

TOWN OF EASTON, MARYLAND
Easton, Maryland

FINANCIAL STATEMENTS
June 30, 2011

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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, 2011, 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, 2011, 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 December 29, 2011, 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 Schedules 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 and other supplementary information 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 procedure 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.

Clifton Gundersen LLP

Baltimore, Maryland
December 29, 2011

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

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, 2011. 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

- The Town of Easton completed its celebration of their 300th Anniversary. The Town recognizes their official beginnings from the Act of the Assembly of the Province of Maryland dated November 4, 1710. The highly successful dedication of the Frederick Douglass status on the courthouse lawn marked the final event in this celebration.
- Total assets of the Town at year-end were \$165.6 million and exceeded its liabilities at June 30, 2011 by \$124.7 million (i.e. total net assets).
- As of June 30, 2011, the Town's governmental funds reported an ending fund balance of \$19.1 million which is an increase of \$382 thousand from June 30, 2010. The components of this change are discussed later.

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.

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.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-wide Financial Statements (Continued)

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, 2011, and earned but unused vacation leave will be included in the Statement of Activities as revenues and expense, even though the cash associated with these items will not be received or distributed until after June 30, 2011.

The Town has no separately identified component units included in the government-wide financial statements.

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.

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.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

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 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. Non-major 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.

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 its other post employment benefit 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.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

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 \$124.7 million at June 30, 2011 which is an increase of approximately \$5.6 million over the June 30, 2010 net assets. The following table reflects the condensed Government-Wide Statement of Net Assets:

	2011	2010
Current and other assets	\$ 51,441,043	\$ 49,393,272
Capital assets and other assets	114,163,600	112,282,049
Total assets	165,604,643	161,675,321
Current liabilities	7,948,243	8,751,577
Long-term debt	32,931,349	33,835,481
Total liabilities	40,879,592	42,587,058
Invested in capital assets, net of related debt	79,009,319	76,426,302
Restricted	6,417,089	1,701,148
Unrestricted	39,298,643	40,960,813
Total net assets	\$ 124,725,051	\$ 119,088,263

The Town's total assets were approximately \$165.6 million (compared to \$161.7 million in the prior year) as of June 30, 2011. Of this amount, \$113.9 million (compared to \$112.3 million in the prior year) is accounted for by capital assets, which includes infrastructure.

Of the remaining assets, approximately \$34.6 million is accounted for in cash and cash equivalents (compared to \$37.2 million in the prior year), approximately \$7.5 million in accounts and notes receivable (compared to \$6 million in the prior year), inventory or approximately \$4.0 million (compared to \$3.5 million in the prior year), with the remainder spread among various other accounts.

Outstanding liabilities totaled approximately \$40.9 million with bonds comprising approximately \$14.8 million, loans from the State or Maryland comprising approximately \$17.7 million, and approximately \$5.2 in accounts payable and accrued expenses at June 30, 2011. This compares with the June 30, 2010 amounts where the Town had outstanding liabilities of approximately \$42.6 million of which approximately \$16.2 million was bonds payable, approximately \$18.5 million was loans from the State of Maryland, and approximately \$5.1 million was in accounts payable and accrued expenses. Of the bonds payable, approximately \$1.5 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 capital 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.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Statement of Net Assets (Continued)

At June 30, 2011, 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.

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, 2011**

	Governmental Activities	Business- Type Activities	Total
Program Revenues			
Charges for service	\$ 1,625,330	\$ 49,706,038	\$ 51,331,368
Operating grants and contributions	990,539	-	990,539
General Revenues			
Property taxes	11,944,226	-	11,944,226
Other local taxes	2,891,421	-	2,891,421
Other	191,287	152,080	343,367
Total revenues	<u>17,642,803</u>	<u>49,858,118</u>	<u>67,500,921</u>
Expenses			
General government	1,852,935	-	1,852,935
Public safety	7,438,887	-	7,438,887
Public works	3,958,114	-	3,958,114
Recreation and cultural	462,189	-	462,189
Economic development	414,289	-	414,289
Nondepartmental	729,306	-	729,306
Interest expense	485,314	-	485,314
Utilities services	-	46,184,927	46,184,927
Other services	-	338,172	338,172
Total expenses	<u>15,341,034</u>	<u>46,523,099</u>	<u>61,864,133</u>
Excess of revenues over expenses	2,301,769	3,335,019	5,636,788
Transfers in (out)	<u>(560,000)</u>	<u>560,000</u>	<u>-</u>
Increase in net assets (as restated)	1,741,769	3,895,019	5,636,788
Net assets, beginning of year	<u>37,835,703</u>	<u>81,252,560</u>	<u>119,088,263</u>
Net assets, end of year	<u>\$ 39,577,472</u>	<u>\$ 85,147,579</u>	<u>\$124,725,051</u>

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Statement of Activities - Changes in Net Assets (Continued)

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

	Governmental Activities	Business- Type Activities	Total
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	115,767	41,827	157,594
Total revenues	18,104,763	46,541,773	64,646,536
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	-	319,668	319,668
Total expenses	14,663,989	43,598,307	58,262,296
Excess of revenues over expenses	3,440,774	2,943,466	6,384,240
Transfers in (out)	(45,000)	45,000	-
Increase in net assets (as restated)	3,395,774	2,988,466	6,384,240
Net assets, beginning of year	34,439,929	78,264,094	112,704,023
Net assets, end of year	\$ 37,835,703	\$ 81,252,560	\$119,088,263

Total revenues for the Town of Easton were approximately \$67.5 million for the year ended June 30, 2011 compared to approximately \$64.6 million for the year ending June 30, 2010. Governmental activities provided approximately \$17.6 million, and business-type activities provided \$49.8 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.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)

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.

The General Fund is the chief operating fund of the Town. As of June 30, 2011, unassigned fund balance of the General Fund was \$6,801,629.

Revenues Classified by Source

	<u>2011</u>	<u>Percent to Total</u>	<u>2010</u>	<u>Percent to Total</u>
GOVERNMENTAL FUNDS				
Revenues				
General property taxes	\$ 11,944,226	67.85%	\$ 12,498,666	68.87%
Other local taxes	1,082,874	6.15%	1,135,196	6.26%
Permits and licenses	428,261	2.43%	618,676	3.41%
Fines and forfeitures	46,660	0.27%	34,619	0.19%
Changes for services	984,923	5.60%	959,172	5.29%
Miscellaneous	2,004,420	11.39%	2,150,473	11.85%
Intergovernmental	<u>1,110,599</u>	<u>6.31%</u>	<u>749,027</u>	<u>4.13%</u>
Total revenues	<u>\$ 17,601,963</u>	<u>100.00%</u>	<u>\$ 18,145,829</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 \$11.9 million, down 4% or approximately \$.5 million from last year reflecting decreased assessments for existing properties. The real estate tax rate was maintained at the FY2010 rate of \$.52 per \$100 of assessed value. Gross personal property tax revenue decreased 5% to approximately \$1.1 million as a result of decreasing assessments. The personal property tax rate remained unchanged from FY2010 at a rate of \$1.30 per \$100 of assessed value of personal property located within the Town limits.
- **Permits and licenses** – This category is primarily comprised of building permits and construction related fees. This revenue decreased approximately \$190 thousand due to decreased construction activities during FY2011.
- **Miscellaneous Revenues** – This category decreased approximately \$146 thousand primarily due to reimbursements received in FY2010 related to snow storms.
- **Intergovernmental** – This category increased approximately \$362 thousand primarily due to increased grant related projects during the current year.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)

Governmental Funds Revenue and Expense Analysis (Continued)

The following table represents expenditures by function.

Expenditures by Function				
	2011	Percent to Total	2010	Percent to Total
GOVERNMENTAL FUNDS				
Expenditures				
Current operations:				
General government				
administration	\$ 1,852,721	11.12%	\$ 1,706,553	9.36%
Public safety	7,277,361	43.69%	9,835,003	53.91%
Public works	4,628,495	27.78%	3,992,692	21.89%
Recreation and cultural	467,151	2.80%	446,574	2.45%
Economic development	286,466	1.72%	293,022	1.61%
Nondepartmental	729,306	4.38%	477,015	2.61%
Debt service:				
Principal	933,315	5.60%	985,658	5.40%
Interest	485,314	2.91%	505,246	2.77%
Total expenditures	\$ 16,660,129	100.00%	\$ 18,241,763	100.00%

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

- **Public Safety** – In terms of total dollars, the largest decrease was in Public Safety and was due to the completion in prior year of the construction of the Police Department expansion project.
- **Public Works** – The increase in Public Works was due in a large part to capital expenditures made in FY2011. Upgrades were made to the communications system, larger capital asset purchases and the Tanyard Branch construction activity comprised the majority of the increase.
- **Nondepartmental** – The increase is primarily attributed to the activities relating to the Town's 300th Anniversary events.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)

Enterprise Funds Revenue and Expense Analysis

Utility Fund

Operating Revenues: Revenues in FY11 increased \$3.2 million, or 6.9%, from FY10. This was largely due to \$2.2 million, or 7.7%, higher revenues in the Electric Department as a result of greater sales to retail customers, as well as generation sales. The Gas Department's revenues increased \$54 thousand, or 0.8%, from the prior year, mostly due to greater sales to customers, partially offset by lower gas costs being passed through to customers at no markup to customers. The Water & Wastewater Department's revenues increased \$185 thousand, or 4.4%, reflecting an increase in usage per customer and in the number of customers. Cable & Communication's revenues increased \$748 thousand, or 9.0%, over FY10, primarily as a result of a shift from analog to digital cable TV service, continued growth of VOIP and advanced network services customers, a shift from dial-up to cable modem internet service, which was partially offset by a decrease in IT consulting services.

Operating Expenses: The Commission's operating expenses increased \$2.6 million, or 6.2%, versus FY10. The primary driver of the change was \$1.8 million, or 10.6%, higher purchased power expenses in the Electric Department. The Gas Department's operating expenses were \$129 thousand, or 2.1%, higher during FY11 primarily due to an increase in the percentage of general expenses allocated. The Water & Wastewater Department's operating expenses were \$382 thousand, or 9.4%, higher than the prior year due to the lack of a Maryland Department of Environment operations and maintenance grant and a higher percentage of general expenses allocated. Cable & Communications experienced a \$510 thousand, or 7.9%, increase in operating expenses as a result of increasing programming costs and costs associated with the MAN & Advanced Network Services Division's expenses to serve a new customer in FY11.

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 FY11 were \$211 thousand, compared to \$462 thousand in FY10. The decrease was due to less development activity in the area.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

ANALYSIS OF BUDGET AND ACTUAL RESULTS

GOVERNMENTAL FUNDS-GENERAL FUND	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Taxes	\$ 13,332,111	\$ 13,332,111	\$ 13,027,100	\$ (305,011)
Licenses and permits	504,200	504,200	428,261	(75,939)
Intergovernmental	473,219	473,219	624,306	151,087
Charges for services	903,908	903,908	984,923	81,015
Fines and forfeitures	29,000	29,000	46,660	17,660
Miscellaneous	<u>1,525,600</u>	<u>1,525,600</u>	<u>1,731,202</u>	<u>205,602</u>
Total revenues	<u>\$ 16,768,038</u>	<u>\$ 16,768,038</u>	<u>\$ 16,842,452</u>	<u>\$ 74,414</u>
Expenditures				
Current operations:				
General government administration	\$ 1,769,601	\$ 1,768,101	\$ 1,831,298	\$ (63,197)
Public safety	6,830,015	6,830,015	6,870,870	(40,855)
Public works	3,714,785	3,714,785	3,240,542	474,243
Recreation and cultural	405,338	405,338	329,277	76,061
Economic development	195,984	195,984	286,466	(90,482)
Nondepartmental	749,924	751,424	596,784	154,640
Debt service:				
Principal	202,123	202,123	156,555	45,568
Interest	16,264	16,264	29,865	(13,601)
Other financing (sources) uses				
Transfers in	<u>2,884,004</u>	<u>2,884,004</u>	<u>3,399,004</u>	<u>(515,000)</u>
Total expenditures and other uses	<u>\$ 16,768,038</u>	<u>\$ 16,768,038</u>	<u>\$ 16,740,661</u>	<u>\$ 27,377</u>

There were 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 were slightly above Gross Budgeted Revenue by approximately \$74,414 or less than .45% of the budgeted revenue of approximately \$16,8 million. This is primarily the result of increases in Grant revenues for capital projects and miscellaneous revenues offset by lower than expected tax revenues.
- Gross budgeted expenditures and other financing uses exceeded the gross actual expenditures and other financing uses by approximately \$27 thousand or .08% of budgeted expenditures and other financing uses. The most significant variances related to public works and other financing uses. Of the \$2,884,004 budgeted for transfers approximately \$515 thousand was used to cover operating deficits in the East End Redevelopment Fund.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

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, 2011, amounts to \$113.8 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, 2011 and 2010, respectively:

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

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 6,978,830	\$ 6,965,666	\$ 1,280,964	\$ 1,280,964	\$ 8,259,794	\$ 8,246,630
Buildings and improvements	20,558,202	20,755,776	19,015,471	20,016,263	39,573,669	40,772,039
Plants, mains and other equipment	3,357,451	3,208,665	57,779,961	58,586,388	61,137,116	61,795,053
Construction in progress	<u>409,928</u>	<u>-</u>	<u>4,487,066</u>	<u>1,007,339</u>	<u>4,896,993</u>	<u>1,007,339</u>
Total	<u>\$ 31,304,411</u>	<u>\$ 30,930,107</u>	<u>\$ 82,563,462</u>	<u>\$ 80,890,954</u>	<u>\$ 113,867,573</u>	<u>\$ 111,821,061</u>

During the year ended June 30, 2011, the Town's capital assets grew by approximately \$2 million. This is largely due to construction in progress on the Wastewater Treatment Facility in the utility fund totaling approximately \$7.8 million as offset by depreciation expense of \$6.0 million.

Long-Term Debt Activity

The Town of Easton issued no new bonds during the fiscal year 2011, however, a draw on a loan to the State of Maryland was made in the amount of approximately \$1.7 million. Regularly scheduled principal payments were made during 2011 totaling approximately \$2.3 million and accounts for the net decrease from 2010 as shown below.

Changes in Long-Term Liabilities

Town of Easton's Outstanding Long-Term Debt

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Long-term debt	<u>\$ 11,060,924</u>	<u>\$ 11,995,058</u>	<u>\$ 24,541,200</u>	<u>\$ 24,328,123</u>	<u>\$ 35,610,861</u>	<u>\$ 36,323,181</u>

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

SUBSEQUENT ITEMS FOR FUTURE FINANCIAL STATEMENTS

The Mayor, Town Council and staff are continuing to work toward improving the organizational efficiency to compensate for all additional reductions from the State of Maryland revenues to minimize the effects it may have on Town operations.

In December of 2011, Fitch ratings upgraded the Town's \$16.2 million "unlimited tax general obligation" bonds from AA- to AA with an outlook of stable. This further demonstrates the fiscal effectiveness of the Town.

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
Year Ended June 30, 2011

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 17,816,223	\$ 665,618	\$ 18,481,841
Investments	12,224	16,107,813	16,120,037
Accounts receivable, net	584,148	4,747,850	5,331,998
Grants and loans receivable	1,361,405	819,678	2,181,083
Unrecovered fuel and gas costs	-	1,238,549	1,238,549
Interest receivable	-	1,572	1,572
Prepaid expenses	267,702	2,217,335	2,485,037
Unbilled revenue	-	1,546,443	1,546,443
Inventory, at average cost	-	4,054,483	4,054,483
Total current assets	<u>20,041,702</u>	<u>31,399,341</u>	<u>51,441,043</u>
NONCURRENT ASSETS			
Unamortized expenses	-	226,237	226,237
Note receivable, non-current	69,490	-	69,490
Capital assets, not being depreciated	7,388,758	5,768,030	13,156,788
Capital assets, net of accumulated depreciation	23,915,653	76,795,432	100,711,085
Total non current assets	<u>31,373,901</u>	<u>82,789,699</u>	<u>114,163,600</u>
Total assets	<u>51,415,603</u>	<u>114,189,040</u>	<u>165,604,643</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	534,105	1,844,672	2,378,777
Accrued liabilities	125,527	1,124,126	1,249,653
Tax collection payable	-	318,672	318,672
Performance deposits	97,352	1,040,293	1,137,645
Due to Asbury Place	-	154,498	154,498
Unearned revenue	11,486	18,000	29,486
Current portion of long-term debt	1,149,108	1,530,404	2,679,512
Total current liabilities	<u>1,917,578</u>	<u>6,030,665</u>	<u>7,948,243</u>
NONCURRENT LIABILITIES			
Long-term debt, net of current portion	9,395,827	23,010,796	32,406,623
Compensated absences	524,726	-	524,726
Total noncurrent liabilities	<u>9,920,553</u>	<u>23,010,796</u>	<u>32,931,349</u>
Total liabilities	<u>11,838,131</u>	<u>29,041,461</u>	<u>40,879,592</u>
NET ASSETS			
Invested in capital assets, net of related debt	21,014,205	57,995,114	79,009,319
Restricted for:			
Debt service	1,808,471	-	1,808,471
Capital Improvements	4,415,271	-	4,415,271
Community Development	193,347	-	193,347
Unrestricted	12,146,178	27,152,465	39,298,643
TOTAL NET ASSETS	<u>\$ 39,577,472</u>	<u>\$ 85,147,579</u>	<u>\$ 124,725,051</u>

**TOWN OF EASTON, MARYLAND
STATEMENT OF NET ASSETS
Year Ended June 30, 2011**

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	\$ 1,852,935	\$ 485,237	\$ -	\$ -	\$ (1,367,698)	\$ -	\$ (1,367,698)
Public safety	7,438,887	216,313	218,098	-	(7,004,476)	-	(7,004,476)
Public works	3,958,114	915,755	511,600	-	(2,530,759)	-	(2,530,759)
Recreation and cultural	462,189	-	163,310	-	(298,879)	-	(298,879)
Economic development	414,289	-	4,500	-	(409,789)	-	(409,789)
Nondepartmental	729,306	8,025	93,031	-	(628,250)	-	(628,250)
Interest expense	485,314	-	-	-	(485,314)	-	(485,314)
Total governmental activities	<u>15,341,034</u>	<u>1,625,330</u>	<u>990,539</u>	<u>-</u>	<u>(12,725,165)</u>	<u>-</u>	<u>(12,725,165)</u>
Business-type activities:							
Utility	46,184,927	49,478,559	-	-	-	3,293,632	3,293,632
Land enterprise	247,340	224,399	-	-	-	(22,941)	(22,941)
Airport industrial	35,001	3,080	-	-	-	(31,921)	(31,921)
East End redevelopment	55,831	-	-	-	-	(55,831)	(55,831)
Total business-type activities	<u>46,523,099</u>	<u>49,706,038</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,182,939</u>	<u>3,182,939</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 61,864,133</u>	<u>\$ 51,331,368</u>	<u>\$ 990,539</u>	<u>\$ -</u>	<u>(12,725,165)</u>	<u>3,182,939</u>	<u>(9,542,226)</u>
General revenues:							
Property taxes					11,944,226	-	11,944,226
Payment in lieu of taxes					1,554,618	(1,554,618)	-
Intergovernmental, unrestricted					1,336,803	-	1,336,803
Interest and investment earnings					8,987	42,006	50,993
Miscellaneous					182,300	1,664,692	1,846,992
Transfers					(560,000)	560,000	-
Total general revenues					<u>14,466,934</u>	<u>712,080</u>	<u>15,179,014</u>
CHANGE IN NET ASSETS					1,741,769	3,895,019	5,636,788
NET ASSETS, BEGINNING OF YEAR					<u>37,835,703</u>	<u>81,252,560</u>	<u>119,088,263</u>
NET ASSETS, ENDING OF YEAR					<u>\$ 39,577,472</u>	<u>\$ 85,147,579</u>	<u>\$ 124,725,051</u>

**TOWN OF EASTON, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011**

	General Fund	Capital Projects Fund	Infrastructure Development Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents -	\$ 9,089,368	\$ 2,587,769	\$ 4,415,811	\$ 1,723,275	\$ 17,816,223
Investments	12,224	-	-	-	12,224
Accounts receivable, net	1,350,530	582,752	-	12,271	1,945,553
Note receivable	-	-	-	69,490	69,490
Prepaid expenses	267,702	-	-	-	267,702
Unamortized expenses	-	-	-	141,943	141,943
TOTAL ASSETS	\$ 10,719,824	\$ 3,170,521	\$ 4,415,811	\$ 1,946,979	\$ 20,253,135
LIABILITIES					
Accounts payable	\$ 395,266	\$ 137,663	\$ 540	\$ 636	\$ 534,105
Accrued liabilities	256,708	-	-	-	256,708
Performance deposits	97,352	-	-	-	97,352
Deferred revenue	313,509	-	-	-	313,509
Total liabilities	1,062,835	137,663	540	636	1,201,674
FUND BALANCES					
Nonspendable	267,702	-	-	69,490	337,192
Restricted	-	-	4,415,271	2,001,818	6,417,089
Committed	2,587,658	-	-	-	2,587,658
Assigned	-	3,032,858	-	-	3,032,858
Unassigned	6,801,629	-	-	(124,965)	6,676,664
Total fund balances	9,656,989	3,032,858	4,415,271	1,946,343	19,051,461
TOTAL LIABILITIES AND FUND BALANCES	\$ 10,719,824	\$ 3,170,521	\$ 4,415,811	\$ 1,946,979	\$ 20,253,135

**TOWN OF EASTON, MARYLAND
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2011**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 19,051,461

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 \$47,797,403 and the accumulated depreciation is \$16,492,992. 31,304,411

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	\$ 9,745,000	
Notes payable	675,836	
Capital lease obligations	11,313	
Net OPEB obligation	123,548	
Compensated absences - long-term portion	524,726	(11,080,423)

Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. 302,023

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 39,577,472

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2011

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Infrastructure Development Fund</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
REVENUES					
General property taxes	\$ 11,944,226	\$ -	\$ -	\$ -	\$ 11,944,226
Other local taxes	1,082,874	-	-	-	1,082,874
Permits and licenses	428,261	-	-	-	428,261
Fines and forfeitures	46,660	-	-	-	46,660
Charges for services	984,923	-	-	-	984,923
Miscellaneous	1,731,202	-	121,597	151,621	2,004,420
Revenues from other agencies	624,306	460,468	-	25,825	1,110,599
Total revenues	<u>16,842,452</u>	<u>460,468</u>	<u>121,597</u>	<u>177,446</u>	<u>17,601,963</u>
EXPENDITURES					
Current operations:					
General government	1,831,298	21,423	-	-	1,852,721
Public safety	6,870,870	333,541	-	72,950	7,277,361
Public works	3,240,542	1,387,953	-	-	4,628,495
Recreation and cultural	329,277	137,874	-	-	467,151
Economic development	286,466	-	-	-	286,466
Nondepartmental	596,784	-	4,070	128,452	729,306
Debt service:					
Principal	156,555	-	-	776,760	933,315
Interest	29,865	-	-	455,449	485,314
Total expenditures	<u>13,341,657</u>	<u>1,880,791</u>	<u>4,070</u>	<u>1,433,611</u>	<u>16,660,129</u>
Excess of revenues over expenditures	<u>3,500,795</u>	<u>(1,420,323)</u>	<u>117,527</u>	<u>(1,256,165)</u>	<u>941,834</u>
OTHER FINANCING SOURCES (USES)					
Transfers in (out)	<u>(3,399,004)</u>	<u>2,767,142</u>	<u>(1,139,937)</u>	<u>1,211,799</u>	<u>(560,000)</u>
Total other financing sources	<u>(3,399,004)</u>	<u>2,767,142</u>	<u>(1,139,937)</u>	<u>1,211,799</u>	<u>(560,000)</u>
NET CHANGES IN FUND BALANCES	101,791	1,346,819	(1,022,410)	(44,366)	381,834
FUND BALANCES, BEGINNING OF YEAR, as restated	<u>9,555,198</u>	<u>1,686,039</u>	<u>5,437,681</u>	<u>1,990,709</u>	<u>18,669,627</u>
FUND BALANCES, END OF YEAR	<u>\$ 9,656,989</u>	<u>\$ 3,032,858</u>	<u>\$ 4,415,271</u>	<u>\$ 1,946,343</u>	<u>\$ 19,051,461</u>

**TOWN OF EASTON, MARYLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2011**

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS **\$ 381,834**

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

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay \$1,873,981 exceeds depreciation expense \$1,499,677 in the period. 374,304

In the Statement of Activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for compensated absences are measured by the amount of financial resources used (essentially, the amounts actually paid or expected to be paid). This year, vacation leave used exceeded the amounts earned by \$31,084. 31,084

OPEB costs reported in the statement of activities do not require the use of current financial resources and, are not reported as expenditures in governmental funds. (19,608)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This amount is the net effect of these differences in the treatment of long-term debt and related items. 933,315

Under the modified accrual basis of accounting, revenues are not recognized unless they are deemed "available" to finance current expenditures. Accrual-basis recognition is not limited by availability, so certain revenues need to be reduced by the amounts that were unavailable at the beginning of the year and increased by the amounts that were unavailable at the end of the year. This adjustment records a net decrease in "unavailable" revenues at the end of the year over the amount at the beginning of the year. 40,840

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 1,741,769**

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, 2011

	<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	\$ 10,952,344	\$ 10,952,344	\$ 10,992,544	\$ 40,200
Personal property taxes - business	926,000	926,000	851,956	(74,044)
Personal property taxes - railroad and public utilities	190,000	190,000	160,237	(29,763)
Abatements/discounts	(125,000)	(125,000)	(134,922)	(9,922)
Penalties and interest	49,900	49,900	74,411	24,511
Total general property taxes	<u>11,993,244</u>	<u>11,993,244</u>	<u>11,944,226</u>	<u>(49,018)</u>
Local taxes:				
State shared income taxes	1,300,000	1,300,000	998,766	(301,234)
State shared highway taxes	34,517	34,517	78,250	43,733
Admission and amusements	3,600	3,600	5,108	1,508
Franchise-ordinary business corporation	750	750	750	-
Total other local taxes	<u>1,338,867</u>	<u>1,338,867</u>	<u>1,082,874</u>	<u>(255,993)</u>
Total taxes	<u>13,332,111</u>	<u>13,332,111</u>	<u>13,027,100</u>	<u>(305,011)</u>
Permits and licenses				
Trader's licenses	60,000	60,000	68,125	8,125
Building permits	250,000	250,000	122,780	(127,220)
Plumbing permits	20,000	20,000	11,401	(8,599)
Use and occupancy permits	40,000	40,000	25,150	(14,850)
Rental housing license fees	55,000	55,000	72,600	17,600
Permits and other licenses	79,200	79,200	128,205	49,005
Total permits and licenses	<u>504,200</u>	<u>504,200</u>	<u>428,261</u>	<u>(75,939)</u>
Fines and forfeitures	<u>29,000</u>	<u>29,000</u>	<u>46,660</u>	<u>17,660</u>
Charges for services				
General government	30,000	30,000	56,976	26,976
Public safety	107,208	107,208	130,622	23,414
Highway and streets	115,000	115,000	104,403	(10,597)
Sanitation and waste removal	651,700	651,700	673,947	22,247
Other recreation fees	-	-	18,975	18,975
Total charges for services	<u>903,908</u>	<u>903,908</u>	<u>984,923</u>	<u>81,015</u>
Revenues from other agencies				
Federal:				
Bullet Proof Vest Grant	3,060	3,060	-	(3,060)
State:				
Police protection	164,886	164,886	179,193	14,307
Fire, rescue and ambulance	17,550	17,550	13,080	(4,470)
Conservation and critical areas	7,000	7,000	4,500	(2,500)
Recreation Open Space & Other Projects	-	-	141,916	141,916
Total state	<u>192,496</u>	<u>192,496</u>	<u>338,689</u>	<u>146,193</u>
County:				
Taxes	280,723	280,723	285,617	4,894
Total county	<u>280,723</u>	<u>280,723</u>	<u>285,617</u>	<u>4,894</u>
Total revenues from other agencies	<u>473,219</u>	<u>473,219</u>	<u>624,306</u>	<u>151,087</u>
Miscellaneous	<u>1,525,600</u>	<u>1,525,600</u>	<u>1,731,202</u>	<u>205,602</u>
TOTAL REVENUES	<u>16,768,038</u>	<u>16,768,038</u>	<u>16,842,452</u>	<u>74,414</u>

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, 2011
(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget		
EXPENDITURES				
General government				
Legislative:				
Town council	\$ 127,998	\$ 127,998	\$ 284,702	\$ (156,704)
Town clerk	86,797	86,797	106,164	(19,367)
Total legislative	<u>214,795</u>	<u>214,795</u>	<u>390,866</u>	<u>(176,071)</u>
Executive Mayor	132,820	131,320	39,093	92,227
Town Manager	412,440	412,440	315,833	96,607
Elections	11,500	11,500	6,169	5,331
Financial administration	410,990	410,990	439,949	(28,959)
Independent accounting & auditing	38,000	38,000	35,290	2,710
Law	50,000	50,000	33,135	16,865
Planning and zoning	370,184	370,184	448,722	(78,538)
General services	128,872	128,872	122,241	6,631
Total general government	<u>1,769,601</u>	<u>1,768,101</u>	<u>1,831,298</u>	<u>(63,197)</u>
Public safety				
Police	5,886,475	5,886,475	6,022,928	(136,453)
Traffic control	40,951	40,951	55,811	(14,860)
Fire and rescue	414,047	414,047	308,194	105,853
Code enforcement	370,083	370,083	349,715	20,368
Rental housing	91,518	91,518	116,761	(25,243)
Traffic engineering	26,941	26,941	17,461	9,480
Total public safety	<u>6,830,015</u>	<u>6,830,015</u>	<u>6,870,870</u>	<u>(40,855)</u>
Public works				
Administration	615,301	656,122	502,286	153,836
Sanitation and waste removal	1,521,625	1,521,625	1,413,723	107,902
Highways, streets and sidewalks	1,576,287	1,535,466	1,322,665	212,801
Mosquito control	1,572	1,572	1,868	(296)
Total public works	<u>3,714,785</u>	<u>3,714,785</u>	<u>3,240,542</u>	<u>474,243</u>
Parks, recreation and cultural				
Parks and recreation administration	87,693	87,693	81,283	6,410
Participation recreation	71,305	71,305	58,167	13,138
Municipal parks	246,340	246,340	189,827	56,513
Total parks, recreation and cultural	<u>405,338</u>	<u>405,338</u>	<u>329,277</u>	<u>76,061</u>
Economic development				
	<u>195,984</u>	<u>195,984</u>	<u>286,466</u>	<u>(90,482)</u>
Nondepartmental				
	<u>749,924</u>	<u>751,424</u>	<u>596,784</u>	<u>154,640</u>
Debt service				
Principal	202,123	202,123	156,555	45,568
Interest	16,264	16,264	29,865	(13,601)
Total debt service	<u>218,387</u>	<u>218,387</u>	<u>186,420</u>	<u>31,967</u>
TOTAL EXPENDITURES	<u>13,884,034</u>	<u>13,884,034</u>	<u>13,341,657</u>	<u>542,377</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>2,884,004</u>	<u>2,884,004</u>	<u>3,500,795</u>	<u>616,791</u>

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, 2011
(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	\$ (1,211,799)	\$ (1,211,799)	\$ (1,211,799)	\$ -
East End Redevelopment	-	-	(515,000)	(515,000)
Capital projects	(1,267,406)	(1,627,205)	(1,627,205)	-
Budget stabilization	(359,799)	-	-	-
Land enterprise	(45,000)	(45,000)	(45,000)	-
TOTAL OTHER FINANCING USES	<u>\$ (2,884,004)</u>	<u>\$ (2,884,004)</u>	<u>(3,399,004)</u>	<u>\$ (515,000)</u>
NET CHANGE IN FUND BALANCE			101,791	
FUND BALANCE, BEGINNING OF YEAR , as restated			<u>9,555,198</u>	
FUND BALANCE, END OF YEAR			<u>\$ 9,656,989</u>	

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2011

	Business-Type Activities - Enterprise Funds		
	Utility	Other	Totals
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 308,464	\$ 357,154	\$ 665,618
Investments	16,107,813	-	16,107,813
Accounts receivable, net	4,740,365	7,485	4,747,850
Grants & loans receivable	819,678		819,678
Interest receivable	1,572	-	1,572
Prepaid expenses	2,217,335	-	2,217,335
Inventory	4,054,483	-	4,054,483
Unrecovered fuel and gas costs	1,238,549	-	1,238,549
Unbilled revenue	1,546,443	-	1,546,443
Total current assets	<u>31,034,702</u>	<u>364,639</u>	<u>31,399,341</u>
NONCURRENT ASSETS			
Unamortized expenses	226,237	-	226,237
Capital assets, not being depreciated	5,513,746	254,284	5,768,030
Capital assets, net of accumulated depreciation	74,246,566	2,548,866	76,795,432
Total noncurrent assets	<u>79,986,549</u>	<u>2,803,150</u>	<u>82,789,699</u>
TOTAL ASSETS	<u>\$ 111,021,251</u>	<u>\$ 3,167,789</u>	<u>\$ 114,189,040</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ 1,819,063	\$ 25,609	\$ 1,844,672
Accrued liabilities	1,124,126	-	1,124,126
Tax collection payable	318,672	-	318,672
Performance deposits	1,030,148	10,145	1,040,293
Due to Asbury Place	-	154,498	154,498
Deferred revenue	18,000	-	18,000
Current portion of long-term debt	1,530,404	-	1,530,404
Total current liabilities	<u>5,840,413</u>	<u>190,252</u>	<u>6,030,665</u>
NONCURRENT LIABILITIES			
Long-term debt, net of current portion	21,338,672	1,672,124	23,010,796
Total liabilities	<u>27,179,085</u>	<u>1,862,376</u>	<u>29,041,461</u>
NET ASSETS			
Invested in capital assets, net of related debt	56,864,088	1,131,026	57,995,114
Unrestricted	26,978,078	174,387	27,152,465
Total net assets	<u>83,842,166</u>	<u>1,305,413</u>	<u>85,147,579</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 111,021,251</u>	<u>\$ 3,167,789</u>	<u>\$ 114,189,040</u>

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2011

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Utility</u>	<u>Other</u>	<u>Total</u>
Operating revenues	\$ 49,478,559	\$ 227,479	\$ 49,706,038
Operating expenses	<u>44,423,646</u>	<u>338,172</u>	<u>44,761,818</u>
Operating income (loss)	<u>5,054,913</u>	<u>(110,693)</u>	<u>4,944,220</u>
Non-operating revenues			
(expenses):			
Revenue	1,706,687	14	1,706,701
Expense	<u>(3,315,899)</u>	<u>-</u>	<u>(3,315,899)</u>
Total non-operating revenues (expenses)	<u>(1,609,212)</u>	<u>14</u>	<u>(1,609,198)</u>
Income (loss) before transfers	3,445,701	(110,679)	3,335,022
Transfers in	<u>-</u>	<u>560,000</u>	<u>560,000</u>
CHANGES IN NET ASSETS	3,445,701	449,321	3,895,022
NET ASSETS, BEGINNING OF YEAR	<u>80,396,465</u>	<u>856,092</u>	<u>81,252,557</u>
NET ASSETS, END OF YEAR	<u><u>\$ 83,842,166</u></u>	<u><u>\$ 1,305,413</u></u>	<u><u>\$ 85,147,579</u></u>

TOWN OF EASTON, MARYLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2011

	Business-Type Activities - Enterprise Funds		
	Utility	Other	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received for services	\$ 47,539,676	\$ 238,207	\$ 47,777,883
Cash paid to suppliers for goods and services	(34,461,015)	(158,264)	(34,619,279)
Cash paid to employees for services	(7,902,489)	-	(7,902,489)
Net cash provided by operating activities	<u>5,176,172</u>	<u>79,943</u>	<u>5,256,115</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES			
Cash paid in lieu of taxes	(1,535,250)	-	(1,535,250)
Transfers from other funds	-	(145,420)	(145,420)
Net cash provided by (used in) non-capital and related financing activities	<u>(1,535,250)</u>	<u>(145,420)</u>	<u>(1,680,670)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from disposition of assets	11,859	-	11,859
Proceeds from capital charges	211,034	-	211,034
Purchases/construction of capital assets	(7,426,643)	-	(7,426,643)
Proceeds from notes payable	2,231,826	-	2,231,826
Payment of debt	(1,464,358)	-	(1,464,358)
Interest paid on bond indebtedness	(216,484)	-	(216,484)
Other interest paid	(94,594)	-	(94,594)
Net cash used in capital and related financing activities	<u>(6,747,360)</u>	<u>-</u>	<u>(6,747,360)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on cash deposits and investments	41,991	14	42,005
Sales of investments	7,750,000	-	7,750,000
Purchases of investments	(5,231,073)	-	(5,231,073)
Net cash provided by investing activities	<u>2,560,918</u>	<u>14</u>	<u>2,560,932</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(545,520)	(65,463)	(610,983)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>853,984</u>	<u>422,617</u>	<u>1,276,601</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 308,464</u>	<u>\$ 357,154</u>	<u>\$ 665,618</u>

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

Operating income (loss)	\$ 5,054,913	\$ (110,693)	\$ 4,944,220
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	5,737,318	178,533	5,915,851
Amortization	(46,033)	-	(46,033)
Other miscellaneous non-operating revenue	160,094	-	160,094
Effects of changes in operating assets and liabilities:			
Accounts receivable, net	(2,481,923)	(15,020)	(2,496,943)
Inventory	(2,268,230)	-	(2,268,230)
Unrecovered fuel and gas costs	40,322	-	40,322
Accounts payable and accrued liabilities	(1,020,289)	27,123	(993,166)
Total adjustments	<u>121,259</u>	<u>190,636</u>	<u>311,895</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 5,176,172</u>	<u>\$ 79,943</u>	<u>\$ 5,256,115</u>

TOWN OF EASTON, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2011

	Benefits Trust Funds
ASSETS	
Cash and cash equivalents	\$ 33,263
Investments, at fair value	20,560,307
Total assets	\$ 20,593,570
 NET ASSETS	
Held in trust for pension benefits	\$ 20,593,570

TOWN OF EASTON, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2011

	Benefits Trust Funds
ADDITIONS	
Contributions:	
Employer	\$ 3,096,647
Employees	79,793
	3,176,440
Investment earnings:	
Investment income	695,728
Net increase in fair value of plan investments	1,061,723
	1,757,451
Less Investment expense	128,529
	1,628,922
Total additions	4,805,362
DEDUCTIONS	
Benefit payments	1,427,456
	1,427,456
NET CHANGE	3,377,906
NET ASSETS AT BEGINNING OF YEAR	17,215,664
	17,215,664
NET ASSETS AT END OF YEAR	\$ 20,593,570
	20,593,570

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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 fund.

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, 2011

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 three major governmental funds: the General Fund, Capital Projects Fund and Infrastructure Development 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, 2011

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, 2011

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	90 days	30 days
Delinquent interest/penalty rate (annual)	18%	18%

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unbilled Revenue

Customers of the Utility Fund's electric, gas and cable departments are billed in arrears on one of three monthly cycles. As a result of the cycled, in arrears billing, a portion of June's usage is not yet billed at year end. 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, 2011 is \$1,546,443.

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, 2011, the Commission had unrecovered fuel and gas costs of \$1,238,549.

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 and unit sales 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 \$4,054,483 at June 30, 2011.

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.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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.

Unearned Revenues

Customers of the Utility Fund's Cable and Internet Department are billed in advance leaving a portion of June 2011 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, 2011 is \$18,000.

Net Assets/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.

Governmental Fund Balances

On July 1, 2010, the Town adopted GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which significantly changed the reporting of fund balance in the Balance Sheets of governmental type funds.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Fund Balances (Continued)

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

- *Non-Spendable Fund Balance* - Amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.
- *Restricted Fund Balance* - amounts that can be spent only for specific purposes because of restrictions imposed externally by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by the Town Charter, Town Code or enabling legislation.
- *Committed Fund Balance* - Amounts that can be used only for specific purposes determined by a formal action by the Town Council, the Town's highest level of decision-making authority, ordinance or resolution and can only be changed by a formal action by the Town Council, ordinance or resolution.
- *Assigned Fund Balance* - Amounts that are constrained by the Town's intent that they will be used for specific purposes but are neither restricted nor committed. Pursuant to the Town Charter, the Town Manager and the Town Council are authorized to assign amounts for specific purposes.
- *Unassigned Fund Balance* - All amounts not included in other spendable classifications.

The Town considers restricted fund balances to be spent for governmental expenditures first when both restricted and unrestricted resources are available. The Town also considers committed fund balances to be spent first when other unrestricted fund balance classifications are available for use.

Stabilization Arrangement - The Town Council adopted a Resolution to establish the Stabilization Arrangement which must total a minimum of two months, and a maximum of four months of the following fiscal year adopted general fund expenditure budget. Requests for appropriations from the Stabilization Arrangement shall occur only after exhausting current year's budgetary flexibility and spending of the current year's appropriated contingencies. The funds can be spent if an event occurs that creates a significant financial difficulty for the Town and are in excess of the current year appropriated contingencies. A qualifying event is considered to be: a) Declaration of a State of Emergency by the Governor of Maryland; b) Unanticipated expenditures as a result of legislative changes from State/Federal governments in the current fiscal year; or c) Acts of nature, which are infrequent in occurrence and unusual in nature. The balance of this arrangement is classified as Committed, as defined above.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Fund Balances (Continued)

Stewardship, Compliance, and Accountability

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, 2011.

Prior Period Adjustments

The fund balance of the General Fund was restated at June 30, 2010 resulting from the implementation of GASB 54, as described above. The Budget Stabilization Fund and Special Taxing District Fund were closed and transferred to the General Fund effective June 30, 2010 as they no longer met the definition of a Special Revenue Fund. The effect of this net restatement was to increase the fund balance of the General Fund by \$1,583,031. There is no impact at the Governmental Activities reporting level.

Deferred Compensation and Defined Contribution Plans

457 Deferred Compensation Plan

All employees of the Town may participate in the deferred compensation plan organized under the Internal Revenue Code Section 457, and administered by the John Hancock. Under the terms of the plan, participating employees may have a portion of their salaries withheld, subject to limitations imposed by the Internal Revenue Service, and invested in the plan. All taxes are deferred on these contributions and related earnings until the participant terminates from the plan. The Town is in compliance with the Internal Revenue Code Section 457(g) requiring all assets and income of the plan to be held in trust for the exclusive benefit of participants and their beneficiaries.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Compensation and Defined Contribution Plans (Continued)

457 Deferred Compensation Plan (continued)

Management's involvement with the plan is limited to transferring amounts withheld from payroll to the 457 Plan administrator. Management has little administrative involvement and does not perform the investing function. Accordingly, the fair values of the 457 Plan assets are not reflected in the Town's basic financial statements.

Defined Contribution

The Town of Easton, MD Defined Contribution Retirement Plan is a defined contribution pension plan established to provide benefits to virtually all employees with the exception of sworn officers. At June 30, 2011, there was 206 active plan participant and 35 inactive participants. The Town is required to contribute 3% for age up to 29, 4% age 30-39, 5.5% for age 40-49, and 7% for employees age of 50 and over, of gross payroll % of active participant's per week, which averages \$65,947 per month. Plan provisions and contribution requirements are established and may be amended by the Town Council. The Town's contribution to the plan for the year ended June 30, 2011 was \$791,365. The plan administrator is John Hancock.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

At year-end, the carrying amount of the Town deposits (including cash on hand of \$1,275) was \$18,481,841 and the bank balance was \$19,240,219. 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, 2011.

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 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, 2011, the Town had \$16,120,037 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

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS**

June 30, 2011

requirements and to preclude the Town from having to sell investments below original cost for that purpose. The investments at June 30, 2011 met the Town's investment policy.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2011 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:

Guaranteed account	\$ 8,057,292
Variable earnings investments:	
CIGNA Open-End Real Estate (R)	607
LCB/Victory (9V)	5,043,936
MCB/Batterymarch	1,452,122
SCB/WHV (WHV)	1,764,950
Intl Blend/Artio	1,582,472
Amcentriesinv (5AR)	<u>847,501</u>
Total investments	<u>\$18,748,880</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.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

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 and one of its mutual funds which include investments in bonds.

	Valuation	Weighted Average Maturity
Guaranteed account	<u>\$ 8,057,292</u>	<u>N/A</u>

The guaranteed contract and the mutual funds are unrated.

OPEB Plan Investments

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

Delaware – Diversified	\$ 259,914
Vanguard - Short Term	256,788
FMI FDS - Large Cap	204,861
AMCAP - Class F2	204,836
Pioneer – Value	184,876
Pimco - Total Return	166,918
Thornburg - International Value	166,405
Eagle - Mid Cap	92,074
Royce Value	89,229
Dodge & Cox – International	72,137
T. Rowe Price - Emerging Markets	57,540
Keely - Small Cap Value	55,849
Government Obligations Fund	<u>33,263</u>
Total OPEB Investments	<u>\$1,844,690</u>

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 Plan are held on behalf of the Plan by Prudential Financial and are not exposed to custodial credit risk as defined by Governmental Accounting Standards Board Statement No. 40.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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	\$ 550,185	\$ -	\$ -	\$ -	\$ 550,185
Accounts	339,327	12,271	4,740,365	7,485	5,099,448
Due from other governments	778,653	582,752	819,678	-	2,181,083
Interest	-	-	1,572	-	1,572
Allowance for uncollectibles	<u>(317,635)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(317,635)</u>
Net receivables	<u>\$ 1,350,530</u>	<u>\$ 595,023</u>	<u>\$ 5,561,615</u>	<u>\$ 7,485</u>	<u>\$ 7,514,653</u>

The June 30, 2011 balance of due from other governments is as follows:

Federal Government	\$ 17,960
State of Maryland:	
Income taxes	523,245
Grant purposes	1,402,430
Various purposes	157,107
Talbot County	<u>80,341</u>
Total due from other governments	<u>\$ 2,181,083</u>

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, 2011 is summarized as follows:

	Unavailable	Unearned	Total
Income taxes	\$ 302,023	\$ -	\$ 302,023
Miscellaneous	<u>-</u>	<u>11,486</u>	<u>11,486</u>
Total	<u>\$ 302,023</u>	<u>\$ 11,486</u>	<u>\$ 313,509</u>

Notes receivable are recorded in the Community Development Block Grant Fund and consist mainly of below market interest rate loans through the Community Legacy Program agreements for the Easton Façade Improvement Program in the remaining principal amount of \$69,490 with a forgivable amount of \$35,000 and a deferred payment of \$31,250 due by December 31, 2012 at zero percent interest. Any amount designated as forgivable shall be forgiven if, at loan maturity the Town determines that the project has been completed in accordance with the terms, conditions and requirements set forth by the respective agreements. If the Town determines the conditions are not met then the full amounts shall be due and payable at maturity.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 4 – INTER-FUND TRANSFERS

Inter-fund transfer activity for the year ended June 30, 2011 was as follows:

<u>Transfers Out (Net):</u>	<u>Transfers In:</u>				
	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Land Enterprise</u>	<u>East End Redevelopment</u>	<u>Total</u>
General	\$ 1,211,799	\$ 1,627,205	\$ 45,000	\$ 515,000	\$ 3,399,004
Infrastructure Development	-	1,139,937	-	-	1,139,937
Total	<u>\$ 1,211,799</u>	<u>\$ 2,767,142</u>	<u>\$ 45,000</u>	<u>\$ 515,000</u>	<u>\$ 4,538,941</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 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.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 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	\$ 6,965,666	\$ 13,164	\$ -	\$ 6,978,830
Construction in progress	-	409,928	-	409,928
Total capital assets, not being depreciated	<u>6,965,666</u>	<u>423,092</u>	<u>-</u>	<u>7,388,758</u>
Capital assets, being depreciated:				
Buildings and improvements	30,433,570	722,988	-	31,156,558
Equipment	8,573,972	727,901	(49,786)	9,252,087
Total capital assets, being depreciated	<u>39,007,542</u>	<u>1,450,889</u>	<u>(49,786)</u>	<u>40,408,645</u>
Less accumulated depreciation:				
Buildings and improvements	9,728,384	869,972	-	10,598,356
Equipment	5,314,717	629,705	(49,786)	5,894,636
Total accumulated depreciation	<u>15,043,101</u>	<u>1,499,677</u>	<u>(49,786)</u>	<u>16,492,992</u>
Net capital assets, being depreciated:	<u>23,964,441</u>	<u>(48,788)</u>	<u>-</u>	<u>23,915,653</u>
Governmental activities capital assets, net	<u>\$ 30,930,107</u>	<u>\$ 374,304</u>	<u>\$ -</u>	<u>\$ 31,304,411</u>

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 5 – CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 1,280,964	\$ -	\$ -	\$ 1,280,964
Construction in progress	<u>1,007,339</u>	<u>7,754,778</u>	<u>4,275,051</u>	<u>4,487,066</u>
Total capital assets, not being depreciated	<u>2,288,303</u>	<u>7,754,778</u>	<u>4,275,051</u>	<u>5,768,030</u>
Capital assets, being depreciated:				
Buildings and improvements	30,356,476	16,257	(453)	30,372,280
Equipment and other	127,632,194	4,275,051	(200,924)	131,706,321
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>156,268,885</u>	<u>4,291,308</u>	<u>(201,377)</u>	<u>160,358,816</u>
Less accumulated depreciation:				
Buildings and improvements	10,340,213	1,016,596	-	11,356,809
Equipment and other	<u>67,326,021</u>	<u>5,016,959</u>	<u>136,405</u>	<u>72,206,575</u>
Total accumulated depreciation	<u>77,666,234</u>	<u>6,033,555</u>	<u>136,405</u>	<u>83,563,384</u>
Net capital assets, being depreciated:	<u>78,602,651</u>	<u>(1,742,247)</u>	<u>(64,972)</u>	<u>76,795,432</u>
Business-type activities capital assets, net	<u>\$ 80,890,954</u>	<u>\$ 6,012,531</u>	<u>\$ (4,340,023)</u>	<u>\$ 82,563,462</u>

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

Governmental activities

General government	\$ 26,655
Public safety	500,674
Public works	714,082
Recreation and cultural	132,107
Non-departmental	<u>126,159</u>

Total governmental activities \$ 1,499,677

Business-type activities

Utility	\$ 5,855,022
Other	<u>178,533</u>

Total business-type activities \$ 6,033,555

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. As of June 30, 2011 the lease is on a month-to-month basis.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 6 – OPERATING LEASES (CONTINUED)

District Court

The Town (lessor) entered into a ten-year operating lease agreement with the State of Maryland (lessee) for the District Court building effective September 1, 1997 with an option for one five year extension. The State of Maryland extended the lease automatically for an additional five year period ending August 31, 2012. Annual rent is \$138,324.

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, 2011.

The following is a summary of property held under capital leases:

Office equipment	\$ 71,696
Less: accumulated depreciation	<u>29,028</u>
Total	<u>\$ 42,668</u>

The future minimum lease payments are as follows:

Years Ending June 30	
2012	\$ 3,896
2013	4,220
2014	<u>3,517</u>
	11,633
Less: amount representing interest	<u>(320)</u>
Present value of net minimum lease payments	<u>\$ 11,313</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:

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

Bonds (Continued)

<u>Bond Issue</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Balance at June 30, 2011</u>
Public Facilities Bonds 1999	2019	3.75 – 5.25%	\$ 3,215,000
Public Facilities Bonds 2003	2023	2.00 – 5.00%	2,785,000
Public Facilities Bonds 2008	2028	2.00 – 5.00%	<u>8,755,000</u>
Total general obligation bonds			<u>\$ 14,755,000</u>

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

<u>Years Ending June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
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	585,000	317,321	700,000	95,426
2017 – 2021	2,570,000	1,251,664	1,640,000	133,062
2022 – 2026	2,420,000	675,038	-	-
2027 – 2028	<u>1,380,000</u>	<u>112,655</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 9,745,000</u>	<u>\$ 3,887,508</u>	<u>\$ 5,010,000</u>	<u>\$ 859,146</u>

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, 2011, there remains \$2,745,000 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, 2011, there remains \$1,045,000 of outstanding defeased debt.

Deferred loss on reacquired debt (net of amortization), of \$141,943 is included in unamortized expenses on the Governmental Funds Balance Sheet at June 30, 2011.

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.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

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>
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	4,046	13,470	17,516
2017-2021	23,199	64,389	87,580
2022-2026	29,040	58,540	87,580
2027-2031	36,352	51,228	87,580
2032-2036	45,506	42,074	87,580
2037-2041	56,964	30,616	87,580
2042-2046	71,307	16,273	87,580
2047-2048	33,221	1,650	34,871
Total	<u>\$ 314,221</u>	<u>\$ 333,818</u>	<u>\$ 648,039</u>

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>
2012	195,200	7,285	202,485
2013	48,800	520	49,320
Total	<u>\$ 244,000</u>	<u>\$ 7,805</u>	<u>\$ 251,805</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 Façade Improvement Program is for \$69,490 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 \$48,125 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.

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, 2011, Asbury Place met those conditions and interest was forgiven.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

Business-type Funds (continued)

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).

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 was \$20,523,191. As of June 30, 2011, the balance is \$17,732,037. The note bears an interest rate of .40% and has a scheduled maturity of February 2027.

The following are the principal and interest maturities of the outstanding loan as of June 30, 2011:

<u>For the Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	964,590	57,137	1,021,727
2017-2021	5,438,646	224,524	5,663,170
2022-2026	6,464,805	107,542	6,572,347
2027	<u>1,416,100</u>	<u>5,664</u>	<u>1,669,207</u>
Total	<u>\$ 17,732,037</u>	<u>\$ 658,711</u>	<u>\$ 18,390,748</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	\$ 10,475,000	\$ -	\$ 730,000	\$ 9,745,000	\$ 735,000
Note payable – bank loan	390,400	-	146,400	244,000	195,200
Note payable – DHCD	164,375	-	46,760	117,615	107,615
Note payable – USDA	317,454	-	3,233	314,221	3,381
Capital lease obligation	18,235	-	6,922	11,313	3,896
Deferred loss bond refunding	(169,108)	-	(27,165)	(141,943)	(27,165)
Net OPEB Obligation	103,940	19,608	-	123,548	-
Compensated absences – Current	138,952	61,114	68,885	131,181	131,181
Compensated absences	<u>555,810</u>	<u>244,454</u>	<u>275,538</u>	<u>524,726</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 11,995,058</u>	<u>\$ 325,176</u>	<u>\$ 1,250,573</u>	<u>\$ 11,069,661</u>	<u>\$ 1,149,108</u>

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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	\$ 5,715,000	\$ -	\$ 705,000	\$ 5,010,000	\$ 730,000
Note payable – DHCD	1,672,124	-	-	1,672,124	-
Loan – State of Maryland	16,806,811	1,684,584	759,358	17,732,037	800,404
Net OPEB obligation	107,100	-	5,066	102,034	-
Unamortized premium on long-term liabilities	<u>27,088</u>	<u>-</u>	<u>2,083</u>	<u>25,005</u>	<u>-</u>
Business-type activities long-term liabilities	<u>\$ 24,328,123</u>	<u>\$ 1,684,584</u>	<u>\$ 1,471,507</u>	<u>\$ 24,541,200</u>	<u>\$ 1,530,404</u>

NOTE 8 – LINE-OF-CREDIT

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 (.1872% at June 30, 2011). 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, 2011.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 9 – FUND BALANCE

A summary of fund balances at June 30, 2011 is as follows:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Infrastructure Development Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Nonspendable:</u>					
Prepaid expenses	\$ 267,702	\$ -	\$ -	\$ -	\$ 267,702
Loans to citizens	-	-	-	69,490	69,490
Total nonspendable fund balance	<u>267,702</u>	<u>-</u>	<u>-</u>	<u>69,490</u>	<u>337,192</u>
<u>Restricted:</u>					
Impact fees	-	-	4,415,271	-	4,415,271
Debt service	-	-	-	1,808,471	1,808,471
CDBG grant	-	-	-	193,347	193,347
Total restricted fund balance	<u>-</u>	<u>-</u>	<u>4,415,271</u>	<u>2,001,818</u>	<u>6,417,089</u>
<u>Committed:</u>					
Budget stabilization	<u>2,587,658</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,587,658</u>
<u>Assigned:</u>					
Capital projects	<u>-</u>	<u>3,032,858</u>	<u>-</u>	<u>-</u>	<u>3,032,858</u>
<u>Unassigned:</u>					
General Fund	6,801,629	-	-	-	6,801,629
Law Enforcement Fund	-	-	-	(124,965)	(124,965)
Total unassigned fund balance	<u>6,801,629</u>	<u>-</u>	<u>-</u>	<u>(124,965)</u>	<u>6,676,664</u>
Total fund balance	<u><u>\$ 9,656,989</u></u>	<u><u>\$ 3,032,858</u></u>	<u><u>\$ 4,415,271</u></u>	<u><u>\$ 1,946,343</u></u>	<u><u>\$ 19,051,461</u></u>

NOTE 10 – 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, 2010 (the date of the last actuarial valuation), the pension plan's membership consisted of:

Active employees	240
Retirees and beneficiaries currently receiving benefits	82
Terminated employees entitled to benefits but not yet receiving them	<u>98</u>
Total	<u><u>420</u></u>

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 10 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Funding Policy

The Plan covers all full-time employees who began service prior to the age of 55 and prior to the plan being frozen (see below) 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, 2011 were \$79,973. 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, 2011 was \$1,011,227 and \$2,067,017, respectively.

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, 2010, 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, 2011 was determined as part of the July 31, 2010 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, 2010 was a weighted average of 15 years.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 10 – 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	\$ 1,011,227
Interest on net pension obligation and other adjustment	<u>-</u>
Annual pension cost	1,011,227
Less: contributions made	<u>(1,011,227)</u>
Change 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, 2011	\$ 1,011,227	100.0%	\$ (230)
July 31, 2010	1,015,045	100.0	(230)
July 31, 2009	930,774	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, 2010	\$21,054,661	\$25,059,492	\$4,004,831	84.0%	\$13,337,806	30.03%

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, 2010 are as follows:

Statement of Plan Net Assets

Assets

Investments, at fair value other adjustment	<u>\$18,748,880</u>
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Net Assets

Net assets held in trust for pension benefits	<u>\$18,748,880</u>
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TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 10 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Statement of Plan Net Assets (continued)

Additions

Contributions:	
Employer	\$ 2,067,017
Employee	<u>79,793</u>
Total contributions	<u>2,146,810</u>
Investment earnings:	
Investment income	530,675
Net increase in fair value of plan investments	953,283
Less investment expenses	<u>(113,413)</u>
Net investment income	<u>1,370,545</u>
Total additions	<u>3,517,355</u>

Deductions

Benefit payments	<u>922,456</u>
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Net change	2,594,899
Net assets at beginning of year	<u>16,153,981</u>
Net assets at end of year	<u>\$18,748,880</u>

NOTE 11 – 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 pay 90% of the premium at retirement. The Town will continue to pay for 100% for new and existing retirees who were within five years of normal retirement age as of 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, 2011, 2010 and 2009 were \$1,029,630, \$1,008,000 and \$1,045,305. The Town's actual contributions for the years ended June 30, 2011, 2010 and 2009 were \$1,029,630, \$1,003,132 and \$838,000, respectively.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (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>(1,029,630)</u>
Net Change	14,542
Net OPEB obligation - beginning of year	<u>211,040</u>
Net OPEB obligation - end of year	<u><u>\$ 225,582</u></u>

The net OPEB obligation is included in governmental activities long-term liabilities totaling \$123,548 and business-type activities long-term liabilities totaling \$102,034 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, 2011 and 2010 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, 2011	\$ 1,044,172	96.10%	\$ 225,582
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, 2011

NOTE 11 – 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.

In the June 30, 2009 actuarial valuation, 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, 2011 are as follows:

Statement of Plan Net Assets

Assets

Cash and cash equivalents	\$ 33,263
Investments, at fair value other adjustment	<u>1,811,427</u>
Total assets	<u>\$ 1,844,690</u>

Net Assets

Net assets held in trust for pension benefits	<u>\$ 1,844,690</u>
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TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Statement of Plan Net Assets (continued)

Additions

Contributions:	
Employer	<u>\$ 1,029,630</u>
Investment earnings:	
Investment income	165,053
Net increase in fair value of plan investments	108,440
Less investment expenses	<u>(15,116)</u>
Net investment income	<u>258,377</u>
Total additions	<u>1,288,007</u>

Deductions

Benefit payments	<u>505,000</u>
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Net change	783,007
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Net assets at beginning of year	<u>1,061,683</u>
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Net assets at end of year	<u>\$ 1,844,690</u>
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NOTE 12 – 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	\$ 448,184
Engineering services	<u>5,233</u>
Total services provided by the Utility Fund	<u>\$ 453,417</u>

The outstanding balance of the above services remaining at June 30, 2011 was \$52,619. The General Fund charged the Utility Fund \$26,747 for street repairs and \$1,535,250 for payments in lieu of taxes during the year ended June 30, 2011.

NOTE 13 – 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, 2011

NOTE 13 – OTHER INFORMATION (CONTINUED)

Contingent Liabilities and Commitments (continued)

Major Construction Projects

Construction is nearly complete on the Tanyard Branch Watershed Improvements Project. The project includes the excavation of a stormwater management facility, wetland plantings, installation of a timber bulkhead, rerouting the existing sewer system, post and rail fence and other improvements. Costs for this project will be reflected in the Capital Equipment Fund. Total Estimated costs for this project are around \$780,000 and are funded in part through a Grant through the Maryland Department of the Environment through the 2010 Atlantic and Chesapeake Bay Trust Fund.

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 (PSC) on a regular basis. As of the date of this report, the purchased power and gas cost adjustment rates in effect through November 2010 have been reviewed and accepted by the PSC. The purchased gas adjustment rates applied subsequent to November 2010 have been authorized by the PSC subject to detailed review.

REQUIRED SUPPLEMENTARY INFORMATION

**TOWN OF EASTON, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS – DEFINED BENEFIT PLAN
June 30, 2011**

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, 2010	\$ 21,054,661	\$ 25,059,492	\$ 4,004,831	84.02%	\$ 13,337,806	30.03%
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%

**TOWN OF EASTON, MARYLAND
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS
 June 30, 2011**

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	4.04%	\$ 12,300,340	96.96%
June 30, 2007	-	10,468,000	10,468,000	0.00%	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, 2011**

	Debt Service	Community Development Block Grant	Law Enforcement	Total
ASSETS				
Cash and cash equivalents	\$ 1,666,876	\$ 193,347	\$ (136,948)	\$ 1,723,275
Accounts receivable, net	-	-	12,271	12,271
Notes receivable	-	69,490	-	69,490
Unamortized expense	141,943	-	-	141,943
TOTAL ASSETS	\$ 1,808,819	\$ 262,837	\$ (124,677)	\$ 1,946,979
LIABILITIES				
Accounts payable	\$ 348	\$ -	\$ 288	\$ 636
Total liabilities	348	-	288	636
FUND BALANCES (DEFICITS)				
Nonspendable	-	69,490	-	69,490
Restricted	1,808,471	193,347	-	2,001,818
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	(124,965)	(124,965)
Total fund balances (deficits)	1,808,471	262,837	(124,965)	1,946,343
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,808,819	\$ 262,837	\$ (124,677)	\$ 1,946,979

TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES (DEFICIT)
NON-MAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2011

	<u>Debt Service</u>	<u>Community Development Block Grant</u>	<u>Law Enforcement</u>	<u>Total</u>
REVENUES				
Rents	\$ -	\$ -	\$ -	\$ -
Miscellaneous revenue	111,300	-	40,321	151,621
Revenues from other agencies	-	6,429	19,396	25,825
Total revenues	111,300	6,429	59,717	177,446
EXPENDITURES				
Current operations:				
General governmental	-	-	-	-
Public safety	-	-	72,950	72,950
Public works	-	-	-	-
Recreation and cultural	-	-	-	-
Miscellaneous	30,327	98,125	-	128,452
Debt service:				
Principal	730,000	46,760	-	776,760
Interest	455,449	-	-	455,449
Total expenditures	1,215,776	144,885	72,950	1,433,611
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,104,476)	(138,456)	(13,233)	(1,256,165)
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	-	-	-
Operating transfers net	1,211,799	-	-	1,211,799
Total other financing sources	1,211,799	-	-	1,211,799
NET CHANGE IN FUND BALANCES	107,323	(138,456)	(13,233)	(44,366)
FUND BALANCES (DEFICITS), BEGINNING OF YEAR	1,701,148	401,293	(111,732)	1,990,709
FUND BALANCES (DEFICITS), END OF YEAR	\$ 1,808,471	\$ 262,837	\$ (124,965)	\$ 1,946,343

TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR OTHER PROPRIETARY FUNDS
June 30, 2011

	<u>Land Enterprise</u>	<u>Airport Industrial Land</u>	<u>East End Redevelopment</u>	<u>Total</u>
ASSETS				
Current assets				
Cash and cash equivalents - Pooled	\$ 422,474	\$ 125,100	\$ (190,420)	\$ 357,154
Accounts receivable, net	7,485	-	-	7,485
Total current assets	<u>429,959</u>	<u>125,100</u>	<u>(190,420)</u>	<u>364,639</u>
Noncurrent assets				
Capital assets, not being depreciated	15,028	67,945	171,311	254,284
Capital assets, net of accumulated depreciation	1,146,100	621,135	781,631	2,548,866
Total noncurrent assets	<u>1,161,128</u>	<u>689,080</u>	<u>952,942</u>	<u>2,803,150</u>
TOTAL ASSETS	<u>\$ 1,591,087</u>	<u>\$ 814,180</u>	<u>\$ 762,522</u>	<u>\$ 3,167,789</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 25,609	\$ -	\$ -	\$ 25,609
Performance deposits	1,500	-	8,645	10,145
Due to Asbury Place	-	-	154,498	154,498
Total current liabilities	<u>27,109</u>	<u>-</u>	<u>163,143</u>	<u>190,252</u>
Noncurrent liabilities				
Long-term debt	-	-	1,672,124	1,672,124
Total liabilities	<u>27,109</u>	<u>-</u>	<u>1,835,267</u>	<u>1,862,376</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,161,128	689,080	(719,182)	1,131,026
Unrestricted	402,850	125,100	(353,563)	174,387
Total net assets	<u>1,563,978</u>	<u>814,180</u>	<u>(1,072,745)</u>	<u>1,305,413</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,591,087</u>	<u>\$ 814,180</u>	<u>\$ 762,522</u>	<u>\$ 3,167,789</u>

TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET
ASSETS
NON-MAJOR OTHER PROPRIETARY FUNDS
Year Ended June 30, 2011

	Land	Airport	East End	
	Enterprise	Industrial Land	Redevelopment	Total
Operating revenues	\$ 224,399	\$ 3,080	\$ -	\$ 227,479
Operating expenses	247,340	35,001	55,831	338,172
Operating loss	(22,941)	(31,921)	(55,831)	(110,693)
Non-operating revenues	-	-	14	14
Loss before transfers	(22,941)	(31,921)	(55,817)	(110,679)
Transfers in	45,000	-	515,000	560,000
CHANGES IN NET ASSETS	22,059	(31,921)	459,183	449,321
NET ASSETS, BEGINNING OF YEAR	1,541,919	846,101	(1,531,928)	856,092
NET ASSETS, END OF YEAR	<u>\$ 1,563,978</u>	<u>\$ 814,180</u>	<u>\$ (1,072,745)</u>	<u>\$ 1,305,413</u>

TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR OTHER PROPRIETARY FUNDS
Year Ended June 30, 2011

	Land <u>Enterprise</u>	Airport <u>Industrial Land</u>	East End <u>Redevelopment</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 222,246	\$ 3,080	\$ 12,881	\$ 238,207
Cash paid for services	(145,369)	-	(12,895)	(158,264)
Net cash provided by operating activities	<u>76,877</u>	<u>3,080</u>	<u>(14)</u>	<u>79,943</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Transfers from (to) other funds	<u>45,000</u>	<u>-</u>	<u>(190,420)</u>	<u>(145,420)</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>14</u>	<u>14</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	121,877	3,080	(190,420)	(65,463)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>300,597</u>	<u>122,020</u>	<u>-</u>	<u>422,617</u>
CASH AND CASH EQUIVALENTS , END OF YEAR	<u>\$ 422,474</u>	<u>\$ 125,100</u>	<u>\$ (190,420)</u>	<u>\$ 357,154</u>
RECONCILIATION OF OPERATING LOSS TO CASH PROVIDED BY OPERATING ACTIVITIES				
Operating loss	\$ (22,941)	\$ (31,921)	\$ (55,831)	\$ (110,693)
Adjustments to reconcile operating loss to net cash provided by operating activities:				
Depreciation and amortization	87,729	35,001	55,803	178,533
Changes in operating assets and liabilities:				
Accounts receivable, net	(2,153)	-	(12,867)	(15,020)
Accounts payable and accrued expenses	14,242	-	12,881	27,123
Total adjustments	<u>99,818</u>	<u>35,001</u>	<u>55,817</u>	<u>190,636</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 76,877</u>	<u>\$ 3,080</u>	<u>\$ (14)</u>	<u>\$ 79,943</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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 460,468	\$ 460,468
EXPENDITURES				
General governmental	149,400	149,400	21,423	127,977
Public safety	1,240,791	1,309,557	333,541	976,016
Public works	1,068,115	1,109,148	1,387,953	(278,805)
Recreation and cultural	-	250,000	137,874	112,126
Total expenditures	<u>2,458,306</u>	<u>2,818,105</u>	<u>1,880,791</u>	<u>937,314</u>
OTHER FINANCING SOURCES				
Bond proceeds	-	-	-	-
Operating transfers in	<u>2,458,306</u>	<u>2,818,105</u>	<u>2,767,142</u>	<u>(50,963)</u>
Total other financing sources	<u>2,458,306</u>	<u>2,818,105</u>	<u>2,767,142</u>	<u>(50,963)</u>
NET CHANGE IN FUND BALANCE	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,346,819</u></u>	<u><u>\$ 1,346,819</u></u>
FUND BALANCE, BEGINNING OF YEAR			<u>1,686,039</u>	
FUND BALANCE, END OF YEAR			<u><u>\$ 3,032,858</u></u>	