

TOWN OF EASTON, MARYLAND
Easton, Maryland

FINANCIAL STATEMENTS
June 30, 2010

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Independent Auditor's Report

To The Honorable Mayor and
Members of the Town Council
Town of Easton, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, budgetary comparison of the general fund and the aggregate remaining fund information of the Town of Easton, Maryland, as of and for the year ended June 30, 2010, which collectively comprise the Town of Easton, Maryland's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Easton, Maryland's management. Our responsibility is to express an opinion 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 *Governmental 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 opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Easton, Maryland as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund 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 a report dated November 30, 2010, on our consideration of the Town of Easton, Maryland's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and Schedule of Funding Progress, as listed in the table of contents, are not required parts of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Easton, Maryland's basic financial statements. The accompanying supplementary information, such as the combining and individual nonmajor fund financial statements, other supplementary information and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and other supplementary information have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical tables have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clifton Henderson LLP

Baltimore, Maryland
November 30, 2010

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

The Management's Discussion and Analysis (MD&A) offers readers of the Town of Easton, Maryland's (Town) financial statements a narrative overview and analysis of the Town's financial activities for the fiscal year ended June 30, 2010. Readers are encouraged to consider the information presented here in conjunction with the financial statements, summary of significant accounting policies (SSAP) and notes to the financial statements (which immediately follow this discussion).

FINANCIAL AND EVENTS HIGHLIGHTS

- This year the Town of Easton is celebrating their 300th Anniversary. The Town recognizes their official beginnings from the Act of the Assembly of the Province of Maryland dated November 4, 1710. To mark this momentous occasion, the Town has incorporated into the monthly Town events the opportunity for residents, businesses and surrounding communities to celebrate this anniversary. In April 2010, we marked this celebration with a 300th Anniversary Parade. The events will continue in November 2010 with a Court house celebration and Gala at the Tidewater Inn and the Easton Banner Auction in December 2010.
- Total assets of the Town at year-end were \$161.7 million and exceeded its liabilities at June 30, 2010 by \$119.1 million (i.e. total net assets).
- As of June 30, 2010, the Town's governmental funds reported an ending fund balance of \$18.7 million which is a decrease of \$140 thousand from June 30, 2009.
- The Town completed the addition to the Police Department during the current year. This addition and renovation provides the Police Department with expanded modernized facility to enable the Town Police force to better serve the community. The Town Police held an open house during the month of October 2010 to allow the Public to view the addition and renovated facility.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town of Easton's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and budgetary comparison, and 3) notes to the financial statements.

Government-wide Financial Statements

There are two government-wide financial statements, which are designed to provide readers with a broad overview of the Town's finances in a manner similar to a private-sector business. Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, public works, parks and recreation, cultural, economic development and debt service. The major business-type activity is the Utilities Fund although the Town has also been involved in another enterprise fund category which is intended to provide economic development and urban redevelopment while recouping the costs involved in accomplishing those goals.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-wide Financial Statements (continued)

The Statement of Net Assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. This statement serves a purpose similar to that of the balance sheet of a private-sector business. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. However, this is just one indicator of the financial health of the Town. Other indicators include the condition of the Town's infrastructure systems (roads, drainage systems, etc.), changes in property tax base, and general economic conditions within the Town.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. Because it separates program revenue (revenue generated by specific programs through charges for services, grants and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program), it shows to what extent each program has to rely on taxes for funding. All changes in net assets are reported using the accrual basis of accounting, similar to the method used by most private-sector companies. The accrual basis of accounting requires that revenues be reported when they are earned and expenses are reported when the goods and services are received, regardless of the timing of the cash flow. Items such as uncollected taxes, unpaid vendor invoices for items received as of June 30, 2010, and earned but unused vacation leave will be included in the Statement of Activities as revenues and expenses, even though the cash associated with these items will not be received or distributed until after June 30, 2010.

The Town has no separately identified component units included in the government-wide financial statements, and is not a component unit of any other governments.

Fund Financial Statements

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 of Easton, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Easton can be divided into three categories: governmental funds, proprietary and fiduciary funds. Governmental Funds are used to account for most, if not all, of a government's tax supported activities. Proprietary Funds are used to account for a government's business-type activities, where all or part of the costs of activities are supported by fees and charges that are paid directly by those who benefit from the activities. Fiduciary funds are used to account for resources held for the benefit of entities outside of the government.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (continued)

Governmental Funds. The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances present separate columns of financial data for the General Fund and other funds not considered major by the Town. GASB Statement No. 34 defines a major fund as a fund whose assets, liabilities revenues or expenditures comprise 1) at least 10% of the total dollar amount of the same category within either all government or enterprise funds, as appropriate, and 2) at least 5% of the total dollar amount of all governmental and enterprise funds combined for the same category. The General Fund is always considered a major fund. The governmental funds financial statements can be found immediately following the government-wide financial statements.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements use of full accrual accounting, governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating a government's near-term financing requirements in comparison to near-term resources available.

Because the focus of governmental fund financial statements is narrower than that of government-wide financial statements, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. In order to facilitate this comparison, the Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to the governmental activities column in the government-wide statements.

The Town maintains budgetary controls over its operating funds. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget. Budgets for governmental funds are established in accordance with the Town Charter and are adopted on a fund level. Personal services are budgeted by full-time positions. Capital outlays are approved on an item-by-item basis or project basis. A budgetary comparison statement is provided for the General Fund (basic financial statements) to demonstrate compliance with the budget. Nonmajor fund information follows the notes to the financial statements. Budgetary variances for the General Fund are discussed in some detail later in this section.

Proprietary Funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its utility functions and various rental properties.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (continued)

Proprietary fund statements follow the governmental fund statements in this report. They provide the same type of information as the government-wide financial statements, only in more detail, since both apply the accrual basis of accounting. The proprietary fund financial statements provide information for the Utility Fund, the Land Enterprise Fund, the Airport Industrial Land Fund and the East End Redevelopment Fund. There are no reconciling differences from the Proprietary Funds Statement of Net Assets to the business-type activity column on the Government-Wide Statement of Net Assets.

Fiduciary Funds. Fiduciary funds are used to report resources held for the benefit of outside parties of the Town. The Town reports and accounts for its defined benefit plan and other post employment benefits plan in fiduciary funds. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements and can be found immediately following the basic financial statements in this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's net assets total \$119,088,263 at June 30, 2010 which is an increase of approximately \$6.4 million over the June 30, 2009 net assets. The following table reflects the condensed Government-Wide Statement of Net Assets:

	2010	2009
Current and other assets	\$ 49,393,272	\$ 46,290,956
Capital assets and other assets	112,282,049	111,371,165
Total assets	161,675,321	157,662,121
Current liabilities	8,751,577	8,994,951
Long-term debt	33,835,481	35,963,147
Total liabilities	42,587,058	44,958,098
Invested in capital assets, net of related debt	76,426,302	73,257,340
Restricted	1,701,148	1,696,408
Unrestricted	40,960,813	37,750,275
Total net assets	\$ 119,088,263	\$ 112,704,023

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Statement of Net Assets (continued)

The Town's total assets were approximately \$161.7 million as of June 30, 2010. Of this amount, \$112.3 is accounted for by capital assets, which includes infrastructure.

Of the remaining assets, approximately \$37.2 million is accounted for in cash and investments compared to \$34.6 million in the prior year), approximately \$8 million in accounts and notes receivable (compared to \$6.5 million in the prior year), inventory or approximately \$3.5 million (compared to \$3.8 million in the prior year), with the remainder spread among various other accounts.

Outstanding liabilities totaled approximately \$42.6 million with bonds comprising approximately \$16.2 million, loans from the State or Maryland comprising approximately \$18.5 million, and approximately \$5.1 in accounts payable and accrued expenses of the total at June 30, 2010. This compares with the June 30, 2009 amounts where the Town had outstanding liabilities of approximately \$45.0 million of which approximately \$17.6 million was bonds payable, approximately \$19.2 million was loans from the State of Maryland, and approximately \$5.1 million in accounts payable and accrued expenses. Of the bonds payable, approximately \$1.4 million is due within one year, with the remainder due at various dates before 2028. Refer to the notes to the financial statements for a more in-depth discussion of long-term debt.

The largest portion of the Town's net assets reflects its investment in assets, less any outstanding related debt used to acquire those assets. The Town's capital assets are used to provide services to citizens and customers. Consequently, investments in capital are not available for future spending. Although the Town's investment in 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.

At June 30, 2010, the Town had positive balances in all categories of net assets, for the government as a whole, and for governmental activities. Business-type activities also experienced positive balances in both capital and unrestricted assets; there were no restricted assets.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

Statement of Activities - Changes in Net Assets

The following schedule compares the revenues and expenses for the current fiscal year.

**Changes in Net Assets
Fiscal Year Ended June 30, 2010**

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Program Revenues			
Charges for service	\$ 2,050,920	\$ 46,499,946	\$ 48,550,866
Operating grants and contributions	657,540	-	657,540
General Revenues			
Property taxes	12,498,666	-	12,498,666
Other local taxes	2,781,870	-	2,781,870
Other	<u>115,767</u>	<u>41,827</u>	<u>157,594</u>
Total revenues	<u>18,104,763</u>	<u>46,541,773</u>	<u>64,646,536</u>
Expenses			
General government	1,719,785	-	1,719,785
Public safety	7,012,373	-	7,012,373
Public works	4,083,815	-	4,083,815
Recreation and cultural	454,334	-	454,334
Economic development	420,095	-	420,095
Nondepartmental	468,341	-	468,341
Interest expense	505,246	-	505,246
Utilities services	-	43,278,639	43,278,639
Other services	<u>-</u>	<u>319,668</u>	<u>319,668</u>
Total expenses	<u>14,663,989</u>	<u>43,598,307</u>	<u>58,262,296</u>
Excess of revenues over expenses	3,440,774	2,943,466	6,384,240
Transfers in (out)	<u>(45,000)</u>	<u>45,000</u>	<u>-</u>
Increase in net assets	3,395,774	2,988,466	6,384,240
Net assets, beginning of year	<u>34,439,929</u>	<u>78,264,094</u>	<u>112,704,023</u>
Net assets, end of year	<u>\$ 37,835,703</u>	<u>\$ 81,252,560</u>	<u>\$119,088,263</u>

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

**Changes in Net Assets
Fiscal Year Ended June 30, 2009**

	Governmental Activities	Business- Type Activities	Total
Program Revenues			
Charges for service	\$ 2,481,379	\$ 54,223,424	\$ 56,704,803
Operating grants and contributions	2,200,354	-	2,200,354
General Revenues			
Property taxes	11,186,291	-	11,186,291
Other local taxes	3,010,650	-	3,010,650
Other	<u>143,424</u>	<u>165,022</u>	<u>308,446</u>
Total revenues	<u>19,022,098</u>	<u>54,388,446</u>	<u>73,410,544</u>
Expenses			
General government	1,563,903	-	1,563,903
Public safety	6,818,764	-	6,818,764
Public works	3,652,482	-	3,652,482
Recreation and cultural	671,936	-	671,936
Economic development	304,654	-	304,654
Nondepartmental	1,085,167	-	1,085,167
Interest expense	192,776	-	192,776
Utilities services	-	50,897,373	50,897,373
Other services	<u>-</u>	<u>321,985</u>	<u>321,985</u>
Total expenses	<u>14,289,682</u>	<u>51,219,358</u>	<u>65,509,040</u>
Excess of revenues over expenses	4,732,416	3,169,088	7,901,504
Transfers in (out)	<u>(45,000)</u>	<u>45,000</u>	<u>-</u>
Increase in net assets (as restated)	4,687,416	3,214,088	7,901,504
Net assets, beginning of year	<u>29,752,513</u>	<u>75,050,006</u>	<u>104,802,519</u>
Net assets, end of year	<u>\$ 34,439,929</u>	<u>\$ 78,264,094</u>	<u>\$112,704,023</u>

Total revenues for the Town of Easton were approximately \$64.6 million for the year ended June 30, 2010 compared to approximately \$73.4 million for the year ending June 30, 2009. Governmental activities provided approximately \$19 million, and business-type activities provided \$54.3 million, primarily through charges for services.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As noted earlier, the Town of Easton uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Following are financial analysis of the Town's governmental and proprietary funds.

Governmental Funds Revenue and Expense Analysis

The general governmental functions are contained in the General Fund. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)

Governmental Funds Revenue and Expense Analysis (continued)

The General Fund is the chief operating fund of the Town. As of June 30, 2010, unreserved, undesignated fund balance of the General Fund was \$7,213,878.

Revenues Classified by Source

	<u>2010</u>	<u>Percent to Total</u>	<u>2009</u>	<u>Percent to Total</u>
GOVERNMENTAL FUNDS				
Revenues				
General property taxes	\$ 12,498,666	68.87%	\$ 11,186,291	58.18%
Other local taxes	1,135,196	6.26%	2,305,037	11.99%
Permits and licenses	618,676	3.41%	718,561	3.74%
Fines and forfeitures	34,619	0.19%	38,594	0.20%
Changes for services	959,172	5.29%	1,062,833	5.53%
Miscellaneous	2,150,473	11.85%	2,363,659	12.29%
Intergovernmental	<u>749,027</u>	<u>4.13%</u>	<u>1,551,266</u>	<u>8.07%</u>
Total revenues	<u>\$ 18,145,829</u>	<u>100.00%</u>	<u>\$ 19,226,241</u>	<u>100.00%</u>

The following provides an explanation of revenues by source that changed significantly over the prior year:

- **General Property Taxes** – This consists of real and personal property revenues. Gross real property tax revenues were approximately \$11.3 million, up 12% or approximately \$1.2 million from last year reflecting continued growth and assessment increases for existing properties. The real estate tax rate was maintained at the FY2009 rate of \$.52 per \$100 of assessed value. Gross personal property tax revenue increased 10% to approximately \$1.2 million as a result of increasing assessments. The personal property tax rate remained unchanged from FY2009 at a rate of \$1.30 per \$100 of assessed value of personal property located within the Town limits.
- **Other Local Taxes** – This category is primarily comprised of taxes levied by the State of Maryland and Talbot County which are then shared with the Town. State shared income taxes decreased approximately \$321,000 or 6% to \$994,000 and highway user taxes decreased approximately \$849,000 to approximately \$136,000.
- **Intergovernmental** – This category decreased approximately \$810,000, primarily due to the completion of two projects funded with grant revenues in 2009.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)

Governmental Funds Revenue and Expense Analysis (continued)

The following table represents expenditures by function.

	2010	Percent to Total	2009	Percent to Total
GOVERNMENTAL FUNDS				
Expenditures				
Current operations:				
General government				
administration	\$ 1,706,553	9.36%	\$ 1,559,160	6.75%
Public safety	9,835,003	53.91%	9,135,810	39.53%
Public works	3,992,692	21.89%	7,809,624	33.80%
Recreation and cultural	446,574	2.45%	583,584	2.53%
Economic development	293,022	1.61%	180,103	.77%
Nondepartmental	477,015	2.61%	1,205,283	5.22%
Debt service:				
Principal	985,658	5.40%	2,442,212	10.57%
Interest	505,246	2.77%	192,776	.83%
Total expenditures	\$ 18,241,763	100.00%	\$ 23,108,552	100.00%

The following provides an explanation of the expenditures by function that changed significantly over the prior year.

- **Public Safety** – This is primarily the result of the completion of construction activity related to the new police building, and increases in salary and benefits in FY 2010.
- **Public Works** – In terms of total dollars, the largest decrease was for Public Works and the decrease was due in a large part to the completion of the Public Works facility in 2009 offset slightly by expenses associated with three major snow events during FY 2010.
- **Nondepartmental** – The decrease is primarily attributed to professional services associated with the bond issues in 2008 and 2009 and more favorable insurance rates and the soft freeze of the pension plan.
- **Principal and Interest** – The decrease in principal payments is primarily due to the repayment of \$2 million due to refinancing through bond issuance in 2009 offset by a full year of principal payments in 2010. The increase in interest is primarily attributable to a full year of interest on the bond issued in June 2009.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)

Enterprise Funds Revenue and Expense Analysis

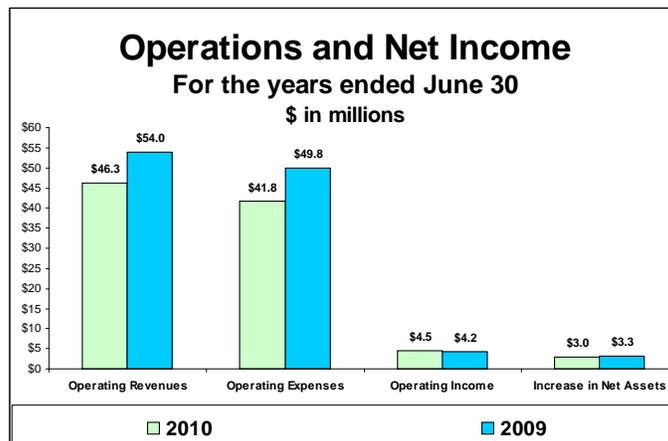
Utility Fund

Operating Revenues: Revenues in FY10 decreased \$7.7 million, or 14.3%, from FY09. This was largely due to \$6.5 million, or 18.8%, lower revenues in the Electric Department as a result of lower purchased power costs being passed through to customers at no markup and lower generation sales. The Gas Department's revenues decreased \$1.9 million, or 22.3%, from the prior year, mostly due to lower gas costs being passed through to customers at no markup and lower usage per customer. The Water & Wastewater Department's revenues decreased \$48 thousand, or 1.1%, reflecting a decrease in usage per customer, partially offset by an increase in the number of customers. Cable & Communication's revenues increased \$585 thousand, or 7.5%, over FY09, primarily as a result of a shift from analog to digital cable TV service, coupled with continued growth of VOIP customers, a shift from dial-up to cable modem internet service and an increase in IT consulting services.

Operating Expenses: The Commission's operating expenses decreased \$8.0 million, or 16.1%, versus FY09. The primary driver of the change was \$6.5 million, or 27.6%, lower purchased power expenses in the Electric Department. The Gas Department's operating expenses were \$1.9 million, or 24.1%, lower during FY10 primarily due to the lower cost of gas purchased during the year. The Water & Wastewater Department's operating expenses were \$70 thousand, or 1.7%, lower than the prior year due in large part to lower energy costs and receipt of a Maryland Department of Environment operations and maintenance grant. Cable & Communications experienced a \$548 thousand, or 9.3%, increase in operating expenses as a result of increasing programming costs and costs associated with the Internet Division's VOIP service and IT consulting.

Capital Charges: Capital charges are fees paid by developers for new connections to the Water & Wastewater systems. These charges are recorded as other income. Total capital charges collected in FY10 were \$462 thousand, compared to \$752 thousand in FY09. The decrease was due to less development activity in the area.

The following summarizes Operations and Net Income of the Utilities Fund:



**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

ANALYSIS OF BUDGET AND ACTUAL RESULTS

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
GOVERNMENTAL FUNDS – GENERAL FUND			
Revenues			
Taxes	\$ 14,450,171	\$ 13,633,862	\$ (816,309)
Licenses and permits	553,100	618,676	65,576
Intergovernmental	491,700	526,350	34,650
Charges for services	858,142	959,172	101,030
Fines and forfeitures	58,500	34,619	(23,881)
Miscellaneous	<u>1,516,600</u>	<u>1,656,329</u>	<u>139,729</u>
Total revenues	<u>\$ 17,928,213</u>	<u>\$ 17,429,008</u>	<u>\$ (499,205)</u>
Expenditures			
Current operations:			
General government administration	\$ 1,598,528	\$ 1,683,372	\$ (84,844)
Public safety	6,818,665	6,419,847	398,818
Public works	3,403,054	3,338,104	64,950
Recreation and cultural	373,661	276,841	96,820
Economic development	176,907	293,022	(116,115)
Nondepartmental	2,148,781	421,037	1,727,744
Debt service:			
Principal	583,302	260,658	322,644
Interest	103,441	39,200	64,241
Other financing (sources) uses			
Transfers in	<u>2,721,874</u>	<u>2,574,815</u>	<u>147,059</u>
Total expenditures and other financing uses	<u>\$ 17,928,213</u>	<u>\$ 15,306,896</u>	<u>\$ 2,621,317</u>

There were no changes made to the original budget as adopted.

Regarding actual results of the governmental funds to the adopted budgets, significant variations were as follows in summary form:

- Gross Actual Revenue was below Gross Budgeted Revenue by approximately \$499,000 or 2.8% of the budgeted revenue of approximately \$17.9 million. This is primarily the result of reductions to the State Highway User Revenues and State Shared Income taxes revenues. This was partially offset by increases in the gross property tax revenues.
- Gross budgeted expenditures and other financing uses exceeded the gross actual expenditures and other financing uses by approximately \$2.6 million or 14.6% of budgeted expenditures and other financing uses. The most significant variances related to public safety and debt service. Public safety expenditures related to the Police Department building were not all needed. Debt Service Principal expenditures of approximately \$2 million resulted from the refinancing of a loan through the issuance of a Bond in FY09. Nondepartmental category which primarily represents contingency and other miscellaneous expenditures not otherwise categorized. Of the approximate \$2.1 million budgeted, approximately \$421,000 was actually needed.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Town of Easton's total investment in capital assets, including construction in progress, for its governmental and business-type activities as of June 30, 2010, amounts to \$111.8 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, recreation and park facilities, utilities properties and facilities as well as other typical capital items.

The following table schedules capital assets by category (net of accumulated depreciation) for fiscal years ending June 30, 2010 and 2009, respectively:

**Town of Easton's Capital Assets
(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 6,965,666	\$ 6,965,433	\$ 1,280,965	\$ 1,278,279	\$ 8,246,631	\$ 8,243,712
Buildings and improvements	20,755,776	15,476,827	20,016,263	20,520,830	40,772,039	35,997,657
Plants, mains and other equipment	3,208,665	3,378,855	58,586,386	59,770,918	61,795,051	63,149,773
Construction in progress	-	2,374,554	1,007,339	1,102,344	1,007,339	3,476,898
Total	\$ 30,930,107	\$ 28,195,669	\$ 80,890,953	\$ 82,672,371	\$ 111,821,060	\$ 110,868,040

During the year ended June 30, 2010, the Town's capital assets grew by approximately \$1 million. This is largely due to various equipment purchases totaling approximately \$1.0 million, and various smaller projects within the utility fund totaling approximately \$7.2 million the completion of the new construction at the Police Department offset by depreciation expense of approximately \$7.2 million.

Long-Term Debt Activity

The Town of Easton issued no new long-term debt during fiscal year 2010. Regularly scheduled principal payments were made during 2010 totally approximately \$2.5 million and accounts for the net decrease from 2009 as shown below.

Changes in Long-Term Liabilities

Town of Easton's Outstanding Long-Term Debt

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Long-term debt	\$ 11,995,058	\$ 12,843,828	\$ 24,328,123	\$ 25,720,420	\$ 36,323,181	\$38,664,248

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

SUBSEQUENT ITEMS FOR FUTURE FINANCIAL STATEMENTS

On July 15, 2009, the Commission filed for an increase in gas service base rates with the PSC. A total of \$252 thousand in new rates were approved by the PSC, representing an increase of approximately 3.2%, and effective in two steps. The first step was effective December 1, 2009 and the second step was effective June 1, 2010.

Subsequent to the passing of the FY2010 budget for the Town of Easton, the State of Maryland made reductions to the State Aid for Police Protection and the Highway Safety User Funds which help fund the Police Department activity and the Public Works Department activities. Local income tax revenues continue to have projected shortfalls in the State of Maryland Revenues. The Mayor, Town Council and staff are continuing to work toward improving the organizational efficiency to compensate for all additional reductions to minimize the effects it may have on Town operations.

Requests for Information

This financial report is designed to provide a general overview of the Town of Easton's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Manager, Town of Easton, 14 S. Harrison Street, Easton, MD 21601.

BASIC FINANCIAL STATEMENTS

TOWN OF EASTON, MARYLAND
STATEMENT OF NET ASSETS
June 30, 2010

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 17,245,003	\$ 1,276,601	\$ 18,521,604
Investments	12,202	18,626,741	18,638,943
Accounts receivable, net	710,453	4,194,825	4,905,278
Grant and loan receivable	583,344	384,902	968,246
Unrecovered fuel and gas costs	-	569,214	569,214
Interest receivable	-	3,181	3,181
Internal balances	692,539	(692,539)	-
Prepaid expenses	229,020	482,661	711,681
Unbilled revenue	-	1,595,279	1,595,279
Inventory, at average cost	-	3,479,846	3,479,846
Total current assets	<u>19,472,561</u>	<u>29,920,711</u>	<u>49,393,272</u>
NONCURRENT ASSETS			
Unamortized expenses	-	296,614	296,614
Note receivable, non-current	164,375	-	164,375
Capital assets, not being depreciated	6,965,666	2,288,303	9,253,969
Capital assets, net of accumulated depreciation	<u>23,964,441</u>	<u>78,602,650</u>	<u>102,567,091</u>
Total non current assets	<u>31,094,482</u>	<u>81,187,567</u>	<u>112,282,049</u>
Total assets	<u>50,567,043</u>	<u>111,108,278</u>	<u>161,675,321</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	528,087	2,806,945	3,335,032
Accrued liabilities	164,221	1,217,430	1,381,651
Tax collection payable	-	266,100	266,100
Performance deposits	32,538	1,044,466	1,077,004
Due to Asbury Place	-	168,654	168,654
Unearned revenue	11,436	24,000	35,436
Current portion of long-term debt	<u>1,023,342</u>	<u>1,464,358</u>	<u>2,487,700</u>
Total current liabilities	<u>1,759,624</u>	<u>6,991,953</u>	<u>8,751,577</u>
NONCURRENT LIABILITIES			
Long-term debt	10,415,906	22,863,765	33,279,671
Compensated absences	<u>555,810</u>	<u>-</u>	<u>555,810</u>
Total noncurrent liabilities	<u>10,971,716</u>	<u>22,863,765</u>	<u>33,835,481</u>
Total liabilities	<u>12,731,340</u>	<u>29,855,718</u>	<u>42,587,058</u>
NET ASSETS			
Invested in capital assets, net of related debt	19,614,455	56,811,847	76,426,302
Restricted for debt service	1,701,148	-	1,701,148
Unrestricted	<u>16,520,100</u>	<u>24,440,713</u>	<u>40,960,813</u>
TOTAL NET ASSETS	<u>\$ 37,835,703</u>	<u>\$ 81,252,560</u>	<u>\$ 119,088,263</u>

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

TOWN OF EASTON, MARYLAND
STATEMENT OF ACTIVITIES
Year Ended June 30, 2010

FUNCTIONS/PROGRAMS	Program Revenues				Net Revenue (Expense) and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 1,719,785	\$ 667,519	\$ -	\$ -	\$ (1,052,266)	\$ -	\$ (1,052,266)
Public safety	7,012,373	178,343	455,850	-	(6,378,180)	-	(6,378,180)
Public works	4,083,815	1,187,173	135,850	-	(2,760,792)	-	(2,760,792)
Recreation and cultural	454,334	-	-	-	(454,334)	-	(454,334)
Economic development	420,095	-	4,500	-	(415,595)	-	(415,595)
Nondepartmental	468,341	17,885	61,340	-	(389,116)	-	(389,116)
Interest expense	505,246	-	-	-	(505,246)	-	(505,246)
Total governmental activities	<u>14,663,989</u>	<u>2,050,920</u>	<u>657,540</u>	<u>-</u>	<u>(11,955,529)</u>	<u>-</u>	<u>(11,955,529)</u>
Business-type activities:							
Utility	43,278,639	46,276,156	-	-	-	2,997,517	2,997,517
Land enterprise	228,387	220,417	-	-	-	(7,970)	(7,970)
Airport Industrial	35,478	3,373	-	-	-	(32,105)	(32,105)
East End redevelopment	55,803	-	-	-	-	(55,803)	(55,803)
Total business-type activities	<u>43,598,307</u>	<u>46,499,946</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,901,639</u>	<u>2,901,639</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 58,262,296</u>	<u>\$ 48,550,866</u>	<u>\$ 657,540</u>	<u>\$ -</u>	<u>(11,955,529)</u>	<u>2,901,639</u>	<u>(9,053,890)</u>
General revenues:							
Property taxes					12,498,666	-	12,498,666
Payment in lieu of taxes					1,511,869	(1,511,869)	-
Intergovernmental, unrestricted					1,270,001	-	1,270,001
Interest and investment earnings					29,812	40,303	70,115
Miscellaneous					85,955	1,513,393	1,599,348
Transfers					(45,000)	45,000	-
Total general revenues					<u>15,351,303</u>	<u>86,827</u>	<u>15,438,130</u>
CHANGE IN NET ASSETS					3,395,774	2,988,466	6,384,240
NET ASSETS, BEGINNING OF YEAR					<u>34,439,929</u>	<u>78,264,094</u>	<u>112,704,023</u>
NET ASSETS, ENDING OF YEAR					<u>\$ 37,835,703</u>	<u>\$ 81,252,560</u>	<u>\$ 119,088,263</u>

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

**TOWN OF EASTON, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010**

	General Fund	Capital Projects Fund	Infrastructure Development Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 6,337,960	\$ 1,813,179	\$ 5,438,430	\$ 3,655,434	\$ 17,245,003
Investments	12,202	-	-	-	12,202
Accounts receivable, net	1,051,809	122,285	-	119,703	1,293,797
Note receivable	-	-	-	164,375	164,375
Prepaid expenses	229,020	-	-	-	229,020
Unamortized expenses	-	-	-	169,108	169,108
Due from other funds	692,539	-	-	-	692,539
TOTAL ASSETS	\$ 8,323,530	\$ 1,935,464	\$ 5,438,430	\$ 4,108,620	\$ 19,806,044
LIABILITIES					
Accounts payable	\$ 276,475	\$ 249,365	\$ 749	\$ 1,498	\$ 528,087
Accrued liabilities	299,000	60	-	4,113	303,173
Performance deposits	32,538	-	-	-	32,538
Deferred revenue	272,619	-	-	-	272,619
Total liabilities	880,632	249,425	749	5,611	1,136,417
FUND BALANCES					
Reserved for debt service fund	-	-	-	1,701,148	1,701,148
Reserved for prepaid expenses	229,020	-	-	-	229,020
Unreserved, undesignated reported in:					
General fund	7,213,878	-	-	-	7,213,878
Capital projects fund	-	1,686,039	-	-	1,686,039
CDBG fund	-	-	-	401,293	401,293
Law enforcement fund	-	-	-	(111,732)	(111,732)
Budget stabilization fund	-	-	-	2,587,658	2,587,658
Special taxing district fund	-	-	-	(475,358)	(475,358)
Infrastructure development fund	-	-	5,437,681	-	5,437,681
Total fund balances	7,442,898	1,686,039	5,437,681	4,103,009	18,669,627
TOTAL LIABILITIES AND FUND BALANCES	\$ 8,323,530	\$ 1,935,464	\$ 5,438,430	\$ 4,108,620	\$ 19,806,044

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

**TOWN OF EASTON, MARYLAND
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2010**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 18,669,627

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 funds. The cost of these assets is \$45,973,208 and the accumulated depreciation is \$15,043,101. 30,930,107

Liabilities such as bonds, notes payable, capital lease obligations and compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental funds as follows:

General obligation bonds	\$ 10,475,000	
Notes payable	872,229	
Capital lease obligations	18,235	
Net OPEB obligation	103,940	
Compensated absences - long-term portion	555,810	(12,025,214)

Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. 261,183

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 37,835,703

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

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2010

	General Fund	Capital Projects Fund	Infrastructure Development Fund	Other Governmental Fund	Total Governmental Funds
REVENUES					
General property taxes	\$ 12,498,666	\$ -	\$ -	\$ -	\$ 12,498,666
Other local taxes	1,135,196	-	-	-	1,135,196
Permits and licenses	618,676	-	-	-	618,676
Fines and forfeitures	34,619	-	-	-	34,619
Charges for services	959,172	-	-	-	959,172
Miscellaneous	1,656,329	-	424,338	69,806	2,150,473
Revenues from other agencies	526,350	-	-	222,677	749,027
Total revenues	17,429,008	-	424,338	292,483	18,145,829
EXPENDITURES					
Current operations:					
General government	1,683,372	23,181	-	-	1,706,553
Public safety	6,419,847	3,369,113	-	46,043	9,835,003
Public works	3,338,104	654,588	-	-	3,992,692
Recreation and cultural	276,841	116,169	-	53,564	446,574
Economic development	293,022	-	-	-	293,022
Nondepartmental	421,037	-	5,597	50,381	477,015
Debt service:					
Principal	260,658	-	-	725,000	985,658
Interest	39,200	-	-	466,046	505,246
Total expenditures	12,732,081	4,163,051	5,597	1,341,034	18,241,763
Excess of revenues over expenditures	4,696,927	(4,163,051)	418,741	(1,048,551)	(95,934)
OTHER FINANCING SOURCES (USES)					
Transfers in (out)	(2,574,815)	896,559	-	1,633,256	(45,000)
Total other financing sources (uses)	(2,574,815)	896,559	-	1,633,256	(45,000)
NET CHANGES IN FUND BALANCES	2,122,112	(3,266,492)	418,741	584,705	(140,934)
FUND BALANCES, BEGINNING OF YEAR	5,320,786	4,952,531	5,018,940	3,518,304	18,810,561
FUND BALANCES, END OF YEAR	\$ 7,442,898	\$ 1,686,039	\$ 5,437,681	\$ 4,103,009	\$ 18,669,627

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

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
(NON-GAAP BUDGETARY BASIS) – GENERAL FUND
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>		
REVENUES				
Taxes				
General property taxes:				
Real property taxes	\$ 11,199,399	\$ 11,199,399	\$ 11,268,069	\$ 68,670
Personal property taxes - business	826,000	826,000	1,107,918	281,918
Personal property taxes - railroad and public utilities	190,000	190,000	174,796	(15,204)
Abatements/discounts	(125,000)	(125,000)	(138,294)	(13,294)
Penalties and interest	49,680	49,680	86,177	36,497
Total general property taxes	<u>12,140,079</u>	<u>12,140,079</u>	<u>12,498,666</u>	<u>358,587</u>
Local taxes:				
State shared income taxes	1,400,000	1,400,000	993,674	(406,326)
State shared highway taxes	905,742	905,742	135,850	(769,892)
Admission and amusements	3,600	3,600	4,922	1,322
Franchise-ordinary business corporation	750	750	750	-
Total other local taxes	<u>2,310,092</u>	<u>2,310,092</u>	<u>1,135,196</u>	<u>(1,174,896)</u>
Total taxes	<u>14,450,171</u>	<u>14,450,171</u>	<u>13,633,862</u>	<u>(816,309)</u>
Permits and licenses				
Trader's licenses	60,000	60,000	74,148	14,148
Building permits	300,000	300,000	253,500	(46,500)
Plumbing permits	20,000	20,000	20,878	878
Use and occupancy permits	40,000	40,000	37,750	(2,250)
Rental housing license fees	55,000	55,000	101,100	46,100
Permits and other licenses	78,100	78,100	131,300	53,200
Total permits and licenses	<u>553,100</u>	<u>553,100</u>	<u>618,676</u>	<u>65,576</u>
Fines and forfeitures	<u>58,500</u>	<u>58,500</u>	<u>34,619</u>	<u>(23,881)</u>
Charges for services				
General government	45,000	45,000	48,843	3,843
Public safety	76,442	76,442	123,466	47,024
Highway and streets	85,000	85,000	120,749	35,749
Sanitation and waste removal	651,700	651,700	666,114	14,414
Total charges for services	<u>858,142</u>	<u>858,142</u>	<u>959,172</u>	<u>101,030</u>
Revenues from other agencies				
Federal:				
Byrne Justice Recovery Act	-	-	16,300	16,300
State:				
Police protection	244,000	244,000	179,985	(64,015)
Fire, rescue and ambulance	-	-	36,888	36,888
Conservation and critical areas	7,700	7,700	4,500	(3,200)
Total state	<u>251,700</u>	<u>251,700</u>	<u>237,673</u>	<u>(14,027)</u>
County:				
Taxes	240,000	240,000	288,677	48,677
Total county	<u>240,000</u>	<u>240,000</u>	<u>288,677</u>	<u>48,677</u>
Total revenues from other agencies	<u>491,700</u>	<u>491,700</u>	<u>526,350</u>	<u>34,650</u>
Miscellaneous	<u>1,516,600</u>	<u>1,516,600</u>	<u>1,656,329</u>	<u>139,729</u>
TOTAL REVENUES	<u>17,928,213</u>	<u>17,928,213</u>	<u>17,429,008</u>	<u>(499,205)</u>

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

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
(NON-GAAP BUDGETARY BASIS) – GENERAL FUND
Year Ended June 30, 2010
(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget		
EXPENDITURES				
General government				
Legislative:				
Town council	\$ 109,076	\$ 109,076	\$ 203,804	\$ (94,728)
Town clerk	83,029	83,029	89,463	(6,434)
Total legislative	<u>192,105</u>	<u>192,105</u>	<u>293,267</u>	<u>(101,162)</u>
Executive Mayor	82,026	82,026	38,329	43,697
Town Manager	401,085	401,085	316,380	84,705
Elections	-	-	84	(84)
Financial administration	384,273	384,273	395,823	(11,550)
Independent accounting & auditing	38,000	38,000	38,094	(94)
Law	50,000	50,000	62,066	(12,066)
Planning and zoning	344,858	344,858	426,398	(81,540)
General services	106,181	106,181	112,931	(6,750)
Total general government	<u>1,598,528</u>	<u>1,598,528</u>	<u>1,683,372</u>	<u>(84,844)</u>
Public safety				
Police	5,916,162	5,916,162	5,619,707	296,455
Traffic control	50,871	50,871	46,463	4,408
Fire and rescue	419,576	419,576	307,609	111,967
Code enforcement	314,994	314,994	323,471	(8,477)
Rental housing	87,251	87,251	106,901	(19,650)
Traffic engineering	29,811	29,811	15,696	14,115
Total public safety	<u>6,818,665</u>	<u>6,818,665</u>	<u>6,419,847</u>	<u>398,818</u>
Public works				
Administration	588,791	588,791	474,615	114,176
Sanitation and waste removal	1,561,022	1,561,022	1,446,835	114,187
Highways, streets and sidewalks	1,251,991	1,251,991	1,413,071	(161,080)
Mosquito control	1,250	1,250	3,583	(2,333)
Total public works	<u>3,403,054</u>	<u>3,403,054</u>	<u>3,338,104</u>	<u>64,950</u>
Parks, recreation and cultural				
Parks and recreation administration	80,744	80,744	83,057	(2,313)
Participation recreation	51,051	51,051	48,645	2,406
Municipal parks	241,866	241,866	145,139	96,727
Total parks, recreation and cultural	<u>373,661</u>	<u>373,661</u>	<u>276,841</u>	<u>96,820</u>
Economic development				
	<u>176,907</u>	<u>176,907</u>	<u>293,022</u>	<u>(116,115)</u>
Nondepartmental				
	<u>2,148,781</u>	<u>2,148,781</u>	<u>421,037</u>	<u>1,727,744</u>
Debt service				
Principal	583,302	583,302	260,658	322,644
Interest	103,441	103,441	39,200	64,241
Total debt service	<u>686,743</u>	<u>686,743</u>	<u>299,858</u>	<u>386,885</u>
TOTAL EXPENDITURES	<u>15,206,339</u>	<u>15,206,339</u>	<u>12,732,081</u>	<u>2,474,258</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>2,721,874</u>	<u>2,721,874</u>	<u>4,696,927</u>	<u>1,975,053</u>

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

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
(NON-GAAP BUDGETARY BASIS) – GENERAL FUND
Year Ended June 30, 2010
(Continued)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
OTHER FINANCING SOURCES (USES)				
Transfers (net):				
Debt service	\$ (1,210,467)	\$ (1,210,467)	\$ (1,210,467)	\$ -
Capital projects	(896,559)	(896,559)	(896,559)	-
Budget stabilization	(569,848)	(569,848)	(422,789)	147,059
Land enterprise	(45,000)	(45,000)	(45,000)	-
TOTAL OTHER FINANCING USES	<u>\$ (2,721,874)</u>	<u>\$ (2,721,874)</u>	<u>(2,574,815)</u>	<u>\$ 147,059</u>
NET CHANGE IN FUND BALANCE			2,122,112	
FUND BALANCE, BEGINNING OF YEAR			<u>5,320,786</u>	
FUND BALANCE, END OF YEAR			<u>\$ 7,442,898</u>	

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

TOWN OF EASTON, MARYLAND
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2010

	Business-Type Activities - Enterprise Funds		
	Utility	Other	Totals
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 853,984	\$ 422,617	\$ 1,276,601
Investments	18,626,741	-	18,626,741
Accounts receivable, net	4,185,186	9,639	4,194,825
Grants & loans receivable	384,902		384,902
Interest receivable	3,181	-	3,181
Prepaid expenses	482,661	-	482,661
Inventory	3,479,846	-	3,479,846
Unrecovered fuel and gas costs	569,214	-	569,214
Unbilled revenue	1,595,279	-	1,595,279
Total current assets	<u>30,180,994</u>	<u>432,256</u>	<u>30,613,250</u>
NONCURRENT ASSETS			
Unamortized expenses	296,614	-	296,614
Capital assets, not being depreciated	2,034,019	254,284	2,288,303
Capital assets, net of accumulated depreciation	75,885,921	2,716,729	78,602,650
Total noncurrent assets	<u>78,216,554</u>	<u>2,971,013</u>	<u>81,187,567</u>
TOTAL ASSETS	<u>\$ 108,397,548</u>	<u>\$ 3,403,269</u>	<u>\$ 111,800,817</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ 2,802,400	\$ 4,545	\$ 2,806,945
Accrued liabilities	1,216,971	459	1,217,430
Tax collection payable	266,100	-	266,100
Performance deposits	1,035,613	8,853	1,044,466
Due to Asbury Place	-	168,654	168,654
Deferred revenue	24,000	-	24,000
Due to other funds	-	692,539	692,539
Current portion of long-term debt	1,464,358	-	1,464,358
Total current liabilities	<u>6,809,442</u>	<u>875,050</u>	<u>7,684,492</u>
NONCURRENT LIABILITIES			
Long-term debt	21,191,641	1,672,124	22,863,765
Total liabilities	<u>28,001,083</u>	<u>2,547,174</u>	<u>30,548,257</u>
NET ASSETS			
Invested in capital assets, net of related debt	55,512,958	1,298,889	56,811,847
Unrestricted	24,883,507	(442,794)	24,440,713
Total net assets	<u>80,396,465</u>	<u>856,095</u>	<u>81,252,560</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 108,397,548</u>	<u>\$ 3,403,269</u>	<u>\$ 111,800,817</u>

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

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2010

	Business-Type Activities - Enterprise Funds		
	Utility	Other	Total
Operating revenues	\$ 46,276,156	\$ 223,790	\$ 46,499,946
Operating expenses	41,782,503	319,668	42,102,171
Operating income (loss)	4,493,653	(95,878)	4,397,775
Non-operating revenues			
(expenses):			
Revenue	1,553,679	17	1,553,696
Expense (including \$119,477 of depreciation)	(3,008,005)	-	(3,008,005)
Total non-operating revenues (expenses)	(1,454,326)	17	(1,454,309)
Income before transfers	3,039,327	(95,861)	2,943,466
Transfers in	-	45,000	45,000
CHANGES IN NET ASSETS	3,039,327	(50,861)	2,988,466
NET ASSETS, BEGINNING OF YEAR (as restated)	77,357,138	906,956	78,264,094
NET ASSETS, END OF YEAR	<u>\$ 80,396,465</u>	<u>\$ 856,095</u>	<u>\$ 81,252,560</u>

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

TOWN OF EASTON, MARYLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2010

	Business-Type Activities - Enterprise Funds		
	Utility	Other	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received for services	\$ 46,083,605	\$ 231,694	\$ 46,315,299
Cash paid to suppliers for goods and services	(28,583,438)	(161,735)	(28,745,173)
Cash paid to employees for services	(7,393,969)	-	(7,393,969)
Net cash provided by operating activities	<u>10,106,198</u>	<u>69,959</u>	<u>10,176,157</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES			
Cash paid in lieu of taxes	(1,554,618)	-	(1,554,618)
Transfers from other funds	-	45,000	45,000
Net cash provided by (used in) non-capital and related financing activities	<u>(1,554,618)</u>	<u>45,000</u>	<u>(1,509,618)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from disposition of assets	21,609	-	21,609
Proceeds from capital charges	462,116	-	462,116
Purchases/construction of capital assets	(4,091,640)	-	(4,091,640)
Payment of debt	(1,398,312)	-	(1,398,312)
Interest paid on bond indebtedness	(242,285)	-	(242,285)
Other interest paid	(122,172)	-	(122,172)
Net cash used in capital and related financing activities	<u>(5,370,684)</u>	<u>-</u>	<u>(5,370,684)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on cash deposits and investments	40,286	17	40,303
Sales of investments	3,250,000	-	3,250,000
Purchases of investments	(6,937,190)	-	(6,937,190)
Net cash provided by (used in) investing activities	<u>(3,646,904)</u>	<u>17</u>	<u>(3,646,887)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(466,008)	114,976	(351,032)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,319,992</u>	<u>307,641</u>	<u>1,627,633</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 853,984</u>	<u>\$ 422,617</u>	<u>\$ 1,276,601</u>

**RECONCILIATION OF OPERATING INCOME (LOSS) TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating income (loss)	\$ 4,493,653	\$ (95,878)	\$ 4,397,775
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	5,570,266	177,912	5,748,178
Amortization	(37,421)	-	(37,421)
Other miscellaneous non-operating revenue	141,629	-	141,629
Effects of changes in operating assets and liabilities:			-
Accounts receivable, net	(580,365)	771	(579,594)
Inventory	(181,994)	-	(181,994)
Unrecovered fuel and gas costs	(96,436)	-	(96,436)
Accounts payable and accrued liabilities	796,866	(12,846)	784,020
Total adjustments	<u>5,612,545</u>	<u>165,837</u>	<u>5,778,382</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 10,106,198</u>	<u>\$ 69,959</u>	<u>\$ 10,176,157</u>

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

**TOWN OF EASTON, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2010**

	Benefits Trust Funds
ASSETS	
Cash and cash equivalents	\$ 32,326
Investments, at fair value	17,049,566
Employer contribution receivable	133,772
Total assets	\$ 17,215,664
 NET ASSETS	
Held in trust for pension benefits	\$ 17,215,664

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

TOWN OF EASTON, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2010

	Benefits Trust Funds
ADDITIONS	
Contributions:	
Employer	\$ 2,408,655
Employees	213,864
	2,622,519
Investment earnings:	
Investment income	568,277
Net decrease in fair value of plan investments	(2,450,770)
	(1,882,493)
Total investment earnings	(1,882,493)
Less Investment expense	129,307
	(2,011,800)
Net investment earnings	(2,011,800)
	610,719
Total additions	610,719
DEDUCTIONS	
Benefit payments	1,368,255
NET CHANGE	(757,536)
NET ASSETS AT BEGINNING OF YEAR	17,973,200
	17,973,200
NET ASSETS AT END OF YEAR	\$ 17,215,664
	17,215,664

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Easton, Maryland (Town) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to local governments. A summary of significant accounting policies followed by the Town are presented below.

Reporting Entity

The Town is a municipal corporation governed by an elected mayor and five-member council. The Town is to be construed to mean both the Town and its inhabitants. The Town operates under the Council-Mayor form of government.

For financial reporting purposes, in conformance with accounting principles generally accepted in the United States of America, the reporting entity includes the Mayor and Town Council and the primary government.

The Easton Utilities Commission (Utility Fund) provides electric, gas, water, wastewater and cable and communications services to all of the citizens of the Town and surrounding communities. The Utility Fund is governed by a commission comprised of appointees by the Mayor and Town Council. Water, wastewater, and cable and communications rates are approved by the Town Council. The electric and gas rates are approved by the Town Council and are regulated by the Maryland Public Service Commission. The legal liability for the general obligation portion of the Utility Fund's debt remains with the Town. Separate financial statements for the Utility Fund may be obtained from The Easton Utilities Commission.

For financial reporting purposes, in conformance with accounting principles generally accepted in the United States of America, the reporting entity includes the Mayor and Town Council, the primary government, its proprietary funds and fiduciary funds. The Town has no component units.

Government-Wide and Fund Financial Statements

The Statement of Net Assets and the Statement of Changes in Net Assets report information on all of the non-fiduciary activities of the Town. Eliminations have been made to remove the effect of inter-fund activity from these statements. Governmental activities, which are supported by taxes and intergovernmental activities, are reported separately from business-type activities that are supported by customer service charges.

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

Separate financial statements are shown for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (continued)

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year of levy. Grants are recognized as revenue when all eligibility requirements are met. For pension trust funds, employee and employer contributions are recognized as revenues in the period in which employee services are performed.

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

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

The Town reports two major governmental funds: the General Fund and Capital Projects Fund. The General Fund is used to account for all activities of the government not accounted for in some other fund. It accounts for the normal recurring activities of the Town such as police, public works, parks and recreation, and general government, etc. These activities are financed primarily by property taxes, other taxes, service charges, and grants from other governmental units.

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

Operating revenues and expenses result from providing services and delivering goods in connection with the fund’s principal ongoing operations, such as charges to customers for sales and services and expenses such as salaries, product costs, administrative expenses, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Town reports one major proprietary fund: the Utility Fund. The Utility Fund accounts for the operations of the electric, water, wastewater and cable and communication services for the Town of Easton.

The Town reports two fiduciary funds, the Town of Easton, Maryland - Defined Benefit Plan (a pension fund) and the Town of Easton, Maryland – Other Post Employment Benefit Plan (an OPEB fund). These fiduciary funds are used to account for assets held on behalf of outside parties under the terms of formal trust agreements.

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

The utility rates of the Town are subject to the approval of the Town Council. In addition, the electric and gas departments are under regulation by the Public Service Commission of Maryland. As such, the Town maintains accounting records in accordance with the Uniform System of Accounts by the Federal Energy Regulatory Commission, except where Governmental Accounting Standards Board (GASB) pronouncements specifically exclude their use.

The Town applies all relevant GASB pronouncements. The Town also applies only those Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. In addition, since the Town's Utility Fund gas and electric departments are regulated, those departments are subject to the requirements of Statement of Financial Accounting Standard (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation* and SFAS No. 90, *Regulated Enterprises – Accounting for Abandonments and Disallowances of Plant Costs*. SFAS No. 71 and No. 90 provide that certain costs that would otherwise be charged to expense should be deferred as regulatory assets, based on the expected recovery from customers in future rates. Utility plant assets donated by developers or constructed with grants received from other agencies are recorded as capital assets to the extent that the depreciation of such costs will be included in rates charged by the utility fund in future years. However, when it becomes probable that part of the cost of an asset will be disallowed for rate-making purposes and a reasonable estimate of the amount of the disallowance can be made, the estimated amount of the probable disallowance is deducted from the reported cost of the plant and recognized as a loss.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Estimates

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

Cash, Cash Equivalents and Investments

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

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

Cash resources of each of the individual funds, except the pension fund and cash held by fiscal agents or required to be segregated by law or policy, are combined to form a pool of cash and investments to maximize interest earnings. Income from pooled cash and investments is allocated to funds on the basis of their equity in pooled cash.

Receivables and Payables

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

	Real	Personal and Corporate
Assessment roll validated	December 31	January 1
Tax rate ordinance approved	June 30	June 30
Beginning of fiscal year for tax levy	July 1	July 1
Tax bills rendered and due	July 1	State notification
Owner-occupied residential	July 1/Jan. 1	State notification
Property taxes payable:		
Delinquent	Oct. 1, Feb. 1	After 30 days
Terms	60 days	30 days
Delinquent interest rate (annual)	18%	18%

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables and Payables (continued)

Information presented is for “full year” levy. “Half year” levy dates are each six months later, and relate to new construction in the first six months of the calendar year. Property taxes are levied on July 1 and are payable by September 30. Simple interest and penalties totaling 1 ½% accrue per month beginning October 1. All taxes attach as an enforceable lien on the property as of July 1. The property tax rates for real and corporate personal property were \$.52 and \$1.30 per \$100 of assessed value, respectively.

All trade and property tax receivables are shown net of an allowance for uncollectibles. The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. Real property taxes are generally fully collectible.

Capital Assets

Capital assets, including land, plant, equipment and infrastructure such as roads, storm drains, and pipe systems, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Town defines capital assets as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of three years. The costs of normal maintenance and repairs that do not add to the value of the asset or extend asset lives are not capitalized.

Expenditures for major assets and improvements in governmental funds are capitalized as projects are constructed or the asset is placed in service. Interest of debt during construction is capitalized. The amount of interest to be capitalized is offset by any interest income earned on invested proceeds over the same period. Exhaustible capital assets of the general fund and proprietary funds are depreciated as an expense against related operations. The corresponding accumulated depreciation is reported in the Statement of Net Assets.

Capital assets of the Utility Fund’s regulated gas and electric departments are carried at net cost, whereby capitalized costs are reduced by any amounts received from customers or through governmental grants. Capital assets of other departments and other enterprise funds are carried at gross cost for assets purchased or constructed and at estimated cost for assets contributed by developers. The Utility Fund’s policy is to charge all additions to the respective asset account in the year in which the project is completed and to charge the cost of minor repairs and maintenance to operations. As required by the Public Service Commission of Maryland, the cost of major repairs incurred by the gas and electric departments is amortized over a period of five years.

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

	Governmental Activities	Business-Type Activities
Buildings and improvements (including infrastructure)	7 – 50 years	15 – 50 years
Improvements other than buildings	20 – 30 years	10 – 30 years
Machinery and equipment	3 – 15 years	5 – 15 years

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Term Obligations

In the government-wide financial statements and proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the governmental fund financial statements, the face amount of the debt issued is reported as other financing sources.

Compensated Absences

Permanent full-time and permanent part-time employees are granted vacation benefits in varying amounts up to specified maximums depending on tenure with the Town. The estimated current portion of the liability for vested vacation benefits attributable to the Town's governmental funds is recorded as an expenditure and liability in the General Fund funds. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

Unbilled Revenue

Customers of the Utility Fund's Electric and Gas Departments are billed in arrears on one of three monthly cycles. A provision for revenue is recorded based on the actual billings in July and the days unbilled in each cycle at the end of June. Customers of the Commission's Water and Wastewater Department are billed quarterly. As such, a provision for revenue is recorded representing customer usage during the later part of the year, but not yet billed at year end. This amount is estimated using prior year's actual billing to represent the current period's activity. The balance at June 30, 2010 is \$1,595,279.

Unearned Revenues

Customers of the Utility Fund's Cable and Internet Department are billed in advance leaving a portion of June 2010 billings not yet earned at year-end. A provision for unearned revenues was recorded based on the actual billings in June and the days unearned in each cycle at the end of June. The Cable Department also has an arrangement with certain advertising customers for payment in advance of service. These customers' credit balances are also shown as Unearned Revenues. The balance at June 30, 2010 is \$24,000.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Equity

The government-wide and business-type activities fund financial statements utilize a net asset presentation to display equity. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

- *Invested in capital assets, net of related debt* - this category groups all capital assets including infrastructure into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributed to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted net assets* - this category presents external restrictions imposed by creditors, grantors, or laws and regulations of other governments.
- *Unrestricted net assets* - this category presents the net assets of the Town, not restricted for any purpose.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use or a specific purpose.

Unrecovered and Over-recovered Fuel and Gas Costs

The Utility Fund recognizes the effects of purchased power and gas costs that have not been recovered from customers by way of fuel cost adjustment and purchased gas adjustment revenues. Unrecovered fuel and gas costs represent purchased power and gas costs that have been incurred by the Utility Fund, but which have not yet been billed to customers. Over-recovered fuel and gas costs represent purchased power and gas costs that have been billed to customers, but which have not yet been incurred by the Utility Fund. As of June 30, 2010, the Commission had under-recovered fuel and gas costs of \$569,214.

In accordance with the tariff for the Utility Fund's electric department, purchased power costs are recovered by the use of a formula that averages costs over a three-month period. These costs are billed to customers in future periods.

In accordance with the tariff for the Utility Fund's gas department, gas costs are recovered by the use of a calculation that projects costs for the billing month.

Inventory

The Utility Fund's inventory, consisting of natural gas, materials, fuels and supplies, is recorded at the lower of cost or market. It is carried and charged as used in the operations of the fund at average cost. Inventory totaled \$3,479,846 at June 30, 2010.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stewardship, Compliance, and Accountability

Budgetary Information

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

1. The Mayor submits a proposed operating budget to the Town Council at least forty days before the beginning of the fiscal year. The operating budget includes proposed expenditures, the means of financing them, and the use of federal and/or state grants. Public hearings are held for citizen input.
2. Prior to June 30th, the budget is passed by vote of the Mayor and Town Council. Formal budgetary integration is employed as a management control device during the year for the general fund. Budgets are adopted according to procedures set by the Mayor and Town Council.
3. Monthly statements are provided by the Town Manager and budget review is executed by the Mayor and Town Council periodically. The Town Council legally adopts an annual budget for the General Fund and the Capital Project Fund. The Town has no legally adopted annual budget for the non-major governmental funds or any enterprise funds. However, a budget is used as a management tool for these funds.

Expenditures may not exceed appropriations at the fund level without approval from the Council.

The budget is prepared on a basis consistent with generally accepted accounting principles (GAAP) except that short-term debt is considered other financing sources for budgetary purposes. There were no reconciling items between GAAP and the budgetary basis for the year ended June 30, 2010.

The Law Enforcement Fund and Special Taxing District Fund reflect deficit unreserved, undesignated fund balances at June 30, 2010 because of funding reversions by the General Fund that occurred after the anticipated funds were spent. It is anticipated these deficit will be eliminated, over time, through the use of resources available to the Town.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

At year-end, the carrying amount of the Town deposits (including cash on hand of \$1,275) was \$18,521,604 and the bank balance was \$19,019,361. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. However, the deposits of the Town were not exposed to custodial credit risk at June 30, 2010.

Investments- Maryland Local Government Investment Pool

The Town is a participant of the Maryland Local Government Investment Pool (MLGIP), which provides all local government units of the State a safe investment vehicle for the short-term investment of funds. The State Legislature created MLGIP with the passage of Article 95 22G, of the Annotated Code of Maryland. The MLGIP, under the administrative control of the State

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Treasurer, has been managed by a single Baltimore-based financial institution, PNC Bank. An MLGIP Advisory Committee of current participants was formed to review, on a quarterly basis, the activities of the Fund and to provide suggestions to enhance the pool. The fair value of the pool is the same as the value of the pooled shares. At June 30, 2010, the Town had \$18,638,943 invested in this Pool.

Investment Rate Risk

Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. To limit the Town's exposure to fair value losses arising from increasing interest rates, the Town investment policy limits the term of investment maturities. The Town management believes the liquidity of the portfolio is adequate to meet cash flows requirements and to preclude the Town from having to sell investments below original cost for that purpose. The investments at June 30, 2010 met the Town's investment policy.

Investment Credit Risk

Town investment policy permits investments in the following types of investments as authorized by the State of Maryland: direct U.S. obligations, U.S. agency obligations, repurchase agreements, bankers' acceptances, municipal securities, commercial paper, money market mutual funds and the MLGIP. The Town invests in the MLGIP which is under the administration of the State Treasurer. The MLGIP was established in 1982 under Article 95 Section 22G of the Annotated Code of Maryland and is rated AAAM by Standard & Poor's, their highest rating for money market mutual funds. The MLGIP seeks to maintain a constant value of \$1.00 per unit. Unit value is computed using the amortized cost method. In addition, the net asset value of the pool, marked to market, is calculated and maintained on a weekly basis to ensure a \$1.00 per unit constant value.

Investment Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the Town will not be able to recover all or a portion of the value of its investments or collateral securities that are in the possession of an outside party. The Town's investment custodial credit risk policy requires all investments to be insured or registered, or for which the securities are held by the Town or its agent in the Town's name, be invested in MLGIP. At June 30, 2010 the Town's investments were invested in the MLGIP.

Benefit Plan Investments

Investments held by the Defined Benefit Pension Plan include separate and guaranteed accounts held by Prudential Financial, an agent of the Plan. A summary of these investments are as follows:

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Benefit Plan Investments (continued)

Guaranteed account	\$ 8,196,078
Variable earnings investments:	
CIGNA Open-End Real Estate (R)	607
LCB/Victory (9V)	3,925,741
MCB/Batterymarch	1,012,696
SCB/WHV (WHV)	1,293,114
Intl Blend/Artio	1,153,367
Amcentriesinv (5AR)	<u>438,606</u>
Total pension plan investments	<u>\$16,020,209</u>

Guaranteed account income is recorded based on contractual interest of the investment contract in force during the period.

Mutual fund investment income consists of dividends earned and realized and unrealized gains and losses attributable to the mutual funds.

The Plan conforms to the reporting requirements of Governmental Accounting Standard Board Statement No. 40. The Plan had the following investments and maturities in its guaranteed account.

	<u>Valuation</u>	<u>Weighted Average Maturity</u>
Guaranteed account	<u>\$ 8,329,850</u>	N/A

The guaranteed contract and the mutual funds are unrated.

Investments held by the Other Post-retirement Employee Benefit Plan include mutual funds. A summary of these investments are as follows:

Pioneer Cullen	\$ 151,352
IVY Capital Appreciation	147,562
Delaware Diversified Income	143,128
Vanguard Short-term	141,698
Thornburg International Value	139,185
PIMCO Total Return	121,252
T. Rowe Price International Emerging Markets	42,985
Eagle Mid Cap	41,066
JP Morgan Mid Cap	40,909
Perimeter Small Cap Growth	30,260
Keeley Small Cap Value	<u>29,960</u>
Total OPEB investments	<u>\$ 1,029,357</u>

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Benefit Plan Investments (continued)

Mutual fund investment income consists of dividends earned and realized and unrealized gains and losses attributable to the mutual funds. The mutual funds are unrated.

The Plan conforms to the reporting requirements of Governmental Accounting Standard Board Statement No. 40.

Deposits

Custodial credit risk is the risk that, in the event of the bank failure, the Plan's deposits may not be returned to it. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institutions, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Plan's name.

All deposits of the Other Post Employment Benefits Plan are held on behalf of the Plan by Davenport & Company and are not exposed to custodial credit risk as defined by Governmental Accounting Standards Board Statement No. 40.

NOTE 3 – RECEIVABLES

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

	Governmental Activities		Business-Type Activities		Total
	General	Other	Utility	Other	
Taxes	\$ 530,695	\$ -	\$ -	\$ -	\$ 530,695
Accounts	213,307	241,988	4,185,186	9,639	4,650,120
Due from other governments	583,344	-	384,902	-	968,246
Interest	-	-	3,181	-	3,181
Allowance for uncollectibles	<u>(275,537)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(275,537)</u>
Net receivables	<u>\$ 1,051,809</u>	<u>\$ 241,988</u>	<u>\$ 4,573,269</u>	<u>\$ 9,639</u>	<u>\$ 5,876,705</u>

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 3 – RECEIVABLES (CONTINUED)

Governmental funds report deferred revenue in relation to receivables for revenues that are not considered to be available to liquidate liabilities of the current period such as property taxes not collected within 60 days after fiscal year-end. Deferred revenue also includes revenues which are unearned at year-end such as, rental and program advances, franchise fees and similar prepayments received by the Town, grant revenue received prior to the incurrence of qualifying expenditures and governmental fund non-exchange contributions. Deferred revenue reported in the Governmental Fund Balance Sheet for the General Fund at June 30, 2010 is summarized as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Income taxes	\$ 261,183	\$ -	\$ 261,183
Miscellaneous	<u>-</u>	<u>11,436</u>	<u>11,436</u>
Total	<u>\$ 261,183</u>	<u>\$ 11,436</u>	<u>\$ 272,619</u>

NOTE 4 – INTER-FUND TRANSFERS

Transfers

Inter-fund transfer activity for the year ended June 30, 2010 was as follows:

	<u>Transfers In:</u>		
	<u>Non-Major Governmental</u>	<u>Land Enterprise</u>	<u>Total</u>
<u>Transfers Out (Net):</u>			
General	<u>\$ 2,721,874</u>	<u>\$ 45,000</u>	<u>\$ 2,766,874</u>

Transfers are used to (1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, (2) move restricted amounts from borrowings to the debt service fund to establish mandatory reserve account, (3) move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 6,965,433	\$ 233	\$ -	\$ 6,965,666
Construction in progress	<u>2,374,554</u>	<u>-</u>	<u>(2,374,554)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>9,339,987</u>	<u>233</u>	<u>(2,374,554)</u>	<u>6,965,666</u>
Capital assets, being depreciated:				
Buildings and improvements	24,396,561	3,662,455	2,374,554	30,433,570
Equipment	<u>8,327,970</u>	<u>495,358</u>	<u>(249,356)</u>	<u>8,573,972</u>
Total capital assets, being depreciated	<u>32,724,531</u>	<u>4,157,813</u>	<u>2,125,198</u>	<u>39,007,542</u>
Less accumulated depreciation:				
Buildings and improvements	8,919,735	808,649	-	9,728,384
Equipment	<u>4,949,114</u>	<u>591,914</u>	<u>(226,311)</u>	<u>5,314,717</u>
Total accumulated depreciation	<u>13,868,849</u>	<u>1,400,563</u>	<u>(226,311)</u>	<u>15,043,101</u>
Net capital assets, being depreciated:	<u>18,855,682</u>	<u>2,757,250</u>	<u>(226,311)</u>	<u>23,964,441</u>
Governmental activities capital assets, net	<u>\$ 28,195,669</u>	<u>\$ 2,757,483</u>	<u>\$ 23,045</u>	<u>\$ 30,930,107</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 1,278,278	\$ 2,687	\$ -	\$ 1,280,965
Construction in progress	<u>1,102,345</u>	<u>4,091,640</u>	<u>4,186,646</u>	<u>1,007,339</u>
Total capital assets, not being depreciated	<u>2,380,623</u>	<u>4,094,327</u>	<u>4,186,646</u>	<u>2,288,303</u>
Capital assets, being depreciated:				
Buildings and improvements	29,871,435	485,040	-	30,356,476
Equipment and other	123,982,806	3,698,919	49,532	127,632,194
Less: amount disallowed for regulation	<u>(1,719,785)</u>	<u>-</u>	<u>-</u>	<u>(1,719,785)</u>
Total capital assets, being depreciated	<u>152,134,456</u>	<u>4,183,959</u>	<u>49,532</u>	<u>156,268,885</u>
Less accumulated depreciation:				
Buildings and improvements	9,350,606	989,607	-	10,340,213
Equipment and other	<u>62,492,102</u>	<u>4,878,048</u>	<u>44,131</u>	<u>67,326,021</u>
Total accumulated depreciation	<u>71,842,708</u>	<u>5,867,655</u>	<u>44,131</u>	<u>77,666,234</u>
Net capital assets, being depreciated:	<u>80,291,748</u>	<u>(1,683,696)</u>	<u>(5,401)</u>	<u>78,602,650</u>
Business-type activities capital assets, net	<u>\$ 82,672,371</u>	<u>\$ 2,410,631</u>	<u>\$ 4,192,047</u>	<u>\$ 80,890,954</u>

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

Governmental activities		
General government		\$ 33,507
Public safety		467,849
Public works		650,015
Recreation and cultural		123,394
Non-departmental		<u>125,798</u>
Total governmental activities		<u>\$ 1,400,563</u>

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Business-type activities

Utility	\$ 5,689,744
Other	<u>177,911</u>

Total business-type activities	<u><u>\$ 5,867,655</u></u>
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NOTE 6 – OPERATING LEASES

Avalon Theatre

The Town (lessor) entered into a five-year operating lease agreement with the Avalon Foundation, Inc. (lessee) for the Avalon Theatre, effective January 1, 2001. The lease is structured with a \$24,000 annual rental fee with the tenant responsible for substantially all routine expenses. Part or all of each monthly installment of rent may be forgiven or subject to rebate by the Town based upon the lessee's use of the premises which primarily benefits the citizens of the Town. The lease is currently on a month-to-month basis and is being renegotiated.

District Court

The Town (lessor) entered into a five-year operating lease agreement with the State of Maryland (lessee) for the District Court building effective September 1, 1997. Annual rent is \$138,324. The lease is currently on a month-to-month basis and is being renegotiated.

NOTE 7 – LONG-TERM LIABILITIES

Capital Leases

The Town entered into multiple capital lease agreements as the lessee for office equipment expiring between 2011 and 2014. The assets and liabilities under these capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over the lower of their related lease terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense and amounted to \$7,169 for the year ending June 30, 2010. The following is a summary of property held under capital leases:

Office equipment	\$ 71,696
Less: accumulated depreciation	<u>21,859</u>

Total	<u><u>\$ 49,837</u></u>
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TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

Capital Leases (continued)

The future minimum lease payments are as follows:

Years Ending June 30				
2011	\$	8,137		
2012		4,414		
2013		4,220		
2014		<u>3,517</u>		
		20,288		
Less: amount representing interest		<u>2,652</u>		
Present value of net minimum lease payments	\$	<u>31,802</u>		

Interest rates on capitalized leases vary from 3.75% to 4.65%.

Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the Town. These bonds generally are issued as 20-year serial bonds, except for refunding issues or issues less than \$5 million dollars. All interest is paid semi-annually. General obligation bonds currently outstanding are as follows:

Bond Issue	Maturity	Interest Rates	Balance at June 30, 2010
Public Facilities Bonds 1999	2019	3.75 – 5.25%	\$ 3,540,000
Public Facilities Bonds 2003	2023	2.00 – 5.00%	3,275,000
Public Facilities Bonds 2008	2028	2.00 – 5.00%	<u>9,375,000</u>
Total general obligation bonds			\$ <u>16,190,000</u>

Total annual debt service requirements to maturity for general obligation bonds are as follows:

Years Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 730,000	\$ 455,449	\$ 705,000	\$ 216,487
2012	735,000	426,283	730,000	193,044
2013	735,000	396,843	625,000	169,593
2014	740,000	367,111	645,000	146,313
2015	580,000	340,593	670,000	121,708
2016 – 2020	2,660,000	1,362,328	2,340,000	228,489
2021 – 2025	2,455,000	794,869	-	-
2026 – 2028	<u>1,840,000</u>	<u>199,479</u>	-	-
Total	<u>\$ 10,475,000</u>	<u>\$ 4,342,955</u>	<u>\$ 5,715,000</u>	<u>\$ 1,075,634</u>

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

Bonds (continued)

In fiscal year 2003, the Town defeased the Public Facilities Bonds of 1990, the Public Facilities and Refunding Bonds of 1993 and the Public Facilities Bonds of 1996 by placing the proceeds of the new bonds, General Obligation Public Facilities and Refunding Bonds of 2003, in an irrevocable trust to provide for debt service payments on the old bonds due in the year 2014 and later. Accordingly, the trust account assets and liability for the defeased bonds are not included in the Town's financial statements. As of June 30, 2010, there remains \$4,035,000 of outstanding defeased debt.

In fiscal year 2006, the Town defeased a portion of the Utility Fund's share of the General Obligation Public Facilities Refunding Bond of 2003 by placing cash reserve funds in an irrevocable trust to provide for debt service payments on the old bond due in year 2017. Accordingly, the trust account assets and liability for the defeased portion of the bond are not included in the Town's financial statements. As of June 30, 2010, there remains \$1,405,000 of outstanding defeased debt.

Deferred loss on reacquired debt (net of amortization), of \$169,108 is included in unamortized expenses at June 30, 2010.

State, County and Commercial Bank Loans

Government-type Funds

During the fiscal year ended June 30, 2008, the Town borrowed \$323,500 from the United States Department of Agriculture for certain capital projects. The loan has an interest rate of 4.50% and matures March 2048. The loan repayment schedule calls for quarterly principal and interest payments of \$4,379. The annual debt service requirements to maturity are as follows:

<u>For the Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 3,233	\$ 14,283	\$ 17,516
2012	3,381	14,135	17,516
2013	3,537	13,979	17,516
2014	3,699	13,817	17,516
2015	3,869	13,647	17,516
2016-2020	22,180	65,400	87,580
2021-2025	27,765	59,815	87,580
2026-2030	34,756	52,824	87,580
2031-2035	43,507	44,073	87,580
2036-2040	54,462	33,118	87,580
2041-2045	68,176	19,404	87,580
2046-2048	48,889	3,718	52,607
Total	<u>\$ 317,454</u>	<u>\$ 348,213</u>	<u>\$ 665,667</u>

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

State, County and Commercial Bank Loans (continued)

Government-type Funds (continued)

During the fiscal year ended June 30, 2007, the Town borrowed \$976,000 from a commercial bank for certain capital projects. The loan has an interest rate of 4.25% and matures July 2012. The loan repayment schedule calls for quarterly fixed principal payments of \$48,800 and quarterly interest payments calculated according to the principal sum outstanding. The annual debt service requirements to maturity are as follows:

<u>For the Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 146,400	\$ 15,610	\$ 162,010
2012	195,200	7,285	202,485
2013	<u>48,800</u>	<u>520</u>	<u>49,320</u>
Total	<u>\$ 390,400</u>	<u>\$ 23,417</u>	<u>\$ 413,815</u>

Additionally, the Town has entered into certain loan agreements with the Department of Housing and Community Development (Department) through the Community Legacy Program agreements for three Projects: The Strategic Acquisition Program, The Easton Façade Improvement Program, and the Upper Store Redevelopment Program. The Strategic Acquisition Program is for \$25,000 where the awardee will repay this loan after the property has been sold, transferred or refinanced in five years. The deferred payment of \$25,000 is due December 31, 2010. The Façade Improvement Program is for \$66,250 with a forgivable amount of \$35,000 and a deferred payment of \$31,250 due by December 31, 2012 at zero percent interest. The Upper Store Redevelopment Program is for \$73,125 with the same terms and conditions as the Façade Improvement Program. Any amount designated as “forgivable” shall be forgiven if, at loan maturity the Department determines that the project has been completed in accordance with the terms, conditions and requirements set forth by their agreement. If the Department determines the conditions are not met then the full amounts shall be due and payable at maturity. The loans are recorded as current or long-term liabilities in the Statement of Net Assets.

Business-type Funds

During fiscal year 1999, the Town borrowed \$1,672,124 from the Department of Housing and Community Development (DHCD) to construct a low income housing unit known as Asbury Place. The interest payments on this loan are forgiven from year-to-year by the DHCD as long as the unit meets certain requirements and continues as a low income housing unit. As of June 30, 2010, Asbury Place met those conditions and interest was forgiven.

During the fiscal year ended June 30, 2005, the Town entered into an agreement with the Department of the Environment of the State of Maryland (MDE) through the Maryland Department of Water Quality Financing Administration (WQFA) to finance ongoing construction of improvements to the Wastewater Treatment Plant through the WQFA’s State Revolving Loan Fund (SRLF).

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

State, County and Commercial Bank Loans (continued)

Business-type Funds (continued)

The MDE makes funds available to local governments at below market rates for certain water quality and drinking water projects. Proceeds of the loans are dispersed to the Town as draws according to approved construction payments. The total amount of the SRLF available to draw on is \$20,523,191. The balance at June 30, 2010 was \$16,806,811. The note bears an interest rate of 0.40% and has a scheduled maturity of February 2027.

The Town anticipates any remaining required funds to be drawn by the end of fiscal year 2013. Upon completion of all draws on the note, the final repayment schedule will be determined. The following are the principal and interest maturities of the outstanding loan as of June 30, 2010:

<u>For the Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 759,358	\$ 73,966	\$ 833,324
2012	800,404	70,928	871,332
2013	841,451	67,726	909,177
2014	882,497	64,360	946,857
2015	923,544	60,830	984,374
2016-2020	5,233,414	245,456	5,478,870
2021-2025	6,259,573	132,578	6,392,151
2026-2030	2,791,154	16,828	2,807,982
Less: amounts undrawn	<u>(1,684,584)</u>	<u>(114,552)</u>	<u>(1,799,136)</u>
Total	<u>\$ 16,806,811</u>	<u>\$ 618,120</u>	<u>\$ 17,424,931</u>

Changes in Long-Term Liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Principal Repayments & Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
General obligation bonds	\$ 11,200,000	\$ -	\$ 725,000	\$ 10,475,000	\$ 730,000
Note payable – bank loan	634,400	-	244,000	390,400	146,400
Note payable – DHCD	164,375	-	-	164,375	25,000
Note payable – USDA	320,545	-	3,091	317,454	3,233
Capital lease obligation	31,802	-	13,567	18,235	6,922
Deferred loss bond refunding	(196,274)	-	(27,166)	(169,108)	(27,165)
Net OPEB Obligation	71,000	32,940	-	103,940	-
Compensated absences – Current	123,596	35,843	20,487	138,952	138,952
Compensated absences	<u>494,384</u>	<u>143,371</u>	<u>81,945</u>	<u>555,810</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 12,843,828</u>	<u>\$ 212,154</u>	<u>\$ 1,060,924</u>	<u>\$ 11,995,058</u>	<u>\$ 1,023,342</u>

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

Changes in Long-Term Liabilities (continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Principal Repayments & Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities					
General obligation bonds	\$ 6,395,000	\$ -	\$ 680,000	\$ 5,715,000	\$ 705,000
Note payable – DHCD	1,672,124	-	-	1,672,124	-
Loan – State of Maryland	17,525,123	-	718,312	16,806,811	759,358
Net OPEB Obligation	99,000	8,000	-	107,100	-
Unamortized premium on long-term liabilities	<u>29,173</u>	<u>-</u>	<u>2,085</u>	<u>27,088</u>	<u>-</u>
Business-type activities long-term liabilities	<u>\$ 25,720,420</u>	<u>\$ 8,000</u>	<u>\$ 1,400,397</u>	<u>\$ 24,328,123</u>	<u>\$ 1,464,358</u>

NOTE 8 – LINE-OF-CREDIT

Governmental Funds

The Town maintains a revolving line-of-credit agreement with a commercial bank for \$2,000,000, which bears interest in the amount of 1.15% above the LIBOR rate (.309% at June 30, 2010). The purpose of the credit facility is to provide an additional source of financing to meet operating needs, if required. The Town did not draw on this line and there was no balance due at June 30, 2010.

Business-type Funds

The Town maintains a revolving line-of-credit agreement with a commercial bank for \$2,500,000, which bears interest in the amount of 1.15% above the LIBOR rate (.309% at June 30, 2010). The purpose of the credit facility is to provide an additional source of financing to meet operating needs, if required. The Town did not draw on this line and there was no balance due at June 30, 2010.

NOTE 9 – DEFINED BENEFIT PENSION PLAN

Plan Description

The Town of Easton, Maryland Employee's Pension Plan (Plan) is a single-employer contributory defined benefit pension plan established by Town ordinance. The Plan is governed by the Town of Easton. The Town has delegated the authority to manage plan assets to The Prudential Insurance Company of America's Prudential Retirement Division (Prudential).

Plan Membership

As of July 31, 2009 (the date of the last actuarial valuation), the pension plan's membership consisted of:

Active employees	244
Retirees and beneficiaries currently receiving benefits	83
Terminated employees entitled to benefits but not yet receiving them	<u>101</u>
Total	<u><u>428</u></u>

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 9 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Funding Policy

The Plan covers all full-time employees who begin service prior to the age of 55. Except for sworn police officers, voluntary contributions from eligible employees are prohibited. Sworn police officers who are employed on a regular full-time basis with less than 25 years of service are required to contribute 5.70% of gross annual earnings. For police officers who are employed on a regular full-time basis with service in excess of 25 years, the required contribution rate is 6.70% of gross annual earnings. Participants' actual contributions during the year ended June 30, 2010 were \$162,544. Administrative costs are financed through investment earnings.

Provisions of the Plan include retirement and death benefits to plan members and their beneficiaries. Cost of living adjustments are provided at the discretion of the Town Council.

Effective July 1, 2008, a "soft freeze" was implemented for the existing Plan. All current participants will remain in the Plan, but future employees will not be eligible to participate. Future service will not be credited under the, however, future pay increases will be included in computing benefits.

Contributions to the Plan made by the Town are based on an actuarially determined basis. The contribution requirements of the Town are established and may be amended by the Town Council. The actuarially required and actual contribution to the Plan during the year ended June 30, 2010 was \$1,015,045.

Valuation of Investments

The Plan's un-allocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities or pay administrative expenses charged by Prudential. Funds under the contract that have been allocated and applied to purchase annuities are excluded from the pension plan's assets. At July 31, 2009, no investment in any one organization, exceeded five percent or more of net assets available for benefits.

Actuarial Methods and Assumptions

The annual required contributions during the year ended June 30, 2010 was determined as part of the July 31, 2009 actuarial valuation using the Projected Unit Credit Actuarial Cost Method. The actuarial assumptions include (a) 7.75% investment rate of return (net of administrative expenses), and (b) projected salary increases of 5.0%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market of investments over a five-year period. The unfunded actuarial accrued liability is being amortized over a period of 30 years. The remaining amortization period at July 31, 2009 was a weighted average of 15 years.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 9 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Annual Pension Cost and Net Pension Obligation

The Town's annual pension cost and net pension obligation for the current year were as follows:

Annual required contribution	\$ 1,015,045
Interest on net pension obligation and other adjustment	<u>-</u>
Annual pension cost	1,015,045
Less: contributions made	<u>(1,015,045)</u>
Increase in net pension obligation	-
Net pension obligation, beginning of year	<u>(230)</u>
Net pension obligation, end of year	<u><u>\$ (230)</u></u>

Three year trend information:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
July 31, 2010	\$ 1,015,045	100.0	\$ (230)
July 31, 2009	930,774	100.0	(230)
July 31, 2008	1,019,227	100.0	(230)

Fund Status and Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Ratio of Assets to AAL	Covered Payroll	UAAL as a % of Covered Payroll
July 31, 2009	\$19,384,777	\$23,663,160	\$4,273,383	81.9%	\$13,142,094	32.55%

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The condensed financial statements as of and for the year ended July 31, 2009 are as follows:

Statement of Plan Net Assets

Assets

Investments, at fair value other adjustment	\$16,020,209
Employer contributions receivable	<u>133,772</u>
Total assets	<u><u>\$16,153,981</u></u>

Net Assets

Net assets held in trust for pension benefits	<u><u>\$16,153,981</u></u>
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TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 9 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Additions

Contributions:	
Employer	\$ 916,256
Employee	<u>213,864</u>
Total contributions	<u>1,130,120</u>
Investment earnings:	
Investment income	538,747
Net decrease in fair value of plan investments	(2,496,811)
Less investment expenses	<u>(104,066)</u>
Net investment loss	<u>(2,062,130)</u>
Total additions (losses)	<u>(932,010)</u>

Deductions

Benefit payments	<u>887,209</u>
Net change	(1,819,219)

Net assets at beginning of year	<u>17,973,200</u>
Net assets at end of year	<u>\$16,153,981</u>

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS

The Town provides life insurance policies in the face amount of \$2,500 and pays a portion of the cost of major medical insurance for retired employees. The percentage of contribution is based on the number of years of service. All retired employees are eligible, including those on disability retirement. Coverage may include the retiree, spouse and dependents. Coverage does not cease upon death of the retiree.

Funding Policy

The Town has implemented a cost sharing requirement for the health insurance premiums. For all new retirees (excluding Sworn Police Officers), the Town will continue to pay 90% of the premium at the normal retirement rather than the 100% that is currently paid. The Town will continue to pay for 100% of the current retirees and those employees within five years of normal retirement age at July 1, 2008. The Town will pay for the first 4% of any annual increase of health insurance premiums for retirees. If premiums rise more than 4%, retirees will be required to pay for the additional increases greater than 4%.

Annual OPEB Cost and Net OPEB Obligation

The Town's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution* of the employer (ARC), an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The Town's annual required contribution for the years ended June 30, 2010 and 2009 was \$1,008,000 and \$1,045,305, respectively. The Town's contributions for the years ended June 30, 2010 and 2009 were \$838,000 and \$1,003,132, respectively.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation (continued)

The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation:

Annual required contribution (ARC)	\$ 1,045,305
Interest on net OPEB obligation	10,200
ARC Adjustment	<u>(11,333)</u>
Net Annual OPEB cost	1,044,172
Contribution made	<u>(1,003,132)</u>
Increase in net OPEB obligation	41,040
Net OPEB obligation - beginning of year	<u>170,000</u>
Net OPEB obligation - end of year	<u><u>\$ 211,040</u></u>

The net OPEB obligation is included in governmental activities long-term liabilities totaling \$103,940 and business-type activities long-term liabilities totaling \$107,100 at June 30, 2010.

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2010 and 2009 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$ 1,044,172	96.10%	\$ 211,040
June 30, 2009	\$ 1,008,000	83.13%	\$ 170,000

Funded Status and Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Ratio of Assets to AAL</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
June 30, 2009	\$ 502,000	\$ 12,428,558	\$ 11,926,556	0.0%	\$ 10,876,234	96.96%
June 30, 2007	-	10,468,000	10,468,000	0.0%	10,876,234	96.25%

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions

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

The June 30, 2009 actuarial valuation used the projected unit credit method. The actuarial assumptions included a 6% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 11.0% initially, reduced by decrements to an ultimate rate of 5.0% after five years. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2009, was 30 years.

Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2009
Actuarial Cost Method	Projected unit credit method
Amortization Method	Level percentage of pay over a 30-year period
Asset Valuation Method	Market value
Actuarial Assumptions:	
Investment Rate of Return	6.0% annual return
Payroll Growth Rate	5.0%
Healthcare Cost Trend Rates:	
Medical	11% initial / 5% ultimate (not applicable to life insurance)
Prescription Drug	11% initial / 5% ultimate

The condensed financial statements as of and for the year ended June 30, 2010 are as follows:

Statement of Plan Net Assets

Assets

Cash and cash equivalents	\$ 32,326
Investments, at fair value other adjustment	<u>1,029,357</u>
Total assets	<u>\$ 1,061,683</u>

Net Assets

Net assets held in trust for pension benefits	<u>\$ 1,061,683</u>
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TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Additions

Contributions:	
Employer	\$ <u>1,492,399</u>
Investment earnings:	
Investment income	29,530
Net increase in fair value of plan investments	46,041
Less investment expenses	<u>(25,241)</u>
Net investment income	<u>50,330</u>
Total additions	<u>1,542,729</u>

Deductions

Benefit payments	<u>481,046</u>
Net change	1,061,683

Net assets at beginning of year

-

Net assets at end of year

\$ 1,061,683

NOTE 11 – RELATED PARTY TRANSACTIONS

The utility fund provided various services to the general fund during the year. All such services were billed to the Town by the utility fund. The significant transactions were as follows:

Utility services	\$ 417,967
Engineering services	<u>29,695</u>
Total services provided by the Utility Fund	<u>\$ 447,662</u>

The outstanding balance of the above services remaining at June 30, 2010 was \$36,515. The General Fund charged the Utility Fund \$39,274 for street repairs and \$1,511,869 for payments in lieu of taxes during the year ended June 30, 2010.

NOTE 12 – OTHER INFORMATION

Risk Management

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

Contingent Liabilities and Commitments

Grants and Cost-reimbursable Contracts

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 12 – OTHER INFORMATION (CONTINUED)

Contingent Liabilities and Commitments (continued)

Fuel Cost and Purchased Gas Adjustment Rates

The fuel cost and purchased gas adjustment rates used in connection with gas and electric charges are subjected to review by the Public Service Commission of Maryland on a regular basis. As of the date of this report, the fuel cost and purchased gas adjustment rates in effect through November, 2007 have been reviewed and accepted by the Public Service Commission. Fuel cost and purchased gas adjustment rates applied subsequent to November, 2007 have been authorized by the Public Service Commission subject to detailed review.

In accordance with the tariff for the Commission's Electric Department purchased power costs are recovered by the use of a formula that averages costs over a three-month period. These costs are billed to customers in future periods.

In accordance with the tariff for the Commission's Gas Department, gas costs are recovered by the use of a calculation that projects costs and unit sales for the billing month.

REQUIRED SUPPLEMENTARY INFORMATION

**TOWN OF EASTON, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS – DEFINED BENEFIT PLAN
June 30, 2010**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
July 31, 2009	\$ 19,384,777	\$ 23,663,160	\$ 4,278,383	81.92%	\$ 13,142,094	32.55%
July 31, 2008	\$ 17,973,200	\$ 21,494,795	\$ 3,521,595	83.62%	\$ 12,693,536	27.74%
July 31, 2007	17,810,315	20,697,760	2,887,445	86.05%	11,653,090	24.78%

**TOWN OF EASTON, MARYLAND
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS
 June 30, 2010**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
June 30, 2009	\$ 502,002	\$ 12,428,558	\$ 11,926,556	4.0%	\$ 12,300,340	96.96%
June 30, 2007	\$ -	\$ 10,468,000	\$ 10,468,000	0.0%	\$ 10,876,234	96.25%

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

**TOWN OF EASTON, MARYLAND
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2010**

	Debt Service	Community Development Block Grant	Law Enforcement	Budget Stabilization	Special Taxing District	Total
ASSETS						
Cash and cash equivalents	\$ 1,533,138	\$ 226,918	\$ (110,442)	\$ 2,481,178	\$ (475,358)	\$ 3,655,434
Accounts receivable, net	-	10,000	3,223	106,480	-	119,703
Notes receivable	-	164,375	-	-	-	164,375
Unamortized expense	169,108	-	-	-	-	169,108
TOTAL ASSETS	\$ 1,702,246	\$ 401,293	\$ (107,219)	\$ 2,587,658	\$ (475,358)	\$ 4,108,620
LIABILITIES						
Accounts payable	\$ 1,098	\$ -	\$ 400	\$ -	\$ -	\$ 1,498
Accrued liabilities	-	-	4,113	-	-	4,113
Total liabilities	1,098	-	4,513	-	-	5,611
FUND BALANCES (DEFICITS)						
Reserved	1,701,148	-	-	-	-	1,701,148
Capital assets, net of accumulated depreciation	-	401,293	(111,732)	2,587,658	(475,358)	2,401,861
Total fund balances (deficits)	1,701,148	401,293	(111,732)	2,587,658	(475,358)	4,103,009
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,702,246	\$ 401,293	\$ (107,219)	\$ 2,587,658	\$ (475,358)	\$ 4,108,620

TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)
NON-MAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2010

	Debt Service	Community Development Block Grant	Law Enforcement	Budget Stabilization	Special Taxing District	Total
REVENUES						
Rents	\$ -	\$ 11,085	\$ -	\$ -	\$ -	\$ 11,085
Miscellaneous revenue	35,700	-	23,021	-	-	58,721
Revenues from other agencies	-	101,571	14,626	106,480	-	222,677
Total revenues	35,700	112,656	37,647	106,480	-	292,483
EXPENDITURES						
Current operations:						
General governmental	-	-	-	-	-	-
Public safety	-	-	46,043	-	-	46,043
Public works	-	-	-	-	-	-
Recreation and cultural	-	53,564	-	-	-	53,564
Miscellaneous	50,381	-	-	-	-	50,381
Debt service:						
Principal	725,000	-	-	-	-	725,000
Interest	466,046	-	-	-	-	466,046
Total expenditures	1,241,427	53,564	46,043	-	-	1,341,034
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,205,727)	59,092	(8,396)	106,480	-	(1,048,551)
OTHER FINANCING SOURCES (USES)						
Bond proceeds	-	-	-	-	-	-
Operating transfers net	1,210,467	-	-	422,789	-	1,633,256
Total other financing sources	1,210,467	-	-	422,789	-	1,633,256
NET CHANGE IN FUND BALANCES	4,740	59,092	(8,396)	529,269	-	584,705
FUND BALANCES (DEFICITS), BEGINNING OF YEAR						
	1,696,408	342,201	(103,336)	2,058,389	(475,358)	3,518,304
FUND BALANCES (DEFICITS), END OF YEAR						
	\$ 1,701,148	\$ 401,293	\$ (111,732)	\$ 2,587,658	\$ (475,358)	\$ 4,103,009

**TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR OTHER PROPRIETARY FUNDS
June 30, 2010**

	<u>Land Enterprise</u>	<u>Airport Industrial Land</u>	<u>East End Redevelopment</u>	<u>Total</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 300,597	\$ 122,020	\$ -	\$ 422,617
Accounts receivable, net	9,639	-	-	9,639
Total current assets	<u>310,236</u>	<u>122,020</u>	<u>-</u>	<u>432,256</u>
Noncurrent assets				
Capital assets, not being depreciated	15,028	67,945	171,311	254,284
Capital assets, net of accumulated depreciation	1,223,159	656,136	837,434	2,716,729
Total noncurrent assets	<u>1,238,187</u>	<u>724,081</u>	<u>1,008,745</u>	<u>2,971,013</u>
TOTAL ASSETS	<u>\$ 1,548,423</u>	<u>\$ 846,101</u>	<u>\$ 1,008,745</u>	<u>\$ 3,403,269</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 4,545	\$ -	\$ -	\$ 4,545
Accrued liabilities	459	-	-	459
Performance deposits	1,500	-	7,353	8,853
Due to Asbury Place	-	-	168,654	168,654
Due to other funds	-	-	692,539	692,539
Total current liabilities	<u>6,504</u>	<u>-</u>	<u>868,546</u>	<u>875,050</u>
Noncurrent liabilities				
Long-term debt	-	-	1,672,124	1,672,124
Total liabilities	<u>6,504</u>	<u>-</u>	<u>2,540,670</u>	<u>2,547,174</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,238,187	724,081	(663,379)	1,298,889
Unrestricted	303,732	122,020	(868,546)	(442,794)
Total net assets	<u>1,541,919</u>	<u>846,101</u>	<u>(1,531,925)</u>	<u>856,095</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,548,423</u>	<u>\$ 846,101</u>	<u>\$ 1,008,745</u>	<u>\$ 3,403,269</u>

TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS
NON-MAJOR OTHER PROPRIETARY FUNDS
Year Ended June 30, 2010

	<u>Land Enterprise</u>	<u>Airport Industrial Land</u>	<u>East End Redevelopment</u>	<u>Total</u>
Operating revenues	\$ 220,417	\$ 3,373	\$ -	\$ 223,790
Operating expenses	<u>228,387</u>	<u>35,478</u>	<u>55,803</u>	<u>319,668</u>
Operating loss	(7,970)	(32,105)	(55,803)	(95,878)
Non-operating revenues	<u>-</u>	<u>-</u>	<u>17</u>	<u>17</u>
Loss before transfers	(7,970)	(32,105)	(55,786)	(95,861)
Transfers in	<u>45,000</u>	<u>-</u>	<u>-</u>	<u>45,000</u>
CHANGES IN NET ASSETS	37,030	(32,105)	(55,786)	(50,861)
NET ASSETS, BEGINNING OF YEAR	<u>1,504,889</u>	<u>878,206</u>	<u>(1,476,139)</u>	<u>906,956</u>
NET ASSETS, END OF YEAR	<u>\$ 1,541,919</u>	<u>\$ 846,101</u>	<u>\$ (1,531,925)</u>	<u>\$ 856,095</u>

TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR OTHER PROPRIETARY FUNDS
Year Ended June 30, 2010

	Land Enterprise	Airport Industrial Land	East End Redevelopment	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 223,973	\$ 3,373	\$ 4,348	\$ 231,694
Cash paid for services	(156,895)	(475)	(4,365)	(161,735)
Net cash provided by operating activities	<u>67,078</u>	<u>2,898</u>	<u>(17)</u>	<u>69,959</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Transfers from (to) other funds	<u>45,000</u>	<u>-</u>	<u>-</u>	<u>45,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of capital asset	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on cash deposits and investments	<u>-</u>	<u>-</u>	<u>17</u>	<u>17</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	112,078	2,898	-	114,976
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>188,519</u>	<u>119,122</u>	<u>-</u>	<u>307,641</u>
CASH AND CASH EQUIVALENTS , END OF YEAR	<u>\$ 300,597</u>	<u>\$ 122,020</u>	<u>\$ -</u>	<u>\$ 422,617</u>
RECONCILIATION OF OPERATING LOSS TO CASH PROVIDED BY OPERATING ACTIVITIES				
Operating loss	\$ (7,970)	\$ (32,105)	\$ (55,803)	\$ (95,878)
Adjustments to reconcile operating loss to net cash provided by operating activities:				
Depreciation and amortization	87,106	35,003	55,803	177,912
Changes in operating assets and liabilities:				
Accounts receivable, net	(3,558)	-	4,329	771
Accounts payable and accrued expenses	(8,500)	-	(4,346)	(12,846)
Total adjustments	<u>75,048</u>	<u>35,003</u>	<u>55,786</u>	<u>165,837</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 67,078</u>	<u>\$ 2,898</u>	<u>\$ (17)</u>	<u>\$ 69,959</u>

OTHER SUPPLEMENTARY INFORMATION

**TOWN OF EASTON, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
CAPITAL PROJECT FUND
Year Ended June 30, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
General governmental	98,500	98,500	23,181	75,319
Public safety	99,811	99,811	3,369,113	(3,269,302)
Public works	589,448	589,448	654,588	(65,140)
Recreation and cultural	108,800	108,800	116,169	(7,369)
Total expenditures	<u>896,559</u>	<u>896,559</u>	<u>4,163,051</u>	<u>(3,266,492)</u>
OTHER FINANCING SOURCES				
Bond proceeds	-	-	-	-
Operating transfers in	<u>896,559</u>	<u>896,559</u>	<u>896,559</u>	<u>-</u>
Total other financing sources	<u>896,559</u>	<u>896,559</u>	<u>896,559</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,266,492)</u>	<u>\$ (3,266,492)</u>
FUND BALANCE, BEGINNING OF YEAR			<u>4,952,531</u>	
FUND BALANCE, END OF YEAR			<u>\$ 1,686,039</u>	