Elkton to provide benefits at retirement to sworn officers of the Town Council.

The Town evaluates whether there are any entities that should be reported as a component unit under GASB Statement Nos. 39 and 61. The Town has concluded there are no component units as defined by GAAP.

Government-Wide and Fund Financial Statements

The Statement of Net Position and the Statement of Changes in Net Position report information on all of the non-fiduciary activities of the Town. Eliminations have been made to remove the effect of inter-fund activity from these statements. Governmental activities are those which are supported by taxes and intergovernmental revenues, whereas business-type activities are those supported through customer service charges. The Town has three business-type funds: major facility, water and sewer.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those specifically associated with a program or function. Program revenues include charges for services and grants and contributions restricted to the capital or operational requirements of specific programs or functions. Revenues that are not classified as program revenues, such as taxes, are reported as general revenues.

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

Separate financial statements are shown for governmental funds and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounting and financial reporting is determined by its measurement focus. Government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. Property taxes are recognized in the year of levy and grants are recognized when all eligibility requirements are met. For pension trust funds, employee and employer contributions are recognized as revenues in the period in which employee services are performed. All governmental, business-type activities and enterprise funds of the Town follow GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance* contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements which incorporates into GASB authoritative literature certain accounting and financial reporting guidance previously included in FASB, AICPA, and Accounting Principles Board Opinions (APB), guidance issued before November 30, 1989.

Governmental fund statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). Measurable means the amount of the transaction that can be determined and available means collected within 60 days of the year-end. Expenditures are recorded when the related liability is incurred as in the accrual basis of accounting. However, principal and interest on long-term debt and expenditures for compensated absences are recorded when the payments are due.

Those revenues susceptible to accrual are property taxes, taxes collected by the State and County on behalf of the Town, franchise taxes, revenues from other agencies, interest revenue and charges for services. Fines and forfeitures, licenses, permits, penalties and interest (on property taxes) and other revenues become measurable and available when cash is received by the Town and are recognized as revenue at that time.

The Town has one major governmental fund, the General Fund. It is used to account for the normal recurring activities of the Town which include general government, public safety, public works, and recreation and culture. These activities are financed primarily by property taxes, other taxes, service charges and grants from other governmental units. The Town does not have any other governmental funds.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and delivering goods in connection with the fund's principal ongoing operations such as charges to customers for sales and services and expenses such as salaries, product costs, administrative expenses, and depreciation.

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Town has three major proprietary funds. The Water Fund operates the water treatment plants and distribution system. The Sewer Fund operates the sewage treatment plant, pumping stations and collection system. The Major Facility Fund accounts for the capital activities of the Water and Sewer Funds.

The Town has two pension trust funds, the Town of Elkton Defined Contribution Plan and the Town of Elkton Police Pension Plan. As fiduciary funds, these pension funds are used to account for assets held on behalf of outside parties under the terms of a formal trust agreement.

The effect of interfund activity has been eliminated from the government-wide financial statements except for charges between the Water, Sewer, and Major Facility Fund and the General Fund for direct services. Elimination of these charges would distort the direct costs and program revenues reported for the various services. Amounts reported as program revenues include charges to customers for goods and services, operating grants and contributions, and capital grants. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Assets, Liabilities and Net Position or Fund Balance

Equity in Pooled Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date of three months or less at the time of purchase. Cash deposits of the Town are made in accordance with the Annotated Code of Maryland (the Code), which requires depositories to give security in the form of collateral as provided for in the Code, for the safekeeping and forthcoming, when required, of these deposits.

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Net Position or Fund Balance (Continued)

Equity in Pooled Cash, Cash Equivalents and Investments (continued)

Excess funds are also permitted to be invested either in bonds or other obligations for the payment of principal and interest, of which, the full faith and credit of the United States of America are pledged, obligations of Federal government agencies issued pursuant to acts of Congress, or in the local government investment pool created by the State of Maryland.

For the purposes of the Statement of Cash Flows, the Town considers all highly-liquid investments (including restricted assets) with an original maturity date of three-months or less at the time of purchase to be cash equivalents. Cash resources of each of the individual funds, except the pension funds and cash held by fiscal agents or required to be segregated by law or policy, are combined to form a pool of cash and investments to maximize interest earnings. Income from pooled investments is allocated to funds on the basis of their equity in pooled cash.

Receivables

Property taxes are reported at their estimated realizable value. The following summarizes the property tax calendar:

	Real Property	Personal and Corporate
Assessment roll validated	Dec. 31	Jan. 1
Tax rate ordinance approved	June 1	June 30
Beginning of fiscal year for which taxes have been levied	July 1	July 1
Tax bills rendered and due	July 1—on County bill	Various
Owner-occupied residential	July 1 and Jan. 1	N/A
Property taxes payable:		
Delinquent	Oct. 1, Feb. 1	After 90 days
Terms	60 days	90 days
Delinquent interest rate (annual)	18%	18%

Information presented is for “full year” levy. “Half year” levy dates are each six months later, and relate to new construction in the first six months of the fiscal year. A lien is attached to property on the billing date, becomes delinquent October 1, and is sold at tax sale by the end of 18 months.

Proprietary fund receivables are recorded as revenue when earned. The receivables of proprietary funds include billing for residential and commercial customers utilizing the Town’s water and sewer services. For fiscal year 2015, the Town’s water and sewer system customer base included a total of 6,753 water and 6,676 sewer accounts. All customers are billed on a quarterly basis with payment due in full within thirty days from the date of the billing. Delinquent accounts are subject to disconnection in addition to a \$25.00 service charge. Water and sewer rates are set by ordinance passed by the Mayor and Commissioners of the Town when deemed necessary.

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Net Position or Fund Balance (Continued)

Receivables (continued)

Allowances for uncollectible accounts are maintained on all types of receivables that historically experience bad debt. The allowance is determined by management based on historical collection trends. Receivables are shown net of such an allowance for uncollectibles. Real property taxes are generally fully collectible.

Capital Assets

Capital assets, which include property, plant and equipment and infrastructure such as roads, storm drains and pipe systems, are reported in the governmental activities or business-type activities columns in the government-wide financial statements. The Town defines capital assets as those which have an individual acquisition cost or donated value of at least \$1,000, and an estimated useful life of at least one year. Such assets are valued at historical or estimated historical cost if actual is not available. Donated assets are stated at their donated value at the date of donation. The cost of normal maintenance and repairs that do not add value or extend asset lives are not capitalized. Land is determined to have an inexhaustible life and is not subject to depreciation.

Expenditures for major assets and improvements are capitalized as the assets are acquired or constructed. Interest on debt during the construction period is capitalized. Exhaustible capital assets are depreciated, which is charged as an expense against their operations. Accumulated depreciation is reported in the Statement of Net Position. Depreciation has been provided over the estimated useful lives using the straight-line method.

Estimated useful lives are as follows:

Category	Years
Building	20 – 50
Plant, mains and improvements, and improvements other than buildings	10 – 75
Equipment	3 – 10

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position. In the governmental fund financial statements, the face amount of newly issued debt is reported as other financing sources, and the amount of principal repayment is reported as an expenditure.

Pension Benefits – The Town provides retirement benefits to retired employees through the State of Maryland Plan and their own Plan. See Note 9 for a full description of the benefits.

Other Post-Employment Benefits (OPEB) – The Town provides health care benefits to retired employees and eligible retiree’s spouses. See Note 10 for a full description of the benefits. There has been no OPEB Trust established as of June 30, 2015.

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Net Position or Fund Balance (Continued)

Compensated Absences

Vested or accumulated vacation of governmental funds is accrued when earned by employees and an expense and liability are recorded in governmental activities on the government-wide financial statements. Vested or accumulated vacation of business-type funds is recorded as an expense and a liability of the fund that will pay it. No liability is recorded for non-vesting accumulated rights to receive sick pay benefits as the Town does not pay these amounts when employees separate from service.

Town ordinance provides that full-time employees may accumulate up to a maximum of twenty-four (24) days annual leave based upon years of service, and upon termination will be paid for all accumulated leave not to exceed that amount. The accrual is included in "Non-current liabilities" in the government-wide statements, and is \$350,990 with \$105,297 due within one year, and \$61,656 is included in the business-type activities, with \$18,497 due within one year. A liability for vacation pay is recorded in the governmental fund financial statements only if it has matured (i.e., unused reimbursable leave still outstanding following an employee's resignation or retirement).

Deferred Inflows and Outflows of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period, and so, will not be recognized as an inflow of resources (revenue) until the future period. For government-mandated and voluntary non-exchange transactions, a deferred inflow is reported when resources are received before time requirements are met. A deferred outflow of resources represents a consumption of net position that applies to a future period, and so, will not be recognized as an outflow of resources (expenditure) until the future period.

A deferred outflow of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditure) until the future period. The Town recognized deferred outflows for changes in actuarial assumptions and differences between actual and proportionate share of contributions to the pension plan that are being amortized over a five-year period, and contributions made subsequent to the measurement date related to pensions.

A deferred inflow of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until the future period. The Town recognizes deferred inflows at the entity-wide level for the difference between the projected and actual investment earnings related to pensions. At the fund level deferred inflows are recognized for tax revenues not meeting the availability criteria.

Net Position Reporting

The government-wide and proprietary fund type financial statements utilize a net position presentation. Net position is the difference between assets and deferred outflows, less liabilities and deferred inflows. Net position is categorized as net investment in capital assets, restricted and unrestricted, and are further described as follows:

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Net Position or Fund Balance (Continued)

Net Position Reporting (Continued)

- *Net investment in capital assets* - This category groups all capital assets including infrastructure into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributed to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted net position* - This category presents the balance of net position for which external restrictions are imposed by creditors, grantors, enabling legislation, laws and regulations, and other governments.
- *Unrestricted net position* - This category presents the net position of the Town not included elsewhere.

Fund Balance Reporting

Fund balance classifications for governmental funds are based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The fund balance categories and descriptions are as follows:

1. Non-spendable – amounts that cannot be spent because they are either not in spendable form or they are legally required to be maintained intact such as inventory, prepaid expenses, or other assets.
2. Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation, or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.
3. Committed – amounts that can only be used for specific purposes determined by a formal action of the Commissioners, who are the highest level of decision-making authority for the Town. Commitments may be established, modified, or rescinded only through resolutions approved by the Commissioners.
4. Assigned – amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes determined by a formal action of the Commissioners, such as adopting the annual budget.
5. Unassigned – all other spendable amounts.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, and then unrestricted resources as they are needed. Furthermore, the Town will apply expenditures against committed, then assigned, and then unassigned fund balances.

Governmental Accounting Standards Board (GASB) Pronouncements

During the year, the Town adopted, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The scope of this statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local employers through pension plans administered through trusts. The Town simultaneously applied Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. See Note 9 and 12.

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 2 – CASH AND TEMPORARY INVESTMENTS

Deposits

At year-end, the carrying amount of the Town deposits (including petty cash of \$123) was \$19,083,180, and the bank balance was \$19,524,244. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town follows the State mandated deposit policy for custodial credit risk requiring all deposits to be collateralized for amounts in excess of FDIC limits, with collateral whose market value is equal to at least 102% of the deposits. The deposits of the Town were not exposed to custodial credit risk at June 30, 2015.

Investments

At June 30, 2015, the Town's investment balances by type, rating, and maturity were as follows:

<u>Investment Type</u>		<u>Fair Value</u>	<u>Standard & Poor's</u>	<u>Average Maturity (Years)*</u>
Equity mutual funds	**	\$ 1,175,776	N/A	N/A
Fixed income mutual funds:				
Dreyfus Intermediate Term Inc. A	**	17,040	BBB	5.57
Nationwide Govt. Bond Instl. Svc.	**	59,802	AAA	6.40
Nationwide Fixed Account	**	1,259,945	N/A	N/A
Abrden Global Fixed Income Service	**	9,164	BBB	6.30
Money market funds	**	4,288,596	AAA	Less than 1
Maryland Local Govt. Investment Pool		<u>652,325</u>	AAA _m	Less than 1
Total		<u>\$ 7,462,648</u>		

* Amount represents the average maturity of the underlying investments.

** Includes Defined contribution plan participant directed investments.

Reconciliation of cash and cash equivalents as shown on the Statement of Net Position:

Carrying amount of deposits	\$ 19,083,180
Carrying amount of investments	<u>7,462,648</u>
Total cash and investments	26,545,828
Less amounts in fiduciary funds	<u>6,810,338</u>
Total cash and cash equivalents per Statement of Net Position	<u>\$ 19,735,490</u>

Interest Rate Risk

Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. To limit the Town's exposure to fair value losses arising from increasing interest rates, the Town's investment policy limits the term of average maturities to remain sufficiently liquid to enable the Town to meet all operating requirements which might be reasonably anticipated. In the fiduciary funds, mutual funds are used to match the cash flow of liabilities. Town management believes the liquidity in the portfolio is adequate to meet cash flow requirements and to preclude the Town from having to sell investments below original cost for that purpose. The investments at June 30, 2015, met the Town investment policy as of that date.

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 2 – CASH AND TEMPORARY INVESTMENTS (CONTINUED)

Credit Risk

Town investment policy permits investments in the following types of investments as authorized by the State of Maryland: U.S. treasury obligations, U.S. agency obligations, repurchase agreements under a master repurchase agreement, certificates of deposit which are collateralized through a Maryland commercial bank, and the Maryland Local Government Investment Pool (MLGIP). The MLGIP was established in 1982 under Article 95 Section 22G of the Annotated Code of Maryland and is rated AAAM by Standard and Poors, their highest rating for money market funds. Unit value is computed using the amortized cost method. In addition, the net asset value of the pool, marked-to-market, is calculated and maintained on a weekly basis to ensure a \$1.00 per unit constant value.

Concentration of Credit Risk

The Town has investments in one issuer that is greater than 5% of the Town's total investments. This includes the investments in the Nationwide Fixed Account, Money Market Funds, and the Maryland Local Govt. Investment Pool. The investments in the Nationwide Fixed Account are participant directed investments of a defined contribution plan.

Investment Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the Town will not be able to recover all or a portion of the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2015, all of the Town investments were insured or registered, or for which the securities were held by the Town or its agent in the Town's name or were invested in the MLGIP or mutual funds.

Foreign Currency Risk

The Town's investment policy does not allow for investments denominated in foreign currencies. The Town does not hold any such investments.

NOTE 3 – RECEIVABLES

Summary of Receivables

Receivables as of year-end for the Town's funds, individually and in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 3 – RECEIVABLES (CONTINUED)

	Governmental Activities	Business-type Activities				Total
		Major Facilities	Water	Sewer	Total	
Taxes	\$ 541,925	\$ -	\$ -	\$ -	\$ -	\$ 541,925
Accounts	1,519,500	97,725	551,650	1,056,413	1,705,788	3,225,288
Interest	4,511	-	-	-	-	4,511
Allowance for uncollectibles	<u>(376,657)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(376,657)</u>
Net receivables	<u>\$ 1,689,279</u>	<u>\$ 97,725</u>	<u>\$ 551,650</u>	<u>\$ 1,056,413</u>	<u>\$ 1,705,788</u>	<u>\$ 3,395,067</u>

Governmental funds report deferred inflows in relation to receivables for revenues that are not considered to be available to liquidate liabilities of the current period such as property taxes not collected within sixty (60) days after fiscal year-end. Deferred revenue may result from rental and program advances, franchise fees and similar prepayments received by the Town, grant revenue received prior to the incurrence of qualifying expenditures, and governmental fund nonexchange contributions which did not meet the GASB Statement No. 33 time restriction. Deferred inflows for the general fund at June 30, 2015 consisted solely of items deemed unavailable, and is summarized as follows:

Business/Corporate property taxes	\$ 1,018,155
Utilities	180,356
Real property taxes	8,577
Traders taxes	11,512
Income taxes	<u>240,403</u>
Total	<u>\$ 1,459,003</u>

NOTE 4 – DUE FROM OTHER GOVERNMENTS

The June 30, 2015 balance due from other governments is as follows:

	<u>Governmental Activities</u>
State of Maryland	
Income tax reserve	\$ 450,358
Highway user tax	23,501
Admission and amusement tax	2,723
Hotel/motel tax	<u>20,397</u>
Total	<u>\$ 496,980</u>

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Due to/from other funds consisted of the following:

Receivable fund:	Payable Fund				Total
	General	Water	Sewer	Major Facility	
General	\$ -	\$ -	\$ 535,973	\$ 29,833	\$ 565,806
Water	179,999	-	273,117	185,014	638,130
Sewer	-	-	-	-	-
Major Facility	-	-	1,372,696	-	1,372,696
Total	\$ 179,999	\$ -	\$ 2,181,786	\$ 214,847	\$ 2,576,632

The outstanding balances between funds result mainly from the time lag between the dates that, (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between the funds are made.

Interfund transfers consisted of the following:

Transfers In	Transfers Out
	Major Facility
Water Fund	\$ 210,005

The transfers to the Water Fund from the Major Facility Fund were made for capital asset purchases by the Fund.

NOTE 6 – CAPITAL ASSETS

Capital asset activity during the year ended June 30, 2015 was as follows:

	Beginning Balance	Additions	Transfers and Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital assets, not being depreciated:				
Land	\$ 2,657,608	\$ -	\$ -	\$ 2,657,608
Construction in Progress	186,745	37,174	-	223,919
Total capital assets, not being depreciated	2,844,353	37,174	-	2,881,527
Capital assets being depreciated:				
Buildings	6,509,844	75,404	-	6,585,248
Improvements other than buildings	14,474,052	-	-	14,474,052
Equipment	4,124,909	330,375	(174,027)	4,281,257
Total capital assets, being depreciated	25,108,805	405,779	(174,027)	25,340,557
Less accumulated depreciation for:				
Buildings	2,666,050	180,548	-	2,846,598
Improvements other than buildings	12,037,239	297,442	-	12,334,681
Equipment	3,528,044	206,096	(166,872)	3,567,268
Total accumulated depreciation	18,231,333	684,086	(166,872)	18,748,547
Net capital assets being depreciated	6,877,472	(278,307)	(7,155)	6,592,010
Net governmental activities capital assets	\$ 9,721,825	\$ (241,133)	\$ (7,155)	\$ 9,473,537

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 6 – CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers and Deletions</u>	<u>Ending Balance</u>
BUSINESS-TYPE ACTIVITIES				
Capital assets, not being depreciated:				
Land - Water	\$ 268,605	\$ -	\$ -	\$ 268,605
Land - Sewer	596,665	-	-	596,665
Construction in Progress - Water	796,281	235,973	(62,922)	969,332
Construction in Progress - Sewer	<u>282,829</u>	<u>21,713</u>	<u>(106,845)</u>	<u>197,697</u>
Total capital assets, not being depreciated	<u>1,944,380</u>	<u>257,686</u>	<u>(169,767)</u>	<u>2,032,299</u>
Capital assets, being depreciated:				
Plants, mains and improvements - Water	10,474,054	290,296	62,922	10,827,272
Plants, mains and improvements - Sewer	66,753,486	-	106,845	66,860,331
Equipment - Water	1,197,245	37,600	(82,737)	1,152,108
Equipment - Sewer	<u>1,947,056</u>	<u>34,968</u>	<u>(8,935)</u>	<u>1,973,089</u>
Total capital assets, being depreciated	<u>80,371,841</u>	<u>362,864</u>	<u>78,095</u>	<u>80,812,800</u>
Less accumulated depreciation:				
Plants, mains and improvements - Water	4,316,958	204,184	-	4,521,142
Plants, mains and improvements - Sewer	15,393,681	1,346,954	-	16,740,635
Equipment - Water	732,884	60,417	(82,737)	710,564
Equipment - Sewer	<u>1,661,525</u>	<u>61,183</u>	<u>(8,935)</u>	<u>1,713,773</u>
Total accumulated depreciation	<u>22,105,048</u>	<u>1,672,738</u>	<u>(91,672)</u>	<u>23,686,114</u>
Net capital assets being depreciated	<u>58,266,793</u>	<u>(1,309,874)</u>	<u>169,767</u>	<u>57,126,686</u>
Net business-type activities capital assets	<u>\$ 60,211,173</u>	<u>\$ (1,052,188)</u>	<u>\$ -</u>	<u>\$ 59,158,985</u>

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

Governmental activities:	
General government	\$ 125,124
Public safety	263,027
Public works	244,506
Parks and recreation	<u>51,429</u>
Total governmental activities	<u>\$ 684,086</u>
Business-type activities:	
Water Fund	\$ 264,601
Sewer Fund	<u>1,408,137</u>
Total business-type activities	<u>\$ 1,672,738</u>

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 7 – LONG-TERM DEBT

The following is a summary of changes that occurred in the Town’s long-term liabilities reported for governmental activities and business-type activities for the year ended June 30, 2015:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
GOVERNMENTAL ACTIVITIES					
Loans	\$ 1,571,320	\$ -	\$ 327,164	\$ 1,244,156	\$ 334,911
Other post employment benefits	397,675	77,584	-	475,259	-
Compensated absences	<u>339,010</u>	<u>311,820</u>	<u>299,840</u>	<u>350,990</u>	<u>105,297</u>
Total governmental activities	<u>\$ 2,308,005</u>	<u>\$ 389,404</u>	<u>\$ 627,004</u>	<u>\$ 2,070,405</u>	<u>\$ 440,208</u>
BUSINESS-TYPE ACTIVITIES					
Sewer facility loan #1	\$ 11,050,069	\$ -	\$ 768,966	\$ 10,281,103	\$ 772,050
Sewer facility loan #2	4,001,194	-	309,600	3,691,594	312,696
Subtotal	15,051,263	-	1,078,566	13,972,697	1,084,746
Other post employment benefits	78,124	16,256	-	94,380	-
Compensated absences	<u>59,554</u>	<u>54,709</u>	<u>52,607</u>	<u>61,656</u>	<u>18,497</u>
Total business-type activities	<u>\$ 15,188,941</u>	<u>\$ 70,965</u>	<u>\$ 1,131,173</u>	<u>\$ 14,128,733</u>	<u>\$ 1,103,243</u>

The liability for pension-related and other post-employment benefits (OPEB) is fully liquidated by the general fund. For compensated absences, the general fund normally liquidates 100% of the governmental activities liability, and the sewer and water fund normally liquidate 100% of the business-type activities liability.

Governmental Activities

The Town has a loan for \$3,665,000 from a commercial bank. The loan has an interest rate of 2.35%, and a maturity date of April 2019. The loan repayment schedule requires monthly payments of principal and interest of \$24,898. Certain prepayments have been made which may result in a pay-down of the loan prior to the stated maturity.

The annual debt service requirements to maturity are as follows:

<u>For the Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>TOTAL</u>
2016	\$ 275,659	\$ 23,121	\$ 298,779
2017	282,359	16,421	298,779
2018	289,160	9,619	298,779
2019	<u>246,278</u>	<u>2,704</u>	<u>248,982</u>
	<u>\$ 1,093,456</u>	<u>\$ 51,864</u>	<u>\$ 1,145,320</u>

The Town has a loan with PNC Bank related to the purchase of vehicles. The loan has an interest rate of 2.25%, and a maturity date of October 2017. The loan repayment schedule requires semi-annual payments of principal and interest of \$31,181.

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 7 – LONG TERM DEBT (CONTINUED)

Governmental Activities (Continued)

Vehicles - \$296,000

<u>For the Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 59,252	\$ 3,110	\$ 62,363
2017	60,619	1,743	62,363
2018	30,829	353	31,181
Total	\$ 150,700	\$ 5,206	\$ 155,907

Business-Type Activities

The Town has a \$15,600,000 revolving loan agreement with the Maryland Department of the Environment which has been entirely drawn, and \$10,281,103 remains outstanding at June 30, 2015. The loan has an interest rate of 0.4%, and a maturity date of February 2028.

Sewer Facility Upgrade - \$15,600,000

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 772,050	\$ 41,124	\$ 813,174
2017	775,138	38,036	813,174
2018	778,238	34,936	813,174
2019	781,351	31,822	813,173
2020	784,477	28,698	813,175
2021 - 2025	3,969,704	96,166	4,065,870
2026 - 2028	2,420,145	19,389	2,439,534
Total	\$ 10,281,103	\$ 290,171	\$ 10,571,274

The Town has a \$6,422,000 revolving loan agreement with the Maryland Department of the Environment, of which \$5,795,474 has been drawn, and \$2,103,880 has been repaid. The amount outstanding at June 30, 2015 was \$3,691,594. The loan has an interest rate of 1%, and a maturity date of February 2028.

Sewer Facility Upgrade - \$6,422,000

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 312,696	\$ 36,916	\$ 349,612
2017	315,823	33,789	349,612
2018	318,982	30,631	349,613
2019	322,171	27,441	349,612
2020	325,393	24,219	349,612
2021 - 2025	1,676,428	71,632	1,748,060
2026 - 2028	420,101	4,948	425,049
Total	\$ 3,691,594	\$ 229,575	\$ 3,921,169

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 7 – LONG TERM DEBT (CONTINUED)

Conduit Debt

The Town issued an economic development revenue bond. In accordance with the terms of the loan and financing agreement, the bond proceeds were paid to Union Hospital of Cecil County, Inc., and the hospital is responsible for providing funding for repayment of the bond. The outstanding balance was \$1,815,666 at June 30, 2015.

The Town has no responsibility for the payment of the debt except for the funds provided by the hospital under the terms of the loan and financing agreement. Neither the bond, nor the interest therein, constitutes an indebtedness, or a charge against the general credit or taxing power of the Town.

Legal Debt Margin

The Town is subject to a legal debt margin of 5.6% of the total assessed value of taxable real and personal property. At June 30, 2014 that amount was \$66,823,346, and the outstanding debt subject to the limit was \$15,216,853, which is 22.7% of the total debt limit.

NOTE 8 – FUND BALANCE

Fund balance at June 30, 2015 consisted of the following:

Fund Balances	<u>General Fund</u>
Restricted for:	
Public safety	\$ 1,308,706
Recreation and culture	177,281
Total restricted	<u>1,485,987</u>
 Committed for:	
Recreation and culture - capital projects	<u>500,000</u>
 Assigned for:	
Recreation and culture	67,934
Non-departmental	1,732,014
Total assigned	<u>1,799,948</u>
Unassigned	<u>2,733,377</u>
Total fund balance	<u><u>\$ 6,519,312</u></u>

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 9 – RETIREMENT AND PENSION PLANS

A. State Retirement and Pension Systems of Maryland

General Information about the Plan

Plan description. The employees of the Town are covered by the Maryland State Retirement and Pension System (the System), which is a cost sharing employer public employee retirement system. While there are five retirement and pension systems under the System, employees of the Town are a member of the Employees' Retirement and Pension Systems. The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide retirement allowances and other benefits to State employees, teachers, police, judges, legislators, and employees of participating governmental units. The Plans are administered by the State Retirement Agency. Responsibility for the System's administration and operation is vested in a 15-member Board of Trustees. The System issues a publically available financial report that can be obtained at <http://www.sra.state.md.us>.

Benefits provided. The System provides retirement allowances and other benefits to employees of participating governmental units, among others. For individuals who became members of the Employees' Retirement and Pension Systems on or before June 30, 2011, retirement/pension allowances are computed using both the highest three years Average Final Compensation (AFC) and the actual number of years of accumulated creditable service. For individuals who become members of the Employees' Pension System on or after July 1, 2011, pension allowances are computed using both the highest five years AFC and the actual number of years of accumulated creditable service. Various retirement options are available under each system which ultimately determines how a retiree's benefits allowance will be computed. Some of these options require actuarial reductions based on the retiree's and/or designated beneficiary's attained age and similar actuarial factors.

A member of the Employees' Retirement System is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of creditable service regardless of age. The annual retirement allowance equals 1/55 (1.81%) of the member's average final compensation (AFC) multiplied by the number of years of accumulated creditable service.

A member of the Employees' Pension System on or before June 30, 2011 is eligible for full retirement benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. An individual who becomes a member of the Employees' Pension System on or after July 1, 2011, is eligible for full retirement benefits if the members' combined age and eligibility service equals at least 90 years or if the member is at least age 65 and has accrued at least 10 years of eligibility service.

For most individuals who retired from the Employees' Pension System on or before June 30, 2006, the annual pension allowance equals 1.2% of the members AFC, multiplied by the number of years of credible service accumulated prior to July 1, 1998, plus 1.4% of the members AFC, multiplied by the number of years of credible service accumulated subsequent to June 30, 1998. With certain exceptions, for individuals who are members of the Employees' Pension System on or after July 1, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of credible service accumulated prior to July 1, 1998 plus 1.8% of the members AFC, multiplied by the number of years of credible service accumulated subsequent to June 30, 1998. Beginning on July 1, 2011, any new member of the Employees' Pension System shall earn an annual pension allowance equal to 1.5% of the member's AFC multiplied by the number of years of creditable service accumulated as a member of the Employees' Pension System.

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 9 – RETIREMENT AND PENSION PLANS (CONTINUED)

State Retirement and Pension Systems of Maryland (Continued)

Contributions. The Town and covered members are required by State statute to contribute to the System. Members of the Employees’ Pension System are required to contribute 7% annually. Members of the Employees’ Retirement System are required to contribute 5-7 % annually, depending on the retirement option selected. The contribution requirements of the System members, as well as the State and participating governmental employers are established and may be amended by the Board of Trustees for the System.

The Town’s contractually required contribution rate for the Employees’ Retirement and Pension Systems for the year ended June 30, 2015, was 6.72% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Town made its share of the required contributions during the year ended June 30, 2015 of \$6,354.

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

At June 30, 2015, the Town reported a liability of \$97,158 for its proportionate share of the net pension liability of the System. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town’s proportion of the net pension liability was based on actual employer contributions billed to participating government units for the year ending June 30, 2014. The contributions were increased to adjust for differences between actuarial determined contributions and actual contributions by the State of Maryland. As of June 30, 2014, the Town’s proportionate share was 0.000547468%.

For the year ended June 30, 2015, the Town recognized pension expense of \$8,698. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ 3,750	\$ -
Net difference between projected and actual earnings on pension plan investments	-	10,635
Net difference between actual and proportionate share of contributions	2,613	-
Town's contributions subsequent to the measurement date	6,354	-
Total	<u>\$ 12,717</u>	<u>\$ 10,635</u>

\$6,354 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction in net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 9 – RETIREMENT AND PENSION PLANS (CONTINUED)

State Retirement and Pension Systems of Maryland (Continued)

Year ended June 30:		
2016	\$	(1,068)
2017		(1,068)
2018		(1,068)
2019		(1,068)

Actuarial assumptions. The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.90% general, 3.4% wage
Salary increases	3.40% to 11.9%, including inflation
Investment rate of return	7.65%

Mortality rates were based on RP-2000 Combined Healthy Mortality Table projected to the year 2025.

The economic and demographic actuarial assumptions used in the June 30, 2014 valuation were adopted by the System’s Board of Trustees based upon review of the System’s experience study for the period 2006-2010, which was completed during FY 2011. Certain assumptions from the experience study including mortality rates, retirement rates, withdrawal rates, disability rates and rates of salary increase were adopted by the Board for the first use in the actuarial valuation as of June 30, 2012. The System’s Board of Trustees adopted new economic assumptions for the June 30, 2013 valuation, in particular, an investment return assumption of 7.70% and an inflation assumption of 2.95%. The ultimate assumptions of a 7.55% investment return and 2.80% price inflation are being phased in over a four-year period. As a result, an investment return assumption of 7.65% and an inflation assumption of 2.90% were used for the June 30, 2014 valuation. The COLA, salary increase and payroll growth assumptions have also changed as a result of the change in the inflation assumption.

The long term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-range expected rate of return by weighing the expected future real rates by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the Board after considering input from the System’s investment consultant(s) and actuary(s). For each major asset class that is included in the System’s target asset allocation, these best estimates are summarized in the following table:

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 9 – RETIREMENT AND PENSION PLANS (CONTINUED)

State Retirement and Pension Systems of Maryland (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Public Equity	35%	4.70%
Fixed Income	10%	2.00%
Credit Opportunity	10%	3.00%
Real Return	14%	2.80%
Absolute Return	10%	5.00%
Private Equity	10%	6.30%
Real Estate	10%	4.50%
Cash	1%	1.40%
Total	<u>100%</u>	

The above was the System’s Board of Trustees adopted asset allocation policy and best estimate of geometric real rates for each major asset class as of June 30, 2014.

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of the pension plan expense was 14.38%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount rate. The single discount rate used to measure the total pension liability was 7.65%. This single discount rate was based on the expected rate of return on pension plan investments of 7.65%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plans fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability. Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the Town’s net pension liability, calculated using a single discount rate of 7.65%, as well as what the Town’s net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

	<u>1% Decrease (6.65%)</u>	<u>Current Discount Rate (7.65%)</u>	<u>1% Increase (8.65%)</u>
Town’s proportionate share of the net pension liability	\$140,016	\$97,158	\$61,258

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued System’s financial report.

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 9 – RETIREMENT AND PENSION PLANS (CONTINUED)

State Retirement and Pension Systems of Maryland (Continued)

Defined Contribution Plan

Description of Plan

The Town adopted the Town of Elkton, Defined Contribution Plan (TEDCP) covering substantially all employees not participating in the State System effective for the 1999 fiscal year. At June 30, 2015, there were sixty-two (62) plan members from the Town. Plan members do not have the option to make voluntary contributions to TEDCP. Plan provisions are established, amended and administered by the Mayor and Commissioners of the Town. The Town is required to contribute 8% of covered payroll of TEDCP participants. For the fiscal year ended June 30, 2015, actual contributions by the Town were \$206,949. TEDCP does not issue separate audited financial statements, as such, the Net Position as of June 30, 2015, and the changes in Net Position for the year ending June 30, 2015, are reflected in the Statement of Fiduciary Net Position and Changes in Fiduciary Net Position in the basic financial statements.

The condensed financial statement as of and for the year ended June 30, 2015 is as follows:

Statement of Plan Net Position
Town of Elkton, Defined Contribution Plan

Assets

Cash equivalents	\$ 183,441
Equity mutual funds	1,175,776
Fixed income mutual funds	<u>1,345,951</u>
Total investments	<u>2,705,168</u>

NET POSITION

Held in trust for pension benefits	\$ <u>2,705,168</u>
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Statement of Changes in Plan Net Position
Town of Elkton, Defined Contribution Plan

ADDITIONS

Employer contributions	\$ 206,949
Investment gains	<u>104,884</u>
Total additions	311,833

DEDUCTIONS

Benefit payments	<u>90,691</u>
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CHANGE IN NET POSITION

221,142

NET POSITION - BEGINNING OF YEAR

2,484,026

NET POSITION - END OF YEAR

\$ 2,705,168

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 9 – RETIREMENT AND PENSION PLANS (CONTINUED)

B. Town Defined Benefit Plan

Description of Plan

On July 1, 2010, the Town began to administer the Town of Elkton, Police Pension Plan (TEPPP), which is a single-employer defined benefit plan covering all sworn officers of the Town. At June 30, 2015, there were forty-one (41) plan members from the Town. Plan members are required to contribute 8% of their base salary. For the fiscal year ended June 30, 2015, actual contributions by the plan members were \$174,754. Plan provisions are established, amended and administered by the Mayor and Commissioners of the Town. During 2015, the Town was required to contribute an actuarially determined amount of \$377,395. For the fiscal year ended June 30, 2015, actual contributions by the Town were \$360,798. TEPPP does not issue separate audited financial statements, and as such, the Net Position as of June 30, 2015, and the changes in Net Position for the year ending June 30, 2015, are reflected in the Statement of Fiduciary Net Position and Changes in Fiduciary Net Position in the basic financial statements. Employees will be eligible to begin drawing their pension when they retire after 25 years of service or at age 60 with 10 years of service. The Plan does not provide early retirement benefits. TEPPP has a tax exempt status. TEPPP provides retirement and death benefits to plan members or the plan member's beneficiaries. Administrative costs of TEPPP are financed through investment earnings.

Basis of Accounting

The TEPPP's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recorded during the period in which they are due. Employer contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Investments are made on a long term basis, investing in various securities which are subject to interest rate, market and credit risks.

The most current actuarial valuation was completed as of July 1, 2013. The membership data related to the Plan was as follows:

Retirees and beneficiaries currently receiving benefits	-
Terminated plan members entitled to, but not yet receiving benefits	-
Active plan members	<u>41</u>
Total	<u><u>41</u></u>

**TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

NOTE 9 – RETIREMENT AND PENSION PLANS (CONTINUED)

Town Defined Benefit Plan (Continued)

**Statement of Plan Net Position
Town of Elkton, Police Pension Plan**

The condensed financial statement as of and for the year ended June 30, 2015 are as follows:

ASSETS

Cash Equivalents	\$ <u>4,105,170</u>
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TOTAL ASSETS	\$ <u><u>4,105,170</u></u>
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NET POSITION

Held in trust for pension benefits	\$ <u><u>4,105,170</u></u>
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Statement of Changes and Plan Net Position

ADDITIONS

Employer contributions	\$ 360,798
Employee contributions	174,754
Miscellaneous cash receipts	6,878
Investment gains	<u>9,778</u>
Total additions	552,208

DEDUCTIONS

Benefit payments	90,119
Administrative fees	<u>5,513</u>
Total deductions	<u><u>95,632</u></u>

CHANGE IN NET POSITION	456,576
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NET POSITION - BEGINNING OF YEAR	<u>3,648,594</u>
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NET POSITION - END OF YEAR	\$ <u><u>4,105,170</u></u>
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TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 9 – RETIREMENT AND PENSION PLANS (CONTINUED)

Town Defined Benefit Plan (Continued)

Pension Plan Administration

The Mayor and Commissioners of the Town of Elkton established the Town of Elkton Police Pension Plan (the “Plan”) with the adoption of Ordinance 7 – 2010 on August 18, 2010. Under Section 2.28.430, the ordinance further established a Retirement Plan Committee (the “Committee”) consisting of the Town Administrator, Town Finance Director, and representative of the Elkton Police Fraternal Order of Police Lodge 124. The Committee has full power and authority to administer and operate the Plan in accordance with its terms and have full power and authority to deal with all persons in any matter directly connected with the Plan, including, but not limited to, investment advisors. The determination of the Committee on any matter pertaining to the Plan within the powers and discretion granted to it shall be final and conclusive.

Investment Policy

The Committee is responsible for administering the Investment Policy of the Plan and providing oversight for the management of the Plan’s assets. As of June 30, 2015, the Mayor and Commissioners adopted a formal investment policy statement and an advisory agreement was entered into with T. Rowe Price Associates, Inc. Investments are measured at fair market value, which are generally based on quoted market prices.

Asset Allocation Policy

<u>Asset Class</u>	<u>Range</u>	<u>Target</u>	<u>Benchmark</u>
Equities	50-70%	60%	Weighted Avg. of Target
Fixed Income	30-60%	40%	Barclays U.S. Aggregate Index
Cash Equivalent	0-20%	N/A	Citigroup 3-month T-bill

<u>Equity Sub-Class</u>	<u>Range</u>	<u>Target</u>	<u>Benchmark</u>
Large Cap Equity	50-75%	63%	S&P 500 Index
Mid-Cap	5-25%	15%	S&P 400 Mid Cap
Small Cap	5-15%	10%	Russell 2000
International	5-30%	12.50%	MSCI EAFE

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 9 – RETIREMENT AND PENSION PLANS (CONTINUED)

Town Defined Benefit Plan (Continued)

The net pension liability of the trust as of June 30, 2015 was for measurement date June 30, 2015. It was as follows:

Net pension liability	\$ 7,768,967
Plan fiduciary net position	<u>(4,105,170)</u>
Net pension liability	<u>\$ 3,663,797</u>
Plan fiduciary net position as a percentage of the total pension liability	52.84%

Method and assumptions used to determine Net Pension Liability were as follows:

Valuation Date:	July 1, 2013*
Actuarial Cost Method:	Entry Age Normal
Amortization Period:	Closed periods range from 17 to 20 years remaining as of the 2013 valuation
Asset Valuation Method:	Market value of Assets
Actuarial Assumptions:	
Inflation	3.0%
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation
Projected salary increases	6.0%, including inflation
Cost of living adjustments	None assumed
Mortality rate	RP-2000 Combined Healthy tables with Blue Color adjustments and generational projection by Scale AA

*The total pension liability is based on the July 1, 2013 actuarial valuation rolled forward to June 30, 2015.

For the year ended June 30, 2015, the Town recognized pension expense of \$142,264.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each asset class. This model assumes a 60% equity and 40% fixed income portfolio. 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. This is then modified through a Monte-Carlo simulation process, by which a (downward) risk adjustment is applied to the baseline expected return.

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the Town’s contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate.

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 plan members.

Therefore, the long-term expected rates of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 9 – RETIREMENT AND PENSION PLANS (CONTINUED)

Town Defined Benefit Plan (Continued)

	<u>2015</u>
Total Pension Liability	
Service cost	\$ 361,678
Interest	519,932
Benefit Payments, Including Refunds	<u>(90,119)</u>
Net change in total pension liability	791,491
Total pension liability - beginning of year	<u>6,977,476</u>
Total pension liability - end of year	<u><u>\$ 7,768,967</u></u>
 Plan Fiduciary Net Position	
Contributions - employer	\$ 360,798
Contributions - member	181,632
Net investment income	9,778
Benefit payments, including refunds	(90,119)
Other	<u>(5,513)</u>
Net change in plan fiduciary net position	456,576
Plan fiduciary net position - beginning of year	<u>3,648,594</u>
Plan fiduciary net position - end of year	<u><u>\$ 4,105,170</u></u>
Net pension liability - end of year	\$ 3,663,797
Plan fiduciary net position as a percentage of total pension liability	52.84%
Covered employee payroll	\$ 2,709,000
Net pension liability as a percentage of covered payroll	135.25%

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 9 – RETIREMENT AND PENSION PLANS (CONTINUED)

Town Defined Benefit Plan (Continued)

The following presents the net pension liability of the Town, calculated using the discount rate of 7.50%, as well as what the Town’s net pension liability would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate:

	1% Decrease	Current Discount Range	1% Increase
	6.50%	7.50%	8.50%
Net pension liability	\$ 4,779,220	\$ 3,663,797	\$ 2,746,055

At June 30, 2015, the Town 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
Net difference between projected and actual earnings on pension plan investments	\$ 224,498	\$ -
Total	\$ 224,498	\$ -

Amounts report as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:
2016 \$
2017
2018
2019

NOTE 10 – POST-EMPLOYMENT HEALTH CARE BENEFITS

Plan Description: The Plan provides a fixed dollar subsidy which depends on service.

<u>Years of Service</u>	<u>Monthly Subsidy</u>
10-14	\$130
15-19	150
20-24	180
More than 25	200

Eligible employees who retire with less than ten (10) years of service are eligible to continue on the Town’s health plan but must pay 100% of the premium. Retirees are allowed to continue on the Town’s group health plan for a maximum of fifteen (15) years.

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 10 – POST-EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

To be eligible for the Plan, an employee must satisfy one of the conditions below:

1. Continuously enrolled under the Town of Elkton’s group insurance plan for at least four (4) years immediately preceding the date of retirement, and at least age 50; or
2. Reach age 62; or
3. Be a sworn law enforcement employee for the Town of Elkton for 25 years.

The Town allows continued health insurance coverage for an eligible retiree’s spouse and dependents if the eligible retiree elects the additional coverage and pays the dependent premiums.

The actuarial valuation was completed as of July 1, 2012. The membership data related to the Plan was as follows:

Number of Participants	
Active employees	90
Deferred vested terminations	N/A
Retirees in pay status (pre-Medicare)	N/A
Retirees in pay status (Medicare age)	<u>3</u>
Total	<u><u>93</u></u>

Funding Policy: These benefits are financed on a pay-as-you-go basis.

An actuarial valuation was performed as of July 1, 2012 to determine the net OPEB obligation. The Plan is not funded. The valuation used the projected unit cost method, with linear pro-ration to assumed benefit commencement.

Annual OPEB Cost and Net OPEB Obligation: The Town of Elkton’s annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize the unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town of Elkton’s annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the Town of Elkton’s net OPEB obligation.

Annual required contribution	\$ 99,000
Adjustment to annual required contribution	(21,000)
Interest on net OPEB obligation	<u>18,000</u>
Annual OPEB cost	96,000
Contributions made	<u>2,160</u>
Increase in net OPEB obligation	93,840
Net OPEB obligation - beginning of year	<u>475,799</u>
Net OPEB obligation - end of year	<u><u>\$ 569,639</u></u>

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 10 – POST-EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

The net OPEB obligation is included in the entity-wide statement of net asset as follows:

	FY 2015
Governmental activities	\$ 475,259
Business-type activities	94,380
Total net OPEB obligation	\$ 569,639

The Town of Elkton’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for FY 2015 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 96,000	\$ 2,160	2%	\$ 569,639
2014	90,000	2,161	2%	475,799
2013	85,000	2,160	3%	387,959

Funded Status and Funding Progress: As of June 30, 2015, the Plan was 0% funded. The unfunded actuarial accrued liability (UAAL) is \$754,000. The covered payroll (annual payroll of active employees covered by the Plan) was \$5,543,022, and the ratio of the UAAL to the covered payroll was 13.60%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented below, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2012	-	592,000	592,000	0%	5,647,544	10.48%
July 1, 2013	-	671,000	671,000	0%	5,409,450	12.40%
July 1, 2014	-	754,000	754,000	0%	5,543,022	13.60%

The Schedule of Funding Progress, presented as required supplementary information (RSI) on page 71 following the Notes, presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. This relationship is represented by the funded ratio.

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 10 – POST-EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the plan members), and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce effects of term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is the long-term expected return on the employer's own investments; and an annual healthcare cost trend rate of 8% initially, gradually decreasing over time. By 2030, the rate of increase is 5.7% and by 2050, it is 5%. The ultimate trend rate is 5.2%. The rates include a 4.2% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on a closed basis over thirty years. Payroll is estimated to increase by 3% per annum.

NOTE 11 – OTHER INFORMATION

Risk Management

The Town is exposed to various risks of loss related to torts; destruction of assets; errors and omissions; employee's health and accident; and natural disasters. The Town purchases commercial insurance to protect its interest in its property and equipment, insurance against employee dishonesty and liability protection. Settled claims have not exceeded these coverages for the past three (3) fiscal years.

Contingent Liabilities and Commitments

Grants and Cost-Reimbursable Contracts

Most grants and cost-reimbursable contracts specify the types of expenditures for which the grant or contract funds may be used. The expenditures made by the Town under some of these grants and contracts are subject to audit. To date, the Town has not been notified of any significant unallowable costs relating to its grants or contracts. In the opinion of management, adjustments for unallowable costs, if any, resulting from such audits will not have a material effect on the accompanying financial statements.

NOTE 12 – NEW ACCOUNTING PRONOUNCEMENT

The Town adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans, an amendment of GASB Statement No. 27, and the related GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, which improved accounting and financial reporting by state and local government employers who employees are provided benefits through pensions. The Town is no required to record a liability for future pension benefits in excess of accumulated plan assets.

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 12 – NEW ACCOUNTING PRONOUNCEMENT (CONTINUED)

This pronouncement requires the restatement of June 30, 2014 net position of governmental activities as follows:

Net Position July 1, 2014, as previously stated	\$ 15,487,454
Cumulative affect of application of GASB 68, net pension liability	(3,436,716)
Cumulative affect of application of GASB 71, deferred outflow of resources for Town contributions made to the plan during the fiscal year ending June 30, 2014	<u>12,758</u>
Net Position July 1, 2014, as restated	<u><u>\$ 12,063,496</u></u>

This information is an integral part of the financial statements.

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REQUIRED SUPPLEMENTAL INFORMATION

TOWN OF ELKTON, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE – BUDGET AND ACTUAL – GENERAL FUND
(NON-GAAP – BUDGETARY BASIS)
Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes and utility fees	\$ 9,033,506	\$ 9,033,506	\$ 8,559,909	\$ (473,597)
Licenses and permits	333,300	333,300	326,514	(6,786)
Intergovernmental	789,228	789,228	824,936	35,708
Charges for services	709,479	719,190	736,267	17,077
Fines and forfeitures	32,000	32,000	9,880	(22,120)
Miscellaneous	<u>292,434</u>	<u>162,553</u>	<u>185,318</u>	<u>22,765</u>
Total revenues	<u>11,189,947</u>	<u>11,069,777</u>	<u>10,642,824</u>	<u>(426,953)</u>
EXPENDITURES				
Current:				
General government	1,422,528	1,564,414	1,458,173	106,241
Public safety	6,282,417	6,311,194	5,806,057	505,137
Public works	3,416,985	3,624,444	3,615,334	9,110
Recreation and culture	413,915	413,915	369,341	44,574
Debt service	<u>407,675</u>	<u>361,142</u>	<u>360,603</u>	<u>539</u>
Total expenditures	<u>11,943,520</u>	<u>12,275,109</u>	<u>11,609,508</u>	<u>665,601</u>
Net change in fund balance	<u>\$ (753,573)</u>	<u>\$ (1,205,332)</u>	(966,684)	<u>\$ 238,648</u>
FUND BALANCES - BEGINNING OF YEAR			<u>7,022,267</u>	
FUND BALANCES - END OF YEAR			<u>\$ 6,055,583</u>	

**TOWN OF ELKTON, MARYLAND
SCHEDULE OF FUNDING PROGRESS –
OTHER POST EMPLOYMENT BENEFITS TRUST
Year Ended June 30, 2015**

The Schedule of Funding Progress presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2012	-	592,000	592,000	0%	5,647,544	10.48%
July 1, 2013	-	671,000	671,000	0%	5,409,450	12.40%
July 1, 2014	-	754,000	754,000	0%	5,543,022	13.60%

Analysis of the dollar amounts of plan Net Position, actuarial accrued liability, and unfunded actuarial liability in isolation can be misleading. Expressing the assets as a percentage of the actuarial accrued liability (Funded Ratio) provides one indication of the system’s funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the system is becoming. In the current and prior fiscal year, the Funded Ratio is 0.00%.

Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the system’s progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the system is becoming. In this fiscal year, the UAAL as a percentage of covered payroll is 12.40%, up from 10.48% the year before.

Schedule of Employer Contributions – Other Post Employment Benefits Trust

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed
2015	\$ 96,000	\$ 2,160	2%
2014	90,000	2,161	2%
2013	85,000	2,160	3%

TOWN OF ELKTON, MARYLAND
SCHEDULE OF FUNDING PROGRESS –
POLICE PENSION PLAN TRUST
June 30, 2015

The Schedule of Funding Progress presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (1)/(2) (3)	Unfunded AAL (UAAL) (2)-(1) (4)	Covered Payroll (5)	UAAL as a % of Covered Payroll ((2)- (1)/(5)) (6)
July 1, 2011	1,764,464 *	4,331,408	40.74%	2,566,944	2,283,084	112.43%
July 1, 2012	Bi-annual valuations are prepared, and as such, there is no information for this period.					
July 1, 2014	2,953,159	5,678,018	52.01%	2,724,859	2,365,531	115.19%

*Included in this amount are the vested account balances of sworn officers in the Defined Contribution Plan, which will be transferred to the Defined Benefit Plan upon final ruling by the IRS.

Analysis of the dollar amounts of plan Net Position, actuarial accrued liability, and unfunded actuarial liability in isolation can be misleading. Expressing the assets as a percentage of the actuarial accrued liability (Funded Ratio) provides one indication of the system's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the system is becoming. In the July 1, 2013 actuarial valuation, the latest available, the Funded Ratio is 52.01%.

Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the system is becoming. In the July 1, 2013 actuarial valuation, the latest available, the UAAL as a percentage of covered payroll is 115.19%.

TOWN OF ELKTON, MARYLAND
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
June 30, 2015

Total Pension Liability	<u>2015</u>	<u>2014</u>
Service cost	\$ 361,678	\$ 349,000
Interest	519,932	462,000
Benefit Payments, Including Refunds	<u>(90,119)</u>	<u>-</u>
Net change in total pension liability	791,491	811,000
Total pension liability - beginning of year	<u>6,977,476</u>	<u>6,166,000</u>
Total pension liability - end of year	<u><u>\$ 7,768,967</u></u>	<u><u>\$ 6,977,476</u></u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 360,798	\$ 355,000
Contributions - member	181,632	193,000
Net investment income	9,778	148,000
Benefit payments, including refunds	(90,119)	-
Other	<u>(5,513)</u>	<u>-</u>
Net change in plan fiduciary net position	456,576	696,000
Plan fiduciary net position - beginning of year	<u>3,648,594</u>	<u>2,953,000</u>
Plan fiduciary net position - end of year	<u><u>\$ 4,105,170</u></u>	<u><u>\$ 3,648,594</u></u>
Net pension liability - end of year	\$ 3,663,797	\$ 3,328,882
Plan fiduciary net position as a percentage of total pension liability	52.84%	52.29%
Covered employee payroll	\$ 2,709,000	\$ 2,714,000
Net pension liability as a percentage of covered payroll	135.25%	122.66%

TOWN OF ELKTON, MARYLAND
SCHEDULE OF EMPLOYER CONTRIBUTIONS, INVESTMENT RETURNS AND
EMPLOYER'S NET PENSION LIABILITY
June 30, 2015

SCHEDULE OF TOWN CONTRIBUTIONS
TOWN OF ELKTON POLICE PENSION PLAN
Last Ten Fiscal Years

	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 361,000	\$ 355,000
Contributions in relation to the actuarially determined contribution	<u>361,000</u>	<u>355,000</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered Employee payroll	\$ 2,709,000	\$ 2,714,000
Contributions as a percentage of covered employee payroll	13.33%	13.08%

Notes to Schedule

Valuation date:

Actuarially determined contribution amounts are calculated as of the beginning of the fiscal year (July 1) for the two years immediately following the fiscal year. Actuarial valuation are performed every other year.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Projected Unit Credit
Amortization method	Level Percentage of Payroll
Remaining amortization period	Closed periods range from 17 to 20 years remaining as of the 2013 valuation
Asset valuation method	Market value
Inflation	3.0 Percent
Salary increases	6.0 Percent, including inflation
Investment rate of return	7.5 percent, net of pension plan investment expense, including inflation
Retirement age	The earlier of 25 years of service of age 60 with ten years of service
Mortality	RP-2000 Combined Healthy tables with Blue Collar adjustments and generational projection by Scale AA

TOWN OF ELKTON, MARYLAND
SCHEDULE OF EMPLOYER CONTRIBUTIONS, INVESTMENT RETURNS AND
EMPLOYER'S NET PENSION LIABILITY
June 30, 2015

SCHEDULE OF TOWN CONTRIBUTIONS
MARYLAND STATE RETIREMENT AND PENSION SYSTEM
Last Ten Fiscal Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	\$ 6,354	\$ 13,048	\$ 10,257	\$ 13,549	\$ 13,347	\$ 7,262	\$ 9,051	\$ 11,860	\$ 13,682	
Contributions in relation to the contractually required contribution	(6,354)	(13,048)	(10,257)	(13,549)	(13,347)	(7,262)	(9,051)	(11,860)	(13,682)	-
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Town's covered-employee payroll	\$ 105,829	\$ 167,372	\$ 196,825	\$ 191,442	\$ 185,866	\$ 181,997	\$ 188,364	\$ 196,998	\$ 196,484	\$ 185,101
Contributions as a percentage of covered-employee payroll	6%	8%	5%	7%	7%	4%	5%	6%	7%	0%

Employees' Retirement and Pension System:

	<u>2015</u>
Town's proportion of the net pension liability	0.00054746898381352200%
Town's proportionate share of the net pension liability	\$ 97,158
Town's covered employee payroll	\$ 105,829
Town's proportionate share of the net pension liability as a percentage of its covered employee payroll	91.8%
Plan fiduciary net position as a percentage of the total pension liability	0.0001540%

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 years for State system
Asset Valuation Method	5-year smoothed market; 20% collar
Inflation	2.90% general, 3.4% wage
Salary Increases	3.40% to 11.90% including inflation
Investment Rate of Return	7.65%
Retirement Age	Experienced based table of rates that are specific to the type of eligibility condition. Last updated for 2012 valuation pursuant to an experience study of the period 2006-2010
Mortality	RP-2000 Combined Health Mortality Table projected to the year 2025

TOWN OF ELKTON, MARYLAND
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
June 30, 2015

NOTE 1 – ORIGINAL AND FINAL BUDGETED AMOUNTS

The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

The Mayor submits to the Board of Commissioners a proposed operating budget for the fiscal year as follows:

1. In April, the operating budget is prepared including proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments after two weeks notice is given in some newspaper(s) having a general circulation within the Town.
3. Thirty-two days prior to July 1, the budget is legally enacted through passage of an ordinance.
4. The budget ordinance becomes effective July 1, and provides spending authority for the operations of the Town government.
5. Transfers and appropriations between functions require approval of the Board of Commissioners.

Formal budgetary integration is employed as a management control device during the year for the General Fund. Budgetary control is maintained at the department level. At the end of the fiscal year, unencumbered appropriations lapsed.

The budget information, presented as required supplemental information to the accompanying government-wide financial statements, includes all budget ordinances and amendments as approved by the Mayor and Board of Commissioners for the fiscal year ending June 30, 2015. No annual budget and actual comparisons are presented in the basic financial statements or supplemental information for governmental funds utilizing project based budgets or proprietary funds.

During the fiscal year, the Commissioners may adopt supplemental appropriations. For the year ended June 30, 2015, supplemental appropriations that increased the budget are as follows:

<u>Supplemental Appropriations</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Increase</u>
General Fund - expenditures and transfers	\$ 11,943,520	\$ 12,275,109	\$ 331,589

NOTE 2 – LEGAL LEVEL OF BUDGETARY CONTROL

The Town maintains budgetary control at the departmental level of expenditure within the fund.

TOWN OF ELKTON, MARYLAND
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
June 30, 2015

NOTE 3 – BASIS OF BUDGETING

The Town uses the modified accrual basis of accounting as its basis of budgeting.

1. Certain revenues collected in advance are recorded as liabilities (deferred revenues) rather than as revenues.
2. The following taxes are recorded on the modified accrual basis: real property tax, personal property tax, income tax, admissions tax, hotel tax, and highway user tax.
3. All other revenues are recorded only when the Town receives the related cash.

NOTE 4 – RECONCILIATION OF BUDGET TO GAAP REPORTING DIFFERENCES

The accompanying schedule details the necessary adjustment to convert the results of operations and fund balances at the end of the year on the GAAP basis to budgetary basis:

	General Fund		Fund Balance
	Revenues	Expenditures	
GAAP basis	\$ 10,642,824	\$ 11,609,508	\$ 6,519,312
Internal loan balance repayments FY 2006 and prior	-	-	(463,729)
Budgetary Basis	\$ 10,642,824	\$ 11,609,508	\$ 6,055,583

OTHER SUPPLEMENTAL INFORMATION

TOWN OF ELKTON, MARYLAND
DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
(NON-GAAP BUDGETARY BASIS)
Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes and Utility Fees				
Property:				
Real property	\$ 6,377,246	\$ 6,377,246	\$ 6,440,742	\$ 63,496
Traders	15,000	15,000	219	(14,781)
Railroads and public utilities	155,000	155,000	-	(155,000)
Ordinary business corporation	915,000	915,000	284,263	(630,737)
Payments in lieu of taxes	10,000	10,000	24,459	14,459
Penalties and Interest	40,000	40,000	36,629	(3,371)
Less:				
Abatements and collection fees	(73,000)	(73,000)	(64,204)	8,796
Volunteer Fire Co. rebates	(2,000)	(2,000)	(1,800)	200
Enterprise zone credits	(11,125)	(11,125)	(15,562)	(4,437)
Total property and real taxes	7,426,121	7,426,121	6,704,746	(721,375)
Other:				
Local income tax	1,100,000	1,100,000	1,331,286	231,286
Hotel/motel taxes	170,000	170,000	188,542	18,542
Highway gas tax	326,385	326,385	326,597	212
Admission and amusement	11,000	11,000	8,738	(2,262)
Total other taxes	1,607,385	1,607,385	1,855,163	247,778
Total taxes and utility fees	9,033,506	9,033,506	8,559,909	(473,597)
Licenses and Permits				
Traders	40,000	40,000	42,021	2,021
Occupational	300	300	375	75
Building	101,000	101,000	74,772	(26,228)
Cable television	192,000	192,000	209,346	17,346
Total license and permits	333,300	333,300	326,514	(6,786)
Intergovernmental Revenues				
Federal:				
Grant - DOJ	-	-	5,564	5,564
Grant - Justice Assistance	-	-	24,806	24,806
Grant - GOCOP and COCPP	2,945	2,945	-	(2,945)
Grant- CHRPP	171,452	171,452	147,262	(24,190)
Grant - LLEBG	-	-	40,706	40,706
Total federal	174,397	174,397	218,338	43,941
State:				
Grant - State Police Aid	309,975	309,975	286,385	(23,590)
Total state	309,975	309,975	286,385	(23,590)

TOWN OF ELKTON, MARYLAND
DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
(NON-GAAP BUDGETARY BASIS)
Year Ended June 30, 2015
(CONTINUED)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES (Continued)				
Intergovernmental Revenues (Continued)				
Local:				
County tax differential	\$ 304,856	\$ 304,856	\$ 304,856	\$ -
Other	-	-	15,357	15,357
Total local	<u>304,856</u>	<u>304,856</u>	<u>320,213</u>	<u>15,357</u>
Total intergovernmental revenue	<u>789,228</u>	<u>789,228</u>	<u>824,936</u>	<u>35,708</u>
Charges for Services				
General government:				
Zoning and subdivision fees	14,500	14,500	17,152	2,652
Farmers Market user fee	350	350	360	10
Total general government	<u>14,850</u>	<u>14,850</u>	<u>17,587</u>	<u>2,737</u>
Public safety:				
Special police services	10,000	19,711	39,925	20,214
Highway and streets:				
Public parking facilities	23,000	23,000	13,723	(9,277)
Sanitation and waste removal:				
Solid waste	480,300	480,300	482,564	2,264
Landfill rebate	46,829	46,829	46,829	-
Other	-	-	9,916	9,916
Total sanitation and waste removal	<u>527,129</u>	<u>527,129</u>	<u>539,309</u>	<u>12,180</u>
Parks and recreation:				
Building use permits	124,000	124,000	125,023	1,023
Programs and events	10,500	10,500	700	(9,800)
Total parks and recreation	<u>134,500</u>	<u>134,500</u>	<u>125,723</u>	<u>(8,777)</u>
Total charges for services	<u>709,479</u>	<u>719,190</u>	<u>736,267</u>	<u>17,077</u>
Fines and Forfeitures				
Parking fines	32,000	32,000	9,880	(22,120)
Miscellaneous Revenue - Other				
Interest	14,800	14,800	1,453	(13,347)
Rent and concessions	3,000	3,000	3,100	100
Other miscellaneous revenues	274,634	144,753	180,765	36,012
Total miscellaneous revenue	<u>292,434</u>	<u>162,553</u>	<u>185,318</u>	<u>22,765</u>
Total revenues	<u>11,189,947</u>	<u>11,069,777</u>	<u>10,642,824</u>	<u>(426,953)</u>

TOWN OF ELKTON, MARYLAND
DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
(NON-GAAP BUDGETARY BASIS)
Year Ended June 30, 2015
(CONTINUED)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES				
General Government				
Mayor and Council	\$ 144,965	\$ 151,688	\$ 149,684	\$ 2,004
Administration	289,699	326,011	319,275	6,736
Finance and accounting	188,545	188,545	184,260	4,285
Planning and zoning	269,904	269,904	254,311	15,593
General services	315,565	414,107	386,036	28,071
Personnel	212,950	212,950	180,349	32,601
Community promotion	900	1,209	1,209	-
Bad debts	-	-	(16,951)	16,951
Total general government	<u>1,422,528</u>	<u>1,564,414</u>	<u>1,458,173</u>	<u>106,241</u>
Public Safety				
Police department:				
Police patrol	5,069,800	5,071,300	4,616,320	454,980
Support services	<u>639,835</u>	<u>639,835</u>	<u>606,767</u>	<u>33,068</u>
Total police department	<u>5,709,635</u>	<u>5,711,135</u>	<u>5,223,087</u>	<u>488,048</u>
Other Public Safety				
Volunteer fire department	130,655	138,066	137,426	640
Building inspection	<u>442,127</u>	<u>461,993</u>	<u>445,544</u>	<u>16,449</u>
Total other public safety	<u>572,782</u>	<u>600,059</u>	<u>582,970</u>	<u>17,089</u>
Total public safety	<u>6,282,417</u>	<u>6,311,194</u>	<u>5,806,057</u>	<u>505,137</u>
Public Works				
Sanitation and waste removal:				
Maintenance	2,545,485	2,748,919	2,743,874	5,045
Waste collection and disposal	864,500	864,500	860,435	4,065
Mosquito and weed control	<u>7,000</u>	<u>11,025</u>	<u>11,025</u>	<u>-</u>
Total public works	<u>3,416,985</u>	<u>3,624,444</u>	<u>3,615,334</u>	<u>9,110</u>
Recreation and Culture				
Parks and recreation	<u>413,915</u>	<u>413,915</u>	<u>369,341</u>	<u>44,574</u>
Debt Service				
Principal	373,697	327,164	327,164	-
Interest	<u>33,978</u>	<u>33,978</u>	<u>33,439</u>	<u>539</u>
Total debt service	<u>407,675</u>	<u>361,142</u>	<u>360,603</u>	<u>539</u>
Total expenditures	<u>11,943,520</u>	<u>12,275,109</u>	<u>11,609,508</u>	<u>665,601</u>
Net change in fund balances	<u>\$ (753,573)</u>	<u>\$ (1,205,332)</u>	<u>\$ (966,684)</u>	<u>\$ 238,648</u>

TOWN OF ELKTON, MARYLAND
COMBINING STATEMENT OF FIDUCIARY NET POSITION –
TRUST FUNDS
June 30, 2015

	<u>Defined Contribution Plan</u>	<u>Police Pension Plan</u>	<u>Total Pension Trusts</u>
ASSETS			
Money market funds	\$ 183,441	\$ 4,105,170	\$ 4,288,611
Investments			
Equity mutual funds	1,175,776	-	1,175,776
Fixed income mutual funds	<u>1,345,951</u>	<u>-</u>	<u>1,345,951</u>
Total investments	<u>2,521,727</u>	<u>-</u>	<u>2,521,727</u>
TOTAL ASSETS	<u>\$ 2,705,168</u>	<u>\$ 4,105,170</u>	<u>\$ 6,810,338</u>
NET POSITION			
Held in trust for pension benefits	<u>\$ 2,705,168</u>	<u>\$ 4,105,170</u>	<u>\$ 6,810,338</u>

TOWN OF ELKTON, MARYLAND
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION –
TRUST FUNDS
For the Fiscal Year Ended June 30, 2015

	<u>Defined Contribution Plan</u>	<u>Police Pension Plan</u>	<u>Total Pension Trusts</u>
ADDITIONS			
Employer contributions	\$ 206,949	\$ 360,798	\$ 567,747
Employee contributions	-	174,754	174,754
Miscellaneous Cash receipts	-	6,878	6,878
Investment gains	104,884	9,778	114,662
Total additions	<u>311,833</u>	<u>552,208</u>	<u>864,041</u>
DEDUCTIONS			
Benefit payments	90,691	90,119	180,810
Administrative fees	-	5,513	5,513
Total deductions	<u>90,691</u>	<u>95,632</u>	<u>186,323</u>
CHANGE IN NET POSITION	221,142	456,576	677,718
NET POSITION - BEGINNING OF YEAR	<u>2,484,026</u>	<u>3,648,594</u>	<u>6,132,620</u>
NET POSITION - END OF YEAR	<u>\$ 2,705,168</u>	<u>\$ 4,105,170</u>	<u>\$ 6,810,338</u>