

TOWN OF EASTON, MARYLAND
Easton, Maryland

FINANCIAL STATEMENTS
June 30, 2009

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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, 2009, 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, 2009, 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 October 30, 2009, on our consideration of the Town of Easton, Maryland's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Clifton Henderson LLP

Baltimore, Maryland
October 30, 2009

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

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, 2009. 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

- Total assets of the Town at year-end were \$157.7 million and exceeded its liabilities at June 30, 2009 by \$112.7 million (i.e. total net assets).
- As of June 30, 2009, the Town's governmental funds reported an ending fund balance of \$18.8 million which is an increase of \$6.1 million from June 30, 2008.
- The Town purchased a new public works facility during the current year. This new facility provides the Town with a modernized facility to enable the Town to better service the Town fleet and improve public work services to the taxpayers.
- The Town received a rating review in anticipation of its December 2008 Bond Sale. Moody's restored the Town's rating from an A3 to an A2. This rating increase was a response to the continuing improvement in the financial condition of the Town.
- In December 2008, the Town of Easton issued \$9,995,000 of General obligation bonds for the purpose of financing the Police Department building addition and renovation, other capital equipment, renovations to the Town Office Building, and to refinance the loan of \$2,750,000 for the acquisition of the new Public Works facility.
- As of June 30, 2009, the Police Department building addition is substantially complete. The Department is scheduled to move into the addition during October 2009 to allow for the renovation of the original portion of the building.

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, 2009**

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, 2009, 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, 2009.

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.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

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

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

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

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

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

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

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

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

Notes to the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's net assets total \$112,704,203 at June 30, 2009 which is an increase of approximately \$7.7 million over the June 30, 2008 net assets. The following table reflects the condensed Government-Wide Statement of Net Assets:

	2009	2008
Current and other assets	\$ 46,290,956	\$ 41,328,151
Capital assets and other assets	111,371,165	105,163,639
Total assets	157,662,121	146,495,790
Current liabilities	8,994,951	11,888,853
Long-term debt	35,963,147	29,800,417
Total liabilities	44,958,098	41,689,271
Invested in capital assets, net of related debt	73,257,340	73,544,258
Restricted	1,696,408	2,015,734
Unrestricted	37,750,275	29,242,527
Total net assets	\$ 112,704,023	\$104,802,519

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Statement of Net Assets (Continued)

The Town's total assets were approximately \$157.7 million as of June 30, 2009. Of this amount, \$110.9 is accounted for by capital assets, which includes infrastructure.

Of the remaining assets, approximately \$34.5 million is accounted for in cash and cash equivalents (compared to \$24.6 million in the prior year), approximately \$6.5 million in accounts and notes receivable (compared to \$8 million in the prior year), inventory or approximately \$3.5 million (compared to \$3.8 million in the prior year), with the remainder spread among various other accounts.

Outstanding liabilities totaled approximately \$45 million with bonds comprising approximately \$17.6 million, loans from the State or Maryland comprising approximately \$17.5 million, and approximately \$5.1 in accounts payable and accrued expenses of the total at June 30, 2009. This compares with the June 30, 2008 amounts where the Town had outstanding liabilities of approximately \$41.7 million of which approximately \$8.5 million was bonds payable, approximately \$18.1 million was loans from the State of Maryland, and approximately \$8.2 million in accounts payable and accrued expenses. Of the bonds payable, approximately \$1.4 million is due within one year, with the remainder due at various dates before 2028. Refer to the notes to the financial statements for a more in-depth discussion of long-term debt.

The largest portion of the Town's net assets reflects its investment in assets, less any outstanding related debt used to acquire those assets. The Town's capital assets are used to provide services to citizens and customers. Consequently, investments in capital are not available for future spending. Although the Town's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

At June 30, 2009, the Town had positive balances in all categories of net assets, for the government as a whole, and for governmental activities. Business-type activities also experienced positive balances in both capital and unrestricted assets; there were no restricted assets.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

Statement of Activities - Changes in Net Assets

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

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

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

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

**Changes in Net Assets
Fiscal Year Ended June 30, 2008**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Program Revenues			
Charges for service	\$ 2,448,279	\$ 56,167,039	\$ 58,615,318
Operating grants and contributions	2,492,422	-	2,492,422
General Revenues			
Property taxes	9,730,880	-	9,730,880
Other local taxes	2,820,594	-	2,820,594
Other	<u>182,582</u>	<u>4,972,042</u>	<u>5,154,624</u>
Total revenues	<u>17,674,757</u>	<u>61,139,081</u>	<u>78,813,838</u>
Expenses			
General government	1,522,267	-	1,522,267
Public safety	6,354,618	-	6,354,618
Public works	2,531,003	-	2,531,003
Recreation and cultural	1,428,558	-	1,428,558
Economic development	289,532	-	289,532
Nondepartmental	464,496	-	464,496
Interest expense	107,009	-	107,009
Utilities services	-	56,090,694	56,090,694
Other services	<u>-</u>	<u>394,674</u>	<u>394,674</u>
Total expenses	<u>12,697,483</u>	<u>56,485,368</u>	<u>69,182,851</u>
Excess of revenues over expenses	4,977,274	4,653,713	9,630,987
Transfers in (out)	<u>(45,000)</u>	<u>45,000</u>	<u>-</u>
Increase in net assets	4,932,274	4,698,713	9,630,987
Net assets, beginning of year (as restated)	<u>24,820,239</u>	<u>70,351,293</u>	<u>95,171,532</u>
Net assets, end of year	<u>\$ 29,752,513</u>	<u>\$ 75,050,006</u>	<u>\$104,802,519</u>

Total revenues for the Town of Easton were approximately \$73.4 million for the year ended June 30, 2009 compared to approximately \$80.3 million for the year ending June 30, 2008. Governmental activities provided approximately \$19 million, and business-type activities provided \$54.3 million, primarily through charges for services.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

Governmental Funds Revenue and Expense Analysis

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

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)

Governmental Funds Revenue and Expense Analysis (Continued)

The General Fund is the chief operating fund of the Town. As of June 30, 2009, unreserved, undesignated fund balance of the General Fund was \$5,320,786.

Revenues Classified by Source

	<u>2009</u>	<u>Percent to Total</u>	<u>2008</u>	<u>Percent to Total</u>
GOVERNMENTAL FUNDS				
Revenues				
General property taxes	\$ 11,186,291	58.18%	\$ 9,730,880	54.75%
Other local taxes	2,305,037	11.99%	2,530,857	14.24%
Permits and licenses	718,561	3.74%	566,249	3.19%
Fines and forfeitures	38,594	0.20%	59,045	0.33%
Changes for services	1,062,833	5.53%	984,718	5.54%
Miscellaneous	2,363,659	12.29%	2,372,954	13.35%
Intergovernmental	<u>1,551,266</u>	<u>8.07%</u>	<u>1,528,612</u>	<u>8.60%</u>
Total revenues	<u>\$ 19,226,241</u>	<u>100.00%</u>	<u>\$ 17,773,315</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 \$10.1 million, up 16% or approximately \$1.4 million from last year reflecting continued growth and assessment increases for existing properties. The real estate tax rate was maintained at the FY2008 rate of \$.52 per \$100 of assessed value. Gross personal property tax revenue increased 6% to approximately \$1.2 million as a result of increasing assessments. The personal property tax rate remained unchanged from FY2008 at a rate of \$1.30 per \$100 of assessed value of personal property located within the Town limits.
- **Other Local Taxes** – This category is primarily comprised of taxes levied by the State of Maryland and Talbot County which are then shared with the Town. State shared income taxes decreased approximately \$86,000 or 6% to \$1.3 million and highway user taxes decreased approximately \$139,000 to approximately \$985,000.
- **Permits and licenses** – This category increased approximately \$152,000 or 14% to approximately \$719,000. Of the various licenses and permits, alteration permits increased by approximately \$120,000 as this was a new revenue source for the Town.
- **Charges for Services** – This category increased approximately \$78,000 to approximately \$1,063,000, primarily due to an increase in the waste fee rate.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)

Governmental Funds Revenue and Expense Analysis (Continued)

The following table represents expenditures by function.

	2009	Percent to Total	2008	Percent to Total
GOVERNMENTAL FUNDS				
Expenditures				
Current operations:				
General government				
administration	\$ 1,559,160	6.75%	\$ 1,520,506	10.02%
Public safety	9,135,810	39.53%	7,268,947	47.91%
Public works	7,809,624	33.80%	3,731,666	24.59%
Recreation and cultural	583,584	2.53%	1,415,004	9.33%
Economic development	180,103	.77%	187,408	1.24%
Nondepartmental	1,205,283	5.22%	464,496	3.06%
Debt service:				
Principal	2,442,212	10.57%	477,491	3.15%
Interest	192,776	.83%	107,009	.70%
Total expenditures	<u>\$ 23,108,552</u>	<u>100.00%</u>	<u>\$ 15,172,526</u>	<u>100.00%</u>

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

- **Public Safety** – This is primarily the result of the previously mentioned construction activity and increases in salary and benefits in FY 2009.
- **Public Works** – In terms of total dollars, the largest increase was for Public Works and the significant increase was due in a large part to the purchase of the new Public Works facility.
- **Recreation and Cultural** – In the previous year, Idlewild Park was upgraded with no similar projects occurring in the current year.
- **Nondepartmental** – The increase is primarily attributed to the increase Other Post Retirement Plan Benefit funding costs coupled with increases in professional services.
- **Debt Service** – As noted previously, the Town refinanced approximately \$2 million in loans payable through the issuance of a Bond.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)

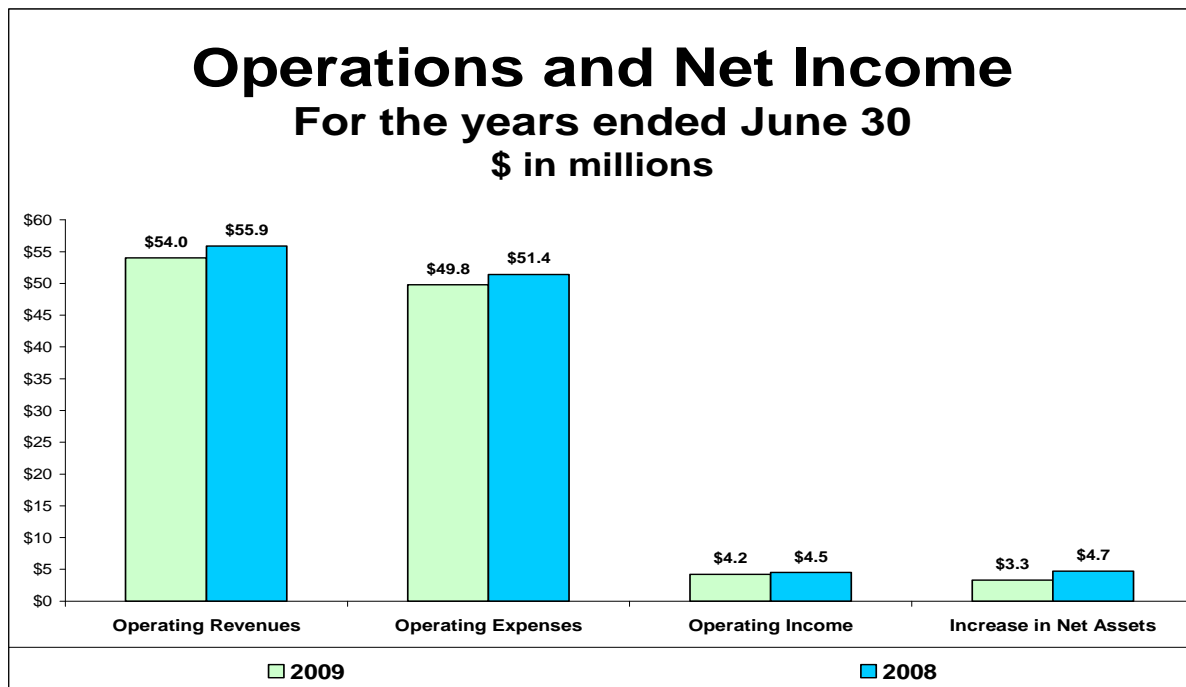
Enterprise Funds Revenue and Expense Analysis

Utility Fund

Operating Revenues: Revenues in FY09 decreased \$1.9 million, or 3.4%, from FY08. This was largely due to \$2.6 million, or 6.9%, lower revenues in the Electric Department as a result of lower purchased power costs being passed through to customers at no markup and lower generation sales. The Gas Department's revenues increased \$681 thousand, or 8.8%, from the prior year, mostly due to higher gas costs being passed through to customers at no markup, customer growth, and higher usage per customer. The Water & Wastewater Department's revenues decreased \$428 thousand, or 9.2%, reflecting unfavorable weather and a decrease in usage per customer, partially offset by an increase in the number of customers. Cable & Communication's revenues increased \$426 thousand, or 5.8%, over FY08, primarily as a result of a shift from analog to digital cable TV service, coupled with continued growth of VOIP customers, and a shift from dial-up to cable modem internet service.

Operating Expenses: The Commission's operating expenses decreased \$1.6 million, or 3.1%, versus FY08. The primary driver of the change was \$1.1 million, or 4.5%, lower purchased power and generation expenses in the Electric Department. The Gas Department's operating expenses were \$613 thousand, or 8.3%, higher during FY09 primarily due to the higher cost of gas purchased during the year. The Water & Wastewater Department's operating expenses were \$115 thousand, or 2.9%, higher than the prior year due in large part to higher energy costs. Cable & Communications experienced a \$199 thousand, or 3.5%, increase in operating expenses as a result of increasing programming costs and costs associated with the Internet Division's new VOIP service.

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



**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

ANALYSIS OF BUDGET AND ACTUAL RESULTS

	<u>Final Budget</u>	<u>Original and Actual</u>	<u>Variance Positive (Negative)</u>
GOVERNMENTAL FUNDS			
Revenues			
Taxes	\$ 13,422,841	\$ 13,491,328	\$ 68,487
Licenses and permits	507,750	718,561	210,811
Intergovernmental	511,300	994,632	483,332
Charges for services	944,917	1,062,833	117,916
Fines and forfeitures	64,750	38,594	(26,156)
Miscellaneous	<u>1,516,900</u>	<u>1,568,813</u>	<u>51,913</u>
Total revenues	<u>\$ 16,968,458</u>	<u>\$ 17,874,761</u>	<u>\$ 906,303</u>
Expenditures			
Current operations:			
General government administration	\$ 1,515,256	\$ 1,532,231	\$ (16,975)
Public safety	6,366,306	6,430,631	(64,325)
Public works	3,148,946	3,124,679	24,267
Recreation and cultural	420,261	288,083	132,178
Economic development	188,431	180,103	8,328
Nondepartmental	2,129,340	810,072	1,319,268
Debt service:			
Principal	208,024	2,162,212	(1,954,188)
Interest	118,759	148,621	(29,862)
Other financing (sources) uses			
Debt proceeds	-	(18,895)	18,895
Transfers in	<u>2,873,135</u>	<u>2,873,135</u>	<u>-</u>
Total expenditures and other uses	<u>\$ 16,968,458</u>	<u>\$ 17,530,872</u>	<u>\$ (562,414)</u>

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

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

- Gross Actual Revenue exceeded Gross Budgeted Revenue by approximately \$906,000 or 5.3% of the budgeted revenue of approximately \$17 million. This is primarily attributable to licenses and permits exceeding the original budget resulting from a new fee source and reimbursements from the State for Open Space.
- Gross Actual Expenditures and Other Financing Uses exceeded the Gross Budgeted Expenditures by approximately \$562,000 or 3.3% of budgeted expenditures and other financing uses. The most significant variances related to Nondepartmental and Debt Service. Debt Service Principal expenditures of approximately \$2 million resulted from the refinancing of a loan through the issuance of a Bond. Nondepartmental category which primarily represents contingency and other miscellaneous expenditures not otherwise categorized. Of the approximate \$2.1 million budgeted, approximately \$810,000 was actually needed.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

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, 2009, amounts to \$104.8 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, recreation and park facilities, utilities properties and facilities as well as other typical capital items.

The following table schedules capital assets by category (net of accumulated depreciation) for fiscal years ending June 30, 2009 and 2008, respectively:

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

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 6,965,433	\$ 6,965,433	\$ 1,278,279	\$ 1,278,279	\$ 8,243,712	\$ 8,243,711
Buildings and improvements	15,476,827	12,560,535	20,520,830	21,460,818	35,997,657	34,021,353
Plants, mains and other equipment	3,378,855	2,292,427	59,770,918	59,193,532	63,149,773	61,485,959
Construction in progress	<u>2,374,554</u>	<u>-</u>	<u>1,102,344</u>	<u>1,030,025</u>	<u>3,476,898</u>	<u>1,030,025</u>
Total	\$ 28,195,669	\$ 21,818,395	\$ 82,672,371	\$ 82,962,653	\$ 110,868,040	\$ 104,781,048

During the year ended June 30, 2009, the Town's capital assets grew by approximately \$6 million. This is largely due to the purchase of a new Public Works facility and the construction in progress on the Police Department addition.

Long-Term Debt Activity

The Town of Easton issued approximately \$10 million of new long-term debt during the fiscal year ended June 30, 2009 for governmental fund purposes for the financing of capital additions. This resulted in a new bond issuance during the year and included the refinancing of a loan during the same time frame.

Changes in Long-Term Liabilities

Town of Easton's Outstanding Long-Term Debt

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Long-term debt	<u>\$ 12,772,828</u>	<u>\$ 5,163,390</u>	<u>\$ 25,621,420</u>	<u>\$ 26,870,011</u>	<u>\$ 38,394,248</u>	<u>\$32,033,401</u>

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

SUBSEQUENT ITEMS FOR FUTURE FINANCIAL STATEMENTS

On July 15, 2009, the Commission filed for an increase in gas service base rates with the PSC. The increase sought is approximately \$351 thousand, or 4.5% of test period revenues, based on the test period ended June 30, 2008, as adjusted for certain known and measurable items. A proposed order is expected in the case no later than the end of 2009.

Subsequent to the passing of the FY2010 budget for the Town of Easton, the State of Maryland made reductions to the State Aid for Police Protection and the Highway Safety User Funds which help fund the Police Department activity and the Public Works Department activities. Additional cuts are anticipated to the Local income tax revenues to compensate for the projected shortfalls in the State of Maryland Revenues. The Mayor, Town Council and staff are making the necessary reductions to compensate for all anticipated reduction reductions and working to improve overall organizational efficiencies to minimize the effects it may have on Town operations.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

TOWN OF EASTON, MARYLAND
STATEMENT OF NET ASSETS
June 30, 2009

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 17,954,022	\$ 1,627,633	\$ 19,581,655
Investments	12,009	14,939,551	14,951,560
Accounts receivable, net	379,865	4,781,602	5,161,467
Grant and loan receivable	1,181,755	-	1,181,755
Interest receivable	-	6,355	6,355
Prepaid expenses	194,677	315,393	510,070
Unbilled revenue	-	1,426,437	1,426,437
Inventory, at average cost	-	3,471,657	3,471,657
Total current assets	19,722,328	26,568,628	46,290,956
NONCURRENT ASSETS			
Unamortized expenses	-	318,617	318,617
Note receivable, non-current	164,375	-	164,375
Asset held for resale	-	20,133	20,133
Capital assets, not being depreciated	9,339,987	2,380,623	11,720,610
Capital assets, net of accumulated depreciation	18,855,682	80,291,748	99,147,430
Total non current assets	28,360,044	83,011,121	111,371,165
Total assets	48,082,372	109,579,749	157,662,121
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	1,033,076	2,118,898	3,151,974
Accrued liabilities	457,403	1,273,481	1,730,884
Tax collection payable	-	225,282	225,282
Over-recovered fuel and gas costs	-	210,883	210,883
Performance deposits	64,586	975,562	1,040,148
Due to Asbury Place	-	163,243	163,243
Unearned revenue	11,436	30,000	41,436
Internal Balances	(696,886)	696,886	-
Current portion of long-term debt	1,032,789	1,398,312	2,431,101
Total current liabilities	1,902,404	7,092,547	8,994,951
NONCURRENT LIABILITIES			
Long-term debt	11,245,655	24,223,108	35,468,763
Compensated absences	494,384	-	494,384
Total noncurrent liabilities	11,740,039	24,223,108	35,963,147
Total liabilities	13,642,443	31,315,655	44,958,098
NET ASSETS			
Invested in capital assets, net of related debt	16,040,821	57,216,519	73,257,340
Restricted for debt service	1,696,408	-	1,696,408
Unrestricted	16,702,700	21,047,575	37,750,275
TOTAL NET ASSETS	\$ 34,439,929	\$ 78,264,094	\$ 112,704,023

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

TOWN OF EASTON, MARYLAND
STATEMENT OF ACTIVITIES
Year Ended June 30, 2009

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	\$ 1,563,903	\$ 820,674	\$ -	\$ -	\$ (743,229)	\$ -	\$ (743,229)
Public safety	6,818,764	240,770	1,127,230	-	(5,450,764)	-	(5,450,764)
Public works	3,652,482	1,377,316	984,624	-	(1,290,542)	-	(1,290,542)
Recreation and cultural	671,936	-	14,883	-	(657,053)	-	(657,053)
Economic development	304,654	-	34,500	-	(270,154)	-	(270,154)
Nondepartmental	1,085,167	42,619	39,117	-	(1,003,431)	-	(1,003,431)
Interest expense	192,776	-	-	-	(192,776)	-	(192,776)
Total governmental activities	<u>14,289,682</u>	<u>2,481,379</u>	<u>2,200,354</u>	<u>-</u>	<u>(9,607,949)</u>	<u>-</u>	<u>(9,607,949)</u>
Business-type activities:							
Utility	50,897,373	53,982,646	-	-	-	3,085,273	3,085,273
Land enterprise	237,152	237,405	-	-	-	253	253
Airport Industrial	35,294	3,373	-	-	-	(31,921)	(31,921)
East End redevelopment	49,539	-	-	-	-	(49,539)	(49,539)
Total business-type activities	<u>51,219,358</u>	<u>54,223,424</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,004,066</u>	<u>3,004,066</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 65,509,040</u>	<u>\$ 56,704,803</u>	<u>\$ 2,200,354</u>	<u>\$ -</u>	<u>(9,607,949)</u>	<u>3,004,066</u>	<u>(6,603,883)</u>
General revenues:							
Property taxes					11,186,291	-	11,186,291
Payment in lieu of taxes					1,511,869	(1,511,869)	-
Intergovernmental, unrestricted					1,498,781	-	1,498,781
Interest and investment earnings					59,534	500,808	560,342
Miscellaneous					83,890	1,176,083	1,259,973
Transfers					(45,000)	45,000	-
Total general revenues					<u>14,295,365</u>	<u>210,022</u>	<u>14,505,387</u>
CHANGE IN NET ASSETS					4,687,416	3,214,088	7,901,504
NET ASSETS, BEGINNING OF YEAR (as restated)					<u>29,752,513</u>	<u>75,050,006</u>	<u>104,802,519</u>
NET ASSETS, ENDING OF YEAR					<u>\$ 34,439,929</u>	<u>\$ 78,264,094</u>	<u>\$ 112,704,023</u>

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

**TOWN OF EASTON, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2009**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 4,524,650	\$ 5,626,611	\$ 7,802,761	\$ 17,954,022
Investments	12,009	-	-	12,009
Accounts receivable, net	1,058,335	122,285	381,000	1,561,620
Note receivable	-	-	164,375	164,375
Prepaid expenses	194,677	-	-	194,677
Unamortized expenses	-	-	196,274	196,274
Due from other funds	696,886	-	-	696,886
TOTAL ASSETS	<u>\$ 6,486,557</u>	<u>\$ 5,748,896</u>	<u>\$ 8,544,410</u>	<u>\$ 20,779,863</u>
LIABILITIES				
Accounts payable	\$ 231,225	\$ 796,365	\$ 5,486	\$ 1,033,076
Accrued liabilities	579,319	-	1,680	580,999
Performance deposits	64,586	-	-	64,586
Deferred revenue	290,641	-	-	290,641
Total liabilities	<u>1,165,771</u>	<u>796,365</u>	<u>7,166</u>	<u>1,969,302</u>
FUND BALANCES				
Reserved for debt service fund	-	-	1,696,408	1,696,408
Unreserved, undesignated reported in:				
General fund	5,320,786	-	-	5,320,786
Capital projects fund	-	4,952,531	-	4,952,531
CDBG fund	-	-	342,201	342,201
Law enforcement fund	-	-	(103,336)	(103,336)
Budget stabilization fund	-	-	2,058,389	2,058,389
Special taxing district fund	-	-	(475,358)	(475,358)
Infrastructure development fund	-	-	5,018,940	5,018,940
Total fund balances	<u>5,320,786</u>	<u>4,952,531</u>	<u>8,537,244</u>	<u>18,810,561</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 6,486,557</u>	<u>\$ 5,748,896</u>	<u>\$ 8,544,410</u>	<u>\$ 20,779,863</u>

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

TOWN OF EASTON, MARYLAND
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2009

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 18,810,561

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 \$42,064,518 and the accumulated depreciation is \$13,868,849. 28,195,669

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	11,200,000	
Notes payable	1,119,320	
Capital lease obligations	31,802	
Compensated absences - long-term portion	494,384	(12,845,506)

Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. 279,205

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 34,439,929

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

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2009

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
General property taxes	\$ 11,186,291	\$ -	\$ -	\$ 11,186,291
Other local taxes	2,305,037	-	-	2,305,037
Permits and licenses	718,561	-	-	718,561
Fines and forfeitures	38,594	-	-	38,594
Charges for services	1,062,833	-	-	1,062,833
Miscellaneous	1,568,813	2,000	792,846	2,363,659
Revenues from other agencies	994,632	-	556,634	1,551,266
Total revenues	<u>17,874,761</u>	<u>2,000</u>	<u>1,349,480</u>	<u>19,226,241</u>
EXPENDITURES				
Current operations:				
General government	1,532,231	26,929	-	1,559,160
Public safety	6,430,631	2,651,377	53,802	9,135,810
Public works	3,124,679	4,684,945	-	7,809,624
Recreation and cultural	288,083	32,644	262,857	583,584
Economic development	180,103	-	-	180,103
Nondepartmental	810,072	-	395,211	1,205,283
Debt service:				
Principal	2,162,212	-	280,000	2,442,212
Interest	148,621	-	44,155	192,776
Total expenditures	<u>14,676,632</u>	<u>7,395,895</u>	<u>1,036,025</u>	<u>23,108,552</u>
Excess of revenues over expenditures	<u>3,198,129</u>	<u>(7,393,895)</u>	<u>313,455</u>	<u>(3,882,311)</u>
OTHER FINANCING SOURCES (USES)				
Debt proceeds	18,895	9,995,000	-	10,013,895
Transfers in (out)	(2,873,135)	1,630,761	1,197,374	(45,000)
Total other financing sources (uses)	<u>(2,854,240)</u>	<u>11,625,761</u>	<u>1,197,374</u>	<u>9,968,895</u>
NET CHANGES IN FUND BALANCES	343,889	4,231,866	1,510,829	6,086,584
FUND BALANCES, BEGINNING OF	<u>4,976,897</u>	<u>720,665</u>	<u>7,026,415</u>	<u>12,723,977</u>
FUND BALANCES, END OF YEAR	<u>\$ 5,320,786</u>	<u>\$ 4,952,531</u>	<u>\$ 8,537,244</u>	<u>\$ 18,810,561</u>

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

**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, 2009**

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 6,086,584

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 (\$7,547,134) exceeds depreciation expense (\$1,162,005) in the period. 6,385,129

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, tradeins, and donations) is to increase net assets (7,855)

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 earned exceeded the amounts used by \$8,471. (8,471)

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. (7,571,683)

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. (196,288)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 4,687,416

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, 2009
(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget		
REVENUES				
Taxes				
General property taxes:				
Real property taxes	\$ 9,721,629	\$ 9,721,629	\$ 10,080,049	\$ 358,420
Personal property taxes - business	893,638	893,638	979,850	86,212
Personal property taxes - railroad and public utilities	195,498	195,498	181,827	(13,671)
Abatements/discounts	(106,022)	(106,022)	(124,830)	(18,808)
Penalties and interest	48,980	48,980	69,395	20,415
Total general property taxes	<u>10,753,723</u>	<u>10,753,723</u>	<u>11,186,291</u>	<u>432,568</u>
Local taxes:				
State shared income taxes	1,532,340	1,532,340	1,315,089	(217,251)
State shared highway taxes	1,132,428	1,132,428	984,624	(147,804)
Admission and amusements	3,600	3,600	4,574	974
Franchise-ordinary business corporation	750	750	750	-
Total other local taxes	<u>2,669,118</u>	<u>2,669,118</u>	<u>2,305,037</u>	<u>(364,081)</u>
Total taxes	<u>13,422,841</u>	<u>13,422,841</u>	<u>13,491,328</u>	<u>68,487</u>
Permits and licenses				
Trader's licenses	60,000	60,000	71,784	11,784
Building permits	300,000	300,000	339,914	39,914
Plumbing permits	42,000	42,000	21,115	(20,885)
Use and occupancy permits	46,000	46,000	33,450	(12,550)
Rental housing license fees	56,650	56,650	90,950	34,300
Permits and other licenses	3,100	3,100	161,348	158,248
Total permits and licenses	<u>507,750</u>	<u>507,750</u>	<u>718,561</u>	<u>210,811</u>
Fines and forfeitures	<u>64,750</u>	<u>64,750</u>	<u>38,594</u>	<u>(26,156)</u>
Charges for services				
General government	80,000	80,000	102,112	22,112
Public safety	187,217	187,217	172,733	(14,484)
Highway and streets	86,000	86,000	131,053	45,053
Sanitation and waste removal	591,700	591,700	656,815	65,115
Other recreation fees	-	-	120	120
Total charges for services	<u>944,917</u>	<u>944,917</u>	<u>1,062,833</u>	<u>117,916</u>
Revenues from other agencies				
State:				
Police protection	244,000	244,000	263,836	19,836
Fire, rescue and ambulance	14,000	14,000	22,038	8,038
Recreation and parks	-	-	319,221	319,221
Conservation and critical areas	13,300	13,300	14,883	1,583
Total state	<u>271,300</u>	<u>271,300</u>	<u>619,978</u>	<u>348,678</u>
County:				
Taxes	240,000	240,000	374,654	134,654
Total county	<u>240,000</u>	<u>240,000</u>	<u>374,654</u>	<u>134,654</u>
Total revenues from other agencies	<u>511,300</u>	<u>511,300</u>	<u>994,632</u>	<u>483,332</u>
Miscellaneous	<u>1,516,900</u>	<u>1,516,900</u>	<u>1,568,813</u>	<u>51,913</u>
TOTAL REVENUES	<u>16,968,458</u>	<u>16,968,458</u>	<u>17,874,761</u>	<u>906,303</u>

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

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
(NON-GAAP BUDGETARY BASIS) – GENERAL FUND
Year Ended June 30, 2009
(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget		
EXPENDITURES				
General government				
Legislative:				
Town council	\$ 76,815	\$ 76,815	\$ 147,439	\$ (70,624)
Town clerk	81,889	81,889	87,829	(5,940)
Total legislative	<u>158,704</u>	<u>158,704</u>	<u>235,268</u>	<u>(76,564)</u>
Executive Mayor	139,020	139,020	30,153	108,867
Town Manager	277,318	277,318	294,744	(17,426)
Elections	7,100	7,100	11,284	(4,184)
Financial administration	397,234	397,234	367,399	29,835
Independent accounting & auditing	33,500	33,500	40,587	(7,087)
Law	70,000	70,000	35,786	34,214
Planning and zoning	326,790	326,790	407,977	(81,187)
General services	105,590	105,590	109,033	(3,443)
Total general government	<u>1,515,256</u>	<u>1,515,256</u>	<u>1,532,231</u>	<u>(16,975)</u>
Public safety				
Police	5,400,060	5,400,060	5,641,178	(241,118)
Traffic control	51,345	51,345	50,988	357
Fire and rescue	396,337	396,337	290,936	105,401
Code enforcement	352,747	352,747	306,118	46,629
Rental housing	137,454	137,454	105,428	32,026
Traffic engineering	28,363	28,363	35,983	(7,620)
Total public safety	<u>6,366,306</u>	<u>6,366,306</u>	<u>6,430,631</u>	<u>(64,325)</u>
Public works				
Administration	445,685	445,685	455,012	(9,327)
Sanitation and waste removal	1,784,397	1,784,397	1,478,489	305,908
Highways, streets and sidewalks	917,614	917,614	1,188,143	(270,529)
Mosquito control	1,250	1,250	3,035	(1,785)
Total public works	<u>3,148,946</u>	<u>3,148,946</u>	<u>3,124,679</u>	<u>24,267</u>
Parks, recreation and cultural				
Parks and recreation administration	76,965	76,965	75,992	973
Participation recreation	66,735	66,735	60,341	6,394
Municipal parks	276,561	276,561	151,750	124,811
Total parks, recreation and cultural	<u>420,261</u>	<u>420,261</u>	<u>288,083</u>	<u>132,178</u>
Economic development				
	<u>188,431</u>	<u>188,431</u>	<u>180,103</u>	<u>8,328</u>
Nondepartmental				
	<u>2,129,340</u>	<u>2,129,340</u>	<u>810,072</u>	<u>1,319,268</u>
Debt service				
Principal	208,024	208,024	2,162,212	(1,954,188)
Interest	118,759	118,759	148,621	(29,862)
Total debt service	<u>326,783</u>	<u>326,783</u>	<u>2,310,833</u>	<u>(1,984,050)</u>
TOTAL EXPENDITURES	<u>14,095,323</u>	<u>14,095,323</u>	<u>14,676,632</u>	<u>(581,309)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>2,873,135</u>	<u>2,873,135</u>	<u>3,198,129</u>	<u>324,994</u>

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

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
(NON-GAAP BUDGETARY BASIS) – GENERAL FUND
Year Ended June 30, 2009
(Continued)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
OTHER FINANCING SOURCES (USES)				
Debt proceeds	\$ -	\$ -	\$ 18,895	\$ 18,895
Transfers:				
Debt service	(327,067)	(327,067)	(327,067)	-
Capital projects	(1,630,761)	(1,630,761)	(1,630,761)	-
Budget stabilization	(870,307)	(870,307)	(870,307)	-
Land enterprise	(45,000)	(45,000)	(45,000)	-
TOTAL OTHER FINANCING USES	<u>\$ (2,873,135)</u>	<u>\$ (2,873,135)</u>	<u>(2,854,240)</u>	<u>\$ 18,895</u>
NET CHANGE IN FUND BALANCE			343,889	
FUND BALANCE, BEGINNING OF YEAR			<u>4,976,897</u>	
FUND BALANCE, END OF YEAR			<u>\$ 5,320,786</u>	

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

TOWN OF EASTON, MARYLAND
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2009

	Business-Type Activities - Enterprise Funds		
	Utility	Other	Totals
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 1,319,992	\$ 307,641	\$ 1,627,633
Investments	14,939,551	-	14,939,551
Accounts receivable, net	4,775,521	6,081	4,781,602
Interest receivable	6,355	-	6,355
Prepaid expenses	315,393	-	315,393
Inventory	3,471,657	-	3,471,657
Unbilled revenue	1,426,437	-	1,426,437
Total current assets	<u>26,254,906</u>	<u>313,722</u>	<u>26,568,628</u>
NONCURRENT ASSETS			
Unamortized expenses	318,617	-	318,617
Asset held for resale	20,133	-	20,133
Capital assets, not being depreciated	2,126,339	254,284	2,380,623
Capital assets, net of accumulated depreciation	<u>77,397,106</u>	<u>2,894,642</u>	<u>80,291,748</u>
Total noncurrent assets	<u>79,862,195</u>	<u>3,148,926</u>	<u>83,011,121</u>
TOTAL ASSETS	<u>\$ 106,117,101</u>	<u>\$ 3,462,648</u>	<u>\$ 109,579,749</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ 2,105,803	\$ 13,095	\$ 2,118,898
Accrued liabilities	1,273,071	410	1,273,481
Over-recovered fuel and gas costs	210,883	-	210,883
Tax collection payable	225,282	-	225,282
Performance deposits	965,628	9,934	975,562
Due to Asbury Place	-	163,243	163,243
Deferred revenue	30,000	-	30,000
Due to other funds	-	696,886	696,886
Current portion of long-term debt	<u>1,398,312</u>	<u>-</u>	<u>1,398,312</u>
Total current liabilities	<u>6,208,979</u>	<u>883,568</u>	<u>7,092,547</u>
NONCURRENT LIABILITIES			
Long-term debt	<u>22,550,984</u>	<u>1,672,124</u>	<u>24,223,108</u>
Total liabilities	<u>28,759,963</u>	<u>2,555,692</u>	<u>31,315,655</u>
NET ASSETS			
Invested in capital assets, net of related debt	55,739,717	1,476,802	57,216,519
Unrestricted	<u>21,617,421</u>	<u>(569,846)</u>	<u>21,047,575</u>
Total net assets	<u>77,357,138</u>	<u>906,956</u>	<u>78,264,094</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 106,117,101</u>	<u>\$ 3,462,648</u>	<u>\$ 109,579,749</u>

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

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2009

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Utility</u>	<u>Other</u>	<u>Total</u>
Operating revenues	\$ 53,982,646	\$ 240,778	\$ 54,223,424
Operating expenses	<u>49,815,029</u>	<u>321,985</u>	<u>50,137,014</u>
Operating income (loss)	<u>4,167,617</u>	<u>(81,207)</u>	<u>4,086,410</u>
Non-operating revenues			
(expenses):			
Revenue	1,676,873	18	1,676,891
Expense	<u>(2,594,213)</u>	<u>-</u>	<u>(2,594,213)</u>
Total non-operating revenues (expenses)	<u>(917,340)</u>	<u>18</u>	<u>(917,322)</u>
Income before transfers	3,250,277	(81,189)	3,169,088
Transfers in	<u>-</u>	<u>45,000</u>	<u>45,000</u>
CHANGES IN NET ASSETS	3,250,277	(36,189)	3,214,088
NET ASSETS, BEGINNING OF YEAR (as restated)	<u>74,106,861</u>	<u>943,145</u>	<u>75,050,006</u>
NET ASSETS, END OF YEAR	<u><u>\$ 77,357,138</u></u>	<u><u>\$ 906,956</u></u>	<u><u>\$ 78,264,094</u></u>

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

TOWN OF EASTON, MARYLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2009

	Business-Type Activities - Enterprise Funds		
	Utility	Other	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received for services	\$ 59,072,755	\$ 244,556	\$ 59,317,311
Cash paid to suppliers for goods and services	(40,628,369)	(140,801)	(40,769,170)
Cash paid to employees for services	(7,337,445)	-	(7,337,445)
Net cash provided by operating activities	<u>11,106,941</u>	<u>103,755</u>	<u>11,210,696</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES			
Cash paid in lieu of taxes	(1,511,890)	-	(1,511,890)
Transfers from other funds	-	33,374	33,374
Net cash provided by (used in) non-capital and related financing activities	<u>(1,511,890)</u>	<u>33,374</u>	<u>(1,478,516)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from disposition of assets	5,595	-	5,595
Proceeds from capital charges	751,756	-	751,756
Purchases/construction of capital assets	(5,472,938)	(21,948)	(5,494,886)
Proceeds from notes payable	90,758	-	90,758
Payment of debt	(1,337,265)	-	(1,337,265)
Interest paid on bond indebtedness	(266,398)	-	(266,398)
Other interest paid	(148,473)	-	(148,473)
Net cash used in capital and related financing activities	<u>(6,376,965)</u>	<u>(21,948)</u>	<u>(6,398,913)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on cash deposits and investments	171,330	18	171,348
Sales of investments	1,000,000	-	1,000,000
Purchases of investments	(7,256,528)	-	(7,256,528)
Net cash provided by investing activities	<u>(6,085,198)</u>	<u>18</u>	<u>(6,085,180)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>(2,867,112)</u>	<u>115,199</u>	<u>(2,751,913)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,187,104</u>	<u>192,442</u>	<u>4,379,546</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,319,992</u>	<u>\$ 307,641</u>	<u>\$ 1,627,633</u>

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

Operating income (loss)	\$ 4,167,617	\$ (81,207)	\$ 4,086,410
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	5,468,550	177,729	5,646,279
Amortization	(21,736)	-	(21,736)
Other miscellaneous non-operating revenue	256,130	-	256,130
Effects of changes in operating assets and liabilities:			-
Accounts receivable, net	4,500,584	(1,567)	4,499,017
Inventory	213,641	-	213,641
Unrecovered fuel and gas costs	(9,229)	-	(9,229)
Accounts payable and accrued liabilities	(3,468,616)	8,800	(3,459,816)
Total adjustments	<u>6,939,324</u>	<u>184,962</u>	<u>7,124,286</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 11,106,941</u>	<u>\$ 103,755</u>	<u>\$ 11,210,696</u>

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

TOWN OF EASTON, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2009

	Defined Benefit Plan (For the 12 months ended July 31, 2008)
ADDITIONS	
Contributions:	
Employer	\$ 1,019,227
Plan members	171,490
Total contributions	1,190,717
Investment earnings:	
Investment income	717,646
Gain on investments	(787,706)
Total investment earnings	(70,060)
Less Investment expense	150,314
Net investment earnings	(220,374)
Total additions	970,343
DEDUCTIONS	
Benefit payments	791,535
NET CHANGE	178,808
NET ASSETS AT BEGINNING OF YEAR	17,794,392
NET ASSETS AT END OF YEAR	\$ 17,973,200

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

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

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

Government-Wide and Fund Financial Statements

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

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

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

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

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

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 one pension fiduciary fund, the Town of Easton, Maryland - Defined Benefit Plan. As a fiduciary fund, the pension fund is used to account for assets held on behalf of outside parties under the terms of a formal trust agreement.

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

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

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Estimates

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

Cash, Cash Equivalents and Investments

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

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

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

Receivables and Payables

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

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

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, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Term Obligations

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

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

Compensated Absences

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

Unbilled Revenue

Customers of the Utility Fund's Electric and Gas Departments are billed in arrears on one of three monthly cycles. A provision for revenue is recorded based on the actual billings in July and the days unbilled in each cycle at the end of June. Customers of the Commission's Water and Wastewater Department are billed quarterly. As such, a provision for revenue is recorded representing customer usage during the later part of the year, but not yet billed at year end. This amount is estimated using prior year's actual billing to represent the current period's activity. The balance at June 30, 2009 is \$1,426,437.

Unearned Revenues

Customers of the Utility Fund's Cable and Internet Department are billed in advance leaving a portion of June 2009 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, 2009 is \$30,000.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Equity

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

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

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

Unrecovered and Over-recovered Fuel and Gas Costs

The Utility Fund recognizes the effects of purchased power and gas costs that have not been recovered from customers by way of fuel cost adjustment and purchased gas adjustment revenues. Unrecovered fuel and gas costs represent purchased power and gas costs that have been incurred by the Utility Fund, but which have not yet been billed to customers. Over-recovered fuel and gas costs represent purchased power and gas costs that have been billed to customers, but which have not yet been incurred by the Utility Fund. As of June 30, 2009, the Commission had over-recovered fuel and gas costs of \$210,883.

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

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

Inventory

The Utility Fund's inventory, consisting of natural gas, materials, fuels and supplies, is recorded at the lower of cost or market. It is carried and charged as used in the operations of the fund at average cost. Inventory totaled \$3,471,657 at June 30, 2009.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stewardship, Compliance, and Accountability

Budgetary Information

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

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

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

The budget is prepared on a basis consistent with generally accepted accounting principles (GAAP) except that short-term debt is considered other financing sources for budgetary purposes. There were no reconciling items between GAAP and the budgetary basis for the year ended June 30, 2009

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

At year-end, the carrying amount of the Town deposits (including cash on hand of \$17,220) was \$19,581,655 and the bank balance was \$19,779,258. 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, 2009.

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, 2009, the Town had \$14,951,560 invested in this Pool.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investment Rate Risk

Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. To limit the Town's exposure to fair value losses arising from increasing interest rates, the Town investment policy limits the term of investment maturities. The Town management believes the liquidity of the portfolio is adequate to meet cash flows requirements and to preclude the Town from having to sell investments below original cost for that purpose. The investments at June 30, 2009 met the Town's investment policy.

Investment Credit Risk

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

Investment Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the Town will not be able to recover all or a portion of the value of its investments or collateral securities that are in the possession of an outside party. The Town's investment custodial credit risk policy requires all investments to be insured or registered, or for which the securities are held by the Town or its agent in the Town's name, be invested in MLGIP. At June 30, 2009 the Town's investments were invested in the MLGIP.

Defined Benefit Plan Investments

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

Guaranteed account	\$ 8,467,107
Variable earnings investments:	
CIGNA Open-End Real Estate (R)	608
LCB/Victory (9V)	4,380,564
MCB/New Amsterd (MCG)	1,243,985
SCB/WHV (SBI)	1,508,282
Intl Eq/Julius (IE2)	1,569,678
Amcentriesiinv (5AR)	<u>802,976</u>
Total investments	<u>\$17,973,200</u>

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Defined Benefit Plan Investments (Continued)

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

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

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

	Valuation	Weighted Average Maturity
Guaranteed account	\$ 8,467,107	N/A

The guaranteed contract and the mutual funds are unrated.

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.

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	\$ 327,162	\$ -	\$ -	\$ -	\$ 327,162
Accounts	271,036	-	4,775,521	6,081	5,052,638
Due from other governments	678,470	503,285	-	-	1,181,755
Interest	-	-	6,355	-	6,355
Allowance for uncollectibles	(218,333)	-	-	-	(218,333)
Net receivables	\$ 1,058,335	\$ 503,285	\$ 4,781,876	\$ 6,081	\$ 6,349,577

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 3 – RECEIVABLES (CONTINUED)

Governmental funds report deferred revenue in relation to receivables for revenues that are not considered to be available to liquidate liabilities of the current period such as property taxes not collected within 60 days after fiscal year-end. Deferred revenue also includes revenues which are unearned at year-end such as, rental and program advances, franchise fees and similar prepayments received by the Town, grant revenue received prior to the incurrence of qualifying expenditures and governmental fund non-exchange contributions. Deferred revenue reported in the Governmental Fund Balance Sheet for the General Fund at June 30, 2009 is summarized as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Income taxes	\$ 279,205	\$ -	\$ 279,205
Miscellaneous	<u>-</u>	<u>11,436</u>	<u>11,436</u>
Total	<u>\$ 279,205</u>	<u>\$ 11,436</u>	<u>\$ 290,641</u>

NOTE 4 – INTER-FUND TRANSFERS

Transfers

Inter-fund transfer activity for the year ended June 30, 2009 was as follows:

	<u>Transfers In:</u>		
	<u>Non-Major Governmental</u>	<u>Land Enterprise</u>	<u>Total</u>
<u>Transfers Out:</u>			
General	<u>\$ 2,828,135</u>	<u>\$ 45,000</u>	<u>\$ 2,873,135</u>

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 6,965,433	\$ -	\$ -	\$ 6,965,433
Construction in progress	-	2,374,554	-	2,374,554
Total capital assets, not being depreciated	<u>6,965,433</u>	<u>2,374,554</u>	<u>-</u>	<u>9,339,987</u>
Capital assets, being depreciated:				
Buildings and improvements	20,087,412	4,309,149	-	24,396,561
Equipment	7,550,288	863,431	85,749	8,327,970
Total capital assets, being depreciated	<u>27,637,700</u>	<u>5,172,580</u>	<u>85,749</u>	<u>32,724,531</u>
Less accumulated depreciation:				
Buildings and improvements	8,005,866	913,868	-	8,919,734
Equipment	4,778,872	248,137	77,894	4,949,114
Total accumulated depreciation	<u>12,784,738</u>	<u>1,162,005</u>	<u>77,894</u>	<u>13,868,949</u>
Net capital assets, being depreciated:	<u>14,852,962</u>	<u>4,010,575</u>	<u>7,855</u>	<u>18,855,682</u>
Governmental activities capital assets, net	<u>\$ 21,818,395</u>	<u>\$ 6,385,129</u>	<u>\$ 7,855</u>	<u>\$ 28,195,668</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 1,278,278	\$ -	\$ -	\$ 1,278,278
Construction in progress	1,030,025	5,472,938	5,400,618	1,102,345
Total capital assets, not being depreciated	<u>2,308,303</u>	<u>5,472,938</u>	<u>5,400,618</u>	<u>2,380,623</u>
Capital assets, being depreciated:				
Buildings and improvements	29,822,300	49,135	-	29,871,435
Equipment and other	119,880,525	5,373,429	1,271,148	123,982,806
Less: amount disallowed for regulation	(1,719,785)	-	-	(1,719,785)
Total capital assets, being depreciated	<u>147,983,040</u>	<u>5,422,564</u>	<u>1,271,148</u>	<u>152,134,456</u>
Less accumulated depreciation:				
Buildings and improvements	8,361,482	989,124	-	9,350,606
Equipment and other	58,967,208	4,775,910	1,251,016	62,492,102
Total accumulated depreciation	<u>67,328,690</u>	<u>5,765,034</u>	<u>1,251,016</u>	<u>71,842,708</u>
Net capital assets, being depreciated:	<u>80,654,350</u>	<u>(342,470)</u>	<u>(20,132)</u>	<u>80,291,748</u>
Business-type activities capital assets, net	<u>\$ 82,962,653</u>	<u>\$ 5,130,468</u>	<u>\$ 5,420,750</u>	<u>\$ 82,672,371</u>

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

Governmental activities	
General government	\$ 33,310
Public safety	363,262
Public works	520,500
Recreation and cultural	120,303
Non-departmental	<u>124,631</u>
Total governmental activities	<u>\$ 1,162,005</u>

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Business-type activities

Utility	\$ 5,587,306
Other	<u>177,728</u>

Total business-type activities	<u>\$ 5,765,034</u>
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NOTE 6 – OPERATING LEASES

Avalon Theatre

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

District Court

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

NOTE 7 – LONG-TERM LIABILITIES

Capital Leases

The Town entered into multiple capital lease agreements as the lessee for office equipment expiring between 2011 and 2014. The assets and liabilities under these capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over the lower of their related lease terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense and amounted to \$5,520 for the year ending June 30, 2009. The following is a summary of property held under capital leases:

Office equipment	\$ 71,696
Less: accumulated depreciation	<u>14,689</u>
Total	<u>\$ 57,007</u>

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

Capital Leases (Continued)

The future minimum lease payments are as follows:

Years Ending June 30	
2010	\$ 14,166
2011	8,137
2012	4,414
2013	4,220
2014	<u>3,517</u>
	34,454
Less: amount representing interest	<u>2,652</u>
Present value of net minimum lease payments	<u>\$ 31,802</u>

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

Bonds

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

Bond Issue	Maturity	Interest Rates	Balance at June 30, 2009
Public Facilities Bonds 1999	2019	3.75 – 5.25%	\$ 3,855,000
Public Facilities Bonds 2003	2023	2.00 – 5.00%	3,745,000
Public Facilities Bonds 2008	2028	2.00 – 5.00%	<u>9,995,000</u>
Total general obligation bonds			<u>\$ 17,595,000</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
2010	\$ 725,000	\$ 491,900	\$ 680,000	\$ 242,286
2011	730,000	472,515	705,000	216,488
2012	735,000	449,332	730,000	193,044
2013	735,000	423,611	625,000	169,593
2014	740,000	395,895	645,000	146,313
2015 – 2019	2,745,000	1,610,354	3,010,000	345,484
2020 – 2024	2,745,000	986,280	-	-
2025 – 2028	<u>4,790,000</u>	<u>327,957</u>	-	-
Total	<u>\$ 11,200,000</u>	<u>\$ 5,157,844</u>	<u>\$ 6,395,000</u>	<u>\$ 1,313,208</u>

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

Bonds (Continued)

In fiscal year 2003, the Town defeased the Public Facilities Bonds of 1990, the Public Facilities and Refunding Bonds of 1993 and the Public Facilities Bonds of 1996 by placing the proceeds of the new bonds, General Obligation Public Facilities and Refunding Bonds of 2003, in an irrevocable trust to provide for debt service payments on the old bonds due in the year 2014 and later. Accordingly, the trust account assets and liability for the defeased bonds are not included in the Town's financial statements. As of June 30, 2009, there remains \$4,035,000 of outstanding defeased debt.

In fiscal year 2006, the Town defeased a portion of the Utility Fund's share of the General Obligation Public Facilities Refunding Bond of 2003 by placing cash reserve funds in an irrevocable trust to provide for debt service payments on the old bond due in year 2017. Accordingly, the trust account assets and liability for the defeased portion of the bond are not included in the Town's financial statements. As of June 30, 2009, there remains \$1,755,000 of outstanding defeased debt.

Deferred loss on reacquired debt (net of amortization), of 196,274 is included in unamortized expenses at June 30, 2009.

State, County and Commercial Bank Loans

Government-type Funds

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

<u>For the Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 3,091	\$ 14,425	\$ 17,516
2011	3,233	14,283	17,516
2012	3,381	14,135	17,516
2013	3,537	13,979	17,516
2014	3,699	13,817	17,516
2015-2019	21,206	66,374	87,580
2020-2024	26,544	61,036	87,580
2025-2029	33,229	54,351	87,580
2030-2034	41,597	45,983	87,580
2035-2039	52,071	35,509	87,580
2040-2044	65,182	22,398	87,580
2045-2048	<u>63,775</u>	<u>6,289</u>	<u>70,064</u>
Total	<u>\$ 320,545</u>	<u>\$ 362,579</u>	<u>\$ 683,124</u>

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

State, County and Commercial Bank Loans (Continued)

Government-type Funds (Continued)

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

<u>For the Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 195,200	\$ 23,936	\$ 219,136
2011	195,200	15,610	210,810
2012	195,200	7,285	202,485
2013	<u>48,800</u>	<u>520</u>	<u>49,320</u>
Total	<u>\$ 634,400</u>	<u>\$ 47,351</u>	<u>\$ 681,751</u>

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

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, 2009, Asbury Place met those conditions and interest was forgiven.

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

State, County and Commercial Bank Loans (Continued)

Business-type Funds (Continued)

The MDE makes available to local governments at below market rates for certain water quality and drinking water projects. Proceeds of the loans are dispersed to the Town as draws according to approved construction payments. The total amount of the SRLF available to draw on is \$20,523,191. As of June 30, 2009, the balance is \$17,525,123. The note bears an interest rate of .40%. Interest only payments began February 1, 2005. Principal payments began February 1, 2008. In addition to the principal payment of \$677,265, the Town recorded a reduction in a prior estimation of accrued draw requests of \$90,758, for a total reduction in the note payable of \$776,008 in fiscal year 2009.

The Town anticipates any remaining required funds to be drawn by the end of fiscal year 2010. Upon the completion of all draws on the note, the final repayment schedule will be determined.

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	\$ 1,485,000	\$ 9,995,000	\$ 280,000	\$ 11,200,000	\$ 725,000
Note payable – bank loan	2,780,800	-	2,146,400	634,400	195,200
Note payable – DHCD	164,375	-	-	164,375	-
Note payable – USDA	323,500	-	2,955	320,545	3,091
Capital lease obligation	25,764	18,895	12,857	31,802	13,067
Deferred loss bond refunding	(223,440)	-	(27,166)	(196,274)	(27,165)
Compensated absences – Current	121,478	36,946	34,828	123,596	123,596
Compensated absences	<u>485,913</u>	<u>45,417</u>	<u>36,946</u>	<u>494,384</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 5,163,390</u>	<u>\$ 10,096,258</u>	<u>\$ 2,486,820</u>	<u>\$ 12,772,828</u>	<u>\$ 1,032,789</u>
Business-type activities					
General obligation bonds	\$ 7,055,000	\$ -	\$ 660,000	\$ 6,395,000	\$ 680,000
Note payable – DHCD	1,672,124	-	-	1,672,124	-
Loan – State of Maryland	18,111,630	90,758	677,265	17,525,123	718,312
Unamortized premium on long-term liabilities	<u>31,257</u>	<u>-</u>	<u>2,084</u>	<u>29,173</u>	<u>-</u>
Business-type activities long-term liabilities	<u>\$ 26,870,011</u>	<u>\$ 90,758</u>	<u>\$ 1,339,349</u>	<u>\$ 25,621,420</u>	<u>\$ 1,398,312</u>

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 8 – LINE-OF-CREDIT

Governmental Funds

The Town maintains a revolving line-of-credit agreement with a commercial bank for \$2,000,000, which bears interest in the amount of 1.15% above the LIBOR rate (.309% at June 30, 2009). 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, 2009.

Business-type Funds

The Town maintains a revolving line-of-credit agreement with a commercial bank for \$2,500,000, which bears interest in the amount of 1.15% above the LIBOR rate (.309% at June 30, 2009). 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, 2009.

NOTE 9 – DEFINED BENEFIT PENSION PLAN

Plan Description

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

Plan Membership

As of July 31, 2008 (the date of the last actuarial valuation), the pension plan's membership consisted of:

Active employees	249
Retirees and beneficiaries currently receiving benefits	79
Terminated employees entitled to benefits but not yet receiving them	<u>108</u>
Total	<u><u>436</u></u>

Funding Policy

The Plan covers all full-time employees who begin service prior to the age of 55. Except for sworn police officers, voluntary contributions from eligible employees are prohibited. Sworn police officers who are employed on a regular full-time basis with less than 25 years of service are required to contribute 5.70% of gross annual earnings. For police officers who are employed on a regular full-time basis with service in excess of 25 years, the required contribution rate is 6.70% of gross annual earnings. Participants' actual contributions during the year ended June 30, 2009 were \$162,544. Administrative costs are financed through investment earnings.

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 9 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Funding Policy (Continued)

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

Contributions to the Plan made by the Town are based on an actuarially determined basis. The contribution requirements of the Town are established and may be amended by the Town Council. The actuarially required and actual contribution to the Plan during the year ended June 30, 2009 was \$930,774.

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, 2008, no investment in any one organization, exceeded five percent or more of net assets available for benefits.

Actuarial Methods and Assumptions

The annual required contributions during the year ended June 30, 2009 was determined as part of the July 31, 2008 actuarial valuation using the Projected Unit Credit Actuarial Cost Method. The actuarial assumptions include (a) 7.75% investment rate of return (net of administrative expenses), and (b) projected salary increases of 5.0%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market of investments over a five-year period. The unfunded actuarial accrued liability is being amortized over a period of 30 years. The remaining amortization period at July 31, 2008 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	\$ 930,774
Interest on net pension obligation and other adjustment	<u>-</u>
Annual pension cost	930,774
Less: contributions made	<u>(930,774)</u>
Increase in net pension obligation	-
Net pension obligation, beginning of year	<u>(230)</u>
Net pension obligation, end of year	<u><u>\$ (230)</u></u>

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 9 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Annual Pension Cost and Net Pension Obligation (Continued)

Three year trend information:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
July 31, 2009	\$ 930,774	100.0	\$ (230)
July 31, 2008	1,019,227	100.0	(230)
July 31, 2007	1,007,165	99.9	(261)

Fund Status and Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Ratio of Assets to AAL</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
July 31, 2008	\$17,973,200	\$21,494,795	\$3,521,595	83.62%	\$12,693,536	27.74%

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.

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

The Town's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution* of the employer (ARC), an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The 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:

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation (Continued)

Annual required contribution	\$ 1,008,000
Contributions made	(502,000)
Increase in net OPEB obligation	502,000
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	\$ 502,000

The net OPEB obligation is included in liabilities at June 30, 2009.

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, 2009 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	\$ 1,008,000	49.80%	\$ 502,000

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, 2008	\$ -	\$10,468,000	\$10,468,000	0.0%	\$10,876,234	96.25%

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.

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, 2008 actuarial valuation, the projected unit credit method. The actuarial assumptions included a 6% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 11.0% initially, reduced by decrements to an ultimate rate of 5.0% after five years. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2008, was 30 years.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions (Continued)

Additional information as of the latest actuarial valuation follows:

Valuation Date	June 30, 2008
Actuarial Cost Method	Projected unit credit method
Amortization Method	Level percentage of pay over a 30-year period
Asset Valuation Method	Market value
Actuarial Assumptions:	
Investment Rate of Return	6.0% annual return
Payroll Growth Rate	5.0%

NOTE 11 – RELATED PARTY TRANSACTIONS

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

Utility services	\$ 447,554
Engineering services	<u>43,993</u>
Total services provided by the Utility Fund	\$ <u>491,547</u>

The outstanding balance of the above services remaining at June 30, 2009 was \$34,620. The General Fund charged the Utility Fund \$40,551 for street repairs and \$1,511,869 for payments in lieu of taxes during the year ended June 30, 2009.

NOTE 12 – OTHER INFORMATION

Risk Management

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

Contingent Liabilities and Commitments

Grants and Cost-reimbursable Contracts

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 12 – OTHER INFORMATION (CONTINUED)

Contingent Liabilities and Commitments (Continued)

Major Construction Projects

Construction is nearing completion on the Easton Police department addition and the Police department is expected to move into the completed addition in October 2009. The original portion of the facility will begin a renovation at that time with full renovation to be completed prior to June 2010. This expanded facility will accommodate the staff, provide for expanded training and improved law enforcement services. Anticipated final costs at completion are \$5.2 million. Costs for this project are recorded in the Capital Equipment Fund.

Fuel Cost and Purchased Gas Adjustment Rates

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

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

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

NOTE 13 – PRIOR PERIOD ADJUSTMENT

The net assets balance of the Utility Fund was restated at June 30, 2008 to correct an error in the accounting for unrecovered/over-recovered fuel and gas costs. The effect of this restatement was to decrease unrestricted net assets in the amount of \$190,451.

REQUIRED SUPPLEMENTARY INFORMATION

**TOWN OF EASTON, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS – DEFINED BENEFIT PLAN
June 30, 2009**

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, 2008	\$ 17,973,200	\$ 21,494,795	\$ 3,521,595	83.62%	\$ 12,693,536	27.74%
July 31, 2007	17,810,315	20,697,760	2,887,445	86.05%	11,653,090	24.78%
July 31, 2006	16,410,242	19,651,003	3,240,761	83.51%	10,706,680	30.27%

**TOWN OF EASTON, MARYLAND
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS
 June 30, 2009**

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, 2008	\$ -	\$ 10,468,000	\$ 10,468,000	0.0%	\$ 10,876,234	96.25%

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

**TOWN OF EASTON, MARYLAND
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2009**

	Debt Service	Community Development Block Grant	Law Enforcement	Budget Stabilization	Special Taxing District	Infrastructure Development	Total
ASSETS							
Cash and cash equivalents	\$ 1,503,523	\$ (203,174)	\$ (101,256)	\$ 2,058,389	\$ (475,358)	\$ 5,020,637	\$ 7,802,761
Accounts receivable, net	-	381,000	-	-	-	-	381,000
Notes receivable	-	164,375	-	-	-	-	164,375
Unamortized expense	196,274	-	-	-	-	-	196,274
TOTAL ASSETS	\$ 1,699,797	\$ 342,201	\$ (101,256)	\$ 2,058,389	\$ (475,358)	\$ 5,020,637	\$ 8,544,410
LIABILITIES							
Accounts payable	\$ 3,389	\$ -	\$ 400	\$ -	\$ -	\$ 1,697	\$ 5,486
Accrued liabilities	-	-	1,680	-	-	-	1,680
Total liabilities	3,389	-	2,080	-	-	1,697	7,166
FUND BALANCES (DEFICITS)							
Reserved	1,696,408	-	-	-	-	-	1,696,408
Capital assets, net of accumulated depreciation	-	342,201	(103,336)	2,058,389	(475,358)	5,018,940	6,840,836
Total fund balances (deficits)	1,696,408	342,201	(103,336)	2,058,389	(475,358)	5,018,940	8,537,244
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,699,797	\$ 342,201	\$ (101,256)	\$ 2,058,389	\$ (475,358)	\$ 5,020,637	\$ 8,544,410

TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)
NON-MAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2009

	Debt Service	Community Development Block Grant	Law Enforcement	Budget Stabilization	Special Taxing District	Infrastructure Development	Total
REVENUES							
Rents	\$ -	\$ 33,255	\$ -	\$ -	\$ -	\$ -	\$ 33,255
Miscellaneous revenue	65,426	11,044	52,544	-	-	630,577	759,591
Revenues from other agencies	-	531,766	24,868	-	-	-	556,634
Total revenues	<u>65,426</u>	<u>576,065</u>	<u>77,412</u>	<u>-</u>	<u>-</u>	<u>630,577</u>	<u>1,349,480</u>
EXPENDITURES							
Current operations:							
General governmental	-	-	-	-	-	-	-
Public safety	-	-	53,802	-	-	-	53,802
Public works	-	-	-	-	-	-	-
Recreation and cultural	-	262,857	-	-	-	-	262,857
Miscellaneous	387,664	-	-	-	-	7,547	395,211
Debt service:							
Principal	280,000	-	-	-	-	-	280,000
Interest	44,155	-	-	-	-	-	44,155
Total expenditures	<u>711,819</u>	<u>262,857</u>	<u>53,802</u>	<u>-</u>	<u>-</u>	<u>7,547</u>	<u>1,036,025</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(646,393)	313,208	23,610	-	-	623,030	313,455
OTHER FINANCING SOURCES (USES)							
Bond proceeds	-	-	-	-	-	-	-
Operating transfers in	327,067	-	-	870,307	-	-	1,197,374
Total other financing sources	<u>327,067</u>	<u>-</u>	<u>-</u>	<u>870,307</u>	<u>-</u>	<u>-</u>	<u>1,197,374</u>
NET CHANGE IN FUND BALANCES	(319,326)	313,208	23,610	870,307	-	623,030	1,510,829
FUND BALANCES (DEFICITS), BEGINNING OF YEAR	<u>2,015,734</u>	<u>28,993</u>	<u>(126,946)</u>	<u>1,188,082</u>	<u>(475,358)</u>	<u>4,395,910</u>	<u>7,026,415</u>
FUND BALANCES (DEFICITS), END OF YEAR	<u>\$ 1,696,408</u>	<u>\$ 342,201</u>	<u>\$ (103,336)</u>	<u>\$ 2,058,389</u>	<u>\$ (475,358)</u>	<u>\$ 5,018,940</u>	<u>\$ 8,537,244</u>

**TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR OTHER PROPRIETARY FUNDS
June 30, 2009**

	<u>Land Enterprise</u>	<u>Airport Industrial Land</u>	<u>East End Redevelopment</u>	<u>Total</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 188,519	\$ 119,122	\$ -	\$ 307,641
Accounts receivable, net	6,081	-	-	6,081
Total current assets	<u>194,600</u>	<u>119,122</u>	<u>-</u>	<u>313,722</u>
Noncurrent assets				
Capital assets, not being depreciated	15,028	67,945	171,311	254,284
Capital assets, net of accumulated depreciation	1,310,266	691,139	893,237	2,894,642
Total noncurrent assets	<u>1,325,294</u>	<u>759,084</u>	<u>1,064,548</u>	<u>3,148,926</u>
TOTAL ASSETS	<u>\$ 1,519,894</u>	<u>\$ 878,206</u>	<u>\$ 1,064,548</u>	<u>\$ 3,462,648</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 13,095	\$ -	\$ -	\$ 13,095
Accrued liabilities	410	-	-	410
Performance deposits	1,500	-	8,434	9,934
Due to Asbury Place	-	-	163,243	163,243
Due to other funds	-	-	696,886	696,886
Total current liabilities	<u>15,005</u>	<u>-</u>	<u>868,563</u>	<u>883,568</u>
Noncurrent liabilities				
Long-term debt	-	-	1,672,124	1,672,124
Total liabilities	<u>15,005</u>	<u>-</u>	<u>2,540,687</u>	<u>2,555,692</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,325,294	759,084	(607,576)	1,476,802
Unrestricted	179,595	119,122	(868,563)	(569,846)
Total net assets	<u>1,504,889</u>	<u>878,206</u>	<u>(1,476,139)</u>	<u>906,956</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,519,894</u>	<u>\$ 878,206</u>	<u>\$ 1,064,548</u>	<u>\$ 3,462,648</u>

TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS
NON-MAJOR OTHER PROPRIETARY FUNDS
Year Ended June 30, 2009

	<u>Land Enterprise</u>	<u>Airport Industrial Land</u>	<u>East End Redevelopment</u>	<u>Total</u>
Operating revenues	\$ 237,405	\$ 3,373	\$ -	\$ 240,778
Operating expenses	<u>237,152</u>	<u>35,294</u>	<u>49,539</u>	<u>321,985</u>
Operating loss	253	(31,921)	(49,539)	(81,207)
Non-operating revenues	<u>-</u>	<u>-</u>	<u>18</u>	<u>18</u>
Loss before transfers	253	(31,921)	(49,521)	(81,189)
Transfers in	<u>45,000</u>	<u>-</u>	<u>-</u>	<u>45,000</u>
CHANGES IN NET ASSETS	45,253	(31,921)	(49,521)	(36,189)
NET ASSETS, BEGINNING OF YEAR	<u>1,459,636</u>	<u>910,127</u>	<u>(1,426,618)</u>	<u>943,145</u>
NET ASSETS, END OF YEAR	<u><u>\$ 1,504,889</u></u>	<u><u>\$ 878,206</u></u>	<u><u>\$ (1,476,139)</u></u>	<u><u>\$ 906,956</u></u>

TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR OTHER PROPRIETARY FUNDS
Year Ended June 30, 2009

	Land <u>Enterprise</u>	Airport <u>Industrial Land</u>	East End <u>Redevelopment</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 235,839	\$ 3,374	\$ 5,343	\$ 244,556
Cash paid for services	(146,774)	(292)	6,265	(140,801)
Net cash provided by operating activities	<u>89,065</u>	<u>3,082</u>	<u>11,608</u>	<u>103,755</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Transfers from (to) other funds	<u>45,000</u>	<u>-</u>	<u>(11,626)</u>	<u>33,374</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of capital asset	<u>(21,948)</u>	<u>-</u>	<u>-</u>	<u>(21,948)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on cash deposits and investments	<u>-</u>	<u>-</u>	<u>18</u>	<u>18</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	112,117	3,082	-	115,199
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>76,402</u>	<u>116,040</u>	<u>-</u>	<u>192,442</u>
CASH AND CASH EQUIVALENTS , END OF YEAR	<u>\$ 188,519</u>	<u>\$ 119,122</u>	<u>\$ -</u>	<u>\$ 307,641</u>
RECONCILIATION OF OPERATING LOSS TO CASH PROVIDED BY OPERATING ACTIVITIES				
Operating loss	\$ 253	\$ (31,921)	\$ (49,539)	\$ (81,207)
Adjustments to reconcile operating loss to net cash provided by operating activities:				
Depreciation and amortization	86,923	35,003	55,803	177,729
Changes in operating assets and liabilities:				
Accounts receivable, net	(1,567)	-	-	(1,567)
Accounts payable and accrued expenses	3,456	-	5,344	8,800
Total adjustments	<u>88,812</u>	<u>35,003</u>	<u>61,147</u>	<u>184,962</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 89,065</u>	<u>\$ 3,082</u>	<u>\$ 11,608</u>	<u>\$ 103,755</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, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 2,000	\$ 2,000
EXPENDITURES				
General governmental	-	-	26,929	(26,929)
Public safety	398,790	398,790	2,651,377	(2,252,587)
Public works	1,139,471	1,139,471	4,684,945	(3,545,474)
Recreation and cultural	92,500	92,500	32,644	59,856
Total expenditures	<u>1,630,761</u>	<u>1,630,761</u>	<u>7,395,895</u>	<u>(5,765,134)</u>
OTHER FINANCING SOURCES				
Bond proceeds	-	-	9,995,000	9,995,000
Operating transfers in	<u>1,630,761</u>	<u>1,630,761</u>	<u>1,630,761</u>	<u>-</u>
Total other financing sources	<u>1,630,761</u>	<u>1,630,761</u>	<u>11,625,761</u>	<u>9,995,000</u>
NET CHANGE IN FUND BALANCE	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,231,866</u></u>	<u><u>\$ 4,231,866</u></u>
FUND BALANCE, BEGINNING OF YEAR			<u>720,665</u>	
FUND BALANCE, END OF YEAR			<u><u>\$ 4,952,531</u></u>	