

TOWN OF EKTON, VIRGINIA
FINANCIAL AND COMPLIANCE REPORTS

JUNE 30, 2011

CONTENTS

Page

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS 1 and 2

MANAGEMENT'S DISCUSSION AND ANALYSIS 3-12

BASIC FINANCIAL STATEMENTS

Government-wide financial statements

Statement of net assets 13
Statement of activities 14

Fund financial statements

Governmental fund:

Balance sheet 15
Reconciliation of the balance sheet to the statement of net assets 16
Statement of revenues, expenditures, and changes in fund balance 17
Reconciliation of the statement of revenues, expenditures, and changes in the fund balance of the governmental fund to the statement of activities 18
Proprietary funds:
Balance sheets 19
Statements of revenues, expenses, and changes in net assets 20 and 21
Statements of cash flows 22 and 23
Fiduciary fund:
Statement of fiduciary net assets 24
Statement of changes in fiduciary net assets 25

Notes to financial statements 26-45

REQUIRED SUPPLEMENTARY INFORMATION-OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS

General fund statement of revenues, expenditures, and changes in fund balance - budget and actual 46
Schedule of funding progress - defined benefit pension plan 47

OTHER SUPPLEMENTARY INFORMATION

Financial statements of individual funds:

General Fund 48 and 49
Statement of revenues, compared to budget
Statement of expenditures, compared to budget 50-53
Electric Fund
Statement of revenues, expenses and changes in net assets - budget and actual 54
Water Fund
Statement of revenues, expenses and changes in net assets - budget and actual 55
Sewer Fund
Statement of revenues, expenses and changes in net assets - budget and actual 56
Schedule of capital additions 57

COMPLIANCE SECTION

Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* 58 and 59



INDEPENDENT AUDITORS' REPORT

To the Honorable Town Council
Town of Elkton
Elkton, VA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the fiduciary fund of the Town of Elkton, Virginia, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Elkton's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the fiduciary fund of the Town of Elkton, Virginia, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2011, on our consideration of the Town of Elkton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Young, Nicholas, Branner & Phillips, LLP
Certified Public Accountants

Located at 1041 South High Street
Mailing P.O. Box 2187
Harrisonburg, VA 22801-9506
(540) 433-2581 • FAX (540) 433-0147

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information, listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us the sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Elkton's financial statements as a whole. The other supplementary information, listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Young, Nicholas, Branner & Phillips, LLP

Harrisonburg, VA
November 2, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Town of Elkton's financial performance provides an overview of the Town's financial activities for the year ended June 30, 2011. Please read it in conjunction with the Town's financial statements, which begin on page 13.

FINANCIAL HIGHLIGHTS

- The assets of the Town exceeded its liabilities by \$6,685,300 at the close of the most recent fiscal year.
- The Town's net assets increased as a result of this year's operations. While net assets of the business-type activities decreased by \$55,144, net assets of the governmental activities increased by \$363,994.
- In the Town's business-type activities, operating revenues increased by \$292,604 from the previous year and operating expenses increased by \$365,862.
- In the Town's governmental activities, operating revenues increased by \$95,302 from the previous year and operating expenses decreased by \$58,987.
- Actual revenues were \$262,709 more than budgeted for the General Fund. General Fund expenditures were \$155,679 more than budgeted.
- Operating revenues were \$115,718 less than budgeted for the Electric Fund. Electric Fund operating expenses, excluding depreciation, were \$44,029 more than budgeted.
- Operating revenues were \$46,169 less than budgeted for the Water Fund. Water Fund operating expenses, excluding depreciation, were \$33,345 more than budgeted.
- Operating revenues were \$19,024 more than budgeted for the Sewer Fund. Sewer Fund operating expenses, excluding depreciation, were \$169,324 more than budgeted.
- The Town spent \$2,524,635 for capital outlays during the current fiscal year.
- The Town's long-term debt increased by \$1,340,354 during the current fiscal year.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 13 and 14) provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements start on page 15. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds.

Reporting the Town as a Whole

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

These two statements report the Town's *net assets* and changes in them. You can think of the Town's net assets- the difference between assets and liabilities-as one way to measure the Town's financial health, or *financial position*. Over time, *increases* or *decreases* in the Town's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Town's property base and condition of the Town's roads, to assess the *overall health* of the Town.

In the Statement of Net Assets and the Statement of Activities, we divide the Town into two kinds of activities:

- *Governmental activities*-Most of the Town's basic services are reported here, including public safety, public works, cultural and recreation and general administration. Property taxes, other local taxes and state and federal grants finance most of these activities.
- *Business-type activities*-The Town charges a fee to customers/users to help it cover all or most of the cost of certain services it provides. The Town's water, sewer and electric systems are reported here.

Reporting the Town's Most Significant Funds

The fund financial statements begin on page 15 and provide detailed information about the Town's funds-not the Town as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town uses fund accounting to ensure and reflect compliance (or noncompliance) with finance-related legal requirements, such as the budget ordinance. The Town's two kinds of funds-*governmental* and *proprietary*-use different accounting approaches.

- *Governmental fund*-Most of the Town's basic services are reported in the governmental fund, which focuses on how money flows into and out of the fund and the balances left at year-end that are nonspendable, restricted, committed, assigned, or unassigned. These classifications of fund balance show the nature and extent of constraints placed on the Town's fund balances by law, creditors, Town Council, and the Town's annually adopted budget. Unassigned fund balance is available for spending for any purpose. This fund is reported using an accounting method called *modified accrual accounting*, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Town's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and the governmental *fund* in reconciliations following the fund financial statements.

- *Proprietary funds*-When the Town charges customers/users for the services provided it is reported in the proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the Town's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

THE TOWN AS TRUSTEE

The Town is the trustee, or fiduciary, for the cemetery. It is also responsible for other assets that - because of a trust arrangement - can be used only for the trust beneficiary. All of the Town's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets on pages 24 and 25. We exclude these activities from the Town's other financial statements because the Town cannot use these assets to finance its operations. The Town is responsible for ensuring that the assets reported in this fund are used for their intended purposes.

THE TOWN AS A WHOLE

The Town's *combined* net assets changed modestly from a year ago - *increasing* from \$6,376,450 to \$6,685,300. During the year, the net assets of the governmental activities increased by 8.82 percent and the business-type activities decreased by 2.44 percent. Below is a summary of the net assets as of June 30, 2011 and 2010.

NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 1,970,465	\$ 1,929,953	\$ 538,748	\$ 526,568	\$ 2,509,213	\$ 2,456,521
Capital assets	6,775,707	6,455,452	5,726,758	4,042,512	12,502,465	10,497,964
Total assets	\$ 8,746,172	\$ 8,385,405	\$ 6,265,506	\$ 4,569,080	\$ 15,011,678	\$ 12,954,485
Long-term liabilities	\$ 3,575,844	\$ 3,807,325	\$ 3,585,089	\$ 2,013,253	\$ 7,160,933	\$ 5,820,578
Other liabilities	680,904	452,650	484,541	304,807	1,165,445	757,457
Total liabilities	\$ 4,256,748	\$ 4,259,975	\$ 4,069,630	\$ 2,318,060	\$ 8,326,378	\$ 6,578,035
Net assets:						
Invested in capital assets, net of related debt	\$ 3,199,863	\$ 2,648,127	\$ 2,191,572	\$ 2,081,197	\$ 5,391,435	\$ 4,729,324
Unrestricted	1,289,561	1,477,303	4,304	169,823	1,293,865	1,647,126
Total net assets	\$ 4,489,424	\$ 4,125,430	\$ 2,195,876	\$ 2,251,020	\$ 6,685,300	\$ 6,376,450

The largest portion of the Town's net assets (80.64 percent) reflects its investments in capital assets (e.g., land, buildings, equipment and improvements), less any debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of unrestricted net assets (\$1,293,865) may be used to meet the government's ongoing obligation to citizens and creditors.

The following is a summary of the changes in net assets for the governmental and business-type activities for the years ended June 30, 2011 and 2010.

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues						
Charges for services	\$ 341,466	\$ 381,453	\$ 2,927,537	\$ 2,634,933	\$ 3,269,003	\$ 3,016,386
General property taxes	224,628	215,006	-	-	224,628	215,006
Other local taxes	971,088	875,131	-	-	971,088	875,131
Intergovernmental	561,572	528,283	-	-	561,572	528,283
Miscellaneous	15,272	18,851	-	-	15,272	18,851
Total revenues	\$ 2,114,026	\$ 2,018,724	\$ 2,927,537	\$ 2,634,933	\$ 5,041,563	\$ 4,653,657

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Program expenses						
General government	\$ 696,273	\$ 700,944	\$ -	\$ -	\$ 696,273	\$ 700,944
Public safety	459,044	443,319	-	-	459,044	443,319
Public works	417,648	505,767	-	-	417,648	505,767
Cultural and recreation	311,022	301,482	-	-	311,022	301,482
Community development	22,428	13,890	-	-	22,428	13,890
Electric	-	-	1,622,110	1,336,236	1,622,110	1,336,236
Water	-	-	362,835	343,788	362,835	343,788
Sewer	-	-	591,540	530,599	591,540	530,599
Total expenses	\$ 1,906,415	\$ 1,965,402	\$ 2,576,485	\$ 2,210,623	\$ 4,482,900	\$ 4,176,025
Operating income	\$ 207,611	\$ 53,322	\$ 351,052	\$ 424,310	\$ 558,663	\$ 477,632
Nonoperating						
Interest income	\$ 9,877	\$ 12,837	\$ -	\$ -	\$ 9,877	\$ 12,837
Increase (decrease) in investments	1,197	4,995	-	-	1,197	4,995
Gain (loss) on disposal of assets	11,376	12,996	(100,297)	(75,323)	(88,921)	(62,327)
Interest expense	(131,066)	(139,108)	(70,900)	(79,504)	(201,966)	(218,612)
Total nonoperating	\$ (108,616)	\$ (108,280)	\$ (171,197)	\$ (154,827)	\$ (279,813)	\$ (263,107)
Income (loss) before contribution and transfers	\$ 98,995	\$ (54,958)	\$ 179,855	\$ 269,483	\$ 278,850	\$ 214,525
Capital contribution and transfers						
Water distribution system grant	\$ -	\$ -	\$ 30,000	\$ -	\$ 30,000	\$ -
Transfers	264,999	402,932	(264,999)	(402,932)	-	-
Total contribution and transfers	\$ 264,999	\$ 402,932	\$ (234,999)	\$ (402,932)	\$ 30,000	\$ -
Change in net assets	\$ 363,994	\$ 347,974	\$ (55,144)	\$ (133,449)	\$ 308,850	\$ 214,525

The Town's total revenues increased by \$387,906 (8.33 percent), while the total cost of all programs and services increased by \$306,875 (7.34 percent). Our analysis that follows separately considers the operations of governmental and business-type activities.

Governmental Activities

Operating revenues for the Town's governmental activities increased by \$95,302 (4.72 percent) while operating expenses decreased by \$58,987 (3.00 percent). The factors driving these results include:

Revenues

- *Charges for services* overall decreased by \$39,987. This decrease was due mostly in the HEC rollover fund. The contract with Virginia Municipal Electric Association expired and the Town was no longer required to hold reserve funds. The Town now gets a credit on its electric bill, therefore funds were not placed in the Harrisonburg Electric Commission rollover fund which accounted for a \$50,000 decrease in this fund. There was an approximate \$7,000 increase in cable pole rents due to collecting delinquent prior years' revenue and an approximate \$5,000 increase in charges for recreation at the Community Center.

- *Intergovernmental revenues* increased by \$33,289. The overall increase was due to a \$47,000 increase in street and highway maintenance funds given to the Town by the Commonwealth of Virginia. Additionally, there was no federal grant of approximately \$13,500 given to the Town by the U.S. Forestry Service as the project for which it was intended was finished in the previous fiscal year.

- *Other local taxes* overall increased by \$95,957. The most significant increase of approximately \$63,000 can be attributed to the addition of a new source of revenue in the form of a cigarette tax. Also, an increase in citizen demand for local food and products led to an increase in revenues in the categories of local sales and use taxes and meals taxes of approximately \$14,000 and \$12,500, respectively. Another increase resulted from the bank stock tax, which is computed based upon a ratio of deposits to banks' net capital assets. The Town's share of this tax reflected an increase of \$8,000.

Expenses

- *Public safety* increased overall by \$15,725. The police department saw an increase of approximately \$14,000 in salaries and specifically \$9,000 in police officer overtime pay due to significantly more overtime worked by officers to cover personnel turnover. An increase of approximately \$5,500 in employee benefits can also be seen, as contributions to retirement plans coincided with the increase in police officer salaries.
- *Public works* expenses decreased overall by \$88,119. The largest decrease was in the sanitation department due to the Town's taking over the trash service that was previously contracted to outside businesses. The elimination of the trash contract during the year led to an approximate \$70,000 decrease in trash removal expenses in the sanitation department. There was also an increase of approximately \$11,000 as workers from the Town are now used to help remove the trash. Salaries and wages decreased in the maintenance and streets department by approximately \$31,500 as part time salaries and overtime were decreased dramatically in accordance with the Town's decision to cut costs.
- *Cultural and recreation* expenses increased overall by \$9,540. The Town experienced a significant increase in supplies and small equipment in the Community Center of approximately \$2,000 and \$5,000, respectively. This increase is due to an increase in the demand and use of the Community Center by the Town's citizens.
- *Community Development* expenses increased overall by \$8,538. This increase is due largely in part to the expense of approximately \$7,000 for the use of a James Madison University graduate student to provide assistance in the economic development department.

Business-Type Activities

Operating revenues for the Town's business-type activities increased by \$292,604 (11.1 percent) and operating expenses increased by \$365,862 (16.55 percent). The factors driving these results include:

Revenues

- *Electric revenues* increased overall by \$144,107. The most significant increase was for charges for services of approximately \$138,000. Overall usage increased significantly as the abnormally adverse winter temperatures encouraged the Town's citizens to increase the usage of electricity in their homes.
- *Water revenues* increased overall by \$53,513. The Town saw a significant increase in revenues that resulted from the charges for services of approximately \$38,000. This is a result of an increase in rates that took place at the beginning of the fiscal year as a requirement to obtain the zero percent loan to upgrade the wastewater treatment plant. Additionally, the Town collected water connection fees of approximately \$10,500.

- *Sewer revenues* increased overall by \$94,984. The Town saw a significant decrease in connection fees of approximately \$15,000. However, a significant increase occurred in charges for services of approximately \$110,000 resulting from an increase in sewer rates at the beginning of the fiscal year that was required in order to obtain the zero percent loan to upgrade the wastewater treatment plant.

Expenses

- *Electric expenses* increased overall by \$285,874. A significant increase that occurred in this category was electric power costs that increased by approximately \$263,000. The change was attributed not only to an increase in the usage of electricity by the Town's residents, but also to the rates charged to the Town by the Virginia Municipal Electric Association. Additionally, there was an increase of approximately \$15,000 in salaries and wages recorded in the electric fund due to more general labor and work needed.
- *Water expenses* increased overall by \$19,047. The Town saw a significant increase in expenses due largely to the Town's water projects concerning water sources and quality. The improvements and opening of Town water wells increased the supply expenses and repairs and maintenance expenses by approximately \$25,000 and \$3,000, respectively.
- *Sewer expenses* increased overall by \$60,941. The most significant increase occurred when the Town decided to lease the pumps needed to run the sewer facility. This caused an approximate increase of \$33,000. Additionally, landfill expenses increased by approximately \$31,000. This increase was due to the removal of the sludge drying beds during the wastewater treatment plant upgrades which increased the amount of sludge taken to the landfill.

THE TOWN'S FUNDS

As the Town completed the year, its governmental fund (as presented in the balance sheet on page 15) reported a fund balance of \$1,345,819, which is a decrease of \$177,019 over last year's total of \$1,522,838.

The primary reasons for the General Fund's decrease mirror the changes noted in the previous section under "governmental" activities. In addition, the Town expended \$510,576 on capital additions (see page 57), an increase of \$416,447 over the prior year.

As the Town completed the year, its proprietary funds (as presented in the balance sheets on page 19) reported net assets of \$2,195,876, which is a decrease of \$55,144 over last year's total of \$2,251,020. Significant changes in the change in net assets are noted in the previous section under "business-type" activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Town Council revised the Town's budget once. The changes were made to reflect changes in estimates regarding multiple revenues and expenses across all funds. Notable changes were made to reflect the institution of the cigarette tax, the purchase of capital equipment by public works and the Community Center. The significant variations of actual results to the Town's final budget are summarized below.

<u>Account</u>	<u>Variance</u> <u>Positive</u> <u>(Negative)</u>
Revenues	
Local sales and use	\$ 27,846
Business licenses	(9,860)
Motor vehicle licenses	(14,208)
Bank stock	30,547
Meals	18,541
Interest on bank deposits	9,727
Insurance proceeds	21,675
Street and highway maintenance	129,979
Expenditures	
<i>General Government Administration</i>	
Salaries and wages	\$ (7,038)
Payroll taxes	(8,531)
<i>Public Safety</i>	
Salaries and wages	(16,016)
Capital outlays	(17,890)
<i>Public Works – Maintenance and Streets</i>	
Payroll taxes	11,018
Vehicle maintenance	(10,225)
<i>Public Works – Sanitation</i>	
Capital outlays	(178,706)
<i>Cultural & Recreation – Community Center</i>	
Capital outlays	8,700
<i>Cultural & Recreation - Recreation</i>	
Salaries and wages	16,418
Capital outlays	8,000
<i>Debt Service</i>	
Community Center loan principal	37,763
Hiram Kite property payment	(16,285)

Local sales and use tax revenues were budgeted to decrease by about 16 percent due to a struggling economy; however, revenues actually increased over the previous year's revenues as consumer demand for local goods grew. Business license revenues were expected to increase slightly; however, due to the struggling economy, business gross receipts were down and therefore revenues to the Town actually decreased from the previous year. Motor vehicle licenses were budgeted to increase by about 11 percent from the prior fiscal year and experienced an even larger increase in revenue than expected. The Town budgeted bank stock revenue based on revenues received in previous years with a slight increase, but the tax calculated actually increased. Meals tax surpassed budgeted amounts due to growing popularity of new restaurants. The Town did not budget insurance proceeds that were received for a police vehicle that had to be replaced. The Town anticipated more revenues for street and highway maintenance and received revenues of an even greater amount than was received in the past fiscal year.

In general government, the Town decreased budgeted amounts for salaries and wages by about 5 percent; however, expenses increased to the amount budgeted for last fiscal year. Concurrently, payroll taxes also experienced an increase as salary expenses rose. In public safety, salaries and wages were more than budgeted due to the payment of overtime to officers for hours worked to cover time during an employee turnover period. Also, capital outlays were more than expected because the new police vehicle purchased to replace the previous vehicle was not accounted for in the budget. In the maintenance and streets department of public works, payroll taxes were less than budgeted due to a decrease in salaries and wages and a temporary decrease in national employee social security rates. Vehicle maintenance expense was more than anticipated due to unexpected repairs needed for older vehicles. In the department of public works, capital outlays were more than budgeted due to year-end street paving project that was not included in the budget. In cultural and recreation, the Town budgeted amounts for capital outlays that were not used in the current fiscal year. In the recreation department, the Town had budgeted for an increase for part-time labor to help run the added programs in the Community Center; however, this help was not needed and actual expenses returned to normal levels. In debt service, the budgeted amounts were not adjusted for the Community Center loan and Hiram Kite property payment causing the variations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the Town had \$12.5 million invested in capital assets including public works and police equipment, buildings, park facilities, sidewalks, and the water, electric, and sewer systems. (See table below.) This represents a net increase of \$2,004,500 or 19.1 percent, over last year.

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Land	\$ 2,383,856	\$ 2,383,856	\$ 41,056	\$ 41,056	\$ 2,424,912	\$ 2,424,912
Buildings	2,937,095	3,017,667	-	-	2,937,095	3,017,667
Equipment	620,954	413,880	417,187	384,621	1,038,141	798,501
Infrastructure	833,802	640,049	-	-	833,802	640,049
Utility system	-	-	5,268,515	3,616,836	5,268,515	3,616,836
Totals	<u>\$ 6,775,707</u>	<u>\$ 6,455,452</u>	<u>\$ 5,726,758</u>	<u>\$ 4,042,513</u>	<u>\$ 12,502,465</u>	<u>\$ 10,497,965</u>

This year's major additions included:

WWTP upgrades	\$ 1,850,764
Street paving project	199,367
2009 Freighliner garbage truck	144,328
Water distribution project	51,250
Well project	41,673
	<u>\$ 2,287,382</u>

Debt

At year-end, the Town had \$7,160,844 in outstanding loans compared to \$5,820,578 last year. This is an increase of 23.02 percent as shown in the following tables.

Governmental-Type Activities

	Outstanding June 30,	
	<u>2011</u>	<u>2010</u>
General Obligation Bonds, United Bank	\$ 600,000	\$ 650,000
General Obligation Bonds, Farmers and Merchants	600,000	650,000
Kite Charitable Remainder Trust	299,084	309,656
Farmers and Merchants (Community Center)	1,455,671	1,517,908
Joseph H. Kite, Jr. (Land, Spotswood Trail)	621,089	677,374
Joe Bowman Chevrolet, Inc. (Silverado)	-	2,387
	<u>\$ 3,575,844</u>	<u>\$ 3,807,325</u>

Business-Type Activities

	Outstanding June 30,	
	<u>2011</u>	<u>2010</u>
Sewer loan payable	\$ 135,612	\$ 147,060
Generator loan payable	96,767	221,210
Virginia Resources Authority loan payable	2,077,486	329,909
Virginia Municipal League (Pentecostal Hill project)	1,235,000	1,260,000
Belt press loan payable	40,223	55,074
	<u>\$ 3,585,088</u>	<u>\$ 2,013,253</u>

New debt was issued for the purpose of funding the Wastewater Improvements Project. The total amount of new debt was \$1,747,577 for the year ended June 30, 2011.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In the budget for FY 2011-2012, operating revenues are projected at \$4,990,428, which is a decrease of \$2,498,760 or 33.36 percent under the FY 2010-2011 budget. In the budget for FY 2011-2012, operating expenses are projected at \$4,990,428, which is a decrease of \$2,498,760 or 33.36 percent under the FY 2010-2011 budget. The decrease in budgeted revenues for the upcoming year is due to the Town's no longer receiving loan proceeds for wastewater treatment plant as the upgrades come to an end. The revenues budgeted for the sewer fund decreased by approximate 86 percent from last fiscal year. Water, sewer and trash collection rates have been recently raised in order to cope with rising expenses needed to deliver these services to the citizens. The revenues generated through water and sewer services are budgeted to increase by approximately 8 percent in the next fiscal year. Electric revenues in turn are expected to decrease by 8 percent in order to adjust to past years' revenue trends. No large developments, which generate large connection revenues, are expected in the upcoming year. The Town has budgeted for increases in Town value in real estate and personal property taxes by approximately 2 and 21 percent, respectively. With the increased debt service in future years, the Town is making a concerted effort to reduce expenses. In response to major capital projects undertaken in the

Utility Funds, the Town has budgeted to decrease General Fund expenses by approximately 7 percent in order to offset Utility Fund expenses and free up cash resources. A decrease of approximately \$2.4 million was budgeted for capital outlays in the sewer fund since a majority of the upgrades to the wastewater treatment plant were completed in the 2010-2011 fiscal year. Another notable change included an approximate 13 percent increase to the expected electric power purchases due to the increased rates charged by the Virginia Municipal Electric Association.

In the 2012 fiscal year, the Town chose not to budget for transfers. In analyzing the budget, transfers are expected. Money will be needed in the General Fund, which will be transferred from the Electric, Water and Sewer Funds. This money will be transferred as needed to pay bills.

The Town is continuing to work on improvements to the wastewater treatment plant this year due to mandates from the Department of Environmental Quality. In fiscal year 2010, designs were being compiled with to meet the requirements ordered by the DEQ. This project is multi-faceted, but each of the sub-projects should be completed in the early part of the 2012 fiscal year. The Town anticipates that the cost of the entire project will be approximately \$2.4 million dollars. To fund this, the Town was awarded a zero percent interest loan from the Virginia DEQ Revolving Loan Fund. This is a twenty-year loan, which will indebt the Town to an approximate \$150,000 annual payment that begins six months after the project is complete. The Town projects that the increase in water and sewer rates phased in during fiscal year 2010 and 2011 will pay for the annual principal payment.

While the overall capacity of the plant will not increase, the components that are to be installed will collectively be approximately twice the size of the plant. If the Town ever decides to increase the capacity of the plant, those components will not have to be replaced. These upgrades include but are not limited to:

- The replacement of existing UV system and influent screen
- Modification of existing aeration system
- Repairs and modifications to existing sludge drying beds
- Construction of sludge dewatering system and relocation of existing equipment
- Installation of new electrical service including new generator
- Improvements to existing electrical system
- Construction of onsite sewer main and water distribution lines.

Finally, the Town plans to continue to replace damaged or inappropriately designed sewer pipes throughout the Town. This will reduce the inflow and infiltration problem and reduce the amount of groundwater that is unnecessarily treated at the plant. It will also reduce bottle-necks in the system, which could cause a major backup as the system expands. The Town will repair sewer lines on Spotswood Avenue and replace approximately 700 feet of sewer pipe and manholes along Blue and Gold Drive in fiscal year 2012.

The Town of Elkton is also currently developing a ten-year capital improvements plan. This plan will focus primarily on basic infrastructure replacement and upgrade to ensure that the infrastructure lasts many more years. Beginning early in fiscal year 2012, the Town will undertake a streets improvement project which involves the repaving of patches of pavement that are in disrepair located in many areas around the Town.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Town Office at 173 West Spotswood Avenue, Elkton, VA.

Government-Wide Financial Statements

TOWN OF ELKTON, VIRGINIA
STATEMENT OF NET ASSETS
 June 30, 2011

	-----Primary Government-----		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,457,055	\$ -	\$ 1,457,055
Receivables, net of allowances for uncollectible amounts:			
Property taxes	333,810	-	333,810
Accounts and other	13,905	259,139	273,044
Due from other governmental units and businesses	112,883	-	112,883
Due from fiduciary fund	27,292	-	27,292
Inventories	7,847	188,494	196,341
Prepaid expenses	17,673	41,213	58,886
Unamortized bond discount	-	49,902	49,902
Capital assets:			
Non-depreciable	2,383,856	41,056	2,424,912
Depreciable, net of accumulated depreciation	4,391,851	5,685,702	10,077,553
Total assets	\$ 8,746,172	\$ 6,265,506	\$ 15,011,678
LIABILITIES			
Accounts payable	\$ 241,957	\$ 305,414	\$ 547,371
Accrued liabilities	37,718	17,112	54,830
Accrued compensated absences	99,354	41,703	141,057
Accrued interest payable	26,372	24,730	51,102
Customer deposits	-	86,515	86,515
Deferred revenues	275,503	9,068	284,571
Long term liabilities:			
Due within one year	261,923	303,411	565,334
Due in more than one year	3,313,921	3,281,677	6,595,598
Total liabilities	\$ 4,256,748	\$ 4,069,630	\$ 8,326,378
NET ASSETS			
Invested in capital assets, net of related debt	\$ 3,199,863	\$ 2,191,572	\$ 5,391,435
Unrestricted	1,289,561	4,304	1,293,865
Total net assets	\$ 4,489,424	\$ 2,195,876	\$ 6,685,300

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Assets

----- Primary Government -----

Governmental Activities	Business-Type Activities	Total
----------------------------	-----------------------------	-------

	\$	\$	\$
	(696,273)	-	(696,273)
	(371,927)	-	(371,927)
	149,818	-	149,818
	(85,920)	-	(85,920)
	(22,428)	-	(22,428)
	(131,066)	-	(131,066)
	<u>\$ (1,157,796)</u>	<u>-</u>	<u>\$ (1,157,796)</u>
\$	-	\$ 289,667	\$ 289,667
-	62,095	-	62,095
<u>-</u>	<u>(41,610)</u>	<u>-</u>	<u>(41,610)</u>
\$	<u>-</u>	\$ 310,152	\$ 310,152
<u>\$ (1,157,796)</u>	<u>\$ 310,152</u>	<u>\$ (847,644)</u>	<u>\$ (847,644)</u>

	\$	\$	\$
	224,628	-	224,628
	971,088	-	971,088
	11,074	-	11,074
	31,356	-	31,356
	11,376	(100,297)	(88,921)
	7,269	-	7,269
	<u>264,999</u>	<u>(264,999)</u>	<u>-</u>
	<u>\$ 1,521,790</u>	<u>\$ (365,296)</u>	<u>\$ 1,156,494</u>
\$	363,994	\$ (55,144)	\$ 308,850
	<u>4,125,430</u>	<u>2,251,020</u>	<u>6,376,450</u>
<u>\$ 4,489,424</u>	<u>\$ 2,195,876</u>	<u>\$ 6,685,300</u>	<u>\$ 6,685,300</u>

Fund Financial Statements

TOWN OF ELKTON, VIRGINIA
 ----GOVERNMENTAL FUND----
 BALANCE SHEET
 June 30, 2011

General
 Fund

ASSETS	
Cash and cash equivalents	\$ 1,457,055
Receivables (net of allowance for uncollectibles):	
Property taxes	333,810
Accounts	12,745
Accrued interest	1,160
Due from other governmental units and businesses	112,883
Due from other funds	27,292
Inventory	7,847
Prepaid expenses	<u>17,673</u>
Total assets	<u>\$ 1,970,465</u>

LIABILITIES AND FUND BALANCE

Liabilities	
Accounts payable	\$ 241,957
Accrued liabilities	50,877
Deferred revenue	<u>331,812</u>
Total liabilities	<u>\$ 624,646</u>

Fund Balance	
Nonspendable:	
Prepaid expenses	\$ 17,673
Inventory	7,847
Park Authority notes receivable	50,425
Assigned to:	
Kings Dominion and Busch Garden tickets	9,185
Recreation donations	9,463
HEC holding	180,870
Community Center	25,947
Unassigned	<u>1,044,409</u>
Total fund balance	<u>\$ 1,345,819</u>
Total liabilities and fund balance	<u>\$ 1,970,465</u>

See Notes to Financial Statements.

TOWN OF ELKTON, VIRGINIA

-----GOVERNMENTAL FUND-----
**RECONCILIATION OF THE BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**
 June 30, 2011

FUND BALANCE-TOTAL GOVERNMENTAL FUND **\$ 1,345,819**

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund.

Governmental capital assets	\$ 8,108,122	
Less accumulated depreciation	<u>(1,332,415)</u>	6,775,707

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

Deferred revenues	\$ <u>56,309</u>	56,309
-------------------	------------------	--------

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental fund.

General obligation bonds payable	\$ (1,200,000)	
Notes payable	(2,375,844)	
Accrued interest payable	(26,372)	
Compensated absences	<u>(86,195)</u>	<u>(3,688,411)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 4,489,424**

See Notes to Financial Statements.

TOWN OF ELKTON, VIRGINIA
 ----GOVERNMENTAL FUND----
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE
 Year Ended June 30, 2011

	General Fund
REVENUES	
General property taxes	\$ 216,262
Other local taxes	963,651
Permits, privilege fees, and regulatory licenses	4,660
Fines and forfeitures	23,380
Revenue from the use of money and property	29,410
Charges for services	301,755
Miscellaneous	41,658
Intergovernmental revenues:	
County	66,500
Commonwealth	489,627
Federal	5,445
Total revenues	<u>\$ 2,142,348</u>
EXPENDITURES	
General government administration	\$ 638,809
Public safety	452,088
Public works	843,817
Cultural and recreation	240,908
Community development	22,428
Debt service	386,316
Total expenditures	<u>\$ 2,584,366</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (442,018)</u>
OTHER FINANCING SOURCES (USES)	
Transfers in (out):	
Electric fund	\$ 239,547
Water fund	46,631
Sewer fund	(21,179)
Total other financing sources (uses)	<u>\$ 264,999</u>
Net change in fund balance	\$ (177,019)
FUND BALANCE AT BEGINNING OF YEAR	<u>1,522,838</u>
FUND BALANCE AT END OF YEAR	<u>\$ 1,345,819</u>

See Notes to Financial Statements.

TOWN OF ELKTON, VIRGINIA

----GOVERNMENTAL FUND----
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN THE FUND BALANCE OF THE GOVERNMENTAL FUND
 TO THE STATEMENT OF ACTIVITIES
 Year Ended June 30, 2011

NET CHANGE IN FUND BALANCE-TOTAL GOVERNMENTAL FUND \$ (177,019)

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

Governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over the estimated useful lives.

Expenditures for capital assets	\$ 510,576	
Less current year depreciation	<u>(190,321)</u>	320,255

Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the governmental fund. This amount is the net change in these revenues.

Insurance recoveries	\$ (21,675)	
Property taxes	8,365	
Vehicle license fees	<u>7,437</u>	(5,873)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund.

Change in accrued interest	\$ 1,979	
Change in long-term compensated absences	<u>(6,829)</u>	(4,850)

Bond proceeds provide current financial resources to the governmental fund, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.

Principal repayments	\$ <u>231,481</u>	<u>231,481</u>
----------------------	-------------------	----------------

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 363,994

See Notes to Financial Statements.

TOWN OF ELKTON, VIRGINIA
 ---- PROPRIETARY FUNDS ----
 BALANCE SHEETS
 June 30, 2011

	----- Electric -----	Enterprise Funds	Water	Sewer	----- Total Enterprise Funds -----
ASSETS					
Current assets:					
Accounts receivable, less allowance for doubtful accounts of \$36,861, \$1,430, and \$7,385, respectively	\$ 173,828	\$ 31,813		\$ 53,498	\$ 259,139
Inventories	173,821	12,358		2,315	188,494
Prepaid expenses	<u>35,021</u>	<u>1,375</u>		<u>4,817</u>	<u>41,213</u>
Total current assets	<u>\$ 382,670</u>	<u>\$ 45,546</u>		<u>\$ 60,630</u>	<u>\$ 488,846</u>
Noncurrent assets:					
Unamortized bond discount	\$ -	\$ 24,951		\$ 24,951	\$ 49,902
Capital assets:					
Land	-	41,056		-	41,056
Utility plants, distribution and collection systems	326,117	2,641,137		4,902,765	7,870,019
Equipment	480,064	104,014		129,807	713,885
Less accumulated depreciation	<u>(440,073)</u>	<u>(1,050,992)</u>		<u>(1,407,137)</u>	<u>(2,898,202)</u>
Total noncurrent assets	<u>\$ 366,108</u>	<u>\$ 1,760,166</u>		<u>\$ 3,650,386</u>	<u>\$ 5,776,660</u>
Total assets	<u>\$ 748,778</u>	<u>\$ 1,805,712</u>		<u>\$ 3,711,016</u>	<u>\$ 6,265,506</u>

LIABILITIES AND NET ASSETS

Liabilities					
Current liabilities:					
Accounts payable	\$ 149,044	\$ 27,663	\$ 128,707	\$ 305,414	
Accrued payroll	3,229	4,497	9,386	17,112	
Accrued interest payable	948	11,659	12,123	24,730	
Compensated absences	15,683	11,222	14,798	41,703	
Deposits	86,515	-	-	86,515	
Bonds, notes and loans payable	<u>96,767</u>	<u>15,000</u>	<u>191,644</u>	<u>303,411</u>	
Total current liabilities	<u>\$ 352,186</u>	<u>\$ 70,041</u>	<u>\$ 356,658</u>	<u>\$ 778,885</u>	
Noncurrent liabilities:					
Unamortized bond premium	\$ -	\$ 4,534	\$ 4,534	\$ 9,068	
Bonds, notes and loans payable	<u>-</u>	<u>602,500</u>	<u>2,679,177</u>	<u>3,281,677</u>	
Total noncurrent liabilities	<u>\$ -</u>	<u>\$ 607,034</u>	<u>\$ 2,683,711</u>	<u>\$ 3,290,745</u>	
Total liabilities	<u>\$ 352,186</u>	<u>\$ 677,075</u>	<u>\$ 3,040,369</u>	<u>\$ 4,069,630</u>	

Net Assets				
Invested in capital assets, net of related debt	\$ 269,341	\$ 1,142,666	\$ 779,565	\$ 2,191,572
Unrestricted	<u>127,251</u>	<u>(14,029)</u>	<u>(108,918)</u>	<u>4,304</u>
Total net assets	<u>\$ 396,592</u>	<u>\$ 1,128,637</u>	<u>\$ 670,647</u>	<u>\$ 2,195,876</u>
Total liabilities and net assets	<u>\$ 748,778</u>	<u>\$ 1,805,712</u>	<u>\$ 3,711,016</u>	<u>\$ 6,265,506</u>

See Notes to Financial Statements.

TOWN OF ELKTON, VIRGINIA
 ---PROPRIETARY FUNDS---
 STATEMENTS OF REVENUES, EXPENSES,
 AND CHANGES IN NET ASSETS
 Year Ended June 30, 2011

	-----	Enterprise Funds	-----	Total Enterprise Funds
	Electric	Water	Sewer	
OPERATING REVENUES				
Charges for services	\$ 1,855,894	\$ 321,635	\$ 560,924	\$ 2,738,453
Connection fees	1,200	42,900	25,700	69,800
Local consumption tax	5,965	-	-	5,965
Reconnect fees	5,878	4,540	-	10,418
Service charges	6,248	1,330	-	7,578
Late charges and interest	42,497	-	-	42,497
Water haulers	-	52,826	-	52,826
Total operating revenues	<u>\$ 1,917,682</u>	<u>\$ 423,231</u>	<u>\$ 586,624</u>	<u>\$ 2,927,537</u>
OPERATING EXPENSES				
Salaries and wages	\$ 79,330	\$ 115,316	\$ 223,918	\$ 418,564
Contract labor	-	-	378	378
Employee benefits	20,710	24,724	49,543	94,977
Payroll taxes	5,872	8,294	16,953	31,119
Computer support	1,381	-	-	1,381
Conventions and meetings	71	-	1,971	2,042
Electric power	1,440,100	-	-	1,440,100
Landfill	-	-	65,564	65,564
Equipment rental	-	7,272	33,167	40,439
Telephone and internet	655	1,131	1,264	3,050
Small equipment	-	4,390	2,450	6,840
Supplies	9,036	51,114	40,132	100,282
Repairs and maintenance	1,605	5,017	18,138	24,760
Vehicle maintenance and generator fuel	7,761	29,268	3,373	40,402
Advertising	230	609	341	1,180
Miss Utility	11	260	43	314
Professional services	448	9,426	29,167	39,041
Dues	2,657	3,376	8,225	14,258
Uniforms	600	820	932	2,352
Water testing	-	22,660	-	22,660
Insurance	-	-	1,947	1,947
Bond issuance costs	-	1,018	1,018	2,036
Depreciation	51,643	78,140	93,016	222,799
Total operating expenses	<u>\$ 1,622,110</u>	<u>\$ 362,835</u>	<u>\$ 591,540</u>	<u>\$ 2,576,485</u>
Operating income (loss)	<u>\$ 295,572</u>	<u>\$ 60,396</u>	<u>\$ (4,916)</u>	<u>\$ 351,052</u>
NONOPERATING REVENUE (EXPENSE)				
Interest expense	\$ (5,905)	\$ (28,301)	\$ (36,694)	\$ (70,900)
Loss on disposal of assets	-	-	(100,297)	(100,297)
Total nonoperating revenue (expense)	<u>\$ (5,905)</u>	<u>\$ (28,301)</u>	<u>\$ (136,991)</u>	<u>\$ (171,197)</u>
Income (loss) before contribution and transfers	<u>\$ 289,667</u>	<u>\$ 32,095</u>	<u>\$ (141,907)</u>	<u>\$ 179,855</u>

(Continued)

TOWN OF ELKTON, VIRGINIA
 ---PROPRIETARY FUNDS---
 STATEMENTS OF REVENUES, EXPENSES,
 AND CHANGES IN NET ASSETS
 Year Ended June 30, 2011

	----- Electric	Enterprise Funds Water	----- Sewer	Total Enterprise Funds
CAPITAL CONTRIBUTION AND TRANSFERS				
Capital contribution:				
Water distribution system grant	\$ -	\$ 30,000	\$ -	\$ 30,000
Transfers in	-	-	21,179	21,179
Transfers out	<u>(242,373)</u>	<u>(43,805)</u>	-	<u>(286,178)</u>
Total contribution and transfers	\$ <u>(242,373)</u>	\$ <u>(13,805)</u>	\$ <u>21,179</u>	\$ <u>(234,999)</u>
Change in net assets	\$ 47,294	\$ 18,290	\$ (120,728)	\$ (55,144)
NET ASSETS AT BEGINNING OF YEAR	<u>349,298</u>	<u>1,110,347</u>	<u>791,375</u>	<u>2,251,020</u>
NET ASSETS AT END OF YEAR	<u>\$ 396,592</u>	<u>\$ 1,128,637</u>	<u>\$ 670,647</u>	<u>\$ 2,195,876</u>

See Notes to Financial Statements.

TOWN OF ELKTON, VIRGINIA
 ----PROPRIETARY FUNDS----
 STATEMENTS OF CASH FLOWS
 Year Ended June 30, 2011

	-----	Enterprise Funds	-----	Total
	Electric	Water	Sewer	Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 1,909,782	\$ 420,443	\$ 580,269	\$ 2,910,494
Cash payments to suppliers of goods and services	(1,443,016)	(135,928)	(169,708)	(1,748,652)
Cash payments to employees	(79,330)	(115,316)	(223,918)	(418,564)
Net cash provided by (used in) operating activities	\$ 387,436	\$ 169,199	\$ 186,643	\$ 743,278
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating transfers in from other funds	\$ -	\$ -	\$ 21,179	\$ 21,179
Operating transfers out to other funds	(242,373)	(43,805)	-	(286,178)
Net cash provided by (used in) noncapital financing activities	\$ (242,373)	\$ (43,805)	\$ 21,179	\$ (264,999)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from grants	\$ -	\$ 30,000	\$ -	\$ 30,000
Proceeds from loans	-	-	1,747,577	1,747,577
Acquisition and construction of capital assets	(13,661)	(114,203)	(1,879,476)	(2,007,340)
Principal paid on bond and loans	(124,443)	(12,500)	(38,799)	(175,742)
Interest paid	(6,959)	(28,691)	(37,124)	(72,774)
Net cash provided by (used in) capital and related financing activities	\$ (145,063)	\$ (125,394)	\$ (207,822)	\$ (478,279)
Net increase (decrease) in cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Cash and cash equivalents:				
Beginning	-	-	-	-
Ending	\$ -	\$ -	\$ -	\$ -

(Continued)

TOWN OF ELKTON, VIRGINIA
 ----PROPRIETARY FUNDS----
 STATEMENTS OF CASH FLOWS
 Year Ended June 30, 2011

	-----	Enterprise Funds	-----	Total
	Electric	Water	Sewer	Enterprise Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$ 295,572	\$ 60,396	\$ (4,916)	\$ 351,052
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Bond issuance costs	-	1,018	1,018	2,036
Depreciation	51,643	78,140	93,016	222,799
Change in assets and liabilities:				
(Increase) decrease in inventories	(142)	5,493	4,116	9,467
(Increase) decrease in accounts receivable	(12,930)	(2,788)	(6,355)	(22,073)
(Increase) decrease in prepaid expenses	(82)	(140)	(1,388)	(1,610)
Increase (decrease) in accounts payable and accrued expenses	48,345	27,080	101,152	176,577
Increase (decrease) in deposits	5,030	-	-	5,030
Net cash provided by (used in) operating activities	<u>\$ 387,436</u>	<u>\$ 169,199</u>	<u>\$ 186,643</u>	<u>\$ 743,278</u>

See Notes to Financial Statements.

TOWN OF ELKTON, VIRGINIA
 ----FIDUCIARY FUND----
 STATEMENT OF FIDUCIARY NET ASSETS
 June 30, 2011

	Cemetery Fund
ASSETS	
Cash and cash equivalents	\$ 165,359
Receivables:	
Lot sales	1,800
Accrued interest	108
Prepaid expenses	250
Land	381,578
Buildings	2,052
Infrastructure	175,722
Equipment	26,319
Less accumulated depreciation	(64,347)
Total assets	\$ 688,841
LIABILITIES	
Accrued liabilities	\$ 4,582
Due to other funds	<u>27,292</u>
Total liabilities	\$ 31,874
NET ASSETS	<u>\$ 656,967</u>

See Notes to Financial Statements.

TOWN OF ELKTON, VIRGINIA

----FIDUCIARY FUND----
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 Year Ended June 30, 2011

	Cemetery Fund
ADDITIONS	
Sale of lots	\$ 27,000
Interest income	5,127
Grave digging revenue	18,883
Total additions	<u>\$ 51,010</u>
DEDUCTIONS	
Salaries and wages	\$ 25,460
Employee benefits	4,513
Supplies	6,970
Depreciation	8,347
Payroll taxes	1,902
Other deductions	4,717
Total deductions	<u>\$ 51,909</u>
Change in net assets	\$ (899)
NET ASSETS AT BEGINNING OF YEAR	<u>657,866</u>
NET ASSETS AT END OF YEAR	<u>\$ 656,967</u>

See Notes to Financial Statements.

TOWN OF ELKTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

B. Governmental Accounting Standards

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

C. Government-Wide and Fund Financial Statements

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Government-Wide Financial Statements

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

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

The Town applies all applicable GASB pronouncements (including all National Council on Governmental Accounting Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. In addition, the Town applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements, to its business-type activities.

Governmental Fund Financial Statements

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

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

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Proprietary Fund Financial Statements

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

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

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

The Town reports the following major proprietary funds:

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

Fiduciary Fund Financial Statements

The Town's fiduciary fund is presented in the fund financial statements by type (private purpose). Since by definition these assets are being held for the benefit of a third party (private purpose) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

Fiduciary funds are used to account for assets held by the Town in a trustee capacity or as agent for individuals, private organizations, and other governments. The fiduciary fund of the Town is the Cemetery Fund. For accounting measurement purposes, the Cemetery Fund is accounted for in essentially the same manner as proprietary funds.

E. Assets, Liabilities and EquityCash and Cash Equivalents

For purposes of reporting cash flows, the Town considers all cash on hand, checking accounts, savings accounts, money market funds and highly liquid instruments with a maturity of three months or less to be cash and cash equivalents. All certificates of deposit, regardless of maturity, are considered to be cash and cash equivalents.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical collection data and specific account analysis. Major receivable balances for the governmental activities include sales and use taxes, meals taxes and utility taxes. Business-type activities report utilities and interest earnings as their major receivables. The Town grants credit to the customers of its electric, water, sewer and trash systems. The customers are either local businesses or residents.

In the fund financial statements, major receivable balances and the allowances for uncollectible accounts are the same as those in the governmental and business-type activities.

Property Taxes

Real estate and personal property taxes are assessed annually by Rockingham County, Virginia, for all property of record as of January 1. Property taxes attach as an enforceable lien on property as of January 1. The Town collects real estate and personal property taxes on an annual basis (due December 5). The portion of the tax receivable that is not collected within 45 days after June 30 is shown as deferred revenue in the fund financial statements. A penalty of 10 percent of the tax is assessed after the applicable payment date.

The taxes receivable balance at June 30, 2011, includes amounts not yet billed or received from the January 1, 2011, levy (due December 5, 2011). These items are included in deferred revenue since these taxes are restricted for use until fiscal year 2012.

The Town calculates its allowance for uncollectible delinquent property tax accounts using historical collection data and specific account analysis. The allowance at June 30, 2011, amounted to \$22,255.

Inventory

Proprietary fund inventory is reported at the lower of cost (first-in, first-out method) or market. Inventory in the Governmental Fund is reported at cost (first-in, first-out method) and consists of expendable supplies held for consumption.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Interfund Receivables and Payables

During the course of operations transactions occur that may result in amounts owed between funds. Those related to goods and service type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivable and payables between funds are eliminated in the Statement of Net Assets.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in the governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns. In general, the Town defines capital assets as assets with an initial, individual cost of more than \$1,000 (not rounded) and an estimated useful life in excess of one year. Capital assets are carried at historical cost except for donated capital assets that are recorded at their estimated fair value on the date received.

The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Generation Project	15 years
Electric Plant	25-36 years
Utility System	20-50 years
Equipment	5-20 years
Infrastructure	25-40 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Unamortized Bond Discount and Premium

The Town is amortizing bond discount and premium costs by the straight-line method over the term of the bond payable to the Virginia Municipal League.

Long-Term Debt

The accounting treatment of the long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of notes payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for the proprietary funds is the same in the fund financial statements as it is in the government-wide statements.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Compensated Absences

It is the Town's policy to permit employees to accumulate earned but not used vacation and sick pay benefits. The Town pays a benefit for accumulated sick leave upon an employee's separation from service to the extent the employee meets certain criteria. Vacation and sick pay are accrued when incurred in the government-wide and proprietary fund financial statements. A liability is reported for compensated absences in governmental funds only to the extent that it is expected to be liquidated with expendable available financial resources.

Deferred Revenue

Deferred revenue is recorded when asset recognition criteria (measurable) have been met, but revenue recognition (available) criteria have not been met.

Equity Classifications*Government-Wide Statements*

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt-consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets-consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets-all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Statements

In the governmental fund financial statements, fund balances are classified as follows:

- **Nonspendable** - Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- **Restricted** - Amounts that can be spent only for specific purposes because of the Town Charter, the Town Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- **Committed** - Amounts that can be used only for specific purposes determined by a formal action by Town Council ordinance or resolution. This includes the Budget Reserve Account.
- **Assigned** - Amounts that are designated by the Town Council for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by Town Council.
- **Unassigned** - All amounts not included in other spendable classifications.

Proprietary fund equity is classified the same as in the government-wide statements.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

F. Revenues, Expenditures, and Expenses

Governmental Fund Revenues

As mentioned above, governmental fund revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, property taxes not collected within 45 days after year-end are reflected as deferred revenues-uncollected property taxes. The Town recognizes sales and utility taxes remitted to the Town as revenues and receivables in the month preceding receipt. Licenses and permits are recorded as revenues when received. Intergovernmental revenues, consisting primarily of Federal, State and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of specific expenditure.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. They also include all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified by function for the governmental fund and by operating and nonoperating for the proprietary funds.

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to the use of economic resources.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers.

Advertising

The Town expenses advertising production costs as they are incurred and advertising communication costs the first time the advertising takes place. Advertising expenditures in the General Fund were \$7,397, for the year ended June 30, 2011. Advertising expenses in the Electric, Water and Sewer Funds for the year ended June 30, 2011, were \$230, \$609, and \$341, respectively. Advertising expense in the Cemetery Fund for the year ended June 30, 2011, was \$225.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Fringe benefits

Fringe benefits of the Town include:

- a. Pension Plan - Employees of the Town participate in the Virginia Retirement System (VRS). VRS is administered by the Commonwealth, which bills the Town for the employer share of contributions. VRS is obligated to pay a monthly benefit to participants upon retirement with the amount of the benefit depending on length of service and earnings.
- b. Social Security System - All employees participate in the Federal Social Security Program. The employer share of FICA taxes for the employees is the responsibility of the Town.
- c. Health Insurance - The Town provides health insurance coverage for all full-time, salaried permanent employees.

G. Estimates and Assumptions

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

H. Use of Restricted Resources

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

Note 2. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the General Fund. Amounts shown in the accompanying financial statements as "budget" represent the original and final operating budgets for the fiscal year 2011. The Town budgeted a transfer to savings in the original and final budget in the amounts of \$100,050 and \$25,000, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 2. Stewardship, Compliance, and Accountability (Continued)

A budget is also adopted for the Enterprise Funds as an operating guideline. Budget to actual information is shown as other supplementary information. Below is a summary of budgeted information that is not included in the Enterprise Fund's Statements of Revenues, Expenses and Changes in Net Assets - Budget and Actual:

	Original Budget	Final Budget	Actual
ELECTRIC FUND			
Capital outlay	\$ (11,500)	\$ (21,500)	\$ (13,661)
Principal paid on loan	(132,000)	(132,000)	(124,443)
WATER FUND			
Capital outlay	(25,000)	(27,400)	(114,203)
Principal paid on loan	(18,000)	(18,000)	(12,500)
SEWER FUND			
Proceeds received from loan	-	2,444,149	1,747,577
Capital outlay	(45,000)	(2,499,149)	(1,879,478)
Principal paid on loans	(80,000)	(80,000)	(38,798)
	<u>\$ (311,500)</u>	<u>\$ (333,900)</u>	<u>\$ (435,506)</u>

A budget is also adopted for the Fiduciary Funds as an operating guideline. Below is a summary of budgeted information that is not included in the Fiduciary Fund's Statement of Changes in Fiduciary Net Assets:

	Original Budget	Final Budget	Actual
CEMETERY FUND			
Lot sales	\$ 37,000	\$ 37,000	\$ 27,000
Salaries and wages	(24,864)	(24,864)	(25,460)
Other deductions	(15,600)	(15,600)	(26,449)
Capital outlay	(2,500)	(2,500)	-
	<u>\$ (5,964)</u>	<u>\$ (5,964)</u>	<u>\$ (24,909)</u>

The Town budgeted a loan from the General Fund in the amount of \$28,000.

B. Excess of Expenditures Over Appropriations

For the year ended June 30, 2011, General Fund expenditures exceeded appropriations in General Government Administration by \$11,559, Public Safety by \$38,588, and Public Works by \$179,330. These expenditures were funded by greater than anticipated revenues.

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Cash Equivalents

Deposits

Below is a summary of the Town's accounts/deposits at June 30, 2011:

<u>General</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking (Bank of America)	\$ 710,206	\$ 857,002
Checking (Farmers & Merchants Bank)	10,978	10,978
Investment Account (RBC Wealth Management)	449,217	449,217
Checking (BB&T - Virginia)	2,274	2,274
Checking (United Bank)	7,814	7,814
Certificate of deposit (Bank of America)	149,232	149,232
Certificate of deposit (Bank of America)	127,064	127,064
Petty cash	270	270
<u>Cemetery</u>		
Checking (Bank of America)	6,261	6,261
Savings (Bank of America)	11,294	11,294
Certificate of deposit (Bank of America)	147,804	147,804
Total reporting entity	<u>\$ 1,622,414</u>	<u>\$ 1,769,210</u>

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

During the year ended June 30, 2011, cash and cash equivalents in the Electric, Water and Sewer Funds were transferred to the General Fund. As a result of the transfer, interest income is recorded in the General Fund. The Electric, Water and Sewer Funds do not reflect any interest income or accrued interest receivable for the fiscal year.

Note 4. Receivables

Receivables as of June 30, 2011, for the government's individual major funds including the applicable allowances for uncollectible accounts, are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Receivables:				
Interest	\$ 1,160	-	\$ 108	\$ 1,268
Property taxes	356,065	-	-	356,065
Refuse	19,598	-	-	19,598
Other taxes:				
Consumption tax	-	466	-	466
Accounts	-	304,349	1,800	306,149
Gross receivables	<u>\$ 376,823</u>	<u>\$ 304,815</u>	<u>\$ 1,908</u>	<u>\$ 683,546</u>
Less: allowance for uncollectibles	(29,108)	(45,676)	-	(74,784)
Net total receivables	<u>\$ 347,715</u>	<u>\$ 259,139</u>	<u>\$ 1,908</u>	<u>\$ 608,762</u>

NOTES TO FINANCIAL STATEMENTS

Note 5. Due from Other Governmental Units and Businesses

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

<i>General Fund:</i>	
Federal:	
DMV grants - police	\$ 1,690
Commonwealth of Virginia:	
Fire department grant	800
Local sales and use taxes	9,851
County of Rockingham:	
Court fines	1,707
Local restaurants:	
Meals taxes	43,729
Local utility providers:	
Utility taxes	4,681
Park Authority of the Town of Elkton	
Demand note receivable	50,425
	<u>\$ 112,883</u>

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
--	------------------------------	------------------	------------------	---------------------------

GOVERNMENTAL ACTIVITIES

Capital assets not being depreciated

Land	\$ 2,383,856	-	-	\$ 2,383,856
Total capital assets not being depreciated	<u>\$ 2,383,856</u>	<u>-</u>	<u>-</u>	<u>\$ 2,383,856</u>

Capital assets being depreciated

Buildings	\$ 3,570,653	\$ -	\$ -	\$ 3,570,653
Machinery and equipment	914,194	297,700	(3,561)	1,208,333
Infrastructure	732,404	212,876	-	945,280
Total capital assets being depreciated	<u>\$ 5,217,251</u>	<u>\$ 510,576</u>	<u>\$ (3,561)</u>	<u>\$ 5,724,266</u>

Less accumulated depreciation for

Buildings	\$ 552,986	\$ 80,572	\$ -	\$ 633,558
Machinery and equipment	500,314	90,626	(3,561)	587,379
Infrastructure	92,355	19,123	-	111,478

Total accumulated depreciation	<u>\$ 1,145,655</u>	<u>\$ 190,321</u>	<u>\$ (3,561)</u>	<u>\$ 1,332,415</u>
Total capital assets being depreciated, net	<u>\$ 4,071,596</u>	<u>\$ 320,255</u>	<u>\$ -</u>	<u>\$ 4,391,851</u>

**GOVERNMENTAL ACTIVITIES
CAPITAL ASSETS, NET**

	<u>\$ 6,455,452</u>	<u>\$ 320,255</u>	<u>\$ -</u>	<u>\$ 6,775,707</u>
--	---------------------	-------------------	-------------	---------------------

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated	\$ 41,056	-	-	\$ 41,056
Land				
Total capital assets not being depreciated	\$ 41,056	-	-	\$ 41,056
Capital assets being depreciated				
Utility system	\$ 6,054,636	\$ 1,951,134	\$ (135,751)	\$ 7,870,019
Machinery and equipment	657,679	56,206	-	713,885
Total capital assets being depreciated	\$ 6,712,315	\$ 2,007,340	\$ (135,751)	\$ 8,583,904
Less accumulated depreciation for				
Utility system	\$ 2,437,800	\$ 199,159	\$ (35,455)	\$ 2,601,504
Machinery and equipment	273,058	23,640	-	296,698
Total accumulated depreciation	\$ 2,710,858	\$ 222,799	\$ (35,455)	\$ 2,898,202
Total capital assets being depreciated, net	\$ 4,001,457	\$ 1,784,541	\$ (100,296)	\$ 5,685,702
BUSINESS-TYPE ACTIVITIES				
CAPITAL ASSETS, NET	<u>\$ 4,042,513</u>	<u>\$ 1,784,541</u>	<u>\$ (100,296)</u>	<u>\$ 5,726,758</u>
FIDUCIARY-TYPE ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 381,578	-	-	\$ 381,578
Total capital assets not being depreciated	\$ 381,578	-	-	\$ 381,578
Capital assets being depreciated				
Buildings	\$ 2,052	-	-	\$ 2,052
Infrastructure	175,722	-	-	175,722
Machinery and equipment	19,600	6,719	-	26,319
Total capital assets being depreciated	\$ 197,374	\$ 6,719	-	\$ 204,093
Less accumulated depreciation for				
Buildings	\$ 1,231	\$ 82	-	\$ 1,313
Infrastructure	40,083	5,610	-	45,693
Machinery and equipment	14,686	2,655	-	17,341
Total accumulated depreciation	\$ 56,000	\$ 8,347	-	\$ 64,347
Total capital assets being depreciated, net	\$ 141,374	\$ (1,628)	-	\$ 139,746
FIDUCIARY-TYPE ACTIVITIES				
CAPITAL ASSETS, NET	<u>\$ 522,952</u>	<u>\$ (1,628)</u>	<u>\$ -</u>	<u>\$ 521,324</u>

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets (Continued)

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

GOVERNMENTAL ACTIVITIES	
General government administration	\$ 62,882
Community Center	57,231
Public safety	29,402
Public works	<u>40,806</u>

Total depreciation expense-governmental activities \$ 190,321

BUSINESS-TYPE ACTIVITIES

Electric	\$ 51,643
Water	78,140
Sewer	<u>93,016</u>

Total depreciation expense-business-type activities \$ 222,799

FIDUCIARY-TYPE ACTIVITIES

Cemetery	\$ 8,347
----------	----------

Total depreciation expense-fiduciary-type activities \$ 8,347

Note 7. Deferred & Unearned Revenue

The following is a summary of deferred and unearned revenue by fund/activity at June 30, 2011:

Fund Statements

	General Fund	Water Fund	Sewer Fund
Property taxes billed in fiscal year 2012	\$ 275,503	\$ -	\$ -
Uncollected property tax billing	56,309	-	-
Unamortized bond premium	<u>-</u>	<u>4,534</u>	<u>4,534</u>
	<u>\$ 331,812</u>	<u>\$ 4,534</u>	<u>\$ 4,534</u>

Government-Wide Statements

	Governmental Activities	Business-Type Activities
Property taxes billed in fiscal year 2012	\$ 275,503	\$ -
Unamortized bond premium	<u>-</u>	<u>9,068</u>
	<u>\$ 275,503</u>	<u>\$ 9,068</u>

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Debt

A summary of long-term debt activity for the year ended June 30, 2011, is as follows. Additional detailed information is available on the following pages.

	Beginning Balances	Additions	Reductions	Ending Balances	Due within One Year
<u>Governmental-type activities</u>					
<i>General Fund</i>					
Bonds payable:					
United Bank	\$ 650,000	\$ -	\$ (50,000)	\$ 600,000	\$ 50,000
Farmers and Merchants Bank	650,000	-	(50,000)	600,000	50,000
Notes payable:					
Kite Charitable Remainder Trust	309,656	-	(10,572)	299,084	33,014
Farmers and Merchants Bank	1,517,908	-	(62,237)	1,455,671	64,584
Joseph H. Kite, Jr.	677,374	-	(56,285)	621,089	64,325
Lease payable:					
Joe Bowman Chevrolet, Inc. (Silverado)	2,387	-	(2,387)	-	-
	<u>\$3,807,325</u>	<u>\$ -</u>	<u>\$ (231,481)</u>	<u>\$ 3,575,844</u>	<u>\$ 261,923</u>
<u>Business-type activities</u>					
<i>Electric Fund</i>					
Loans payable:					
Farmers & Merchants Bank	\$ 221,210	\$ -	\$ (124,443)	\$ 96,767	\$ 96,767
<i>Water Fund</i>					
Bond payable:					
Virginia Municipal League	630,000	-	(12,500)	617,500	15,000
<i>Sewer Fund</i>					
Bond payable:					
Virginia Municipal League	630,000	-	(12,500)	617,500	15,000
Loans payable:					
Virginia Resources Authority	329,909	1,747,577	-	2,077,486	150,000
Kansas State Bank	55,074	-	(14,851)	40,223	15,542
Rural Development	147,060	-	(11,448)	135,612	11,102
	<u>\$2,013,253</u>	<u>\$ 1,747,577</u>	<u>\$ (175,742)</u>	<u>\$ 3,585,088</u>	<u>\$ 303,411</u>

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Debt (Continued)

On January 15, 2003, the Town issued a general obligation bond to United Bank in the amount of \$1,000,000. Proceeds from the note were used to pay for land. The note is being repaid in annual installments of \$50,000, with semi-annual interest payments at 3.80 percent. The bond matures July 15, 2022. The note is payable from funds available and appropriated for payment of the note. A pledge of the full faith and credit of the Town has been made. As of June 30, 2011, \$400,000 has been applied against the principal portion of the bond. Total interest expense incurred on the loan for year ended June 30, 2011, was \$22,875.

On January 15, 2003, the Town issued a general obligation bond to Farmers and Merchants Bank in the amount of \$1,000,000. Proceeds from the note were used to pay for land. The note is being repaid in annual installments of \$50,000, with semi-annual interest payments at 3.80 percent. The bond matures July 15, 2022. The note is payable from funds available and appropriated for payment of the note. A pledge of the full faith and credit of the Town has been made. As of June 30, 2011, \$400,000 has been applied against the principal portion of the bond. Total interest expense incurred on the loan for year ended June 30, 2011, was \$22,875.

The Town signed a note with Kite Charitable Remainder Trust on February 1, 1999, to purchase four tracts of land. Total loan proceeds were \$667,477. The loan bears 7.5 percent interest and is backed by the full faith and credit of the Town. The financing agreement states that commencing February 1, 1999, and continuing monthly thereafter, the Town is required to make \$4,172 installment payments on the loan. Payments on the loan will continue until Ms. Mary Elizabeth Kite's death. As of June 30, 2011, \$368,393 has been applied against the principal portion of the loan. Total interest expense incurred on the loan for year ended June 30, 2011, was \$17,699.

The Town signed a line of credit in the amount of \$1,700,000 with Farmers and Merchants Bank on January 11, 2006. Proceeds from the loan were to be used for construction and remodeling of the Community Center. This loan was refinanced on March 1, 2007, into a twenty-year loan. The initial interest rate is 4.50 percent for the first ten years of the loan with adjustments after each subsequent five-year period. The loan is backed by the full faith and credit of the Town. The financing agreement states that commencing June 1, 2007, and continuing quarterly thereafter, the Town is required to make \$32,521 installment payments on the loan. The loan matures March 1, 2027. As of June 30, 2011, \$244,329 has been applied against the principal portion of the loan. Total interest expense incurred on the loan for the year ended June 30, 2011, was \$67,616.

The Town signed a note with Joseph H. Kite, Jr., on April 3, 2006, to purchase 115.915 acres of land at Spotswood Trail. Total loan proceeds were \$789,943. The loan bears no interest and is backed by the full faith and credit of the Town. The loan will be repaid in annual installments based on a percentage of the original proceeds. The note matures April 4, 2018. As of June 30, 2011, \$168,854 has been applied against the principal portion of the loan.

On December 28, 2007, the Town received a loan from Farmers & Merchants Bank in the amount of \$400,000. Proceeds from the note were used for installment of a generator. The note is being repaid in quarterly installments of \$32,850, including interest payments at 3.93 percent. The note matures January 1, 2012. The note is payable from funds available and appropriated for payment of the note. A pledge of the full faith and credit of the Town has been made. As of June 30, 2011, \$303,233 has been applied against the principal portion of the note. Total interest expense incurred on the note for the year ended June 30, 2011, was \$5,905.

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Debt (Continued)

The Town signed a financing agreement with the Virginia Municipal League on December 1, 2005. On December 22, 2005, the Town issued water and sewer revenue bonds (Series 2005B) in the amount of \$1,350,000. As part of the financing agreement, the Town sold the local bonds to US Bank (trustee for Virginia Municipal League) for \$1,350,000. Proceeds from the bonds were used to pay for extending water and sewer lines to recently acquired land. Annual principal payments on the bond commenced August 1, 2006, and will continue through August 1, 2035. The initial principal payment will begin at \$15,000 and will increase periodically until the final principal payment of \$80,000. In addition to the annual principal payments, the Town is making semi-annual interest payments on the outstanding balance at a rate between 4.0 percent to 5.125 percent. The bond is payable from funds available and appropriated for payment of the bond. A pledge of the full faith and credit of the Town has been made. As of June 30, 2011, \$115,000 has been applied against the principal portion of the bond. Total interest expense incurred on the bond for the year ended June 30, 2011, was \$56,602.

In December, 2008, the Town began a sewer plant upgrade project in order to comply with the requirements ordered by the Department of Environmental Quality. The Town signed a zero percent interest loan with the Virginia Resources Authority that commits the Town to approximately \$2.4 million dollars to pay for the project's expenses. This is a twenty-year loan that will require the Town to make an approximate \$150,000 annual payment, beginning six months after the completion of the project. These payments are calculated based upon the total amount of upgrade expenses and are projected to begin in 2013. The loan is secured by the revenues from electric, water, and sewer systems and a pledge of the full faith and credit of the Town.

On December 1, 2008, the Town received a loan from Kansas State Bank of Manhattan in the amount of \$75,563. Proceeds from the note were used for purchase of a belt press system. The note is being repaid in monthly installments of \$1,421. The note matures December 19, 2013. The note is payable from funds available and appropriated for payment of the note. A pledge of the full faith and credit of the Town has been made. As of June 30, 2011, \$35,340 has been applied against the principal portion of the note. Total interest expense incurred on the note for the year ended June 30, 2011 was \$2,204.

On May 5, 1981, the Town signed a loan to the Rural Development in the amount of \$300,000. Proceeds from the note were used to pay for sewer upgrades. The note is being repaid in monthly installments of \$1,473, including interest payments at 5.00 percent. The note matures March 5, 2021. The note is payable from funds available and appropriated for payment of the note. A pledge of the full faith and credit of the Town has been made. As of June 30, 2011, \$164,388 has been applied against the principal portion of the bond. Total interest expense incurred on the loan for year ended June 30, 2011, was \$6,189.

Annual requirements to amortize long-term debt and related interest at June 30, 2011, are as follows:

Governmental-Type Activities

----- General Obligation Bonds -----

	Bonds		Bonds		Kite Charitable		Joseph H. Kite, Jr.	
	United Bank	Farmers and Merchants	Remainder Trust	Joseph H. Kite, Jr.	Principal	Interest	Principal	Interest

2012	\$ 50,000	\$ 21,850	\$ 50,000	\$ 21,850	\$ 33,014	\$ 17,047	\$ 64,325	-
2013	50,000	19,950	50,000	19,950	35,050	15,011	80,407	-
2014	50,000	18,050	50,000	18,050	37,212	12,849	80,407	-
2015	50,000	16,150	50,000	16,150	39,507	10,553	80,407	-
2016	50,000	14,250	50,000	14,250	41,944	8,117	80,407	-
2017 - 2021	250,000	42,750	250,000	42,750	112,357	8,623	235,136	-
2022 - 2026	100,000	3,800	100,000	3,800	-	-	-	-
	<u>\$ 600,000</u>	<u>\$ 136,800</u>	<u>\$ 600,000</u>	<u>\$ 136,800</u>	<u>\$ 299,084</u>	<u>\$ 72,200</u>	<u>\$ 621,089</u>	<u>\$ -</u>

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Debt (Continued)

Governmental-Type Activities (Continued)

	Community Center Loan Farmers and Merchants		Totals	
	Principal	Interest	Principal	Interest
2012	\$ 64,584	\$ 65,499	\$ 261,923	\$ 126,246
2013	67,761	62,322	283,218	117,233
2014	70,907	59,176	288,526	108,125
2015	74,197	55,885	294,111	98,738
2016	77,497	52,586	299,848	89,203
2017 - 2021	445,578	204,836	1,293,071	298,959
2022 - 2026	559,083	91,331	759,083	98,931
2027	96,064	2,208	96,064	2,208
	<u>\$ 1,455,671</u>	<u>\$ 593,843</u>	<u>\$ 3,575,844</u>	<u>\$ 939,643</u>

Business-Type Activities

	Generator Loan Farmers & Merchants		Virginia Municipal League		Belt Press Loan Kansas State Bank		Virginia Resources Authority	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 96,767	\$ 1,932	\$ 30,000	\$ 56,139	\$ 15,542	\$ 1,512	\$ 150,000	\$ -
2013	-	-	30,000	54,939	16,266	788	150,000	-
2014	-	-	30,000	53,739	8,415	113	150,000	-
2015	-	-	30,000	52,539	-	-	150,000	-
2016	-	-	35,000	51,239	-	-	150,000	-
2017 - 2021	-	-	190,000	233,681	-	-	750,000	-
2022 - 2026	-	-	230,000	188,688	-	-	577,486	-
2027 - 2031	-	-	295,000	129,672	-	-	-	-
2032 - 2036	-	-	365,000	48,558	-	-	-	-
	<u>\$ 96,767</u>	<u>\$ 1,932</u>	<u>\$ 1,235,000</u>	<u>\$ 869,194</u>	<u>\$ 40,223</u>	<u>\$ 2,413</u>	<u>\$ 2,077,486</u>	<u>\$ -</u>

	Rural Development		Totals	
	Principal	Interest	Principal	Interest
2012	\$ 11,102	\$ 6,574	\$ 303,411	\$ 66,157
2013	11,671	6,005	207,937	61,732
2014	12,268	5,408	200,683	59,260
2015	12,895	4,781	192,895	57,320
2016	13,555	4,121	198,555	55,360
2017 - 2021	74,121	9,477	1,014,121	243,158
2022 - 2026	-	-	807,486	188,688
2027 - 2031	-	-	295,000	129,672
2032 - 2036	-	-	365,000	48,558
	<u>\$ 135,612</u>	<u>\$ 36,366</u>	<u>\$ 3,585,088</u>	<u>\$ 909,905</u>

NOTES TO FINANCIAL STATEMENTS

Note 9. Interfund Transfers

Interfund transfers during the year ended June 30, 2011, were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 286,178	\$ 21,179
Electric Fund	-	242,373
Water Fund	-	43,805
Sewer Fund	<u>21,179</u>	<u>-</u>
	<u>\$ 307,357</u>	<u>\$ 307,357</u>

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

Note 10. Defined Benefit Pension PlanPlan Description

The Town contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension administered by the Virginia Retirement System. All full-time, salaried permanent employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010, and who have service credits before July 1, 2010, are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010, and who have no service credits before July 1, 2010, are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

NOTES TO FINANCIAL STATEMENTS

Note 10. Defined Benefit Pension Plan (Continued)

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70 percent. The retirement multiplier for sheriffs and regional jail superintendents is 1.85 percent. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70 percent or 1.85 percent as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00 percent; under Plan 2, the COLA cannot exceed 6.00 percent. During years of no inflation or deflation, the COLA is 0.00 percent. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report is available at the VRS website (www.varetire.org) or may be obtained by writing to the System at P. O. Box 2500, Richmond, VA 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5 percent of their annual reported compensation to the VRS. The employer has assumed this 5 percent member contribution, for employees hired prior to July 1, 2010. For employees hired after that date, the member contribution is a pre-tax salary reduction. In addition, the Town of Elkton, Virginia is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The Town of Elkton's contribution rate for the fiscal year ended June 30, 2011, was 7.21 percent (excluding 5 percent member contributions) of the annual covered payroll.

Annual Pension Cost

For 2011, the Town's annual pension cost of \$116,120 for VRS was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2009, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.00 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 3.75 percent to 5.60 percent per year for general government employees and 3.50 percent to 4.75 percent per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs and (c) 2.50 percent per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50 percent. The actuarial value of the Plan's assets is equal to the modified market value of assets. This method use techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on an open basis. The remaining amortization period as of June 30, 2009, for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

NOTES TO FINANCIAL STATEMENTS

Note 10. Defined Benefit Pension Plan (Continued)**Three-Year Trend Information for the Town of Elkton**

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Ending			
6/30/09	\$ 81,027	100%	\$ -
6/30/10	88,359	100%	-
6/30/11	116,120	100%	-

Funding Status and Funding Progress

As of June 30, 2010, the most recent actuarial valuation date, the plan was 88.57 percent funded. The actuarial accrued liability for benefits was \$2,896,000, and the actuarial value of assets was \$2,564,929 resulting in an unfunded actuarial accrued liability (UAAL) of \$331,071. The covered payroll (annual payroll of active employees covered by the plan) was \$878,433, and the ratio of the UAAL to the covered payroll was 37.69 percent.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

Note 11. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To reduce insurance costs and the need for self-insurance, the Town has joined with other municipalities in the Commonwealth of Virginia in a public entity risk pool that operates common risk management and insurance programs for member municipalities. The Town is not self-insured.

The Town has insurance coverage with the VML Insurance Programs. Each Association member jointly and severally agrees to assume, pay and discharge any liability. The Town pays contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the Association and claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the Association may assess all members in the proportion that the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The Town's settled claims have not exceeded insurance coverage in any of the past three fiscal years.

Note 12. Restatement of Beginning Net Assets

An error resulting in an understatement of previously reported accounts payable was discovered during the current year. Accordingly, an adjustment of \$100,230 was made during 2010-2011 fiscal year to increase accounts payable in the Electric Fund and to increase previously reported power expenses by \$100,230, for the year ended June 30, 2010. The effect of restatement is a \$100,230 decrease in net assets of the Electric Fund as of June 30, 2010.

Electric Fund

Ending net assets, previously reported as of June 30, 2010	\$ 449,528
Accounting correction	<u>(100,230)</u>

Ending net assets, restated as of June 30, 2010

\$ 349,298

**Required Supplementary Information -
Other than Management's Discussion and Analysis**

TOWN OF ELKTON, VIRGINIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE-BUDGET AND ACTUAL
 Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
General property taxes	\$ 211,703	\$ 211,703	\$ 216,262	\$ 4,559
Other local taxes	841,900	900,900	963,651	62,751
Permits, privilege fees and regulatory licenses	5,000	5,000	4,660	(340)
Fines and forfeitures	17,500	17,500	23,380	5,880
Use of money and property	2,150	10,150	29,410	19,260
Charges for services	300,750	301,000	301,755	755
Miscellaneous	2,500	12,500	41,658	29,158
Intergovernmental revenues:				
County	66,500	66,500	66,500	-
Commonwealth	354,386	354,386	489,627	135,241
Federal	-	-	5,445	5,445
Total revenues	\$ 1,802,389	\$ 1,879,639	\$ 2,142,348	\$ 262,709
EXPENDITURES				
General government administration	\$ 616,750	\$ 627,250	\$ 638,809	\$ (11,559)
Public safety	413,500	413,500	452,088	(38,588)
Public works	591,609	664,487	843,817	(179,330)
Cultural and recreation	271,750	287,450	240,908	46,542
Community development	15,000	25,000	22,428	2,572
Debt service	411,000	411,000	386,316	24,684
Total expenditures	\$ 2,319,609	\$ 2,428,687	\$ 2,584,366	\$ (155,679)
Excess (deficiency) of revenues over expenditures	\$ (517,220)	\$ (549,048)	\$ (442,018)	\$ 107,030
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ 286,178	\$ 286,178
Transfers out	-	-	(21,179)	(21,179)
Total other financing sources (uses)	\$ -	\$ -	\$ 264,999	\$ 264,999
Net change in fund balance	\$ (517,220)	\$ (549,048)	\$ (177,019)	\$ 372,029
FUND BALANCE AT BEGINNING OF YEAR	1,522,838	1,522,838	1,522,838	-
FUND BALANCE AT END OF YEAR	\$ 1,005,618	\$ 973,790	\$ 1,345,819	\$ 372,029

TOWN OF ELKTON, VIRGINIA
 SCHEDULE OF FUNDING PROGRESS -
 DEFINED BENEFIT PENSION PLAN

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial		Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
		Accrued Liability (AAL) --Entry Age					
6/30/08	\$ 2,740,412	\$ 2,642,163	\$ (98,249)	\$103.72%	\$ 829,558	(11.84%)	
6/30/09	2,652,164	2,769,667	117,503	95.76%	905,187	12.98%	
6/30/10	2,564,929	2,896,000	331,071	88.57%	878,433	37.69%	

Other Supplementary Information

TOWN OF ELKTON, VIRGINIA
GENERAL FUND
STATEMENT OF REVENUES, COMPARED TO BUDGET
 Year Ended June 30, 2011

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
	<u>Budget</u>	<u>Budget</u>		<u>Positive</u>
				<u>(Negative)</u>
GENERAL PROPERTY TAXES				
Real estate	\$ 155,500	\$ 155,500	\$ 163,866	\$ 8,366
Personal property	50,203	50,203	43,357	(6,846)
Penalties and interest	6,000	6,000	9,039	3,039
	<u>\$ 211,703</u>	<u>\$ 211,703</u>	<u>\$ 216,262</u>	<u>\$ 4,559</u>

OTHER LOCAL TAXES				
Local sales and use	\$ 80,000	\$ 80,000	\$ 107,846	\$ 27,846
Consumer utility	55,000	55,000	56,863	1,863
Business licenses	98,900	98,900	89,040	(9,860)
Motor vehicle licenses	46,000	50,000	35,792	(14,208)
Bank stock	75,000	75,000	105,547	30,547
Cigarette	-	55,000	63,022	8,022
Meals	487,000	487,000	505,541	18,541
	<u>\$ 841,900</u>	<u>\$ 900,900</u>	<u>\$ 963,651</u>	<u>\$ 62,751</u>

PERMITS, PRIVILEGE FEES AND REGULATORY LICENSES				
Permits	\$ 5,000	\$ 5,000	\$ 4,660	\$ (340)
	<u>\$ 5,000</u>	<u>\$ 5,000</u>	<u>\$ 4,660</u>	<u>\$ (340)</u>

FINES AND FORFEITURES				
	\$ 17,500	\$ 17,500	\$ 23,380	\$ 5,880
	<u>\$ 17,500</u>	<u>\$ 17,500</u>	<u>\$ 23,380</u>	<u>\$ 5,880</u>

REVENUE FROM THE USE OF MONEY AND PROPERTY				
Cable pole rent	\$ -	\$ -	\$ 6,960	\$ 6,960
Interest on bank deposits	150	150	9,877	9,727
Net increase in the fair value of investments	-	-	1,197	1,197
Sale of property and equipment	2,000	10,000	11,376	1,376
	<u>\$ 2,150</u>	<u>\$ 10,150</u>	<u>\$ 29,410</u>	<u>\$ 19,260</u>

CHARGES FOR SERVICES				
Charges for sanitation and waste removal	\$ 151,000	\$ 151,000	\$ 149,951	\$ (1,049)
Community Center revenue	83,000	83,000	76,117	(6,883)
Charges for recreation	65,500	65,500	74,482	8,982
Mowing and brush grinding	1,250	1,500	1,205	(295)
	<u>\$ 300,750</u>	<u>\$ 301,000</u>	<u>\$ 301,755</u>	<u>\$ 755</u>

MISCELLANEOUS				
Insurance proceeds	\$ -	\$ -	\$ 21,675	\$ 21,675
HEC rollover	-	-	4,711	4,711
Contributions - Community Center	-	-	8,003	8,003
Other	2,500	12,500	7,269	(5,231)
	<u>\$ 2,500</u>	<u>\$ 12,500</u>	<u>\$ 41,658</u>	<u>\$ 29,158</u>

(Continued)

TOWN OF ELKTON, VIRGINIA
GENERAL FUND
STATEMENT OF REVENUES, COMPARED TO BUDGET
 Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
INTERGOVERNMENTAL REVENUES				
County				
Community Center funds	\$ 66,500	\$ 66,500	\$ 66,500	\$ -
	<u>\$ 66,500</u>	<u>\$ 66,500</u>	<u>\$ 66,500</u>	<u>\$ -</u>
Commonwealth				
Rolling stock taxes	\$ 6,000	\$ 6,000	\$ 3,259	\$ (2,741)
Street and highway maintenance	270,000	270,000	399,979	129,979
Law enforcement grants, 599 funds	50,289	50,289	50,292	3
Fire program grant	-	-	8,000	8,000
Personal property tax reimbursement	<u>28,097</u>	<u>28,097</u>	<u>28,097</u>	<u>-</u>
	\$ 354,386	\$ 354,386	\$ 489,627	\$ 135,241
Federal				
DMV grants - police	\$ -	\$ -	\$ 5,445	\$ 5,445
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,445</u>	<u>\$ 5,445</u>
Total revenues	<u>\$ 1,802,389</u>	<u>\$ 1,879,639</u>	<u>\$ 2,142,348</u>	<u>\$ 262,709</u>

TOWN OF ELKTON, VIRGINIA
GENERAL FUND
STATEMENT OF EXPENDITURES, COMPARED TO BUDGET
Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
GENERAL GOVERNMENT				
ADMINISTRATION				
General Government				
Salaries and wages	\$ 248,000	\$ 248,000	\$ 255,038	\$ (7,038)
Computer support	14,900	14,900	21,754	(6,854)
Contract labor	5,700	5,700	-	5,700
Conventions and meetings	2,500	2,500	230	2,270
Contributions	5,500	5,500	1,020	4,480
Employee benefits	71,000	71,000	72,283	(1,283)
Insurance and surety bonds	90,000	90,000	83,333	6,667
Professional services	90,500	90,500	82,903	7,597
Planning Commission	1,000	2,500	1,851	649
Miscellaneous	-	-	56	(56)
Payroll taxes	20,500	20,500	29,031	(8,531)
Repairs and maintenance	4,500	4,500	7,765	(3,265)
Supplies	10,300	10,300	10,630	(330)
Telephone and internet	16,000	16,000	17,762	(1,762)
Utilities	-	-	3,703	(3,703)
Equipment rental	1,000	10,000	9,402	598
Return check fees	4,000	4,000	4,052	(52)
Postage	6,000	6,000	10,236	(4,236)
Small equipment	500	500	110	390
Dues	2,900	2,900	10,084	(7,184)
Advertising	1,500	1,500	5,065	(3,565)
Special events	7,500	7,500	6,466	1,034
Vehicle fuel mileage	4,000	4,000	4,682	(682)
	<u>\$ 607,800</u>	<u>\$ 618,300</u>	<u>\$ 637,456</u>	<u>\$ (19,156)</u>
Capital Outlay				
General government	\$ 8,950	\$ 8,950	\$ 1,353	\$ 7,597
	<u>\$ 8,950</u>	<u>\$ 8,950</u>	<u>\$ 1,353</u>	<u>\$ 7,597</u>
	<u>\$ 616,750</u>	<u>\$ 627,250</u>	<u>\$ 638,809</u>	<u>\$ (11,559)</u>
PUBLIC SAFETY				
Police Department				
Salaries and wages	\$ 265,000	\$ 265,000	\$ 281,016	\$ (16,016)
Computer support	-	-	1,592	(1,592)
Conventions and meetings	7,000	7,000	4,305	2,695
Employee benefits	69,000	69,000	68,291	709
Professional services	3,000	3,000	1,870	1,130
Miscellaneous	1,500	1,500	475	1,025
Payroll taxes	22,000	22,000	21,310	690
Repairs and maintenance	1,000	1,000	764	236
Supplies	1,500	2,500	5,020	(2,520)

(Continued)

TOWN OF ELKTON, VIRGINIA
GENERAL FUND
STATEMENT OF EXPENDITURES, COMPARED TO BUDGET
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Telephone and internet	\$ 2,000	\$ 2,000	\$ 3,405	\$ (1,405)
Uniforms	1,500	1,500	1,607	(107)
Vehicle maintenance	17,500	17,500	18,081	(581)
Special events	-	-	528	(528)
Small equipment	3,500	3,500	1,805	1,695
Advertising	1,000	1,000	350	650
Dues	3,500	3,500	3,500	-
Postage	500	500	79	421
	<u>\$ 399,500</u>	<u>\$ 400,500</u>	<u>\$ 413,998</u>	<u>\$ (13,498)</u>
Other				
Fire program funds	\$ -	\$ -	\$ 7,200	\$ (7,200)
	-	-	7,200	(7,200)
Capital Outlay				
Public safety	\$ 14,000	\$ 13,000	\$ 30,890	\$ (17,890)
	<u>\$ 14,000</u>	<u>\$ 13,000</u>	<u>\$ 30,890</u>	<u>\$ (17,890)</u>
Total public safety	<u>\$ 413,500</u>	<u>\$ 413,500</u>	<u>\$ 452,088</u>	<u>\$ (38,588)</u>
PUBLIC WORKS				
Maintenance and Streets				
Salaries and wages	\$ 117,370	\$ 117,370	\$ 109,811	\$ 7,559
Dues	250	250	110	140
Contract labor	450	450	400	50
Employee benefits	27,250	27,250	25,712	1,538
Conventions and meetings	250	250	-	250
Professional services	2,000	2,000	512	1,488
Advertising	250	250	481	(231)
Payroll taxes	19,000	19,000	7,982	11,018
Repairs and maintenance	4,500	4,500	8,494	(3,994)
Supplies	9,300	9,300	12,698	(3,398)
Postage	200	200	-	200
Telephone and internet	1,000	1,000	744	256
Vehicle maintenance	15,500	16,500	26,725	(10,225)
Miscellaneous	-	-	102	(102)
Small equipment	500	500	164	336
Uniforms	2,200	500	478	22
	<u>\$ 200,020</u>	<u>\$ 199,320</u>	<u>\$ 194,413</u>	<u>\$ 4,907</u>

(Continued)

TOWN OF ELKTON, VIRGINIA

GENERAL FUND
 STATEMENT OF EXPENDITURES, COMPARED TO BUDGET
 Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Sanitation				
Salaries and wages	\$ 53,039	\$ 53,039	\$ 54,276	\$ (1,237)
Employee benefits	13,300	13,300	12,527	773
Payroll taxes	3,000	3,000	4,049	(1,049)
Landfill fees	85,000	53,000	55,046	(2,046)
Trash removal	10,000	50,000	51,737	(1,737)
Telephone and internet	500	500	1,037	(537)
Professional services	-	-	40	(40)
Advertising	500	500	30	470
Miscellaneous	-	-	11	(11)
Postage	-	-	176	(176)
Supplies	250	500	559	(59)
Vehicle maintenance	-	-	114	(114)
Uniforms	1,000	1,000	768	232
	<u>\$ 166,589</u>	<u>\$ 174,839</u>	<u>\$ 180,370</u>	<u>\$ (5,531)</u>

Capital Outlay				
Public works	\$ 225,000	\$ 290,328	\$ 469,034	\$ (178,706)
	<u>\$ 225,000</u>	<u>\$ 290,328</u>	<u>\$ 469,034</u>	<u>\$ (178,706)</u>
Total public works	\$ 591,609	\$ 664,487	\$ 843,817	\$ (179,330)

CULTURAL AND RECREATION

Community Center				
Salaries and wages	\$ 122,500	\$ 122,500	\$ 116,828	\$ 5,672
Contract labor	750	750	-	750
Conventions and meetings	1,000	1,000	391	609
Employee benefits	16,200	16,200	10,048	6,152
Advertising	1,500	1,500	1,356	144
Payroll taxes	8,200	8,200	9,164	(964)
Repairs and maintenance	8,000	8,000	11,784	(3,784)
Supplies	9,500	9,500	10,340	(840)
Small equipment	5,000	5,000	5,350	(350)
Dues	500	500	100	400
Computer support	-	-	3,000	(3,000)
Telephone and internet	5,500	5,500	4,748	752
Professional services	3,000	4,000	2,061	1,939
Special events	2,000	2,500	3,119	(619)
Postage	2,500	2,500	9	2,491
	<u>\$ 186,150</u>	<u>\$ 187,650</u>	<u>\$ 178,298</u>	<u>\$ 9,352</u>

(Continued)

TOWN OF ELKTON, VIRGINIA
GENERAL FUND
STATEMENT OF EXPENDITURES, COMPARED TO BUDGET
 Year Ended June 30, 2011

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
	<u>Budget</u>	<u>Budget</u>	<u>Budget</u>	<u>(Negative)</u>
Recreation				
Salaries and wages	\$ 45,000	\$ 45,000	\$ 28,582	\$ 16,418
Contract labor	2,500	2,500	-	2,500
Conventions and meetings	800	800	381	419
Employee benefits	8,400	8,400	9,652	(1,252)
Telephone and internet	500	500	328	172
Advertising	500	500	115	385
Payroll taxes	3,000	3,000	2,054	946
Repairs and maintenance	2,000	2,000	2,321	(321)
Supplies	6,500	6,700	5,804	896
Special events	400	400	-	400
Historical Society	900	900	1,155	(255)
Dues	200	200	255	(55)
Professional services	-	-	448	(448)
Small equipment purchase	500	500	-	500
Vehicle maintenance	2,300	2,300	2,206	94
Postage	100	100	9	91
	<u>\$ 73,600</u>	<u>\$ 73,800</u>	<u>\$ 53,310</u>	<u>\$ 20,490</u>
Capital Outlay				
Community Center	\$ 4,000	\$ 18,000	\$ 9,300	\$ 8,700
Recreation	8,000	8,000	-	8,000
	<u>\$ 12,000</u>	<u>\$ 26,000</u>	<u>\$ 9,300</u>	<u>\$ 16,700</u>
Total cultural and recreation	\$ 271,750	\$ 287,450	\$ 240,908	\$ 46,542
COMMUNITY DEVELOPMENT				
Economic development	\$ 15,000	\$ 25,000	\$ 22,428	\$ 2,572
Total community development	\$ 15,000	\$ 25,000	\$ 22,428	\$ 2,572
DEBT SERVICE				
Kite Charitable Remainder Trust principal	\$ 12,000	\$ 12,000	\$ 10,572	\$ 1,428
Kite Charitable Remainder Trust interest	19,000	19,000	17,699	1,301
Kite Charitable Remainder Trust estimated future payments - revaluation	23,000	23,000	21,790	1,210
General obligation bond principal	100,000	100,000	100,000	-
General obligation bond interest	52,000	52,000	47,500	4,500
Community/Center loan principal	100,000	100,000	62,237	37,763
Community/Center loan interest	65,000	65,000	67,846	(2,846)
Hiram Kite property payment	40,000	40,000	56,285	(16,285)
Public works auto loan principal	-	-	2,387	(2,387)
	<u>\$ 411,000</u>	<u>\$ 411,000</u>	<u>\$ 386,316</u>	<u>\$ 24,684</u>
Total debt service				
Total expenditures	<u>\$ 2,319,609</u>	<u>\$ 2,428,687</u>	<u>\$ 2,584,366</u>	<u>\$ (155,679)</u>

TOWN OF ELKTON, VIRGINIA
ELECTRIC FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS-
BUDGET AND ACTUAL
Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>		<u>Variance Positive (Negative)</u>
OPERATING REVENUES					
Charges for services	\$ 2,005,900	\$ 1,969,400	\$ 1,855,894		\$ (113,506)
Late charges and interest	38,000	38,000	42,497		4,497
Local consumption tax	6,000	6,000	5,965		(35)
Connection fees	7,000	7,000	1,200		(5,800)
Reconnect fees	6,000	6,000	5,878		(122)
Service charges	<u>7,000</u>	<u>7,000</u>	<u>6,248</u>		<u>(752)</u>
Total operating revenues	<u>\$ 2,069,900</u>	<u>\$ 2,033,400</u>	<u>\$ 1,917,682</u>		<u>\$ (115,718)</u>
OPERATING EXPENSES					
Salaries and wages	\$ 64,500	\$ 64,500	\$ 79,330		\$ (14,830)
Employee benefits	22,000	22,000	20,710		1,290
Conventions and meetings	-	-	71		(71)
Electric power	1,394,190	1,406,512	1,440,100		(33,588)
Computer support	-	-	1,381		(1,381)
Advertising	-	-	230		(230)
Professional services	2,000	2,000	448		1,552
Repairs and maintenance	1,000	1,000	1,605		(605)
Telephone and internet	900	900	655		245
Supplies	8,200	8,200	9,036		(836)
Payroll taxes	7,476	7,476	5,872		1,604
Small equipment	900	900	-		900
Vehicle maintenance	10,500	10,500	7,761		2,739
Depreciation	-	-	51,643		(51,643)
Uniforms	1,500	1,500	600		900
Miss Utility	100	100	11		89
Dues	<u>850</u>	<u>850</u>	<u>2,657</u>		<u>(1,807)</u>
Total operating expenses	<u>\$ 1,514,116</u>	<u>\$ 1,526,438</u>	<u>\$ 1,622,110</u>		<u>\$ (95,672)</u>
Operating income	\$ 555,784	\$ 506,962	\$ 295,572		\$ (211,390)
NONOPERATING REVENUE (EXPENSE)					
Interest expense	<u>(1,500)</u>	<u>(1,500)</u>	<u>(5,905)</u>		<u>(4,405)</u>
Income before transfers	\$ 554,284	\$ 505,462	\$ 289,667		\$ (215,795)
TRANSFERS					
Transfers out	<u>-</u>	<u>-</u>	<u>(242,373)</u>		<u>(242,373)</u>
Change in net assets	\$ 554,284	\$ 505,462	\$ 47,294		\$ (458,168)
NET ASSETS AT BEGINNING OF YEAR	<u>349,298</u>	<u>349,298</u>	<u>349,298</u>		<u>-</u>
NET ASSETS AT END OF YEAR	<u>\$ 903,582</u>	<u>\$ 854,760</u>	<u>\$ 396,592</u>		<u>\$ (458,168)</u>

TOWN OF ELKTON, VIRGINIA
WATER FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL
 Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
OPERATING REVENUES				
Charges for services	\$ 300,000	\$ 325,000	\$ 321,635	\$ (3,365)
Connection fees	62,400	62,400	42,900	(19,500)
Water haulers	75,000	75,000	52,826	(22,174)
Reconnect fees	5,000	5,000	4,540	(460)
Service charges	2,000	2,000	1,330	(670)
Total operating revenues	<u>\$ 444,400</u>	<u>\$ 469,400</u>	<u>\$ 423,231</u>	<u>\$ (46,169)</u>

OPERATING EXPENSES				
Salaries and wages	\$ 103,500	\$ 103,500	\$ 115,316	\$ (11,816)
Contract labor	500	4,500	-	4,500
Employee benefits	28,450	28,450	24,724	3,726
Advertising	250	250	609	(359)
Professional services	18,500	48,500	9,426	39,074
Repairs and maintenance	4,500	4,500	5,017	(517)
Telephone and internet	1,000	1,000	1,131	(131)
Supplies	5,000	21,000	50,495	(29,495)
Small equipment	-	-	4,390	(4,390)
Payroll taxes	8,500	8,500	8,294	206
Vehicle maintenance and generator fuel	5,500	21,500	29,268	(7,768)
Depreciation	-	-	78,140	(78,140)
Bond issuance costs	-	-	1,018	(1,018)
Miss Utility	150	150	260	(110)
Dues	2,000	2,000	373	1,627
Postage	500	500	619	(119)
Equipment rental	20,000	5,000	7,272	(2,272)
Permit fees	500	500	3,003	(2,503)
Uniforms	1,500	1,500	820	680
Water testing	-	-	22,660	(22,660)
Total operating expenses	<u>\$ 200,350</u>	<u>\$ 251,350</u>	<u>\$ 362,835</u>	<u>\$ (111,485)</u>
Operating income	\$ 244,050	\$ 218,050	\$ 60,396	\$ (157,654)

NONOPERATING REVENUE (EXPENSE)				
Interest expense	(25,000)	(25,000)	(28,301)	(3,301)

CAPITAL CONTRIBUTION AND TRANSFERS				
Water distribution system grant	\$ -	\$ 30,000	\$ 30,000	\$ -
Transfers out	-	-	(43,805)	(43,805)
Total contribution and transfers	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ (13,805)</u>	<u>\$ (43,805)</u>
Change in net assets	\$ 219,050	\$ 223,050	\$ 18,290	\$ (204,760)

NET ASSETS AT BEGINNING OF YEAR	<u>1,110,347</u>	<u>1,110,347</u>	<u>1,110,347</u>	<u>-</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,329,397</u>	<u>\$ 1,333,397</u>	<u>\$ 1,128,637</u>	<u>\$ (204,760)</u>

TOWN OF ELKTON, VIRGINIA
SEWER FUND
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS-BUDGET AND ACTUAL
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
OPERATING REVENUES				
Charges for services	\$ 495,000	\$ 500,000	\$ 560,924	\$ 60,924
Connection fees	67,600	67,600	25,700	(41,900)
Total operating revenues	<u>\$ 562,600</u>	<u>\$ 567,600</u>	<u>\$ 586,624</u>	<u>\$ 19,024</u>
OPERATING EXPENSES				
Salaries and wages	\$ 194,500	\$ 197,000	\$ 223,918	\$ (26,918)
Contract labor	20,000	2,000	378	1,622
Employee benefits	40,200	40,200	49,543	(9,343)
Conventions and meetings	-	-	1,971	(1,971)
Insurance	2,000	2,000	1,947	53
Advertising	800	800	341	459
Landfill	-	15,000	65,564	(50,564)
Permit fees	-	-	7,738	(7,738)
Professional services	20,000	29,000	29,167	(167)
Repairs and maintenance	11,500	11,500	18,138	(6,638)
Telephone and internet	1,500	1,500	1,264	236
Supplies	5,500	5,500	40,065	(34,565)
Postage	100	100	67	33
Equipment rental	-	-	33,167	(33,167)
Small equipment	500	1,000	2,450	(1,450)
Payroll taxes	13,000	13,000	16,953	(3,953)
Vehicle maintenance	4,400	4,400	3,373	1,027
Depreciation	-	-	93,016	(93,016)
Bond issuance costs	-	-	1,018	(1,018)
Uniforms	1,000	1,000	932	68
Miss Utility	200	200	43	157
Dues	5,000	5,000	487	4,513
Total operating expenses	<u>\$ 320,200</u>	<u>\$ 329,200</u>	<u>\$ 591,540</u>	<u>\$ (262,340)</u>
Operating income (loss)	<u>\$ 242,400</u>	<u>\$ 238,400</u>	<u>\$ (4,916)</u>	<u>\$ (243,316)</u>
NONOPERATING REVENUE (EXPENSE)				
Interest expense	\$ (81,000)	\$ (81,000)	\$ (36,694)	\$ 44,306
Loss on disposal of assets	-	-	(100,297)	(100,297)
Total nonoperating revenue (expense)	<u>\$ (81,000)</u>	<u>\$ (81,000)</u>	<u>\$ (136,991)</u>	<u>\$ (55,991)</u>
Income (loss) before transfers	<u>\$ 161,400</u>	<u>\$ 157,400</u>	<u>\$ (141,907)</u>	<u>\$ (299,307)</u>
TRANSFERS				
Transfers in	<u>-</u>	<u>-</u>	<u>21,179</u>	<u>21,179</u>
Change in net assets	<u>\$ 161,400</u>	<u>\$ 157,400</u>	<u>\$ (120,728)</u>	<u>\$ (278,128)</u>
NET ASSETS AT BEGINNING OF YEAR				
	<u>791,375</u>	<u>791,375</u>	<u>791,375</u>	<u>-</u>
NET ASSETS AT END OF YEAR				
	<u>\$ 952,775</u>	<u>\$ 948,775</u>	<u>\$ 670,647</u>	<u>\$ (278,128)</u>

TOWN OF ELKTON, VIRGINIA

SCHEDULE OF CAPITAL ADDITIONS
Year Ended June 30, 2011

GENERAL FUND		
Street paving project - various		\$ 199,367
2009 Freightliner garbage truck		144,328
2005 Peterbilt dump truck		45,600
2005 Caterpillar 312C		44,650
2010 Ford Explorer 4x4		30,890
Kubota M5640 four-wheel drive tractor		16,830
Movie house - paving		13,508
Security system		9,300
2004 Trail King trailer		4,750
HP business notebook		1,353
		<u>510,576</u>
Total general fund		\$ 510,576
ELECTRIC FUND		
Generator upgrade		\$ 9,720
Street lights		3,941
		<u>13,661</u>
Total electric fund		\$ 13,661
WATER FUND		
Water distribution project		\$ 51,250
Well project		41,673
Shiflett water connection		9,814
Water hauler connection		5,814
Handheld meter reader		5,652
		<u>114,203</u>
Total water fund		\$ 114,203
SEWER FUND		
WWTP upgrades		\$ 1,850,764
Roland Avenue project		7,873
Witt Avenue sewer line replacement		7,291
Air conditioning unit		5,500
Blue and Gold Drive sewer line replacement		4,257
Lewis Street sewer line replacement		2,432
Royce suspended solids sensor		1,359
		<u>1,879,476</u>
Total sewer fund		\$ 1,879,476
CEMETERY FUND		
X-Mark mower		\$ 6,719
		<u>6,719</u>
Total cemetery fund		\$ 6,719