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**FOR THE FISCAL YEAR ENDED
JUNE 30, 2018**

TOWN OF ELKTON, MARYLAND

For Fiscal Year Ended
June 30, 2018



Prepared by: Town of Elkton Finance Department

Robert J. Alt, Mayor
Lewis H. George, Jr., Town Administrator
Steven H. Repole, Finance Director
A. Beth Moran, Assistant Finance Director

**TOWN OF ELKTON, MARYLAND
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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Commissioners
Town of Elkton, Maryland
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 (the Town), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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.

To the Honorable Mayor and Commissioners
Town of Elkton, Maryland

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 as of June 30, 2018, 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

As described in Note 12, during the fiscal year ended June 30, 2018, the Town adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result of the implementation of GASB Statement No. 75, the Town reported a restatement for the change in accounting principle.

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 changes in the net OPEB liability and related ratios, schedule of Town contributions – other postemployment benefits, schedule of changes in net pension liability, schedule of employers contributions and money-weighted rate of return, and schedule of employer contributions and proportionate share of 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'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 were derived from and relate 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

To the Honorable Mayor and Commissioners
Town of Elkton, Maryland

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 December 27, 2018 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Baltimore, Maryland
December 27, 2018

**TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

INTRODUCTION

As management of the Town of Elkton, Maryland (the Town), 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, 2018. 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 2018

The Town's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the 2018 fiscal year by approximately \$68.8 million (total net position). Approximately 87% of this amount is attributable to the Town's utilities (Water and Sewer). Of the total net position, \$11.4 million (unrestricted) may be used to meet ongoing obligations to citizens and creditors, and \$56.0 million is the investment in capital assets.

As of the close of the 2018 fiscal year, the Town's only governmental fund (General Fund) reported an ending fund balance of \$4.8 million. Of this total amount, \$1.3 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 10% of total expenditures and represents funding for less than two months of expenditures.

The General Fund, on a current financial resources basis, reported expenditures in excess of revenues of approximately \$285,000.

The Town's total long-term liabilities decreased by approximately \$1.1 million during the current fiscal year, from \$13.6 million to \$12.5 million. This is the result of the retirement of existing debt in the Governmental Activities of \$320,000 and the Business-Type Activity of \$1.1 million, offset by a net increase 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.
- 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.

**TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

- The chart below shows how the various parts of this annual report are arranged and flow in the Financial Section:

Independent Auditors' 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
Supplementary Information**

**TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

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 resources 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.

**TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

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 nonfinancial 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.

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.

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).

**TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

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.

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, 2018 and 2017, respectively:

NET POSITION - JUNE 30, 2018			
	Governmental Activities	Business-type Activities	Total Activities
ASSETS			
Current and Other Assets	\$ 6,090,351	\$ 13,872,079	\$ 19,962,430
Capital Assets	9,037,254	57,700,779	66,738,033
Total Assets	<u>15,127,605</u>	<u>71,572,858</u>	<u>86,700,463</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>278,701</u>	-	<u>278,701</u>
LIABILITIES			
Noncurrent Liabilities	4,170,906	10,949,754	15,120,660
Other Liabilities	730,847	1,043,523	1,774,370
Total Liabilities	<u>4,901,753</u>	<u>11,993,277</u>	<u>16,895,030</u>
DEFERRED INFLOWS OF RESOURCES	<u>1,316,410</u>	13,448	<u>1,329,858</u>
Net Position			
Net Investment in Capital Assets	9,037,254	47,001,016	56,038,270
Restricted	1,265,840	-	1,265,840
Unrestricted	(1,114,951)	12,565,117	11,450,166
Total Net Position	<u>\$ 9,188,143</u>	<u>\$ 59,566,133</u>	<u>\$ 68,754,276</u>

**TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

NET POSITION - JUNE 30, 2017*

	Governmental Activities	Business-type Activities	Total Activities
ASSETS			
Current and Other Assets	\$ 6,193,325	\$ 15,238,039	\$ 21,431,364
Capital Assets	9,518,444	58,299,995	67,818,439
Total Assets	<u>15,711,769</u>	<u>73,538,034</u>	<u>89,249,803</u>
DEFERRED OUTFLOWS OF RESOURCES			
	<u>609,009</u>	<u>-</u>	<u>609,009</u>
LIABILITIES			
Long-Term Liabilities Outstanding	4,993,347	11,996,987	16,990,334
Other Liabilities	570,421	665,964	1,236,385
Total Liabilities	<u>5,563,768</u>	<u>12,662,951</u>	<u>18,226,719</u>
DEFERRED INFLOWS OF RESOURCES			
	<u>881,909</u>	<u>-</u>	<u>881,909</u>
Net Position			
Net Investment in Capital Assets	8,952,176	46,503,012	55,455,188
Restricted	1,459,854	-	1,459,854
Unrestricted	(536,929)	14,372,072	13,835,143
Total Net Position	<u>\$ 9,875,101</u>	<u>\$ 60,875,084</u>	<u>\$ 70,750,185</u>

The Town's assets and deferred outflows exceeded its liabilities and deferred inflows at the close of the 2018 fiscal year by \$68.8 million. Approximately \$56.0 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.

**TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

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, 2018 and 2017, respectively.

Changes in Net Position Fiscal Year Ending June 30, 2018			
	Governmental Activities	Business-Type Activities	Total Activities
REVENUES			
Program Revenues			
Charges for Services	\$ 1,721,733	\$ 7,427,944	\$ 9,149,677
Operating Grants and Contributions	365,481	-	365,481
Capital Grants and Contributions	-	91,500	91,500
General Revenues			
Property Taxes	9,039,085	-	9,039,085
State and County Shared Taxes	957,736	-	957,736
Investments Earnings	90,065	106,398	196,463
Miscellaneous	-	214,706	214,706
Total Revenues	12,174,100	7,840,548	20,014,648
Program Expenses			
General Government	1,702,328	-	1,702,328
Public Safety	6,360,456	-	6,360,456
Public Works	4,094,097	-	4,094,097
Recreation and Culture	461,064	-	461,064
Interest on Long-Term Debt	9,403	-	9,403
Utilities and Other Proprietary Funds	-	9,103,099	9,103,099
Total Expenses	12,627,348	9,103,099	21,730,447
CHANGE IN NET POSITION	(453,248)	(1,262,551)	(1,715,799)
Net Position - Beginning of Year, as restated	9,641,391	60,828,684	70,470,075
NET POSITION - END OF YEAR	\$ 9,188,143	\$ 59,566,133	\$ 68,754,276

**TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Changes in Net Position
Fiscal Year Ending June 30, 2017*

	Governmental Activities	Business-Type Activities	Total Activities
REVENUES			
Program Revenues			
Charges for Services	\$ 1,779,678	\$ 8,128,596	\$ 9,908,274
Operating Grants and Contributions	463,160	-	463,160
Capital Grants and Contributions	-	91,500	91,500
			-
General Revenues			
Property Taxes	7,928,808	-	7,928,808
State and County Shared Taxes	1,124,251	-	1,124,251
Investments Earnings	7,411	32,546	39,957
Miscellaneous	-	227,051	227,051
Total Revenues	<u>11,303,308</u>	<u>8,479,693</u>	<u>19,783,001</u>
Program Expenses			
General Government	1,703,351	-	1,703,351
Public Safety	6,396,029	-	6,396,029
Public Works	3,738,413	-	3,738,413
Recreation and Culture	508,524	-	508,524
Interest on Long-Term Debt	15,778	-	15,778
Utilities and Other Proprietary Funds	-	7,761,510	7,761,510
Total Expenses	<u>12,362,095</u>	<u>7,761,510</u>	<u>20,123,605</u>
CHANGE IN NET POSITION	(1,058,787)	718,183	(340,604)
Net Position - Beginning of Year	<u>10,933,888</u>	<u>60,156,901</u>	<u>71,090,789</u>
NET POSITION - END OF YEAR	<u>\$ 9,875,101</u>	<u>\$ 60,875,084</u>	<u>\$ 70,750,185</u>

* Does not include the effect of GASB 75

The Town's total revenues for the year ended June 30, 2018 were \$20.0 million, an increase of approximately \$232,000. The majority of the overall increase, \$1,089,000, was attributable to an increase in general revenues netted against revenue decreases of \$759,000 and \$98,000 in charges for services and operating grants and contributions, respectively.

**TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Governmental Activities

General revenues for the governmental activities were \$10.1 million, while total expenses, net of charges for services and grants and contributions, were \$10.5 million.

Total general revenues from governmental activities increased by \$1,026,000 and total governmental activities net expenses increased by \$421,000. The majority of the overall revenue increase, \$1.1 million, was due to an increase in total property taxes and an increase of \$83,000 in investment earnings, while there was a \$167,000 decrease in state shared income tax.

The \$421,000 net expense increase was attributable to total revenue decreases of \$156,000 and total expenditure increases of \$265,000. Charges for services decreased by \$58,000 while operating grants and contributions decreased by \$98,000. Expenditures in Public Works increased by \$356,000 while expenditures in the other governmental activities collectively decreased by \$91,000.

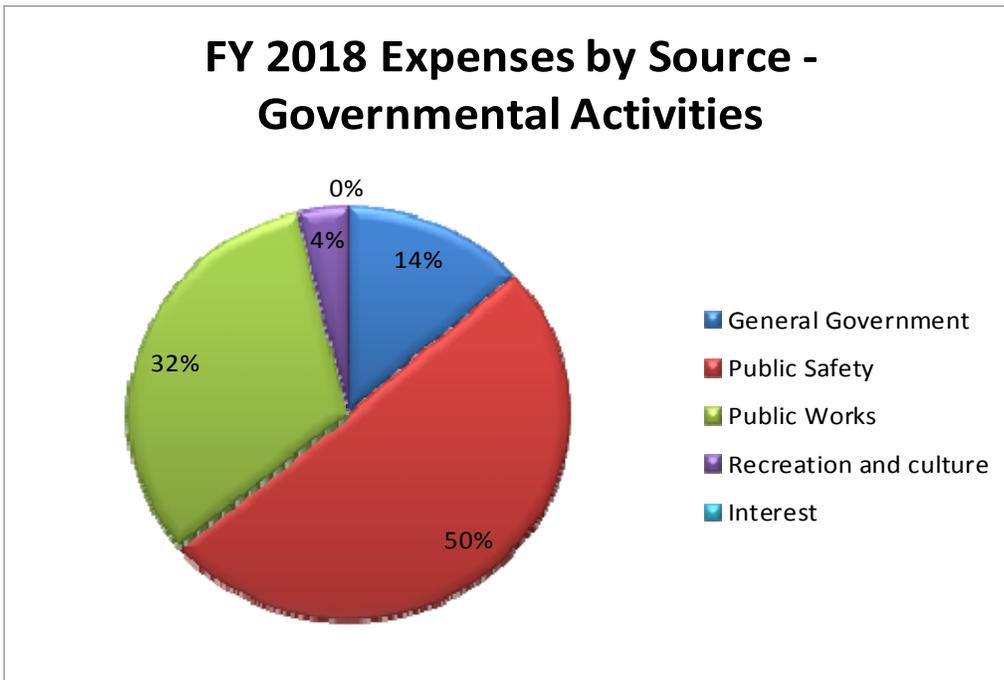
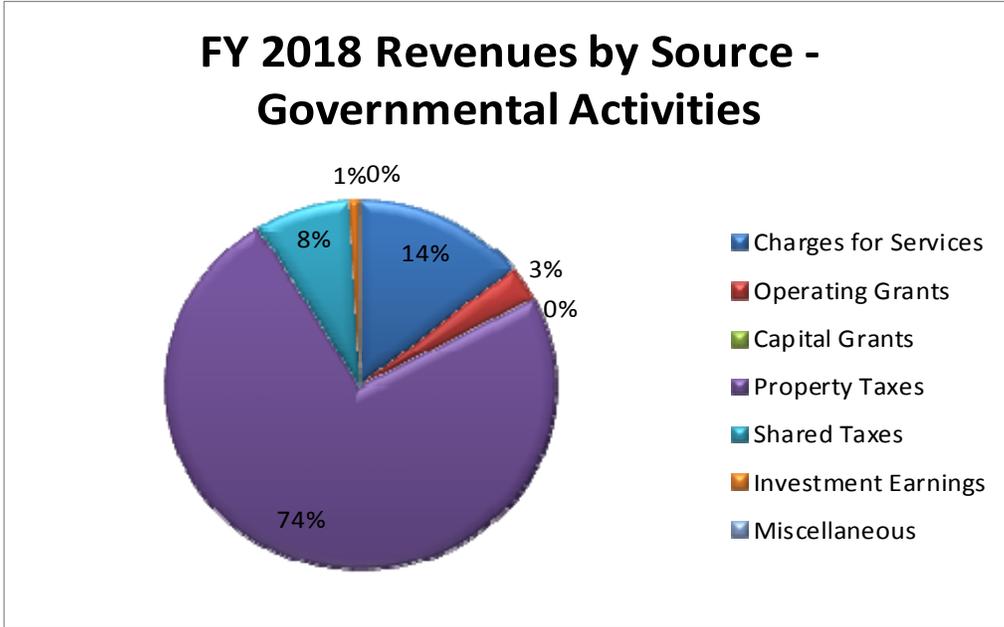
Business-Type Activities

Total revenues for business-type activities decreased by \$639,000, while expenses increased by \$1.3 million. The key element for the reduced revenue was a decrease in charges for services of \$701,000 combined with an increase in general revenues of \$62,000.

The \$1.3 million increase, 17.3%, in expenses was a result of \$775,000 increase in the water fund, a \$548,000 increase in the sewer fund, and \$19,000 increase in the major facility fund.

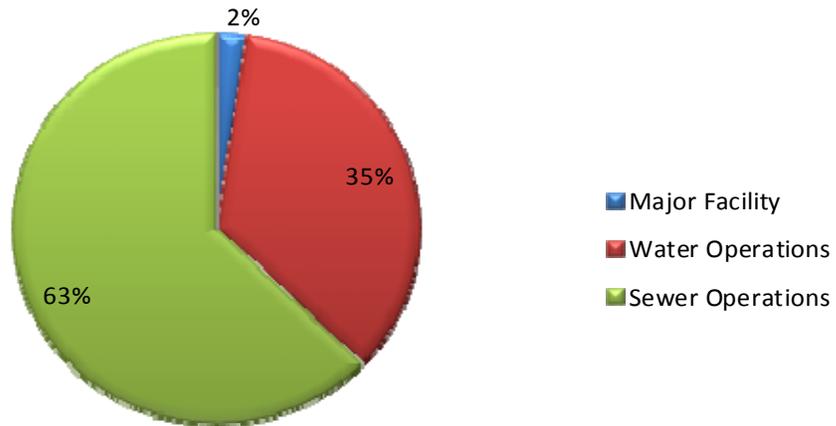
**TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

The following is a graphical presentation of the Town's revenues and expenses for the years ending June 30, 2018 and 2017.

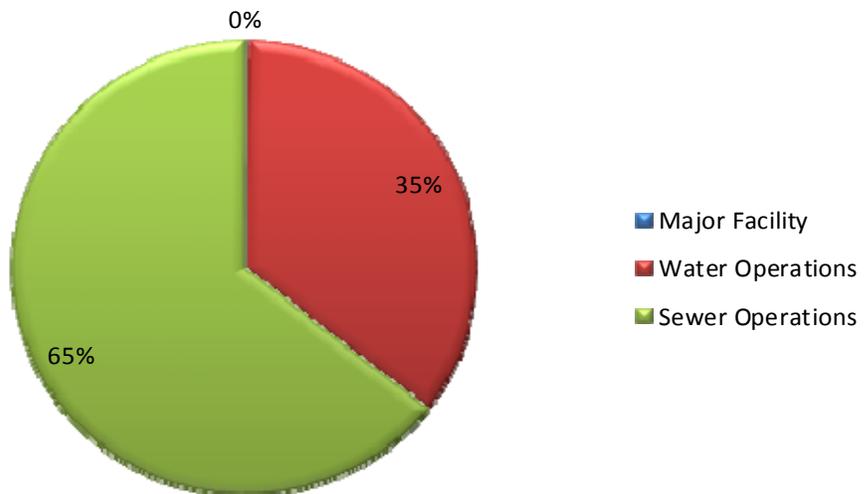


TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

FY2018 Revenues by Source - Business-type Activities

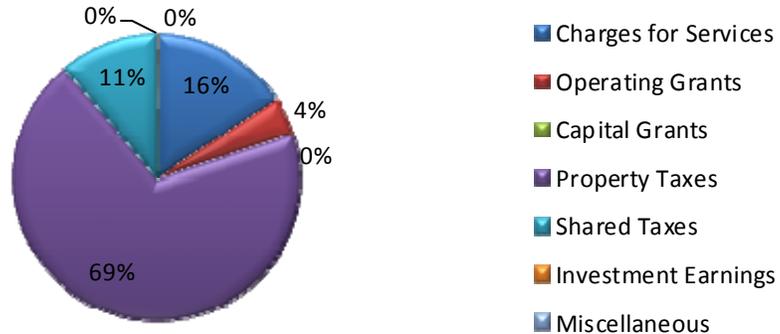


FY 2018 Expenses - Business-type Activities

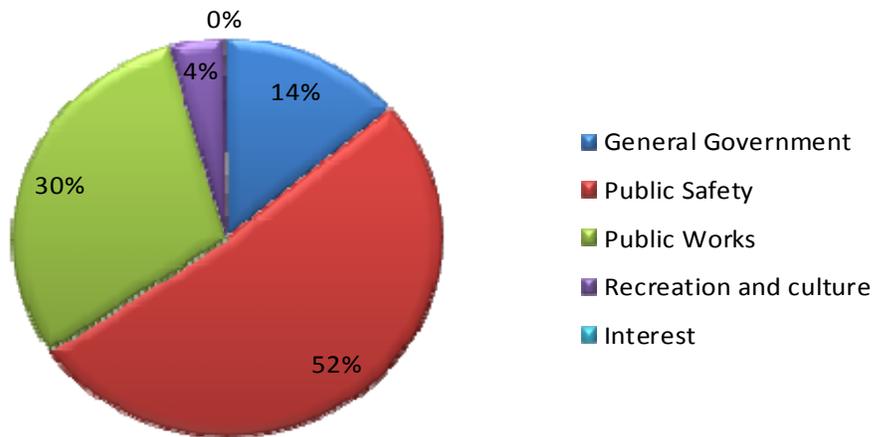


**TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

**FY 2017 Revenues by Source -
Governmental Activities**

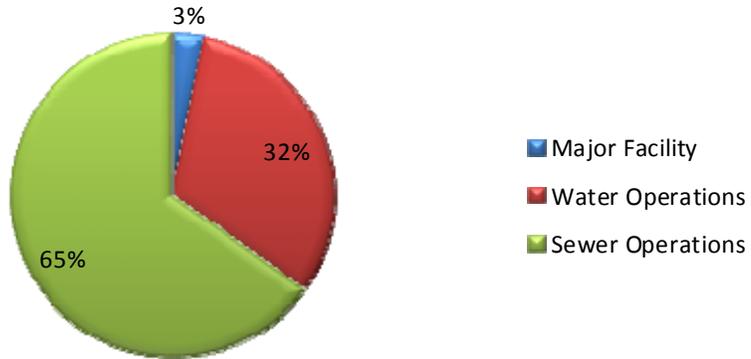


**FY 2017 Expenses by Source -
Governmental Activities**

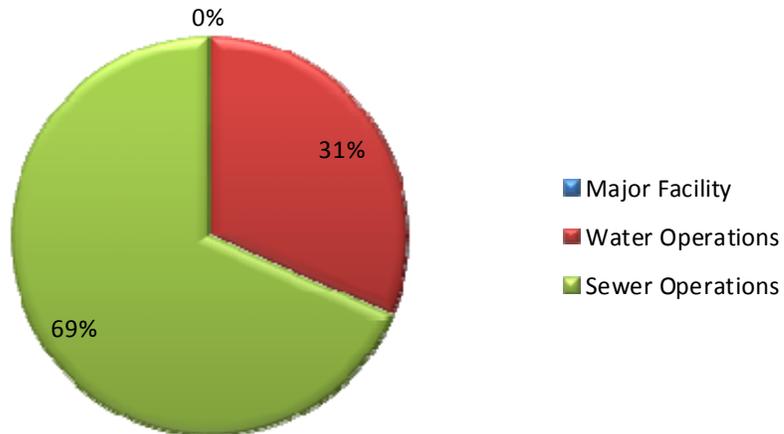


TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

**FY2017 Revenues by Source -
Business-type Activities**



**FY 2017 Expenses -
Business-type Activities**



**TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

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, 2018 and 2017, 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, 2018

	Expenses	Revenues	Net Expense (Revenue)
Governmental Activities			
General Government	\$ 1,702,328	\$ 477,711	\$ 1,224,617
Public Safety	6,360,456	364,457	5,995,999
Public Works	4,094,097	1,089,319	3,004,778
Recreation and Culture	461,064	155,727	305,337
Interest on Long-Term Debt	9,403	-	9,403
Total Governmental Activities	<u>12,627,348</u>	<u>2,087,214</u>	<u>10,540,134</u>
Business-type Activities			
Major Facility	19,771	150,375	(130,604)
Water	3,217,260	2,560,421	656,839
Sewer	5,866,068	4,808,648	1,057,420
Total Business-type Activities	<u>9,103,099</u>	<u>7,519,444</u>	<u>1,583,655</u>
Total Governmental and Business-type Activities	<u>\$ 21,730,447</u>	<u>\$ 9,606,658</u>	<u>\$ 12,123,789</u>

Net Cost of Activities
Year Ended June 30, 2017*

	Expenses	Revenues	Net Expense (Revenue)
Governmental Activities			
General Government	\$ 1,703,351	\$ 610,517	\$ 1,092,834
Public Safety	6,396,029	477,156	5,918,873
Public Works	3,738,413	1,012,736	2,725,677
Recreation and Culture	508,524	142,429	366,095
Interest on Long-term Debt	15,778	-	15,778
Total Governmental Activities	<u>12,362,095</u>	<u>2,242,838</u>	<u>10,119,257</u>
Business-type Activities			
Major Facility	1,120	250,929	(249,809)
Water	2,442,097	2,597,804	(155,707)
Sewer	5,318,293	5,371,363	(53,070)
Total Business-type Activities	<u>7,761,510</u>	<u>8,220,096</u>	<u>(458,586)</u>
Total Governmental and Business-type Activities	<u>\$ 20,123,605</u>	<u>\$ 10,462,934</u>	<u>\$ 9,660,671</u>

* Does not include the effect of GASB 75

**TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

The cost of governmental activities this year was \$12.6 million, a \$265,000, or 2.1%, increase over FY17. Public Works increased by \$356,000, largely the result of increases of \$236,000 in road restoration, \$63,000 in contracted services primarily due to the renovation of Marina Park, and \$58,000 in residential and park clean up hauling and landfill fees. Parks and Recreation decreased by \$42,000 in salary and related fringe benefits due to the elimination of a full time position. General Government and Public Safety remained virtually unchanged from FY 17. Some of the cost of government activities was paid by those who directly benefited from the programs (\$1.7 million) and other governments and organizations that subsidized certain programs with grants and contributions (\$365,000). Taxpayers paid the remaining net cost of services in the amount of \$10.5 million.

The total cost of business-type activities this year was \$9.1 million, an increase of \$1.3 million, due to increases of \$775,000 in the Water Fund, \$548,000 in the Sewer Fund, and \$19,000 in the Major Facility Fund. The increase in the Water Fund was the result of increases of \$226,000 in salary and fringe benefits, primarily due to two new positions and the reallocation of existing positions, \$195,000 in water meter purchases, as the Town continues to aggressively upgrade the aging water meters, and \$193,000 in operations and maintenance for the water treatment and distribution system, due to the replacement and maintenance of various pumps and meters. Additionally, there was a \$51,000 increase in contracted services, primarily due to the repairing of numerous, simultaneous water leaks, \$44,000 increase to maintenance of mains, due to engineering costs of \$29,000 for the replacement of the Pennsylvania Avenue water line, and an increase of \$20,000 in depreciation expense. The increase in the sewer fund was primarily the result of a \$399,000 increase to wastewater treatment plant operation and maintenance fees, the result of a \$209,000 update to the SCADA system, and the replacement of the Fenton Dryer, costing \$126,000, \$92,000 in salary and fringe benefits, primarily due to two new positions, and a \$47,000 increase in repairs and maintenance, primarily due to the replacement of two sludge pumps costing \$39,000.

The cost of the activities in the Water and Sewer Funds were primarily paid for by charges for services and grants. Additionally, interest earnings and miscellaneous income were used to supplement charges for services. In the Water Fund, expenses exceeded charges for services and capital grants and contributions by \$657,000, attributable to increases in expenses while charges for services remained virtually unchanged. In the Sewer Fund, expenses exceeded charges for services and capital grants and contributions by \$1.1 million, a combination of a \$548,000 increase in expenses and a \$563,000 decrease in charges for services, the result of an 11% decrease in the sewer rate. The Major Facility Fund charges for services were greater than expenses by \$131,000.

Financial Analysis of the Town's Funds

At year-end, the General Fund reported a total fund balance of \$4.8 million, a decrease from the previous year's \$5.1 million. This \$285,000 decrease was the result of excess expenditures over revenues.

Proprietary Funds Net Position decreased by \$1.3 million. This was primarily the net result of \$131,000 operating income in the major facility fund, \$947,000 operating loss in the sewer fund, and \$526,000 operating loss in the water fund, investment earnings and capital grant contributions of \$198,000, and interest expense of \$118,000.

**TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

General Fund Budgetary Highlights

Actual revenues were \$189,000, or 1.5% less than the final budgeted amount, primarily the net effect of a negative variance of \$337,200 in Total Other Taxes, a negative variance of \$74,600 in Total Charges for Services, a positive variance of \$199,600 in total Miscellaneous Revenue and a positive variance of \$21,600 in Total Intergovernmental Revenue.

The Total Other Taxes negative variance of \$337,200 was primarily due to a \$267,300 negative variance in local income tax, the continuing result of the State Comptroller's Office "address audit" which resulted in many taxpayers being identified as residing outside the Town that had previously been incorrectly identified as residing within the Town. Additionally, a negative variance of \$52,700 on hotel/motel taxes collected as the result of an increased tax rate budgeted, but not implemented by Cecil County Government until the third month of the fiscal year. An additional negative variance of \$15,900 in State of Maryland collected admissions and amusement tax accounts for the Total Other Taxes variance. The \$74,600 negative variance in Total Charges for Services is the result of total participation in parks and recreation programs being less than anticipated. The positive variance in Total Miscellaneous Revenues of \$199,600 was primarily the result of increased interest revenue of \$84,400 due to the direction given by the Mayor and Chief Financial Officer to more aggressively negotiate the best rates for the Town, combined with the following unbudgeted revenues: \$78,600 medical loss ratio rebate, and \$11,200 in vehicle insurance reimbursement. Actual expenditures were \$932,000, or 7.0%, less than the final budgeted amount. Each expenditure category had a positive variance. The \$548,000 positive variance in Total Public Works was attributable to \$219,000 in salary and fringe benefit savings from various extended absences during the year and \$336,000 positive variance due to a budget amendment prepared for encumbered, but not yet expended, road restoration project. The \$170,000 positive variance in Total Public Safety was attributable to \$257,000 in salary and fringe benefit savings from positions budgeted, but not filled, for extended periods during the year offset by negative variances of \$57,000 in police patrol capital for the purchase of downtown security cameras, \$20,000 in contracted services for software licenses and fees, and \$10,000 for vehicle repairs and maintenance. Additionally, General Government had a total positive variance of \$143,000, comprised of positive variances in:

- Planning and Zoning \$54,000 - \$73,000 in master plan preparation offset by a negative variance of \$23,000 in engineering plan review.
- Personnel \$32,000 - \$18,000 in professional services, \$9,000 in unemployment claims, and \$5,000 in training and education.
- General Services \$26,000 - all in repairs and maintenance.
- Administration \$23,000 - all in salary and fringe benefits.

The \$19,000 positive variance in Parks and Recreation was due to an \$11,000 positive variance in program equipment, \$5,000 in summer camp supplies, and \$3,000 in capital equipment. The remaining positive variance, \$52,000, was in Debt Service. This was due to a full year of debt service budgeted for capital acquisition at the end of the previous year that was purchased by cash instead.

**TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

During the year, there was a \$563,794 increase in appropriations between the original and final amended budget. The following are the main components of the increase:

- A supplemental appropriation of \$288,000 from the restricted fund balance for road paving expenses.
- A supplemental appropriation of \$104,000 from unassigned fund balance for the purchase of land for the future Community Center (\$75,000), the purchase of abandoned property (\$6,000), and HVAC renovations at the Elkton Alliance and Public Works (\$23,000).
- A supplemental appropriation of \$21,610 from unassigned fund balance for the purchase of a mower and outdoor speakers for downtown events.
- A supplemental appropriation to recognize grant revenue of \$62,102 from the Community Legacy Program for the purpose of neighborhood revitalization through Downtown Façade Grants.
- To recognize the forfeiture of seized funds in the amount of \$16,412 to be used to purchase a John Deere "Gator."
- A supplemental appropriation of \$40,000 from unassigned fund balance for waste removal services.
- A supplemental appropriation of \$18,000 for the preparation of the Marina Park boat ramp.
- Various other increases in appropriations totaling \$13,670.

Capital Asset and Debt Administration

Capital Assets

The Town's capital assets (net of accumulated depreciation) for its governmental and business-type activities as of June 30, 2018, amounts to \$66.7 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 1.6%, a 5.0% decrease for governmental activities, and a 1.0% decrease for business-type activities.

The following table presents capital assets (net of accumulated depreciation) by category for fiscal years ending June 30, 2018 and 2017, respectively:

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 2,731,411	\$ 2,657,313	\$ 914,270	\$ 914,270	\$ 3,645,681	\$ 3,571,583
Other Improvements	1,711,101	2,011,288	-	-	1,711,101	2,011,288
Buildings	3,351,442	3,470,523	-	-	3,351,442	3,470,523
Plants, Mains & Other Improvements	-	-	54,711,366	55,655,839	54,711,366	55,655,839
Equipment	1,000,883	1,188,782	1,209,332	906,837	2,210,215	2,095,619
Construction-in- Progress	242,417	190,538	865,811	823,049	1,108,228	1,013,587
Total	\$ 9,037,254	\$ 9,518,444	\$ 57,700,779	\$ 58,299,995	\$ 66,738,033	\$ 67,818,439

**TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Major capital asset events during the fiscal year ending June 30, 2018 included the following:

In the Town's governmental activities:

- \$74,098 was spent to purchase 2.38 acres on Booth St. for the future Community Center.
- Downtown Camera System cost \$44,632.
- Marina Park dock project cost \$38,501.
- Computers purchased for various departments cost \$31,780.
- \$29,296 was spent to purchase an equipped vehicle for the police department.
- John Deere Gator purchased for the police department cost \$16,067.
- \$9,494 was the cost for a wireless speaker PA system.
- \$16,964 was spent on equipment for public works.
- Depreciation expense was \$795,139 for the year.

In the Town's business-type activities:

- Route 40 water line extension cost \$395,138.
- \$381,836 was spent on a Vactor sewer truck.
- Purchased generators for the WWTP and three pump stations costing \$183,750.
- Sewer camera system cost \$47,142.
- \$44,500 was spent to install a one inch water line on East Pulaski Highway.
- Depreciation expense was \$1,756,019 for the year.

Additional information on the Town's capital assets can be found in Note 7 on pages 45-46 of this report.

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 2019 budget for the Town's only governmental fund, the General Fund, was adopted at \$4,755,536 more than the fiscal year 2018 final budget.
- For fiscal year 2019, the Town adopted \$0.6356 per \$100.00 of assessed value as the real property tax rate, \$0.0100 greater than the constant yield tax rate, generating \$114,356 additional revenue for 2019. The Town adopted \$1.21 per \$100.00 of assessed value as the business personal property tax rate, the same as fiscal year 2018.
- The water and sewer rates were unchanged for fiscal year 2019.

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, 2018

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 5,128,482	\$ 12,232,425	\$ 17,360,907
Accounts Receivable, Net	556,198	1,618,232	2,174,430
Note Receivable	-	-	-
Other Assets	4,072	-	4,072
Internal Balances	(21,422)	21,422	-
Due from Other Governments	423,021	-	423,021
NONCURRENT ASSETS			
Capital Assets, Not Being Depreciated	2,973,828	1,780,081	4,753,909
Capital Assets Being Depreciated, Net of Accumulated Depreciation	6,063,426	55,920,698	61,984,124
Total Assets	<u>15,127,605</u>	<u>71,572,858</u>	<u>86,700,463</u>
Deferred Outflow of Resources - Pension Plan	<u>278,701</u>	<u>-</u>	<u>278,701</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	\$ 621,042	\$ 916,972	\$ 1,538,014
Accrued Liabilities	109,805	53,804	163,609
Other Liabilities	-	72,747	72,747
NONCURRENT LIABILITIES			
Net Pension Liability	2,608,518	-	2,608,518
Net OPEB Liability	876,569	173,997	1,050,566
Due Within One Year	246,279	1,126,100	1,372,379
Due in More Than One Year	439,540	9,649,657	10,089,197
Total Liabilities	<u>4,901,753</u>	<u>11,993,277</u>	<u>16,895,030</u>
Deferred Inflow of Resources - Benefit Plans	<u>1,316,410</u>	<u>13,448</u>	<u>1,329,858</u>
NET POSITION			
Net Investment in Capital Assets	9,037,254	47,001,016	56,038,270
Restricted - Highways	890,845	-	890,845
Restricted - Seized Funds	208,612	-	208,612
Restricted - Recreation and Culture	166,383	-	166,383
Unrestricted	(1,114,951)	12,565,117	11,450,166
Total Net Position	<u>\$ 9,188,143</u>	<u>\$ 59,566,133</u>	<u>\$ 68,754,276</u>

See accompanying Notes to Financial Statements.

**TOWN OF ELKTON, MARYLAND
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Functions/Programs							
Primary Government							
Governmental Activities:							
General Government	\$ 1,702,328	\$ 412,663	\$ 65,048	\$ -	\$ (1,224,617)	\$ -	\$ (1,224,617)
Public Safety	6,360,456	67,324	297,133	-	(5,995,999)	-	(5,995,999)
Public Works	4,094,097	1,089,319	-	-	(3,004,778)	-	(3,004,778)
Recreation and Culture	461,064	152,427	3,300	-	(305,337)	-	(305,337)
Interest on Long-Term Debt	9,403	-	-	-	(9,403)	-	(9,403)
Total Governmental Activities	<u>12,627,348</u>	<u>1,721,733</u>	<u>365,481</u>	<u>-</u>	<u>(10,540,134)</u>	<u>-</u>	<u>(10,540,134)</u>
Business-Type Activities							
Major Facility	19,771	150,375	-	-	-	130,604	130,604
Water	3,217,260	2,560,421	-	-	-	(656,839)	(656,839)
Sewer	5,866,068	4,717,148	-	91,500	-	(1,057,420)	(1,057,420)
Total Business-Type Activities	<u>9,103,099</u>	<u>7,427,944</u>	<u>-</u>	<u>91,500</u>	<u>-</u>	<u>(1,583,655)</u>	<u>(1,583,655)</u>
Total Primary Government	<u>\$ 21,730,447</u>	<u>\$ 9,149,677</u>	<u>\$ 365,481</u>	<u>\$ 91,500</u>	<u>(10,540,134)</u>	<u>(1,583,655)</u>	<u>(12,123,789)</u>
GENERAL REVENUES:							
Taxes:							
Property Taxes, Levied for General Purpose					9,039,085	-	9,039,085
Unrestricted State Shared Income Taxes					957,736	-	957,736
Investment Earnings					90,065	106,398	196,463
Miscellaneous					-	214,706	214,706
Total General Revenues					<u>10,086,886</u>	<u>321,104</u>	<u>10,407,990</u>
CHANGE IN NET POSITION					(453,248)	(1,262,551)	(1,715,799)
Net Position - Beginning of Year, as restated					<u>9,641,391</u>	<u>60,828,684</u>	<u>70,470,075</u>
NET POSITION - END OF YEAR					<u>\$ 9,188,143</u>	<u>\$ 59,566,133</u>	<u>\$ 68,754,276</u>

See accompanying Notes to Financial Statements.

**TOWN OF ELKTON, MARYLAND
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2018**

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ 5,128,482
Receivables, Net	556,198
Other Assets	4,072
Due from Other Governments	423,021
Due from Other Funds	<u>163,691</u>
Total Assets	<u><u>\$ 6,275,464</u></u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	
LIABILITIES	
Accounts Payable	\$ 621,042
Accrued Liabilities	108,921
Due to Other Funds	<u>185,113</u>
Total Liabilities	<u><u>915,076</u></u>
DEFERRED INFLOW OF RESOURCES	
Unavailable Tax Revenue	<u>511,779</u>
FUND BALANCES	
Restricted	1,265,840
Committed	500,000
Assigned	1,815,343
Unassigned	<u>1,267,426</u>
Total Fund Balances	<u><u>4,848,609</u></u>
Total Liabilities, Deferred Inflows and Fund Balances	<u><u>\$ 6,275,464</u></u>

See accompanying Notes to Financial Statements.

**TOWN OF ELKTON, MARYLAND
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

**Amounts reported for governmental activities in the Statement of
Net Position are different because:**

Total Fund Balances - Governmental Funds	\$ 4,848,609
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 \$29,816,698, and the accumulated depreciation is \$20,779,443.	9,037,254
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds since they are not available to pay for current-period expenditures.	(685,819)
Accrued interest is not recorded in the governmental funds.	(884)
Net pension obligations are not due and payable in the current period and, therefore, are not reported in the funds.	(2,608,518)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	(969,961)
Net OPEB are not due and payable in the current period and, therefore, are not reported in the funds.	(876,569)
Deferred inflows of resources related to OPEB are applicable to future period and, therefore, are not reported in the funds.	(67,748)
Certain receivables are offset by deferred inflows in the governmental funds since they are not available to pay for current-period expenditures.	<u>511,779</u>
Net Position of Governmental Activities	<u><u>\$ 9,188,143</u></u>

**TOWN OF ELKTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018**

	<u>General Fund</u>
REVENUES	
Taxes and Utility Fees	\$ 10,044,796
Licenses and Permits	347,040
Fines and Forfeitures	22,274
Investment Revenues	90,070
Charges for Services	827,495
Intergovernmental	675,797
Miscellaneous	145,169
Total Revenues	<u>12,152,641</u>
 EXPENDITURES	
Current Operations:	
General Government	1,566,212
Public Safety	6,222,629
Public Works	3,902,586
Recreation and Culture	416,677
Debt Service:	
Principal	319,989
Interest	9,406
Total Expenditures	<u>12,437,499</u>
 NET CHANGE IN FUND BALANCES	 (284,858)
 Fund Balances - Beginning of Year	 <u>5,133,467</u>
 FUND BALANCES - END OF YEAR	 <u><u>\$ 4,848,609</u></u>

See accompanying Notes to 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, 2018**

Total Net Change in Fund Balances - Governmental Funds	\$ (284,858)
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 capital outlay (\$313,950) exceeds depreciation expense (\$795,139).	(481,187)
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.	(11,776)
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 2018.	319,986
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.	21,464
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.	57,974
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>(74,851)</u>
Change in Net Position of Governmental Activities	<u><u>\$ (453,248)</u></u>

TOWN OF ELKTON, MARYLAND
STATEMENT OF NET POSITION –
PROPRIETARY FUNDS
JUNE 30, 2018

	Business-Type Activities - Enterprise Funds			
	Major Facility	Water	Sewer	Total
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 2,477,755	\$ 2,657,522	\$ 7,097,148	\$ 12,232,425
Receivables, Net	16,263	634,400	967,569	1,618,232
Prepaid Expenses	-	-	-	-
Due from Other Governments	-	-	-	-
Due from Other Funds	1,748,150	645,207	-	2,393,357
Total Current Assets	<u>4,242,168</u>	<u>3,937,129</u>	<u>8,064,717</u>	<u>16,244,014</u>
Noncurrent Assets:				
Capital Assets, Net	-	9,791,373	47,909,406	57,700,779
Total Assets	<u>4,242,168</u>	<u>13,728,502</u>	<u>55,974,123</u>	<u>73,944,793</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	103,994	246,833	566,145	916,972
Accrued Expenses	-	12,500	41,304	53,804
Other Liabilities	-	-	72,747	72,747
Due to Other Funds	207,868	-	2,164,067	2,371,935
Due Within One Year	-	9,696	1,116,404	1,126,100
Total Current Liabilities	<u>311,862</u>	<u>269,029</u>	<u>3,960,667</u>	<u>4,541,558</u>
Noncurrent Liabilities:				
Due in More Than One Year	-	104,835	9,718,819	9,823,654
Total Liabilities	<u>311,862</u>	<u>373,864</u>	<u>13,679,486</u>	<u>14,365,212</u>
Deferred Inflow	-	7,172	6,276	13,448
NET POSITION				
Net Investment in Capital Assets	-	9,791,373	37,209,643	47,001,016
Unrestricted	3,930,306	3,556,093	5,078,718	12,565,117
Total Net Position	<u>\$ 3,930,306</u>	<u>\$ 13,347,466</u>	<u>\$ 42,288,361</u>	<u>\$ 59,566,133</u>

See accompanying Notes to Financial Statements.

TOWN OF ELKTON, MARYLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION –
PROPRIETARY FUNDS
JUNE 30, 2018

	Business-Type Activities - Enterprise Funds			
	Major Facility	Water	Sewer	Total
OPERATING REVENUES				
Charges for Services	\$ 150,375	\$ 2,560,421	\$ 4,717,148	\$ 7,427,944
Other Operating Revenues	-	2,386	-	2,386
Miscellaneous	-	128,317	84,003	212,320
Total Operating Revenues	150,375	2,691,124	4,801,151	7,642,650
OPERATING EXPENSES				
Cost of Service	19,771	2,885,419	4,324,101	7,229,291
Depreciation	-	331,841	1,424,158	1,755,999
Total Operating Expenses	19,771	3,217,260	5,748,259	8,985,290
Operating Income (Loss)	130,604	(526,136)	(947,108)	(1,342,640)
NONOPERATING REVENUES (EXPENSES)				
Investment Earnings	30,060	16,118	60,220	106,398
Interest Expense	-	-	(117,809)	(117,809)
Total Nonoperating Revenues (Expenses)	30,060	16,118	(57,589)	(11,411)
Income (Loss) Before Transfers and Capital				
Contributions	160,664	(510,018)	(1,004,697)	(1,354,051)
Capital Contributions - Grants	-	-	91,500	91,500
Transfers In	-	443,563	381,836	825,399
Transfers Out	(825,399)	-	-	(825,399)
CHANGES IN FUND NET POSITION	(664,735)	(66,455)	(531,361)	(1,262,551)
Total Net Position - Beginning of Year, Restated	4,595,041	13,413,921	42,819,722	60,828,684
TOTAL NET POSITION - END OF YEAR	\$ 3,930,306	\$ 13,347,466	\$ 42,288,361	\$ 59,566,133

See accompanying Notes to Financial Statements.

**TOWN OF ELKTON, MARYLAND
STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS
JUNE 30, 2018**

	Business-Type Activities - Enterprise Funds			
	Major Facility	Water	Sewer	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers and Users	\$ 163,275	\$ 2,700,091	\$ 5,086,912	\$ 7,950,278
Payments to Suppliers	79,690	(2,691,432)	(3,919,722)	(6,531,464)
Payments to Employees	-	7,172	32,613	39,785
Net Cash Provided by Operating Activities	<u>242,965</u>	<u>15,831</u>	<u>1,199,803</u>	<u>1,458,599</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from Grants	-	-	91,500	91,500
Interest Paid on Capital Debt	-	-	(117,809)	(117,809)
Acquisition and Construction of Capital Assets	(361,704)	(509,921)	(645,502)	(1,517,127)
Principal Payments of Loans	-	-	(1,097,220)	(1,097,220)
Net Cash Used by Capital and Related Financing Activities	<u>(361,704)</u>	<u>(509,921)</u>	<u>(1,769,031)</u>	<u>(2,640,656)</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES				
(Advances) Receipts from Other Funds	<u>(825,399)</u>	<u>443,563</u>	<u>381,836</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Investment Earnings	<u>30,060</u>	<u>16,118</u>	<u>60,220</u>	<u>106,398</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	(914,078)	(34,409)	(127,172)	(1,075,659)
Cash and Cash Equivalents - Beginning of Year	<u>3,391,833</u>	<u>2,691,931</u>	<u>7,224,320</u>	<u>13,308,084</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 2,477,755</u></u>	<u><u>\$ 2,657,522</u></u>	<u><u>\$ 7,097,148</u></u>	<u><u>\$ 12,232,425</u></u>

See accompanying Notes to Financial Statements.

TOWN OF ELKTON, MARYLAND
STATEMENTS OF CASH FLOWS – (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018

	Business-Type Activities - Enterprise Funds			
	Major Facility	Water	Sewer	Totals
RECONCILIATION OF OPERATING INCOME (LOSS)				
TO NET CASH PROVIDED BY OPERATING				
ACTIVITIES				
Operating Income (Loss)	\$ 130,604	\$ (526,136)	\$ (947,108)	\$ (1,342,640)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation	-	331,841	1,424,158	1,755,999
Effects of Changes in Operating Assets and Liabilities:				
Accounts Receivable	12,900	8,967	285,761	307,628
Accounts Payable	103,994	123,922	147,317	375,233
Accrued Expenses	-	(56,630)	(26,429)	(83,059)
Other Liabilities	-	-	1,276	1,276
Interfund Receivables	(4,533)	126,695	282,215	404,377
Accrued Liability for OPEB Benefits	-	7,172	32,613	39,785
Net Cash Provided by Operating Activities	<u>\$ 242,965</u>	<u>\$ 15,831</u>	<u>\$ 1,199,803</u>	<u>\$ 1,458,599</u>

See accompanying Notes to Financial Statements.

**TOWN OF ELKTON, MARYLAND
 STATEMENT OF FIDUCIARY NET POSITION –
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2018**

	<u>Total Pension Trusts</u>
ASSETS	
Cash Equivalents	\$ 538,671
Investments:	
Equity Mutual Funds	5,435,891
Fixed Income Mutual Funds	<u>3,988,683</u>
Total Investments	<u>9,424,574</u>
Total Assets	<u>\$ 9,963,245</u>
NET POSITION	
Held in Trust for Pension Benefits	<u>\$ 9,963,245</u>

See accompanying Notes to Financial Statements.

**TOWN OF ELKTON, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION –
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2018**

	<u>Total Pension Trusts</u>
ADDITIONS	
Employer Contributions	\$ 555,451
Employee Contributions	200,301
Miscellaneous Cash Receipts	9,774
Investment Gains	745,598
Total Additions	<u>1,511,124</u>
DEDUCTIONS	
Benefit Payments	275,891
Administrative Fees	15,204
Total Deductions	<u>291,095</u>
CHANGE IN NET POSITION	1,220,029
Net Position - Beginning of Year	<u>8,743,216</u>
NET POSITION - END OF YEAR	<u><u>\$ 9,963,245</u></u>

See accompanying Notes to Financial Statements.

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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 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 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 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 activities report information on all of the nonfiduciary 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, 2018**

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.

**TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 nonoperating 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. All revenues and expenses not meeting this definition are reported as nonoperating 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.

**TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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:

	<u>Real Property</u>	<u>Personal and Corporate</u>
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.

**TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Receivables (Continued)

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 2018, the Town's water and sewer system customer base included a total of 6,902 water and 6,825 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.

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 acquisition 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:

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

TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 10 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 11 for a full description of the benefits. There has been no OPEB Trust established as of June 30, 2018.

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 nonvesting 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 “Noncurrent liabilities” in the government-wide statements. 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. 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.

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.

**TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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:

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:

Nonspendable – 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.

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.

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.

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.

Unassigned – all other spendable amounts.

**TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

NOTE 2 CASH AND TEMPORARY INVESTMENTS

Deposits

At year-end, the carrying amount of the Town deposits (including petty cash of \$115) was \$11,699,190 and the bank balance was \$11,739,479. 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, 2018.

Investments

At June 30, 2018, the Town's fixed income investment balances by type, rating, and maturity were as follows:

Investment Type	Fair Value	Average Maturity (Years)*
Fixed Income Mutual Funds:		
Intermediate Term Fund	** \$ 20,220	5.54
Federal Hi Yield	** 15,805	4.30
Government Bond	** 79,618	7.95
Fixed Account	** 1,736,672	N/A
Global Fixed Income	** 10,022	N/A
Short Term Bond fund	444,412	1.81
Income	<u>1,681,934</u>	5.88
	3,988,683	
Money Market Funds	** 538,671	Less than 1
Maryland Local Govt. Investment Pool	5,661,717	Less than 1
Total	<u>\$ 10,189,071</u>	

* Amount represents the average maturity of the underlying investments.

** Includes defined contribution plan participant directed investments.

**TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 CASH AND TEMPORARY INVESTMENTS (CONTINUED)

Investments (Continued)

Reconciliation of cash and investments to cash and cash equivalents as shown on the statement of net position:

Carrying Amount of Deposits	\$ 11,699,190
Pension Trust Fund Money Market	538,671
Carrying Amount of Investments	
MLGIP	5,661,717
Fixed Income Mutual Funds	3,988,683
Equity Mutual Funds	5,435,891
Total Cash and Investments	<u>27,324,152</u>
Less: Amounts in Fiduciary Funds	<u>9,963,245</u>
Total Cash and Cash Equivalents Per Statement of Net Position	<u>\$ 17,360,907</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, 2018, met the Town investment policy as of that date.

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 and the MLGIP. The investments in the Nationwide Fixed Account are participant directed investments of a defined contribution plan.

**TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 CASH AND TEMPORARY INVESTMENTS (CONTINUED)

Investments (Continued)

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, 2018, 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 FAIR VALUE

The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Town's assets with recurring fair value measurements as of June 30, 2018 consist of mutual funds within its fiduciary funds totaling \$3,988,581 of which \$2,251,910 are valued using quoted market prices (Level 1 inputs) and \$1,736,671 are funds maintained and valued by an insurance company (Level 2 inputs).

NOTE 4 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:

	Governmental Activities	Business-Type Activities				Total
		Major Facility	Water	Sewer	Total	
Taxes	\$ 697,398	\$ -	\$ -	\$ -	\$ -	\$ 697,398
Accounts	279,964	16,263	634,400	967,569	1,618,232	1,898,196
Interest	4,511	-	-	-	-	4,511
Allowance for Uncollectibles	(425,675)	-	-	-	-	(425,675)
Net Receivables	<u>\$ 556,198</u>	<u>\$ 16,263</u>	<u>\$ 634,400</u>	<u>\$ 967,569</u>	<u>\$ 1,618,232</u>	<u>\$ 2,174,430</u>

**TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 4 RECEIVABLES (CONTINUED)

Summary of Receivables

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 of resources for the general fund at June 30, 2018 consisted solely of items deemed unavailable, and is summarized as follows:

Business/Corporate Property Taxes	\$ 178,698
Real Property Taxes	54,343
Traders Taxes	11,205
Income Taxes	267,533
Total	\$ 511,779

NOTE 5 DUE FROM OTHER GOVERNMENTS

The June 30, 2018 balance due from other governments is as follows:

	Governmental Activities
State of Maryland	
Income Tax Reserve	\$ 354,714
Highway User Tax	22,979
Admission and Amusement Tax	5,047
Hotel/Motel Tax	40,281
Total	\$ 423,021

NOTE 6 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Due to/from other funds consisted of the following:

Receivable Fund:	Payable Fund			Total
	General	Sewer	Major Facility	
General	\$ -	\$ 140,837	\$ 22,854	\$ 163,691
Water	185,113	275,080	185,014	645,207
Major Facility	-	1,748,150	-	1,748,150
Total	\$ 185,113	\$ 2,164,067	\$ 207,868	\$ 2,557,048

**TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)

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:

<u>Transfers In</u>	<u>Transfers Out</u>
	<u>Major Facility</u>
Water Fund	\$ 443,563
Sewer Fund	381,836
Total	\$ 825,399

The transfers to the Water and Sewer Funds from the Major Facility Fund were made for capital asset purposes.

NOTE 7 CAPITAL ASSETS

Capital asset activity during the year ended June 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers and Deletions</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES				
Capital Assets, Not Being Depreciated:				
Land	\$ 2,657,313	\$ 74,098	\$ -	\$ 2,731,411
Construction in Progress	190,538	51,879	-	242,417
Total Capital Assets, Not Being Depreciated	2,847,851	125,977	-	2,973,828
Capital Assets Being Depreciated:				
Buildings	6,625,608	62,217	-	6,687,825
Improvements Other Than Buildings	14,950,144	9,000	-	14,959,144
Equipment	5,129,874	116,756	(50,729)	5,195,901
Total Capital Assets, Being Depreciated	26,705,626	187,973	(50,729)	26,842,870
Less Accumulated Depreciation for:				
Buildings	3,155,085	181,299	-	3,336,383
Improvements Other Than Buildings	12,938,856	309,186	-	13,248,043
Equipment	3,941,092	304,654	(50,729)	4,195,018
Total Accumulated Depreciation	20,035,033	795,139	(50,729)	20,779,444
Net Capital Assets Being Depreciated	6,670,593	(607,166)	-	6,063,426
Net Governmental Activities				
Capital Assets	\$ 9,518,444	\$ (481,189)	\$ -	\$ 9,037,254

**TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Transfers and Deletions	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land - Water	\$ 317,605	\$ -	\$ -	\$ 317,605
Land - Sewer	596,665	-	-	596,665
Construction in Progress - Water	668,564	9,976	-	678,540
Construction in Progress - Sewer	154,485	32,786	-	187,271
Total Capital Assets Not Being Depreciated	<u>1,737,319</u>	<u>42,762</u>	<u>-</u>	<u>1,780,081</u>
Capital Assets Being Depreciated:				
Plants, Mains and Improvements - Water	13,045,684	496,685	-	13,542,368
Plants, Mains and Improvements - Sewer	67,065,348	183,750	-	67,249,098
Equipment - Water	1,423,283	4,621	-	1,427,904
Equipment - Sewer	2,034,708	428,978	-	2,463,686
Total Capital Assets Being Depreciated	<u>83,569,023</u>	<u>1,114,034</u>	<u>-</u>	<u>84,683,056</u>
Less Accumulated Depreciation:				
Plants, Mains and Improvements - Water	5,003,416	264,624	-	5,268,040
Plants, Mains and Improvements - Sewer	19,451,777	1,360,283	-	20,812,060
Equipment - Water	839,767	67,237	-	907,004
Equipment - Sewer	1,711,379	63,875	-	1,775,254
Total Accumulated Depreciation	<u>27,006,339</u>	<u>1,756,019</u>	<u>-</u>	<u>28,762,358</u>
Net Capital Assets Being Depreciated	<u>56,562,684</u>	<u>(641,985)</u>	<u>-</u>	<u>55,920,698</u>
Net Business-Type Activities Capital Assets	<u>\$ 58,300,003</u>	<u>\$ (599,223)</u>	<u>\$ -</u>	<u>\$ 57,700,779</u>

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

Governmental Activities:

General Government	\$ 155,892
Public Safety	331,537
Public Works	243,237
Parks and Recreation	64,473
Total Governmental Activities	<u>\$ 795,139</u>

Business-Type Activities:

Water Fund	\$ 331,861
Sewer Fund	1,424,158
Total Business-Type Activities	<u>\$ 1,756,019</u>

**TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8 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, 2018:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
GOVERNMENTAL ACTIVITIES					
Loans	\$ 566,268	\$ -	\$ 319,989	\$ 246,279	\$ 246,279
Compensated Absences	427,764	11,776	-	439,540	-
Total Governmental Activities	<u>\$ 994,032</u>	<u>\$ 11,776</u>	<u>\$ 319,989</u>	<u>\$ 685,819</u>	<u>\$ 246,279</u>
BUSINESS-TYPE ACTIVITIES					
Sewer Facility Loan #1	\$ 8,733,907	\$ -	\$ 778,239	\$ 7,955,668	\$ 781,131
Sewer Facility Loan #2	3,063,076	-	318,981	2,744,095	322,171
Subtotal	11,796,983	-	1,097,220	10,699,763	1,103,302
Compensated Absences	73,807	2,187	-	75,994	22,798
Total Business-Type Activities	<u>\$ 11,870,790</u>	<u>\$ 2,187</u>	<u>\$ 1,097,220</u>	<u>\$ 10,775,757</u>	<u>\$ 1,126,100</u>

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>
2019	\$ 246,279	\$ 2,703	\$ 248,982
Total	<u>\$ 246,279</u>	<u>\$ 2,703</u>	<u>\$ 248,982</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, 2018**

NOTE 8 LONG-TERM DEBT (CONTINUED)

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 \$7,955,668 remains outstanding at June 30, 2018. The loan has an interest rate of 0.4%, and a maturity date of February 2028.

Sewer Facility Upgrade - \$15,600,000			
Year Ending June 30,	Principal	Interest	Total
2019	\$ 781,531	\$ 34,936	\$ 816,467
2020	784,477	31,822	816,299
2021	787,615	28,698	816,313
2022	790,765	25,560	816,325
2023	793,928	19,246	813,174
2024-2028	4,017,352	48,340	4,065,692
Total	\$ 7,955,668	\$ 188,602	\$ 8,144,270

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 \$2,732,398 has been repaid. The amount outstanding at June 30, 2018 was \$2,744,095. The loan has an interest rate of 1%, and a maturity date of February 2027.

Sewer Facility Upgrade - \$6,422,000			
Year Ending June 30,	Principal	Interest	Total
2019	\$ 322,171	\$ 27,441	\$ 349,612
2020	325,393	24,219	349,612
2021	328,647	20,965	349,612
2022	331,933	17,679	349,612
2023	335,252	14,360	349,612
2024-2027	1,100,699	23,574	1,124,273
Total	\$ 2,744,095	\$ 128,238	\$ 3,221,946

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, 2018 that amount was \$70,195,435, and the outstanding debt subject to the limit was \$10,946,042, which is 15.6% of the total debt limit.

**TOWN OF ELKTON, MARYLAND
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018**

NOTE 9 FUND BALANCE

Fund balance at June 30, 2018 consisted of the following:

	<u>General Fund</u>
Fund Balances	
Restricted for:	
Highways	\$ 890,845
Public Safety	208,612
Recreation and Culture	166,383
Total Restricted	1,265,840
Committed for:	
Recreation and Culture - Capital Projects	500,000
Assigned for:	
Recreation and Culture	38,603
Future Use of Fund Balance	1,776,740
Total Assigned	1,815,343
Unassigned	1,267,425
Total Fund Balance	\$ 4,848,608

NOTE 10 RETIREMENT AND PENSION PLANS

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>.

**TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 RETIREMENT AND PENSION PLANS (CONTINUED)

State Retirement and Pension Systems of Maryland (Continued)

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.

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.

**TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 RETIREMENT AND PENSION PLANS (CONTINUED)

State Retirement and Pension Systems of Maryland (Continued)

The Town's contractually required contribution rate for the Employees' Retirement and Pension Systems for the year ended June 30, 2018, was 5.03% 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, 2018 of \$5,757.

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

At June 30, 2018, the Town reported a liability of \$54,773 for its proportionate share of the net pension liability of the System. The net pension liability was measured as of June 30, 2017, 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, 2017. The contributions were increased to adjust for differences between actuarial determined contributions and actual contributions by the State of Maryland. As of June 30, 2017, the Town's proportionate share was 0.0002533%.

For the year ended June 30, 2018, the Town recognized pension expense of \$5,757. At June 30, 2018, 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
Changes in Assumptions	\$ 3,057	\$ -
Net Difference Between Expected and Actual Experience	-	3,969
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	7,056	-
Net Difference Between Actual and Proportionate Share of Contributions	1,145	27,987
Town's Contributions Subsequent to Measurement Date	5,156	-
Total	<u>\$ 16,414</u>	<u>\$ 31,956</u>

**TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 RETIREMENT AND PENSION PLANS (CONTINUED)

State Retirement and Pension Systems of Maryland (Continued)

\$5,156 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

For the Years Ending June 30	Amount
2019	\$ (6,572)
2020	(5,504)
2021	(6,017)
2022	(1,653)
2023	(952)

Actuarial assumptions. The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.90% general, 3.2% wage
Salary increases	3.30% to 9.2%, including inflation
Investment rate of return	7.55%

Mortality rates were based on RP-2014 Mortality Table with generational mortality projections using Scale MP-2014, calibrated to the system's experience.

The economic and demographic actuarial assumptions used in the June 30, 2016 valuation were adopted by the System's Board of Trustees based upon review of the System's experience study for the period 2010-2014, after completion of the June 30, 2014 valuations. Assumptions from the experience study including investment return, inflation, COLA increases, and the rates related to mortality, retirement, withdrawal, disability, and salary increase were adopted by the Board for the first use in the actuarial valuation as of June 30, 2015. As a result, an investment return assumption of 7.55% and an inflation assumption of 2.70% were used for the June 30, 2016 valuation.

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, 2018**

NOTE 10 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	36%	5.30 %
Private Equity	11%	7.00
Rate Sensitive	21%	1.20
Credit Opportunity	9%	3.60
Real Assets	15%	5.70
Absolute Return	8%	3.10
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, 2016.

For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of the pension plan expense was 1.10%. 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 7.50%. This single discount rate was based on the expected rate of return on pension plan investments of 7.50%. 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 7.50%, 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 (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Town's Proportionate Share of the Net Pension Liability	<u>\$ 77,624</u>	<u>\$ 54,773</u>	<u>\$ 35,813</u>

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, 2018**

NOTE 10 RETIREMENT AND PENSION PLANS (CONTINUED)

Town 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, 2018, 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, 2018, actual contributions by the Town were \$222,395. TEDCP does not issue separate audited financial statements, as such, the Net Position as of June 30, 2018, and the changes in Net Position for the year ending June 30, 2018, 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, 2018 is as follows:

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

ASSETS

Cash Equivalents	\$ 82,147
Equity Mutual Funds	1,573,859
Fixed Income Mutual Funds	1,862,337
Total Investments	3,518,343

NET POSITION

Held in Trust for Pension Benefits	\$ 3,518,343
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**Statement of Changes in Plan Net Position
Town of Elkton, Defined Contribution Plan**

ADDITIONS

Employer Contributions	\$ 222,395
Investment Gains	256,365
Total Additions	478,760

DEDUCTIONS

Benefit Payments and Administrative Expense	38,709
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CHANGE IN NET POSITION

	440,051
Net Position - Beginning of Year	3,078,292

NET POSITION - END OF YEAR

	\$ 3,518,343
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**TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 RETIREMENT AND PENSION PLANS (CONTINUED)

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, 2018, there were thirty-eight (38) plan members from the Town. Plan members are required to contribute 8% of their base salary. For the fiscal year ended June 30, 2018, actual contributions by the plan members were \$185,123. Plan provisions are established, amended, and administered by the Mayor and Commissioners of the Town. During 2018, the Town was required to contribute an actuarially determined amount of \$348,234. For the fiscal year ended June 30, 2018, actual contributions by the Town were \$348,234. TEPPP does not issue separate audited financial statements, and as such, the net position as of June 30, 2018, and the changes in net position for the year ending June 30, 2018, 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, 2017. The membership data related to the Plan was as follows:

Retirees and beneficiaries currently receiving benefits	2
Terminated plan members entitled to, but not yet receiving benefits	-
Active plan members	36
Total	38

**TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 RETIREMENT AND PENSION PLANS (CONTINUED)

Town Defined Benefit Plan (Continued)

The condensed financial statement as of and for the year ended June 30, 2018 are as follows:

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

ASSETS

Cash Equivalents	\$ 456,524
Investments	5,988,378
Total Assets	\$ 6,444,902

NET POSITION

Held in Trust for Pension Benefits	\$ 6,444,902
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Statement of Changes and Plan Net Position

ADDITIONS

Employer Contributions	\$ 333,056
Employee Contributions	200,301
Miscellaneous Cash Receipts	9,774
Investment Gains	489,233
Total Additions	1,032,364

DEDUCTIONS

Benefit Payments	237,182
Administrative Fees	15,204
Total Deductions	252,386

CHANGE IN NET POSITION

	779,978
Net Position - Beginning of Year	5,664,924

NET POSITION - END OF YEAR

	\$ 6,444,902
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**TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 RETIREMENT AND PENSION PLANS (CONTINUED)

Town Defined Benefit Plan (Continued)

Pension Plan Administration

The Mayor and Commissioners of the Town 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. The money-weighted rate of return was 1.5% for the year ended June 30, 2018.

Asset Allocation Policy			
Asset Class	Range	Target	Benchmark
Equities	50-70%	60 %	Weighted Avg. of Target
Fixed Income	30-60%	40	Barclays U.S. Aggregate Index
Cash and Cash Equivalent	0-20%	N/A	Citigroup 3-month T-bill
Equity Sub-Class	Range	Target	Benchmark
Large-Cap Equity	50-75%	63 %	S&P 500 Index
Mid-Cap	5-25%	15	S&P 400 Mid cap

The net pension liability of the trust as of June 30, 2018 was for measurement date June 30, 2018. It was as follows:

Net Pension Liability	\$ 8,998,646
Plan Fiduciary Net Position	(6,444,901)
Net Pension Liability	\$ 2,553,745

Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.62%
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**TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 RETIREMENT AND PENSION PLANS (CONTINUED)

Town Defined Benefit Plan (Continued)

Method and assumptions used to determine net pension liability were as follows:

Valuation Date	July 1, 2017*
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	7.00%, net of pension plan investment expense, including inflation
Projected Salary Increases	5.0%, including inflation
Cost of Living Adjustments	None assumed
Mortality Rate	RP-2014 Healthy tables with Blue Collar adjustments and generational projection by RP-2015

*The total pension liability is based on the July 1, 2017 actuarial valuation rolled forward to June 30, 2018.

For the year ended June 30, 2018, the Town recognized pension expense of \$348,234.

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 7.00%. 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, 2018**

NOTE 10 RETIREMENT AND PENSION PLANS (CONTINUED)

Town Defined Benefit Plan (Continued)

Town of Elkton Police Pension Plan

Total Pension Liability

Service Cost	\$	342,666
Interest		619,207
Difference Between Expected and Actual Experience		(690,441)
Changes in Assumptions		-
Changes in Benefit Terms		(237,182)
Benefit Payments, Including Refunds		-
Net Change in Total Pension Liability		34,250
Total Pension Liability - Beginning of Year		8,964,396
Total Pension Liability - End of Year	\$	8,998,646

Plan Fiduciary Net Position

Contributions - Employer	\$	348,234
Contributions - Member		185,123
Net Investment Income		489,232
Benefit Payments, Including Refunds		(237,182)
Administrative Expense		(5,440)
Net Change in Plan Fiduciary Net Position		779,967
Plan Fiduciary Net Position - Beginning of Year		5,664,924
Plan Fiduciary Net Position - End of Year	\$	6,444,891

Net Pension Liability - End of Year	\$	2,553,755
Plan Fiduciary Net Position as a Percentage of Total Pension Liability		71.62%
Covered Employee Payroll	\$	2,571,000
Net Pension Liability as a Percentage of Covered Payroll		99.33%

The following presents the net pension liability of the Town, calculated using the discount rate of 7.00%, 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 6.00%	Current Discount Range 7.00%	1% Increase 8.00%
Net Pension Liability	\$ 3,876,577	\$ 2,553,745	\$ 1,470,840

**TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 RETIREMENT AND PENSION PLANS (CONTINUED)

Town Defined Benefit Plan (Continued)

At June 30, 2018, 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>
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	\$ -	\$ 55,565
Change of Assumptions	262,287	-
Net Difference Between Expected and Actual Experience	-	1,161,141
Total	<u>\$ 262,287</u>	<u>\$ 1,216,706</u>

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

<u>Year Ended June 30:</u>	<u>Amount</u>
2019	\$ (73,601)
2020	(129,725)
2021	(188,086)
2022	(133,953)
2023	(117,450)
Thereafter	(311,604)

NOTE 11 POSTEMPLOYMENT HEALTH CARE BENEFITS

General Information about the OPEB Plan

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.

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.

**TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 POSTEMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

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.

Employees covered by benefit terms. At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	-
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	93
	93
	93

Funding policy. The plan benefits are financed on a pay-as-you-go basis.

Net OPEB Liability

The City’s net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	5.7 percent	
Salary increases	Not applicable, fixed rate subsidy	
Investment rate of return	None, this is not a funded plan	
Discount rate	3.58 percent	
Healthcare cost trend rates	6.1 percent for 2018, decreasing over time to 5.7 percent in 2030	

The State of Maryland’s retirement and turnover assumptions, reduced by one-third, were used for general employees.

Mortality rates were based on the RP2014 MP 2014 fully generational tables.

The Plan is on a pay-go basis and does not accumulate assets to offset future costs. There is no investment return assumption.

**TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 POSTEMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

Discount rate. The discount rate used to measure the total OPEB liability was 3.58%. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at 6/30/2016 Measurement Date			
Changes for the Year:	\$ 1,042,052	\$ -	\$ 1,042,052
Service Cost	67,394	-	67,394
Interest	29,698	-	29,698
Differences Between Expected and Actual Experience	-	-	-
Contributions - Employer	-	-	-
Change in assumptions	(88,578)	-	(88,578)
Benefit Payments	-	-	-
Administrative Expense	-	-	-
Net Changes	<u>8,514</u>	<u>-</u>	<u>8,514</u>
Balances at 6/30/17 Measurement Date	<u>\$ 1,050,566</u>	<u>\$ -</u>	<u>\$ 1,050,566</u>

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58%) or 1-percentage point higher (4.58%) than the current discount rate:

	1% Decrease 2.58%	Discount Rate 3.58%	1% Increase 4.58%
Net OPEB Liability (Asset)	\$ 1,188,962	\$ 1,050,566	\$ 930,076

**TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 POSTEMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.2% decreasing to 4.7%) or 1-percentage-point higher (7.2% decreasing to 6.7%) than the current healthcare cost trend rates:

	1% Decrease (5.2% decreasing to 4.7%)	Healthcare Cost Trend Rates (6.2% decreasing to 5.7%)	1% Increase (7.2% decreasing to 6.7%)
Net OPEB Liability (Asset)	\$ 936,528	\$ 1,050,566	\$ 1,188,505

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

For the year ended June 30, 2018, the City recognized OPEB expense of \$89,710. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ -	\$ -
Changes of Assumptions	-	81,196
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	-	-
Total	<u>\$ -</u>	<u>\$ 81,196</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended June 30:</u>	<u>Amount</u>
2019	\$ (7,382)
2020	(7,382)
2021	(7,382)
2022	(7,382)
2023	(7,382)
Thereafter	(44,286)

**TOWN OF ELKTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 12 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.

Restatement

During the year ended June 30, 2018, the Town adopted GASB Statement No. 75. Under GASB 75, the Net OPEB Liability and the Plan Fiduciary Net Position is established based upon the actuarial valuation. The effect of the change has resulted in a restatement of Net Position as of June 30, 2017, as follows:

	Governmental Activities	Business-Type Activities	Proprietary Funds	
			Water	Sewer
Net position at June 30, 2017 as originally stated	\$ 9,875,095	\$ 60,875,084	\$ 13,435,838	\$ 42,844,205
Cumulative effect of application of GASB 75	(233,704)	(46,400)	(22,917)	(24,483)
Net position at June 30, 2017, as restated	<u>\$ 9,641,391</u>	<u>\$ 60,828,684</u>	<u>\$ 13,412,921</u>	<u>\$ 42,819,722</u>

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REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF ELKTON, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE – BUDGET AND ACTUAL – GENERAL FUND
(NONGAAP – BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes and Utility Fees	\$ 10,420,415	\$ 10,420,415	\$ 10,044,796	\$ (375,619)
Licenses and Permits	314,375	314,375	347,040	32,665
Intergovernmental	586,169	654,241	675,797	21,556
Charges for Services	878,009	902,121	827,495	(74,626)
Fines and Forfeitures	15,000	15,000	22,274	7,274
Miscellaneous	35,630	35,630	235,239	199,609
Long Term Debt Proceeds	-	-	-	-
Total Revenues	<u>12,249,598</u>	<u>12,341,782</u>	<u>12,152,641</u>	<u>(189,141)</u>
EXPENDITURES				
Current:				
General Government	1,533,919	1,709,521	1,566,212	143,309
Public Safety	6,362,514	6,392,596	6,222,629	169,967
Public Works	4,110,971	4,451,081	3,902,586	548,495
Recreation and Culture	417,621	435,621	416,677	18,944
Debt Service	381,070	381,070	329,395	51,675
Total Expenditures	<u>12,806,095</u>	<u>13,369,889</u>	<u>12,437,499</u>	<u>932,390</u>
NET CHANGE IN FUND BALANCE	<u>\$ (556,497)</u>	<u>\$ (1,028,107)</u>	(284,858)	<u>\$ 743,249</u>
Fund Balances - Beginning of Year			<u>4,669,738</u>	
FUND BALANCES - END OF YEAR			<u>\$ 4,384,880</u>	

**TOWN OF ELKTON, MARYLAND
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF CHANGES IN NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY
AND RELATED RATIOS
JUNE 30, 2018**

	2017	2016
Total OPEB Liability		
Service Cost	\$ 67,394	\$ -
Interest	29,698	-
Changes of Benefit Terms	-	-
Differences Between Expected and Actual Experience	-	-
Changes of Assumptions	(88,578)	-
Benefit Payments	-	-
Net Change in Total OPEB Liability	8,514	-
Total OPEB Liability - Beginning	1,042,052	-
Total OPEB Liability - Ending (a)	\$ 1,050,566	\$ 1,042,052
Plan Fiduciary Net Position		
Contributions - Employer	\$ -	\$ -
Net Investment Income	-	-
Benefit Payments	-	-
Administrative Expense	-	-
Net Change in Plan Fiduciary Net Position	-	-
Total Fiduciary Net Position - Beginning	-	-
Total Fiduciary Net Position - Ending (b)	\$ -	\$ -
City's Net OPEB Liability - Ending (a) - (b)	\$ 1,050,566	\$ 1,042,052
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.0%	0.0%
Covered-Employee Payroll	\$ 5,328,915	\$ 5,277,579
City's Net OPEB Liability as a Percentage of Covered-Employee Payroll	19.7%	19.7%

Note: This schedule is to provide 10 years of information. Additional years information will be added as it becomes available.

**TOWN OF ELKTON, MARYLAND
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF TOWN CONTRIBUTIONS - OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Actuarially Determined Contribution	\$ 102,000	\$ 101,320	\$ 95,320	\$ 96,000	\$ 90,000	\$ 85,000
Contributions in Relation to the Actuarially Determined Contribution	-	2,160	2,160	2,160	2,160	2,160
Contribution Deficiency (Excess)	<u>\$ (102,000)</u>	<u>\$ (99,160)</u>	<u>\$ (93,160)</u>	<u>\$ (93,840)</u>	<u>\$ (87,840)</u>	<u>\$ (82,840)</u>
Covered-Employee Payroll	\$ 5,328,915	\$ 5,328,915	\$ 5,277,579	\$ 5,543,022	\$ 5,409,450	\$ 5,647,544
Contributions as a Percentage of Covered-Employee Payroll	0.0000%	0.0405%	0.0409%	0.0390%	0.0399%	0.0382%

* Schedules are intended to provide information for 10 years. Additional years will be included as they become available.

Notes to Schedule

Valuation date:

Actuarially determined contribution amounts are calculated as of the beginning of the fiscal year (July 1)
Actuarial valuations 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 period of 30 years as a level percentage of payroll.
Asset valuation method	None, no assets are being accumulated
Inflation	2.5%
Healthcare cost trend rate	6.1% initially trending to an ultimate rate of 4.2%
Investment rate of return	3.5%, net of administrative expenses
Retirement age	The earlier of 25 years of service or age 60 with ten years of service
Benefit Period	15 years

TOWN OF ELKTON, MARYLAND
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
JUNE 30, 2018

	2018	2017	2016	2015	2014
Town of Elkton Police Pension Plan					
Total Pension Liability					
Service Cost	\$ 343	\$ 341	\$ 331	\$ 362	\$ 349
Interest	619	566	540	520	462
Difference Between Expected and Actual Experience	(690)	-	(782)	-	-
Changes in Assumptions	-	-	374	-	-
Benefit Payments, Including Refunds	(237)	(56)	(119)	(90)	-
Net Change in Total Pension Liability	<u>35</u>	<u>851</u>	<u>344</u>	<u>792</u>	<u>811</u>
Total Pension Liability - Beginning of Year	<u>8,964</u>	<u>8,113</u>	<u>7,769</u>	<u>6,977</u>	<u>6,166</u>
Total Pension Liability - End of Year	<u>\$ 8,999</u>	<u>\$ 8,964</u>	<u>\$ 8,113</u>	<u>\$ 7,769</u>	<u>\$ 6,977</u>
Plan Fiduciary Net Position					
Contributions - Employer	\$ 348	\$ 389	\$ 371	\$ 361	\$ 355
Contributions - Member	200	194	189	182	193
Net Investment Income	489	607	11	10	148
Benefit Payments, Including Refunds	(237)	(56)	(119)	(90)	-
Administrative Expense	(20)	(19)	(7)	(7)	-
Net Change in Plan Fiduciary Net Position	<u>780</u>	<u>1,115</u>	<u>445</u>	<u>456</u>	<u>696</u>
Plan Fiduciary Net Position - Beginning of Year	<u>5,665</u>	<u>4,550</u>	<u>4,105</u>	<u>3,649</u>	<u>2,953</u>
Plan Fiduciary Net Position - End of Year	<u>\$ 6,445</u>	<u>\$ 5,665</u>	<u>\$ 4,550</u>	<u>\$ 4,105</u>	<u>\$ 3,649</u>
Net Pension Liability - End of Year	\$ 2,554	\$ 3,299	\$ 3,563	\$ 3,664	\$ 3,328
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	71.62%	63.20%	56.08%	52.84%	52.30%
Covered Employee Payroll	\$ 2,571	\$ 2,420	\$ 2,335	\$ 2,270	\$ 2,409
Net Pension Liability as a Percentage of Covered Payroll	99.34%	136.32%	152.59%	161.41%	138.15%
Expected average remaining service years of all participants	9	10	10	10	10

Note: Amounts in this schedule are shown in thousands. The schedule is intended to provide information for 10 years. Additional years will be included as they become available.

**TOWN OF ELKTON, MARYLAND
SCHEDULE OF EMPLOYER CONTRIBUTIONS AND
MONEY-WEIGHTED RATE OF RETURN
JUNE 30, 2018**

	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 348	\$ 389	\$ 371	\$ 361	\$ 355
Contributions in relation to the actuarially determined contribution	348	389	371	361	355
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee payroll	\$ 2,571	\$ 2,420	\$ 2,335	\$ 2,270	\$ 2,409
Contributions as a percentage of covered employee payroll	13.54 %	16.08 %	15.87 %	15.89 %	14.73 %
Rate of Return	8.08 %	11.88 %	1.50 %	1.32 %	1.50 %

* Schedules are intended to provide information for 10 years. Additional years will be included as they become available.

Notes to Schedule

Amounts in this schedule are shown in thousands.

Valuation date:

Actuarially determined contribution amounts are calculated as of the beginning of the fiscal year (July 1)

Actuarial valuations 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 period of 20 years as a level percentage of payroll.
Asset valuation method	Market value
Inflation	3.0%
Salary increases	5.0%, including inflation
Investment rate of return	7.0%, 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-2014 Blue Collar mortality using generational by Scale MP2015.

TOWN OF ELKTON, MARYLAND
SCHEDULE OF EMPLOYER CONTRIBUTIONS AND PROPORTIONATE SHARE OF NET PENSION LIABILITY
JUNE 30, 2018

MARYLAND STATE RETIREMENT AND PENSION SYSTEM
SCHEDULE OF TOWN CONTRIBUTIONS
LAST TEN FISCAL YEARS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 5,757	\$ 5,156	\$ 5,291	\$ 6,354	\$ 13,048	\$ 10,257	\$ 13,549	\$ 13,347	\$ 7,262	\$ 9,051
Contributions in relation to the contractually required contribution	5,757	(5,156)	(5,291)	(6,354)	(13,048)	(10,257)	(13,549)	(13,347)	(7,262)	(9,051)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Town's covered-employee payroll	\$ 105,829	\$ 105,829	\$ 105,829	\$ 105,829	\$ 167,372	\$ 196,825	\$ 191,442	\$ 185,866	\$ 181,997	\$ 188,364
Contributions as a percentage of covered-employee payroll	5%	5%	5%	6%	8%	5%	7%	7%	4%	5%

SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	2018	2017	2016	2015
Town's Proportion of the Net Pension Liability	0.0002533%	0.0002716%	0.0003015%	0.0005475%
Town's Proportionate Share of the Net Pension Liability	\$ 54,773	\$ 64,081	\$ 62,657	\$ 97,158
Town's Covered Employee Payroll	105,829	105,829	105,829	105,829
Town's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	51.76 %	60.60 %	59.20 %	91.80 %
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.71 %	66.26 %	66.26 %	73.65 %

**TOWN OF ELKTON, MARYLAND
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

NOTE 1 CHANGES IN BENEFIT TERMS

There were no benefit changes during the year.

NOTE 2 CHANGES IN ASSUMPTIONS

Adjustments to the roll-forward liabilities were made to reflect the following assumptions in the 2015 valuation:

Investment return assumption	Decreased from 7.65% to 7.55%
Inflation assumption	Decreased from 2.90% to 2.70%

NOTE 3 METHODS AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	23 Years for State System
Asset Valuation Method	5-Year Smoothed Market; 20% Collar
Inflation	2.70% General, 3.2% Wage
Salary Increases	7.55%
Retirement Age	Experienced based table of rates that are specific to the type of eligibility condition. Last updated for 2015 valuation pursuant to the 2015 Experience Study for the period July 1, 2010 to June 30, 2014.
Mortality	RP-2014 Mortality Table with generational mortality projections using Scale MP-2014, calibrated to the system experience.

TOWN OF ELKTON, MARYLAND
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION –
GENERAL FUND BUDGET
JUNE 30, 2018

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, 2018. 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, 2018, supplemental appropriations that increased the budget for revenues by \$92,184 and the expenditures by \$563,794 for a net increase in use of fund balance of \$471,610.

**TOWN OF ELKTON, MARYLAND
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION –
GENERAL FUND BUDGET
JUNE 30, 2018**

NOTE 2 LEGAL LEVEL OF BUDGETARY CONTROL

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

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	\$ 12,152,641	\$ 12,437,499	\$ 4,848,609
Internal Loan Balance Repayments			
FY 2006 and Prior	-	-	(463,729)
Budgetary Basis	\$ 12,152,641	\$ 12,437,499	\$ 4,384,880

OTHER SUPPLEMENTAL INFORMATION

TOWN OF ELKTON, MARYLAND
DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
(NONGAAP BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
REVENUES				
Taxes and Utility Fees				
Property:				
Real Property	\$ 7,104,142	\$ 7,104,142	\$ 7,347,368	\$ 243,226
Traders	7,085	7,085	10,196	3,111
Railroads and Public Utilities	207,117	207,117	214,086	6,969
Ordinary Business Corporation	1,096,086	1,096,086	980,441	(115,645)
Payments in Lieu of Taxes	20,000	20,000	32,956	12,956
Penalties and Interest	36,000	36,000	38,758	2,758
Less:				
Abatements and Collection Fees	(89,445)	(89,445)	(288,903)	(199,458)
Volunteer Fire Co. Rebates	(2,200)	(2,200)	(1,500)	700
Enterprise Zone Credits	(14,797)	(14,797)	(7,798)	6,999
Total Property and Real Taxes	<u>8,363,988</u>	<u>8,363,988</u>	<u>8,325,604</u>	<u>(38,384)</u>
Other:				
Local Income Tax	1,225,000	1,225,000	957,736	(267,264)
Hotel/Motel Taxes	410,000	410,000	357,259	(52,741)
Highway Gas Tax	384,427	384,427	383,055	(1,372)
Admission and Amusement	37,000	37,000	21,142	(15,858)
Total Other Taxes	<u>2,056,427</u>	<u>2,056,427</u>	<u>1,719,192</u>	<u>(337,235)</u>
Total Taxes and Utility Fees	<u>10,420,415</u>	<u>10,420,415</u>	<u>10,044,796</u>	<u>(375,619)</u>
Licenses and Permits				
Traders	40,000	40,000	37,455	(2,545)
Occupational	375	375	350	(25)
Building	55,000	55,000	91,773	36,773
Cable Television	219,000	219,000	217,462	(1,538)
Total License and Permits	<u>314,375</u>	<u>314,375</u>	<u>347,040</u>	<u>32,665</u>
Intergovernmental Revenues				
Federal:				
Grant - LGIT	-	-	7,742	7,742
Grant - Community Legacy Program	-	62,102	62,102	-
Grant - GOCOP and COCPP	-	-	-	-
GRANT - FEMA	-	-	-	-
Total Federal	<u>-</u>	<u>62,102</u>	<u>69,844</u>	<u>7,742</u>
State:				
Grant - State Police Aid	256,610	256,610	278,085	21,475
Total State	<u>256,610</u>	<u>256,610</u>	<u>278,085</u>	<u>21,475</u>

TOWN OF ELKTON, MARYLAND
DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
(NONGAAP BUDGETARY BASIS) (CONTINUED)
YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual Amounts	Final Budget Positive (Negative)
	Original	Final		
REVENUES (Continued)				
Intergovernmental Revenues (Continued)				
Local:				
County Tax Differential	\$ 313,615	\$ 313,615	\$ 313,616	\$ 1
Tobacco Grant	-	-	336	336
Other	15,944	21,914	13,916	(7,998)
Total Local	<u>329,559</u>	<u>335,529</u>	<u>327,868</u>	<u>(7,661)</u>
Total Intergovernmental Revenue	<u>586,169</u>	<u>654,241</u>	<u>675,797</u>	<u>21,556</u>
Charges for Services				
General Government:				
Farmers Market User Fee	500	500	120	(380)
Total General Government	<u>500</u>	<u>500</u>	<u>15,527</u>	<u>15,027</u>
Public Safety:				
Special Police Services	8,300	32,412	31,617	(795)
Highway and Streets:				
Public Parking Facilities	17,000	17,000	13,433	(3,567)
Sanitation and Waste Removal:				
Solid Waste	579,950	579,950	581,419	1,469
Landfill Rebate	26,759	26,759	26,759	-
Other	15,000	15,000	6,313	(8,687)
Total Sanitation and Waste Removal	<u>621,709</u>	<u>621,709</u>	<u>614,491</u>	<u>(7,218)</u>
Parks and Recreation:				
Building Use Permits	2,500	2,500	152,127	149,627
Programs and Events	228,000	228,000	300	(227,700)
Total Parks and Recreation	<u>230,500</u>	<u>230,500</u>	<u>152,427</u>	<u>(78,073)</u>
Total Charges for Services	<u>878,009</u>	<u>902,121</u>	<u>827,495</u>	<u>(74,626)</u>
Fines and Forfeitures				
Parking Fines	15,000	15,000	22,274	7,274
Miscellaneous Revenue - Other				
Interest	5,630	5,630	90,070	84,440
Rent and Concessions	-	-	1,069	1,069
Other Miscellaneous Revenues	30,000	30,000	140,800	110,800
Total Miscellaneous Revenue	<u>35,630</u>	<u>35,630</u>	<u>235,239</u>	<u>199,609</u>
Long Term Debt Proceeds				
	-	-	-	-
Total Revenues	<u>12,249,598</u>	<u>12,341,782</u>	<u>12,152,641</u>	<u>(189,141)</u>

TOWN OF ELKTON, MARYLAND
DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
(NONGAAP BUDGETARY BASIS) (CONTINUED)
YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES				
General Government				
Mayor and Council	\$ 239,890	\$ 249,390	\$ 249,326	\$ 64
Administration	342,246	342,246	319,472	22,774
Finance and Accounting	205,720	205,720	200,513	5,207
Planning and Zoning	300,989	300,989	247,157	53,832
General Services	269,136	373,136	346,925	26,211
Personnel	144,115	144,115	112,318	31,797
Community Promotion	15,250	77,352	73,928	3,424
Public Officers Association	16,573	16,573	16,573	-
Bad Debts	-	-	-	-
Total General Government	<u>1,533,919</u>	<u>1,709,521</u>	<u>1,566,212</u>	<u>143,309</u>
Public Safety				
Police Department:				
Police Patrol	5,066,048	5,090,160	4,986,721	103,439
Support Services	672,651	672,651	652,541	20,110
Total Police Department	<u>5,738,699</u>	<u>5,762,811</u>	<u>5,639,262</u>	<u>123,549</u>
Other Public Safety				
Volunteer Fire Department	133,993	139,963	138,573	1,390
Building Inspection	489,822	489,822	444,794	45,028
Total Other Public Safety	<u>623,815</u>	<u>629,785</u>	<u>583,367</u>	<u>46,418</u>
Total Public Safety	<u>6,362,514</u>	<u>6,392,596</u>	<u>6,222,629</u>	<u>169,967</u>
Public Works				
Sanitation and Waste Removal:				
Maintenance	3,121,271	3,421,381	2,875,559	545,822
Waste Collection and Disposal	981,500	1,021,500	1,018,867	2,633
Mosquito and Weed Control	8,200	8,200	8,160	40
Total Public Works	<u>4,110,971</u>	<u>4,451,081</u>	<u>3,902,586</u>	<u>548,495</u>
Recreation and Culture				
Parks and Recreation	417,621	435,621	416,677	18,944
Debt Service				
Principal	364,727	364,727	319,989	44,738
Interest	16,343	16,343	9,406	6,937
Total Debt Service	<u>381,070</u>	<u>381,070</u>	<u>329,395</u>	<u>51,675</u>
Total Expenditures	<u>12,806,095</u>	<u>13,369,889</u>	<u>12,437,499</u>	<u>932,390</u>
Excess Revenues over Expenditures	<u>\$ (556,497)</u>	<u>\$ (1,028,107)</u>	<u>\$ (284,858)</u>	<u>\$ 743,249</u>

**TOWN OF ELKTON, MARYLAND
 COMBINING STATEMENT OF FIDUCIARY NET POSITION –
 TRUST FUNDS
 YEAR ENDED JUNE 30, 2018**

	<u>Defined Contribution Plan</u>	<u>Police Pension Plan</u>	<u>Total Pension Trusts</u>
ASSETS			
Money Market Funds	\$ 82,147	\$ 456,524	\$ 538,671
Investments			
Equity Mutual Funds	1,573,859	3,862,032	5,435,891
Fixed Income Mutual Funds	1,862,337	2,126,346	3,988,683
Total Investments	<u>3,436,196</u>	<u>5,988,378</u>	<u>9,424,574</u>
TOTAL ASSETS	<u>\$ 3,518,343</u>	<u>\$ 6,444,902</u>	<u>\$ 9,963,245</u>
NET POSITION			
Held in Trust for Pension Benefits	<u>\$ 3,518,343</u>	<u>\$ 6,444,902</u>	<u>\$ 9,963,245</u>

**TOWN OF ELKTON, MARYLAND
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION –
TRUST FUNDS
YEAR ENDED JUNE 30, 2018**

	Defined Contribution Plan	Police Pension Plan	Total Pension Trusts
ADDITIONS			
Employer Contributions	\$ 222,395	\$ 333,056	\$ 555,451
Employee Contributions	-	200,301	200,301
Miscellaneous Cash Receipts	-	9,774	9,774
Investment Gains	256,365	489,233	745,598
Total Additions	<u>478,760</u>	<u>1,032,364</u>	<u>1,511,124</u>
DEDUCTIONS			
Benefit Payments	38,709	237,182	275,891
Administrative Fees	-	15,204	15,204
Total Deductions	<u>38,709</u>	<u>252,386</u>	<u>291,095</u>
CHANGE IN NET POSITION	440,051	779,978	1,220,029
Net Position - Beginning of Year	<u>3,078,292</u>	<u>5,664,924</u>	<u>8,743,216</u>
NET POSITION - END OF YEAR	<u>\$ 3,518,343</u>	<u>\$ 6,444,902</u>	<u>\$ 9,963,245</u>