



COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
June 30, 2012**

TOWN OF ELKTON, MARYLAND
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For Fiscal Year Ended
June 30, 2012



Prepared by: Town of Elkton Finance Department

Joseph L. Fisona, Mayor
Lewis H. George, Jr., Town Administrator
Steven H. Repole, Finance Director
A. Beth Moran, Assistant Finance Director

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Mayor and Commissioners
of the Town of Elkton

Joseph L. Fisona, Mayor

Lewis H. George, Jr.,
Town Administrator

Charles H. Givens, Sr., Commissioner

Charles E. Hicks V, Commissioner

Mary Jo Jablonski, Commissioner

Earl M. Piner, Sr., Commissioner

December 14, 2012

To Mayor Joseph L. Fisona, Town Commissioners, and the Citizens of the Town of Elkton:

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue this comprehensive annual financial report of the Town of Elkton for the fiscal year ended June 30, 2012.

This report consists of management's representations concerning the finances of the Town of Elkton. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the Town of Elkton has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town of Elkton's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town of Elkton's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Town of Elkton's financial statements have been audited by CliftonLarsonAllen LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Elkton as of and for the fiscal year ended June 30, 2012, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Town of Elkton's financial statements as of and for the fiscal year ended June 30, 2012, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Town of Elkton's MD&A can be found immediately following the report of

the independent auditors.

Profile of the Government

The Town of Elkton, established in 1787, is the County seat of Cecil County. The Town is situated on approximately 8.2 square miles and is located at the northern most reaches of the Chesapeake Bay, at the head of the Elk River near the Maryland/Delaware border. It is 51 miles from Baltimore, MD, 20 miles from Wilmington, DE and approximately half-way between Baltimore, MD and Philadelphia, PA. Elkton is the governmental, commercial and employment center for Cecil County and serves a population of 15,443 per the 2010 Federal Census. As of July 1, 2011, the population was estimated at 15,531 by the United States Census Bureau. The Town is empowered to levy a property tax on real properties and all business tangible personal property within its boundaries and to charge user fees for services it provides. The Town is also empowered by State Statute to extend its corporate limits by annexation, which it has done from time to time.

The Town adopted its present charter in 1996. Under the Charter, the legislative functions of the Town are vested in a Board of Commissioners, consisting of a Mayor and four Commissioners. The Mayor and four Commissioners are elected on an at-large basis for four-year terms. The Mayor is the Chief Executive Officer and the head of the administrative branch of the government. In addition, the Mayor has complete supervision over the financial administration of the Town government.

The Mayor appoints, subject to confirmation of the Board of Commissioners, the Town Administrator of the Town of Elkton. The Town Administrator is responsible to the Mayor and Commissioners for all Town affairs, including financial affairs. The Director of Finance has been delegated the task of supervising and directing the proper accounting of all revenues and expenditures, preparation of financial reports and assisting the Mayor in the preparation of the annual operating budget.

The Town provides municipal services contemplated by statute or charter. These include police, traffic control, inspection services, highways and streets, sanitation, water, sewer, parking, parks and recreation, public improvements, planning and zoning and general administrative services. There are no other reporting entities for which the Town is considered to be financially accountable.

The annual budget serves as the foundation for the Town's financial planning and control. The Charter of the Town requires the Mayor, at least thirty-two days before the beginning of any fiscal year, to submit a budget to the Board of Commissioners. The Charter states that "The budget shall provide a complete financial plan for the budget year and shall contain estimates of anticipated revenues and proposed expenditures for the coming year."

The Charter further provides that "Before adopting a budget, the Board of Commissioners shall hold a public hearing thereon after two weeks notice thereof in some newspaper or newspapers having general circulation within the Town." The Board is required to adopt a final budget thirty-two days before the beginning of the fiscal year. The budget is prepared by fund, function (e.g., public safety), department (e.g., police), and object (e.g., supplies). Once the budget has been formally adopted, transfers between and within fund, function, department and object require the approval of the Board of Commissioners. Budget-to-actual comparisons are provided in this report for the General Fund.

Factors Affecting Financial Condition

The information presented in the financial statements is, perhaps, best understood when it is considered from the broader perspective of the specific environment within which the Town of Elkton operates.

Local Economy

The Town of Elkton strives to maintain the best elements of its small town character while pursuing a downtown revitalization program and a commercial and industrial growth policy. Factors which make the Town a great place to live and work include a short commute to work, good health care, school quality, low crime, recreational activities, controlled growth and low taxes and fees.

Elkton is located in close proximity to major routes or hubs for several different modes of transportation. The Town is within a few hours from most major eastern cities. Highways provide the most dominant transportation corridors in the Elkton area. Maryland Routes 7, 213, 279, 545 and U.S. Route 40 all pass through the Town, and Interstate 95 skirts the northern Town limits.

Citizens of Elkton continue to enjoy a diversified employer base that includes companies from the agriculture, construction, manufacturing, wholesale, retail, transportation, service, information, professional and educational industries.

Although the following schedule displays a substantial decrease in the value of new construction permits issued, it is somewhat misleading in that the majority of the value in fiscal year 2011 was attributable to the substantial addition to the Cecil County Detention Center. Nonetheless, there was modest growth in residential activity.

Construction Permits Issued			
Fiscal Year	Number	Value	% Increase/ (Decrease)
2012	41	\$ 6,830,197	(54.4)%
2011	43	14,979,445	794.3%
2010	18	1,675,000	(72.7)%
2009	21	6,129,000	37.5%
2008	23	4,458,660	(71.1)%
2007	67	15,405,000	(2.5)%
2006	107	15,802,333	(45.3)%
2005	174	28,876,293	8.7%
2004	123	26,568,494	25.6%
2003	208	21,148,635	-

Presently, the Town has 3,187 residential units and 19 commercial units in various stages of development that will benefit the Town well into the future. Because of the availability of 1.3 million gallons per day unused wastewater treatment capacity and up to 1.5 million gallons per day supplemental drinking water available from Artesian Water Maryland, Inc., the Town continues to be well positioned to provide the water and sewer needs for residential projects approved but not yet started due to market factors.

Long-term Financial Planning

The Mayor and Commissioners continue to pursue an aggressive agenda to renew, beautify, and rehabilitate its downtown business area and historic properties for the enrichment of the lives of its citizens and visitors.

Toward that effort, the Town continues to fund the Elkton Chamber and Alliance which supports and promotes both local business and tourism. Participation with the Wilmington Area Planning Council continues as the Town actively pursues federal funding for a wide array of projects, the single largest being the reestablishment of train service to Elkton. The Maryland Transportation Authority is also involved in this effort. Additionally, discussions continue on the design of a Community Recreation Center, with the Mayor and Commissioners committing \$1.5 million of the Fund Balance toward this effort.

Efforts continue in developing well water sources throughout the Town. These not yet completed projects involve obtaining draw permits from the Maryland Department of the Environment (MDE) who factor the wells potential along with the total demand, the timing of the demand, and the Artesian Water, Maryland, Inc. backup availability. Additionally, well over \$1.0 million has been committed to upgrading three pump stations and 9,200 linear feet of sewer force main to accommodate the added wastewater demands from approved annexations. These efforts are further evidence of the Town's proactive commitment to having the necessary water and sewer infrastructure in place for future growth.

Financial Policies

The Mayor and Commissioners passed Ordinance 8-2012 on December 5, 2012 providing for three annual water and sewer user rates increases, effective December 25, 2012. These rates, as recommended by a formal rate study, ensure sufficient revenue to pay for water and wastewater operations, capital improvements, debt service, and the purchase of water from other utilities. This also prevents the Water and Sewer funds from operating at a deficit, which could potentially require a subsidy, or loan, from the General Fund.

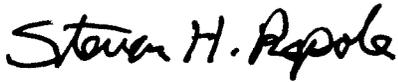
Awards and Acknowledgments

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Elkton for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2011. This is the eighth consecutive year the Town of Elkton has received this prestigious award. In order to be awarded a Certificate of Achievement, the government must publish an easily readable and efficiently organized CAFR that satisfies both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR meets the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for a certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance and administration departments. We would like to express our appreciation to all members of the departments who assisted in and contributed to the preparation of this report. Credit also must be given to the Mayor and Commissioners for their unfailing support and maintaining the highest standards of professionalism in the management of the Town of Elkton's finances.

Respectfully submitted,



Steven H. Repole
Finance Director



A. Beth Moran
Assistant Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Elkton
Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

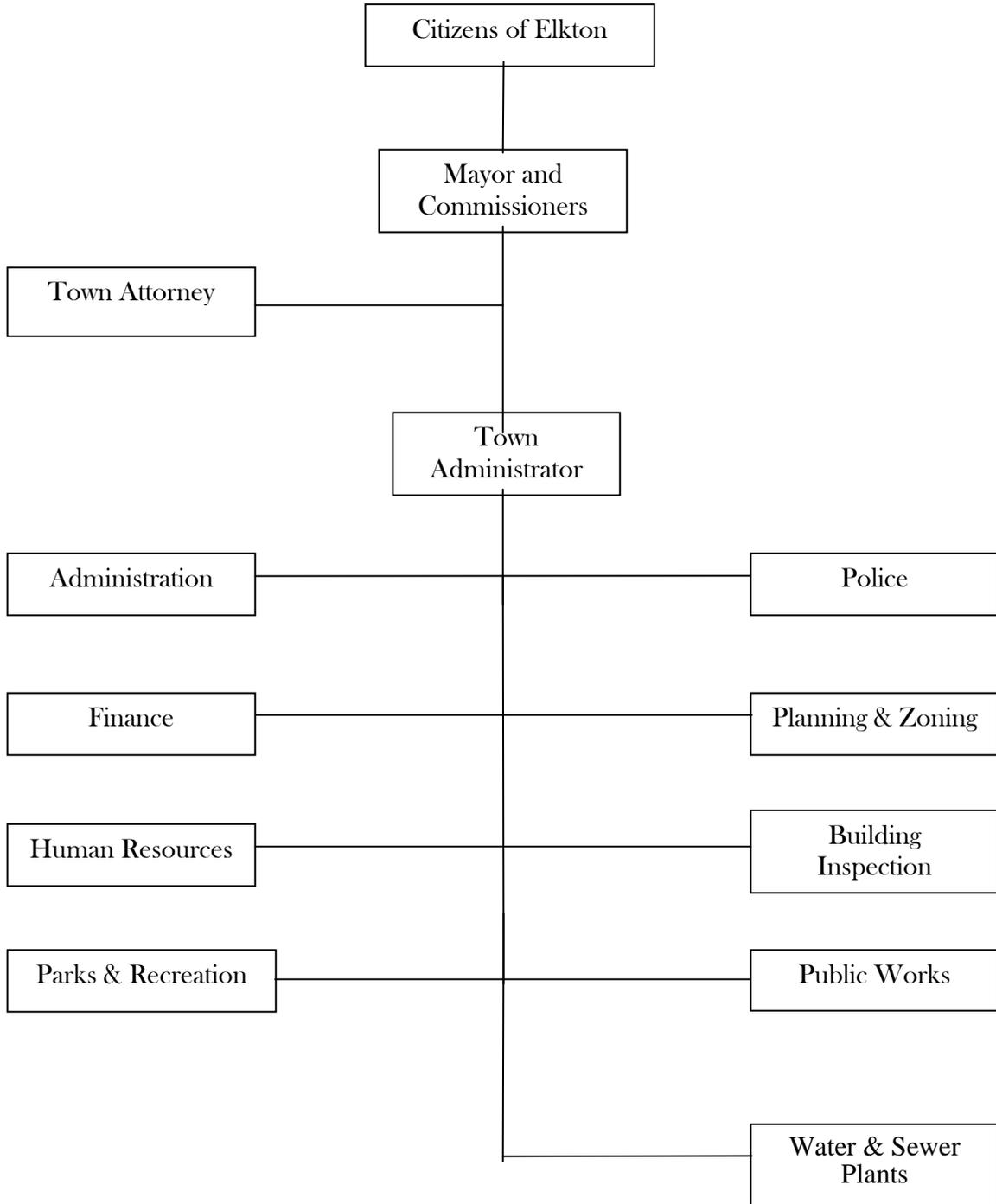
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Christopher P. Morrell
President

Jeffrey R. Egan
Executive Director

**TOWN OF ELKTON, MARYLAND
ORGANIZATIONAL CHART**



TOWN OF ELKTON, MARYLAND

**CECIL COUNTY, MARYLAND
GOVERNMENT ORGANIZATION**

ELECTED AND APPOINTED OFFICIALS

AS OF JUNE 30, 2012

ELECTED OFFICIALS

Mayor
Commissioner
Commissioner
Commissioner
Commissioner

Joseph L. Fisona
Charles H. Givens, Sr.
Charles E. Hicks V
Mary Jo Jablonski
Earl M. Piner, Sr.

OTHER OFFICIALS

Town Administrator
Attorney

Lewis H. George, Jr.
H. Norman Wilson, Jr.

DEPARTMENT DIRECTORS

Finance Director
Planning Director
Human Resources Director
Chief of Police
Building/Zoning Director
Public Works Director
Parks & Recreation Director
Water/Wastewater Treatment Plant Operator

Steven H. Repole
Jeanne D. Minner
Laura A. Brown
William E. Ryan
J. Craig Trostle, Jr.
J. Daniel Handley
Mary C. Magaw
J. Kenneth Benner, Project
Manager, Severn Trent
Environmental Services, Inc.

Independent Auditor's Report

To the Honorable Mayor and Commissioners
Town of Elkton, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Elkton, Maryland, as of and for the year ended June 30, 2012, as listed on the table of contents, which collectively comprise the Town's basic financial statements. These financial statements are the responsibility of the Town'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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Elkton, Maryland as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 20, 2012, on our consideration of the Town of Elkton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

The introductory section and statistical tables listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

CliftonLarsonAllen LLP

Baltimore, Maryland
December 20, 2012

TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

INTRODUCTION

As management of the Town of Elkton, Maryland, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2012. The Management's Discussion and Analysis (MD&A) is best understood if read in conjunction with the Transmittal Letter and the Town's basic financial statements. We encourage users to read it in conjunction with the Transmittal Letter at the front of this report and the Town's basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FY 2012

The Town's assets exceeded its liabilities at the close of the 2012 fiscal year by approximately \$70.5 million (total net assets). Approximately 77% of this amount is attributable to the Town's utilities (Water and Sewer). Of the total net assets, \$16.8 million (unrestricted net assets) may be used to meet ongoing obligations to citizens and creditors and \$52.0 million is invested in capital assets, net of related debt.

As of the close of the 2012 fiscal year, the Town's only governmental fund (General Fund) reported an ending fund balance of \$8.1 million. Of this total amount, \$3.3 million is unassigned and represents working capital available to support governmental operating needs and future years' expenditures. The unassigned fund balance for the General Fund is 31.3% of total expenditures and represents funding for less than four months of expenditures.

The General Fund, on a current financial resources basis, reported expenditures in excess of revenues and other financial sources and uses of approximately \$819,000.

The Town's total debt decreased by approximately \$1.3 million during the current fiscal year, from \$20.8 million to \$19.7 million. This is the result of the retirement of existing debt in the Governmental Activities of \$230,000 and the Business-Type Activity of \$1.1 million exceeding the increases to other post employment benefit costs and compensated absences.

USING THIS ANNUAL REPORT

This Comprehensive Annual Financial Report (CAFR) consists of three sections – Introductory, Financial and Statistical. The basic financial statements in the financial section include two kinds of statements that present different views of the Town as described in more detail below:

- The government-wide financial statements, which are the Statement of Net Assets and the Statement of Activities, provide information about the activities of the Town as a whole. They present both short-term and long-term information about the Town's overall financial status.

TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

- For governmental activities, fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant fund. The remaining statements are fiduciary fund statements and provide financial information about activities for which the Town acts solely as a trustee for the benefit of those outside of the government. The basic financial statements also include notes that provide explanation of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Town's budget for the year. The chart below shows how the various parts of this annual report are arranged and flow in the Financial Section:

Independent Auditor's Report

Provides the opinion of the Independent Auditor on the fair presentation of the financial statements.

Management's Discussion and Analysis

This supplementary information is required for state and local government financial statements, and is intended to provide a narrative introduction, overview and analysis.

**Government-Wide
Financial Statements**

Provides information on governmental and business type activities of the primary government.

Fund

Financial Statements
Provides information on the financial position of specific funds of the primary government.

Notes to Financial Statements

Provides a summary of significant accounting policies and related disclosures.

TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

The chart below summarizes the major features of the Town's two financial statements, including the portion of the activities they cover and the types of information they contain.

	<u>Government-Wide Statements</u>	<u>Fund Financial Statements</u>	
		<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire Town (except fiduciary funds)	The activities of the Town that are not proprietary or fiduciary, such as Police, Parks, Recreation & Culture, and General Administration	Instances in which the Town administers resources on behalf of someone else, such as the Pension Plan
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Assets • Statement of Changes in Fiduciary Net Assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of in-flow/out-flow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liabilities are due and payable	All additions and deductions during the year, regardless of when cash is received or paid

TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

The following highlights are the structure and contents of each of the statements.

Government-Wide Financial Statements

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

The Statement of Net Assets is designed to provide bottom line results for the Town's governmental activities. This statement reports the Town's governmental fund's current financial resources (i.e., short-term spendable resources) with capital assets and long-term obligations. All infrastructure assets built or purchased by the Town, and infrastructure dedicated by developers, are included in the accompanying government-wide financial statements.

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

The Statement of Activities is focused on both the gross and net cost of various functions. This is intended to summarize and simplify the users' analysis of the cost of various governmental services. In the government-wide financial statements, the activities of the Town are maintained within one category – governmental activities. Most of the Town's basic services are reported here, including police, public works, recreation and general administration. These activities are financed with revenues from property taxes, other state and county taxes, state and federal grants and charges for services.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the Town as a whole. Funds are accounting devices used to track specific sources of funding and spending on particular programs. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Town can be divided into three categories – governmental funds, proprietary funds and fiduciary funds.

Governmental Funds:

Most of the Town's basic services are reported in one governmental fund, which focuses on how money flows into and out of the fund and the balance left at year-end that is available for spending. The fund is reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs.

TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided in a Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets, and a separate Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities. The Town of Elkton maintains only one major governmental fund (the General Fund).

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 Water, Sewer, and Major Facility funds. Proprietary funds provide the same type of information as the government-wide financial statement, only in more detail.

Fiduciary Funds:

The Town is the trustee, or fiduciary, for assets that belong to its employees' pension plans. The Town is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. These activities are excluded from the government-wide financial statements because the assets cannot be used to finance operations.

TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

The following tables present a summary of the Statement of Net Assets for the Town as of June 30, 2012 and 2011, respectively:

NET ASSETS – JUNE 30, 2012			
	Governmental Activities	Business-type Activities	Total Activities
ASSETS			
Current and other assets	\$ 9,230,889	\$ 10,758,177	\$ 19,989,066
Non-current assets	39,254	-	39,254
Capital assets	<u>10,080,057</u>	<u>60,930,207</u>	<u>71,010,264</u>
Total assets	<u>19,350,200</u>	<u>71,688,384</u>	<u>91,038,584</u>
LIABILITIES			
Long-term liabilities outstanding	2,370,985	17,287,479	19,658,464
Other liabilities	<u>598,305</u>	<u>323,045</u>	<u>921,350</u>
Total liabilities	<u>2,969,290</u>	<u>17,610,524</u>	<u>20,579,814</u>
NET ASSETS			
Invested in capital assets, net of related debt	8,233,290	43,740,141	51,973,431
Restricted	1,635,859	-	1,635,859
Unrestricted	<u>6,511,761</u>	<u>10,337,719</u>	<u>16,849,480</u>
TOTAL NET ASSETS	<u>\$ 16,380,910</u>	<u>\$ 54,077,860</u>	<u>\$ 70,458,770</u>

NET ASSETS – JUNE 30, 2011			
	Governmental Activities	Business-type Activities	Total Activities
ASSETS			
Current and other assets	\$ 9,678,846	\$ 10,070,677	\$ 19,749,523
Capital assets	<u>10,417,353</u>	<u>62,343,684</u>	<u>72,761,037</u>
Total assets	<u>20,096,199</u>	<u>72,414,361</u>	<u>92,510,560</u>
LIABILITIES			
Long-term liabilities outstanding	2,529,408	18,282,322	20,811,730
Other liabilities	<u>274,464</u>	<u>418,891</u>	<u>693,355</u>
Total liabilities	<u>2,803,872</u>	<u>18,701,213</u>	<u>21,505,085</u>
NET ASSETS			
Invested in capital assets, net of related debt	8,340,459	44,093,304	52,433,763
Restricted	1,753,528	-	1,753,528
Unrestricted	<u>7,198,340</u>	<u>9,619,844</u>	<u>16,818,184</u>
TOTAL NET ASSETS	<u>\$ 17,292,327</u>	<u>\$ 53,713,148</u>	<u>\$ 71,005,475</u>

TOWN OF ELKTON, MARYLAND
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The Town's assets exceeded its liabilities at the close of the 2012 fiscal year by \$70.5 million. Approximately \$52.0 million of the Town's net assets reflect its investment in capital assets, net of related outstanding debt (e.g., land, buildings, improvements, vehicles, furniture and equipment, infrastructure). The Town uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending.

Changes in Net Assets

The following tables present a summary of the changes in net assets for governmental and business-type activities for the years ending June 30, 2012 and 2011, respectively:

Changes in Net Assets			
Fiscal Year Ending June 30, 2012			
	Governmental Activities	Business-type Activities	Total Activities
REVENUES			
Program Revenues			
Charges for services	\$ 1,139,049	\$ 7,130,000	\$ 8,269,049
Operating grants and contributions	261,419	-	261,419
Capital grants and contributions	-	79,883	79,883
General Revenues			
Property taxes	7,061,089	-	7,061,089
State and County shared taxes	1,079,807	-	1,079,807
Investments earnings	17,559	16,653	34,212
Miscellaneous	43,214	166,340	209,554
Total revenues	9,602,137	7,392,876	16,995,013
Program Expenses			
General government	1,434,055	-	1,434,055
Public safety	5,681,640	-	5,681,640
Public works	2,883,683	-	2,883,683
Recreation and culture	376,518	-	376,518
Administration	-	-	-
Interest on long-term debt	77,424	-	77,424
Utilities and other proprietary funds	-	7,028,164	7,028,164
Special Items			
Legal settlement	60,234	-	60,234
Total expenses	10,513,554	7,028,164	17,541,718
CHANGE IN NET ASSETS	(911,417)	364,712	(546,705)
NET ASSETS – BEGINNING	17,292,327	53,713,148	71,005,475
NET ASSETS – ENDING	\$ 16,380,910	\$ 54,077,860	\$ 70,458,770

TOWN OF ELKTON, MARYLAND
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June 30, 2012

Changes in Net Assets
Fiscal Year Ending June 30, 2011

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Activities</u>
REVENUES			
Program Revenues			
Charges for services	\$ 1,140,726	\$ 7,566,658	\$ 8,707,384
Operating grants and contributions	241,615	-	241,615
Capital grants and contributions	-	2,885,638	2,885,638
General Revenues			
Property taxes	7,157,852	-	7,157,852
State and County shared taxes	1,004,307	-	1,004,307
Investments earnings	23,406	21,940	45,346
Miscellaneous	171,678	135,429	307,107
Total revenues	<u>9,739,584</u>	<u>10,609,665</u>	<u>20,349,249</u>
Program Expenses			
General government	1,420,063	-	1,420,063
Public safety	5,243,295	-	5,243,295
Public works	3,028,570	-	3,028,570
Recreation and culture	413,617	-	413,617
Administration	-	-	-
Interest on long-term debt	80,006	-	80,006
Utilities and other proprietary funds	-	6,622,211	6,622,211
Total expenses	<u>10,185,551</u>	<u>6,622,211</u>	<u>16,807,762</u>
CHANGE IN NET ASSETS	(445,967)	3,987,454	3,541,487
NET ASSETS – BEGINNING	<u>17,738,294</u>	<u>49,725,694</u>	<u>67,463,988</u>
NET ASSETS – ENDING	<u>\$ 17,292,327</u>	<u>\$ 53,713,148</u>	<u>\$ 71,005,475</u>

The Town's total revenues were \$17.0 million, a decrease of approximately \$3.4 million. The majority of the overall decrease, \$2.7 million, was due to the exhaustion of the grant proceeds from the EPA and State of Maryland for the upgrade and expansion of the Elkton Wastewater Treatment Plant as the project was closed out. Another component of the decrease was the reduction in CDBG grant funding of \$215,000 as the renovation of a water tower was substantially completed during fiscal year 2011. Overall, charges for services in business-type activities decreased by \$437,000, the net result of a decrease in utility connection charges as there were no major construction projects started during fiscal year 2012, and an increase to utility user rates. Local property tax funding amounted to \$7.1 million, a decrease of \$97,000 from 2011. State and County shared tax revenue increased for the first time after a three year decline. The \$75,000 increase could be attributable to the modest decrease in the unemployment rate. The Town's total expenses were \$17.5 million, an increase of approximately \$700,000, or 4.4%. This increase was primarily due to a \$438,000 increase in public safety and a \$406,000 increase in utilities and other proprietary funds netted against a \$145,000 decrease in public works.

TOWN OF ELKTON, MARYLAND
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Governmental Activities

General revenues for the governmental activities were \$8.2 million, while total expenses, net of charges for services and grants and contributions, were \$9.1 million. The total decrease in net assets for governmental activities was \$911,000, or 5.3%.

Total revenues from governmental activities decreased by \$137,000, and total governmental activities expenses increased by \$328,000. The decrease in revenue is the result of a \$225,000 decrease in miscellaneous revenue and property taxes, due in part to the timing recognition of property tax revenue, along with increases of \$76,000 in State and County shared taxes and \$20,000 in total grant revenue, the bulk of which was a FEMA reimbursement for Hurricane Irene cleanup expenses.

Of the \$328,000 increase in expenses, \$438,000 is attributable to public safety, primarily negotiated salary and benefit increases for the Elkton Police Department. Additionally, there was a \$60,000 legal settlement expense. Offsetting this was a decrease of \$145,000 in the department of public works, comprised primarily of \$34,000 in landfill fees as the result of mandatory recycling, \$32,000 in snow and ice removal supplies, and \$61,000 in depreciation expense.

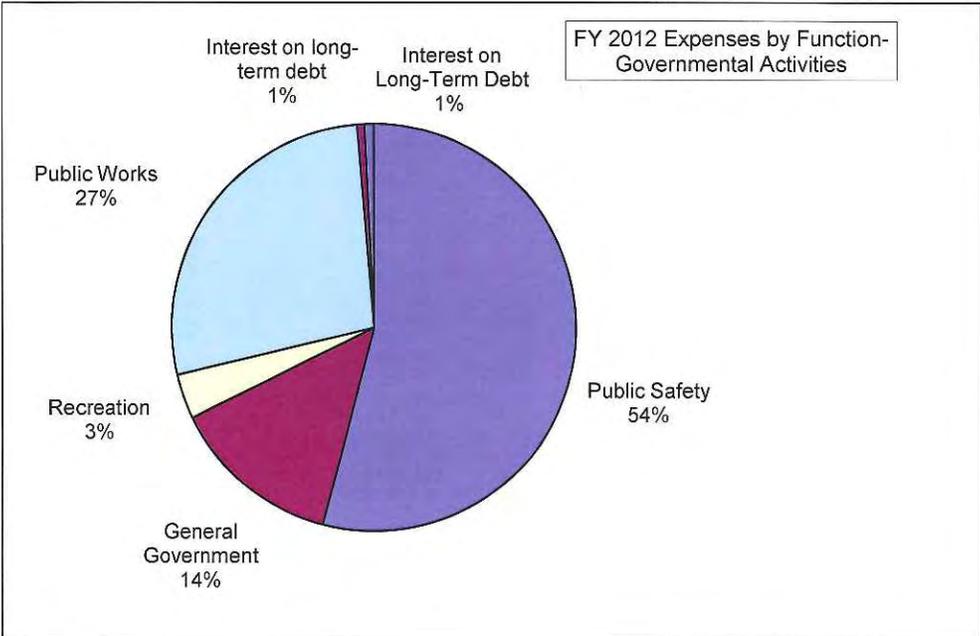
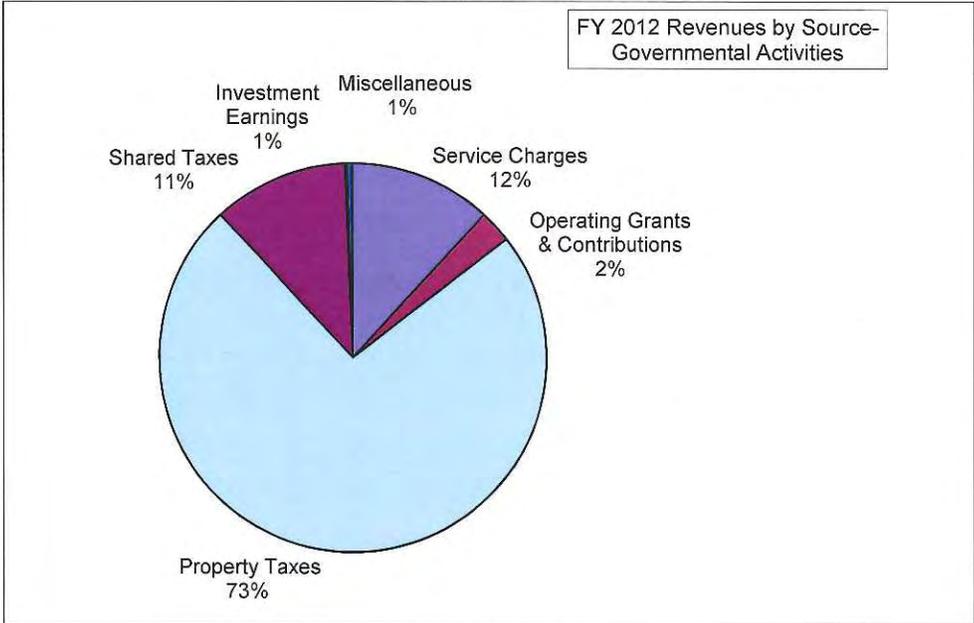
Business-type Activities

The total net assets increased by \$365,000 in business-type activities, or 0.7%. Total revenues for business-type activities decreased by \$3.2 million while expenses increased by \$406,000. The key element, \$2.7 million, of the decrease in revenue is the exhaustion of grants proceeds received from the EPA and the State of Maryland for the upgrade and expansion of the Elkton Wastewater Treatment Plant as the project was closed out during the previous fiscal year. Additionally, Major Facility fees decreased by \$1.0 million as there were no major construction projects started during fiscal year 2012. Offsetting the decreases was a \$577,000 increase in charges for services attributable to user fee rate increases in the Water and Sewer Funds of 57% and 10%, respectively, effective January, 2012.

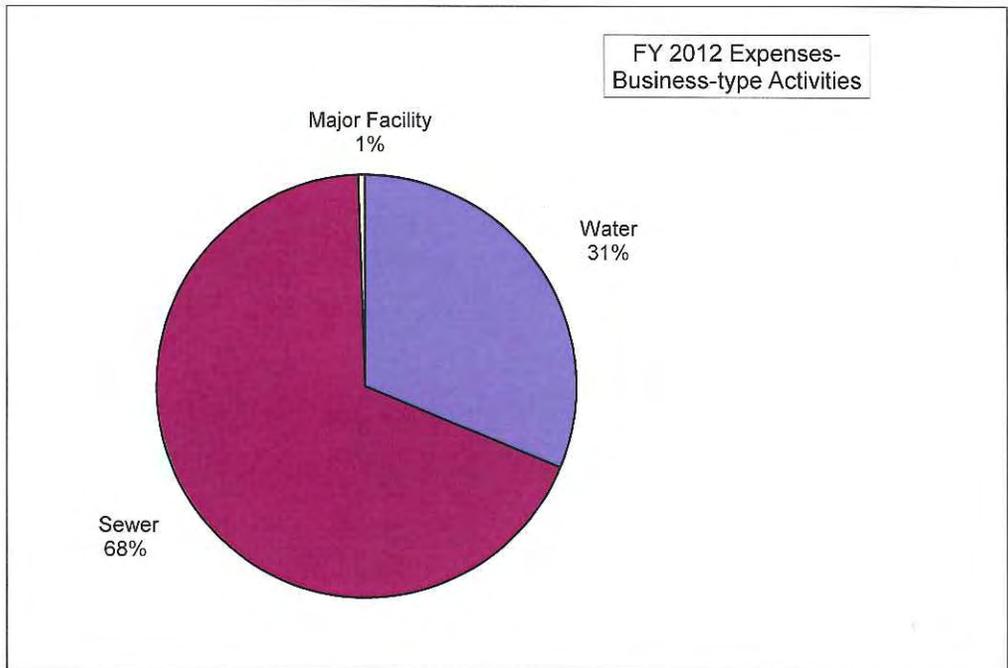
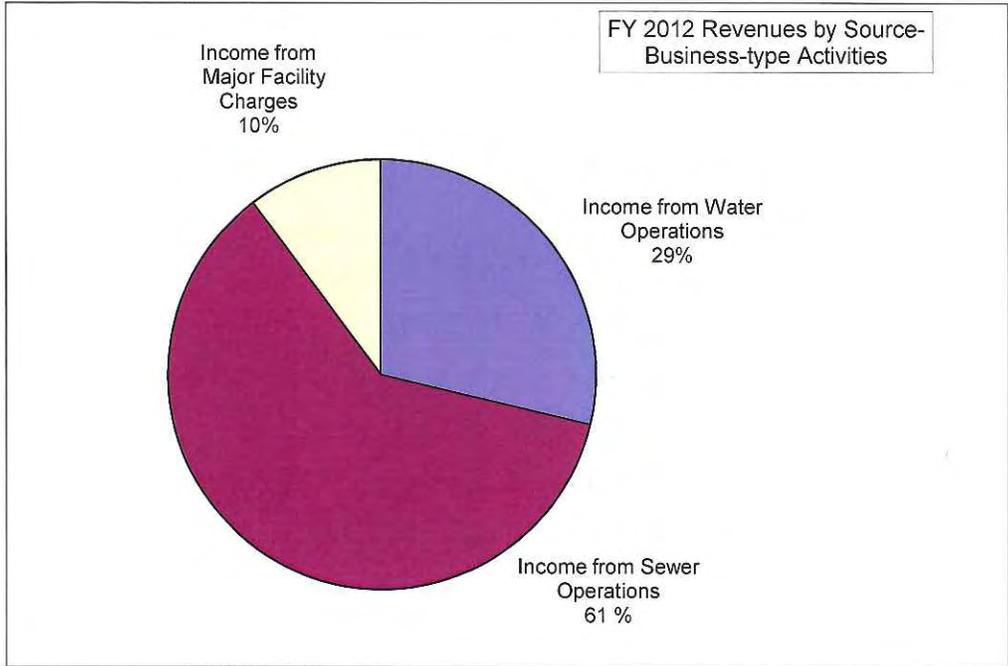
The \$406,000 increase in expenses was primarily the result of four factors. First, a \$186,000 increase for contracted services for the operation of the Town's water and wastewater treatment plants. Second, a \$97,000 increase for the purchase of supplemental water. Third, a \$68,000 increase in salary and fringe benefit expense. And fourth, \$27,000 in Hurricane Irene cleanup costs.

**TOWN OF ELKTON, MARYLAND
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 June 30, 2012**

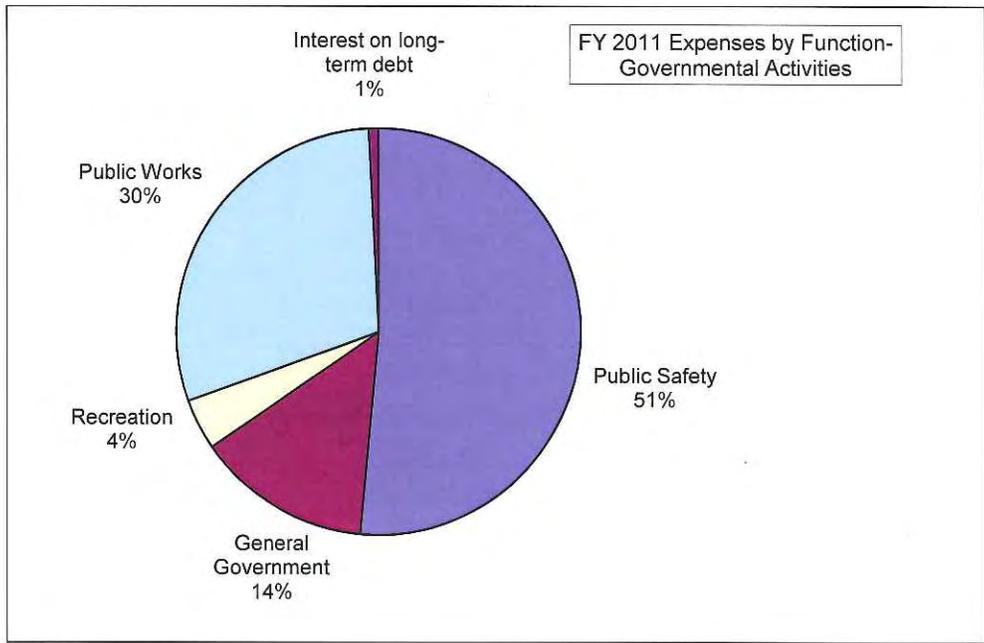
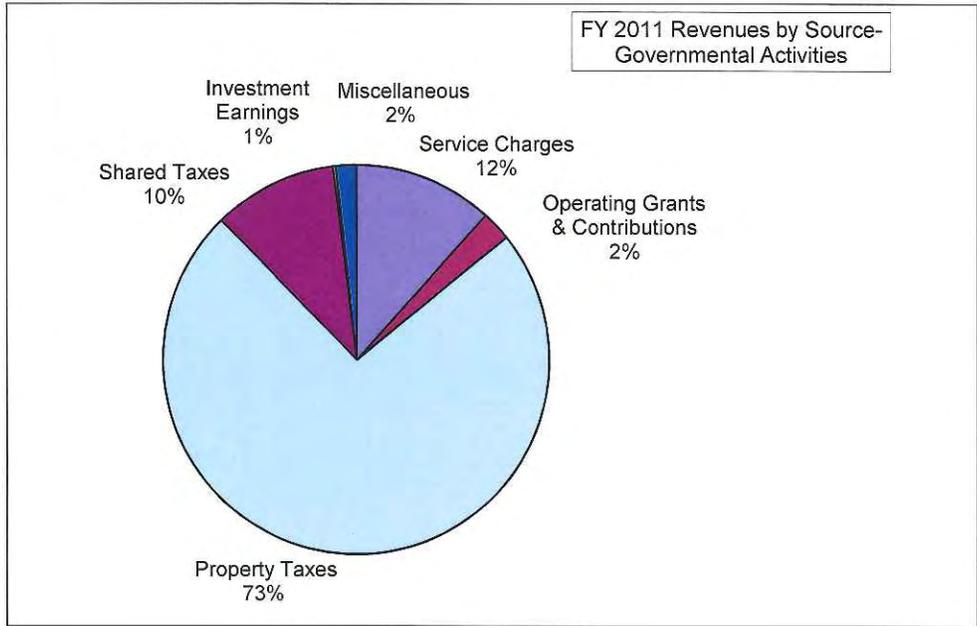
The following is a graphical presentation of the Town's revenues and expenses for the years ending June 30, 2012 and 2011:



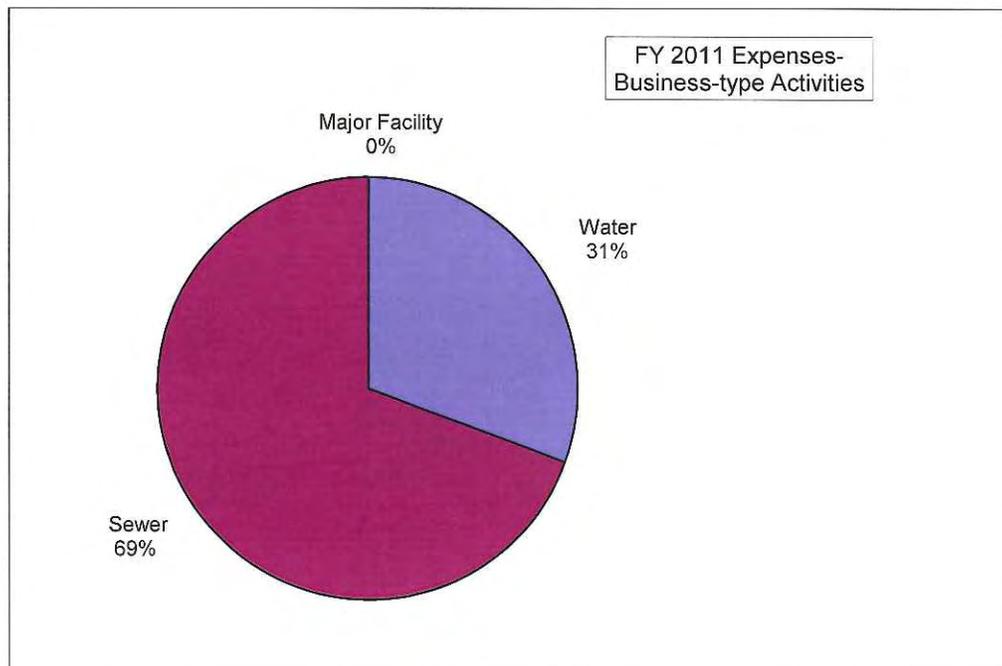
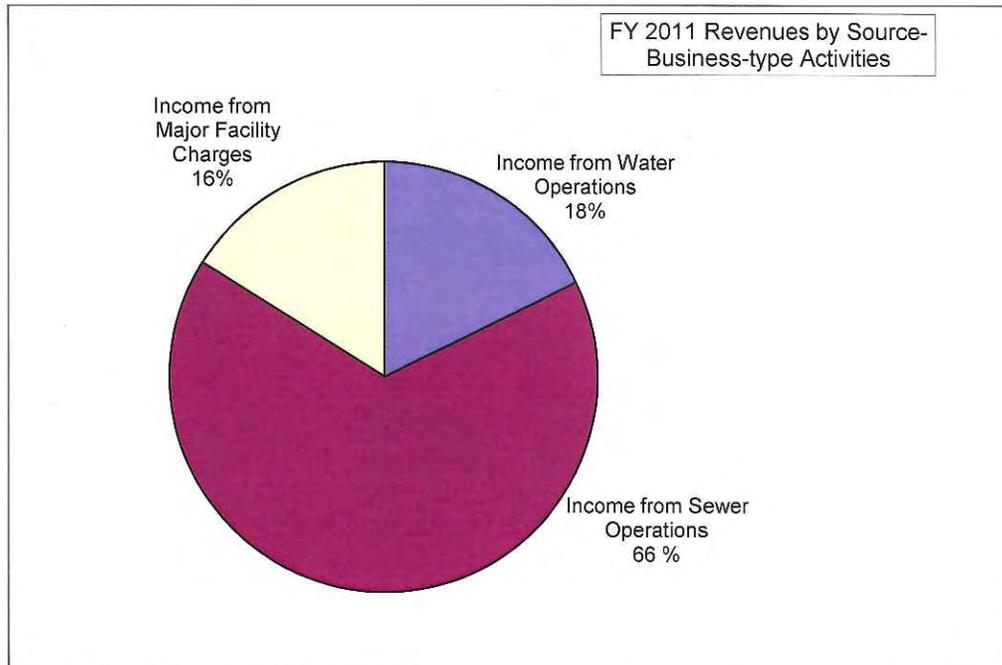
TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
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**TOWN OF ELKTON, MARYLAND
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The following tables present the costs and program revenues of each of the Town's activities and capital outlays for the years ending June 30, 2012 and 2011, respectively. The tables also show each activity's net cost (total cost less fees generated by the activities and program specific intergovernmental aid). The net cost shows the financial burden placed upon local taxpayers for each of these functions.

Net Cost of Activities
Year Ended June 30, 2012

	<u>Expenses</u>	<u>Revenues</u>	<u>Net Cost</u>
Governmental Activities			
General government	\$ 1,434,055	\$ 255,134	\$ (1,178,921)
Public safety	5,681,640	341,224	(5,340,416)
Public works	2,883,683	655,363	(2,228,320)
Recreation and culture	376,518	148,747	(227,771)
Interest on long-term debt	<u>77,424</u>	<u>-</u>	<u>(77,424)</u>
Total governmental activities	<u>10,453,320</u>	<u>1,400,468</u>	<u>(9,052,852)</u>
Business-type Activities			
Major Facility	37,059	740,421	703,362
Water	2,195,489	2,070,768	(124,721)
Sewer	<u>4,795,616</u>	<u>4,398,694</u>	<u>(396,922)</u>
Total business-type activities	<u>7,028,164</u>	<u>7,209,883</u>	<u>181,719</u>
Total Governmental and Business-type Activities	<u>\$ 17,481,484</u>	<u>\$ 8,610,351</u>	<u>\$ (8,871,133)</u>

Net Cost of Activities
Year Ended June 30, 2011

	<u>Expenses</u>	<u>Revenues</u>	<u>Net Cost</u>
Governmental Activities			
General government	\$ 1,420,063	\$ 215,867	\$ (1,204,196)
Public safety	5,243,295	370,212	(4,873,083)
Public works	3,028,570	661,136	(2,367,434)
Recreation and culture	413,617	135,126	(278,491)
Interest on long-term debt	<u>80,006</u>	<u>-</u>	<u>(80,006)</u>
Total governmental activities	<u>10,185,551</u>	<u>1,382,341</u>	<u>(8,803,210)</u>
Business-type Activities			
Major Facility	-	1,683,775	1,683,775
Water	2,029,079	1,858,867	(170,212)
Sewer	<u>4,593,132</u>	<u>6,909,654</u>	<u>2,316,522</u>
Total business-type activities	<u>6,622,211</u>	<u>10,452,296</u>	<u>3,830,085</u>
Total Governmental and Business-type Activities	<u>\$ 16,807,762</u>	<u>\$ 11,834,637</u>	<u>\$ (4,973,125)</u>

TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
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The cost of governmental activities this year was \$10.5 million, an increase of \$328,000. There were some large fluctuations within the functions when compared to the prior year expenses. Public safety increased by \$438,000, \$400,000 of this increase was for salary and fringe benefits, of which \$333,000 was attributable to the Elkton Police Department's negotiated salary and benefit increases. An additional \$60,000 in expenses was the result of a legal settlement. Public works decreased \$145,000, the result of decreases in depreciation expense of \$61,000, landfill fees of \$34,000 and snow and ice removal of \$32,000. Some of the cost of government activities was paid by those who directly benefited from the programs (\$1.1 million) and other governments and organizations that subsidized certain programs with grants and contributions (\$261,000). Taxpayers paid the remaining net cost of services of \$9.1 million.

The total cost of business-type activities this year was \$7.0 million, an increase of \$406,000, due primarily to an increase of \$202,000 in the Sewer Fund. This included \$140,000 for the contractual operation of the wastewater treatment plant and salary and benefit increases. The Water Fund costs increased \$166,000, due to a \$97,000 increase to the purchase of supplemental water, \$46,000 increase for the contractual operation of the water treatment plant, and \$27,000 in Hurricane Irene cleanup costs. Additionally, the Major Facility Fund increased by \$37,000, all for the cost of engineering services. The cost of the activities was primarily paid from service charges and lease agreements. Water Fund expenses exceeded charges for services by \$125,000. Sewer Fund expenses exceeded charges for services by \$397,000. The Major Facility Fund shows that charges for services were greater than expenses by \$703,000.

Financial Analysis of the Town's Funds

At year-end, the General Fund reported a combined fund balance of \$8.1 million, a decrease from the previous year's \$8.9 million. This \$819,000 decrease was the net result of a number of positive and negative budget variances in both revenues and expenditures.

The Proprietary Funds Net Assets increased by \$365,000. This was the result of \$703,000 net revenue in the major facility fund combined with \$125,000 net expense in the water fund and \$397,000 in the sewer fund, and investment and miscellaneous revenue of \$183,000.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues were \$317,000, or 3.4% greater than the final budgeted amount, the result of positive variances of \$173,000 in taxes, \$89,000 in charges for services, \$30,000 in miscellaneous revenue and \$28,000 in intergovernmental revenue, netted against a negative variance of \$3,000 in licenses and permits.

The positive variance of \$173,000 in taxes is primarily due to positive variances of \$180,000 in local income tax and \$113,000 in highway gas tax offset by a \$128,000 negative variance in property and real taxes. Because the actual total real property assessments have consistently exceeded the estimates provided by the State of Maryland each year, the Town applies its own estimate in developing the budget. Because real property taxes are the single largest source of general fund revenue, the budgeted amount represents a conservative increase to the State's estimate, however, the Town's estimate was not met resulting in a negative variance of \$65,000 in real property taxes. An additional negative variance of \$144,000 for ordinary business corporation and positive variances of \$74,000 in railroads and public utilities and \$8,000 for payments in lieu of taxes account for the overall \$128,000 negative variance in property and real taxes. The \$89,000 positive variance in charges for services was largely due to an unbudgeted \$40,000 payment received from a developer for forest conservation fees, a positive variance of \$34,000 in parks and recreation

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directly attributable to a significant increase in participants of both the summer camps and dance programs along with donations totaling \$9,000 for the Town's Fourth of July fireworks, and a positive variance of \$21,000 in sanitation and waste removal as there was a 33% rate increase the last quarter of the fiscal year. The \$30,000 favorable variance in miscellaneous revenue is the result of the forfeiture to the Town of \$15,000 in 401A contributions from employees who left employment prior to becoming vested, a \$21,000 easement payment for the placement of a natural gas line, a critical area reimbursement of \$3,000 and a negative variance of \$8,000 in interest revenue due to continued depressed market rates. A \$21,000 FEMA reimbursement for flood expenses incurred during the cleanup of Hurricane Irene was the main component of the \$28,000 positive variance in intergovernmental revenue.

Actual expenditures were \$681,000, or 6.1%, less than the final budgeted amount. Each expenditure category had a positive variance. The positive variance of \$352,000 in Public Works was primarily attributed to salary and fringe benefit savings from positions budgeted, but not filled, for extended periods during the fiscal year and landfill disposal fees saved due to a full year of mandatory recycling. The \$272,000 positive variance in Public Safety was also due to salary and fringe benefit savings from budgeted, but not filled, for extended periods during the fiscal year and contracted services savings related to the Town's participation in the county operated emergency dispatch system. Additionally, the \$53,000 positive variance in General Government was due to unspent legal expenses, contracted information technology services, and natural gas and electric charges netted against unbudgeted bad debt and legal settlement expenses.

During the year, there was a \$434,270 increase in appropriations between the original and final amended budget. The following are the main components of the increase:

- A supplemental appropriation of \$314,800 in the public works department for road restoration.
- A supplemental appropriation of \$26,250 to recognize revenue from an easement agreement with Chesapeake Utilities to be used for the replacement of four heat exchangers in the Municipal Building.
- A supplemental appropriation to recognize revenue of \$27,441 from a Justice Assistance Grant for the purpose of upgrading the police department's records management system.
- A supplemental appropriation to recognize revenue from annexation petitioners for the cost of advertising annexation requests in the amount of \$12,795.
- A supplemental appropriation in the municipal buildings department for repair of the Municipal Building roof for \$12,547.
- A supplemental appropriation of \$10,322 in the municipal buildings department for the purchase of an air conditioning unit for 219 North Street (\$4,800) and the purchase of a propane heater for the fabrication shop (\$5,522).

TOWN OF ELKTON, MARYLAND
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CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town of Elkton's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities as of June 30, 2012, amounts to \$71.0 million. This investment in capital assets includes land, buildings, machinery and equipment (including vehicles), infrastructure (including park facilities, roads, highways and bridges) and construction in progress. The total decrease in the Town's investment in capital assets for the current fiscal year was 2.4%, a 3.2% decrease for governmental activities and a 2.3% decrease for business-type activities.

The following table presents capital assets (net of accumulated depreciation) by category for fiscal years ending June 30, 2012 and 2011, respectively:

Town of Elkton's Capital Assets
(Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 2,657,608	\$ 2,657,608	\$ 865,270	\$ 865,270	\$ 3,522,878	\$ 3,522,878
Other						
improvements	2,545,804	2,577,204	-	-	2,545,804	2,577,204
Buildings	4,198,989	4,365,185	-	-	4,198,989	4,365,185
Plants, mains						
and other						
improvements	-	-	58,766,575	60,266,563	58,766,575	60,266,563
Equipment	622,577	765,617	659,313	706,315	1,281,890	1,471,932
Construction in						
progress	55,079	51,739	639,049	505,536	694,128	557,275
Total	\$ 10,080,057	\$ 10,417,353	\$ 60,930,207	\$ 62,343,684	\$ 71,010,264	\$ 72,761,037

Major capital asset events during the fiscal year ending June 30, 2012 included the following:

In the Town's governmental activities:

- Road Restoration Project 2011-01 cost \$281,829.
- \$13,467 was spent to purchase an IBM server for the finance department.
- Vehicles and equipment purchased for the police department cost \$88,929.
- Equipment purchased for public works cost \$10,366.
- \$20,000 was spent for a sediment trap at the Jones Chapel Nature Center.
- Depreciation expense was \$770,848 for the year.

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In the Town's business-type activities:

- \$136,070 was spent on two variable frequency devices with related control panel and a high service pump upgrade at the surface water treatment plant.
- \$12,168 was spent to purchase an IBM server for the finance department.
- A portable submersible pump cost \$30,450.
- Affixing a Town seal to the Thomson Estates standpipe cost \$8,700.
- Engineering services for the upgrade to the Warner Road sanitary sewer pump station cost \$10,535.
- Engineering costs of \$11,265 to study increased force main needs due to the Belle Hill Manor annexation.
- Engineering services for an upgrade to the Chapel Run force main cost \$45,765.
- Depreciation expense was \$1,684,973 for the year.

Additional information on the Town's capital assets can be found in Note 6 on pages 52-53 of this report.

Long-term Debt

At the end of the current fiscal year, the Town of Elkton had \$19,036,833 in outstanding loans, compared to \$20,327,274 last year. The following chart compares the level of long-term debt for fiscal years 2012 and 2011, respectively:

Town of Elkton's Outstanding Debt						
	Government Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Loans	<u>\$ 1,846,767</u>	<u>\$ 2,076,894</u>	<u>\$ 17,190,066</u>	<u>\$18,250,380</u>	<u>\$ 19,036,833</u>	<u>\$20,327,274</u>

The Town of Elkton's total debt decreased by \$1,290,441 during the current fiscal year. In compliance with debt amortization schedules, the Town made total debt repayments in Governmental Activities of \$230,127 and in Business-type Activities \$1,060,314. The Town incurred no new debt during fiscal year 2012.

Additional information on the Town's long-term debt can be found in Note 7 on pages 54-55 of this report.

TOWN OF ELKTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The Town is required, by Charter, to have a balanced budget each fiscal year and has always complied with this requirement. Annually, the Town develops and updates financial models for all of its major funds, which enables the Town to evaluate both short and long-term implications of proposed operational and capital decisions regarding Town finances.
- The fiscal year 2013 budget for the Town's only governmental fund, the General Fund, was adopted at \$551,775 greater than the fiscal year 2012 final budget.
- For fiscal year 2013, the Town adopted the constant yield tax rate for the fifth consecutive year. Due to an increase in total assessments, this decreased the real property tax rate from \$0.4656 to \$0.4632 per \$100.00 of assessed value.
- The water and sewer rates were unchanged for the start of fiscal year 2013, however, they were increased by 3% and 5%, respectively, effective January, 2013. These increases were the result of an October, 2011 formal rate study.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Finance Department, ATTENTION: Finance Director, at 100 Railroad Avenue, Elkton, Maryland 21921, telephone 410.398.4170.

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

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 7,077,124	\$ 9,912,261	\$ 16,989,385
Accounts receivable, net	758,325	1,678,237	2,436,562
Other assets	51,577	-	51,577
Internal balances	902,443	(902,443)	-
Due from other governments	441,420	70,122	511,542
Non-current assets:			
Net pension asset	39,254	-	39,254
Capital assets, not being depreciated	2,712,687	1,504,319	4,217,006
Capital assets being depreciated, net of accumulated depreciation	<u>7,367,370</u>	<u>59,425,888</u>	<u>66,793,258</u>
Total assets	<u>19,350,200</u>	<u>71,688,384</u>	<u>91,038,584</u>
LIABILITIES			
Current liabilities:			
Accounts payable	347,576	242,310	589,886
Accrued liabilities	250,729	57,616	308,345
Other liabilities	-	23,119	23,119
Non-current liabilities:			
Due within one year	319,580	1,080,582	1,400,162
Due in more than one year	<u>2,051,405</u>	<u>16,206,897</u>	<u>18,258,302</u>
Total liabilities	<u>2,969,290</u>	<u>17,610,524</u>	<u>20,579,814</u>
NET ASSETS			
Invested in capital assets, net of related debt	8,233,290	43,740,141	51,973,431
Restricted - Highways	1,306,827	-	1,306,827
Restricted - Other purposes	329,032	-	329,032
Unrestricted	<u>6,511,761</u>	<u>10,337,719</u>	<u>16,849,480</u>
TOTAL NET ASSETS	<u>\$ 16,380,910</u>	<u>\$ 54,077,860</u>	<u>\$ 70,458,770</u>

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

TOWN OF ELKTON, MARYLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
Year Ended June 30, 2012

<u>Functions/Programs</u>	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating	Capital	Primary Government		
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental activities:							
General government	\$ 1,434,055	\$ 252,188	\$ 2,946	\$ -	\$ (1,178,921)	\$ -	\$ (1,178,921)
Public safety	5,681,640	104,042	237,182	-	(5,340,416)	-	(5,340,416)
Public works	2,883,683	634,172	21,191	-	(2,228,320)	-	(2,228,320)
Recreation and culture	376,518	148,647	100	-	(227,771)	-	(227,771)
Interest on long-term debt	77,424	-	-	-	(77,424)	-	(77,424)
Total governmental activities	10,453,320	1,139,049	261,419	-	(9,052,852)	-	(9,052,852)
Business-type activities							
Major facility	37,059	670,299	-	70,122	-	703,362	703,362
Water	2,195,489	2,061,007	-	9,761	-	(124,721)	(124,721)
Sewer	4,795,616	4,398,694	-	-	-	(396,922)	(396,922)
Total business-type activities	7,028,164	7,130,000	-	79,883	-	181,719	181,719
TOTAL PRIMARY GOVERNMENT	\$ 17,481,484	\$ 8,269,049	\$ 261,419	\$ 79,883	(9,052,852)	181,719	(8,871,133)
General revenues:							
Taxes:							
Property taxes, levied for general purpose					7,061,089	-	7,061,089
Shared taxes					1,079,807	-	1,079,807
Investment earnings					17,559	16,653	34,212
Gain on sale of property						-	-
Miscellaneous					43,214	166,340	209,554
Total general revenues					8,201,669	182,993	8,384,662
Special items:							
Legal settlement					(60,234)	-	(60,234)
CHANGE IN NET ASSETS					(911,417)	364,712	(546,705)
NET ASSETS - BEGINNING OF YEAR					17,292,327	53,713,148	71,005,475
NET ASSETS - END OF YEAR					\$ 16,380,910	\$ 54,077,860	\$ 70,458,770

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

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

	General Fund
ASSETS	
Cash and cash equivalents	\$ 7,077,124
Receivables, net	758,325
Other assets	51,577
Due from other governments	441,420
Due from other funds	2,471,723
TOTAL ASSETS	\$ 10,800,169
LIABILITIES AND FUND BALANCES	
Liabilities	
Accounts payable	\$ 347,576
Accrued liabilities	245,234
Due to other funds	1,569,280
Deferred revenue	556,990
Total liabilities	2,719,080
Fund Balances	
Restricted	1,596,605
Committed	1,500,000
Assigned	1,728,312
Unassigned	3,256,172
Total fund balances	8,081,089
TOTAL LIABILITIES AND FUND BALANCES	\$ 10,800,169

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

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

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 8,081,089
 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 as assets in governmental funds. The cost of these assets is \$27,026,665, and the accumulated depreciation is \$16,946,608.	10,080,057
Long-term liabilities are not due and payable in the current period, and therefore, are not reported as liabilities in the funds.	(2,370,985)
Accrued interest is not recorded in the governmental funds	(5,495)
Net pension asset, which is included in governmental activities in the statement of net assets, but is not a financial in the funds.	39,254
Certain receivables are offset by deferred revenue in the governmental funds since they are not available to pay for current-period expenditures. This is the amount of deferred revenue related to these receivables.	<u>556,990</u>
 TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	 <u>\$ 16,380,910</u>

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

TOWN OF ELKTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	<u>General Fund</u>
REVENUES	
Taxes and utility fees	\$ 7,887,108
Licenses and permits	271,172
Fines and forfeitures	59,141
Investment revenues	17,559
Charges for services	674,087
Intergovernmental	597,458
Miscellaneous	93,916
Total revenues	<u>9,600,441</u>
EXPENDITURES	
Current operations:	
General government	1,382,700
Public safety	5,500,408
Public works	2,882,569
Recreation and culture	351,309
Debt service:	
Principal	230,127
Interest	71,929
Total expenditures	<u>10,419,042</u>
NET CHANGE IN FUND BALANCE	(818,601)
FUND BALANCES - BEGINNING OF YEAR	<u>8,899,690</u>
FUND BALANCES - END OF YEAR	<u>\$ 8,081,089</u>

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

TOWN OF ELKTON, MARYLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (818,601)

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 lives as depreciation expense. This is the amount by which depreciation expense (\$770,848) exceeds capital outlay (\$433,552). (337,296)

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 within one year). This amount represents the net increase in compensated absences liability. 22,076

Long-term debt repayments are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount of long-term debt repayments during 2012. 230,127

Interest expense in the Statement of Activities differs from the amount reported in governmental funds due to the net decrease in accrued interest. (5,495)

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 increase in "unavailable" revenues at the end of the year over the amount at the beginning of the year. 52,298

OPEB expenses reported in the Statement of Activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. (93,780)

Overpayment of the annual required pension contribution resulted in an increase of the net pension asset which is reported in the Statement of Activities. 39,254

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (911,417)

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

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

	Business-type Activities - Enterprise Funds			
	Major			
	Facility	Water	Sewer	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 3,420,706	\$ 333,133	\$ 6,158,422	\$ 9,912,261
Receivables, net	226,125	530,279	921,833	1,678,237
Due from other governments	70,122	-	-	70,122
Due from other funds	<u>1,573,035</u>	<u>642,477</u>	<u>1,360,693</u>	<u>3,576,205</u>
Total current assets	5,289,988	1,505,889	8,440,948	15,236,825
Non-current assets:				
Capital assets, net	<u>-</u>	<u>7,104,803</u>	<u>53,825,404</u>	<u>60,930,207</u>
Total assets	<u>5,289,988</u>	<u>8,610,692</u>	<u>62,266,352</u>	<u>76,167,032</u>
LIABILITIES				
Current liabilities:				
Accounts payable	36,297	66,145	139,868	242,310
Accrued expenses	-	-	57,616	57,616
Other liabilities	-	-	23,119	23,119
Due to other funds	<u>391,116</u>	<u>221,726</u>	<u>3,865,806</u>	<u>4,478,648</u>
Total current liabilities	427,413	287,871	4,086,409	4,801,693
Non-current liabilities:				
Due within one year	-	5,974	1,074,608	1,080,582
Due in more than one year	<u>-</u>	<u>37,153</u>	<u>16,169,744</u>	<u>16,206,897</u>
Total liabilities	<u>427,413</u>	<u>330,998</u>	<u>21,330,761</u>	<u>22,089,172</u>
NET ASSETS				
Invested in capital assets, net of related debt	-	7,104,803	36,635,338	43,740,141
Unrestricted	<u>4,862,575</u>	<u>1,174,891</u>	<u>4,300,253</u>	<u>10,337,719</u>
TOTAL NET ASSETS	<u>\$ 4,862,575</u>	<u>\$ 8,279,694</u>	<u>\$ 40,935,591</u>	<u>\$ 54,077,860</u>

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

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

	Business-type Activities - Enterprise Funds			
	Major Facility	Water	Sewer	Total
OPERATING REVENUES				
Charges for services	\$ 670,299	\$ 2,061,007	\$ 4,398,694	\$ 7,130,000
Other operating revenues	-	4,995	-	4,995
Miscellaneous	-	98,754	62,591	161,345
Total operating revenues	<u>670,299</u>	<u>2,164,756</u>	<u>4,461,285</u>	<u>7,296,340</u>
OPERATING EXPENSES				
Cost of service	37,059	1,934,980	3,206,907	5,178,946
Depreciation	-	260,509	1,424,464	1,684,973
Total operating expenses	<u>37,059</u>	<u>2,195,489</u>	<u>4,631,371</u>	<u>6,863,919</u>
Operating income (loss)	<u>633,240</u>	<u>(30,733)</u>	<u>(170,086)</u>	<u>432,421</u>
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings	4,320	452	11,881	16,653
Interest expense	-	-	(164,245)	(164,245)
Total non-operating revenues (expenses)	<u>4,320</u>	<u>452</u>	<u>(152,364)</u>	<u>(147,592)</u>
Income before transfers and capital grants	637,560	(30,281)	(322,450)	284,829
Capital contributions - grants	70,122	9,761	-	79,883
Transfers in (out)	<u>(136,070)</u>	<u>136,070</u>	<u>-</u>	<u>-</u>
CHANGES IN FUND NET ASSETS	571,612	115,550	(322,450)	364,712
TOTAL NET ASSETS - BEGINNING OF YEAR	<u>4,290,963</u>	<u>8,164,144</u>	<u>41,258,041</u>	<u>53,713,148</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 4,862,575</u>	<u>\$ 8,279,694</u>	<u>\$ 40,935,591</u>	<u>\$ 54,077,860</u>

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

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

	Business-type Activities - Enterprise Funds			
	Major Facility	Water	Sewer	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 1,323,437	\$ 2,041,522	\$ 4,624,145	\$ 7,989,104
Payments to suppliers	10,064	(1,974,495)	(2,179,015)	(4,143,446)
Payments to employees	-	(403,826)	(516,763)	(920,589)
Net cash provided by (used in) operating activities	<u>1,333,501</u>	<u>(336,799)</u>	<u>1,928,367</u>	<u>2,925,069</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
(Advances) receipts from other funds	(136,070)	136,070	-	-
Proceeds from grants	-	9,761	-	9,761
Interest paid on capital debt	-	-	(162,765)	(162,765)
Acquisition and construction of capital assets	-	(194,295)	(77,201)	(271,496)
Principal payments of loans	-	-	(1,060,314)	(1,060,314)
Net cash used in capital and related financing activities	<u>(136,070)</u>	<u>(48,464)</u>	<u>(1,300,280)</u>	<u>(1,484,814)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from investment earnings	4,320	452	11,881	16,653
Net cash provided by investing activities	<u>4,320</u>	<u>452</u>	<u>11,881</u>	<u>16,653</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,201,751	(384,811)	639,968	1,456,908
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>2,218,955</u>	<u>717,944</u>	<u>5,518,454</u>	<u>8,455,353</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 3,420,706</u>	<u>\$ 333,133</u>	<u>\$ 6,158,422</u>	<u>\$ 9,912,261</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$ 633,240	\$ (30,733)	\$ (170,086)	\$ 432,421
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation	-	260,509	1,424,464	1,684,973
Effects of changes in operating assets and liabilities:				
Accounts receivable	653,138	(123,234)	162,860	692,764
Prepaid expenses	-	43,708	131,125	174,833
Accounts payable	36,297	(211,002)	106,580	(68,125)
Accrued Expenses	-	(12,780)	(16,421)	(29,201)
Interfund receivables (advances)	10,826	(291,709)	252,816	(28,067)
Compensated absences liability	-	19,915	27,496	47,411
Accrued liability for OPEB benefits	-	8,527	9,533	18,060
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 1,333,501</u>	<u>\$ (336,799)</u>	<u>\$ 1,928,367</u>	<u>\$ 2,925,069</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Pledge of grant not yet received	<u>\$ 70,122</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 70,122</u>

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

**TOWN OF ELKTON, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS –
FIDUCIARY FUNDS
June 30, 2012**

	<u>Total Pension Trusts</u>
ASSETS	
Cash Equivalents	\$ 1,037,844
Investments	
Equity mutual funds	1,635,018
Fixed income mutual funds	<u>1,383,910</u>
Total Investments	<u>3,018,928</u>
TOTAL ASSETS	<u>\$ 4,056,772</u>
NET ASSETS	
Held in trust for pension benefits	<u>\$ 4,056,772</u>

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

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

	<u>Total Pension Trusts</u>
ADDITIONS	
Employer contributions	\$ 534,574
Employee contributions	178,414
Investment gains	<u>46,166</u>
Total additions	<u>759,154</u>
DEDUCTIONS	
Benefit payments	74,482
Administrative fees	<u>2,769</u>
Total deductions	<u>77,251</u>
CHANGE IN NET ASSETS	681,903
NET ASSETS - BEGINNING OF YEAR	<u>3,374,869</u>
NET ASSETS - END OF YEAR	<u><u>\$ 4,056,772</u></u>