

# TOWN OF ELKTON, MARYLAND



## COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED  
June 30, 2011

TOWN OF ELKTON, MARYLAND  
COMPREHENSIVE ANNUAL FINANCIAL REPORT

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June 30, 2011



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

## TABLE OF CONTENTS

	PAGE
<b>INTRODUCTORY SECTION</b>	
Letter of Transmittal .....	1
GFOA Certificate of Achievement .....	6
Organizational Chart .....	7
List of Elected and Appointed Officials .....	8
<b>FINANCIAL SECTION</b>	
Independent Auditor's Report .....	9
Management's Discussion and Analysis .....	11
<b>Basic Financial Statements:</b>	
Government-wide Financial Statements:	
Statement of Net Assets .....	30
Statement of Revenues, Expenses and Change in Net Assets .....	31
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	32
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets .....	33
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds.....	34
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities .....	35
Statement of Net Assets – Proprietary Funds.....	36
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds.....	37
Statement of Cash Flows – Proprietary Funds .....	38
Statement of Fiduciary Net Assets – Fiduciary Funds.....	39
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds .....	40
Notes to Financial Statements .....	41
<b>Required Supplemental Information:</b>	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund (Non-GAAP Balance – Budgetary Basis) .....	66
Schedule of Funding Progress – Other Post Employment Benefits .....	67
Schedule of Funding Progress – Police Pension Trust.....	68
<b>Other Supplemental Information:</b>	
Detailed Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund (Non-GAAP Budgetary Basis).....	70
Combining Schedule of Fiduciary Net Assets – Trust Funds .....	73
Combining Schedule of Changes in Fiduciary Net Assets – Trust Funds.....	74

**TABLE OF CONTENTS**

**PAGE**

**STATISTICAL SECTION**

Contents..... 75  
Net Assets by Component ..... 76  
Changes in Net Assets..... 77  
Governmental Activities Tax Revenues by Source ..... 79  
Fund Balances of Governmental Funds..... 80  
Changes in Fund Balances of Governmental Funds ..... 81  
Assessed Value and Estimated Actual Value of Taxable Property ..... 82  
Real Property Tax Rates – Direct and Overlapping Governments ..... 83  
Principal Property Taxpayers ..... 84  
Property Tax Levies and Collections..... 85  
Ratio of Total Bonded Debt to Assessed Value and Total Bonded Debt Per Capita ..... 86  
Computation of Legal Debt Margin and Computation of Direct and Overlapping Debt..... 87  
Demographic Statistics ..... 88  
Principal Employers ..... 89  
Full-time Equivalent City Government Employees by Function ..... 90  
Operating Indicators by Function ..... 91  
Capital Asset Statistics by Function ..... 92



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 21, 2011

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, 2011.

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 Clifton Gunderson 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 for the fiscal year ended June 30, 2011, 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 of the fiscal year ended June 30, 2011, 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. 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, both transfers within departments and between departments require the approval of the Board of Commissioners. Budget-to-actual comparisons are provided in this report for each individual governmental and proprietary fund for which an annual budget has been adopted.

## 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 US 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 increase in both the number and value of new construction permits issued, it is somewhat misleading in that the majority of the value is the substantial addition to the Cecil County Detention Center. Nonetheless, there was modest growth in residential activity.

Fiscal Year	Units Constructed		% Increase/ (Decrease)
	Number	Value	
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	(11.2)%
2002	229	23,821,392	-

Presently, the Town has 3,214 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. Through Town support construction was completed on a 60 unit, affordable senior apartment building located within walking distance of essential services. 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, preliminary discussions have begun on the location and design of a Community Recreation Center, with \$1.5 million of the Fund Balance committed toward this effort.

Efforts continue in developing a well water source at the southern edge of the Town. The not yet completed project involves obtaining a draw permit issued by the MDE after factoring the well's potential along with the total demand, the timing of the demand, and the Artesian Water, Maryland, Inc. backup availability. Because of the current state of the real estate market, these factors are extremely difficult to quantify. This effort is further evidence of the Town's proactive commitment to having the necessary water infrastructure in place for future growth.

## **Financial Policies**

Effective July 1, 2010, the Mayor and Commissioners adopted the Elkton Police Pension Plan which removes the sworn officers within the Police Department from a Defined Contribution Plan to a contributory, Defined Benefit Plan. The Town's current year required contribution under this plan, as determined by actuarial analysis, is 14.7%, compared to 8% under the Defined Contribution Plan.

The Mayor and Commissioners passed Ordinance 5-2011 on December 7, 2011 increasing the water and sewer user rates effective January 1, 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**

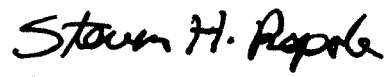
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Elkton for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2010. This is the seventh consecutive year the Town of Elkton has 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.

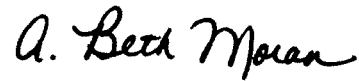
The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance and administration departments. We would like to express our appreciation to all members of the departments who assisted in and contributed to the

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, 2010

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.



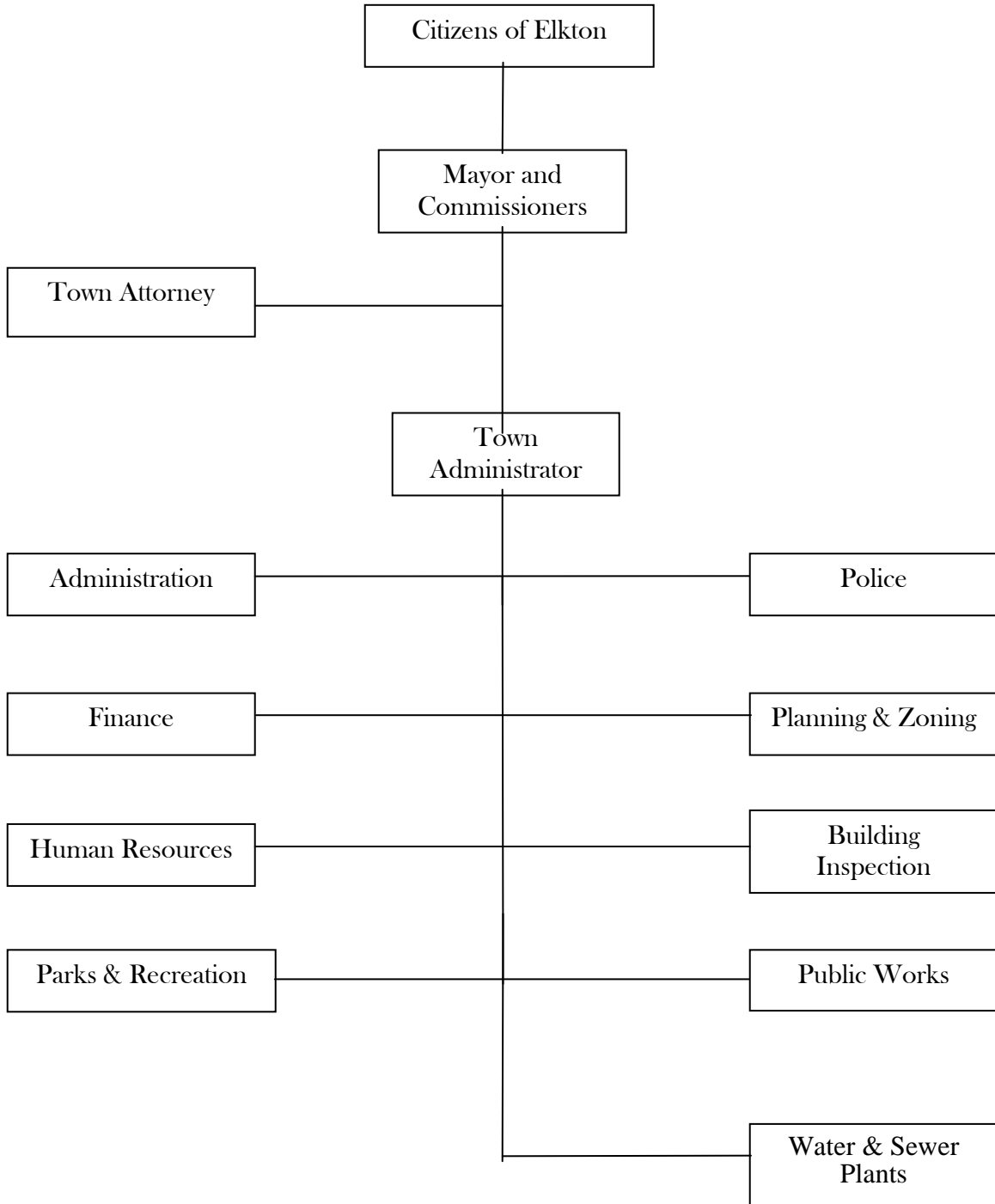
*Linda C. Davidson*

President

*Jeffrey R. Emmer*

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, 2011**

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**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.  
Mark T. Turnbull  
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, 2011, 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 opinion.

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, 2011, 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 21, 2011, 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.

The management's discussion and analysis, budgetary comparison statement of the general fund and the schedule of funding progress, as listed on the foregoing table of contents, are not required parts of the basic financial statements, but are supplementary information required by 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 an opinion on the financial statements that collectively comprise the Town of Elkton's basic financial statements. The accompanying supplementary information, such as the combining 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 statements and other supplementary information have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical tables have not been subjected to the auditing procedures applied by us in the auditor of the basic financial statements and, accordingly, we express no opinion on them.

*Clifton Gunderson LLP*

Baltimore, Maryland  
December 21, 2011

**TOWN OF ELKTON, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2011**

**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, 2011. 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 2011**

The Town's assets exceeded its liabilities at the close of the 2011 fiscal year by approximately \$71.0 million (total net assets). Approximately 76% 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 \$52.4 million is invested in capital assets, net of related debt.

As of the close of the 2011 fiscal year, the Town's only governmental fund (General Fund) reported an ending fund balance of \$8.9 million. Of this total amount, \$4.1 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 41.8% of total expenditures and represents funding for approximately five 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 \$196,000.

The Town's total debt increased by approximately \$169,000 during the current fiscal year, from \$20.6 million to \$20.8 million. This is the result of the final draw against the \$22.0 million revolving loan agreement with the Maryland Department of the Environment in the Business-Type Activity and an increase to other post employment benefit costs in both the Business-Type and Governmental Activities exceeding the retirement of existing debt in both. At the close of the 2011 fiscal year, only \$21.4 million had been drawn from the \$22.0 million revolving loan agreement with MDE, leaving an outstanding balance of \$18.3 million. This loan is for the purpose of upgrading and expanding the wastewater treatment plant.

**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, 2011**

- 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, 2011**

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.

	<b><u>Government-Wide Statements</u></b>	<b><u>Fund Financial Statements</u></b>	
		<b><u>Governmental Funds</u></b>	<b><u>Fiduciary Funds</u></b>
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"> <li>• Statement of Net Assets</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Fiduciary Net Assets</li> <li>• Statement of Changes in Fiduciary Net Assets</li> </ul>
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, 2011**

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, 2011**

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, 2011

**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, 2011 and 2010, respectively:

**NET ASSETS – JUNE 30, 2011**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total Activities</b>
<b>ASSETS</b>			
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>
<b>LIABILITIES</b>			
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>
<b>NET ASSETS</b>			
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>
<b>TOTAL NET ASSETS</b>	<u>\$ 17,292,327</u>	<u>\$ 53,713,148</u>	<u>\$ 71,005,475</u>

**NET ASSETS – JUNE 30, 2010**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total Activities</b>
<b>ASSETS</b>			
Current and other assets	\$ 9,910,659	\$ 4,515,040	\$ 14,425,699
Capital assets	<u>10,979,559</u>	<u>63,711,186</u>	<u>74,690,745</u>
Total assets	<u>20,890,218</u>	<u>68,226,226</u>	<u>89,116,444</u>
<b>LIABILITIES</b>			
Long-term liabilities outstanding	3,151,924	18,482,428	21,634,352
Other liabilities	<u>-</u>	<u>18,104</u>	<u>18,104</u>
Total liabilities	<u>3,151,924</u>	<u>18,500,532</u>	<u>21,652,456</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	8,680,624	45,745,259	54,425,883
Restricted	1,750,415	-	1,750,415
Unrestricted	<u>7,307,255</u>	<u>3,980,435</u>	<u>11,287,690</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 17,738,294</u>	<u>\$ 49,725,694</u>	<u>\$ 67,463,988</u>

**TOWN OF ELKTON, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2011**

The Town's assets exceeded its liabilities at the close of the 2011 fiscal year by \$71.0 million. Approximately \$52.4 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, 2011 and 2010, respectively:

<b>Changes in Net Assets</b>			
<b>Fiscal Year Ending June 30, 2011</b>			
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total Activities</b>
<b>REVENUES</b>			
<b>Program Revenues</b>			
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
<b>General Revenues</b>			
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	9,739,584	10,609,665	20,349,249
<b>Program Expenses</b>			
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	10,185,551	6,622,211	16,807,762
<b>CHANGE IN NET ASSETS</b>	(445,967)	3,987,454	3,541,487
<b>NET ASSETS – BEGINNING</b>	17,738,294	49,725,694	67,463,988
<b>NET ASSETS – ENDING</b>	\$ 17,292,327	\$ 53,713,148	\$ 71,005,475

**TOWN OF ELKTON, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2011**

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

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total Activities</b>
<b>REVENUES</b>			
<b>Program Revenues</b>			
Charges for services	\$ 1,149,621	\$ 5,738,304	\$ 6,887,925
Operating grants and contributions	302,696	-	302,696
Capital grants and contributions	178,967	-	178,967
<b>General Revenues</b>			
Property taxes	6,983,569	-	6,983,569
State and County shared taxes	1,087,042	-	1,087,042
Investments earnings	63,824	10,809	74,633
Miscellaneous	170,559	-	170,559
Total revenues	<u>9,936,278</u>	<u>5,749,113</u>	<u>15,685,391</u>
<b>Program Expenses</b>			
General government	1,618,781	-	1,618,781
Public safety	4,899,948	-	4,899,948
Public works	3,156,622	-	3,156,622
Recreation and culture	296,808	-	296,808
Administration	89,124	-	89,124
Interest on long-term debt	88,305	-	88,305
Utilities and other proprietary funds	-	6,273,809	6,273,809
Total expenses	<u>10,149,588</u>	<u>6,273,809</u>	<u>16,423,397</u>
<b>DECREASE IN NET ASSETS</b>	(213,310)	(524,696)	(738,006)
<b>NET ASSETS – BEGINNING</b>	<u>17,951,604</u>	<u>50,250,390</u>	<u>68,201,994</u>
<b>NET ASSETS – ENDING</b>	<u>\$ 17,738,294</u>	<u>\$ 49,725,694</u>	<u>\$ 67,463,988</u>

The Town's total revenues were \$20.3 million, an increase of approximately \$4.7 million. The majority of the overall increase, \$2.7 million, was due to the final distribution of grant proceeds from the EPA and the State of Maryland for the upgrade and expansion of the Elkton Wastewater Treatment Plant. Overall, charges for services in business-type activities increased by \$1.8 million, the result of utility connection charges for three large commercial projects, and an increase to utility user rates. Local property tax funding amounted to \$7.2 million, an increase of \$174,000 over 2010. This minimal increase was due to the adoption of the constant yield tax rate of \$0.4734 for 2011. State and County shared tax revenue decreased for the third straight year. The \$83,000 decrease was directly attributable to the continued high unemployment rate. Although cash balances increased, investment earnings decreased \$29,000 as interest rates continued to decline. The Town's total expenses were \$16.8 million, an increase of approximately \$400,000, or 2.3%. The majority of this increase, \$361,000, was attributable to the purchase of supplemental water.

**TOWN OF ELKTON, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2011**

**Governmental Activities**

General revenues for the governmental activities were \$8.4 million, while total expenses, net of charges for services and grants and contributions, were \$8.8 million. The total decrease in net assets for governmental activities was \$446,000, or 2.5%.

Total revenues from governmental activities decreased by \$197,000, and total governmental activities expenses increased by \$36,000. The decreased revenue is a result of a \$234,000 decrease in miscellaneous grants, primarily funds received in 2010 but not in 2011 for FEMA reimbursement of \$92,000 for two snowstorms and a playground equipment grant of \$60,000. Additional decreases in revenue include \$97,000 in zoning and subdivision fees, \$83,000 in State shared income taxes, \$40,000 in investment earnings, and \$38,000 in Highway Gas Tax revenue. Netted against the decreases were increases of \$174,000 in property tax levies and \$142,000 in building permits.

The nominal \$36,000 increase in expenses is reflective of the Town's effort to maintain the cost of government during these challenging economic times. Although positions filled received modest increases in salary and fringe benefit expenses, including a new Elkton Police Department pension plan, total expenditures remained virtually the same as the prior year. Additionally, the Town was able to provide the same level of services to both the public and business community as was provided the previous year.

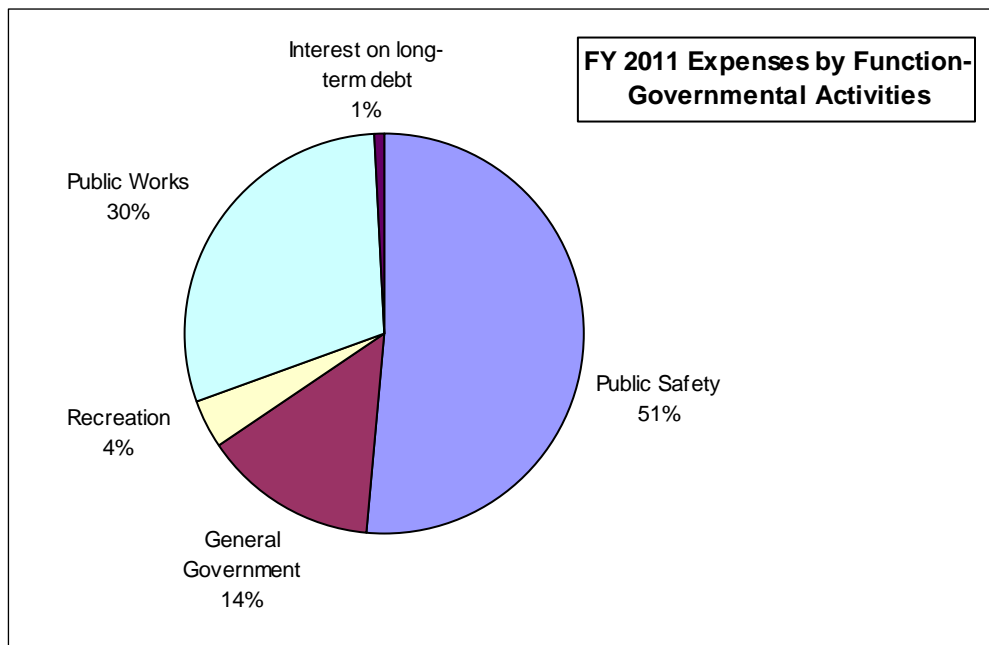
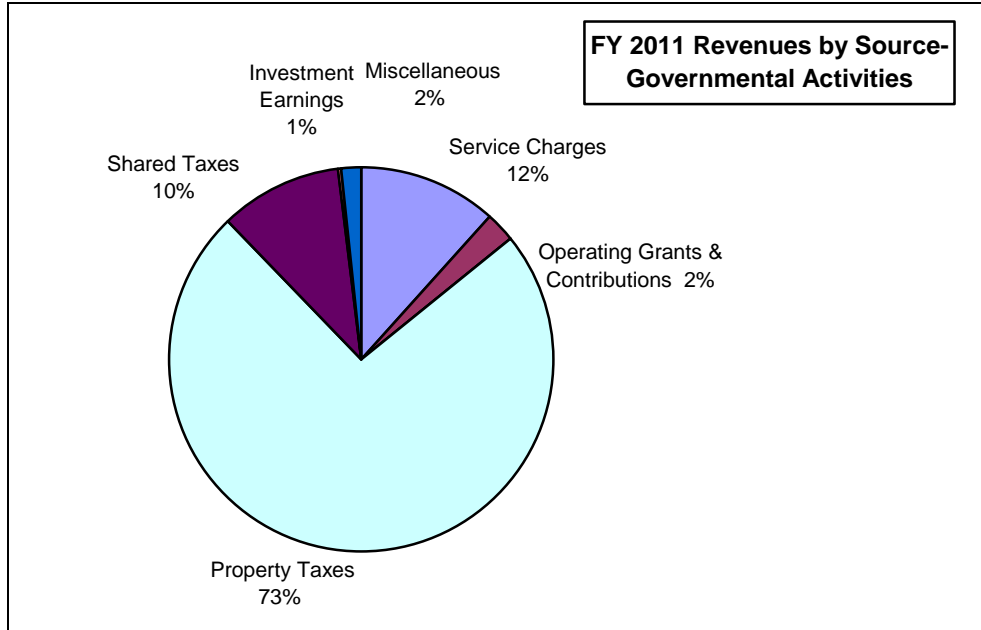
**Business-type Activities**

Business-type activities increased the Town of Elkton's net assets by \$4.0 million, or 8.0%. Total revenues for business-type activities increased by \$4.9 million while expenses increased by \$348,000. The key element of the increase in revenue is the additional grant proceeds received from the State of Maryland for the upgrade and expansion of the Elkton Wastewater Treatment Plant as final distributions were received in the amount of \$2.7 million. Additionally, there was a \$2.0 million increase in charges for services of which \$605,000 was attributable to user fee rate increases in the Water and Sewer Funds of 30% and 10%, respectively, effective December, 2010. Major Facility fees increased by \$1.4 million due primarily to three commercial projects - a 60 unit senior apartment complex, a major addition and renovation to the Cecil County Detention Center, and a nationally recognized restaurant.

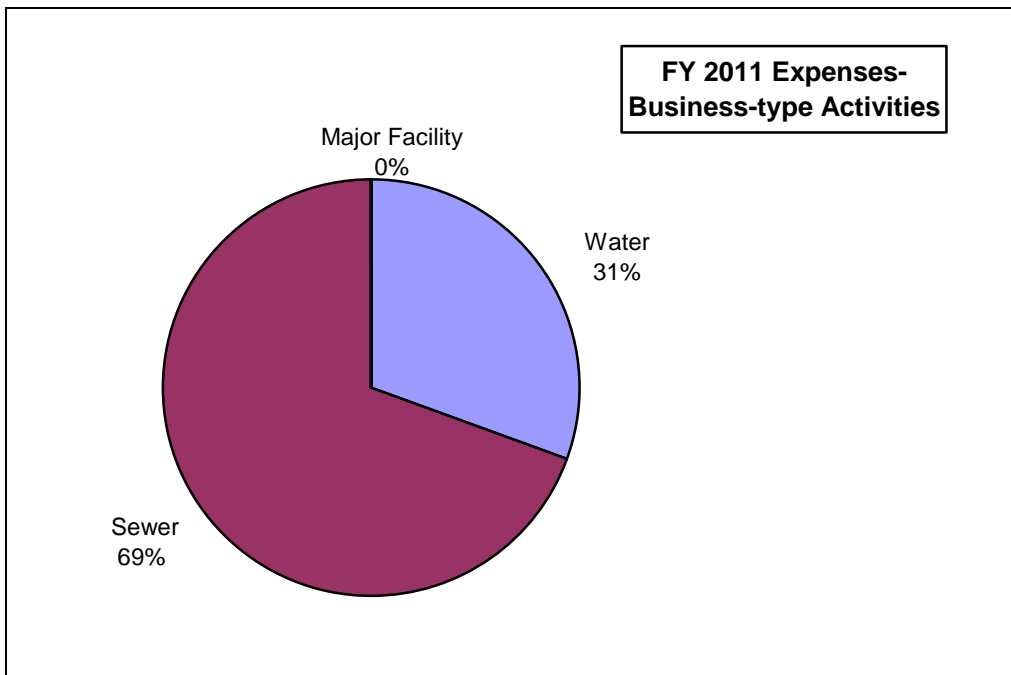
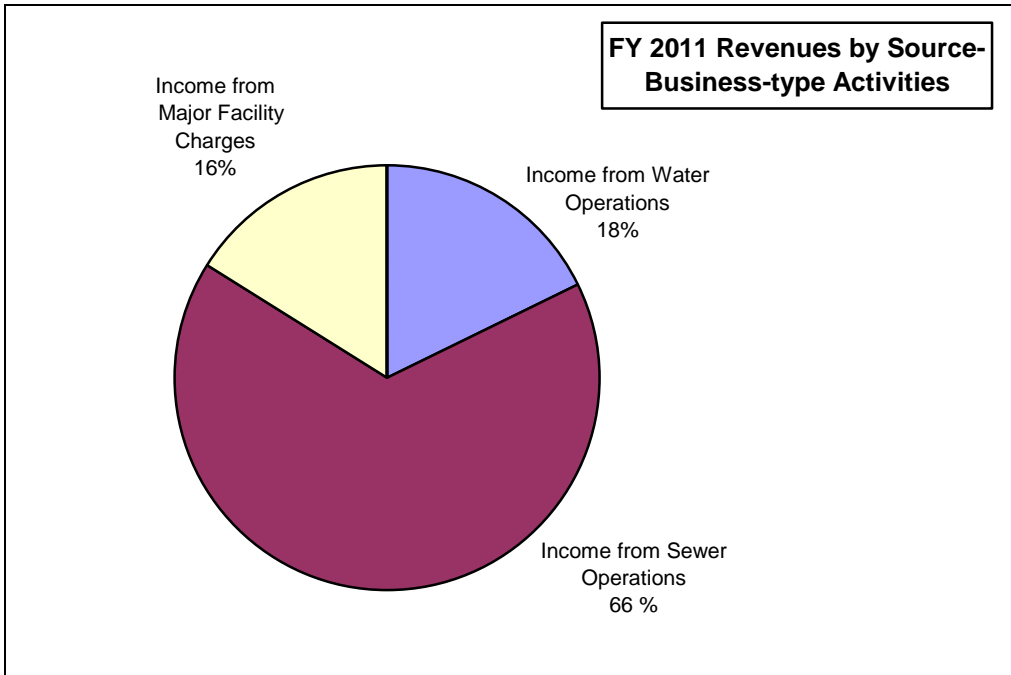
The \$348,000 increase in expenses was primarily the net result of three factors. First, the September, 2010 drought requiring the purchase of \$361,000 in supplemental water. Second, an additional \$32,000 was recognized in OPEB costs. And finally, a \$69,000 decrease in electricity expense.

**TOWN OF ELKTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2011**

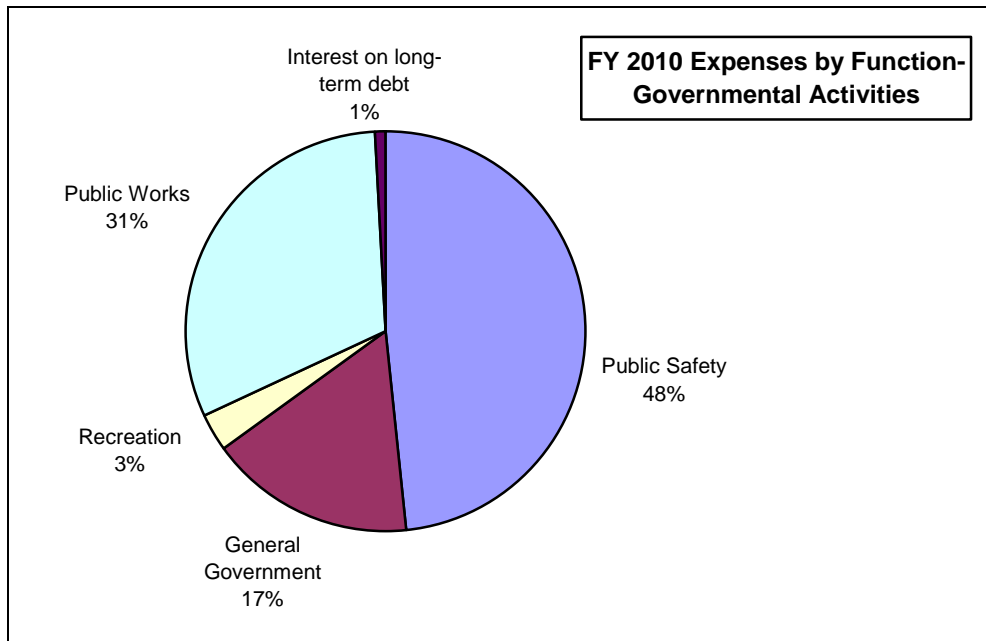
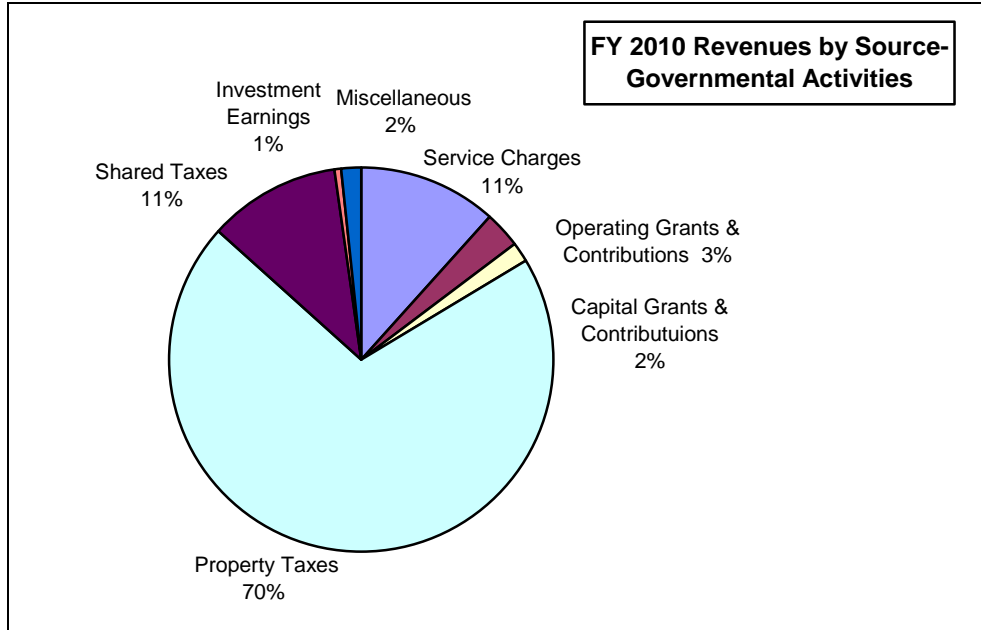
The following is a graphical presentation of the Town's revenues and expenses for the years ending June 30, 2011 and 2010:



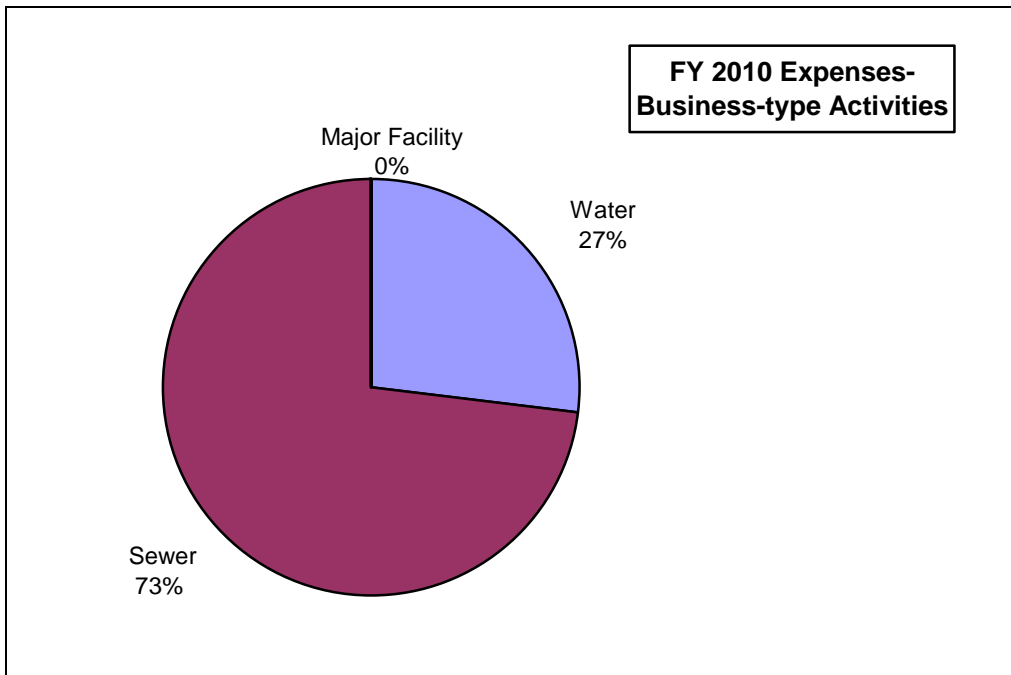
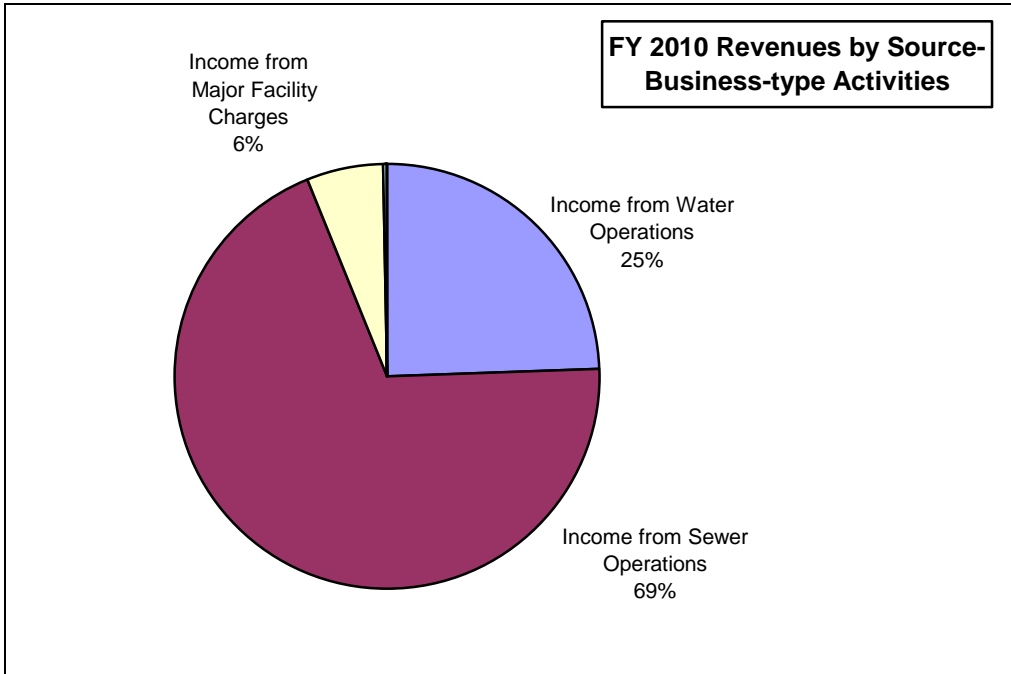
TOWN OF ELKTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2011



**TOWN OF ELKTON, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 June 30, 2011



**TOWN OF ELKTON, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2011



**TOWN OF ELKTON, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2011**

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, 2011 and 2010, 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, 2011**

	<u>Expenses</u>	<u>Revenues</u>	<u>Net Cost</u>
<b>Governmental Activities</b>			
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>
<b>Business-type Activities</b>			
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>
<b>Total Governmental and Business-type Activities</b>	<u>\$ 16,807,762</u>	<u>\$ 11,834,637</u>	<u>\$ (4,973,125)</u>

**Net Cost of Activities**  
**Year Ended June 30, 2010**

	<u>Expenses</u>	<u>Revenues</u>	<u>Net Cost</u>
<b>Governmental Activities</b>			
General government	\$ 1,618,781	\$ 314,877	\$ (1,303,904)
Public safety	4,899,948	456,484	(4,443,464)
Public works	3,156,622	681,358	(2,475,264)
Recreation and culture	296,808	178,565	(118,243)
Administration	89,124	-	(89,124)
Interest on long-term debt	<u>88,305</u>	<u>-</u>	<u>(88,305)</u>
Total governmental activities	<u>10,149,588</u>	<u>1,631,284</u>	<u>(8,518,304)</u>
<b>Business-type Activities</b>			
Major Facility	2,318	339,750	337,432
Water	1,688,839	1,408,758	(280,081)
Sewer	<u>4,582,652</u>	<u>3,989,796</u>	<u>(592,856)</u>
Total business-type activities	<u>6,273,809</u>	<u>5,738,304</u>	<u>(535,505)</u>
<b>Total Governmental and Business-type Activities</b>	<u>\$ 16,423,397</u>	<u>\$ 7,369,588</u>	<u>\$ (9,053,809)</u>

**TOWN OF ELKTON, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2011**

The cost of governmental activities this year was \$10.2 million, a minimal increase of \$36,000. Although the overall increase was minimal, there were some large fluctuations within the functions when compared to the prior year expenses. General government decreased \$199,000, with decreases of \$35,000 for legal services, \$30,000 for salaries and related fringe benefits, \$25,000 for master planning, and \$23,000 for legal claims. Numerous other line items accounted for the balance of the total decrease. The \$343,000 increase in public safety was principally due to negotiated salary increases and the adoption of the police pension plan. Public works decreased \$128,000 due to salaries and related fringe benefit savings as a result of unfilled positions. 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 (\$242,000). Taxpayers paid the remaining net cost of services of \$8.8 million.

The total cost of business-type activities this year was \$6.6 million, an increase of \$348,000 due primarily to an additional \$361,000 for the purchase of supplemental water. Electricity costs decreased by \$69,000, and OPEB expenses increased by \$32,000. The cost of the activities was primarily paid from service charges and lease agreements. Water Fund expenses exceeded charges for services by \$395,000. Sewer Fund expenses exceeded charges for services by \$344,000. The Major Facility Fund shows that charges for services were greater than expenses by \$1.7 million.

#### **Financial Analysis of the Town's Funds**

At year-end, the General Fund reported a combined fund balance of \$8.9 million, a decrease from the previous year's \$9.1 million. This minimal \$196,000 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 \$4.0 million. This was the result of \$2.3 million net revenue in the sewer fund and \$1.7 million major facility net revenue combined with \$170,000 net expense in the water fund and \$157,000 investment and miscellaneous revenue.

#### **GENERAL FUND BUDGETARY HIGHLIGHTS**

Actual revenues were \$61,000, or less than 1.0% greater than the final budgeted amount, the result of positive variances of \$129,000 in licenses and permits, \$50,000 in charges for services, and \$50,000 in total miscellaneous revenue netted against negative variances of \$140,000 in taxes and \$19,000 in parking fines.

The positive variance of \$129,000 in licenses and permits is primarily a result of \$102,000 collected for building permits for the new construction and renovation of the Cecil County Detention Center in addition to a 50% increase in the number of residential permits. The \$36,000 positive variance in special police services was the main component of the \$50,000 positive variance in charges for services. The \$50,000 favorable variance in miscellaneous revenue is the result of the forfeiture to the Town of \$37,000 in 401A contributions from employees who left employment prior to becoming vested, a \$53,000 reduction to the allowance for uncollectable accounts, and a negative variance of \$48,000 in interest revenue due to depressed market rates. 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 \$182,000 in real property taxes. Additional negative tax variances for traders, railroads and public utilities, and ordinary business corporation taxes totaling \$112,000 and positive

**TOWN OF ELKTON, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2011**

variances of \$109,000 in local income tax and \$24,000 in highway gas tax account for roughly the total \$140,000 negative variance in taxes. The \$19,000 negative parking fines variance is likely due to a three month vacancy in one of the parking enforcement officer positions in addition to an overall decrease in downtown patrons.

Actual expenditures were \$1.1 million, or 10.4%, less than the final budgeted amount. Each expenditure category had a positive variance. The positive variances of \$506,000 and \$259,000 in Public Works and General Government, respectively, were primarily attributed to the salary and fringe benefit savings from positions budgeted, but not filled, for extended periods during the fiscal year. Additionally, the \$90,000 positive variance in Recreation and Culture was due to salary and fringe benefit savings from budgeted programs that were not offered due to lack of enrollment. The \$282,000 positive variance in Public Safety was also due to salary and fringe benefit savings and contracted services savings related to the Town's participation in the county operated emergency dispatch system.

During the year, there was a \$265,795 increase in appropriations between the original and final amended budget. The following are the main components of the increase:

- Adjustment to decrease capital equipment allocation in the police department in the amount of \$21,706, as the police vehicle was purchased at the end of the previous fiscal year.
- A supplemental appropriation in the police department for \$189,494 for the required employer contribution and related expenses for the police pension plan, not known at the time the budget was approved.
- A supplemental appropriation to recognize a donation of \$25,000 to purchase an emergency generator for the public works building.
- A supplemental appropriation of \$25,023 to recognize revenue from a Justice Assistance Grant for purchase of a tactical weapon simulator and related equipment.
- A supplemental appropriation to recognize revenue of \$27,848 from an easement agreement to be used to replace the emergency generator at the municipal building.
- A supplemental appropriation to recognize revenue from annexation petitioners for the cost of advertising annexation requests in the amount of \$3,859.
- A supplemental appropriation in the parks and recreation department to purchase goal posts for \$4,311.
- A supplemental appropriation in the municipal buildings department for the installation of an enhanced security system for the historic Hollingsworth House at Elk Landing for \$3,253.

**TOWN OF ELKTON, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2011**

**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, 2011, amounts to \$72.8 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 2.6%, a 5.1% decrease for governmental activities and a 2.1% decrease for business-type activities.

The following table presents capital assets (net of accumulated depreciation) by category for fiscal years ending June 30, 2011 and 2010, respectively:

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

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Land	\$ 2,657,608	\$ 2,651,053	\$ 865,270	\$ 865,270	\$ 3,522,878	\$ 3,516,323
Other improvements	2,577,204	2,959,711	-	-	2,577,204	2,959,711
Buildings	4,365,185	4,435,368	-	-	4,365,185	4,435,368
Plants, mains and other improvements	-	-	60,266,563	61,445,354	60,266,563	61,445,354
Equipment	765,617	887,948	706,315	818,397	1,471,932	1,706,345
Construction in progress	51,739	45,479	505,536	582,165	557,275	627,644
<b>Total</b>	<b>\$ 10,417,353</b>	<b>\$ 10,979,559</b>	<b>\$ 62,343,684</b>	<b>\$ 63,711,186</b>	<b>\$ 72,761,037</b>	<b>\$ 74,690,745</b>

Major capital asset events during the fiscal year ending June 30, 2011 included the following:

In the Town's governmental activities:

- Generators purchased for municipal buildings cost \$94,266.
- Equipment purchased for the police department cost \$51,483.
- \$6,500 was spent to purchase a K-9 dog for the police department.
- Vehicles and equipment purchased for public works cost \$76,574.
- Meadow Park improvements cost \$7,978.
- Purchase of land on Belle Hill Road cost \$6,260.
- \$6,300 was spent on software for the parks and recreation department.
- Depreciation expense was \$834,095 for the year.

**TOWN OF ELKTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2011**

In the Town's business-type activities:

- \$264,651 was spent on engineering and rehabilitation of the Thomson Estates water tower.
- \$10,150 was spent on electronic water meter reading equipment.
- Flow Serve finish water pump for the water treatment plant cost \$16,940.
- \$7,500 was spent on a stainless steel catch basin at the wastewater treatment plant.
- Engineering services for the Frenchtown Road phase II groundwater study cost \$16,130.
- Depreciation expense was \$1,689,010 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 \$20,327,274 in outstanding loans, compared to \$20,264,862 last year. The following chart compares the level of long-term debt for fiscal years 2011 and 2010, respectively:

<b>Town of Elkton's Outstanding Debt</b>						
	<b>Government Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Loans	<u>\$ 2,076,894</u>	<u>\$ 2,298,935</u>	<u>\$ 18,250,380</u>	<u>\$ 17,965,927</u>	<u>\$ 20,327,274</u>	<u>\$ 20,264,862</u>

The Town of Elkton's total debt increased by \$62,412 during the current fiscal year. The Town entered into a \$22.0 million revolving loan agreement with the Maryland Department of the Environment of which \$1,338,765 was drawn during the current fiscal year bringing the total to \$21,395,474 as of June 30, 2011. The Town made total debt repayments in Governmental Activities in compliance with debt amortization schedules of \$222,041. Additionally, the Town made total debt repayments in Business-type Activities of \$1,054,312.

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, 2011

**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 2012 budget for the Town's only governmental fund, the General Fund, was adopted at \$242,709 less than the fiscal year 2011 final budget.
- For fiscal year 2012, the Town adopted the constant yield tax rate for the fourth consecutive year. Due to an increase in total assessments, this actually decreased the real property tax rate from \$0.4734 to \$0.4656 per \$100.00 of assessed value.
- The water and sewer rates were unchanged for the start of fiscal year 2012; however, they were increased by 57% and 10%, respectively, effective January, 2012. 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, 2011

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 7,771,147	\$ 8,455,353	\$ 16,226,500
Accounts receivable, net	531,139	2,371,001	2,902,140
Prepaid expenses	-	174,833	174,833
Other assets	42,791	-	42,791
Internal balances	930,510	(930,510)	-
Due from other governments	403,259	-	403,259
Non-current assets:			
Capital assets, not being depreciated	2,709,347	1,370,806	4,080,153
Capital assets being depreciated, net of accumulated depreciation	<u>7,708,006</u>	<u>60,972,878</u>	<u>68,680,884</u>
Total assets	<u>20,096,199</u>	<u>72,414,361</u>	<u>92,510,560</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	125,074	310,435	435,509
Accrued liabilities	149,390	86,817	236,207
Other liabilities	-	21,639	21,639
Non-current liabilities:			
Due within one year	317,593	1,060,314	1,377,907
Due in more than one year	<u>2,211,815</u>	<u>17,222,008</u>	<u>19,433,823</u>
Total liabilities	<u>2,803,872</u>	<u>18,701,213</u>	<u>21,505,085</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	8,340,459	44,093,304	52,433,763
Restricted - Highways	1,515,991	-	1,515,991
- Other purposes	237,537	-	237,537
Unrestricted	<u>7,198,340</u>	<u>9,619,844</u>	<u>16,818,184</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 17,292,327</u>	<u>\$ 53,713,148</u>	<u>\$ 71,005,475</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, 2011**

	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
<b>Functions/Programs</b>							
Primary Government							
Governmental activities:							
General government	\$ 1,420,063	\$ 212,921	\$ 2,946	\$ -	\$ (1,204,196)	\$ -	\$ (1,204,196)
Public safety	5,243,295	133,122	237,090	-	(4,873,083)	-	(4,873,083)
Public works	3,028,570	661,136	-	-	(2,367,434)	-	(2,367,434)
Recreation and culture	413,617	133,547	1,579	-	(278,491)	-	(278,491)
Interest on long-term debt	80,006	-	-	-	(80,006)	-	(80,006)
Total governmental activities	<u>10,185,551</u>	<u>1,140,726</u>	<u>241,615</u>	<u>-</u>	<u>(8,803,210)</u>	<u>-</u>	<u>(8,803,210)</u>
Business-type activities							
Major facility	-	1,683,775	-	-	-	1,683,775	1,683,775
Water	2,029,079	1,633,718	-	225,149	-	(170,212)	(170,212)
Sewer	4,593,132	4,249,165	-	2,660,489	-	2,316,522	2,316,522
Total business-type activities	<u>6,622,211</u>	<u>7,566,658</u>	<u>-</u>	<u>2,885,638</u>	<u>-</u>	<u>3,830,085</u>	<u>3,830,085</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 16,807,762</u>	<u>\$ 8,707,384</u>	<u>\$ 241,615</u>	<u>\$ 2,885,638</u>	<u>(8,803,210)</u>	<u>3,830,085</u>	<u>(4,973,125)</u>
<b>General revenues:</b>							
Taxes:							
Property taxes, levied for general purpose					7,157,852	-	7,157,852
Shared taxes					1,004,307	-	1,004,307
Investment earnings					23,406	21,940	45,346
Miscellaneous					171,678	135,429	307,107
Total general revenues					<u>8,357,243</u>	<u>157,369</u>	<u>8,514,612</u>
<b>CHANGE IN NET ASSETS</b>					(445,967)	3,987,454	3,541,487
<b>NET ASSETS - BEGINNING OF YEAR</b>					<u>17,738,294</u>	<u>49,725,694</u>	<u>67,463,988</u>
<b>NET ASSETS - END OF YEAR</b>					<u>\$ 17,292,327</u>	<u>\$ 53,713,148</u>	<u>\$ 71,005,475</u>

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

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

	<b>General Fund</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 7,771,147
Receivables, net	531,139
Other assets	42,791
Due from other governments	403,259
Due from other funds	2,362,424
<b>TOTAL ASSETS</b>	<b>\$ 11,110,760</b>
<b>LIABILITIES AND FUND BALANCES</b>	
<b>Liabilities</b>	
Accounts payable	\$ 125,074
Accrued liabilities	149,390
Due to other funds	1,431,914
Deferred revenue	504,692
Total liabilities	2,211,070
<b>Fund Balances</b>	
Restricted	1,753,528
Committed	1,500,000
Assigned	1,565,229
Unassigned	4,080,933
Total fund balances	8,899,690
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 11,110,760</b>

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, 2011**

<b>TOTAL FUND BALANCES - GOVERNMENTAL FUNDS</b>	<b>\$ 8,899,690</b>
 <b>Amounts reported for governmental activities in the Statement of Net Assets  are different because:</b>	
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 \$26,593,113 and the accumulated depreciation is \$16,175,760.	10,417,353
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(2,529,408)
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>504,692</u>
 <b>TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES</b>	 <b><u>\$ 17,292,327</u></b>

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, 2011**

	<u>General Fund</u>
<b>REVENUES</b>	
Taxes and utility fees	\$ 7,711,280
Licenses and permits	391,934
Fines and forfeitures	59,193
Investment revenues	23,406
Charges for services	643,987
Intergovernmental	572,702
Miscellaneous	<u>171,778</u>
Total revenues	<u>9,574,280</u>
<b>EXPENDITURES</b>	
Current operations:	
General government	1,324,134
Public safety	5,082,910
Public works	2,686,879
Recreation and culture	374,548
Debt service:	
Principal	222,041
Interest	<u>80,006</u>
Total expenditures	<u>9,770,518</u>
<b>NET CHANGE IN FUND BALANCE</b>	(196,238)
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>9,095,928</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 8,899,690</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, 2011**

**TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS** \$ (196,238)

**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 (\$834,095) exceeds capital outlay (\$271,889). (562,206)

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. (5,370)

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 2011. 222,041

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. 165,304

OPEB expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (69,498)

**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** **\$ (445,967)**

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

**TOWN OF ELKTON, MARYLAND**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**June 30, 2011**

	<b>Business-type Activities- Enterprise Funds</b>			
	<b>Major Facility</b>	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 2,218,955	\$ 717,944	\$ 5,518,454	\$ 8,455,353
Receivables, net	879,263	407,045	1,084,693	2,371,001
Prepaid expenses	-	43,708	131,125	174,833
Due from other funds	<u>1,571,391</u>	<u>241,347</u>	<u>1,190,850</u>	<u>3,003,588</u>
Total current assets	4,669,609	1,410,044	7,925,122	14,004,775
Non-current assets:				
Capital assets, net	<u>-</u>	<u>7,171,017</u>	<u>55,172,667</u>	<u>62,343,684</u>
Total assets	<u>4,669,609</u>	<u>8,581,061</u>	<u>63,097,789</u>	<u>76,348,459</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	-	277,147	33,288	310,435
Accrued expenses	-	12,780	74,037	86,817
Other liabilities	-	-	21,639	21,639
Due to other funds	<u>378,646</u>	<u>112,305</u>	<u>3,443,147</u>	<u>3,934,098</u>
Total current liabilities	378,646	402,232	3,572,111	4,352,989
Non-current liabilities:				
Due within one year	-	-	1,060,314	1,060,314
Due in more than one year	<u>-</u>	<u>14,685</u>	<u>17,207,323</u>	<u>17,222,008</u>
Total liabilities	<u>378,646</u>	<u>416,917</u>	<u>21,839,748</u>	<u>22,635,311</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	-	7,171,017	36,922,287	44,093,304
Unrestricted	<u>4,290,963</u>	<u>993,127</u>	<u>4,335,754</u>	<u>9,619,844</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 4,290,963</u>	<u>\$ 8,164,144</u>	<u>\$ 41,258,041</u>	<u>\$ 53,713,148</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, 2011**

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Major Facility</b>	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>OPERATING REVENUES</b>				
Charges for services	\$ 1,683,775	\$ 1,633,718	\$ 4,249,165	\$ 7,566,658
Other operating revenues	-	3,975	-	3,975
Miscellaneous	15,241	51,696	64,517	131,454
Total operating revenues	<u>1,699,016</u>	<u>1,689,389</u>	<u>4,313,682</u>	<u>7,702,087</u>
<b>OPERATING EXPENSES</b>				
Cost of service	-	1,772,576	3,016,649	4,789,225
Depreciation	-	254,957	1,434,053	1,689,010
Total operating expenses	<u>-</u>	<u>2,027,533</u>	<u>4,450,702</u>	<u>6,478,235</u>
Operating income (loss)	<u>1,699,016</u>	<u>(338,144)</u>	<u>(137,020)</u>	<u>1,223,852</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Investment earnings	2,460	4,770	14,710	21,940
Gain (loss) on Sale of Property	-	(1,546)	-	-
Interest expense	-	-	(142,430)	(142,430)
Total non-operating revenues (expenses)	<u>2,460</u>	<u>3,224</u>	<u>(127,720)</u>	<u>(122,036)</u>
Income before transfers	1,701,476	(334,920)	(264,740)	1,101,816
Capital contributions - grants	-	225,149	2,660,489	2,885,638
Transfers in (out)	<u>(70,155)</u>	<u>16,130</u>	<u>54,025</u>	<u>-</u>
<b>CHANGES IN FUND NET ASSETS</b>	1,631,321	(93,641)	2,449,774	3,987,454
<b>TOTAL NET ASSETS - BEGINNING OF YEAR</b>	<u>2,659,642</u>	<u>8,257,785</u>	<u>38,808,267</u>	<u>49,725,694</u>
<b>TOTAL NET ASSETS - END OF YEAR</b>	<u>\$ 4,290,963</u>	<u>\$ 8,164,144</u>	<u>\$ 41,258,041</u>	<u>\$ 53,713,148</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, 2011**

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Major Facility</b>	<b>Water</b>	<b>Sewer</b>	<b>Totals</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 819,753	\$ 1,562,290	\$ 4,085,990	\$ 6,468,033
Payments to suppliers	(87,805)	(1,191,325)	(3,031,819)	(4,310,949)
Payments to employees	-	(383,777)	(498,416)	(882,193)
Net cash provided by (used in) operating activities	<u>731,948</u>	<u>(12,812)</u>	<u>555,755</u>	<u>1,274,891</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
(Advances) receipts from other funds	(70,155)	16,130	54,025	-
Proceeds from grants	-	225,149	2,660,489	2,885,638
Proceeds from loan payable	-	-	1,338,765	1,338,765
Interest paid on capital debt	-	-	(142,430)	(142,430)
Acquisition and construction of capital assets	-	(308,664)	(14,390)	(323,054)
Principal payments of loans	-	-	(1,054,312)	(1,054,312)
Net cash provided by (used in) capital and related financing activities	<u>(70,155)</u>	<u>(67,385)</u>	<u>2,842,147</u>	<u>2,704,607</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment earnings	<u>2,460</u>	<u>4,770</u>	<u>14,710</u>	<u>21,940</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	664,253	(75,427)	3,412,612	4,001,438
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>1,554,702</u>	<u>793,371</u>	<u>2,105,842</u>	<u>4,453,915</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 2,218,955</u>	<u>\$ 717,944</u>	<u>\$ 5,518,454</u>	<u>\$ 8,455,353</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 1,699,016	\$ (338,144)	\$ (137,020)	\$ 1,223,852
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation	-	254,957	1,434,053	1,689,010
Effects of changes in operating assets and liabilities:				
Accounts receivable	(879,263)	(127,099)	(227,692)	(1,234,054)
Prepaid expenses	-	(43,708)	(131,125)	(174,833)
Accounts payable/accrued expenses	(9,581)	201,617	(275,808)	(83,772)
Interfund receivables (advances)	<u>(78,224)</u>	<u>39,565</u>	<u>(106,653)</u>	<u>(145,312)</u>
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>\$ 731,948</u>	<u>\$ (12,812)</u>	<u>\$ 555,755</u>	<u>\$ 1,274,891</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, 2011**

	<u>Total Pension Trusts</u>
<b>ASSETS</b>	
Investments with fiscal agents	\$ <u>3,374,869</u>
<b>NET ASSETS</b>	
Held in trust for pension benefits	\$ <u>3,374,869</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, 2011**

	<u>Total Pension Trusts</u>
<b>ADDITIONS</b>	
Employer contributions	\$ 479,327
Employee Contributions	158,129
Investment gains	<u>382,426</u>
Total additions	1,019,882
<b>DEDUCTIONS</b>	
Benefit payments	105,548
Administrative Fees	<u>398</u>
Total deductions	105,946
<b>CHANGE IN NET ASSETS</b>	913,936
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>2,460,933</u>
<b>NET ASSETS - END OF YEAR</b>	<u><u>\$ 3,374,869</u></u>

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

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Town of Elkton (the Town) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town's accounting policies are described below. These policies should be recognized by the reader as integral to the preparation and use of the accompanying basic financial statements.

**Reporting Entity**

The Town of Elkton, Maryland was incorporated in 1787 with its legal authority derived from Chapter 310, Section 2 of the Annotated Code of Maryland. The Town is to be construed to mean both the Town and its inhabitants. Since inception, the Town has operated under the Mayor - Council form of government. Services provided include safety, highways and streets, sanitation, recreation, public improvement, planning and zoning, water and sewer and general administrative services.

For financial reporting purposes, in conformance with GAAP, the reporting entity includes the Mayor and Town Council, the primary government and the following fiduciary funds:

***Town of Elkton, Defined Contribution Plan:*** This pension plan is a defined contribution pension plan established by the Town of Elkton to provide benefits at retirement to employees of the Town Council, who are not eligible to participate in the Police Pension Plan.

***Town of Elkton, Police Pension Plan:*** This pension plan is a defined benefit pension plan established by the Town of Elkton to provide benefits at retirement to sworn officers of the Town Council.

The Town has no component units as defined by GAAP.

**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 interfund activity from these statements. Governmental activities are those which are supported by taxes and intergovernmental revenues, whereas business-type activities are those supported through customer service charges. The Town has three business-type funds: major facility, water and sewer.

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

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Government-Wide and Fund Financial Statements (Continued)**

Separate financial statements are shown for governmental funds and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental 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 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 the related cash flow.

Property taxes are recognized in the year of levy and grants are recognized 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. In accordance with generally accepted accounting principles, the Town has elected not to implement pronouncements issued by the Financial Accounting Standards Board after November 30, 1989 for its proprietary funds. The operation of the Water, Sewer and Major Facility Funds are in this category.

Governmental fund statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. 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 that can be determined, and available means collected within 60 days of the year-end. Expenditures are recorded when the related liability is incurred as in the accrual basis of accounting. However, principal and interest on 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, revenues 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 has one major governmental fund, the General Fund. It is used to account for all activities of the government not accounted for in another fund. The General Fund accounts for the normal recurring activities of the Town which include general government, public safety, public works, and recreation and culture. These activities are financed primarily by property taxes, other taxes, service charges and grants from other governmental units. The Town does not have any other governmental funds.

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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 nonoperating 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 nonoperating revenues and expenses.

The Town has three major proprietary funds. The Water Fund operates the water treatment plants and distribution system. The Sewer Fund operates the sewage treatment plant, pumping stations and collection system. The Major Facility Fund accounts for the capital activities of the Water and Sewer Funds.

The Town has two pension trust funds, the Town of Elkton Defined Contribution Plan and the Town of Elkton Police Pension Plan. As fiduciary funds, these pension funds are used to account for assets held on behalf of outside parties under the terms of a formal trust agreement.

The effect of interfund activity has been eliminated from the government-wide financial statements except for charges between the Water, Sewer, and Major Facility 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 Town follows the accounting and reporting standards as outlined in the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements affect the manner in which the Town records transactions and presents financial information. State and local governments have traditionally used a financial reporting model substantially different from the one used to prepare the private-sector financial reports.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

**Use of Estimates in Preparing Financial Statements**

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.

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets, Liabilities and Net Assets or Equity**

*Equity in Pooled 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 also 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.

For the purposes of the Statement of Cash Flows, the Town considers all highly-liquid investments (including restricted assets) with an original maturity date of three-months or less at the time of purchase to be cash equivalents. Cash resources of each of the individual funds, except the pension funds 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 investments is allocated to funds on the basis of their equity in pooled cash.

*Receivables*

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

	<u>Real Property</u>	<u>Personal and Corporate</u>
Assessment roll validated	Dec. 31	Jan. 1
Tax rate ordinance approved	June 1	June 30
Beginning of fiscal year for which taxes have been levied	July 1	July 1
Tax bills rendered and due	July 1—on County bill	Various
Owner-occupied residential	July 1 and Jan. 1	N/A
Property taxes payable:		
Delinquent	Oct. 1, Feb. 1	After 90 days
Terms	60 days	90 days
Delinquent interest rate (annual)	18%	18%

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 fiscal year. A lien is attached to property on the billing date, becomes delinquent October 1, and is sold at tax sale by the end of 18 months.

Proprietary fund receivables are recorded as revenue when earned. The receivables of proprietary funds include billing for residential and commercial customers utilizing the Town’s water and sewer services. For fiscal year 2011, the Town’s water and sewer system customer base included a total of 6,655 water and 6,493 sewer accounts. All customers are billed on a quarterly basis with

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets, Liabilities and Net Assets or Equity (Continued)**

*Receivables (continued)*

payment due in full within thirty days from the date of the billing. Delinquent accounts are subject to disconnection in addition to a \$25.00 service charge. Water and sewer rates are set by ordinance passed by the Mayor and Commissioners of the Town when deemed necessary.

Allowances for uncollectible accounts are maintained on all types of receivables that historically experience bad debt. The allowance is determined by management based on historical collection trends. Receivables are shown net of such an allowance for uncollectibles. Real property taxes are generally fully collectible.

*Capital Assets*

Capital assets, which include property, plant and equipment and infrastructure such as roads, storm drains and pipe systems, are reported in the governmental activities or business-type activities columns in the government-wide financial statements. The Town defines capital assets as those which have an individual acquisition cost or donated value of at least \$1,000, and an estimated useful life of at least one year. Such assets are valued at historical or estimated historical cost if actual is not available. Donated assets are stated at their donated value at the date of donation. The cost of normal maintenance and repairs that do not add value or extend asset lives are not capitalized. Land is determined to have an inexhaustible life and is not subject to depreciation.

Expenditures for major assets and improvements are capitalized as the assets are acquired or constructed. Interest on debt during the construction period is capitalized. Exhaustible capital assets are depreciated, which is charged as an expense against their operations. Accumulated depreciation is reported in the Statement of Net Assets. Depreciation has been provided over the estimated useful lives using the straight-line method.

Estimated useful lives are as follows:

<b>Category</b>	<b>Years</b>
Building	20 – 50
Plant, mains and improvements, and improvements other than buildings	10 – 75
Equipment	3 – 10

*Long-Term Obligations*

In the government-wide financial statements and proprietary fund types 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 statement of net assets. In the governmental fund financial statements, the face amount of newly issued debt is reported as other financing sources, and the amount of principal repayment is reported as an expenditure.

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets, Liabilities and Net Assets or Fund Balance (Continued)**

*Long-Term Obligations (Continued)*

Other Post-Employment Benefits (OPEB) – The Town provides health care benefits to retired employees and eligible retiree’s spouses. See Note 10 for a full description of the benefits. There has been no OPEB Trust established as of June 30, 2011.

*Compensated Absences*

Vested or accumulated vacation is accrued when earned by employees and a liability is recorded in the government-wide financial statements. No liability is recorded for non-vesting accumulated rights to receive sick pay benefits as the Town does not pay these amounts when employees separate from service.

Town ordinance provides that full-time employees may accumulate up to a maximum of twenty-four (24) days annual leave based upon years of service, and upon termination will be paid for all accumulated leave not to exceed that amount. The accrual is included in “Non-current liabilities” in the government-wide statements, and is \$291,176 with \$87,353 due within one year. A liability for vacation pay is recorded in the governmental fund financial statements only if it has matured (i.e., unused reimbursable leave still outstanding following an employee’s resignation or retirement).

*Net Asset Reporting*

The government-wide and proprietary fund type financial statements utilize a net asset presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted, and are further described as follows:

- *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 the balance of net assets for which 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 included elsewhere.

*Fund Balance Reporting*

The Board has adopted the requirements of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Additionally, this statement clarifies the definitions of the general fund, special revenue fund type, and permanent fund type as applicable to the Town. This statement changes the fund balance classifications reported on the Governmental Fund Balance Sheet and requires expanded disclosure of the Board’s policies and procedures as it relates to authority levels, spending policy, and reporting of encumbrances. Fund balance reclassifications made to conform to the provisions of this Statement have been applied retroactively by restating fund balance for all prior periods presented.

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets, Liabilities and Net Assets or Fund Balance (Continued)**

*Fund Balance Reporting (Continued)*

1. Nonspendable – amounts that cannot be spent because they are either not in spendable form or they are legally required to be maintained intact such as inventory, prepaid expenses, or other assets.
2. Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.
3. Committed – amounts that can only be used for specific purposes determined by a formal action of the Commissioners, whom are the highest level of decision-making authority for the Town. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Commissioners.
4. Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes determined by a formal action of the Commissioners such as adopting the annual budget.
5. Unassigned – all other spendable amounts.

**Stewardship, Compliance and Accountability**

*Budgetary Information*

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

The Mayor submits to the Board of Commissioners a proposed operating budget for the fiscal year commencing the following:

1. In April, the operating budget is prepared including proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments after two weeks notice is given in some newspaper(s) having a general circulation within the Town.
3. Thirty-two days prior to July 1, the budget is legally enacted through passage of an ordinance.
4. The budget ordinance becomes effective July 1, and provides spending authority for the operations of the Town government.
5. Transfers and appropriations between functions require approval of the Board of Commissioners.

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Stewardship, Compliance and Accountability (Continued)**

*Budgetary Information (Continued)*

Formal budgetary integration is employed as a management control device during the year for the General Fund. Budgetary control is maintained at the department level. At the end of the fiscal year, unencumbered appropriations lapsed.

The budget information, presented as required supplemental information to the accompanying government-wide financial statements, includes all budget ordinances and amendments as approved by the Mayor and Board of Commissioners for the fiscal year ending June 30, 2011. No annual budget and actual comparisons are presented in the basic financial statements or supplemental information for governmental funds utilizing project based budgets or proprietary funds.

During the fiscal year, the Commissioners may adopt supplemental appropriations. For the year ended June 30, 2011, supplemental appropriations that increased are as follows:

<u>Supplemental appropriations</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Increase</u>
General Fund – expenditures and transfers	\$ 10,642,924	\$10,908,719	\$ 265,795

Adjustments necessary to convert the results of operations and fund balances at the end of the year on the GAAP basis to budgetary basis are as follows:

	<u>General Fund</u>		<u>Fund</u>
	<u>Revenues</u>	<u>Expenditures</u>	<u>Balance</u>
GAAP basis	\$ 9,521,390	\$ 9,717,628	\$ 8,899,690
Internal loan balance repayments FY 2006 and prior	-	-	(463,729)
<b>Totals</b>	<u>\$ 9,521,390</u>	<u>\$ 9,717,628</u>	<u>\$ 8,435,961</u>

**NOTE 2 – CASH AND TEMPORARY INVESTMENTS**

**Deposits**

At year-end, the carrying amount of the Town deposits (excluding petty cash of \$150) was \$15,067,447, and the bank balance was \$15,430,806. 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 follows the State mandated deposit policy for custodial credit risk requiring all deposits to be collateralized for amounts in excess of FDIC limits, with collateral whose market value is equal to at least 102% of the deposits. The deposits of the Town were not exposed to custodial credit risk at June 30, 2011.

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE 2 – CASH AND TEMPORARY INVESTMENTS (CONTINUED)**

**Investments**

At June 30, 2011, the Town’s investment balances by type, rating, and maturity were as follows:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Standard &amp; Poor’s</b>	<b>Average Maturity (Years) *</b>
Equity mutual funds	\$ 1,550,467	N/A	N/A
Fixed income mutual funds:			
American Centuries Gov. Bond Inv.	12,751	AAA	5.64
Dreyfus Intermediate Term Inc. A	70,298	A	7.03
Federated Bond F	17,439	BB	8.90
Neuberger Short Duration Bond TR	9,416	BBB	2.40
Nationwide Gov. Bond D	59,075	AAA	8.15
Nationwide Fixed Account	1,136,109	N/A	N/A
Money market funds	519,313	AAA	Less than 1
Maryland Local Gov. Investment Pool	<u>1,158,903</u>	AAAm	Less than 1
<b>Total</b>	<b><u>\$ 4,533,772</u></b>		

\* Amount represents the average maturity of the underlying investments.

Reconciliation of cash and cash equivalents as shown on the Statement of Net Assets:

Carrying amount of deposits	\$15,067,597
Carrying amount of investments	<u>4,533,772</u>
Total cash and investment	19,601,369
Less amounts in fiduciary funds	<u>3,374,869</u>
<b>Total cash and cash equivalents per Statement of Net Assets</b>	<b><u>\$16,226,500</u></b>

*Interest Rate Risk*

Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. To limit the Town’s exposure to fair value losses arising from increasing interest rates, the Town’s investment policy limits the term of average maturities to remain sufficiently liquid to enable the Town to meet all operating requirements which might be reasonably anticipated. In the fiduciary funds, mutual funds are used to match the cash flow of liabilities. Town management believes the liquidity in the portfolio is adequate to meet cash flow requirements and to preclude the Town from having to sell investments below original cost for that purpose. The investments at June 30, 2011, met the Town investment policy as of that date.

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**NOTE 2 – CASH AND TEMPORARY INVESTMENTS (CONTINUED)**

*Credit Risk*

Town investment policy permits investments in the following types of investments as authorized by the State of Maryland: U.S. treasury obligations, U.S. agency obligations, repurchase agreements under a master repurchase agreement, certificates of deposit which are collateralized through a Maryland commercial bank, and the Maryland Local Government Investment Pool (MLGIP). The MLGIP was established in 1982 under Article 95 Section 22G of the Annotated Code of Maryland and is under the administration of the State Treasurer. It 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. At June 30, 2011, all of the Town investments were insured or registered, or for which the securities were held by the Town or its agent in the Town's name or were invested in the MLGIP or mutual funds.

*Foreign Currency Risk*

The Town's investment policy does not allow for investments denominated in foreign currencies. The Town does not hold any such investments.

**NOTE 3 – RECEIVABLES**

**Summary of Receivables**

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

	<b>Governmental Activities</b>	<b>Business-type Activities</b>			<b>Total</b>	<b>Total</b>
		<b>Water</b>	<b>Sewer</b>	<b>Major Facilities</b>		
Taxes	\$ 581,082	\$ -	\$ -	\$ -	\$ -	\$ 581,082
Accounts	175,840	407,045	1,084,693	879,263	2,371,001	2,546,841
Interest	4,511	-	-	-	-	4,511
Allowance for uncollectibles	<u>(230,294)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(230,294)</u>
<b>Net receivables</b>	<b><u>\$ 531,139</u></b>	<b><u>\$ 407,045</u></b>	<b><u>\$ 1,084,693</u></b>	<b><u>\$ 879,263</u></b>	<b><u>\$ 2,371,001</u></b>	<b><u>\$ 2,902,140</u></b>

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**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 sixty (60) days after fiscal year end. Deferred revenue may also include 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 nonexchange contributions which did not meet the GASB Statement No. 33 time restriction. Deferred revenue for the general fund at June 30, 2011 consisted solely of items deemed unavailable, and is summarized as follows:

Personal property taxes	\$ 194,094
Real property taxes	3,182
Traders taxes	1,707
Income taxes	<u>305,709</u>
<b>Total</b>	<b><u>\$ 504,692</u></b>

**NOTE 4 – DUE FROM OTHER GOVERNMENTS**

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

	<b>Government Activities</b>
<b>State of Maryland:</b>	
Income tax reserve	\$ 372,249
Highway user tax	7,341
Admission and amusement tax	11,284
Hotel/motel tax	<u>12,385</u>
<b>Total</b>	<b><u>\$ 403,259</u></b>

**NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Due to/from other funds consisted of the following:

	<b>Payable Fund</b>				<b>Total</b>
	<b>General</b>	<b>Water</b>	<b>Sewer</b>	<b>Major Facility</b>	
<b>Receivable fund:</b>					
General	\$ -	\$ 84,166	\$ 2,025,620	\$ 252,638	\$ 2,362,424
Water	88,765	-	26,574	126,008	241,347
Sewer	1,190,016	834	-	-	1,190,850
Major Facility	<u>153,133</u>	<u>27,305</u>	<u>1,390,953</u>	<u>-</u>	<u>1,571,391</u>
<b>Total</b>	<b><u>\$ 1,431,914</u></b>	<b><u>\$ 112,305</u></b>	<b><u>\$ 3,443,147</u></b>	<b><u>\$ 378,646</u></b>	<b><u>\$ 5,366,012</u></b>

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)**

The outstanding balances between funds result mainly from the time lag between the dates that, (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between the funds are made.

Interfund transfers consisted of the following:

<u>Transfers Out</u>	<u>Transfers In</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Major Facility Fund	\$ 16,130	\$ 54,025	\$ 70,155

The transfers to the Water and Sewer Funds from the General Fund and Major Facility Fund were made for capital asset purchases by the funds.

**NOTE 6 – CAPITAL ASSETS**

Capital asset activity during the year ended June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers and Deletions</u>	<u>Ending Balance</u>
<b>GOVERNMENTAL ACTIVITIES</b>				
<b>Capital Assets, not being depreciated:</b>				
Land	\$ 2,651,053	\$ 6,555	\$ -	\$ 2,657,608
Construction in Progress	45,479	6,260	-	51,739
Total capital assets, not being depreciated	<u>2,696,532</u>	<u>12,815</u>	<u>-</u>	<u>2,709,347</u>
<b>Capital assets being depreciated:</b>				
Buildings	6,392,785	103,513	-	6,496,298
Improvements other than buildings	13,666,745	14,704	-	13,681,449
Equipment	3,565,162	140,857	-	3,706,019
Total capital assets, being depreciated	<u>23,624,692</u>	<u>259,074</u>	<u>-</u>	<u>23,883,766</u>
<b>Less accumulated depreciation for:</b>				
Buildings	1,957,417	173,696	-	2,131,113
Improvements other than buildings	10,707,034	397,211	-	11,104,245
Equipment	2,677,214	263,188	-	2,940,402
Total accumulated depreciation	<u>15,341,665</u>	<u>834,095</u>	<u>-</u>	<u>16,175,760</u>
Net capital assets being depreciated	<u>8,283,027</u>	<u>(575,021)</u>	<u>-</u>	<u>7,708,006</u>
<b>Net governmental activities capital assets</b>	<u>\$ 10,979,559</u>	<u>\$ (562,206)</u>	<u>\$ -</u>	<u>\$ 10,417,353</u>

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**NOTE 6 – CAPITAL ASSETS (CONTINUED)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Trasfers and Deletions</u>	<u>Ending Balance</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
<b>Capital assets, not being depreciated:</b>				
Land - Water	\$ 268,605	\$ -	\$ -	\$ 268,605
Land - Sewer	596,665	-	-	596,665
Construction in Progress - Water	521,076	16,130	(94,574)	442,632
Construction in Progress - Sewer	61,089	1,815	-	62,904
Total capital assets, not being depreciated	<u>1,447,435</u>	<u>17,945</u>	<u>(94,574)</u>	<u>1,370,806</u>
<b>Capital assets, being depreciated:</b>				
Plants, mains and improvements - Water	9,551,853	270,519	68,589	9,890,961
Plants, mains and improvements - Sewer	65,508,901	7,500	-	65,516,401
Equipment - Water	802,023	22,015	13,613	837,651
Equipment - Sewer	1,799,358	5,075	-	1,804,433
Total capital assets, being depreciated	<u>77,662,135</u>	<u>305,109</u>	<u>82,202</u>	<u>78,049,446</u>
<b>Less accumulated depreciation:</b>				
Plants, mains and improvements - Water	3,520,802	199,527	-	3,720,329
Plants, mains and improvements - Sewer	10,094,598	1,325,872	-	11,420,470
Equipment - Water	503,899	55,430	(10,826)	548,503
Equipment - Sewer	1,279,085	108,181	-	1,387,266
Total accumulated depreciation	<u>15,398,384</u>	<u>1,689,010</u>	<u>(10,826)</u>	<u>17,076,568</u>
Net capital assets being depreciated	<u>62,263,751</u>	<u>(1,383,901)</u>	<u>93,028</u>	<u>60,972,878</u>
<b>Net business-type activities capital assets</b>	<u>\$ 63,711,186</u>	<u>\$ (1,365,956)</u>	<u>\$ (1,546)</u>	<u>\$ 62,343,684</u>

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

**Governmental activities**

General government	\$ 116,750
Public safety	321,881
Public works	347,411
Parks and recreation	<u>48,053</u>

**Total governmental activities** \$ 834,095

**Business-type activities**

Water Fund	\$ 254,957
Sewer Fund	<u>1,434,053</u>

**Total business-type activities** \$ 1,689,010

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**NOTE 7 – LONG-TERM DEBT**

The following is a summary of changes that occurred in the Town’s long-term liabilities reported for governmental activities and business-type activities for the year ended June 30, 2011:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>GOVERNMENTAL ACTIVITIES</b>					
Loans	\$ 2,298,935	\$ -	\$ 222,041	\$ 2,076,894	\$ 230,240
Other post employment benefits	91,840	69,498	-	161,338	-
Compensated absences	<u>285,806</u>	<u>311,654</u>	<u>306,284</u>	<u>291,176</u>	<u>87,353</u>
<b>Total governmental activities</b>	<u>\$ 2,676,581</u>	<u>\$ 381,152</u>	<u>\$ 528,325</u>	<u>\$ 2,529,408</u>	<u>\$ 317,593</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Sewer facility loan #1	\$ 14,095,449	\$ -	\$ 756,793	\$ 13,338,656	\$ 759,819
Sewer facility loan #2	3,870,478	1,338,765	297,519	4,911,724	300,495
Other post employment benefits	<u>-</u>	<u>31,942</u>	<u>-</u>	<u>31,942</u>	<u>-</u>
<b>Total business-type activities</b>	<u>\$ 17,965,927</u>	<u>\$ 1,370,707</u>	<u>\$ 1,054,312</u>	<u>\$ 18,282,322</u>	<u>\$ 1,060,314</u>

**Governmental Activities**

The Town has a loan for \$3,665,000 from a commercial bank. The loan has an interest rate of 3.62%, and a maturity date of May 2019. The loan repayment schedule requires monthly payments of principal and interest of \$25,229. Certain prepayments have been made which may result in a pay-down of the loan prior to the stated maturity.

The annual debt service requirements to maturity are as follows:

<u>For the Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>TOTAL</u>
2012	\$ 230,240	\$ 72,503	\$ 302,743
2013	238,850	63,893	302,743
2014	247,782	54,961	302,743
2015	257,048	45,695	302,743
2016	266,660	36,083	302,743
2017 - 2019	<u>836,314</u>	<u>46,912</u>	<u>883,226</u>
	<u>\$ 2,076,894</u>	<u>\$ 320,047</u>	<u>\$ 2,396,941</u>

**Business-Type Activities**

During fiscal year 2007, the Town entered into a \$15,600,000 revolving loan agreement with the Maryland Department of the Environment which has been entirely drawn, and \$13,338,656 remains outstanding at June 30, 2011. The loan has an interest rate of 0.4% and a maturity date of February 2028. During fiscal year 2008, the Town entered into a \$6,422,000 revolving loan agreement with

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**NOTE 7 – LONG-TERM DEBT (CONTINUED)**

the Maryland Department of the Environment, of which \$5,795,474 has been drawn, and \$883,750 has been repaid. The amount outstanding at June 30, 2011 was \$4,911,724. The loan has an interest rate of 1% and a maturity date of February 2028.

**Sewer Facility Upgrade - \$15,600,000**

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	759,819	53,355	813,174
2013	762,859	50,315	813,174
2014	765,910	47,264	813,174
2015	768,974	44,200	813,174
2016	772,050	41,124	813,174
2017 - 2021	3,906,819	159,051	4,065,870
2022 - 2026	3,985,583	80,287	4,065,870
2027 - 2028	1,616,642	9,708	1,626,350
<b>Total</b>	<b>\$ 13,338,656</b>	<b>\$ 485,304</b>	<b>\$ 13,823,960</b>

**Sewer Facility Upgrade - \$6,422,000**

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	300,495	55,497	355,992
2013	303,500	46,112	349,612
2014	306,535	43,077	349,612
2015	309,600	40,012	349,612
2016	312,696	36,916	349,612
2017 - 2021	1,611,016	137,044	1,748,060
2022 - 2026	1,693,192	54,868	1,748,060
2027	74,690	747	75,437
<b>Total</b>	<b>\$ 4,911,724</b>	<b>\$ 414,274</b>	<b>\$ 5,325,998</b>

**Conduit Debt**

In June 2000, the Town issued an economic development revenue bond. In accordance with the terms of the loan and financing agreement the bond proceeds were paid to Union Hospital of Cecil County, Inc., and the hospital is responsible for providing funding for repayment of the bond. The outstanding balance was \$2,820,102 at June 30, 2011.

The Town has no responsibility for the payment of the debt except for the funds provided by the hospital under the terms of the loan and financing agreement. Neither the bond, nor the interest therein, constitutes an indebtedness, or a charge against the general credit or taxing power of the Town.

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE 8 – FUND BALANCE**

Fund balance at June 30, 2011 consisted of the following:

**Fund Balances**

**Restricted for:**

Public Safety	\$ 1,650,593
Recreation and culture	<u>102,935</u>
Total restricted	<u>1,753,528</u>

**Committed for:**

Recreation and culture	<u>1,500,000</u>
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**Assigned for:**

Recreation and culture	88,964
Nondepartmental	<u>1,476,265</u>
Total assigned	<u>1,565,229</u>

**Unassigned:**

Total Fund Balance	<u>4,080,933</u> <u>\$ 8,899,690</u>
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**NOTE 9 – RETIREMENT AND PENSION PLANS**

**State Retirement and Pension Systems of Maryland**

*Description of Plan*

Certain employees of the Town, who elected not to transfer into the Town of Elkton Defined Contribution Plan in 1999, are covered by the Pension System for Employees of the State of Maryland or The Employees Retirement System of the State of Maryland. These systems are part of the Maryland State Retirement and Pension System (the State System), and are cost-sharing multiple-employer public employee retirement systems. The State System provides pension, death and disability benefits to plan members and beneficiaries. The Plan is administered by the State Retirement Agency (the Agency). Responsibility for the administration and operation of the State System is vested in a 12-member Board of Trustees. The State System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland. The Agency issued a publicly-available financial report that includes basic financial statements and required supplementary information for the State System. The report may be obtained by writing to the State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, MD 21202, or by calling 410-625-5555.

*Funding Policy*

The Town is required to contribute at an actuarially determined rate. The Town's contribution for the years ended June 30, 2011, 2010 and 2009 were \$13,347, \$7,262, and \$9,051, respectively, which were equal to the required contributions for each year.

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE 9 – RETIREMENT AND PENSION PLANS (CONTINUED)**

**Defined Contribution Plan**

*Description of Plan*

The Town adopted the Town of Elkton, Defined Contribution Plan (TEDCP) covering substantially all employees not participating in the State System effective for the 1999 fiscal year. At June 30, 2011, there were one hundred seventeen (117) plan members from the Town. Plan members do not have the option to make voluntary contributions to TEDCP. Plan provisions are established, amended and administered by the Mayor and Commissioners of the Town. The Town is required to contribute 8% of covered payroll of TEDCP participants. For the fiscal year ended June 30, 2011, actual contributions by the Town were \$206,076. TEDCP does not issue separate audited financial statements, as such, the net assets as of June 30, 2011, and the changes in net assets for the year ending June 30, 2011, are reflected in the Statement of Fiduciary Net Assets and Changes in Fiduciary Net Assets in the basic financial statements. Effective January 1, 2011, the Town amended TEDCP and established a defined benefit pension plan (Town of Elkton, Police Pension Plan) for eligible sworn officers of the Town. 39 employees qualified for the Town of Elkton, Police Pension Plan. The value of assets belonging to those 39 employees totaled \$1,080,302, and will be transferred to the Town of Elkton, Police Pension Plan.

**Statement of Plan Net Assets**  
**Town of Elkton, Defined Contribution Plan**

**Investments:**

Equity mutual funds	\$ 1,550,467
Fixed income mutual funds	1,262,400
Money market funds	<u>92,627</u>
Total investments	<u>\$ 2,905,494</u>

**Net Assets:**

Held in trust for pension benefits and other purposes	<u>\$ 2,905,494</u>
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**Statement of Changes in Plan Net Assets**  
**Town of Elkton, Defined Contribution Plan**

**ADDITIONS:**

**Contributions:**

Employer contributions	<u>\$ 167,698</u>
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**Investment Earnings:**

Interest and dividends	<u>382,411</u>
Total additions	<u>550,109</u>

**DEDUCTIONS:**

Benefit payments	<u>105,548</u>
Change in net assets	444,561
Net assets - beginning of year	<u>2,460,933</u>
Net assets - end of year	<u><u>\$ 2,905,494</u></u>

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**NOTE 9 – RETIREMENT AND PENSION PLANS (CONTINUED)**

**Defined Benefit Plan**

*Description of Plan*

On January 1, 2011, the Town began to administer the Town of Elkton, Police Pension Plan. (TEPPP) TEPPP is a single-employer defined benefit plan covering all sworn officers of the Town. At June 30, 2011, there were thirty-nine (39) plan members from the Town. Plan members are required to contribute 8% of their base salary. For the fiscal year ended June 30, 2011, actual contributions by the plan members were \$158,129. Plan provisions are established, amended and administered by the Mayor and Commissioners of the Town. During 2011, the Town was required to contribute an actuarially determined amount of 14.7% of covered payroll of Plan participants. For the fiscal year ended June 30, 2011, actual contributions by the Town were \$311,629. TEPPP does not issue separate audited financial statements, as such, the net assets as of June 30, 2011, and the changes in net assets for the year ending June 30, 2011, are reflected in the Statement of Fiduciary Net Assets and Changes in Fiduciary Net Assets in the basic financial statements. Employees will be eligible to begin drawing their pension when they retire after 25 years of service or at age 60 with 10 years of service. The plan does not provide early retirement benefits. TEPPP has a tax exempt status. TEPPP provides retirement and death benefits to plan members or the plan member's beneficiaries. Administrative costs of TEPPP are financed through investment earnings.

*Basis of Accounting*

The TEPPP's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recorded during the period in which they are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investments are made on a long term basis investing in various securities which are subject to interest rate, market and credit risks.

The most current actuarial valuation was completed as of July 1, 2010. The membership data related to the plan was as follows:

Retirees and beneficiaries currently receiving benefits	-
Terminated plan members entitle to, but not yet receiving benefits	-
Active plan members	<u>39</u>
<b>Total</b>	<u><u>39</u></u>

Annual Pension Cost and Net Pension Obligation to the Town for the TEPPP are as follows:

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE 9 – RETIREMENT AND PENSION PLANS (CONTINUED)**

**Defined Benefit Plan (Continued)**

	<b>FY2011</b>
Annual required contribution	\$306,981
Adjustment to annual required contribution	4,648
Interest on Net Pension Obligation	-
Annual Pension Cost	311,629
Contributions made	<u>(311,629)</u>
Increase in Net Pension Obligation	-
Net Pension Obligation - beginning of year	-
Net Pension Obligation - end of year	<u>\$ -</u>

The annual required contribution was determined as part of the July 1, 2010 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return compounded annually (b) projected annual salary increases of 6%. The actuarial value of assets was determined using the market value approach. The unfunded actuarial accrued liability is being amortized over 20 years as a level percentage of pay. Total payroll is assumed to increase by 3.5% per year

Trend information since inception for TEPPP: (For the initial year)

<b>Fiscal Year Ending</b>	<b>Annual Pension Cost</b>	<b>% of APC Contributed</b>	<b>Actual Contribution</b>	<b>Net Pension Obligation</b>
2011	\$ 311,629	100%	\$ 311,629	\$ 4,648

**Statement of Plan Net Assets**  
**Town of Elkton, Police Pension Plan**

**Assets:**

Cash and cash equivalents	<u>\$469,375</u>
Total assets	<u>\$469,375</u>

**Net Assets:**

Held in trust for pension benefits and other purposes	<u>\$469,375</u>
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**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE 9 – RETIREMENT AND PENSION PLANS (CONTINUED)**

**Defined Benefit Plan (Continued)**

**Statement of Changes in Plan Net Assets**  
**Town of Elkton, Police Pension Plan**

<b>ADDITIONS:</b>	
<b>Contributions:</b>	
Employer contributions	\$311,629
Employee contributions	<u>158,129</u>
Total contributions	<u>469,758</u>
<b>Investment Earnings:</b>	
Interest and dividends	<u>15</u>
Total additions	<u>469,773</u>
<b>DEDUCTIONS:</b>	
Administrative expenses	<u>398</u>
Change in net assets	469,375
Net assets - beginning of year	<u>-</u>
Net assets - end of year	<u>\$469,375</u>

The Schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Schedule of Funding Progress – (Initial Year)

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability(AAL) (2)	% Funded (1)/(2) (3)	Unfunded AAL (UAAL) (2)-(1) (4)	Covered Payroll (5)	UAAL as a % of Covered Payroll ((2)-(1))/(5) (6)
July 1, 2010	\$ 1,082,302*	\$ 3,651,620	29.64%	\$ 2,569,318	\$ 2,092,218	122.80%

\*Amount relates to the vested account balances of sworn officers in the Defined Contribution Plan. Amount will be transferred to the Defined Benefit Plan upon final ruling by the IRS.

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE 9 – RETIREMENT AND PENSION PLANS (CONTINUED)**

**Defined Benefit Plan (Continued)**

For the TEPPP, the annual pension cost (APC) and net pension obligation (NPO) were for the initial year ended:

<b>Fiscal Year Ended</b>	<b>Annual Required Contribution</b>	<b>Interest on NPO</b>	<b>APC Adjustment</b>	<b>Annual Pension Cost</b>	<b>Total Employer Contribution</b>	<b>Change In NPO</b>	<b>Beginning NPO</b>	<b>Ending NPO</b>
2011	\$ 306,981	\$ -	\$ 4,648	\$ 311,629	\$ 311,629	\$ -	\$ -	\$ -

Schedule of employer contributions - (initial Year)

<b>Year Ended June 30:</b>	<b>Annual Required Contribution</b>	<b>Actual Contribution</b>	<b>Percentage Contributed</b>
2011	\$ 306,981	\$ 311,629	101.51%

The information presented was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation is as follows:

Valuation date	July 1, 2010
Actuarial cost method	Projected unit credit
Amortization period	Level percentage of payroll
Remaining amortization period	20 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	6% compounded annually
Projected disability increase	N/A
Projected payroll increases	3.5% per year
Salary valuation	36-month average highest pay
Post retirement cost-of-living adjustments	N/A

**NOTE 10 – POST-EMPLOYMENT HEALTH CARE BENEFITS**

*Plan Description:* The Plan provides a fixed dollar subsidy which depends on service.

<b>Years of Service</b>	<b>Monthly Subsidy</b>
10-14	\$130
15-19	150
20-24	180
More than 25	200

Eligible employees who retire with less than ten (10) years of service are eligible to continue on the Town's health plan but must pay 100% of the premium. Retirees are allowed to continue on the Town's group health plan for a maximum of fifteen (15) years.

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**NOTE 10 – POST-EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)**

*Plan Description: (Continued)*

To be eligible for the Plan, an employee must satisfy one of the conditions below:

1. Continuously enrolled under the Town of Elkton’s group insurance plan for at least four (4) years immediately preceding the date of retirement, and at least age 50; or
2. Reach age 62; or
3. Be a sworn law enforcement employee for the Town of Elkton for 25 years.

The Town allows continued health insurance coverage for an eligible retiree’s spouse and dependents if the eligible retiree elects the additional coverage and pays the dependent premiums.

The actuarial valuation was completed as of May 6, 2010. The membership Data related to the Plan was as follows:

Number of Participants	
Active employees	96
Deferred vested terminations	N/A
Retirees in pay status (pre Medicare)	N/A
Retirees in pay status (Medicare age)	3
<b>Total</b>	<b>99</b>

*Funding Policy:* These benefits are financed on a pay-as-you-go basis.

An actuarial valuation was performed as of June 30, 2010 to determine the Net OPEB Obligation. The Plan is not funded. The valuation used the projected unit cost method, with linear pro-ration to assumed benefit commencement.

*Annual OPEB Cost and Net OPEB Obligation:* The Town of Elkton’s annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 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 the unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town of Elkton’s annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the Town of Elkton’s net OPEB obligation.

	<b><u>FY2011</u></b>
Annual required contribution	\$106,000
Adjustment to annual required contribution	-
Interest on net OPEB Obligation	-
Annual OPEB Cost	106,000
Contributions made	4,560
Increase in net OPEB obligation	101,440
Net OPEB obligation - beginning of year	91,840
Net OPEB obligation - end of year	<b>\$193,280</b>

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2011

**NOTE 10 – POST-EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)**

The Net OPEB Obligation is included in the entity-wide statement of net asset as follows:

	<u><b>FY2011</b></u>
Governmental activities	\$161,338
Business-type activities	<u>31,942</u>
Total Net OPEB Obligation	<u><b>\$193,280</b></u>

The Town of Elkton's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for FY 2011 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Of Annual OPEB cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2011	\$ 106,000	12%	\$ 193,280

*Funded Status and Funding Progress:* As of June 30, 2011, the Plan was 0% funded. The unfunded actuarial accrued liability (UAAL) is \$789,000. The covered payroll (annual payroll of active employees covered by the Plan) was \$5,319,933, and the ratio of the UAAL to the covered payroll was 14.8 percent.

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>
6/30/2011	\$ -	\$ 789,000	\$ 789,000	0%

The schedule of funding progress, presented as required supplementary information (RSI) on page 67 following the Notes, presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. This relationship is represented by the funded ratio.

*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

**TOWN OF ELKTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**NOTE 10 – POST-EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)**

sharing of benefit costs between the employer and plan member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce effects of 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, 2010 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is the long-term expected return on the employer's own investments; and an annual healthcare cost trend rate of 8% initially, gradually decreasing over time. By 2030, the rate of increase is 6.5% and by 2050, its 5.8%. The ultimate trend rate is 5.2%. The rates include a 3.2% inflation assumption.

The UAAL is being amortized as a level percentage of projected payroll on a closed basis over thirty years. Payroll is estimated to increase by 3% per annum.

**NOTE 11 – OTHER INFORMATION**

**Risk Management**

The Town is exposed to various risks of loss related to torts; 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 coverages for the past three (3) 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.

**REQUIRED SUPPLEMENTAL INFORMATION**

**TOWN OF ELKTON, MARYLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCE – BUDGET AND ACTUAL – GENERAL FUND**  
**(NON-GAAP BUDGETARY BASIS)**  
**Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes and utility fees	\$ 7,851,337	\$ 7,851,337	\$ 7,711,280	\$ (140,057)
Licenses and permits	263,400	263,400	391,934	128,534
Intergovernmental	550,945	582,041	572,702	(9,339)
Charges for services	591,590	593,590	643,987	50,397
Fines and forfeitures	78,000	78,000	59,193	(18,807)
Miscellaneous	88,530	145,337	195,184	49,847
Total revenues	<u>9,423,802</u>	<u>9,513,705</u>	<u>9,574,280</u>	<u>60,575</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,518,237	1,583,287	1,324,134	259,153
Public safety	5,165,385	5,364,790	5,082,910	281,880
Public works	3,197,302	3,192,852	2,686,879	505,973
Recreation and culture	459,255	465,045	374,548	90,497
Debt service	302,745	302,745	302,047	698
Total expenditures	<u>10,642,924</u>	<u>10,908,719</u>	<u>9,770,518</u>	<u>1,138,201</u>
Excess (deficiency) of revenues over expenditures before appropriated fund balance	(1,219,122)	(1,395,014)	(196,238)	1,198,776
<b>APPROPRIATED FUND BALANCE</b>	<u>1,219,122</u>	<u>1,395,014</u>	<u>-</u>	<u>(1,395,014)</u>
<b>NET CHANGES IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (196,238)</u>	<u>\$ (196,238)</u>
<b>FUND BALANCES - BEGINNING OF YEAR</b>			<u>8,632,199</u>	
<b>FUND BALANCES - END OF YEAR</b>			<u>\$ 8,435,961</u>	

**TOWN OF ELKTON, MARYLAND  
SCHEDULE OF FUNDING PROGRESS  
OTHER POST-EMPLOYMENT BENEFITS TRUST  
June 30, 2011**

The Schedule of Funding Progress presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage Of Covered Payroll</b>
6/30/2010	\$ -	\$ 697,000	\$ 697,000	0%	\$5,143,288	13.55%
6/30/2011	\$ -	\$ 789,000	\$ 789,000	0%	\$5,319,933	14.83%

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial liability in isolation can be misleading. Expressing the assets as a percentage of the actuarial accrued liability (Funded Ratio) provides one indication of the system's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the system is becoming. In the current and prior fiscal year, the Funded Ratio is 0.00%. The prior fiscal year was the first year in which GASB 45 was first adopted by the Town.

Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the system is becoming. In this fiscal year, the UAAL as a percentage of covered payroll is 14.83%, up from 13.55% the year before.

**TOWN OF ELKTON, MARYLAND  
SCHEDULE OF FUNDING PROGRESS  
POLICE PENSION PLAN TRUST  
June 30, 2011**

The Schedule of Funding Progress presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage Of Covered Payroll</b>
7/1/2010	\$ 1,082,302*	\$ 3,651,620	\$ 2,569,318	29.64%	\$2,092,218	122.80%

\*Amount relates to the vested account balances of sworn officers in the Defined Contribution Plan, which will be transferred to the Defined Benefit Plan upon final ruling by the IRS.

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial liability in isolation can be misleading. Expressing the assets as a percentage of the actuarial accrued liability (Funded Ratio) provides one indication of the system's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the system is becoming. In the current, the Funded Ratio is 29.64%. The Police Pension Plan was established during the current fiscal year and as such, comparative information was not available.

Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the system is becoming. In the current fiscal year, the UAAL as a percentage of covered payroll is 122.80 percent. As the Police Pension Plan was established during the current fiscal year, comparative information was not available.

**OTHER SUPPLEMENTAL INFORMATION**

**TOWN OF ELKTON, MARYLAND**  
**DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND**  
**(NON-GAAP BUDGETARY BASIS)**  
**Year Ended June 30, 2011**  
(Continued)

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes				
Property:				
Real property	\$ 5,884,200	\$ 5,884,200	\$ 5,702,691	\$ (181,509)
Traders	10,000	10,000	6,377	(3,623)
Railroads and public utilities	128,700	128,700	67,605	(61,095)
Ordinary business corporation	861,300	861,300	813,562	(47,738)
Payments in lieu of taxes	23,180	23,180	27,896	4,716
Penalties and Interest	36,000	36,000	49,547	13,547
Less:				-
Abatements and collection fees	(182,000)	(182,000)	(173,644)	8,356
Volunteer Fire Co. rebates	(2,000)	(2,000)	(1,600)	400
Enterprise zone credits	(14,590)	(14,590)	(13,505)	1,085
Total property and real taxes	<u>6,744,790</u>	<u>6,744,790</u>	<u>6,478,929</u>	<u>(265,861)</u>
Other:				
Local income tax	895,400	895,400	1,004,307	108,907
Hotel/motel taxes	150,000	150,000	148,478	(1,522)
Highway gas tax	21,147	21,147	45,612	24,465
Admission and amusement	40,000	40,000	33,954	(6,046)
Total other taxes	<u>1,106,547</u>	<u>1,106,547</u>	<u>1,232,351</u>	<u>125,804</u>
Total taxes	<u>7,851,337</u>	<u>7,851,337</u>	<u>7,711,280</u>	<u>(140,057)</u>
Licenses and Permits				
Traders	39,000	39,000	37,241	(1,759)
Occupational	400	400	170	(230)
Building	70,000	70,000	208,288	138,288
Cable television	154,000	154,000	146,235	(7,765)
Total license and permits	<u>263,400</u>	<u>263,400</u>	<u>391,934</u>	<u>128,534</u>
Intergovernmental Revenues				
Federal:				
Grant - DOJ	-	-	5,264	5,264
Grant - Justice Assistance	-	25,023	34,330	9,307
Total federal	<u>-</u>	<u>25,023</u>	<u>39,594</u>	<u>14,571</u>
State:				
Grant - State Police Aid	175,850	175,850	184,674	8,824
Grant - Energy Block	39,000	39,000	-	(39,000)
Grant - Community Parks & Playground	-	-	-	-
Total state	<u>214,850</u>	<u>214,850</u>	<u>184,674</u>	<u>(30,176)</u>

**TOWN OF ELKTON, MARYLAND**  
**DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND**  
**(NON-GAAP BUDGETARY BASIS)**  
**Year Ended June 30, 2011**  
(Continued)

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES (Continued)</b>				
Intergovernmental Revenues (Continued)				
Local:				
County tax differential	\$ 328,150	\$ 328,150	\$ 331,187	\$ 3,037
DWI grant	-	-	2,173	2,173
Tobacco Grant	-	-	1,055	1,055
Other	7,945	14,018	14,019	1
Total local	<u>336,095</u>	<u>342,168</u>	<u>348,434</u>	<u>6,266</u>
Total intergovernmental revenue	<u>550,945</u>	<u>582,041</u>	<u>572,702</u>	<u>(9,339)</u>
Charges for Services				
General government:				
Zoning and subdivision fees	30,000	30,000	16,970	(13,030)
Inspection fees	3,700	3,700	4,134	434
Forest Conservation Fee	-	-	7,841	7,841
Farmers Market user fee	800	800	330	(470)
Total general government	<u>34,500</u>	<u>34,500</u>	<u>29,275</u>	<u>(5,225)</u>
Public safety:				
Special police services	<u>3,200</u>	<u>5,200</u>	<u>41,622</u>	<u>36,422</u>
Highway and streets:				
Public parking facilities	<u>38,000</u>	<u>38,000</u>	<u>32,307</u>	<u>(5,693)</u>
Sanitation and waste removal:				
Solid waste	336,900	336,900	337,572	672
Landfill rebate	67,000	67,000	66,898	(102)
Other	<u>1,000</u>	<u>1,000</u>	<u>2,766</u>	<u>1,766</u>
Total sanitation and waste removal	<u>404,900</u>	<u>404,900</u>	<u>407,236</u>	<u>2,336</u>
Parks and recreation:				
Building use permits	110,990	110,990	87,441	(23,549)
Programs and events	<u>-</u>	<u>-</u>	<u>46,106</u>	<u>46,106</u>
Total parks and recreation	<u>110,990</u>	<u>110,990</u>	<u>133,547</u>	<u>22,557</u>
Total charges for services	<u>591,590</u>	<u>593,590</u>	<u>643,987</u>	<u>50,397</u>
Fines and Forfeitures				
Parking fines	<u>78,000</u>	<u>78,000</u>	<u>59,193</u>	<u>(18,807)</u>
Miscellaneous Revenue - Other				
Interest	71,700	71,700	23,406	(48,294)
Rent and concessions	3,000	3,000	3,000	-
Fines	-	-	190	190
Contributions and donations	-	100	100	-
Other miscellaneous revenues	<u>13,830</u>	<u>70,537</u>	<u>168,488</u>	<u>97,951</u>
Total miscellaneous revenue	<u>88,530</u>	<u>145,337</u>	<u>195,184</u>	<u>49,847</u>
<b>Total revenues</b>	<u>9,423,802</u>	<u>9,513,705</u>	<u>9,574,280</u>	<u>60,575</u>

**TOWN OF ELKTON, MARYLAND**  
**DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND**  
**(NON-GAAP BUDGETARY BASIS)**  
**Year Ended June 30, 2011**  
(Continued)

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>EXPENDITURES</b>				
General Government				
Mayor and Council	\$ 151,965	\$ 152,605	\$ 136,327	\$ 16,278
Administration	367,975	371,834	273,759	98,075
Finance and accounting	183,035	183,035	177,509	5,526
Planning and zoning	230,915	230,915	198,057	32,858
General services	364,580	425,131	349,515	75,616
Personnel	217,367	217,367	187,878	29,489
Community promotion	2,400	2,400	1,089	1,311
Total general government	<u>1,518,237</u>	<u>1,583,287</u>	<u>1,324,134</u>	<u>259,153</u>
Public Safety				
Police department:				
Police patrol	4,019,495	4,214,306	4,014,459	199,847
Support services	584,975	584,975	526,373	58,602
Total police department	<u>4,604,470</u>	<u>4,799,281</u>	<u>4,540,832</u>	<u>258,449</u>
Other Public Safety				
Volunteer fire department	149,035	153,629	143,569	10,060
Building inspection	411,880	411,880	398,509	13,371
Total other public safety	<u>560,915</u>	<u>565,509</u>	<u>542,078</u>	<u>23,431</u>
Total public safety	<u>5,165,385</u>	<u>5,364,790</u>	<u>5,082,910</u>	<u>281,880</u>
Public Works				
Sanitation and waste removal:				
Maintenance	2,360,002	2,355,552	1,922,278	433,274
Waste collection and disposal	832,300	832,300	760,901	71,399
Mosquito and weed control	5,000	5,000	3,700	1,300
Total public works	<u>3,197,302</u>	<u>3,192,852</u>	<u>2,686,879</u>	<u>505,973</u>
Recreation and Culture				
Parks and recreation	459,255	465,045	374,548	90,497
Debt Service				
Principal	211,920	211,920	222,041	(10,121)
Interest	90,825	90,825	80,006	10,819
Total debt service	<u>302,745</u>	<u>302,745</u>	<u>302,047</u>	<u>698</u>
<b>Total expenditures</b>	<u>10,642,924</u>	<u>10,908,719</u>	<u>9,770,518</u>	<u>1,138,201</u>
<b>Excess of revenues over expenditures</b>	<u>(1,219,122)</u>	<u>(1,395,014)</u>	<u>(196,238)</u>	<u>1,198,776</u>
Appropriated fund balance	\$ 1,219,122	\$ 1,395,014	\$ -	\$ (1,395,014)
<b>NET CHANGES IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (196,238)</u>	<u>\$ (196,238)</u>

**TOWN OF ELKTON, MARYLAND  
 COMBINING SCHEDULE OF FIDUCIARY NET ASSETS  
 TRUST FUNDS  
 June 30, 2011**

	Defined Contribution Plan	Police Pension Plan	Total Pension Trusts
<b>ASSETS</b>			
<b>Cash Equivalents</b>	\$ -	\$ 469,375	\$ 469,375
<b>Investments</b>			
Equity mutual funds	1,550,467	-	1,550,467
Fixed income mutual funds	1,262,400	-	1,262,400
Money market funds	92,627	-	92,627
Total investments	2,905,494	-	2,905,494
<b>TOTAL ASSETS</b>	\$ 2,905,494	\$ 469,375	\$ 3,374,869
<b>NET ASSETS</b>			
Held in trust for pension benefits	\$ 2,905,494	\$ 469,375	\$ 3,374,869

**TOWN OF ELKTON, MARYLAND**  
**COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS**  
**TRUST FUNDS**  
**For the Fiscal Year Ended June 30, 2011**

	<u>Defined Contribution Plan</u>	<u>Police Pension Plan</u>	<u>Total Pension Trusts</u>
<b>ADDITIONS</b>			
Employer contributions	\$ 167,698	\$ 311,629	\$ 479,327
Employee Contributions	-	158,129	158,129
Investment gains	<u>382,411</u>	<u>15</u>	<u>382,426</u>
Total additions	550,109	469,773	1,019,882
<b>DEDUCTIONS</b>			
Benefit payments	105,548	-	105,548
Administrative Fees	<u>-</u>	<u>398</u>	<u>398</u>
Total deductions	105,548	398	105,946
<b>CHANGE IN NET ASSETS</b>	444,561	469,375	913,936
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>2,460,933</u>	<u>-</u>	<u>2,460,933</u>
<b>NET ASSETS - END OF YEAR</b>	<u><u>\$ 2,905,494</u></u>	<u><u>\$ 469,375</u></u>	<u><u>\$ 3,374,869</u></u>

**TOWN OF ELKTON, MARYLAND  
STATISTICAL SECTION**

This part of the Town of Elkton’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government’s overall financial health.

**CONTENTS**

**Financial Trends**

These schedules contain trend information to help the reader understand how the Town’s financial performance and well-being have changed over time. 76-81

**Revenue Capacity**

These schedules contain information to help the reader assess the Town’s most significant revenue source, the property tax. 82-85

**Debt Capacity**

These schedules present information to help the reader assess the affordability of the Town’s current levels of outstanding debt, and the government’s ability to issue additional debt in the future. 86-87

**Demographic and Economic Information**

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town’s financials activities take place. 88-89

**Operating Information**

These schedules contain service and infrastructure data to help the reader understand how the information in the Town’s financial report relates to the services the County provides and the services it performs. 90-92

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.