



**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2019**

TOWN OF ELKTON, MARYLAND

For Fiscal Year Ended  
June 30, 2019



Prepared by: Town of Elkton Finance Department

Robert J. Alt, Mayor  
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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Commissioners  
Town of Elkton, Maryland  
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, 2019, 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

***Opinion***

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, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison statement of the general fund, the schedule of changes in the net OPEB liability and related ratios, schedule of changes in net pension liability, schedule of employer 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 relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the detailed schedule of budgetary comparison for the general fund and the combining schedules of fiduciary funds is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

To the Honorable Mayor and Commissioners  
Town of Elkton, Maryland

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2019 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 results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Baltimore, Maryland  
December 18, 2019

**TOWN OF ELKTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2019**

## **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, 2019. 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 2019**

The Town's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the 2019 fiscal year by approximately \$67.6 million (total net position). Approximately 87% of this amount is attributable to the Town's utilities (Water and Sewer). Of the total net position, \$10.5 million (unrestricted) may be used to meet ongoing obligations to citizens and creditors, and \$56.1 million is the investment in capital assets.

As of the close of the 2019 fiscal year, the Town's only governmental fund (General Fund) reported an ending fund balance of \$3.8 million. Of this total amount, \$789,000 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 6% of total expenditures and represents funding for less than one month of expenditures.

The General Fund, on a current financial resources basis, reported expenditures in excess of revenues of approximately \$1.1 million.

The Town's total long-term liabilities decreased by approximately \$1.3 million during the current fiscal year, from \$11.5 million to \$10.2 million. This is the result of the retirement of existing debt in the Governmental Activities of \$246,000 and the Business-Type Activity of \$1.1 million, offset by a net increase to 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, 2019**

- 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, 2019**

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.

<b>Fund Financial Statements</b>				
	<b>Government-Wide Statements</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
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"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of revenues, expenses, and changes in net position</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net position</li> <li>• Statement of changes in fiduciary net position</li> </ul>
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, 2019**

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 total assets and deferred outflows of resources and total liabilities and deferred inflows of resources, as one way to measure the Town's financial health or financial position. Over time, increases or decreases in the Town's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other 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, 2019**

**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, 2019 and 2018, respectively:

NET POSITION - JUNE 30, 2019			
	Governmental Activities	Business-type Activities	Total Activities
<b>ASSETS</b>			
Current and Other Assets	\$ 5,274,311	\$ 13,059,636	\$ 18,333,947
Capital Assets	9,405,851	56,269,092	65,674,943
Total Assets	<u>14,680,162</u>	<u>69,328,728</u>	<u>84,008,890</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	244,909	-	244,909
<b>LIABILITIES</b>			
Noncurrent Liabilities	4,127,439	8,763,495	12,890,934
Other Liabilities	619,694	1,959,530	2,579,224
Total Liabilities	<u>4,747,133</u>	<u>10,723,025</u>	<u>15,470,158</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>1,134,121</u>	<u>14,424</u>	<u>1,148,545</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	9,405,851	46,672,851	56,078,702
Restricted	1,103,679	-	1,103,679
Unrestricted	(1,465,713)	11,918,428	10,452,715
Total Net Position	<u>\$ 9,043,817</u>	<u>\$ 58,591,279</u>	<u>\$ 67,635,096</u>

**TOWN OF ELKTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2019**

The Town's assets and deferred outflows exceeded its liabilities and deferred inflows at the close of the 2019 fiscal year by \$67.6 million. Approximately \$56.1 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.

NET POSITION - JUNE 30, 2018

	Governmental Activities	Business-type Activities	Total Activities
<b>ASSETS</b>			
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>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	278,701	-	278,701
<b>LIABILITIES</b>			
Noncurrent Liabilities	4,170,906	10,949,754	15,120,660
Other Liabilities	<u>730,847</u>	<u>1,043,523</u>	<u>1,774,370</u>
Total Liabilities	4,901,753	11,993,277	16,895,030
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>1,316,410</u>	<u>13,448</u>	<u>1,329,858</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	9,037,254	47,001,016	56,038,270
Restricted	1,265,840	-	1,265,840
Unrestricted	<u>(1,114,951)</u>	<u>12,565,117</u>	<u>11,450,166</u>
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, 2019**

**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, 2019 and 2018, respectively.

Changes in Net Position Fiscal Year Ending June 30, 2019			
	Governmental Activities	Business-Type Activities	Total Activities
<b>REVENUES</b>			
<b>Program Revenues</b>			
Charges for Services	\$ 1,912,467	\$ 7,789,007	\$ 9,701,474
Operating Grants and Contributions	508,390	-	508,390
Capital Grants and Contributions	-	91,725	91,725
			-
<b>General Revenues</b>			
Property Taxes	9,159,354	-	9,159,354
State and County Shared Taxes	1,280,464	-	1,280,464
Investments Earnings	234,444	150,593	385,037
Miscellaneous	-	160,797	160,797
Total Revenues	13,095,119	8,192,122	21,287,241
<b>Program Expenses</b>			
General Government	1,726,453	-	1,726,453
Public Safety	6,525,687	-	6,525,687
Public Works	4,498,355	-	4,498,355
Recreation and Culture	454,872	-	454,872
Interest on Long-Term Debt	2,222	-	2,222
Utilities and Other Proprietary Funds	-	9,241,990	9,241,990
Total Expenses	13,207,589	9,241,990	22,449,579
<b>CHANGE IN NET POSITION</b>	(112,470)	(1,049,868)	(1,162,338)
Net Position - Beginning of Year	9,188,143	59,566,133	68,754,276
<b>NET POSITION - END OF YEAR</b>	\$ 9,075,673	\$ 58,516,265	\$ 67,591,938

**TOWN OF ELKTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2019**

Changes in Net Position  
Fiscal Year Ending June 30, 2018

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Activities</u>
<b>REVENUES</b>			
<b>Program Revenues</b>			
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
<b>General Revenues</b>			
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	<u>12,174,100</u>	<u>7,840,548</u>	<u>20,014,648</u>
<b>Program Expenses</b>			
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	<u>12,627,348</u>	<u>9,103,099</u>	<u>21,730,447</u>
<b>CHANGE IN NET POSITION</b>	(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>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 9,188,143</u>	<u>\$ 59,566,133</u>	<u>\$ 68,754,276</u>

The Town's total revenues for the year ended June 30, 2019 were \$21.4 million, an increase of approximately \$1.3 million. The majority of the overall increase, \$653,000, was attributable to an increase in general revenues combined with revenue increases of \$552,000 and \$143,000 in charges for services and operating grants and contributions, respectively.

**Governmental Activities**

General revenues for the governmental activities were \$10.7 million, while total expenses, net of charges for services and grants and contributions, were \$10.8 million.

Total general revenues from governmental activities increased by \$587,000 and total governmental activities net expenses increased by \$278,000. The majority of the overall revenue increase, \$323,000, was due to an increase in state shared income tax, combined with increases of \$144,000 in investment earnings and \$120,000 in total property taxes.

**TOWN OF ELKTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2019**

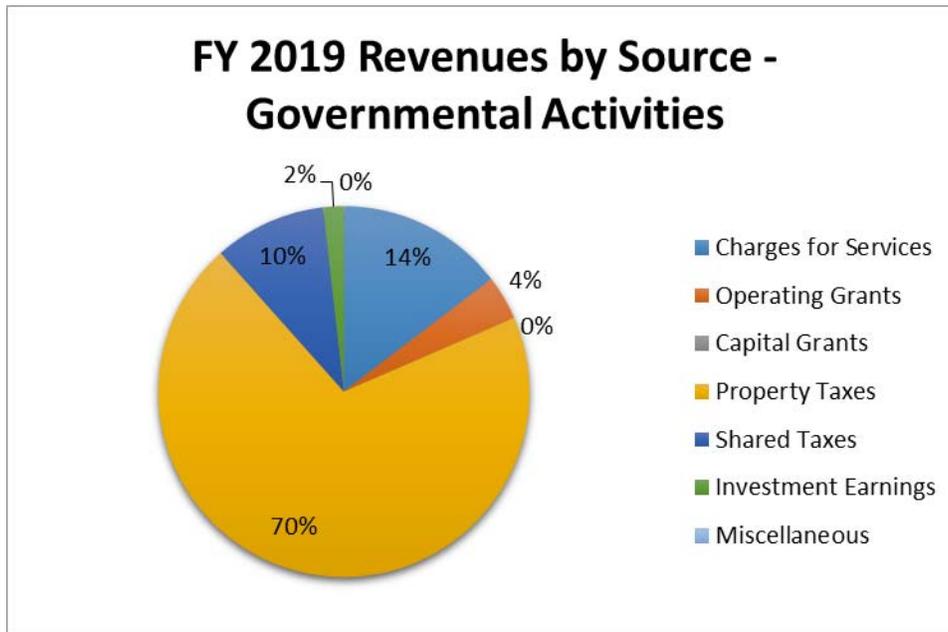
The \$278,000 net expense increase was attributable to program revenue increases of \$334,000 and total expenditure increases of \$612,000. Charges for services increased by \$191,000 while operating grants and contributions increased by \$143,000. Expenditures in Public Works increased by \$404,000 and Public Safety expenditures increased by \$165,000. Expenditures in the General Government collectively increased by \$56,000 while Interest on Long-Term Debt decreased \$7,000 and Recreation and Culture decreased \$6,000.

**Business-Type Activities**

Total revenues for business-type activities increased by \$427,000, while expenses increased by \$139,000. The key element for the increased revenue was an increase in charges for services of \$361,000 combined with an increase in general revenues of \$65,000.

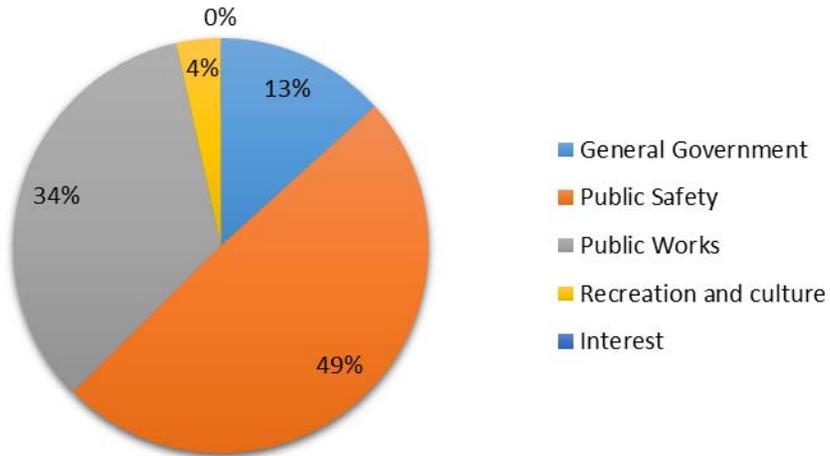
The \$139,000 increase, 1.5%, in expenses was a result of a \$289,000 increase in the water fund, a \$129,000 decrease in the sewer fund, and a \$15,000 decrease in the major facility fund.

The following is a graphical presentation of the Town's revenues and expenses for the years ending June 30, 2019 and 2018.

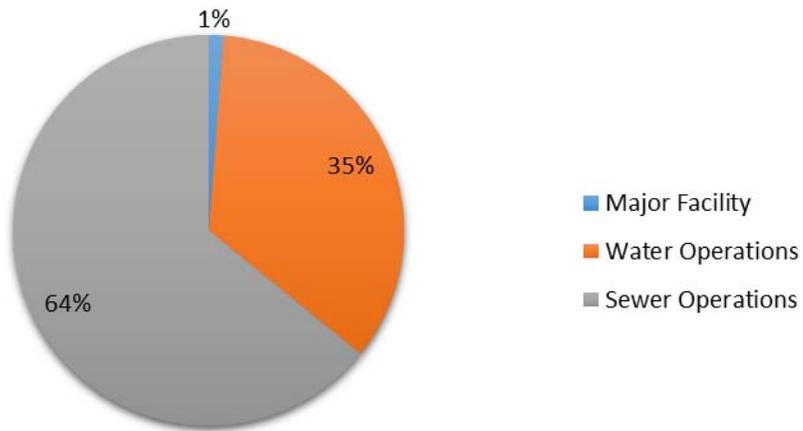


TOWN OF ELKTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2019

**FY 2019 Expenses by Source -  
Governmental Activities**

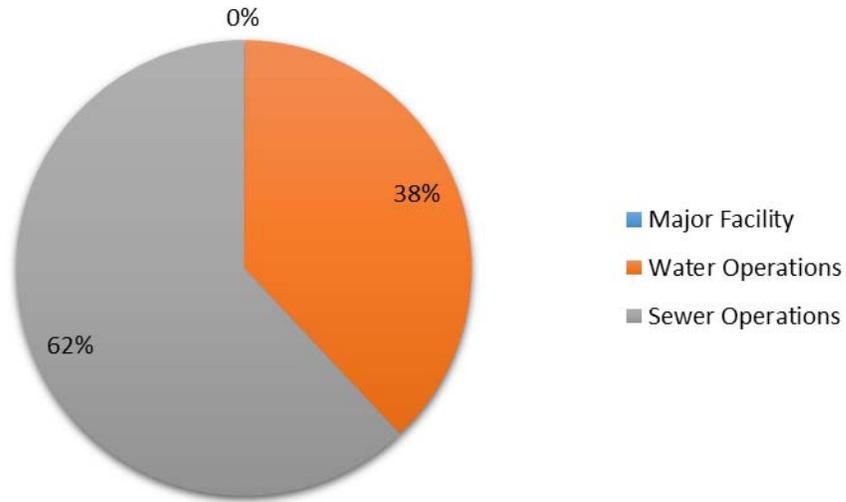


**FY2019 Revenues by Source - Business-  
type Activities**

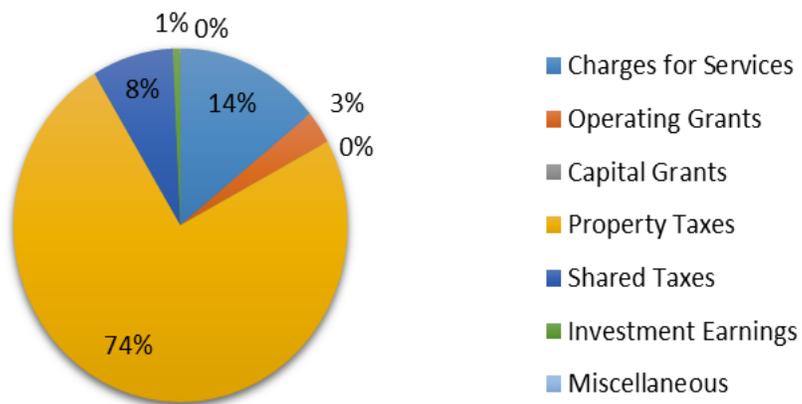


TOWN OF ELKTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2019

**FY 2019 Expenses - Business-type  
Activities**

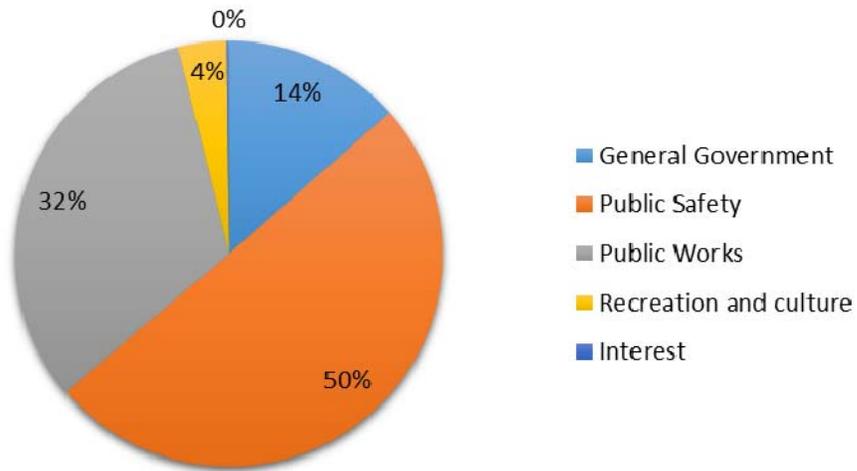


**FY 2018 Revenues by Source -  
Governmental Activities**

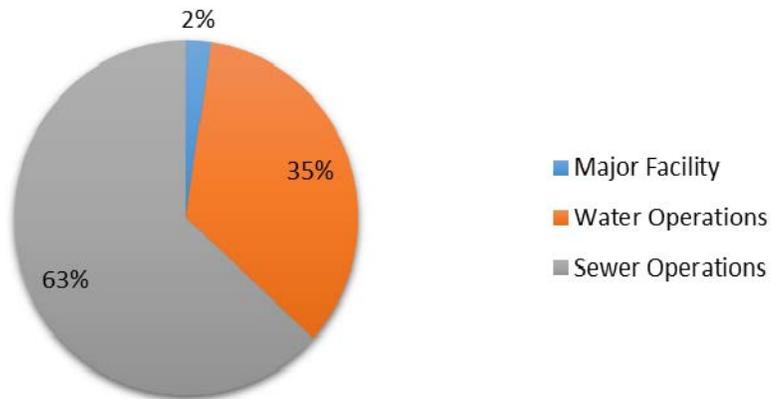


TOWN OF ELKTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2019

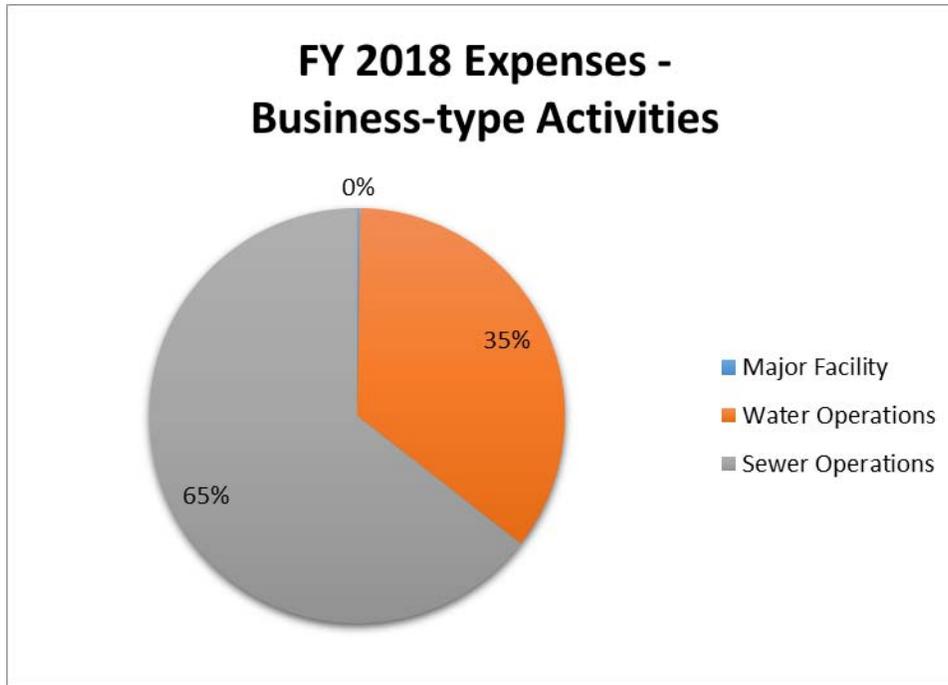
**FY 2018 Expenses by Source -  
Governmental Activities**



**FY2018 Revenues by Source -  
Business-type Activities**



**TOWN OF ELKTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2019**



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, 2019 and 2018, 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, 2019

	<u>Expenses</u>	<u>Revenues</u>	<u>Net Expense (Revenue)</u>
<b>Governmental Activities</b>			
General Government	\$ 1,726,453	\$ 601,023	\$ 1,125,430
Public Safety	6,525,687	545,671	5,980,016
Public Works	4,498,355	1,143,268	3,355,087
Recreation and Culture	454,872	130,895	323,977
Interest on Long-Term Debt	2,222	-	2,222
Total Governmental Activities	<u>13,207,589</u>	<u>2,420,857</u>	<u>10,786,732</u>
<b>Business-type Activities</b>			
Major Facility	4,414	46,875	(42,461)
Water	3,506,770	2,706,911	799,859
Sewer	5,730,806	5,126,946	603,860
Total Business-Type Activities	<u>9,241,990</u>	<u>7,880,732</u>	<u>1,361,258</u>
<b>Total Governmental and Business-Type Activities</b>	<u>\$ 22,449,579</u>	<u>\$ 10,301,589</u>	<u>\$ 12,147,990</u>

**TOWN OF ELKTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2019**

Net Cost of Activities  
Year Ended June 30, 2018

	<u>Expenses</u>	<u>Revenues</u>	<u>Net Expense (Revenue)</u>
<b>Governmental Activities</b>			
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>
<b>Business-type Activities</b>			
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>
<b>Total Governmental and Business-Type Activities</b>	<u>\$ 21,730,447</u>	<u>\$ 9,606,658</u>	<u>\$ 12,123,789</u>

The cost of governmental activities this year was \$13.2 million, a \$612,000, or 4.8%, increase over FY18. Public Works increased by \$404,000, largely the result of a \$163,000 increase in road restorations, \$108,000 increase in salary and fringe benefits, \$102,000 increase in contracted services for waste removal, due to a new contract with the Town's solid waste hauler, and a \$36,000 increase in County landfill fees. Public Safety increased by \$165,000, mainly due to an increase of \$104,000 in salary and fringe benefits, specifically workers compensation for police officers, and \$25,000 in contracted services for wiring to prepare for the voice over internet protocol project and the purchase of two new servers costing \$11,400. General Government increased by \$56,000, attributable to a \$28,000 increase in salary for attorneys in the Administration Department and a \$32,000 increase in the Planning Department for engineering plan review. Recreation and Culture decreased by \$6,000 and Interest on Long-Term Debt decreased by \$7,000. Some of the cost of government activities was paid by those who directly benefited from the programs (\$1.9 million) and other governments and organizations that subsidized certain programs with grants and contributions (\$508,000). Taxpayers paid the remaining net cost of services in the amount of \$10.8 million.

The total cost of business-type activities this year was \$9.2 million, an increase of \$139,000, due to an increase of \$290,000 in the Water Fund, and decreases of \$129,000 in the Sewer Fund, and \$15,000 in the Major Facility Fund. The increase in the Water Fund was the result of increases of \$158,000 in the purchase of water meters as the Town continues to aggressively upgrade its aging water meters, \$134,000 in salary and fringe benefits, primarily due to the reallocation of existing positions to the water meter replacement project, \$62,000 in maintenance of mains, primarily due to the construction costs for the replacement of the Pennsylvania Avenue water line, combined with a decrease of \$55,000 in operations and maintenance for the water treatment and distribution systems. The decrease in the Sewer Fund was primarily the result of a \$224,000 decrease to wastewater treatment plant operation and maintenance fees, the result of no major repair projects performed in FY 2019. There was an increase of \$78,000 in salary and fringe benefits.

**TOWN OF ELKTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2019**

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 \$800,000. In the Sewer Fund, expenses exceeded charges for services and capital grants and contributions by \$604,000. The Major Facility Fund charges for services were greater than expenses by \$42,000.

**Financial Analysis of the Town's Funds**

At year-end, the General Fund reported a total fund balance of \$3.8 million, a decrease from the previous year's \$4.8 million. This \$1.0 million decrease was the result of excess expenditures over revenues.

Proprietary Funds Net Position decreased by \$975,000. This was the net result of a \$42,000 operating income in the Major Facility Fund, a \$669,000 operating loss in the Water Fund, and a \$479,000 operating loss in the Sewer Fund. Investment earnings plus capital grant contributions were \$242,000, while interest expense was \$111,000.

**General Fund Budgetary Highlights**

Actual revenues were \$1.1 million, or 7.8% less than the final budgeted amount, primarily the net effect of a negative variance of \$967,600 in Long Term Debt Proceeds, a negative variance of \$576,800 in total Intergovernmental Revenue, a positive variance of \$363,200 in total Investment Income and Miscellaneous Revenue and a positive variance of \$125,600 in total Taxes and Utility Fees. The Long Term Debt Proceeds negative variance of \$967,600 was due to the Town not having completed the borrowing process at fiscal year-end. The \$576,800 negative variance in total Intergovernmental Revenue was primarily the result of the Community Development Block Grant being fully budgeted, but only received in part due to the project it is funding, the Neighborhood Community Center, having recently started. The positive variance in total Investment Income and Miscellaneous Revenues of \$363,200 was primarily the result of increased interest revenue of \$203,800 due to higher interest rates in FY 2019 and acquiring two long term certificates of deposit combined with the following unbudgeted revenues, \$86,200 medical loss ratio rebate, and \$38,400 in vehicle insurance reimbursements. The total Other Taxes and Utility Fees positive variance of \$125,600 represents only 1.2% of the final budgeted amount.

Actual expenditures were \$4.8 million, or 26.0%, less than the final budgeted amount. Each expenditure category had a positive variance. The \$3.4 million positive variance in total General Government was attributable to \$3.3 in General Services capital savings due to the construction of the \$3.5 Neighborhood Community Center only recently started. The positive variances of \$30,000 in personnel was due to \$21,800 in professional services for legal fees and a positive variance in Planning and Zoning of \$23,500, a combination of a positive variance of \$80,000 in master plan preparation offset by a negative variance of \$56,000 in engineering plan review. The positive variance of \$682,100 in total Public Safety was due to police patrol salary and fringe benefit savings of \$426,500 from various extended absences during the year, \$126,800 positive variance in capital purchases as the equipment costs for purchased vehicles was less than anticipated, \$37,600 in support services health insurance cost savings, and \$49,400 in building inspection from capital savings of \$26,100 due to the purchase of only one of the two budgeted vehicles, and an additional \$6,000 in engineering costs. Total Public Works had a positive variance of \$654,000 attributable to \$305,500 in salary and fringe benefit savings from positions budgeted but not filled during the year combined with positive variances of \$174,200 in capital as a result of items budgeted but not received by fiscal year end, and \$99,600 for storm pond maintenance projects that were not completed. The \$107,400 positive variance in Debt Service was

**TOWN OF ELKTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2019**

due to a full year of debt service budgeted for a loan that was not closed upon prior to year-end. The remaining positive variance, \$23,000, was in Recreation and Culture due to savings in program equipment costs.

During the year, there was a \$965,998 increase in appropriations between the original and final amended budget for revenues, primarily related to a supplemental appropriation for a \$800,000 CDBG grant. This amount was budgeted, but was not actually received during the year. In addition, there was a \$590,551 increase in appropriations between the original and final amended budget for expenditures. The following are the main supplemental appropriations:

- \$255,165 from Forest Conservation Fees (\$123,023), Critical Area Forest Mitigation (\$126,977), and an additional (\$5,165) to purchase the remaining Lands of South Stream Residential Development, tax map 319 parcel 2406.
- \$172,000 for waste removal services and landfill fees.
- \$103,076 for road paving expenses.
- The recognition of the forfeiture of seized funds in the amount of \$26,325 to be used to purchase TASER cartridges, holsters, and related supplies (\$10,825), uniforms (\$14,000), and investigative funds (\$1,500).
- \$21,289 for additional costs associated with the acquisition and preparation of 324 Hollingsworth Street and 205 Buttonwoods Road for the purpose of reselling.
- Various other increases in appropriations totaling \$12,696.

**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, 2019, amount to \$65.7 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 4.1% increase for governmental activities, and a 2.5% decrease for business-type activities.

The following table presents capital assets (net of accumulated depreciation) by category for fiscal years ending June 30, 2019 and 2018, respectively:

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 3,026,781	\$ 2,731,411	\$ 914,270	\$ 914,270	\$ 3,941,051	\$ 3,645,681
Other Improvements	1,464,500	1,711,101	-	-	1,464,500	1,711,101
Buildings	3,128,702	3,351,442	-	-	3,128,702	3,351,442
Plants, Mains, and Other Improvements	-	-	53,303,623	54,711,366	53,303,623	54,711,366
Equipment	1,349,892	1,000,883	1,180,632	1,209,332	2,530,524	2,210,215
Construction-in-Progress	435,976	242,417	870,567	865,811	1,306,543	1,108,228
Total	<u>\$ 9,405,851</u>	<u>\$ 9,037,254</u>	<u>\$ 56,269,092</u>	<u>\$ 57,700,779</u>	<u>\$ 65,674,943</u>	<u>\$ 66,738,033</u>

**TOWN OF ELKTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2019**

Major capital asset events during the fiscal year ending June 30, 2019 included the following:

In the Town's governmental activities:

- \$359,498 was spent on 9 fully equipped vehicles for the police department.
- \$255,154 was spent to purchase 46.58 acres west side of Augustine Herman Highway (South Stream).
- Engineering and partial construction of the Neighborhood Community Center cost \$190,083.
- \$92,283 was spent to purchase a Track Loader (\$49,500) and a Chipper (\$42,783) for public works.
- 2 Trucks purchased for public works costing \$75,578.
- \$ 27,847 was spent on a truck for the building department.
- Engineering for the Elkton Town Square cost \$27,027.
- Voice Over Internet Protocol infrastructure wiring project for the Municipal Building cost \$21,953.
- \$18,918 was the cost to purchase and demolish the abandoned residence at 324 Hollingsworth Street.
- Engineering for the Elk Landing Park cost \$15,532.
- Depreciation expense was \$836,099 for the year.

In the Town's business-type activities:

- Route 279 force main upgrade costing \$170,216.
- \$101,988 was spent on a Case loader backhoe.
- \$26,167 was spent for the installation of 2 insta valves on Whitehall Road.
- Pick-up truck costing \$22,085.
- Purchased additional hand held meter reading equipment costing \$17,474.
- Depreciation expense was \$1,789,818 for the year.

Additional information on the Town's capital assets can be found in Note 7 on pages 44-45 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 2020 budget for the Town's only governmental fund, the General Fund, was adopted at \$1,560,867 less than the fiscal year 2019 final budget.
- For fiscal year 2020, the Town adopted \$0.6356 per \$100.00 of assessed value as the real property tax rate, \$0.0116 greater than the constant yield tax rate, generating \$135,239 additional revenue for fiscal year 2020. The Town adopted \$1.21 per \$100.00 of assessed value as the business personal property tax rate, the same as fiscal year 2019.
- The water and sewer rates were unchanged for fiscal year 2020.

**TOWN OF ELKTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 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, 2019**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 4,391,736	\$ 10,905,392	\$ 15,297,128
Accounts Receivable, Net	794,014	1,536,510	2,330,524
Other Assets	6,211	35,042	41,253
Internal Balances	(582,692)	582,692	-
Due from Other Governments	665,042	-	665,042
Capital Assets, Not Being Depreciated	3,462,757	1,784,837	5,247,594
Capital Assets Being Depreciated, Net of Accumulated Depreciation	5,943,094	54,484,255	60,427,349
Total Assets	<u>14,680,162</u>	<u>69,328,728</u>	<u>84,008,890</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>			
<b>- PENSION PLAN</b>	244,909	-	244,909
<b>LIABILITIES</b>			
Accounts Payable	510,341	715,115	1,225,456
Accrued Liabilities	109,353	54,316	163,669
Loans Payable, Current Portion	-	1,109,870	1,109,870
Other Liabilities	-	80,229	80,229
Noncurrent Liabilities:			
Net Pension Liability	2,711,395	-	2,711,395
Net OPEB Liability	949,984	195,036	1,145,020
Compensated Absences	466,060	82,088	548,148
Loans Payable, Net of Current Portion	-	8,486,371	8,486,371
Total Liabilities	<u>4,747,133</u>	<u>10,723,025</u>	<u>15,470,158</u>
<b>DEFERRED INFLOW OF RESOURCES</b>			
<b>- BENEFIT PLANS</b>	<u>1,134,121</u>	<u>14,424</u>	<u>1,148,545</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	9,405,851	46,672,851	56,078,702
Restricted - Highways	807,417	-	807,417
Restricted - Seized Funds	245,302	-	245,302
Restricted - Recreation and Culture	50,960	-	50,960
Unrestricted	(1,465,713)	11,918,428	10,452,715
Total Net Position	<u>\$ 9,043,817</u>	<u>\$ 58,591,279</u>	<u>\$ 67,635,096</u>

See accompanying Notes to Financial Statements.

**TOWN OF ELKTON, MARYLAND  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2019**

<b>Functions/Programs</b>	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
<b>Primary Government</b>							
Governmental Activities:							
General Government	\$ 1,726,453	\$ 592,395	\$ 8,628	\$ -	\$ (1,125,430)	\$ -	\$ (1,125,430)
Public Safety	6,525,687	45,909	499,762	-	(5,980,016)	-	(5,980,016)
Public Works	4,498,355	1,143,268	-	-	(3,355,087)	-	(3,355,087)
Recreation and Culture	454,872	130,895	-	-	(323,977)	-	(323,977)
Interest on Long-Term Debt	2,222	-	-	-	(2,222)	-	(2,222)
Total Governmental Activities	13,207,589	1,912,467	508,390	-	(10,786,732)	-	(10,786,732)
<b>Business-Type Activities</b>							
Major Facility	4,414	46,875	-	-	-	42,461	42,461
Water	3,506,770	2,706,686	-	225	-	(799,859)	(799,859)
Sewer	5,730,806	5,035,446	-	91,500	-	(603,860)	(603,860)
Total Business-Type Activities	9,241,990	7,789,007	-	91,725	-	(1,361,258)	(1,361,258)
Total Primary Government	\$ 22,449,579	\$ 9,701,474	\$ 508,390	\$ 91,725	(10,786,732)	(1,361,258)	(12,147,990)
<b>GENERAL REVENUES:</b>							
Taxes:							
Property Taxes, Levied for General Purpose					9,159,354	-	9,159,354
Unrestricted State Shared Income Taxes					1,280,464	-	1,280,464
Investment Earnings					234,444	150,593	385,037
Cell Phone Carrier Revenue - Water Towers					-	75,014	75,014
Miscellaneous					-	160,797	160,797
Total General Revenues					10,674,262	386,404	11,060,666
<b>CHANGE IN NET POSITION</b>					(112,470)	(974,854)	(1,087,324)
Net Position - Beginning of Year					9,188,143	59,566,133	68,754,276
<b>NET POSITION - END OF YEAR</b>					\$ 9,075,673	\$ 58,591,279	\$ 67,666,952

See accompanying Notes to Financial Statements.

**TOWN OF ELKTON, MARYLAND  
BALANCE SHEET – GOVERNMENTAL FUND  
JUNE 30, 2019**

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 4,391,736
Receivables, Net	794,014
Other Assets	6,211
Due from Other Governments	<u>665,042</u>
Total Assets	<u><u>\$ 5,857,003</u></u>
<b>LIABILITIES</b>	
Accounts Payable	\$ 510,341
Accrued Liabilities	108,469
Due to Other Funds	<u>582,692</u>
Total Liabilities	1,201,502
<b>DEFERRED INFLOW OF RESOURCES</b>	
Unavailable Tax Revenue	873,396
<b>FUND BALANCES</b>	
Restricted	1,103,679
Committed	500,000
Assigned	1,389,680
Unassigned	<u>788,746</u>
Total Fund Balances	<u><u>3,782,105</u></u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u><u>\$ 5,857,003</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, 2019**

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

<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 3,782,105</b>
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 \$30,892,073, and the accumulated depreciation is \$21,486,222.	9,405,851
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.	(466,060)
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.	(2,711,395)
Deferred outflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	244,909
Net OPEB are not due and payable in the current period and, therefore, are not reported in the funds.	(949,984)
Deferred inflows of resources related to OPEB and Pensions are applicable to future periods and, therefore, are not reported in the funds.	(1,134,121)
Certain tax receivables are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	<u>873,396</u>
<b>Net Position of Governmental Activities</b>	<b><u><u>\$ 9,043,817</u></u></b>

**TOWN OF ELKTON, MARYLAND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2019**

	<u>General Fund</u>
<b>REVENUES</b>	
Taxes and Utility Fees	\$ 10,175,777
Licenses and Permits	351,872
Fines and Forfeitures	20,520
Investment Revenues	234,444
Charges for Services	934,128
Intergovernmental	827,415
Miscellaneous	189,346
Total Revenues	<u>12,733,502</u>
<b>EXPENDITURES</b>	
Current Operations:	
General Government	2,023,358
Public Safety	6,649,096
Public Works	4,485,633
Recreation and Culture	393,418
Debt Service:	
Principal	246,279
Interest	2,222
Total Expenditures	<u>13,800,006</u>
<b>Net Change in Fund Balance</b>	(1,066,504)
Fund Balances - Beginning of Year	<u>4,848,609</u>
<b>FUND BALANCES - END OF YEAR</b>	<u><u>\$ 3,782,105</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, 2019**

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

<b>Total Net Change in Fund Balances - Governmental Funds</b>	<b>\$ (1,066,504)</b>
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 (\$1,219,273) exceeds depreciation expense (\$836,099) and disposals (\$14,577).	400,453
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.	(26,520)
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 2019.	246,279
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.	361,617
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.	49,023
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>(76,818)</u>
<b>Change in Net Position of Governmental Activities</b>	<b><u><u>\$ (112,470)</u></u></b>

**TOWN OF ELKTON, MARYLAND**  
**STATEMENT OF NET POSITION – PROPRIETARY FUNDS**  
**JUNE 30, 2019**

	Business-Type Activities - Enterprise Funds			
	Major Facility	Water	Sewer	Total
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 2,127,205	\$ 1,992,958	\$ 6,785,229	\$ 10,905,392
Receivables, Net	3,550	573,474	959,486	1,536,510
Prepaid Expenses	-	35,042	-	35,042
Due from Other Funds	2,137,232	863,718	174,433	3,175,383
Total Current Assets	<u>4,267,987</u>	<u>3,465,192</u>	<u>7,919,148</u>	<u>15,652,327</u>
Noncurrent Assets:				
Capital Assets, Net	-	9,567,027	46,702,065	56,269,092
Total Assets	<u>4,267,987</u>	<u>13,032,219</u>	<u>54,621,213</u>	<u>71,921,419</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts Payable	1,248	175,753	538,114	715,115
Accrued Expenses	-	15,089	39,227	54,316
Other Liabilities	-	-	80,229	80,229
Due to Other Funds	241,268	-	2,351,423	2,592,691
Loans Payable, Current Portion	-	-	1,109,870	1,109,870
Total Current Liabilities	<u>242,516</u>	<u>190,842</u>	<u>4,118,863</u>	<u>4,552,221</u>
Noncurrent Liabilities:				
Compensated Absences	-	35,516	46,572	82,088
Net OPEB Liability	-	92,148	102,888	195,036
Loans Payable, Net of Current Portion	-	-	8,486,371	8,486,371
Total Liabilities	<u>242,516</u>	<u>318,506</u>	<u>12,754,694</u>	<u>13,315,716</u>
<b>DEFERRED INFLOWS - OTHER POSTEMPLOYMENT BENEFITS</b>				
	<u>-</u>	<u>6,815</u>	<u>7,609</u>	<u>14,424</u>
<b>NET POSITION</b>				
Net Investment in Capital Assets	-	9,567,027	37,105,824	46,672,851
Unrestricted	4,025,471	3,139,871	4,753,086	11,918,428
Total Net Position	<u>\$ 4,025,471</u>	<u>\$ 12,706,898</u>	<u>\$ 41,858,910</u>	<u>\$ 58,591,279</u>

See accompanying Notes to Financial Statements.

**TOWN OF ELKTON, MARYLAND**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION –**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2019**

	Business-Type Activities - Enterprise Funds			
	Major Facility	Water	Sewer	Total
<b>OPERATING REVENUES</b>				
Charges for Services	\$ 46,875	\$ 2,706,686	\$ 5,035,446	\$ 7,789,007
Other Operating Revenues	-	3,180	5,684	8,864
Cell Phone Carrier Revenue - Water Towers	-	75,014	-	75,014
Miscellaneous	-	53,034	98,899	151,933
Total Operating Revenues	<u>46,875</u>	<u>2,837,914</u>	<u>5,140,029</u>	<u>8,024,818</u>
<b>OPERATING EXPENSES</b>				
Cost of Service	4,414	3,166,552	4,169,722	7,340,688
Depreciation	-	340,218	1,449,600	1,789,818
Total Operating Expenses	<u>4,414</u>	<u>3,506,770</u>	<u>5,619,322</u>	<u>9,130,506</u>
<b>OPERATING INCOME (LOSS)</b>	42,461	(668,856)	(479,293)	(1,105,688)
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment Earnings	52,704	28,063	69,826	150,593
Interest Expense	-	-	(111,484)	(111,484)
Total Nonoperating Revenues (Expenses)	<u>52,704</u>	<u>28,063</u>	<u>(41,658)</u>	<u>39,109</u>
<b>INCOME (LOSS) BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS</b>	95,165	(640,793)	(520,951)	(1,066,579)
<b>CAPITAL CONTRIBUTIONS - GRANTS</b>	-	225	91,500	91,725
<b>CHANGES IN NET POSITION</b>	95,165	(640,568)	(429,451)	(974,854)
Total Net Position - Beginning of Year	<u>3,930,306</u>	<u>13,347,466</u>	<u>42,288,361</u>	<u>59,566,133</u>
<b>TOTAL NET POSITION - END OF YEAR</b>	<u>\$ 4,025,471</u>	<u>\$ 12,706,898</u>	<u>\$ 41,858,910</u>	<u>\$ 58,591,279</u>

See accompanying Notes to Financial Statements.

**TOWN OF ELKTON, MARYLAND**  
**STATEMENTS OF CASH FLOWS – PROPRIETARY FUNDS**  
**JUNE 30, 2019**

	Business-Type Activities - Enterprise Funds			
	Major Facility	Water	Sewer	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from Customers and Users	\$ 59,588	\$ 2,898,840	\$ 5,148,112	\$ 8,106,540
Payments to Suppliers	(462,842)	(3,491,185)	(4,184,830)	(8,138,857)
Payments to Employees	-	15,365	20,738	36,103
Net Cash Provided (Used) by Operating Activities	(403,254)	(576,980)	984,020	3,786
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from Grants	-	225	91,500	91,725
Interest Paid on Capital Debt	-	-	(111,484)	(111,484)
Acquisition and Construction of Capital Assets	-	(115,872)	(242,259)	(358,131)
Principal Payments of Loans	-	-	(1,103,522)	(1,103,522)
Net Cash Used by Capital and Related Financing Activities	-	(115,647)	(1,365,765)	(1,481,412)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from Investment Earnings	52,704	28,063	69,826	150,593
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>				
	(350,550)	(664,564)	(311,919)	(1,327,033)
Cash and Cash Equivalents - Beginning of Year	2,477,755	2,657,522	7,097,148	12,232,425
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 2,127,205</u>	<u>\$ 1,992,958</u>	<u>\$ 6,785,229</u>	<u>\$ 10,905,392</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating Income (Loss)	\$ 42,461	\$ (668,856)	\$ (479,293)	\$ (1,105,688)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	-	340,218	1,449,600	1,789,818
Effects of Changes in Operating Assets and Liabilities:				
Accounts Receivable	12,713	60,926	8,083	81,722
Prepaid Expenses	-	(35,042)	-	(35,042)
Accounts Payable	(102,900)	(71,080)	(28,031)	(202,011)
Accrued Expenses	-	2,589	(2,077)	512
Other Liabilities	-	13,133	21,482	34,615
Interfund Receivables	(147,660)	(218,511)	-	(366,171)
Interfund Payables	(207,868)	-	12,923	(194,945)
Deferred Inflows - OPEB	-	(357)	1,333	976
Net Cash Provided (Used) by Operating Activities	<u>\$ (403,254)</u>	<u>\$ (576,980)</u>	<u>\$ 984,020</u>	<u>\$ 3,786</u>

See accompanying Notes to Financial Statements.

**TOWN OF ELKTON, MARYLAND**  
**STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS**  
**YEAR ENDED JUNE 30, 2019**

	<u>Total Pension Trusts</u>
<b>ASSETS</b>	
Cash Equivalents	\$ 990,279
Investments:	
Equity Mutual Funds	5,564,661
Fixed Income Mutual Funds	<u>4,416,761</u>
Total Investments	<u>9,981,422</u>
Total Assets	<u>\$ 10,971,701</u>
<b>NET POSITION</b>	
Held in Trust for Pension Benefits	<u>\$ 10,971,701</u>

See accompanying Notes to Financial Statements.

**TOWN OF ELKTON, MARYLAND**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – FIDUCIARY FUNDS**  
**YEAR ENDED JUNE 30, 2019**

	Total Pension Trusts
<b>ADDITIONS</b>	
Employer Contributions	\$ 612,342
Employee Contributions	177,157
Investment Gains	600,961
Total Additions	1,390,460
<b>DEDUCTIONS</b>	
Benefit Payments	361,861
Miscellaneous	7,222
Administrative Fees	12,921
Total Deductions	382,004
<b>CHANGE IN NET POSITION</b>	1,008,456
Net Position - Beginning of Year	9,963,245
<b>NET POSITION - END OF YEAR</b>	\$ 10,971,701

See accompanying Notes to Financial Statements.

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**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 (U.S. 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 significant accounting policies of the Town 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 U.S. 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 U.S. 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, 2019**

**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.

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

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

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

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration. Proprietary funds distinguish operating revenues and expenses from 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.

**TOWN OF ELKTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

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

**Use of Estimates in Preparing Financial Statements**

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

**Assets, Liabilities, and Net Position or Fund Balance**

**Equity in Pooled Cash, Cash Equivalents, and Investments**

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

**TOWN OF ELKTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

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

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

Receivables

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

	<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.

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 2019, the Town’s water and sewer system customer base included a total of 6,914 water and 6,837 sewer accounts. All customers are billed on a quarterly basis with payment due in full within thirty days from the date of the billing. Delinquent accounts are subject to disconnection in addition to a \$25.00 service charge. Water and sewer rates are set by ordinance passed by the Mayor and Commissioners of the Town when deemed necessary.

**TOWN OF ELKTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

Receivables (Continued)

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

Capital Assets

Capital assets, which include property, plant and equipment and infrastructure such as roads, storm drains and pipe systems, are reported in the governmental activities or business-type activities columns in the government-wide financial statements. The Town defines capital assets as those which have an individual acquisition cost or donated value of at least \$1,000, and an estimated useful life of at least one year. Such assets are valued at historical or estimated historical cost if actual is not available. Donated assets are stated at their 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. 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

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.

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

Long-Term Obligations (Continued)

Other Postemployment 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, 2019.

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 deferred flows related to pension and OPEB. 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 recognizes deferred outflows at the entity-wide level for for the deferred flows related to pension and OPEB.

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 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.

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

Net Position Reporting (Continued)

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.

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.

**TOWN OF ELKTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 2 CASH AND TEMPORARY INVESTMENTS**

**Deposits**

At year-end, the carrying amount of the Town deposits (including petty cash of \$115) was \$9,507,914 and the bank balance was \$9,739,589. 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, 2019.

**Investments**

At June 30, 2019, the Town's fixed income investment balances by type, rating, and maturity were as follows:

Investment Type	Fair Value	Rating	Average Maturity (Years)*
Fixed Income Mutual Funds:			
Core Plus Fund	** \$ 22,937	A	8.61
Federal Hi Yield	** 16,641	B	3.90
Inflation Protected Securities Fund	** 90,021	AA	8.69
Fixed Account	** 1,938,125	N/A	N/A
Global Fixed Income	** 10,222	BB	1.52
Short Term Bond Fund	501,839	BBB	2.05
New Income Fund	1,836,976	BBB	8.23
Subtotal	4,416,761		
Money Market Funds	** 990,279		Less than 1
Maryland Local Govt. Investment Pool	5,789,214		Less than 1
Total	\$ 11,196,254		

\*\* Includes defined contribution plan participant directed investments.

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

Carrying Amount of Deposits	\$ 9,507,914
Pension Trust Fund Money Market	990,279
Carrying Amount of Investments	
MLGIP	5,789,214
Fixed Income Mutual Funds	4,416,761
Equity Mutual Funds	5,564,661
Total Cash and Investments	26,268,829
Less: Amounts in Fiduciary Funds	10,971,701
Total Cash and Cash Equivalents Per Statement of Net Position	\$ 15,297,128

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 2 CASH AND TEMPORARY INVESTMENTS (CONTINUED)**

**Investments (Continued)**

Interest Rate Risk

Fair value of fixed income investments 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, 2019 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 two issuers that are 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.

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, 2019, 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.

**TOWN OF ELKTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 3 FAIR VALUE**

The Town categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. 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, 2019 consist of the following mutual funds valued using quoted market prices (Level 1 inputs) and funds maintained and valued by an insurance company (Level 2 inputs):

	Fair Value Measurements		Total
	Level 1	Level 2	
Fixed Income Mutual Funds	\$ 139,821	\$ 4,276,940	\$ 4,416,761
Equity Mutual Funds	5,481,639	83,022	5,564,661

**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	\$ 1,099,813	\$ -	\$ -	\$ -	\$ -	\$ 1,099,813
Accounts	254,303	3,550	573,474	959,486	1,536,510	1,790,813
Interest	4,511	-	-	-	-	4,511
Allowance for Uncollectibles	(564,613)	-	-	-	-	(564,613)
Net Receivables	\$ 794,014	\$ 3,550	\$ 573,474	\$ 959,486	\$ 1,536,510	\$ 2,330,524

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.

**TOWN OF ELKTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 4 RECEIVABLES (CONTINUED)**

**Summary of Receivables (Continued)**

Deferred inflows of resources for the general fund at June 30, 2019 consisted solely of items deemed unavailable, and is summarized as follows:

Business/Corporate Property Taxes	\$ 372,040
Real Property Taxes	53,358
Utilities/Railroad	89,210
Traders Taxes	3,640
Income Taxes	353,318
Grants	1,830
Total	<u>\$ 873,396</u>

**NOTE 5 DUE FROM OTHER GOVERNMENTS**

The June 30, 2019 balance due from other governments is as follows:

	<u>Governmental Activities</u>
<b>State of Maryland</b>	
Income Tax Reserve	\$ 522,099
Highway User Tax	24,153
Admission and Amusement Tax	3,808
Hotel/Motel Tax	41,324
State Aid Police Protection Grant	73,658
Total	<u>\$ 665,042</u>

**NOTE 6 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

Due to/from other funds consisted of the following:

	<u>Payable Fund</u>			
Receivable Fund:	<u>General</u>	<u>Sewer</u>	<u>Major Facility</u>	<u>Total</u>
General	\$ -	\$ -	\$ -	\$ -
Water	344,302	278,148	241,268	863,718
Sewer	174,433	-	-	174,433
Major Facility	63,957	2,073,275	-	2,137,232
Total	<u>\$ 582,692</u>	<u>\$ 2,351,423</u>	<u>\$ 241,268</u>	<u>\$ 3,175,383</u>

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.

There were no interfund transfers for the year ended June 30, 2019.

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 7 CAPITAL ASSETS**

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

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
<b>GOVERNMENTAL ACTIVITIES</b>					
<b>Capital Assets, Not Being Depreciated:</b>					
Land	\$ 2,731,411	\$ 289,339	\$ -	\$ 6,031	\$ 3,026,781
Construction in Progress	242,417	245,787	-	(52,228)	435,976
Total Capital Assets, Not Being Depreciated	<u>2,973,828</u>	<u>535,126</u>	<u>-</u>	<u>(46,197)</u>	<u>3,462,757</u>
<b>Capital Assets Being Depreciated:</b>					
Buildings	6,687,825	11,693	-	-	6,699,518
Improvements Other Than Buildings	14,959,144	1,380	-	46,199	15,006,723
Equipment	5,195,901	671,074	(143,900)	-	5,723,075
Total Capital Assets, Being Depreciated	<u>26,842,870</u>	<u>684,147</u>	<u>(143,900)</u>	<u>46,199</u>	<u>27,429,316</u>
<b>Less Accumulated Depreciation for:</b>					
Buildings	3,336,383	183,989	-	50,444	3,570,816
Improvements Other Than Buildings	13,248,043	294,180	-	-	13,542,223
Equipment	4,195,018	357,930	(112,044)	(67,721)	4,373,183
Total Accumulated Depreciation	<u>20,779,444</u>	<u>836,099</u>	<u>(112,044)</u>	<u>(17,277)</u>	<u>21,486,222</u>
Net Capital Assets Being Depreciated	<u>6,063,426</u>	<u>(151,952)</u>	<u>(31,856)</u>	<u>63,476</u>	<u>5,943,094</u>
Net Governmental Activities Capital Assets	<u>\$ 9,037,254</u>	<u>\$ 383,174</u>	<u>\$ (31,856)</u>	<u>\$ 17,279</u>	<u>\$ 9,405,851</u>

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
<b>BUSINESS-TYPE ACTIVITIES</b>					
<b>Capital Assets Not Being Depreciated:</b>					
Land - Water	\$ 317,605	\$ -	\$ -	\$ -	\$ 317,605
Land - Sewer	596,665	-	-	-	596,665
Construction in Progress - Water	678,540	14,562	-	9,126	702,228
Construction in Progress - Sewer	187,271	3,878	-	(22,810)	168,339
Total Capital Assets Not Being Depreciated	<u>1,780,081</u>	<u>18,440</u>	<u>-</u>	<u>(13,684)</u>	<u>1,784,837</u>
<b>Capital Assets Being Depreciated:</b>					
Plants, Mains and Improvements - Water	13,542,368	26,197	-	-	13,568,565
Plants, Mains and Improvements - Sewer	67,249,098	170,217	(15,458)	45,695	67,449,552
Equipment - Water	1,427,904	75,113	(129,591)	(9,126)	1,364,300
Equipment - Sewer	2,463,686	68,164	-	(22,885)	2,508,965
Total Capital Assets Being Depreciated	<u>84,683,056</u>	<u>339,691</u>	<u>(145,049)</u>	<u>13,684</u>	<u>84,891,382</u>
<b>Less Accumulated Depreciation:</b>					
Plants, Mains and Improvements - Water	5,268,040	272,126	-	-	5,540,166
Plants, Mains and Improvements - Sewer	20,812,060	1,362,268	-	-	22,174,328
Equipment - Water	907,004	68,092	(129,591)	-	845,505
Equipment - Sewer	1,775,254	87,332	(15,458)	-	1,847,128
Total Accumulated Depreciation	<u>28,762,358</u>	<u>1,789,818</u>	<u>(145,049)</u>	<u>-</u>	<u>30,407,127</u>
Net Capital Assets Being Depreciated	<u>55,920,698</u>	<u>(1,450,127)</u>	<u>-</u>	<u>13,684</u>	<u>54,484,255</u>
Net Business-Type Activities Capital Assets	<u>\$ 57,700,779</u>	<u>\$ (1,431,687)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56,269,092</u>

**TOWN OF ELKTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 7 CAPITAL ASSETS (CONTINUED)**

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

**Governmental Activities:**

General Government	\$ 152,357
Public Safety	391,039
Public Works	228,579
Parks and Recreation	64,124
Total Governmental Activities	<u>\$ 836,099</u>

**Business-Type Activities:**

Water Fund	\$ 340,218
Sewer Fund	1,449,600
Total Business-Type Activities	<u>\$ 1,789,818</u>

**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, 2019:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Loans	\$ 246,279	\$ -	\$ 246,279	\$ -	\$ -
Compensated Absences	439,540	26,520	-	466,060	-
Total Governmental Activities	<u>\$ 685,819</u>	<u>\$ 26,520</u>	<u>\$ 246,279</u>	<u>\$ 466,060</u>	<u>\$ -</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Sewer Facility Loan #1	\$ 7,955,668	\$ -	\$ 781,351	\$ 7,174,317	\$ 784,477
Sewer Facility Loan #2	2,744,095	-	322,171	2,421,924	325,393
Subtotal	10,699,763	-	1,103,522	9,596,241	1,109,870
Compensated Absences	75,994	6,094	-	82,088	-
Total Business-Type Activities	<u>\$ 10,775,757</u>	<u>\$ 6,094</u>	<u>\$ 1,103,522</u>	<u>\$ 9,678,329</u>	<u>\$ 1,109,870</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 had a loan for \$3,665,000 from a commercial bank. The loan had an interest rate of 2.35%, and matured in April 2019. The loan repayment schedule required monthly payments of principal and interest of \$24,898. As of June 30, 2019, there is no outstanding balance as the loan has been fully paid.

**TOWN OF ELKTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**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 \$7,174,317 remains outstanding at June 30, 2019. 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
2020	\$ 784,477	\$ 28,698	\$ 813,175
2021	787,615	25,560	810,037
2022	790,765	22,408	810,023
2023	793,928	19,246	810,011
2024	797,104	16,070	809,998
2025-2028	3,220,428	32,270	3,252,698
Total	\$ 7,174,317	\$ 144,252	\$ 7,305,942

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 \$3,373,550 has been repaid. The amount outstanding at June 30, 2019 was \$2,421,924. 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
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	338,605	11,007	349,612
2025-2027	762,094	12,567	774,661
Total	\$ 2,421,924	\$ 100,797	\$ 2,872,334

**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, 2019, that amount was \$89,856,740, and the outstanding debt subject to the limit was \$9,596,241, which is 10.7% of the total debt limit.

**TOWN OF ELKTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 9 FUND BALANCE**

Fund balance at June 30, 2019 consisted of the following:

	<u>General Fund</u>
Fund Balances	
Restricted for:	
Highways	\$ 807,417
Public Safety	245,302
Recreation and Culture	50,960
Total Restricted	1,103,679
Committed for:	
Recreation and Culture - Capital Projects	500,000
Assigned for:	
Parks and Recreation	73,103
Future Use of Fund Balance	1,316,577
Total Assigned	1,389,680
Unassigned	788,746
Total Fund Balance	\$ 3,782,105

**NOTE 10 RETIREMENT AND PENSION PLANS**

**State Retirement and Pension Systems of Maryland**

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 members 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>.

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

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**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.

**TOWN OF ELKTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 10 RETIREMENT AND PENSION PLANS (CONTINUED)**

**State Retirement and Pension Systems of Maryland (Continued)**

Contributions

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

The Town's contractually required contribution rate for the Employees' Retirement and Pension Systems for the year ended June 30, 2019, was 5.92% 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, 2019 of \$6,261.

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

At June 30, 2019, the Town reported a liability of \$60,575 for its proportionate share of the net pension liability of the System. The net pension liability was measured as of June 30, 2018, 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 ended June 30, 2018. The contributions were increased to adjust for differences between actuarial determined contributions and actual contributions by the state of Maryland. As of June 30, 2018, the Town's proportionate share was 0.0002887%, which is an increase of 0.0000354 from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$6,261. At June 30, 2019, 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	\$ 1,788	\$ -
Net Difference Between Expected and Actual Experience	-	4,604
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	5,588	-
Net Difference Between Actual and Proportionate Share of Contributions	6,456	19,073
Town's Contributions Subsequent to Measurement Date	6,261	-
Total	<u>\$ 20,093</u>	<u>\$ 23,677</u>

**TOWN OF ELKTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 10 RETIREMENT AND PENSION PLANS (CONTINUED)**

**State Retirement and Pension Systems of Maryland (Continued)**

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

\$6,261 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 ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>For the Years Ending June 30</u>	<u>Amount</u>
2020	\$ (4,621)
2021	(5,134)
2022	(770)
2023	(68)
2024	748
Thereafter	-

Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60% general, 3.10% wage
Salary increases	3.10% to 9.10%, including inflation
Investment rate of return	7.45%

Mortality rates were based on RP-2014 Mortality Table with generational mortality projections using Scale MP-2014 (2-dimensional) mortality improvement scale, calibrated to the system's experience.

The economic and demographic actuarial assumptions used in the June 30, 2018 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 7.45% and an inflation assumption of 2.60% were used for the June 30, 2018 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 weighting the expected future real rates by the target asset allocation percentage and by adding expected inflation.

**TOWN OF ELKTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 10 RETIREMENT AND PENSION PLANS (CONTINUED)**

**State Retirement and Pension Systems of Maryland (Continued)**

Actuarial Assumptions (Continued)

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	37%	5.80 %
Private Equity	13%	6.70
Rate Sensitive	19%	1.10
Credit Opportunity	9%	3.60
Real Assets	14%	4.80
Absolute Return	8%	3.20
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, 2018.

For the year ended June 30, 2018, the annual money-weighted rate of return on pension plan investments, net of the pension plan expense was 8.08%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A single discount rate of 7.45% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.45%. 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 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 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 7.45%, 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 (6.45%)</u>	<u>Current Discount Rate (7.45%)</u>	<u>1% Increase (8.45%)</u>
Town's Proportionate Share of the Net Pension Liability	<u>\$ 87,247</u>	<u>\$ 60,575</u>	<u>\$ 38,437</u>

**TOWN OF ELKTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 10 RETIREMENT AND PENSION PLANS (CONTINUED)**

**State Retirement and Pension Systems of Maryland (Continued)**

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 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, 2019, there were seventy (70) 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, 2019, actual contributions by the Town were \$269,298. TEDCP does not issue separate audited financial statements, as such, the net position as of June 30, 2019, and the changes in net position for the year ended June 30, 2019, 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, 2019 is as follows:

**Statement of Plan Net Position**

**ASSETS**

Cash Equivalents	\$ 88,475
Equity Mutual Funds	1,541,263
Fixed Income Mutual Funds	<u>2,077,946</u>
Total Investments	<u><u>3,707,684</u></u>

**NET POSITION**

Held in Trust for Pension Benefits	<u><u>\$ 3,707,684</u></u>
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**Statement of Changes in Plan Net Position**

**ADDITIONS**

Employer Contributions	\$ 269,298
Investment Gains	<u>217,497</u>
Total Additions	486,795

**DEDUCTIONS**

Benefit Payments and Administrative Expense	<u>297,454</u>
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**CHANGE IN NET POSITION**

189,341

Net Position - Beginning of Year

3,518,343

**NET POSITION - END OF YEAR**

\$ 3,707,684

**TOWN OF ELKTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**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, 2019, there were forty-two (42) plan members from the Town. Plan members are required to contribute 8% of their base salary. For the fiscal year ended June 30, 2019, actual contributions by the plan members were \$177,157. Plan provisions are established, amended, and administered by the Mayor and Commissioners of the Town. During 2019, the Town contributed the actuarially determined amount of \$343,044. TEPPP does not issue separate audited financial statements, and as such, the net position as of June 30, 2019, and the changes in net position for the year ended June 30, 2019, are reflected in the statement of fiduciary net position and changes in fiduciary net position in the basic financial statements. Employees are 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.

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	40
Total	<u>42</u>

**TOWN OF ELKTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 10 RETIREMENT AND PENSION PLANS (CONTINUED)**

**Town Defined Benefit Plan (Continued)**

Description of Plan (Continued)

The condensed financial statement as of and for the year ended June 30, 2019 is as follows:

**Statement of Plan Net Position**

**ASSETS**

Cash Equivalents	\$ 901,804
Investments	6,362,213
Total Assets	\$ 7,264,017

**NET POSITION**

Held in Trust for Pension Benefits	\$ 7,264,017
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**Statement of Changes and Plan Net Position**

**ADDITIONS**

Employer Contributions	\$ 343,044
Employee Contributions	177,157
Investment Gains	383,464
Total Additions	903,665

**DEDUCTIONS**

Benefit Payments	64,407
Miscellaneous	7,222
Administrative Fees	12,921
Total Deductions	84,550

**CHANGE IN NET POSITION**

819,115

Net Position - Beginning of Year	6,444,902
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**NET POSITION - END OF YEAR**

\$ 7,264,017

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.

**TOWN OF ELKTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 10 RETIREMENT AND PENSION PLANS (CONTINUED)**

**Town Defined Benefit Plan (Continued)**

Pension Plan Administration (Continued)

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 1.82% for the year ended June 30, 2019.

Asset Allocation Policy		
Asset Class	Range	Target
Equities	50-70%	60 %
Fixed Income	30-60%	40
Cash and Cash Equivalent	0-20%	N/A
Equity Sub-Class		
Equity Sub-Class	Range	Target
Large-Cap Equity	50-75%	62.5 %
Mid-Cap	5-25%	15.0 %
Small Cap	5-15%	10.0 %
International	5-30%	12.5 %

The components of the net pension liability of the Plan as of June 30, 2019 (measurement date June 30, 2018) were as follows:

Total Pension Liability	\$ 9,914,837
Plan Fiduciary Net Position	(7,264,017)
Net Pension Liability	\$ 2,650,820
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	73.26%

**TOWN OF ELKTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 10 RETIREMENT AND PENSION PLANS (CONTINUED)**

**Town Defined Benefit Plan (Continued)**

Investment Policy

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

Valuation Date	July 1, 2017 *
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percentage of Payroll
Amortization Period	Closed periods range from 13 to 20 years remaining as of the 2017 valuation
Asset Valuation Method	Market Value
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
Retirement Age	The earlier of 25 years of service or age 60 with 10 years of service
Mortality Rate	RP-2014 Healthy tables with Blue Collar adjustments and generational projection by MP-2015

\*The total pension liability is based on the July 1, 2017 actuarial valuation rolled forward to June 30, 2019.

For the year ended June 30, 2019, the Town recognized pension expense of \$300,176.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of 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 Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

**TOWN OF ELKTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 10 RETIREMENT AND PENSION PLANS (CONTINUED)**

**Town Defined Benefit Plan (Continued)**

**Discount Rate (Continued)**

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

**Town of Elkton Police Pension Plan**

**Total Pension Liability**

Service Cost	\$ 352,947
Interest	627,651
Benefit Payments, Including Refunds	<u>(64,407)</u>
Net Change in Total Pension Liability	916,191
Total Pension Liability - Beginning of Year	<u>8,998,646</u>
Total Pension Liability - End of Year	<u><u>\$ 9,914,837</u></u>

**Plan Fiduciary Net Position**

Contributions - Employer	\$ 343,044
Contributions - Member	177,157
Net Investment Income	383,465
Benefit Payments, Including Refunds	(64,407)
Administrative Expense	<u>(20,133)</u>
Net Change in Plan Fiduciary Net Position	819,126

Plan Fiduciary Net Position - Beginning of Year	<u>6,444,891</u>
Plan Fiduciary Net Position - End of Year	<u><u>\$ 7,264,017</u></u>

Net Pension Liability - End of Year	\$ 2,650,820
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	73.26%
Covered Payroll	\$ 2,214,000
Net Pension Liability as a Percentage of Covered Payroll	119.70%

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 Rate 7.00%	1% Increase 8.00%
Net Pension Liability	<u><u>\$ 4,048,714</u></u>	<u><u>\$ 2,650,820</u></u>	<u><u>\$ 1,505,440</u></u>

**TOWN OF ELKTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 10 RETIREMENT AND PENSION PLANS (CONTINUED)**

**Town Defined Benefit Plan (Continued)**

Discount Rate (Continued)

At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	\$ -	\$ 33,072
Change of Assumptions	224,816	-
Net Difference Between Expected and Actual Experience	-	1,006,222
Total	\$ 224,816	\$ 1,039,294

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

Year Ended June 30:	Amount
2020	\$ (113,140)
2021	(171,501)
2022	(117,368)
2023	(100,863)
2024	(117,450)
Thereafter	(194,156)

**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.

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

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

**TOWN OF ELKTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 11 POSTEMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)**

**General Information about the OPEB Plan (Continued)**

Plan Description (Continued)

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

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

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

Employees Covered by Benefit Terms

At June 30, 2019, 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	92
	92
	92

Funding Policy

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

**Net OPEB Liability**

The Town's net OPEB liability was measured as of June 30, 2018, 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, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	5.7%
Salary increases	Not applicable, fixed rate subsidy
Investment rate of return	None, this is not a funded plan
Discount rate	3.62%
Healthcare cost trend rates	6.1% for 2019, decreasing over time to 5.7% in 2030

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

**TOWN OF ELKTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 11 POSTEMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)**

**Net OPEB Liability (Continued)**

Actuarial Assumptions (Continued)

Mortality rates were based on the RP2014 and 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.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.62%, based on the index rate for 20 year tax-exempt general municipal bonds, as required by GASB 75. The projection of cash flows used to determine the discount rate assumed that Town 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)
<b>Balances at 6/30/2017 Measurement Date</b>			
<b>Changes for the Year:</b>	\$ 1,050,566	\$ -	\$ 1,050,566
Service Cost	69,807	-	69,807
Interest	37,478	-	37,478
Differences Between Expected and Actual Experience	(7,388)	-	(7,388)
Contributions - Employer	-	-	-
Change in assumptions	(5,443)	-	(5,443)
Benefit Payments	-	-	-
Administrative Expense	-	-	-
Net Changes	94,454	-	94,454
<b>Balances at 6/30/18 Measurement Date</b>	<b>\$ 1,145,020</b>	<b>\$ -</b>	<b>\$ 1,145,020</b>

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

The following presents the net OPEB liability of the Town, as well as what the Town's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.62%) or 1-percentage point higher (4.62%) than the current discount rate:

	1% Decrease 2.62%	Discount Rate 3.62%	1% Increase 4.62%
Net OPEB Liability (Asset)	\$ 1,290,287	\$ 1,145,020	\$ 1,018,162

**TOWN OF ELKTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 11 POSTEMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)**

**Changes in the Net OPEB Liability (Continued)**

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the Town, as well as what the Town's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease 3.20%	Medical Trend 4.20%	1% Increase 5.20%
Net OPEB Liability (Asset)	\$ 1,017,942	\$ 1,145,120	\$ 1,299,369

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

For the year ended June 30, 2019, the Town recognized OPEB expense of \$98,833. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ 6,772
Changes of Assumptions	-	78,802
Total	\$ -	\$ 85,574

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

Year Ended June 30,	Amount
2019	\$ (8,452)
2020	(8,452)
2021	(8,452)
2022	(8,452)
2023	(8,452)
Thereafter	(43,314)

**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.

**TOWN OF ELKTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 12 OTHER INFORMATION (CONTINUED)**

**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.

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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**  
**(NON-U.S. GAAP – BUDGETARY BASIS)**  
**YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes and Utility Fees	\$ 10,050,211	\$ 10,050,211	\$ 10,175,777	\$ 125,566
Licenses and Permits	323,350	323,350	351,872	28,522
Intergovernmental	591,498	1,404,194	827,415	(576,779)
Charges for Services	836,395	989,697	934,128	(55,569)
Fines and Forfeitures	19,000	19,000	20,520	1,520
Investment Income	30,600	30,600	234,444	203,844
Miscellaneous	30,000	30,000	189,346	159,346
Long Term Debt Proceeds	967,632	967,632	-	(967,632)
Total Revenues	<u>12,848,686</u>	<u>13,814,684</u>	<u>12,733,502</u>	<u>(1,081,182)</u>
<b>EXPENDITURES</b>				
Current:				
General Government	5,115,570	5,397,707	2,023,358	3,374,349
Public Safety	7,297,854	7,331,192	6,649,096	682,096
Public Works	4,864,898	5,139,974	4,485,633	654,341
Recreation and Culture	416,197	416,197	393,418	22,779
Debt Service	355,906	355,906	248,501	107,405
Total Expenditures	<u>18,050,425</u>	<u>18,640,976</u>	<u>13,800,006</u>	<u>4,840,970</u>
Excess (deficiency) of revenues over expenditures	(5,201,739)	(4,826,292)	(1,066,504)	3,759,788
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers (out)	75,000	75,000	-	(75,000)
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (5,201,739)</u>	<u>\$ (4,826,292)</u>	(1,066,504)	<u>\$ 3,759,788</u>
Fund Balances - Beginning of Year			<u>4,848,609</u>	
<b>FUND BALANCES - END OF YEAR</b>			<u>\$ 3,782,105</u>	

**TOWN OF ELKTON, MARYLAND  
REQUIRED SUPPLEMENTAL INFORMATION  
SCHEDULE OF CHANGES IN NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY  
AND RELATED RATIOS  
JUNE 30, 2019**

<b>Fiscal Year Ending: Measurement Date:</b>	2019 <u>6/30/2018</u>	2018 <u>6/30/2017</u>	2017	2016	2015	2014	2013	2012	2011	2010
<b>Total OPEB Liability</b>										
Service Cost	\$ 69,807	\$ 67,394	Information for FYE 2017 and earlier is not available.							
Interest	37,477	29,698								
Changes of Benefit Terms	-	-								
Differences Between Expected and Actual Experience	(7,388)	-								
Changes of Assumptions	(5,442)	(88,578)								
Benefit Payments	-	-								
Net Change in Total OPEB Liability	<u>94,454</u>	<u>8,514</u>								
Total OPEB Liability - Beginning	<u>1,050,566</u>	<u>1,042,052</u>								
Total OPEB Liability - Ending (a)	<u><u>\$ 1,145,020</u></u>	<u><u>\$ 1,050,566</u></u>								
<b>Plan Fiduciary Net Position</b>										
Contributions - Employer	\$ -	\$ -								
Net Investment Income	-	-								
Benefit Payments	-	-								
Administrative Expense	-	-								
Net Change in Plan Fiduciary Net Position	<u>-</u>	<u>-</u>								
Total Fiduciary Net Position - Beginning	<u>-</u>	<u>-</u>								
Total Fiduciary Net Position - Ending (b)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>								
<b>City's Net OPEB Liability - Ending (a) - (b)</b>	<u><u>\$ 1,145,020</u></u>	<u><u>\$ 1,050,566</u></u>								
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.0%	0.0%								
<b>Covered Employee Payroll</b>	\$ 5,328,915	\$ 5,328,915								
Town's Net OPEB Liability as a Percentage of of Covered Employee Payroll	21.5%	19.7%								

**TOWN OF ELKTON, MARYLAND**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY**  
**JUNE 30, 2019**

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
<b>Town of Elkton Police Pension Plan</b>										
<b>Total Pension Liability</b>										
Service Cost	\$ 353	\$ 343	\$ 341	\$ 331	\$ 362	\$ 349				
Interest	627	619	566	540	520	462	Information for FY2013 and earlier			
Difference Between Expected and Actual Experience	-	(690)	-	(782)	-	-	is not available			
Changes in Assumptions	-	-	-	375	-	-				
Benefit Payments, Including Refunds	(64)	(237)	(56)	(119)	(90)	-				
Net Change in Total Pension Liability	<u>916</u>	<u>35</u>	<u>851</u>	<u>345</u>	<u>792</u>	<u>811</u>				
Total Pension Liability - Beginning of Year	<u>9,000</u>	<u>8,965</u>	<u>8,114</u>	<u>7,769</u>	<u>6,977</u>	<u>6,166</u>				
Total Pension Liability - End of Year	<u>\$ 9,916</u>	<u>\$ 9,000</u>	<u>\$ 8,965</u>	<u>\$ 8,114</u>	<u>\$ 7,769</u>	<u>\$ 6,977</u>				
<b>Plan Fiduciary Net Position</b>										
Contributions - Employer	\$ 343	\$ 348	\$ 389	\$ 371	\$ 361	\$ 355				
Contributions - Member	177	200	194	189	182	193				
Net Investment Income	383	489	607	11	10	148	Information for FY2013 and earlier			
Benefit Payments, Including Refunds	(64)	(237)	(56)	(119)	(90)	-	is not available			
Administrative Expense	(20)	(20)	(19)	(6)	(6)	-				
Net Change in Plan Fiduciary Net Position	<u>819</u>	<u>780</u>	<u>1,115</u>	<u>446</u>	<u>457</u>	<u>696</u>				
Plan Fiduciary Net Position - Beginning of Year	<u>6,447</u>	<u>5,667</u>	<u>4,552</u>	<u>4,106</u>	<u>3,649</u>	<u>2,953</u>				
Plan Fiduciary Net Position - End of Year	<u>\$ 7,266</u>	<u>\$ 6,447</u>	<u>\$ 5,667</u>	<u>\$ 4,552</u>	<u>\$ 4,106</u>	<u>\$ 3,649</u>				
Net Pension Liability - End of Year	\$ 2,650	\$ 2,553	\$ 3,298	\$ 3,562	\$ 3,663	\$ 3,328				
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	73.28%	71.63%	63.19%	56.08%	52.84%	52.29%				
Covered Payroll	\$ 2,214	\$ 2,571	\$ 2,420	\$ 2,335	\$ 2,270	\$ 2,409				
Net Pension Liability as a Percentage of Covered Payroll	119.70%	99.32%	136.33%	152.59%	161.37%	138.18%				
Expected average remaining service years of all participants	9	9	10	10	10	10				

Note: Amounts in this schedule are shown in thousands.

**TOWN OF ELKTON, MARYLAND  
TOWN DEFINED BENEFIT PLAN  
SCHEDULE OF EMPLOYER CONTRIBUTIONS AND MONEY-WEIGHTED RATE OF RETURN  
JUNE 30, 2019**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 343	\$ 348	\$ 389	\$ 371	\$ 361	\$ 355
Contributions in relation to the actuarially determined contribution	<u>343</u>	<u>348</u>	<u>389</u>	<u>371</u>	<u>361</u>	<u>355</u>
Contribution deficiency (excess)	<u>\$ -</u>					
Covered payroll	\$ 2,214	\$ 2,571	\$ 2,420	\$ 2,335	\$ 2,270	\$ 2,409
Contributions as a percentage of covered employee payroll	<u>15.49 %</u>	<u>13.54 %</u>	<u>16.08 %</u>	<u>15.87 %</u>	<u>15.89 %</u>	<u>14.73 %</u>
<b>Rate of Return</b>	<u>5.60 %</u>	<u>8.08 %</u>	<u>11.88 %</u>	<u>1.50 %</u>	<u>1.32 %</u>	<u>1.50 %</u>

\* 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) for the two years immediately following the fiscal year.

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 periods range from 13 to 20 years remaining as of the 2017 valuation
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 or age 60 with ten years of service
Mortality	RP-2014 Healthy tables with Blue Collar Adjustments and generational projection by MP-2015

**TOWN OF ELKTON, MARYLAND**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS AND PROPORTIONATE SHARE OF NET PENSION LIABILITY**  
**JUNE 30, 2019**

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	\$ 6,261	\$ 5,757	\$ 5,156	\$ 5,291	\$ 6,354	\$ 13,048	\$ 10,257	\$ 13,549	\$ 13,347	\$ 7,262
Contributions in relation to the contractually required contribution	(6,261)	(5,757)	(5,156)	(5,291)	(6,354)	(13,048)	(10,257)	(13,549)	(13,347)	(7,262)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Town's covered payroll	\$ 105,829	\$ 105,829	\$ 105,829	\$ 105,829	\$ 105,829	\$ 167,372	\$ 196,825	\$ 191,442	\$ 185,866	\$ 181,997
Contributions as a percentage of covered payroll	5.92%	5.44%	4.87%	5.00%	6.00%	7.80%	5.21%	7.08%	7.18%	3.99%

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

	2019	2018	2017	2016	2015
Town's Proportion of the Net Pension Liability	0.0002887%	0.0002533%	0.0002716%	0.0003015%	0.0005475%
Town's Proportionate Share of the Net Pension Liability	\$ 60,575	\$ 54,773	\$ 64,081	\$ 62,657	\$ 97,158
Town's Covered Payroll	105,829	105,829	105,829	105,829	167,372
Town's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	57.24 %	51.76 %	60.55 %	59.21 %	58.05 %
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.36 %	66.71 %	62.97 %	66.26 %	69.53 %

\* Schedule is intended to provide information for 10 years. Additional years will be included as they become available.

**TOWN OF ELKTON, MARYLAND  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2019**

**NOTE 1 CHANGES IN BENEFIT TERMS**

There were no benefit changes for either plan during the year.

**NOTE 2 CHANGES IN ASSUMPTIONS**

Town of Elkton Police Pension Plan

No changes in assumptions during the year.

Maryland State Retirement and Pension System

Adjustments to the roll-forward liabilities were made to reflect the following assumptions in the 2018 valuation:

Investment return assumption	Decreased from 7.50% to 7.45%
Inflation assumption (general)	Decreased from 2.65% to 2.60%
Salary increases assumption	Decreased from 3.15% to 9.15% to 3.10% to 9.10%

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

Town of Elkton Police Pension Plan

Actuarial	Projected Unit Credit
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	Closed periods range from 13 to 20 years remaining as of the 2017 valuation
Asset Valuation Method	Market value
Inflation	3.00%
Salary Increases	5.00%, 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 or age 60 with ten years' service
Mortality	RP-2014 Healthy tables with Blue Collar Adjustments and generational projection by MP-2015

**TOWN OF ELKTON, MARYLAND  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2019**

**NOTE 3 METHODS AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS (CONTINUED)**

Maryland State Retirement and Pension System

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	2.60% General, 3.1% Wage
Salary Increases	3.10% to 9.10%
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 (2-dimensional) mortality improvement scale, calibrated to the system experience.

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION – GENERAL FUND BUDGET**  
**JUNE 30, 2019**

**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 ended June 30, 2019. 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, 2019, supplemental appropriations that increased the budget for revenues by \$965,998 and the expenditures by \$590,551 for a net increase in use of fund balance of \$375,447.

**NOTE 2 LEGAL LEVEL OF BUDGETARY CONTROL**

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

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION – GENERAL FUND BUDGET**  
**JUNE 30, 2019**

**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 U.S. 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 U.S. GAAP basis to budgetary basis:

	General Fund		Fund Balance
	Revenues	Expenditures	
U.S. GAAP Basis	\$ 12,733,502	\$ 13,800,006	\$ 3,782,105
Internal Loan Balance Repayments			
FY 2006 and Prior	-	-	-
Budgetary Basis	\$ 12,733,502	\$ 13,800,006	\$ 3,782,105

**OTHER SUPPLEMENTAL INFORMATION**

**TOWN OF ELKTON, MARYLAND**  
**DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND**  
**(NON-U.S. GAAP BUDGETARY BASIS)**  
**YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes and Utility Fees				
Property:				
Real Property	\$ 7,238,886	\$ 7,238,886	\$ 7,509,011	270,125
Traders	7,700	7,700	10,573	2,873
Railroads and Public Utilities	210,000	210,000	144,045	(65,955)
Ordinary Business Corporation	950,000	950,000	631,195	(318,805)
Payments in Lieu of Taxes	24,000	24,000	31,118	7,118
Penalties and Interest	33,500	33,500	30,287	(3,213)
Less:				
Abatements and Collection Fees	(82,000)	(82,000)	(294,091)	(212,091)
Volunteer Fire Co. Rebates	(1,900)	(1,900)	(1,500)	400
Enterprise Zone Credits	(5,791)	(5,791)	(5,791)	-
Total Property and Real Taxes	<u>8,374,395</u>	<u>8,374,395</u>	<u>8,054,847</u>	<u>(319,548)</u>
Other:				
Local Income Tax	857,000	857,000	1,280,464	423,464
Hotel/Motel Taxes	380,000	380,000	397,664	17,664
Highway Gas Tax	413,816	413,816	416,601	2,785
Admission and Amusement	25,000	25,000	26,201	1,201
Total Other Taxes	<u>1,675,816</u>	<u>1,675,816</u>	<u>2,120,930</u>	<u>445,114</u>
Total Taxes and Utility Fees	10,050,211	10,050,211	10,175,777	125,566
Licenses and Permits				
Traders	40,000	40,000	36,792	(3,208)
Occupational	350	350	425	75
Building	60,000	60,000	103,860	43,860
Cable Television	223,000	223,000	210,795	(12,205)
Total License and Permits	<u>323,350</u>	<u>323,350</u>	<u>351,872</u>	<u>28,522</u>
Intergovernmental Revenues				
Federal:				
Grant - CDBG	-	800,000	171,738	(628,262)
Other	-	-	42,157	42,157
Grant - Community Legacy Program	-	5,683	5,683	-
Total Federal	-	805,683	219,578	(586,105)
State:				
Grant - State Police Aid	<u>264,527</u>	<u>264,527</u>	<u>272,054</u>	<u>7,527</u>
Total State	<u>264,527</u>	<u>264,527</u>	<u>272,054</u>	<u>7,527</u>

**TOWN OF ELKTON, MARYLAND**  
**DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND**  
**(NON-U.S. GAAP BUDGETARY BASIS) (CONTINUED)**  
**YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>REVENUES (Continued)</b>				
Intergovernmental Revenues (Continued)				
Local:				
County Tax Differential	\$ 319,025	\$ 319,025	\$ 319,025	\$ -
Other	7,946	14,959	16,758	1,799
Total Local	<u>326,971</u>	<u>333,984</u>	<u>335,783</u>	<u>1,799</u>
Total Intergovernmental Revenue	<u>591,498</u>	<u>1,404,194</u>	<u>827,415</u>	<u>(576,779)</u>
General Government:				
Zoning and Subdivision Fees	17,000	17,000	27,888	10,888
Critical Areas Forest Mitigation	-	126,977	126,977	-
Other	150	150	172	22
Total General Government	<u>17,150</u>	<u>144,127</u>	<u>155,037</u>	<u>10,910</u>
Public Safety:				
Special Police Services	36,671	62,996	13,972	(49,024)
Highway and Streets:				
Public Parking Facilities	14,000	14,000	11,417	(2,583)
Sanitation and Waste Removal:				
Solid Waste	581,315	581,315	581,636	321
Landfill Rebate	26,759	26,759	26,759	-
Other	1,000	1,000	14,412	13,412
Total Sanitation and Waste Removal	<u>609,074</u>	<u>609,074</u>	<u>622,807</u>	<u>13,733</u>
Parks and Recreation:				
Building Use Permits	1,500	1,500	4,797	3,297
Programs and Events	158,000	158,000	126,098	(31,902)
Total Parks and Recreation	<u>159,500</u>	<u>159,500</u>	<u>130,895</u>	<u>(28,605)</u>
Total Charges for Services	836,395	989,697	934,128	(55,569)
Fines and Forfeitures				
Parking Fines	19,000	19,000	20,520	1,520
Miscellaneous Revenue - Other				
Interest	30,600	30,600	234,444	203,844
Other Miscellaneous Revenues	30,000	30,000	189,346	159,346
Total Miscellaneous Revenue	<u>60,600</u>	<u>60,600</u>	<u>423,790</u>	<u>363,190</u>
Long Term Debt Proceeds	<u>967,632</u>	<u>967,632</u>	<u>-</u>	<u>(967,632)</u>
Total Revenues	12,848,686	13,814,684	12,733,502	(1,081,182)

**TOWN OF ELKTON, MARYLAND**  
**DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND**  
**(NON-U.S. GAAP BUDGETARY BASIS) (CONTINUED)**  
**YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>EXPENDITURES</b>				
General Government				
Mayor and Council	\$ 240,661	\$ 240,661	\$ 238,264	\$ 2,397
Administration	359,744	359,744	346,145	13,599
Finance and Accounting	219,372	219,372	217,001	2,371
Planning and Zoning	299,566	299,566	276,063	23,503
General Services	3,808,481	4,084,935	787,163	3,297,772
Personnel	157,591	157,591	127,825	29,766
Community Promotion	15,250	20,933	15,992	4,941
Public Officers Association	14,905	14,905	14,905	-
Total General Government	<u>5,115,570</u>	<u>5,397,707</u>	<u>2,023,358</u>	<u>3,374,349</u>
Public Safety				
Police Department:				
Police Patrol	5,927,177	5,953,502	5,359,344	594,158
Support Services	710,863	710,863	673,220	37,643
Total Police Department	<u>6,638,040</u>	<u>6,664,365</u>	<u>6,032,564</u>	<u>631,801</u>
Other Public Safety				
Volunteer Fire Department	136,650	143,663	142,816	847
Building Inspection	523,164	523,164	473,716	49,448
Total Other Public Safety	<u>659,814</u>	<u>666,827</u>	<u>616,532</u>	<u>50,295</u>
Total Public Safety	<u>7,297,854</u>	<u>7,331,192</u>	<u>6,649,096</u>	<u>682,096</u>
Public Works				
Sanitation and Waste Removal:				
Maintenance	3,857,406	3,960,482	3,320,425	640,057
Waste Collection and Disposal	999,292	1,171,292	1,157,248	14,044
Mosquito and Weed Control	8,200	8,200	7,960	240
Total Public Works	<u>4,864,898</u>	<u>5,139,974</u>	<u>4,485,633</u>	<u>654,341</u>
Recreation and Culture				
Parks and Recreation	416,197	416,197	393,418	22,779
Debt Service				
Principal	337,855	337,855	246,279	91,576
Interest	18,051	18,051	2,222	15,829
Total Debt Service	<u>355,906</u>	<u>355,906</u>	<u>248,501</u>	<u>107,405</u>
Total Expenditures	<u>18,050,425</u>	<u>18,640,976</u>	<u>13,800,006</u>	<u>4,840,970</u>
<b>Excess (deficiency) of Revenues Over Expenditures</b>	<u>\$ (5,201,739)</u>	<u>\$ (4,826,292)</u>	<u>\$ (1,066,504)</u>	<u>\$ 3,759,788</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer to Sewer Fund	\$ 75,000	\$ 75,000	\$ -	\$ (75,000)
Total Other Financing Sources (Uses)	<u>\$ 75,000</u>	<u>\$ 75,000</u>	<u>\$ -</u>	<u>\$ (75,000)</u>

**TOWN OF ELKTON, MARYLAND  
 COMBINING STATEMENT OF FIDUCIARY NET POSITION – TRUST FUNDS  
 YEAR ENDED JUNE 30, 2019**

	Defined Contribution Plan	Police Pension Plan	Total Pension Trusts
<b>ASSETS</b>			
Money Market Funds	\$ 88,475	\$ 901,804	\$ 990,279
Investments:			
Equity Mutual Funds	1,541,263	4,023,398	5,564,661
Fixed Income Mutual Funds	2,077,946	2,338,815	4,416,761
Total Investments	3,619,209	6,362,213	9,981,422
Total Assets	\$ 3,707,684	\$ 7,264,017	\$ 10,971,701
<b>NET POSITION</b>			
Held in Trust for Pension Benefits	\$ 3,707,684	\$ 7,264,017	\$ 10,971,701

**TOWN OF ELKTON, MARYLAND  
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – TRUST FUNDS  
 YEAR ENDED JUNE 30, 2019**

	Defined Contribution Plan	Police Pension Plan	Total Pension Trusts
<b>ADDITIONS</b>			
Employer Contributions	\$ 269,298	\$ 343,044	\$ 612,342
Employee Contributions	-	177,157	177,157
Investment Gains	217,497	383,464	600,961
Total Additions	<u>486,795</u>	<u>903,665</u>	<u>1,390,460</u>
<b>DEDUCTIONS</b>			
Benefit Payments	297,454	64,407	361,861
Miscellaneous	-	7,222	7,222
Administrative Fees	-	12,921	12,921
Total Deductions	<u>297,454</u>	<u>84,550</u>	<u>382,004</u>
<b>CHANGE IN NET POSITION</b>	189,341	819,115	1,008,456
Net Position - Beginning of Year	<u>3,518,343</u>	<u>6,444,902</u>	<u>9,963,245</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 3,707,684</u>	<u>\$ 7,264,017</u>	<u>\$ 10,971,701</u>