

TOWN OF EASTON, MARYLAND
Easton, Maryland

FINANCIAL STATEMENTS
June 30, 2012

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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, 2012, 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, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 15 be presented to supplement the basic financial statements, such information although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. 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 nonmajor fund financial statements and other supplementary information as listed in the table of contents 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 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

CliftonLarsonAllen LLP

Baltimore, Maryland
November 30, 2012

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

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, 2012. 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 significant upgrades at both the Town office and the Fire Department this year with replacement of the HVAC systems, asbestos removal, roof repairs and other items. These changes will make both facilities significantly more energy efficient.
- The Town also completed installation of generator backup systems at both the Town Office and the Public Works facility which will allow operations to continue under virtually any circumstances.
- The Town continues to streamline the trash collections services with the automated tipper cans that allow for more efficient trash collection for the residents.
- To provide easier access to the RTC Park, the Town installed a parking lot, conveniently located near the former Mt. Pleasant Elementary School, to provide convenient parking for use during park hours. The walking trails and playing fields at this location have been completed to provide expanded facilities for the public. In the upcoming fiscal year we will add a new comfort station to this facility.
- Total assets of the Town at year-end were \$170.6 million and exceeded its liabilities at June 30, 2012 by \$131.8 million (i.e. total net assets).
- As of June 30, 2012, the Town's governmental funds reported an ending fund balance of \$17.8 million which is a decrease of \$1.3 million from June 30, 2011. 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.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-wide Financial Statements (Continued)

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

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. Because it separates program revenue (revenue generated by specific programs through charges for services, grants and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program), it shows to what extent each program has to rely on taxes for funding. All changes in net assets are reported using the accrual basis of accounting, similar to the method used by most private-sector companies. The accrual basis of accounting requires that revenues be reported when they are earned and expenses are reported when the goods and services are received, regardless of the timing of the cash flow. Items such as uncollected taxes, unpaid vendor invoices for items received as of June 30, 2012, 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, 2012.

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

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

financial statements can be found immediately following the government-wide financial statements.

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

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

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

government-wide financial statements because the resources of these funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's net assets total \$131.8 million at June 30, 2012 which is an increase of approximately \$7.1 million over the June 30, 2011 net assets. The following table reflects the Government-Wide Statement of Net Assets for Governmental and Business-Type Activities:

	Governmental Activities		Business-Type Activities	
	2012	2011	2012	2011
Current and other assets	\$ 18,586,819	\$ 20,041,702	\$ 33,440,990	\$ 31,399,341
Capital assets and other assets	34,069,687	31,373,901	84,467,397	82,789,699
Total assets	<u>52,656,506</u>	<u>51,415,603</u>	<u>117,908,387</u>	<u>114,189,040</u>
Current liabilities	1,579,837	1,917,578	6,259,737	6,030,665
Long-term debt	9,264,358	9,920,553	21,620,630	23,010,796
Total liabilities	<u>10,844,195</u>	<u>11,838,131</u>	<u>27,880,367</u>	<u>29,041,461</u>
Invested in capital assets, net of related debt	24,620,301	21,014,205	61,499,469	57,995,114
Restricted	6,620,780	6,417,089	-	-
Unrestricted	<u>10,571,230</u>	<u>39,577,472</u>	<u>28,258,551</u>	<u>27,152,465</u>
Total net assets	<u>\$ 41,812,311</u>	<u>\$ 131,840,331</u>	<u>\$ 124,725,051</u>	<u>\$ 85,147,579</u>

The Town's total assets were approximately \$170.6 million (compared to \$165.6 million in the prior year) as of June 30, 2012. Of this amount, \$118.3 million (compared to \$113.9 million in the prior year) is accounted for by capital assets, which includes infrastructure.

Of the remaining assets, approximately \$31.6 million is accounted for in cash and cash equivalents (compared to \$34.6 million in the prior year), approximately \$7.4 million in accounts and notes receivable (compared to \$7.6 million in the prior year), inventory or approximately \$5.8 million (compared to \$4.0 million in the prior year), with the remainder spread among various other accounts.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Statement of Net Assets (Continued)

Outstanding liabilities totaled approximately \$38.7 million with bonds comprising approximately \$13.3 million, loans from the State or Maryland comprising approximately \$16.9 million, and approximately \$5.5 in accounts payable and accrued expenses at June 30, 2012. This compares with the June 30, 2011 amounts where the Town had outstanding liabilities of approximately \$40.9 million of which approximately \$14.8 million was bonds payable, approximately \$17.7 million was loans from the State of Maryland, and approximately \$5.2 million was in accounts payable and accrued expenses. Of the bonds payable, approximately \$1.4 million is due within one year, with the remainder due at various dates before 2028. Refer to the notes to the financial statements for a more in-depth discussion of long-term debt.

The largest portion of the Town's net assets reflects its investment in 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.

At June 30, 2012, 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 schedules compare the revenues and expenses for the current and preceding fiscal years.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Statement of Activities - Changes in Net Assets (Continued)

**Changes in Net Assets
Fiscal Year Ended June 30, 2012**

	Governmental Activities	Business- Type Activities	Total
Program Revenues			
Charges for service	\$ 1,832,883	\$ 48,682,753	\$ 50,515,636
Operating grants and contributions	944,534	-	944,534
General Revenues			
Property taxes	12,181,527	-	12,181,527
Other local taxes	3,045,273	-	3,045,273
Other	<u>13,415</u>	<u>1,261,480</u>	<u>1,274,895</u>
Total revenues	<u>18,017,632</u>	<u>49,944,233</u>	<u>67,961,865</u>
Expenses			
General government	1,786,590	-	1,786,590
Public safety	7,763,752	-	7,763,752
Public works	4,120,703	-	4,120,703
Recreation and cultural	502,579	-	502,579
Economic development	359,520	-	359,520
Nondepartmental	771,468	-	771,468
Interest expense	448,181	-	448,181
Utilities services	-	44,785,250	44,785,250
Other services	<u>-</u>	<u>308,542</u>	<u>308,542</u>
Total expenses	<u>15,752,793</u>	<u>45,093,792</u>	<u>60,846,585</u>
Excess of revenues over expenses	2,264,839	4,850,441	7,115,280
Transfers in (out)	<u>(30,000)</u>	<u>30,000</u>	<u>-</u>
Increase in net assets	2,234,839	4,880,441	7,115,280
Net assets, beginning of year	<u>39,577,472</u>	<u>85,147,579</u>	<u>124,725,051</u>
Net assets, end of year	<u>\$ 41,812,311</u>	<u>\$ 90,028,020</u>	<u>\$131,840,331</u>

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Statement of Activities - Changes in Net Assets (Continued)

**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	17,642,803	49,858,118	67,500,921
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	15,341,034	46,523,099	61,864,133
Excess of revenues over expenses	2,301,769	3,335,019	5,636,788
Transfers in (out)	(560,000)	560,000	-
Increase in net assets	1,741,769	3,895,019	5,636,788
Net assets, beginning of year	37,835,703	81,252,560	119,088,263
Net assets, end of year	<u>\$ 39,577,472</u>	<u>\$ 85,147,579</u>	<u>\$124,725,051</u>

Total revenues for the Town of Easton were approximately \$67.9 million for the year ended June 30, 2012 compared to approximately \$67.5 million for the year ending June 30, 2011. Governmental activities provided approximately \$18.0 million, and business-type activities provided \$49.9 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, 2012**

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, 2012, unassigned fund balance of the General Fund was \$6,588,402.

Revenues Classified by Source

	<u>2012</u>	<u>Percent to Total</u>	<u>2011</u>	<u>Percent to Total</u>
GOVERNMENTAL FUNDS				
Revenues				
General property taxes	\$ 12,181,527	67.61%	\$ 11,944,226	67.85%
Other local taxes	1,366,348	7.58%	1,082,874	6.15%
Permits and licenses	431,735	2.40%	428,261	2.43%
Fines and forfeitures	55,587	0.30%	46,660	0.27%
Changes for services	941,835	5.23%	984,923	5.60%
Miscellaneous	2,016,224	11.19%	2,004,420	11.39%
Intergovernmental	<u>1,024,769</u>	<u>5.69%</u>	<u>1,110,599</u>	<u>6.31%</u>
Total revenues	<u>\$ 18,018,025</u>	<u>100.00%</u>	<u>\$ 17,601,963</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 \$12.2 million, an increase of 2% or approximately \$237 thousand from last year reflecting an increase in tax base properties. The real estate tax rate was maintained at the FY2011 rate of \$.52 per \$100 of assessed value. Gross personal property tax revenue decreased 9% to approximately \$900 thousand as a result of decreasing assessments. The personal property tax rate remained unchanged from FY2011 at a rate of \$1.30 per \$100 of assessed value of personal property located within the Town limits.
- **Other Local Taxes** – This category is primarily comprised of local income tax share and smaller tax revenues. This revenue increased \$283 thousand or 26% during FY2012. Primarily the increases are a result of a State of Maryland shared income taxes increasing \$147 thousand over prior year and Highway User Revenues increasing \$136 thousand over prior year revenues.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)

Governmental Funds Revenue and Expense Analysis (Continued)

The following table represents expenditures by function.

	<u>2012</u>	<u>Percent to Total</u>	<u>2011</u>	<u>Percent to Total</u>
GOVERNMENTAL FUNDS				
Expenditures				
Current operations:				
General government				
administration	\$ 2,003,703	10.40%	\$ 1,852,721	11.12%
Public safety	8,866,685	45.99%	7,277,361	43.69%
Public works	5,091,950	26.42%	4,628,495	27.78%
Recreation and cultural	921,742	4.78%	467,151	2.80%
Economic development	236,904	1.23%	286,466	1.72%
Nondepartmental	771,468	4.00%	729,306	4.38%
Debt service:				
Principal	937,476	4.86%	933,315	5.60%
Interest	448,181	2.32%	485,314	2.91%
Total expenditures	<u>\$ 19,278,109</u>	<u>100.00%</u>	<u>\$ 16,660,129</u>	<u>100.00%</u>

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 increase was in Public Safety and was due to increased costs of salaries and benefits, and repairs made to the Fire Department Heating and Air Conditioning system and necessary roofing and electrical updates that were required to accommodate the new system.
- **Public Works** – The increase in Public Works was due in a large part to capital expenditures made in FY2012. The purchase of tipper cans to accommodate automated trash collection to improve the Waste Collections was a major purchase in FY2012.
- **Recreational and Cultural** – The increase is primarily attributed to the capital improvements made to the RTC Park. The Town installed a new parking lot and created multi-purpose playing fields at this park.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)

Enterprise Funds Revenue and Expense Analysis

	2012	2011
PROPRIETARY FUNDS		
Operating Revenues		
Charges for services	\$ 44,907,589	\$ 48,502,609
Other operating revenues	<u>3,775,164</u>	<u>1,203,429</u>
Total revenues	<u>\$ 48,682,753</u>	<u>\$ 49,706,038</u>
Operating Expenses		
Cost of service	\$ 37,685,337	\$ 38,845,967
Depreciation	<u>6,295,642</u>	<u>5,915,851</u>
Total operating expenses	<u>\$ 43,980,979</u>	<u>\$ 44,761,818</u>
Other Revenues and Expenses		
Investment earnings	\$ 17,248	\$ 29,477
Interest expense	(352,383)	(484,807)
Gain on sale of property	25,242	11,012
Payment in lieu of taxes	(1,570,779)	(1,554,618)
Capital charges	1,869,184	211,034
Miscellaneous	<u>160,155</u>	<u>178,704</u>
Total other revenues	<u>\$ 148,657</u>	<u>\$ (1,609,198)</u>

Operating Revenues: Revenues in FY12 decreased \$1.0 million, or 2.0%, from FY11. This was largely due to \$975 thousand, or 14.8% lower revenues in the Gas Department as a result of lower gas costs being passed through to customers. The Electric Department's revenues decreased \$806 thousand primarily as a result of lower sales and lower purchased power costs passed through to customers, partially offset by higher generation sales. The Water & Wastewater Department's revenues decreased \$58 thousand, or 1.3%, reflecting a decrease in usage per customer. Cable & Communication's revenues increased \$871 thousand, or 9.6%, over FY11, primarily as a result of an increase in cable rates, continued growth of cable modem, VOIP and IT consulting services, which was partially offset by a decrease in Metropolitan Area Network Services.

Operating Expenses: The Commission's operating expenses decreased \$751 thousand, or 1.6%, versus FY11. The primary driver of the change was \$2.7 million, or 14.6%, lower purchased power expenses in the Electric Department, which was partially offset by \$1.9 million, or 150.2%, higher generation operations expense. The Gas Department's operating expenses were \$914 thousand, or 14.8%, lower during FY12 primarily due to a decrease in the cost of gas purchased. The Water & Wastewater Department's operating expenses were \$275 thousand, or 6.2%, higher than the prior year due to higher wastewater treatment facility operating costs and less overhead expenses transferred to construction. Cable & Communications experienced a \$638 thousand, or 9.1%, increase in operating expenses as a result of increasing programming costs and higher depreciation on an upgrade to plant in FY12.

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 FY12 were \$1.9 million, compared to \$211 thousand in FY11. The increase was due to a large residential development's connection to the Commission's system during the fiscal year.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

ANALYSIS OF BUDGET AND ACTUAL RESULTS

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
GOVERNMENTAL FUNDS - GENERAL FUND				
Revenues				
Taxes	\$ 13,252,223	\$ 13,252,223	\$ 13,547,875	\$ 295,652
Licenses and permits	596,000	596,000	431,735	(164,265)
Intergovernmental	912,490	912,490	677,287	(235,203)
Charges for services	978,908	978,908	941,835	(37,073)
Fines and forfeitures	29,000	29,000	55,587	26,587
Miscellaneous	<u>1,525,600</u>	<u>1,525,600</u>	<u>1,633,196</u>	<u>107,596</u>
Total revenues	<u>\$ 17,294,221</u>	<u>\$ 17,294,221</u>	<u>\$ 17,287,515</u>	<u>\$ (6,706)</u>
Expenditures				
Current operations:				
General government administration	\$ 1,999,897	\$ 1,999,897	\$ 1,738,617	\$ 261,280
Public safety	7,384,010	7,384,010	7,094,982	289,028
Public works	3,823,266	3,823,266	3,291,094	532,172
Recreation and cultural	535,702	535,702	346,081	189,621
Economic development	285,069	285,069	236,904	48,165
Nondepartmental	985,604	985,604	738,602	247,002
Debt service:				
Principal	199,095	199,095	202,476	(3,381)
Interest	7,707	7,707	21,898	(14,191)
Other financing (sources) uses				
Transfers in	<u>2,073,871</u>	<u>2,073,871</u>	<u>3,720,408</u>	<u>(1,646,537)</u>
Total expenditures and other uses	<u>\$ 17,294,221</u>	<u>\$ 17,294,221</u>	<u>\$ 17,391,062</u>	<u>\$ (96,841)</u>

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

- Gross actual revenues were slightly below gross budgeted revenues by approximately \$6,706 or less than .03% of the budgeted revenue of approximately \$17.3 million. This is primarily the result of decreases in Grant revenues for capital projects and licenses and permits offset by higher than expected tax revenues.
- Gross budgeted expenditures and other financing uses were less than the gross actual expenditures and other financing uses by approximately \$97 thousand or .56% of budgeted expenditures and other financing uses. The most significant variances related to public works and other financing uses.
- Public works experienced lower than budgeted operating expenses (including salaries, benefits, supplies and road construction materials), utility costs and contractual services. In addition, a budgeted transfer into the General Fund from the former Budget Stabilization fund (pre GASB 54 implementation explained in the footnotes to the basic financial statements) in the amount of \$1,646,537 was not made since it was no longer considered.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

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, 2012, amounts to \$118.3 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, 2012 and 2011, respectively:

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 6,978,830	\$ 6,978,830	\$ 1,280,964	\$ 1,280,964	\$ 8,259,794	\$ 8,259,794
Buildings and improvements	23,607,259	20,558,202	17,998,655	19,015,471	41,605,914	39,573,669
Plants, mains and other equipment	3,414,108	3,357,451	59,385,772	57,779,961	62,799,880	61,137,116
Construction in progress	-	409,928	5,646,145	4,487,066	5,646,145	4,896,993
Total	<u>\$ 34,000,197</u>	<u>\$ 31,304,411</u>	<u>\$ 84,311,536</u>	<u>\$ 82,563,462</u>	<u>\$ 118,311,733</u>	<u>\$ 113,867,573</u>

During the year ended June 30, 2012, the Town's capital assets grew by approximately \$4.4 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. Additionally, the Fire Department underwent a significant project to upgrade HVAC systems which resulted in the immediate need to upgrade and replace the roof and underlying structure of the roofing to support the new system. This also resulted in the electrical systems upgrades to the Fire Department.

Long-Term Debt Activity

The Town of Easton issued no new bonds during the fiscal year 2012. Regularly scheduled principal payments were made during 2012 totaling approximately \$2.4 million and accounts for the net decrease from 2011 as shown below.

Changes in Long-Term Liabilities

Town of Easton's Outstanding Long-Term Debt

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Long-term debt	\$ 9,379,895	\$ 10,290,206	\$ 22,906,677	\$ 24,439,166	\$ 32,286,572	\$ 34,729,372
Compensated Absences	659,847	655,907	-	-	659,847	655,907
OPEB Obligation	228,342	123,548	180,404	102,034	408,746	225,582
Long-term debt	<u>\$ 10,268,084</u>	<u>\$ 11,069,661</u>	<u>\$ 23,087,081</u>	<u>\$ 24,541,200</u>	<u>\$ 33,174,762</u>	<u>\$ 35,610,861</u>

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

SUBSEQUENT ITEMS FOR FUTURE FINANCIAL STATEMENTS

The State of Maryland unilaterally extended the District Court Lease for a period of six months pursuant to the original lease to allow a renewal to be negotiated. The Town of Easton and the State of Maryland have reached agreement on the renewal of the lease by the State of the District Court building for an additional 10 years with an automatic renewal of an additional 5 years. This agreement is still subject to final approval by the Maryland Board of Public Works.

The Mayor and Town Council repealed and reenacted the Town Charter in order to update the Charter and reorganize the document. A Town Code revision for the same reasons is currently in process.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

TOWN OF EASTON, MARYLAND
STATEMENT OF NET ASSETS
June 30, 2012

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 16,658,230	\$ 1,243,608	\$ 17,901,838
Investments	12,237	13,724,612	13,736,849
Accounts receivable, net	625,684	5,590,094	6,215,778
Grants and loans receivable	1,120,301	-	1,120,301
Unrecovered fuel and gas costs	-	870,327	870,327
Interest receivable	-	2,013	2,013
Prepaid expenses	170,367	4,608,354	4,778,721
Unbilled revenue	-	1,562,161	1,562,161
Inventory, at average cost	-	5,839,821	5,839,821
Total current assets	<u>18,586,819</u>	<u>33,440,990</u>	<u>52,027,809</u>
NONCURRENT ASSETS			
Unamortized expenses	-	155,861	155,861
Note receivable, non-current	69,490	-	69,490
Capital assets, not being depreciated	6,978,830	6,927,109	13,905,939
Capital assets, net of accumulated depreciation	27,021,367	77,384,427	104,405,794
Total non current assets	<u>34,069,687</u>	<u>84,467,397</u>	<u>118,537,084</u>
Total assets	<u>52,656,506</u>	<u>117,908,387</u>	<u>170,564,893</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	438,580	1,939,134	2,377,714
Accrued liabilities	7,962	1,423,668	1,431,630
Tax collection payable	-	192,160	192,160
Performance deposits	117,994	1,071,826	1,189,820
Due to Asbury Place	-	154,498	154,498
Unearned revenue	11,574	12,000	23,574
Current portion of long-term debt	1,436,381	1,466,451	2,902,832
Total current liabilities	<u>2,012,491</u>	<u>6,259,737</u>	<u>8,272,228</u>
NONCURRENT LIABILITIES			
Long-term debt, net of current portion	8,736,480	21,620,630	30,357,110
Compensated absences	95,224	-	95,224
Total noncurrent liabilities	<u>8,831,704</u>	<u>21,620,630</u>	<u>30,452,334</u>
Total liabilities	<u>10,844,195</u>	<u>27,880,367</u>	<u>38,724,562</u>
NET ASSETS			
Invested in capital assets, net of related debt	24,620,301	61,499,469	86,119,770
Restricted for:			
Debt service	1,664,993	-	1,664,993
Capital Improvements	4,770,240	-	4,770,240
Community Development	185,547	-	185,547
Unrestricted	10,571,230	28,528,551	39,099,781
TOTAL NET ASSETS	<u>\$ 41,812,311</u>	<u>\$ 90,028,020</u>	<u>\$ 131,840,331</u>

TOWN OF EASTON, MARYLAND
STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

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	\$ 1,786,590	\$ 470,306	\$ -	\$ -	\$ (1,316,284)	\$ -	\$ (1,316,284)
Public safety	7,763,752	188,890	210,378	-	(7,364,484)	-	(7,364,484)
Public works	4,120,703	1,166,616	550,563	-	(2,403,524)	-	(2,403,524)
Recreation and cultural	502,579	-	179,093	-	(323,486)	-	(323,486)
Economic development	359,520	-	4,500	-	(355,020)	-	(355,020)
Nondepartmental	771,468	7,071	-	-	(764,397)	-	(764,397)
Interest expense	448,181	-	-	-	(448,181)	-	(448,181)
Total governmental activities	<u>15,752,793</u>	<u>1,832,883</u>	<u>944,534</u>	<u>-</u>	<u>(12,975,376)</u>	<u>-</u>	<u>(12,975,376)</u>
Business-type activities:							
Utility	44,024,820	48,481,260	-	-	-	4,456,440	4,456,440
Land enterprise	217,737	198,413	-	-	-	(19,324)	(19,324)
Airport industrial	35,002	3,080	-	-	-	(31,922)	(31,922)
East End redevelopment	55,803	-	-	-	-	(55,803)	(55,803)
Total business-type activities	<u>44,333,362</u>	<u>48,682,753</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,349,391</u>	<u>4,349,391</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 60,086,155</u>	<u>\$ 50,515,636</u>	<u>\$ 944,534</u>	<u>\$ -</u>	<u>(12,975,376)</u>	<u>4,349,391</u>	<u>(8,625,985)</u>
General revenues:							
Property taxes					12,181,527	-	12,181,527
Payment in lieu of taxes					1,570,779	(1,570,779)	-
Intergovernmental, unrestricted					1,474,494	-	1,474,494
Interest and investment earnings					4,000	17,248	21,248
Miscellaneous					9,415	2,054,581	2,063,996
Transfers					(30,000)	30,000	-
Total general revenues					<u>15,210,215</u>	<u>531,050</u>	<u>15,741,265</u>
CHANGE IN NET ASSETS					<u>2,234,839</u>	<u>4,880,441</u>	<u>7,115,280</u>
NET ASSETS, BEGINNING OF YEAR					<u>39,577,472</u>	<u>85,147,579</u>	<u>124,725,051</u>
NET ASSETS, ENDING OF YEAR					<u>\$ 41,812,311</u>	<u>\$ 90,028,020</u>	<u>\$ 131,840,331</u>

**TOWN OF EASTON, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012**

	General Fund	Capital Projects Fund	Infrastructure Development Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents -	\$ 8,802,225	\$ 1,375,627	\$ 4,770,240	\$ 1,710,138	\$ 16,658,230
Investments	12,237	-	-	-	12,237
Accounts receivable, net	1,374,785	362,825	-	8,375	1,745,985
Note receivable	-	-	-	69,490	69,490
Prepaid expenses	170,367	-	-	-	170,367
Unamortized expenses	-	-	-	114,777	114,777
TOTAL ASSETS	\$ 10,359,614	\$ 1,738,452	\$ 4,770,240	\$ 1,902,780	\$ 18,771,086
LIABILITIES					
Accounts payable	\$ 235,043	\$ 201,780	\$ -	\$ 1,757	\$ 438,580
Accrued liabilities	139,931	-	-	-	139,931
Performance deposits	117,994	-	-	-	117,994
Deferred revenue	313,204	-	-	-	313,204
Total liabilities	806,172	201,780	-	1,757	1,009,709
FUND BALANCES					
Nonspendable	170,367	-	-	184,267	354,634
Restricted	-	-	4,770,240	1,850,540	6,620,780
Committed	2,794,673	-	-	-	2,794,673
Assigned	-	1,536,672	-	-	1,536,672
Unassigned	6,588,402	-	-	(133,784)	6,454,618
Total fund balances	9,553,442	1,536,672	4,770,240	1,901,023	17,761,377
TOTAL LIABILITIES AND FUND BALANCES	\$ 10,359,614	\$ 1,738,452	\$ 4,770,240	\$ 1,902,780	\$ 18,771,086

**TOWN OF EASTON, MARYLAND
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2012**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 17,761,377

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 \$52,149,593 and the accumulated depreciation is \$18,149,396. 34,000,197

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	\$ 9,010,000	
Notes payable	477,255	
Capital lease obligations	7,418	
Net OPEB obligation	228,342	
Compensated absences - long-term portion	<u>527,878</u>	(10,250,893)

Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. 301,630

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 41,812,311

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	<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	\$ 12,181,527	\$ -	\$ -	\$ -	\$ 12,181,527
Other local taxes	1,366,348	-	-	-	1,366,348
Permits and licenses	431,735	-	-	-	431,735
Fines and forfeitures	55,587	-	-	-	55,587
Charges for services	941,835	-	-	-	941,835
Miscellaneous	1,633,196	-	357,624	25,404	2,016,224
Revenues from other agencies	677,287	335,782	-	11,700	1,024,769
Total revenues	<u>17,287,515</u>	<u>335,782</u>	<u>357,624</u>	<u>37,104</u>	<u>18,018,025</u>
EXPENDITURES					
Current operations:					
General government	1,738,617	265,086	-	-	2,003,703
Public safety	7,094,982	1,725,780	-	45,923	8,866,685
Public works	3,291,094	1,800,856	-	-	5,091,950
Recreation and cultural	346,081	567,861	-	7,800	921,742
Economic development	236,904	-	-	-	236,904
Nondepartmental	738,602	-	2,655	30,211	771,468
Debt service:					
Principal	202,476	-	-	735,000	937,476
Interest	21,898	-	-	426,283	448,181
Total expenditures	<u>13,670,654</u>	<u>4,359,583</u>	<u>2,655</u>	<u>1,245,217</u>	<u>19,278,109</u>
Excess (deficiency) of revenues over expenditures	<u>3,616,861</u>	<u>(4,023,801)</u>	<u>354,969</u>	<u>(1,208,113)</u>	<u>(1,260,084)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in (out)	<u>(3,720,408)</u>	<u>2,527,615</u>	<u>-</u>	<u>1,162,793</u>	<u>(30,000)</u>
Total other financing sources (uses)	<u>(3,720,408)</u>	<u>2,527,615</u>	<u>-</u>	<u>1,162,793</u>	<u>(30,000)</u>
NET CHANGES IN FUND BALANCES	(103,547)	(1,496,186)	354,969	(45,320)	(1,290,084)
FUND BALANCES, BEGINNING 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>
FUND BALANCES, END OF YEAR	<u>\$ 9,553,442</u>	<u>\$ 1,536,672</u>	<u>\$ 4,770,240</u>	<u>\$ 1,901,023</u>	<u>\$ 17,761,377</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, 2012**

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (1,290,084)

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 \$4,352,190 exceeds depreciation expense \$1,656,404 in the period. 2,695,786

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 earned the amounts used by \$3,152. (3,152)

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. (104,794)

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. 937,476

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. (393)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 2,234,839

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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>		
REVENUES				
Taxes				
General property taxes:				
Real property taxes	\$ 11,268,069	\$ 11,268,069	\$ 11,318,849	\$ 50,780
Personal property taxes - business	926,000	926,000	777,750	(148,250)
Personal property taxes - railroad and public utilities	190,000	190,000	143,729	(46,271)
Abatements/discounts	(135,000)	(135,000)	(133,104)	1,896
Penalties and interest	49,900	49,900	74,303	24,403
Total general property taxes	<u>12,298,969</u>	<u>12,298,969</u>	<u>12,181,527</u>	<u>(117,442)</u>
Local taxes:				
State shared income taxes	900,000	900,000	1,146,690	246,690
State shared highway taxes	48,904	48,904	214,781	165,877
Admission and amusements	3,600	3,600	4,127	527
Franchise-ordinary business corporation	750	750	750	-
Total other local taxes	<u>953,254</u>	<u>953,254</u>	<u>1,366,348</u>	<u>413,094</u>
Total taxes	<u>13,252,223</u>	<u>13,252,223</u>	<u>13,547,875</u>	<u>295,652</u>
Permits and licenses				
Trader's licenses	60,000	60,000	67,519	7,519
Building permits	250,000	250,000	122,938	(127,062)
Plumbing permits	37,000	37,000	11,082	(25,918)
Use and occupancy permits	49,300	49,300	23,000	(26,300)
Rental housing license fees	120,300	120,300	120,750	450
Permits and other licenses	79,400	79,400	86,446	7,046
Total permits and licenses	<u>596,000</u>	<u>596,000</u>	<u>431,735</u>	<u>(164,265)</u>
Fines and forfeitures	<u>29,000</u>	<u>29,000</u>	<u>55,587</u>	<u>26,587</u>
Charges for services				
General government	30,000	30,000	38,571	8,571
Public safety	118,208	118,208	94,273	(23,935)
Highway and streets	115,000	115,000	113,300	(1,700)
Sanitation and waste removal	651,700	651,700	682,071	30,371
Main Street and Recreation fees	64,000	64,000	13,620	(50,380)
Total charges for services	<u>978,908</u>	<u>978,908</u>	<u>941,835</u>	<u>(37,073)</u>
Revenues from other agencies				
Federal:				
Bullet Proof Vest Grant	-	-	5,942	5,942
State:				
Police protection	164,886	164,886	179,193	14,307
Highways and streets	404,331	404,331	-	(404,331)
Fire, rescue and ambulance	17,550	17,550	12,763	(4,787)
Historic District Commission Survey Grant	38,000	38,000	22,800	(15,200)
Conservation and critical areas	7,000	7,000	4,500	(2,500)
Recreation Open Space & Other Projects	-	-	133,856	133,856
Total state	<u>631,767</u>	<u>631,767</u>	<u>359,054</u>	<u>(272,713)</u>
County:				
Taxes	280,723	280,723	317,598	36,875
Misc County Grant	-	-	635	635
Total county	<u>280,723</u>	<u>280,723</u>	<u>318,233</u>	<u>37,510</u>
Total revenues from other agencies	<u>912,490</u>	<u>912,490</u>	<u>677,287</u>	<u>(235,203)</u>
Miscellaneous	<u>1,525,600</u>	<u>1,525,600</u>	<u>1,633,196</u>	<u>107,596</u>
TOTAL REVENUES	<u>17,294,221</u>	<u>17,294,221</u>	<u>17,287,515</u>	<u>(6,706)</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, 2012
(Continued)

	<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>		
EXPENDITURES				
General government				
Legislative:				
Town council	\$ 122,128	\$ 122,128	\$ 131,362	\$ (9,234)
Town clerk	89,467	89,467	113,845	(24,378)
Total legislative	<u>211,595</u>	<u>211,595</u>	<u>245,207</u>	<u>(33,612)</u>
Executive Mayor	251,057	251,057	40,173	210,884
Town Manager	544,570	544,570	393,865	150,705
Elections	-	-	3,539	(3,539)
Financial administration	453,757	453,757	474,590	(20,833)
Independent accounting & auditing	37,500	37,500	37,796	(296)
Law	50,000	50,000	34,287	15,713
Planning and zoning	325,349	325,349	349,549	(24,200)
General services	126,069	126,069	159,611	(33,542)
Total general government	<u>1,999,897</u>	<u>1,999,897</u>	<u>1,738,617</u>	<u>261,280</u>
Public safety				
Police	6,360,369	6,360,369	6,238,269	122,100
Traffic control	57,344	57,344	59,445	(2,101)
Fire and rescue	410,316	410,316	254,210	156,106
Code enforcement	428,329	428,329	398,598	29,731
Rental housing	99,163	99,163	123,437	(24,274)
Traffic engineering	28,489	28,489	21,023	7,466
Total public safety	<u>7,384,010</u>	<u>7,384,010</u>	<u>7,094,982</u>	<u>289,028</u>
Public works				
Administration	682,402	682,402	456,690	225,712
Sanitation and waste removal	1,476,375	1,476,375	1,511,620	(35,245)
Highways, streets and sidewalks	1,662,917	1,662,917	1,320,646	342,271
Mosquito control	1,572	1,572	2,138	(566)
Total public works	<u>3,823,266</u>	<u>3,823,266</u>	<u>3,291,094</u>	<u>532,172</u>
Parks, recreation and cultural				
Parks and recreation administration	124,399	124,399	88,948	35,451
Participation recreation	68,813	68,813	60,071	8,742
Municipal parks	342,490	342,490	197,062	145,428
Total parks, recreation and cultural	<u>535,702</u>	<u>535,702</u>	<u>346,081</u>	<u>189,621</u>
Economic development/Main Street	<u>285,069</u>	<u>285,069</u>	<u>236,904</u>	<u>48,165</u>
Nondepartmental	<u>985,604</u>	<u>985,604</u>	<u>738,602</u>	<u>247,002</u>
Debt service				
Principal	199,095	199,095	202,476	(3,381)
Interest	7,707	7,707	21,898	(14,191)
Total debt service	<u>206,802</u>	<u>206,802</u>	<u>224,374</u>	<u>(17,572)</u>
TOTAL EXPENDITURES	<u>15,220,350</u>	<u>15,220,350</u>	<u>13,670,654</u>	<u>1,549,696</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>2,073,871</u>	<u>2,073,871</u>	<u>3,616,861</u>	<u>1,542,990</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, 2012
(Continued)

	<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>		
OTHER FINANCING SOURCES (USES)				
Transfers (net):				
Debt service	\$ (1,162,793)	\$ (1,162,793)	\$ (1,162,793)	\$ -
East End Redevelopment	-	-	-	-
Capital projects	(2,527,615)	(2,527,615)	(2,527,615)	-
Budget stabilization	1,646,537	1,646,537	-	(1,646,537)
Land enterprise	(30,000)	(30,000)	(30,000)	-
TOTAL OTHER FINANCING USES	<u>\$ (2,073,871)</u>	<u>\$ (2,073,871)</u>	<u>(3,720,408)</u>	<u>\$ (1,646,537)</u>
NET CHANGE IN FUND BALANCE			(103,547)	
FUND BALANCE, BEGINNING OF YEAR			<u>9,656,989</u>	
FUND BALANCE, END OF YEAR			<u>\$ 9,553,442</u>	

TOWN OF EASTON, MARYLAND
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2012

	Business-Type Activities - Enterprise Funds		
	Utility	Other	Totals
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 807,118	\$ 436,490	\$ 1,243,608
Investments	13,724,612	-	13,724,612
Accounts receivable, net	5,584,216	5,878	5,590,094
Grants & loans receivable	-	-	-
Interest receivable	2,013	-	2,013
Prepaid expenses	4,608,354	-	4,608,354
Inventory	5,839,821	-	5,839,821
Unrecovered fuel and gas costs	870,327	-	870,327
Unbilled revenue	1,562,161	-	1,562,161
Total current assets	<u>32,998,622</u>	<u>442,368</u>	<u>33,440,990</u>
NONCURRENT ASSETS			
Unamortized expenses	155,861	-	155,861
Capital assets, not being depreciated	6,672,825	254,284	6,927,109
Capital assets, net of accumulated depreciation	75,011,030	2,373,397	77,384,427
Total noncurrent assets	<u>81,839,716</u>	<u>2,627,681</u>	<u>84,467,397</u>
TOTAL ASSETS	<u>\$ 114,838,338</u>	<u>\$ 3,070,049</u>	<u>\$ 117,908,387</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ 1,933,903	\$ 5,231	\$ 1,939,134
Accrued liabilities	1,423,668	-	1,423,668
Tax collection payable	192,160	-	192,160
Performance deposits	1,062,004	9,822	1,071,826
Due to Asbury Place	-	154,498	154,498
Unearned revenue	12,000	-	12,000
Current portion of long-term debt	1,466,451	-	1,466,451
Total current liabilities	<u>6,090,186</u>	<u>169,551</u>	<u>6,259,737</u>
NONCURRENT LIABILITIES			
Long-term debt, net of current portion	19,948,506	1,672,124	21,620,630
Total liabilities	<u>26,038,692</u>	<u>1,841,675</u>	<u>27,880,367</u>
NET ASSETS			
Invested in capital assets, net of related debt	60,543,912	955,557	61,499,469
Unrestricted	28,255,734	272,817	28,528,551
Total net assets	<u>88,799,646</u>	<u>1,228,374</u>	<u>90,028,020</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 114,838,338</u>	<u>\$ 3,070,049</u>	<u>\$ 117,908,387</u>

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2012

	Business-Type Activities - Enterprise Funds		
	Utility	Other	Total
OPERATING REVENUES			
Charges for services	\$ 44,766,185	\$ 141,404	\$ 44,907,589
Other operating revenues	<u>3,715,075</u>	<u>60,089</u>	<u>3,775,164</u>
Total operating revenues	<u>48,481,260</u>	<u>201,493</u>	<u>48,682,753</u>
OPERATING EXPENSES			
Cost of service	37,556,148	129,189	37,685,337
Depreciation	<u>6,116,289</u>	<u>179,353</u>	<u>6,295,642</u>
Total operating expenses	<u>43,672,437</u>	<u>308,542</u>	<u>43,980,979</u>
Operating income (loss)	<u>4,808,823</u>	<u>(107,049)</u>	<u>4,701,774</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment earnings	17,238	10	17,248
Interest expense	(352,383)	-	(352,383)
Gain on sale of property	23,556	-	23,556
Payment in lieu of taxes	(1,570,779)	-	(1,570,779)
Capital charges	1,869,184	-	1,869,184
Miscellaneous	<u>161,841</u>	<u>-</u>	<u>161,841</u>
Total non-operating revenues	<u>148,657</u>	<u>10</u>	<u>148,667</u>
Income before transfers and capital grants	4,957,480	(107,039)	4,850,441
Transfers in (out)	<u>-</u>	<u>30,000</u>	<u>30,000</u>
CHANGES IN FUND NET ASSETS	4,957,480	(77,039)	4,880,441
TOTAL NET ASSETS - BEGINNING OF YEAR	<u>83,842,166</u>	<u>1,305,413</u>	<u>85,147,579</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 88,799,646</u>	<u>\$ 1,228,374</u>	<u>\$ 90,028,020</u>

TOWN OF EASTON, MARYLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2012

	Business-Type Activities - Enterprise Funds		
	Utility	Other	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received for services	\$ 48,771,000	\$ 403,739	\$ 49,174,739
Cash paid to suppliers for goods and services	(33,520,679)	(350,529)	(33,871,208)
Cash paid to employees for services	(8,317,687)	-	(8,317,687)
Net cash provided by operating activities	<u>6,932,634</u>	<u>53,210</u>	<u>6,985,844</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES			
Cash paid in lieu of taxes	(1,547,397)	-	(1,547,397)
Transfers from other funds	-	30,000	30,000
Net cash provided by (used in) non-capital and related financing activities	<u>(1,547,397)</u>	<u>30,000</u>	<u>(1,517,397)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from disposition of assets	12,766	-	12,766
Proceeds from capital charges	1,917,982	-	1,917,982
Purchases/construction of capital assets	(7,926,219)	(3,884)	(7,930,103)
Proceeds from capital grant	547,242	-	547,242
Payment of debt	(1,530,405)	-	(1,530,405)
Interest paid on bond indebtedness	(193,044)	-	(193,044)
Other interest paid	(123,920)	-	(123,920)
Net cash used in capital and related financing activities	<u>(7,295,598)</u>	<u>(3,884)</u>	<u>(7,299,482)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on cash deposits and investments	25,814	10	25,824
Sales of investments	6,900,000	-	6,900,000
Purchases of investments	(4,516,799)	-	(4,516,799)
Net cash provided by investing activities	<u>2,409,015</u>	<u>10</u>	<u>2,409,025</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS			
	498,654	79,336	577,990
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR			
	<u>308,464</u>	<u>357,154</u>	<u>665,618</u>
CASH AND CASH EQUIVALENTS, END OF YEAR			
	<u>\$ 807,118</u>	<u>\$ 436,490</u>	<u>\$ 1,243,608</u>

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

Operating income (loss)	\$ 4,808,823	\$ (107,049)	\$ 4,701,774
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	6,116,289	179,353	6,295,642
Net accretion	(166,714)	-	(166,714)
Other miscellaneous non-operating revenue	137,755	-	137,755
Effects of changes in operating assets and liabilities:			
Accounts receivable, net	(558,863)	(2,590)	(561,453)
Inventory	(4,135,293)	-	(4,135,293)
Unrecovered fuel and gas costs	368,222	-	368,222
Accounts payable and accrued liabilities	362,415	(16,504)	345,911
Total adjustments	<u>2,123,811</u>	<u>160,259</u>	<u>2,284,070</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 6,932,634</u>	<u>\$ 53,210</u>	<u>\$ 6,985,844</u>

TOWN OF EASTON, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2012

	Benefits Trust Funds
ASSETS	
Cash and cash equivalents	\$ 43,468
Investments, at fair value	23,190,802
Total assets	\$ 23,234,270
 NET ASSETS	
Held in trust for pension benefits	\$ 23,234,270

TOWN OF EASTON, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2012

	Benefits Trust Funds
ADDITIONS	
Contributions:	
Employer	\$ 1,080,999
Employees	50,784
	1,131,783
Total contributions	
Investment earnings:	
Investment income	615,155
Net increase in fair value of plan investments	2,413,873
	3,029,028
Total investment earnings	
Less Investment expense	167,872
	2,861,156
Net investment earnings	
Total additions	3,992,939
DEDUCTIONS	
Benefit payments	1,352,239
	2,640,700
NET CHANGE	
	2,640,700
NET ASSETS AT BEGINNING OF YEAR	20,593,570
	20,593,570
NET ASSETS AT END OF YEAR	\$ 23,234,270
	23,234,270

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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, 2012

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 benefit plans as Benefit Trust 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 Accounting Standards Codification (ASC) ASC 980-10, *Regulated Operations – Overall* and ASC 980-340, *Regulated Operations – Other Asset and Deferred Costs* 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, 2012

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:

	<u>Real</u>	<u>Personal and Corporate</u>
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, 2012

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, 2012

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, 2012 is \$1,562,161.

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, 2012, the Commission had unrecovered fuel and gas costs of \$870,327.

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 \$5,839,821 at June 30, 2012.

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, 2012

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 2012 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, 2012 is \$12,000.

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

The Town records its governmental fund balances in accordance with GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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. This generally includes long-term receivables and prepaid expenses.
- *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, 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, 2012

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, 2012.

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, 2012

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 administrators. 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 defined benefit pension plan established to provide benefits to virtually all employees with the exception of sworn officers. 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, 2012 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 \$17,901,838 and the bank balance was \$19,186,516. 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, 2012.

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, 2012, the Town had \$13,736,849 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's investment policy limits the term of investment maturities. The Town management believes the liquidity of the portfolio is adequate to meet cash flows requirements and to preclude the Town from having to sell investments below original cost for that purpose. The investments at June 30, 2012 met the Town's investment policy.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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, 2012 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, trustee of the Plan. A summary of these investments are as follows:

Guaranteed account	\$ 6,562,029
Variable earnings investments:	
Dryden S&P 500 Index	2,055,672
Mid Cap Growth/Goldman Sachs	782,466
Mid Cap Value/Systematic	796,398
Small Cap Grw/Columbus	1,065,574
International Blend / Artio	1,724,424
QMA Emerging Markets	630,194
Small Cap Value/Kennedy Capi	1,001,901
T. Rowe Price Eqty Inc Stgy	2,018,977
T. Rowe Price Growth Stk Stgy	2,097,347
Core Plus Bond/PIMCO Fund	954,876
American Century Real Est Inv	1,159,482
CIGNA Open-End Real Estate	<u>610</u>
Total Investments	<u>\$20,852,905</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, 2012

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>\$ 6,562,029</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	\$ 347,404
Vanguard - Short Term	343,942
FMI FDS - Large Cap	294,303
AMCAP - Class F2	262,432
Diamond Hill – Large Cap	257,424
Pimco - Total Return	225,428
Thornburg - International Value	202,701
Munder SER TR – Mid Cap	118,163
Royce Value	85,067
Dodge & Cox – International	88,672
T. Rowe Price - Emerging Markets	66,208
Keely - Small Cap Value	46,153
Government Obligations Fund	<u>43,468</u>
Total OPEB Investments	<u>\$2,381,365</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, 2012

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	\$ 500,502	\$ -	\$ -	\$ -	\$ 500,502
Accounts	484,109	-	5,584,216	5,878	6,074,203
Due from other governments	749,101	371,200	-	-	1,120,301
Interest	-	-	2,013	-	2,013
Allowance for uncollectibles	<u>(358,927)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(358,927)</u>
Net receivables	<u>\$ 1,374,785</u>	<u>\$ 371,200</u>	<u>\$ 5,586,229</u>	<u>\$ 5,878</u>	<u>\$ 7,338,092</u>

The June 30, 2012 balance of due from other governments is as follows:

Federal Government	\$ 8,375
State of Maryland:	
Income taxes	534,681
Grant purposes	431,440
Various purposes	52,842
Talbot County	<u>92,963</u>
Total due from other governments	<u>\$ 1,120,301</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, 2012 is summarized as follows:

	Unavailable	Unearned	Total
Income taxes	\$ 301,630	\$ -	\$ 301,630
Miscellaneous	<u>-</u>	<u>11,574</u>	<u>11,574</u>
Total	<u>\$ 301,630</u>	<u>\$ 11,574</u>	<u>\$ 313,204</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, 2012

NOTE 4 – INTER-FUND TRANSFERS

Inter-fund transfer activity for the year ended June 30, 2012 was as follows:

<u>Transfers Out (Net):</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Land Enterprise</u>	<u>Total</u>
General	<u>\$ 1,162,793</u>	<u>\$ 2,527,615</u>	<u>\$ 30,000</u>	<u>\$ 3,720,408</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, 2012 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	\$ 6,978,830	\$ -	\$ -	\$ 6,978,830
Construction in progress	<u>409,928</u>	<u>-</u>	<u>(409,928)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>7,388,758</u>	<u>-</u>	<u>(409,928)</u>	<u>6,978,930</u>
Capital assets, being depreciated:				
Buildings and improvements	31,156,558	3,614,920	409,928	35,181,406
Equipment	<u>9,252,087</u>	<u>737,270</u>	<u>-</u>	<u>9,989,357</u>
Total capital assets, being depreciated	<u>40,408,645</u>	<u>4,352,190</u>	<u>409,928</u>	<u>45,170,763</u>
Less accumulated depreciation:				
Buildings and improvements	10,598,356	975,791	-	11,574,147
Equipment	<u>5,894,636</u>	<u>680,613</u>	<u>-</u>	<u>6,575,249</u>
Total accumulated depreciation	<u>16,492,992</u>	<u>1,656,404</u>	<u>-</u>	<u>18,149,396</u>
Net capital assets, being depreciated:	<u>23,915,653</u>	<u>2,695,786</u>	<u>-</u>	<u>27,021,367</u>
Governmental activities capital assets, net	<u>\$ 31,304,411</u>	<u>\$ 2,695,786</u>	<u>\$ -</u>	<u>\$ 34,000,197</u>

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 5 – CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Transfers/ Decreases	Ending Balance
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 1,280,964	\$ -	\$ -	\$ 1,280,964
Construction in progress	<u>4,487,066</u>	<u>7,926,853</u>	<u>6,767,774</u>	<u>5,646,145</u>
Total capital assets, not being depreciated	<u>5,768,030</u>	<u>7,926,853</u>	<u>6,767,774</u>	<u>6,927,109</u>
Capital assets, being depreciated:				
Buildings and improvements	30,372,280	3,884	21,589	30,354,575
Equipment and other	131,706,321	149,301	(6,668,792)	138,524,414
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>160,358,816</u>	<u>153,185</u>	<u>(6,647,203)</u>	<u>167,159,204</u>
Less accumulated depreciation:				
Buildings and improvements	11,356,809	999,111	-	12,355,920
Equipment and other	<u>72,206,575</u>	<u>5,296,531</u>	<u>84,249</u>	<u>77,418,857</u>
Total accumulated depreciation	<u>83,563,384</u>	<u>6,295,642</u>	<u>84,249</u>	<u>89,774,777</u>
Net capital assets, being depreciated:	<u>76,795,432</u>	<u>(6,142,457)</u>	<u>(6,731,452)</u>	<u>77,384,427</u>
Business-type activities capital assets, net	<u>\$ 82,563,462</u>	<u>\$ 1,784,396</u>	<u>\$ (36,322)</u>	<u>\$ 84,311,536</u>

Interest amounting to \$149,935 was capitalized as of June 30, 2012.

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

Governmental activities	
General government	\$ 36,245
Public safety	543,010
Public works	805,558
Recreation and cultural	147,489
Non-departmental	<u>124,102</u>
Total governmental activities	<u>\$ 1,656,404</u>
Business-type activities	
Utility	\$ 6,116,289
Other	<u>179,353</u>
Total business-type activities	<u>\$ 6,295,642</u>

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, 2012 the lease is on a month-to-month basis.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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 at inception 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 \$7,170 for the year ending June 30, 2012.

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

Office equipment	\$ 71,696
Less: accumulated depreciation	<u>36,198</u>
Total	<u>\$ 35,498</u>

The future minimum lease payments are as follows:

Years Ending June 30	
2013	\$ 4,220
2014	<u>3,517</u>
	7,737
Less: amount representing interest	<u>(319)</u>
Present value of net minimum lease payments	<u>\$ 7,418</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, 2012

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

Bonds (Continued)

Bond Issue	Maturity	Interest Rates	Balance at June 30, 2012
Public Facilities Bonds 1999	2019	3.75 – 5.25%	\$ 2,875,000
Public Facilities Bonds 2003	2023	2.00 – 5.00%	2,280,000
Public Facilities Bonds 2008	2028	2.00 – 5.00%	<u>8,135,000</u>
Total general obligation bonds			<u>\$ 13,290,000</u>

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

Years Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 735,000	\$ 396,843	\$ 625,000	\$ 146,313
2014	740,000	367,111	645,000	121,708
2015	580,000	340,593	670,000	95,426
2016	585,000	317,321	700,000	95,426
2017	590,000	293,705	720,000	67,732
2018 – 2022	2,480,000	1,141,334	920,000	65,330
2023 – 2027	2,380,000	554,050	-	-
2028 – 2029	<u>920,000</u>	<u>50,268</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 9,010,000</u>	<u>\$ 3,461,225</u>	<u>\$ 4,280,000</u>	<u>\$ 666,102</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 years 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, 2012, there remains \$2,345,000 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, 2012, there remains \$845,000 of outstanding defeased debt.

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, 2012

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>
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	4,233	13,283	17,516
2018-2022	24,264	63,316	87,580
2023-2027	30,374	57,206	87,580
2028-2032	38,023	49,557	87,580
2033-2037	47,596	39,984	87,580
2038-2042	59,581	27,999	87,580
2043-2047	74,583	12,997	87,580
2048	<u>17,035</u>	<u>481</u>	<u>17,516</u>
Total	<u>\$ 310,840</u>	<u>\$ 319,736</u>	<u>\$ 630,576</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>
2013	<u>\$ 48,800</u>	<u>\$ 520</u>	<u>\$ 49,320</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, 2012, Asbury Place met those conditions and interest was forgiven.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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, 2012, the balance is \$16,931,632. 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, 2012:

<u>For the Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 841,451	\$ 76,653	\$ 918,104
2014	882,497	64,360	946,857
2015	923,544	60,831	984,374
2016	964,590	57,137	1,021,727
2017	1,005,636	53,278	1,058,914
2018-2022	5,643,878	202,769	5,846,647
2023-2027	<u>6,670,036</u>	<u>81,682</u>	<u>6,751,718</u>
Total	<u>\$ 16,931,632</u>	<u>\$ 596,710</u>	<u>\$ 17,528,342</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	\$ 9,745,000	\$ -	\$ 735,000	\$ 9,010,000	\$ 735,000
Note payable – bank loan	244,000	-	195,200	48,800	48,800
Note payable – DHCD	117,615	-	-	117,615	107,615
Note payable – USDA	314,221	-	3,381	310,840	3,537
Capital lease obligation	11,313	-	3,895	7,418	3,971
Deferred loss bond refunding	(141,943)	-	(27,165)	(114,778)	(27,165)
Net OPEB Obligation	123,548	104,794	-	228,342	-
Compensated absences	<u>655,907</u>	<u>568,563</u>	<u>564,623</u>	<u>659,847</u>	<u>564,623</u>
Governmental activities long-term liabilities	<u>\$ 11,069,661</u>	<u>\$ 673,357</u>	<u>\$ 1,474,934</u>	<u>\$ 10,268,084</u>	<u>\$ 1,436,381</u>

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

Changes in Long-Term Liabilities (continued)

	Beginning Balance	Additions	Principal Repayments & Reductions	Ending Balance	Due Within One Year
Business-type activities					
General obligation bonds	\$ 5,010,000	\$ -	\$ 730,000	\$ 4,280,000	\$ 625,000
Note payable – DHCD	1,672,124	-	-	1,672,124	-
Loan – State of Maryland	17,732,037	-	800,405	16,931,632	841,451
Net OPEB obligation	102,034	78,370	-	180,404	-
Unamortized premium on long-term liabilities	25,005	-	2,084	22,921	-
Business-type activities long-term liabilities	<u>\$ 24,541,200</u>	<u>\$ 78,370</u>	<u>\$ 1,532,489</u>	<u>\$ 23,087,081</u>	<u>\$ 1,466,451</u>

NOTE 8 – LINE-OF-CREDIT

Business-type Funds

The Town, for the benefit of the Commission, 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 (.2432% at June 30, 2012). 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, 2012.

NOTE 9 – FUND BALANCE

A summary of fund balances at June 30, 2012 is as follows:

	General Fund	Capital Projects Fund	Infrastructure Development Fund	Non-Major Governmental Funds	Total Governmental Funds
<u>Nonspendable:</u>					
Prepaid expenses	\$ 170,367	\$ -	\$ -	\$ 114,777	\$ 285,144
Loans to citizens	-	-	-	69,490	69,490
Total nonspendable fund balance	<u>170,367</u>	<u>-</u>	<u>-</u>	<u>184,267</u>	<u>354,634</u>
<u>Restricted:</u>					
Impact fees	-	-	4,770,240	-	4,770,240
Debt service	-	-	-	1,664,993	1,664,993
CDBG grant	-	-	-	185,547	185,547
Total restricted fund balance	<u>-</u>	<u>-</u>	<u>4,770,240</u>	<u>1,850,540</u>	<u>6,620,780</u>
<u>Committed:</u>					
Budget stabilization	<u>2,794,673</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,794,673</u>
<u>Assigned:</u>					
Capital projects	<u>-</u>	<u>1,536,672</u>	<u>-</u>	<u>-</u>	<u>1,536,672</u>
<u>Unassigned:</u>					
General Fund	6,588,402	-	-	-	6,588,402
Law Enforcement Fund	-	-	-	(133,784)	(133,784)
Total unassigned fund balance	<u>6,588,402</u>	<u>-</u>	<u>-</u>	<u>(133,784)</u>	<u>6,454,618</u>
Total fund balance	<u>\$ 9,553,442</u>	<u>\$ 1,536,672</u>	<u>\$ 4,770,240</u>	<u>\$ 1,901,023</u>	<u>\$ 17,761,377</u>

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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, 2011 (the date of the last actuarial valuation), the pension plan's membership consisted of:

Active employees	224
Retirees and beneficiaries currently receiving benefits	82
Terminated employees entitled to benefits but not yet receiving them	<u>98</u>
Total	<u><u>404</u></u>

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 5.0% 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 6.7% of gross annual earnings. Participants' actual contributions during the year ended June 30, 2012 were \$50,784. 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; 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, 2012 was \$1,204,957 and \$1,011,227, 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, 2011, no investment in any one organization, exceeded five percent or more of net assets available for benefits.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 10 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions

The annual required contributions during the year ended June 30, 2012 was determined as part of the July 31, 2011 actuarial valuation using the Projected Unit Credit Actuarial Cost Method. The actuarial assumptions include (a) 7.5% investment rate of return (net of administrative expenses), and (b) projected salary increases of 4.5%. 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, 2011 was a weighted average of 15 years.

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	\$ 1,203,905
Interest on net pension obligation and other adjustment	<u>692</u>
Annual pension cost	1,204,957
Less: contributions made	<u>(1,204,957)</u>
Change net pension obligation	-
Net pension obligation, beginning of year	<u>-</u>
Net pension obligation, end of year	<u><u>\$ -</u></u>

Three year trend information:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
July 31, 2011	\$ 1,204,957	100.0%	\$ -
July 31, 2010	1,011,277	100.0	-
July 31, 2009	1,015,045	100.0	-

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, 2011	\$21,066,484	\$27,881,793	\$6,815,309	75.6%	\$13,458,869	50.64%

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.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 10 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

The condensed financial statements as of and for the year ended July 31, 2011 are as follows:

Statement of Plan Net Assets

Assets

Investments, at fair value other adjustment	<u>\$20,852,905</u>
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Net Assets

Net assets held in trust for pension benefits	<u>\$20,852,905</u>
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Statement of Plan Net Assets

Additions

Contributions:

Employer	\$ 122,441
Employee	<u>50,784</u>
Total contributions	<u>173,225</u>

Investment earnings:

Investment income	504,282
Net increase in fair value of plan investments	2,529,747
Less investment expenses	<u>(136,990)</u>
Net investment income	<u>2,897,039</u>
Total additions	<u>3,070,264</u>

Deductions

Benefit payments	<u>966,239</u>
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Net change

2,104,025

Net assets at beginning of year

18,748,880

Net assets at end of year

\$20,852,905

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%.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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, 2012, 2011 and 2010 were \$1,143,226, \$1,029,630 and \$1,008,000, respectively. The Town's actual contributions for the years ended June 30, 2012, 2011 and 2010 were \$958,558, \$1,029,630 and \$1,003,132, respectively.

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)	\$ 1,143,226
Interest on net OPEB obligation	13,535
ARC Adjustment	<u>(15,039)</u>
Net Annual OPEB cost	1,141,722
Contribution made	<u>(958,558)</u>
Net change	183,164
Net OPEB obligation - beginning of year	<u>225,582</u>
Net OPEB obligation - end of year	<u><u>\$ 408,746</u></u>

The net OPEB obligation is included in governmental activities long-term liabilities totaling \$228,342 and business-type activities long-term liabilities totaling \$180,404 at June 30, 2012.

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, was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	\$ 1,141,722	83.95%	\$ 408,746
June 30, 2011	1,044,172	96.10	225,582
June 30, 2010	1,044,172	96.10	211,040

Funded 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
June 30, 2011	\$ 1,844,690	\$ 12,681,234	\$ 10,836,544	14.6%	\$ 12,886,240	84.22%

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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.

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, 2011 actuarial valuation, the Town utilized the projected unit credit actuarial method. The actuarial assumptions included a 7% 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, 2011, was 30 years.

Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2011
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	7.0% annual return
Payroll Growth Rate	4.5%
Healthcare Cost Trend Rates:	
Medical	11% initial / 5% ultimate (not applicable to life insurance)
Prescription Drug	11% initial / 5% ultimate

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The condensed financial statements as of and for the year ended June 30, 2012 are as follows:

Statement of Plan Net Assets

Assets

Cash and cash equivalents	\$ 43,468
Investments, at fair value other adjustment	<u>2,337,897</u>

Total assets \$ 2,381,365

Net Assets

Net assets held in trust for pension benefits	<u>\$ 2,381,365</u>
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Additions

Contributions:	
Employer	<u>\$ 958,558</u>
Investment earnings:	
Investment income	110,873
Net decrease in fair value of plan investments	(115,874)
Less investment expenses	<u>(30,882)</u>
Net investment loss	<u>(35,883)</u>
Total additions, net of investment loss	<u>922,675</u>

Deductions

Benefit payments	<u>386,000</u>
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Net change 536,675

Net assets at beginning of year 1,844,690

Net assets at end of year \$ 2,381,365

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	<u>\$ 390,987</u>
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The outstanding balance of the above services remaining at June 30, 2012 was \$29,397. The General Fund charged the Utility Fund \$22,416 for street repairs and \$1,547,397 for payments in lieu of taxes during the year ended June 30, 2012.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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.

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 2011 have been reviewed and accepted by the PSC. The purchased gas adjustment rates applied subsequent to November 2011 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, 2012**

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, 2011	\$ 21,066,484	\$ 27,881,793	\$ 6,815,309	75.56%	\$ 13,458,869	50.64%
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%

TOWN OF EASTON, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS
June 30, 2012

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, 2011	\$ 1,844,690	\$ 12,681,234	\$ 10,836,544	14.55%	\$ 12,866,240	84.22%
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, 2012**

	Debt Service	Community Development Block Grant	Law Enforcement	Total
ASSETS				
Cash and cash equivalents - Pooled	\$ 1,524,591	\$ 185,547	\$ -	\$ 1,710,138
Accounts receivable, net	-	-	8,375	8,375
Due from other funds	142,270			142,270
Notes receivable	-	69,490	-	69,490
Unamortized expense	114,777	-	-	114,777
TOTAL ASSETS	\$ 1,781,638	\$ 255,037	\$ 8,375	\$ 2,045,050
LIABILITIES				
Accounts payable	\$ 1,868	\$ -	\$ (111)	\$ 1,757
Due to other funds	-	-	142,270	142,270
Total liabilities	1,868	-	142,159	144,027
FUND BALANCES (DEFICITS)				
Nonspendable	114,777	69,490	-	184,267
Restricted	1,664,993	185,547	-	1,850,540
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	(133,784)	(133,784)
Total fund balances (deficits)	1,779,770	255,037	(133,784)	1,901,023
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,781,638	\$ 255,037	\$ 8,375	\$ 2,045,050

TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (DEFICIT)
NON-MAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	Debt Service	Community Development Block Grant	Law Enforcement	Total
REVENUES				
Rents	\$ -	\$ -	\$ -	\$ -
Miscellaneous revenue	-	-	25,404	25,404
Revenues from other agencies	-	-	11,700	11,700
Total revenues	-	-	37,104	37,104
EXPENDITURES				
Current operations:				
General governmental	-	-	-	-
Public safety	-	-	45,923	45,923
Public works	-	-	-	-
Recreation and cultural	-	7,800	-	7,800
Miscellaneous	30,211	-	-	30,211
Debt service:				
Principal	735,000	-	-	735,000
Interest	426,283	-	-	426,283
Total expenditures	1,191,494	7,800	45,923	1,245,217
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,191,494)	(7,800)	(8,819)	(1,208,113)
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	-	-	-
Operating transfers net	1,162,793	-	-	1,162,793
Total other financing sources	1,162,793	-	-	1,162,793
NET CHANGE IN FUND BALANCES	(28,701)	(7,800)	(8,819)	(45,320)
FUND BALANCES (DEFICITS), BEGINNING OF YEAR	1,808,471	262,837	(124,965)	1,946,343
FUND BALANCES (DEFICITS), END OF YEAR	\$ 1,779,770	\$ 255,037	\$ (133,784)	\$ 1,901,023

TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR OTHER PROPRIETARY FUNDS
June 30, 2012

	<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	\$ 308,310	\$ 128,180	\$ -	\$ 436,490
Due from other funds	190,733	-	-	190,733
Accounts receivable, net	5,878	-	-	5,878
Total current assets	<u>504,921</u>	<u>128,180</u>	<u>-</u>	<u>633,101</u>
Noncurrent assets				
Capital assets, not being depreciated	15,028	67,945	171,311	254,284
Capital assets, net of accumulated depreciation	1,061,436	586,133	725,828	2,373,397
Total noncurrent assets	<u>1,076,464</u>	<u>654,078</u>	<u>897,139</u>	<u>2,627,681</u>
TOTAL ASSETS	<u>\$ 1,581,385</u>	<u>\$ 782,258</u>	<u>\$ 897,139</u>	<u>\$ 3,260,782</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 5,231	\$ -	\$ -	\$ 5,231
Performance deposits	1,500	-	8,322	9,822
Due from other funds	-	-	190,733	190,733
Due to Asbury Place	-	-	154,498	154,498
Total current liabilities	<u>6,731</u>	<u>-</u>	<u>353,553</u>	<u>360,284</u>
Noncurrent liabilities				
Long-term debt	-	-	1,672,124	1,672,124
Total liabilities	<u>6,731</u>	<u>-</u>	<u>2,025,677</u>	<u>2,032,408</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,076,464	654,078	(774,985)	955,557
Unrestricted	498,190	128,180	(353,553)	272,817
Total net assets	<u>1,574,654</u>	<u>782,258</u>	<u>(1,128,538)</u>	<u>1,228,374</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,581,385</u>	<u>\$ 782,258</u>	<u>\$ 897,139</u>	<u>\$ 3,260,782</u>

TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS
NON-MAJOR OTHER PROPRIETARY FUNDS
Year Ended June 30, 2012

	<u>Land</u> <u>Enterprise</u>	<u>Airport</u> <u>Industrial Land</u>	<u>East End</u> <u>Redevelopment</u>	<u>Total</u>
OPERATING REVENUES				
Charges for services	\$ 138,324	\$ 3,080	\$ -	\$ 141,404
Other operating revenues	<u>60,089</u>	<u>-</u>	<u>-</u>	<u>60,089</u>
Total operating revenues	<u>198,413</u>	<u>3,080</u>	<u>-</u>	<u>201,493</u>
OPERATING EXPENSES				
Cost of service	129,189	-	-	129,189
Depreciation	<u>88,548</u>	<u>35,002</u>	<u>55,803</u>	<u>179,353</u>
Total operating expenses	<u>217,737</u>	<u>35,002</u>	<u>55,803</u>	<u>308,542</u>
Operating loss	<u>(19,324)</u>	<u>(31,922)</u>	<u>(55,803)</u>	<u>(107,049)</u>
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings	<u>-</u>	<u>-</u>	<u>10</u>	<u>10</u>
Total non-operating revenues	<u>-</u>	<u>-</u>	<u>10</u>	<u>10</u>
Loss before transfers	(19,324)	(31,922)	(55,793)	(107,039)
Transfers in	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>30,000</u>
CHANGES IN FUND NET ASSETS	10,676	(31,922)	(55,793)	(77,039)
TOTAL NET ASSETS - BEGINNING OF YEAR	<u>1,563,978</u>	<u>814,180</u>	<u>(1,072,745)</u>	<u>1,305,413</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 1,574,654</u>	<u>\$ 782,258</u>	<u>\$ (1,128,538)</u>	<u>\$ 1,228,374</u>

TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR OTHER PROPRIETARY FUNDS
Year Ended June 30, 2012

	Land Enterprise	Airport Industrial Land	East End Redevelopment	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 197,358	\$ 3,080	\$ 203,301	\$ 403,739
Cash paid for services	(337,638)	-	(12,891)	(350,529)
Net cash provided by (used in) operating activities	<u>(140,280)</u>	<u>3,080</u>	<u>190,410</u>	<u>53,210</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Transfers from (to) other funds	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>30,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of capital asset	<u>(3,884)</u>	<u>-</u>	<u>-</u>	<u>(3,884)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on cash deposits and investments	<u>-</u>	<u>-</u>	<u>10</u>	<u>10</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(114,164)	3,080	190,420	79,336
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>422,474</u>	<u>125,100</u>	<u>(190,420)</u>	<u>357,154</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 308,310</u>	<u>\$ 128,180</u>	<u>\$ -</u>	<u>\$ 436,490</u>
RECONCILIATION OF OPERATING LOSS TO CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating loss	\$ (19,324)	\$ (31,922)	\$ (55,803)	\$ (107,049)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation and amortization	88,548	35,002	55,803	179,353
Changes in operating assets and liabilities:				
Accounts receivable, net	(2,277)	-	(313)	(2,590)
Due to/from other funds	(190,733)	-	190,733	-
Accounts payable and accrued expenses	(16,494)	-	(10)	(16,504)
Total adjustments	<u>(120,956)</u>	<u>35,002</u>	<u>246,213</u>	<u>160,259</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ (140,280)</u>	<u>\$ 3,080</u>	<u>\$ 190,410</u>	<u>\$ 53,210</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, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 335,782	\$ 335,782
EXPENDITURES				
General governmental	117,000	117,000	265,086	(148,086)
Public safety	1,090,867	1,090,867	1,725,780	(634,913)
Public works	2,885,649	2,885,649	1,800,856	1,084,793
Recreation and cultural	-	-	567,861	(567,861)
Total expenditures	<u>4,093,516</u>	<u>4,093,516</u>	<u>4,359,583</u>	<u>(266,067)</u>
OTHER FINANCING SOURCES				
Transfer from Impact fees	326,064	326,064	-	326,064
Conduit Contributions	72,000	72,000	-	72,000
Operating transfers in	<u>2,527,615</u>	<u>2,527,615</u>	<u>2,527,615</u>	<u>-</u>
Total other financing sources	<u>2,925,679</u>	<u>2,925,679</u>	<u>2,527,615</u>	<u>398,064</u>
NET CHANGE IN FUND BALANCE	<u><u>\$ (1,167,837)</u></u>	<u><u>\$ (1,167,837)</u></u>	<u><u>\$ (1,496,186)</u></u>	<u><u>\$ 467,779</u></u>
FUND BALANCE, BEGINNING OF YEAR			<u>3,032,858</u>	
FUND BALANCE, END OF YEAR			<u><u>\$ 1,536,672</u></u>	