

**TOWN OF EASTON, MARYLAND**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**



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## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and  
Members of the Town Council  
Town of Easton, Maryland

### **Report on the Financial Statements**

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 Easton, Maryland, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Honorable Mayor and  
Members of the Town Council  
Town of Easton, Maryland

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Easton, Maryland as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 4-15 and required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The combining and individual nonmajor fund financial statements and other supplementary information as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and other supplementary information as listed in the accompanying table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Honorable Mayor and  
Members of the Town Council  
Town of Easton, Maryland

### **Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have also issued our report dated , on our consideration of the Town'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Baltimore, Maryland  
December 29, 2020

**TOWN OF EASTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

The Management's Discussion and Analysis (MD&A) offers readers of the Town of Easton, Maryland's (Town) financial statements a narrative overview and analysis of the Town's financial activities for the fiscal year ended June 30, 2020. Readers are encouraged to consider the information presented here in conjunction with the financial statements, summary of significant accounting policies (SSAP) and notes to the financial statements (which immediately follow this discussion).

**FINANCIAL AND EVENTS HIGHLIGHTS**

- As of June 30, 2020, the Town's total assets and deferred outflows of resources of the Town were \$218.0 million and exceeded its liabilities and deferred inflows of resources at June 30, 2020 by \$168.2 million.
- As of June 30, 2020, the Town's governmental funds reported an ending fund balance of \$24.0 million which is a decrease of approximately \$.7 million (i.e. total net position).

**IMPACTS OF COVID ON THE LOCAL COMMUNITY AND THE TOWN OF EASTON**

The Town of Easton's response to the Governor of Maryland's Proclamation of a State of Emergency within the State, on March 5, 2020, resulted in the Mayor issuing a series of Executive Orders for the Town of Easton. The first Executive Order was issued on March 19, 2020, declaring a State of Emergency for the Town of Easton and putting into place measures to address any COVID-19 outbreak and public safety. The second Executive Order was issued March 23, 2020 and included a Continuity of Operations Plan. On March 30, 2020, the Governor issued an executive order requiring Maryland residents to stay at home except for essential activities; as a result, on March 31, the Continuity of Operations Plan modified the normal business hours of the Town of Easton. Resolution 6116 extended the Mayor's Executive Orders until such time as the Mayor determines that the Town is no longer in a State of Emergency and acts to rescind the Executive Orders.

On May 13, 2020, the Governor issued an executive order lifting the stay-at-home order and easing certain other restrictions. This was the turning point for the Town of Easton to begin reopening. On May 18, the Continuity of Operations Plan was modified allowing staff to return to CDC recommended working conditions. An Executive Order issued on May 20 addressed wearing face coverings as an additional emergency measure for the Town of Easton. On May 29, the Town issued a fourth Executive Order addressing outdoor dining and sidewalk cafes for food service establishments. Resolutions 6121 and 6122 extended the Mayor's third and fourth Executive Orders to be coterminous with the first two. Reopening the Town of Easton public buildings and allowing Board and Commission meetings to restart occurred with the Mayor's fifth Executive Order issued on June 13. This executive order also allowed the closure of a portion of Washington Street and waived and modified certain provision of the Town Code related to sidewalk cafes. Resolution 6123 extended the Mayor's fifth Executive Orders to be coterminous with the others.

On September 4, 2020, Governor Hogan announced, due to the state's improving health metrics, the beginning of Stage Three of Maryland's COVID-19 Recovery, which was the safe and gradual reopening of movie theaters, live entertainment venues and religious services, with an increased capacity from 50% to 75% at retail shops and religious services. This was the state's third stage of recovery in the response to the global pandemic.

During the Town's budget process, the fiscal year 2021 budgeted revenues were decreased to reflect anticipated reductions to the revenue in anticipation of the impacts to COVID-19. Decreased Hotel Accommodations Taxes and other revenue reductions are reflected in budgeted revenue estimates.

**TOWN OF EASTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

**IMPACTS OF COVID (CONTINUED)**

The Town's 2021 collections from Real Estate Taxes are in line with prior year collections in July and August. To date, the collections from Income Tax distributions are consistent with prior year collections. Throughout COVID-19, the Town's building department has continued to have strong activity from the end of the fiscal year 2020 into the first quarter of FY2021. This strong construction growth will help the Town increase our taxable real estate values and also drive consumer retail. The Mayor and Council continue to assess the full revenue impacts based on overall State of Maryland reports as they become available and will promptly make modifications to the current year budgeted expenditures as needed.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Town of Easton's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and budgetary comparison, and 3) notes to the financial statements.

**Government-wide Financial Statements**

There are two government-wide financial statements, which are designed to provide readers with a broad overview of the Town's finances in a manner similar to a private-sector business. Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, public works, parks and recreation, cultural, economic development and debt service. The major business-type activity is the Utilities Fund although the Town has also been involved in another enterprise fund category which is intended to provide economic development and urban redevelopment while recouping the costs involved in accomplishing those goals.

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

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. Because it separates program revenue (revenue generated by specific programs through charges for services, grants and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program), it shows to what extent each program has to rely on taxes for funding. All changes in net position are reported using the accrual basis of accounting, similar to the method used by most private-sector companies. The accrual basis of accounting requires that revenues be reported when they are earned and expenses are reported when the goods and services are received, regardless of the timing of the cash flow. Items such as uncollected taxes, unpaid vendor invoices for items received as of June 30, 2020, and earned but unused vacation leave will be included in the Statement of Activities as revenues and expense,



**TOWN OF EASTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Government-wide Financial Statements (Continued)**

even though the cash associated with these items will not be received or distributed until after June 30, 2020.

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

**Fund Financial Statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary and fiduciary funds. Governmental Funds are used to account for most, if not all, of a government's tax supported activities. Proprietary Funds are used to account for a government's business-type activities, where all or part of the costs of activities are supported by fees and charges that are paid directly by those who benefit from the activities. Fiduciary funds are used to account for resources held for the benefit of entities outside of the government.

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

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

**TOWN OF EASTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Fund Financial Statements (Continued)**

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

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

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

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

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

**Notes to the Financial Statements**

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

**TOWN OF EASTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Statement of Net Position**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town's net position total \$168.2 million at June 30, 2020, which is an increase of approximately \$7.9 million over the June 30, 2019 net position. The following table reflects the Government-Wide Statement of Net Position for Governmental and Business-Type Activities:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
Current and Other Assets	\$ 26,737,459	\$ 27,346,615	\$ 49,943,713	\$ 49,700,144	\$ 76,681,172	\$ 77,046,759
Capital Assets and Other Assets	40,530,440	39,605,630	96,940,669	91,853,985	137,471,109	131,459,615
Total Assets	<u>67,267,899</u>	<u>66,952,245</u>	<u>146,884,382</u>	<u>141,554,129</u>	<u>214,152,281</u>	<u>208,506,374</u>
Total Deferred Outflows of Resources	2,040,153	556,419	1,406,113	257,931	3,446,266	814,350
Current Liabilities	3,137,960	3,344,720	7,499,177	7,090,057	10,637,137	10,434,777
Long-Term Debt	20,785,552	19,027,557	16,106,939	16,961,189	36,892,491	35,988,746
Total Liabilities	<u>23,923,512</u>	<u>22,372,277</u>	<u>23,606,116</u>	<u>24,051,246</u>	<u>47,529,628</u>	<u>46,423,523</u>
Total Deferred Inflows of Resources	232,143	855,567	1,596,657	1,710,978	1,828,800	2,566,545
Net Investment in Capital Assets	30,694,168	28,780,950	81,056,181	74,213,222	111,750,349	102,994,172
Restricted	7,216,742	10,056,116	-	-	7,216,742	10,056,116
Unrestricted	<u>7,241,487</u>	<u>5,443,754</u>	<u>42,031,541</u>	<u>41,836,614</u>	<u>49,273,028</u>	<u>47,280,368</u>
Total Net Position	<u>\$ 45,152,397</u>	<u>\$ 44,280,820</u>	<u>\$ 123,087,722</u>	<u>\$ 116,049,836</u>	<u>\$ 168,240,119</u>	<u>\$ 160,330,656</u>

The Town's total assets and deferred outflows of resources were approximately \$217.9 million (compared to \$209.3 million in the prior year) as of June 30, 2020. Of this amount, \$137.5 million (compared to \$131.5 million in the prior year) is accounted for by capital assets, which includes infrastructure.

Of the remaining assets, approximately \$62.1 million is accounted for in cash and cash equivalents and investments (compared to \$62.3 million in the prior year), approximately \$7.1 million in accounts and notes receivable (compared to \$7.2 million in the prior year), inventory of approximately \$3.9 million (compared to \$4.3 million in the prior year), with the remainder spread among various other accounts.

Outstanding liabilities totaled approximately \$47.5 million with bonds comprising approximately \$7.6 million, loans from the State or Maryland comprising approximately \$11.6 million, PNC Bank loan of \$5.9 million, Net OPEB liability comprising approximately \$4.7 million, Net Pension liability comprising approximately \$7.1 million, approximately \$4.7 million in accounts payable and accrued expenses and other liabilities comprising approximately \$5.3 million at June 30, 2020. This compares with the June 30, 2019 amounts where the Town had outstanding liabilities of approximately \$46.4 million of which approximately \$8.8 million was bonds payable, approximately \$13.1 million was loans from the State of Maryland, Net OPEB liability comprising approximately \$3.1 million, Net Pension Liability comprising \$5.3 million and accounts payable and accrued expenses comprising approximately \$5 million and other liabilities comprising approximately \$4.6 million at June 30, 2019. Of the bonds payable, approximately \$1.2 million is due within one year, with the remainder due at various dates before 2036. Refer to the notes to the financial statements for a more in-depth discussion of long-term debt.

**TOWN OF EASTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

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

At June 30, 2020, the Town had positive balances in all categories of net position, for the government as a whole, and for governmental activities. Business-type activities also experienced positive balances in both capital and unrestricted assets; there were no restricted assets.

**Statement of Activities - Changes in Net Position**

The following schedules compare the revenues and expenses for the current and preceding fiscal years.

**Changes in Net Position  
Fiscal Year Ended June 30, 2020**

	Governmental Activities	Business-Type Activities	Total
<b>Program Revenues</b>			
Charges for Service	\$ 2,822,547	\$ 53,178,142	\$ 56,000,689
Operating Grants and Contributions	2,000,112	-	2,000,112
<b>General Revenues</b>			
Property Taxes	12,539,326	-	12,539,326
Other Local Taxes	2,054,246	(2,054,246)	-
Other	1,446,093	1,606,324	3,052,417
Total Revenues	<u>20,862,324</u>	<u>52,730,220</u>	<u>73,592,544</u>
<b>Expenses</b>			
General Government	2,660,527	-	2,660,527
Public Safety	9,451,957	-	9,451,957
Public Works	5,840,605	-	5,840,605
Recreation and Cultural	1,221,431	-	1,221,431
Economic Development	59,524	-	59,524
Nondepartmental	456,277	-	456,277
Interest Expense	300,426	-	300,426
Utilities Services	-	45,520,550	45,520,550
Other Services	-	171,784	171,784
Total Expenses	<u>19,990,747</u>	<u>45,692,334</u>	<u>65,683,081</u>
<b>INCREASE IN NET POSITION</b>	871,577	7,037,886	7,909,463
Net Position - Beginning of Year	<u>44,280,820</u>	<u>116,049,836</u>	<u>160,330,656</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 45,152,397</u>	<u>\$ 123,087,722</u>	<u>\$ 168,240,119</u>

**TOWN OF EASTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

**Statement of Activities - Changes in Net Position (Continued)**

**Changes in Net Position  
Fiscal Year Ended June 30, 2019**

	Governmental Activities	Business-Type Activities	Total
<b>Program Revenues</b>			
Charges for Service	\$ 2,938,124	\$ 54,436,731	\$ 57,374,855
Operating Grants and Contributions	2,796,573	-	2,796,573
<b>General Revenues</b>			
Property Taxes	12,328,798	-	12,328,798
Other Local Taxes	2,067,655	-	2,067,655
Other	2,886,548	1,372,235	4,258,783
Total Revenues	<u>23,017,698</u>	<u>55,808,966</u>	<u>78,826,664</u>
<b>Expenses</b>			
General Government	2,304,483	-	2,304,483
Public Safety	9,256,276	-	9,256,276
Public Works	5,841,966	-	5,841,966
Recreation and Cultural	2,186,612	-	2,186,612
Economic Development	115,688	-	115,688
Nondepartmental	458,699	-	458,699
Interest Expense	332,091	-	332,091
Utilities Services	-	47,927,086	47,927,086
Other Services	-	158,722	158,722
Total Expenses	<u>20,495,815</u>	<u>48,085,808</u>	<u>68,581,623</u>
<b>INCREASE IN NET POSITION</b>	2,521,883	7,723,158	10,245,041
Net Position - Beginning of Year	<u>41,758,937</u>	<u>108,326,678</u>	<u>150,085,615</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 44,280,820</u>	<u>\$ 116,049,836</u>	<u>\$ 160,330,656</u>

Total revenues for the Town were approximately \$73.6 million for the year ended June 30, 2020 compared to approximately \$78.8 million for the year ending June 30, 2019. Governmental activities provided revenues in 2020 of approximately \$20.9 million, and business-type activities provided \$52.7 million, primarily through charges for services.

**FINANCIAL ANALYSIS OF THE TOWN'S FUNDS**

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

**TOWN OF EASTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

**FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)**

**Governmental Funds Revenue and Expense Analysis**

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

The General Fund is the chief operating fund of the Town. As of June 30, 2020, unassigned fund balance of the General Fund was approximately \$7.1 million.

**Revenues Classified by Source**

<b>Governmental Funds</b>	<u>2020</u>	<u>Percent to Total</u>	<u>2019</u>	<u>Percent to Total</u>
<b>Revenues:</b>				
General Property Taxes	\$ 12,539,326	56.89%	\$ 12,328,798	53.87%
Other Local Taxes	2,824,677	12.82%	2,709,832	11.84%
Permits and Licenses	765,829	3.47%	898,403	3.93%
Fines and Forfeitures	34,491	0.16%	46,464	0.20%
Charges for Services	1,525,647	6.92%	1,610,146	7.03%
Miscellaneous	1,229,458	5.58%	962,240	4.20%
Intergovernmental	3,120,282	14.16%	4,331,874	18.93%
Total Revenues	<u>\$ 22,039,710</u>	<u>100.00%</u>	<u>\$ 22,887,757</u>	<u>100.00%</u>

The following provides an explanation of revenues by source that changed significantly over the prior year.

- **General Property Taxes** – This consists of real and personal property revenues. Gross real property tax revenues were approximately \$11.7 million, an increase of 2.4% or approximately \$282 thousand from last year reflecting an increase in value of assessable tax base properties. The real estate tax rate was maintained at the FY2019 rate of \$.52 per \$100 of assessed value. Gross personal property tax revenue decreased 6.3% to approximately \$846 thousand as a result of decreased assessments. The personal property tax rate remained unchanged from FY2019 at a rate of \$1.30 per \$100 of assessed value of personal property located within the Town limits.
- **Other Local Taxes** – This category is primarily comprised of local income tax share and smaller tax revenues. This revenue increased by approximately \$114 thousand or 4% during FY2020. Primarily the changes are a net result of increased State of Maryland shared income allocations of local income tax distributions.

**TOWN OF EASTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

**FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)**

**Governmental Funds Revenue and Expense Analysis (Continued)**

The following table represents expenditures by function.

<b>Governmental Funds</b>	<b>Expenditures by Function</b>			
	2020	Percent to Total	2019	Percent to Total
Expenditures:				
Current Operations:				
General Government				
Administration	\$ 3,314,818	14.54%	\$ 2,541,333	11.27%
Public Safety	10,425,685	45.74%	10,374,840	46.00%
Public Works	5,473,452	24.01%	5,329,508	23.63%
Recreation and Cultural	1,219,202	5.35%	1,919,489	8.51%
Economic Development	404,588	1.78%	419,406	1.86%
Nondepartmental	456,277	2.00%	458,699	2.03%
Debt Service:				
Principal	1,198,284	5.26%	1,179,630	5.23%
Interest	300,639	1.32%	332,091	1.47%
Total Expenditures	\$ 22,792,945	100.00%	\$ 22,554,996	100.00%

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

- **General Government Administration** – in terms of total dollars the largest increase was in the General government administration and is due to increased personnel costs.
- **Recreation and Cultural** – The largest decrease was in the non-departmental expenses and was due to the decreased grant activity in the current year. The prior year included large expenditures under the DHCD grant program for the Critchlow Adkins school project.

**TOWN OF EASTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

**FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)**

**Enterprise Funds Revenue and Expense Analysis**

<b>PROPRIETARY FUNDS</b>	2020	2019
<b>Operating Revenues</b>		
Charges for Services	\$ 52,636,589	\$ 53,923,367
Grant Revenues	368,813	-
Other Operating Revenues	172,740	513,364
Total Revenues	\$ 53,178,142	\$ 54,436,731
<b>Operating Expenses</b>		
Cost of Service	\$ 37,973,338	\$ 38,991,860
Depreciation	7,593,575	6,763,012
Total Operating Expenses	\$ 45,566,913	\$ 45,754,872
<b>Other Revenues and Expenses</b>		
Investment Earnings	\$ 495,310	\$ 650,198
Interest Expense	(125,421)	(263,281)
Gain on Sale of Property	(107,940)	(1,097)
Payment in Lieu of Taxes	(2,054,246)	(2,067,655)
Capital Charges	1,168,906	674,156
Miscellaneous	50,048	48,978
Total Other Revenues and Expenses	\$ (573,343)	\$ (958,701)

**Operating Revenues:** The Commission's FY2020 operating revenues totaled \$53.2 million, a decrease of \$1.2 million from FY2019. Energy revenues were down \$1.2 million in the Electric Departments as a result of lower costs passed through to customers as well as lower unit sales.

**Operating Expenses:** The Commission's operating expenses totaled \$45.6 million in FY2020, which was \$188 thousand (.7%) lower than FY2019.



**TOWN OF EASTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

**ANALYSIS OF BUDGET AND ACTUAL RESULTS**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>Governmental Funds – GENERAL FUND</b>				
<b>Revenues</b>				
Taxes	\$ 14,961,628	\$ 14,961,628	\$ 15,364,003	\$ 402,375
Licenses and Permits	663,525	663,525	765,829	102,304
Intergovernmental	768,594	768,594	658,161	(110,433)
Charges for Services	1,602,650	1,602,650	1,525,647	(77,003)
Fines and Forfeitures	38,000	38,000	34,491	(3,509)
Miscellaneous	2,442,100	2,442,100	2,609,486	167,386
Total Revenues	<u>\$ 20,476,497</u>	<u>\$ 20,476,497</u>	<u>\$ 20,957,617</u>	<u>\$ 481,120</u>
<b>Expenditures</b>				
Current Operations:				
General Government Administration	\$ 2,463,915	\$ 2,463,915	\$ 2,648,930	\$ (185,015)
Public Safety	9,293,112	9,293,112	8,935,291	357,821
Public Works	4,681,714	4,681,714	4,694,829	(13,115)
Recreation and Cultural	386,676	386,676	383,601	3,075
Economic Development	404,571	404,571	404,588	(17)
Nondepartmental	472,098	472,098	453,210	18,888
Debt Service:				
Principal	1,184,843	1,184,843	18,497	1,166,346
Interest	299,627	299,627	12,641	286,986
Other Financing (Sources) Uses:				
Transfers	1,289,941	1,289,941	1,443,385	(153,444)
Total Expenditures and Other Uses	<u>\$ 20,476,497</u>	<u>\$ 20,476,497</u>	<u>\$ 18,994,972</u>	<u>\$ 1,481,525</u>

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

- Gross actual revenues were above gross budgeted revenues by approximately \$.5 million dollars or more than 7% of the budgeted revenue of approximately \$20.5 million. This is the net result of taxes revenues that were \$402 thousand greater than budget and miscellaneous revenues that were \$167 thousand higher than budget and other categories coming in slightly over budgeted amounts.
- Gross budgeted expenditures and other financing uses were less than the gross actual expenditures and other financing (sources) uses by approximately \$1.5 million or 7.2% of budgeted expenditures and other financing uses. The most significant variances related to non-departmental expenses transfers.

**TOWN OF EASTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Town's total investment in capital assets, including construction in progress, for its governmental and business-type activities as of June 30, 2020, amounts to \$137.5 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, recreation and park facilities, utilities properties and facilities as well as other typical capital items.

The following table schedules capital assets by category (net of accumulated depreciation) for fiscal years ending June 30, 2020 and 2019, respectively:

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 7,492,670	\$ 7,155,203	\$ 2,490,482	\$ 1,148,005	\$ 9,983,152	\$ 8,303,208
Buildings and Improvements	29,591,656	29,054,306	15,773,551	16,368,199	45,365,207	45,422,505
Plants, Mains and Other Equipment	3,446,114	3,396,121	74,727,204	70,639,066	78,173,318	74,035,187
Construction in Progress	-	-	3,938,116	3,698,715	3,938,116	3,698,715
<b>Total Capital Assets</b>	<b>\$ 40,530,440</b>	<b>\$ 39,605,630</b>	<b>\$ 96,929,353</b>	<b>\$ 91,853,985</b>	<b>\$ 137,459,793</b>	<b>\$ 131,459,615</b>

During the year ended June 30, 2020, the Town's capital assets increased by approximately \$6.0 million.

**Long-Term Debt Activity**

The Town issued no new bonds during the fiscal year 2020. During FY2019, the Commission entered into a \$6.5 million loan agreement with PNC Bank to partially fund construction of the "Node + 0 Project." The loan will require monthly principal and interest payments of \$62,840 at a fixed 2.98% for 7 years and then will be renegotiated. The Town has guaranteed the borrowings. Regularly scheduled principal payments were made during 2020 totaling approximately \$3.0 million. Refer to the schedule below for balances. Refer to Notes to Financial statements subsequent events for details of Bond issuance in October 2020.

**Changes in Long-Term Liabilities**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
General Obligation Bonds	\$ 8,149,237	\$ 9,384,637	\$ -	\$ -	\$ 8,149,237	\$ 9,384,637
Loans	2,146,115	1,954,523	15,873,172	17,640,763	18,019,287	19,595,286
Compensated Absences	920,743	769,960	1,081,579	867,630	2,002,322	1,637,590
<b>Total Long-Term Liabilities</b>	<b>\$ 11,216,095</b>	<b>\$ 12,109,120</b>	<b>\$ 16,954,751</b>	<b>\$ 18,508,393</b>	<b>\$ 28,170,846</b>	<b>\$ 30,617,513</b>

**TOWN OF EASTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020**

**Requests for Information**

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

**TOWN OF EASTON, MARYLAND**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2020**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 24,720,211	\$ 10,681,861	\$ 35,402,072
Investments	13,000	26,850,019	26,863,019
Accounts Receivable, Net	1,970,215	5,123,258	7,093,473
Collateral Deposit	-	200,000	200,000
Interest Receivable	-	20,285	20,285
Prepaid Items	34,033	1,296,425	1,330,458
Unbilled Revenue	-	1,840,352	1,840,352
Inventory, at Average Cost	-	3,931,513	3,931,513
Total Current Assets	<u>26,737,459</u>	<u>49,943,713</u>	<u>76,681,172</u>
<b>NONCURRENT ASSETS</b>			
Net OPEB Asset	-	11,316	11,316
Capital Assets, Not Being Depreciated	7,492,670	6,428,598	13,921,268
Capital Assets, Net of Accumulated Depreciation	<u>33,037,770</u>	<u>90,500,755</u>	<u>123,538,525</u>
Total Noncurrent Assets	<u>40,530,440</u>	<u>96,940,669</u>	<u>137,471,109</u>
Total Assets	<u>67,267,899</u>	<u>146,884,382</u>	<u>214,152,281</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Unamortized Loss on Reacquired Debt	459,080	-	459,080
Deferred Outflow - Benefit Plans	<u>1,581,073</u>	<u>1,406,113</u>	<u>2,987,186</u>
Total Deferred Outflows of Resources	<u>2,040,153</u>	<u>1,406,113</u>	<u>3,446,266</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable	815,692	1,904,357	2,720,049
Accrued Liabilities	285,961	1,695,324	1,981,285
Tax Collection Payable	-	325,556	325,556
Performance Deposits	799,140	1,371,088	2,170,228
Unearned Revenue	12,676	17,412	30,088
Over-Recovered Revenue	-	355,471	355,471
Current Portion of Long-Term Debt	<u>1,224,491</u>	<u>1,829,969</u>	<u>3,054,460</u>
Total Current Liabilities	<u>3,137,960</u>	<u>7,499,177</u>	<u>10,637,137</u>
<b>NONCURRENT LIABILITIES</b>			
Compensated Absences, Net of Current Portion	920,743	1,081,579	2,002,322
Long-Term Debt, Net of Current Portion	9,070,861	14,043,203	23,114,064
Net OPEB Liability	4,715,459	-	4,715,459
Net Pension Liability	<u>6,078,489</u>	<u>982,157</u>	<u>7,060,646</u>
Total Noncurrent Liabilities	<u>20,785,552</u>	<u>16,106,939</u>	<u>36,892,491</u>
Total Liabilities	<u>23,923,512</u>	<u>23,606,116</u>	<u>47,529,628</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Inflow - Benefit Plans	<u>232,143</u>	<u>1,596,657</u>	<u>1,828,800</u>
Total Deferred Inflows of Resources	<u>232,143</u>	<u>1,596,657</u>	<u>1,828,800</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	30,694,168	81,056,181	111,750,349
Restricted for:			
Debt Service	2,873,885	-	2,873,885
Capital Improvements	4,342,857	-	4,342,857
Unrestricted	<u>7,241,487</u>	<u>42,031,541</u>	<u>49,273,028</u>
Total Net Position	<u>\$ 45,152,397</u>	<u>\$ 123,087,722</u>	<u>\$ 168,240,119</u>

See accompanying Notes to Financial Statements.

**TOWN OF EASTON, MARYLAND  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2020**

FUNCTIONS/PROGRAMS	Program Revenues				Net Revenue(Expense) and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<b>Primary Government:</b>							
<b>Governmental Activities:</b>							
General Government	\$ 2,660,527	\$ 847,077	\$ -	\$ -	\$ (1,813,450)	\$ -	\$ (1,813,450)
Public Safety	9,451,957	374,583	286,365	-	(8,791,009)	-	(8,791,009)
Public Works	5,840,605	1,596,742	898,594	-	(3,345,269)	-	(3,345,269)
Recreation and Cultural	1,221,431	-	426,884	-	(794,547)	-	(794,547)
Economic Development	59,524	-	388,269	-	328,745	-	328,745
Nondepartmental	456,277	4,145	-	-	(452,132)	-	(452,132)
Interest Expense	300,426	-	-	-	(300,426)	-	(300,426)
Total Governmental Activities	<u>19,990,747</u>	<u>2,822,547</u>	<u>2,000,112</u>	<u>-</u>	<u>(15,168,088)</u>	<u>-</u>	<u>(15,168,088)</u>
<b>Business-Type Activities:</b>							
Utility	45,520,550	52,652,930	-	-	-	7,132,380	7,132,380
Land Enterprise	126,514	153,319	-	-	-	26,805	26,805
Airport Industrial	45,270	371,893	-	-	-	326,623	326,623
Total Business-Type Activities	<u>45,692,334</u>	<u>53,178,142</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,485,808</u>	<u>7,485,808</u>
Total Primary Government	<u>\$ 65,683,081</u>	<u>\$ 56,000,689</u>	<u>\$ 2,000,112</u>	<u>\$ -</u>	<u>(15,168,088)</u>	<u>7,485,808</u>	<u>(7,682,280)</u>
<b>General Revenues:</b>							
Property Taxes					12,539,326	-	12,539,326
Payment in Lieu of Taxes					2,054,246	(2,054,246)	-
Intergovernmental, Unrestricted					1,086,992	-	1,086,992
Interest and Investment Earnings					218,134	495,310	713,444
Miscellaneous					140,967	1,111,014	1,251,981
Total General Revenues					<u>16,039,665</u>	<u>(447,922)</u>	<u>15,591,743</u>
<b>CHANGE IN NET POSITION</b>					871,577	7,037,886	7,909,463
Net Position - Beginning of Year					<u>44,280,820</u>	<u>116,049,836</u>	<u>160,330,656</u>
<b>NET POSITION - END OF YEAR</b>					<u>\$ 45,152,397</u>	<u>\$ 123,087,722</u>	<u>\$ 168,240,119</u>

See accompanying Notes to Financial Statements.

**TOWN OF EASTON, MARYLAND  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2020**

	General Fund	Capital Projects Fund	Infrastructure Development Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and Cash Equivalents - Pooled	\$ 10,902,391	\$ 6,399,870	\$ 4,342,857	\$ 3,075,093	\$ 24,720,211
Investments	13,000	-	-	-	13,000
Accounts Receivable, Net	1,686,668	152,946	-	130,601	1,970,215
Prepaid Items	34,033	-	-	-	34,033
Due from Other Funds	365,031	-	-	-	365,031
	<u>13,001,123</u>	<u>6,552,816</u>	<u>4,342,857</u>	<u>3,205,694</u>	<u>27,102,490</u>
<b>Total Assets</b>	<b>\$ 13,001,123</b>	<b>\$ 6,552,816</b>	<b>\$ 4,342,857</b>	<b>\$ 3,205,694</b>	<b>\$ 27,102,490</b>
<b>LIABILITIES</b>					
Accounts Payable	\$ 354,181	\$ 443,706	\$ -	\$ 17,805	\$ 815,692
Accrued Liabilities	285,961	-	-	-	285,961
Due to Other Funds	-	-	-	365,031	365,031
Performance Deposits	799,140	-	-	-	799,140
Unearned Revenue	12,676	-	-	-	12,676
<b>Total Liabilities</b>	<b>1,451,958</b>	<b>443,706</b>	<b>-</b>	<b>382,836</b>	<b>2,278,500</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Tax Revenue	801,927	-	-	-	801,927
<b>FUND BALANCES</b>					
Nonspendable	34,033	-	-	-	34,033
Restricted	-	-	4,342,857	2,873,885	7,216,742
Committed	3,591,260	-	-	-	3,591,260
Assigned	-	6,109,110	-	197,811	6,306,921
Unassigned	7,121,945	-	-	(248,838)	6,873,107
<b>Total Fund Balances</b>	<b>10,747,238</b>	<b>6,109,110</b>	<b>4,342,857</b>	<b>2,822,858</b>	<b>24,022,063</b>
<b>Total Liabilities, Deferred Inflows or Resources and Fund Balances</b>	<b>\$ 13,001,123</b>	<b>\$ 6,552,816</b>	<b>\$ 4,342,857</b>	<b>\$ 3,205,694</b>	<b>\$ 27,102,490</b>

See accompanying Notes to Financial Statements.

**TOWN OF EASTON, MARYLAND  
RECONCILIATION OF THE BALANCE SHEET OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION  
JUNE 30, 2020**

<b>TOTAL FUND BALANCES - GOVERNMENTAL FUNDS</b>		<b>\$ 24,022,063</b>
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. The cost of these assets is \$76,069,022 and the accumulated depreciation is \$35,538,582</p>		40,530,440
Net OPEB Liability		(4,715,459)
<p>Liabilities such as bonds, notes payable, capital lease obligations and compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental funds as follows:</p>		
General Obligation Bonds	(7,595,000)	
Notes Payable	(1,949,893)	
Capital Lease	(196,222)	
Bond Premium	(554,237)	
Compensated Absences	(920,743)	(11,216,095)
Net pension obligations are not due and payable in the current period, and therefore, are not reported in the funds		(6,078,489)
Deferred outflow - loss on refunding included in governmental activities		459,080
<p>Deferred outflows and inflows of resources related to pensions and OPEB benefit plans are applicable to future periods and, therefore, are not reported in the funds. Deferred outflows of resources related to benefit plans include \$1,581,073 outflows of resources pension/OPEB expense and \$232,143 of Deferred inflows of resources related to pensions/OPEB.</p>		
		1,348,930
Certain receivables are not available to pay for current period expenditures and, therefore, are deferred inflows in the governmental funds.		801,927
Total Net Position - Governmental Activities		<b>\$ 45,152,397</b>

See accompanying Notes to Financial Statements.

**TOWN OF EASTON, MARYLAND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2020**

	General Fund	Capital Projects Fund	Infrastructure Development Fund	Non-Major Governmental Fund	Total Governmental Funds
<b>REVENUES</b>					
General Property Taxes	\$ 12,539,326	\$ -	\$ -	\$ -	\$ 12,539,326
Other Local Taxes	2,824,677	-	-	-	2,824,677
Permits and Licenses	765,829	-	-	-	765,829
Fines and Forfeitures	34,491	-	-	-	34,491
Charges for Services	1,525,647	-	-	-	1,525,647
Revenues from Other Agencies	658,161	152,946	-	418,351	1,229,458
Miscellaneous	2,609,486	-	340,478	170,318	3,120,282
Total Revenues	<u>20,957,617</u>	<u>152,946</u>	<u>340,478</u>	<u>588,669</u>	<u>22,039,710</u>
<b>EXPENDITURES</b>					
Current Operations:					
General Government	2,648,930	665,888	-	-	3,314,818
Public Safety	8,935,291	1,411,530	-	78,864	10,425,685
Public Works	4,694,829	778,623	-	-	5,473,452
Recreation and Cultural	383,601	466,366	-	369,235	1,219,202
Economic Development	404,588	-	-	-	404,588
Nondepartmental	453,210	-	-	3,067	456,277
Debt Service:					
Principal	18,284	-	-	1,180,000	1,198,284
Interest	12,854	-	-	287,785	300,639
Total Expenditures	<u>17,551,587</u>	<u>3,322,407</u>	<u>-</u>	<u>1,918,951</u>	<u>22,792,945</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>3,406,030</u>	<u>(3,169,461)</u>	<u>340,478</u>	<u>(1,330,282)</u>	<u>(753,235)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Debt Proceeds	-	209,876	-	-	209,876
Transfers In	-	3,152,385	-	-	3,152,385
Transfers Out	(1,443,385)	-	-	(1,709,000)	(3,152,385)
Total Other Financing Sources (Uses)	<u>(1,443,385)</u>	<u>3,362,261</u>	<u>-</u>	<u>(1,709,000)</u>	<u>209,876</u>
<b>NET CHANGES IN FUND BALANCES</b>	1,962,645	192,800	340,478	(3,039,282)	(543,359)
Fund Balances - Beginning of Year	<u>8,784,593</u>	<u>5,916,310</u>	<u>4,002,379</u>	<u>5,862,140</u>	<u>24,565,422</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 10,747,238</u>	<u>\$ 6,109,110</u>	<u>\$ 4,342,857</u>	<u>\$ 2,822,858</u>	<u>\$ 24,022,063</u>

See accompanying Notes to Financial Statements.



**TOWN OF EASTON, MARYLAND  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2020**

**TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS** \$ (543,359)

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

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense \$2,754,478 and a disposal of \$19 was exceeded by capital outlay \$3,679,307 in the period. 924,810

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). (150,783)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This amount is the net effect of these differences in the treatment of long-term debt and related items. 1,044,808

The effect of losses on debt refundings are reported only at the entity-wide level for governmental activities. This is the amount of the amortization of prior year loss on refunding reported as a deferred outflow on the Entity-wide statement of net assets. (55,400)

Long-term liabilities for pension and OPEB are presented in the government-wide statements but are not in the governmental fund statements.  
Net effect of expenses for recording pension liability from employee retirement plan (266,685)  
Net effect of expenses for recording OPEB liability from the OPEB plan (261,425)

Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in government funds. This amount is the net change in current year. 179,611

Change in Net Position of Governmental Activities \$ 871,577

**TOWN OF EASTON, MARYLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES – BUDGET AND ACTUAL**  
**(NON-GAAP BUDGETARY BASIS) – GENERAL FUND**  
**YEAR ENDED JUNE 30, 2020**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget		
<b>REVENUES</b>				
<b>Taxes</b>				
General Property Taxes:				
Real Property Taxes	\$ 11,573,290	\$ 11,573,290	\$ 11,729,500	\$ 156,210
Personal Property Taxes - Business	748,000	748,000	748,360	360
Personal Property Taxes - Railroad and Public Utilities	102,000	102,000	97,576	(4,424)
Abatements/Discounts	(68,000)	(68,000)	(70,562)	(2,562)
Penalties and Interest	39,240	39,240	34,452	(4,788)
Total General Property Taxes	<u>12,394,530</u>	<u>12,394,530</u>	<u>12,539,326</u>	<u>144,796</u>
Local Taxes:				
State Shared Income Taxes	1,667,250	1,667,250	1,994,889	327,639
State Shared Highway Taxes	896,698	896,698	826,273	(70,425)
Admission and Amusements	2,400	2,400	2,765	365
Franchise-Ordinary Business Corporation	750	750	750	-
Total Other Local Taxes	<u>2,567,098</u>	<u>2,567,098</u>	<u>2,824,677</u>	<u>257,579</u>
Total Taxes	<u>14,961,628</u>	<u>14,961,628</u>	<u>15,364,003</u>	<u>402,375</u>
<b>Permits and Licenses</b>				
Trader's Licenses	72,000	72,000	60,852	(11,148)
Building Permits	287,500	287,500	379,811	92,311
Plumbing Permits	36,500	36,500	24,624	(11,876)
Use and Occupancy Permits	52,500	52,500	43,900	(8,600)
Rental Housing License Fees	101,000	101,000	91,345	(9,655)
Permits and Other Licenses	114,025	114,025	165,297	51,272
Total Permits and Licenses	<u>663,525</u>	<u>663,525</u>	<u>765,829</u>	<u>102,304</u>
<b>Fines and Forfeitures</b>				
	<u>38,000</u>	<u>38,000</u>	<u>34,491</u>	<u>(3,509)</u>
<b>Charges for Services</b>				
General Government	108,300	108,300	81,248	(27,052)
Public Safety	165,850	165,850	188,160	22,310
Highway and Streets	102,000	102,000	73,002	(28,998)
Sanitation and Waste Removal	1,193,500	1,193,500	1,172,622	(20,878)
Main Street and Recreation Fees	33,000	33,000	10,615	(22,385)
Total Charges for Services	<u>1,602,650</u>	<u>1,602,650</u>	<u>1,525,647</u>	<u>(77,003)</u>
<b>Revenues from Other Agencies</b>				
State:				
Police Protection	265,371	265,371	254,066	(11,305)
Fire, Rescue, and Ambulance	30,000	30,000	13,406	(16,594)
Conservation and Critical Areas	4,500	4,500	3,500	(1,000)
Recreation Open Space & Other Projects	46,000	46,000	25,993	(20,007)
Total State	<u>345,871</u>	<u>345,871</u>	<u>296,965</u>	<u>(48,906)</u>
County:				
Taxes	417,000	417,000	355,473	(61,527)
Misc County Grant	5,723	5,723	5,723	-
Total County	<u>422,723</u>	<u>422,723</u>	<u>361,196</u>	<u>(61,527)</u>
Total Revenues from Other Agencies	<u>768,594</u>	<u>768,594</u>	<u>658,161</u>	<u>(110,433)</u>
<b>Miscellaneous</b>				
	<u>2,442,100</u>	<u>2,442,100</u>	<u>2,609,486</u>	<u>167,386</u>
Total Revenues	<u>20,476,497</u>	<u>20,476,497</u>	<u>20,957,617</u>	<u>481,120</u>

See accompanying Notes to Financial Statements.

**TOWN OF EASTON, MARYLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES – BUDGET AND ACTUAL**  
**(NON-GAAP BUDGETARY BASIS) – GENERAL FUND (CONTINUED)**  
**YEAR ENDED JUNE 30, 2020**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget		
<b>EXPENDITURES</b>				
<b>General Government</b>				
Legislative:				
Town Council	\$ 150,362	\$ 150,362	\$ 148,602	\$ 1,760
Town Clerk	138,235	138,235	197,845	(59,610)
Total Legislative	<u>288,597</u>	<u>288,597</u>	<u>346,447</u>	<u>(57,850)</u>
Executive Mayor	90,763	90,763	91,032	(269)
Town Manager	493,812	493,812	546,717	(52,905)
Elections	-	-	4,454	(4,454)
Financial Administration	984,971	984,971	946,344	38,627
Planning and Zoning	480,902	480,902	563,410	(82,508)
General Services	124,870	124,870	150,526	(25,656)
Total General Government	<u>2,463,915</u>	<u>2,463,915</u>	<u>2,648,930</u>	<u>(185,015)</u>
<b>Public Safety</b>				
Police	7,115,160	7,115,160	6,979,472	135,688
Traffic Control	57,501	57,501	46,975	10,526
Fire and Rescue	343,888	343,888	364,136	(20,248)
Code Enforcement	528,662	528,662	491,879	36,783
Rental Housing	179,344	179,344	163,186	16,158
Traffic Engineering	1,068,557	1,068,557	889,643	178,914
Total Public Safety	<u>9,293,112</u>	<u>9,293,112</u>	<u>8,935,291</u>	<u>357,821</u>
<b>Public Works</b>				
Administration	617,459	617,459	581,622	35,837
Sanitation and Waste Removal	1,799,075	1,799,075	2,003,298	(204,223)
Highways, Streets, and Sidewalks	2,265,180	2,265,180	2,105,684	159,496
Mosquito Control	-	-	4,225	(4,225)
Total Public Works	<u>4,681,714</u>	<u>4,681,714</u>	<u>4,694,829</u>	<u>(13,115)</u>
<b>Parks, Recreation, and Cultural</b>				
Parks and Recreation Administration	386,676	386,676	265,976	120,700
Participation Recreation	-	-	12,980	(12,980)
Municipal Parks	-	-	104,645	(104,645)
Total Parks, Recreation, and Cultural	<u>386,676</u>	<u>386,676</u>	<u>383,601</u>	<u>3,075</u>
<b>Economic Development/Main Street</b>	<u>404,571</u>	<u>404,571</u>	<u>404,588</u>	<u>(17)</u>
<b>Nondepartmental</b>	<u>472,098</u>	<u>472,098</u>	<u>453,210</u>	<u>18,888</u>
<b>Debt Service</b>				
Principal	1,184,843	1,184,843	18,497	1,166,346
Interest	299,627	299,627	12,641	286,986
Total Debt Service	<u>1,484,470</u>	<u>1,484,470</u>	<u>31,138</u>	<u>1,453,332</u>
Total Expenditures	<u>19,186,556</u>	<u>19,186,556</u>	<u>17,551,587</u>	<u>1,634,969</u>
Excess of Revenues Over Expenditures	<u>1,289,941</u>	<u>1,289,941</u>	<u>3,406,030</u>	<u>2,116,089</u>

See accompanying Notes to Financial Statements.

**TOWN OF EASTON, MARYLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES – BUDGET AND ACTUAL**  
**(NON-GAAP BUDGETARY BASIS) – GENERAL FUND (CONTINUED)**  
**YEAR ENDED JUNE 30, 2020**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget		
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers (Net):				
Debt Service	\$ -	\$ -	\$ 1,709,000	\$ 1,709,000
Law Enforcement	192,300	192,300	-	(192,300)
Capital Projects	(1,768,385)	(1,768,385)	(3,152,385)	(1,384,000)
Impact Fee	270,000	270,000	-	(270,000)
General Fund	16,144	16,144	-	(16,144)
Total Other Financing Uses	<u>(1,289,941)</u>	<u>(1,289,941)</u>	<u>(1,443,385)</u>	<u>(153,444)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ -</u>	1,962,645	<u>\$ 1,962,645</u>
Fund Balance - Beginning of Year			<u>8,290,766</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 10,253,411</u>	

See accompanying Notes to Financial Statements.

**TOWN OF EASTON, MARYLAND  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2020**

	Business-Type Activities - Enterprise Funds		
	Utility	Non-Major	Totals
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 9,101,128	\$ 1,580,733	\$ 10,681,861
Investments	26,850,019	-	26,850,019
Collateral Deposit	200,000	-	200,000
Accounts Receivable, Net	4,752,182	371,076	5,123,258
Interest Receivable	20,285	-	20,285
Prepaid Items	500,753	-	500,753
Unamortized Expenses	795,672	-	795,672
Unbilled Revenue	1,840,352	-	1,840,352
Inventory	3,931,513	-	3,931,513
Total Current Assets	<u>47,991,904</u>	<u>1,951,809</u>	<u>49,943,713</u>
<b>NONCURRENT ASSETS</b>			
Net OPEB Asset	11,316	-	11,316
Capital Assets, Not Being Depreciated	6,345,625	82,973	6,428,598
Capital Assets, Net of Accumulated Depreciation	89,094,972	1,405,783	90,500,755
Total Noncurrent Assets	<u>95,451,913</u>	<u>1,488,756</u>	<u>96,940,669</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Outflow - Pension	1,406,113	-	1,406,113
Total Deferred Outflows of Resources	<u>1,406,113</u>	<u>-</u>	<u>1,406,113</u>
Total Assets and Deferred Outflows	<u>\$ 144,849,930</u>	<u>\$ 3,440,565</u>	<u>\$ 148,290,495</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable	\$ 1,748,273	\$ 156,084	\$ 1,904,357
Accrued Liabilities	1,336,690	358,634	1,695,324
Over-Recovered Fuel and Gas Costs	355,471	-	355,471
Tax Collection Payable	325,556	-	325,556
Performance Deposits	1,369,588	1,500	1,371,088
Unearned Revenue	17,412	-	17,412
Current Portion of Long-Term Debt	1,829,969	-	1,829,969
Total Current Liabilities	<u>6,982,959</u>	<u>516,218</u>	<u>7,499,177</u>
<b>NONCURRENT LIABILITIES</b>			
Net Pension Liability	982,157	-	982,157
Compensated Absences, Net of Current Portion	1,081,579	-	1,081,579
Long-Term Debt, Net of Current Portion	14,043,203	-	14,043,203
Total Noncurrent Liabilities	<u>16,106,939</u>	<u>-</u>	<u>16,106,939</u>
Total Liabilities	<u>23,089,898</u>	<u>516,218</u>	<u>23,606,116</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Inflow - Pension	1,596,657	-	1,596,657
Total Deferred Inflows of Resources	<u>1,596,657</u>	<u>-</u>	<u>1,596,657</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	79,567,425	1,488,756	81,056,181
Unrestricted	40,595,950	1,435,591	42,031,541
Total Net Position	<u>120,163,375</u>	<u>2,924,347</u>	<u>123,087,722</u>
Total Liabilities, Deferred Inflows of Resources and Net Pension	<u>\$ 144,849,930</u>	<u>\$ 3,440,565</u>	<u>\$ 148,290,495</u>

See accompanying Notes to Financial Statements.

**TOWN OF EASTON, MARYLAND**  
**STATEMENT REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2020**

	Business-Type Activities - Enterprise Funds		
	Utility	Non-Major	Total
<b>OPERATING REVENUES</b>			
Charges for Services	\$ 52,495,185	\$ 141,404	\$ 52,636,589
Grant Revenues	-	368,813	368,813
Other Operating Revenues	157,745	14,995	172,740
Total Operating Revenues	<u>52,652,930</u>	<u>525,212</u>	<u>53,178,142</u>
<b>OPERATING EXPENSES</b>			
Cost of Service	37,905,508	67,830	37,973,338
Depreciation	7,489,621	103,954	7,593,575
Total Operating Expenses	<u>45,395,129</u>	<u>171,784</u>	<u>45,566,913</u>
Operating Income (Loss)	<u>7,257,801</u>	<u>353,428</u>	<u>7,611,229</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment Earnings	495,310	-	495,310
Interest Expense	(125,421)	-	(125,421)
Loss on Sale of Property	(107,940)	-	(107,940)
Payment in Lieu of Taxes	(2,054,246)	-	(2,054,246)
Capital Charges	1,168,906	-	1,168,906
Miscellaneous	50,048	-	50,048
Total Nonoperating Revenues (Expenses)	<u>(573,343)</u>	<u>-</u>	<u>(573,343)</u>
<b>CHANGES IN FUND NET POSITION</b>	6,684,458	353,428	7,037,886
Total Net Position - Beginning of Year	<u>113,478,917</u>	<u>2,570,919</u>	<u>116,049,836</u>
<b>TOTAL NET POSITION - END OF YEAR</b>	<u>\$ 120,163,375</u>	<u>\$ 2,924,347</u>	<u>\$ 123,087,722</u>

See accompanying Notes to Financial Statements.

**TOWN OF EASTON, MARYLAND**  
**STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2020**

	Business-Type Activities - Enterprise Funds		
	Utility	Non-Major	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received for Services	\$ 53,150,428	\$ 167,737	\$ 53,318,165
Cash Paid to Suppliers for Goods and Services	(25,951,351)	(64,660)	(26,016,011)
Cash Paid to Employees for Services	(12,267,797)	-	(12,267,797)
Net Cash Provided by Operating Activities	<u>14,931,280</u>	<u>103,077</u>	<u>15,034,357</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Cash Paid in Lieu of Taxes	(2,054,246)	-	(2,054,246)
Net Cash Used by Noncapital and Related Financing Activities	<u>(2,054,246)</u>	<u>-</u>	<u>(2,054,246)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Proceeds from Disposition of Assets	(109,531)	-	(109,531)
Proceeds from Capital Charges	1,168,906	-	1,168,906
Purchases/Construction of Capital Assets	(12,242,330)	(411,676)	(12,654,006)
Interfund Loan	-	358,634	358,634
Payment of Debt	(1,767,591)	-	(1,767,591)
Other Interest Paid	(207,141)	-	(207,141)
Net Cash Used by Capital and Related Financing Activities	<u>(13,157,687)</u>	<u>(53,042)</u>	<u>(13,210,729)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest on Cash Deposits and Investments	549,115	-	549,115
Collateral Deposit	(200,000)	-	(200,000)
Sales of Investments	17,750,000	-	17,750,000
Purchases of Investments	(19,215,421)	-	(19,215,421)
Net Cash Used by Investing Activities	<u>(1,116,306)</u>	<u>-</u>	<u>(1,116,306)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(1,396,959)</b>	<b>50,035</b>	<b>(1,346,924)</b>
Cash and Cash Equivalents - Beginning of Year	<u>10,498,087</u>	<u>1,530,698</u>	<u>12,028,785</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 9,101,128</b>	<b>\$ 1,580,733</b>	<b>\$ 10,681,861</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating Income	\$ 7,257,801	\$ 353,428	\$ 7,611,229
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	7,489,621	103,954	7,593,575
Amortization	71,532	-	71,532
Other Miscellaneous Nonoperating Revenue	128,865	-	128,865
Effects of Changes in Operating Assets, Deferred Outflows, Liabilities and Deferred Inflows:			
Accounts Receivable, Net	77,924	(357,475)	(279,551)
Inventory	145,190	-	145,190
Deferred Inflows/Outflows - Pension	(1,262,501)	-	(1,262,501)
Unrecovered Fuel and Gas Costs	(51,918)	-	(51,918)
Accounts Payable and Accrued Liabilities	1,074,766	3,170	1,077,936
Total Adjustments	<u>7,673,479</u>	<u>(250,351)</u>	<u>7,423,128</u>
Net Cash Provided by Operating Activities	<u>\$ 14,931,280</u>	<u>\$ 103,077</u>	<u>\$ 15,034,357</u>

See accompanying Notes to Financial Statements.

**TOWN OF EASTON, MARYLAND  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2020**

	<u>Benefits Trust Funds</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 706,530
Investments, at Fair Value	<u>55,233,019</u>
Total Assets	<u><u>\$ 55,939,549</u></u>
 <b>NET POSITION</b>	
Held in Trust for Pension Benefits	<u><u>\$ 55,939,549</u></u>

*See accompanying Notes to Financial Statements.*



**TOWN OF EASTON, MARYLAND  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2020**

	Benefits Trust Funds
<b>ADDITIONS</b>	
Contributions:	
Employer	\$ 2,603,002
Employees	228,927
Total Contributions	2,831,929
Investment Earnings:	
Investment Income	2,043,917
Net Decrease in Fair Value of Plan Investments	(682,893)
Net Investment Earnings	1,361,024
Total Additions	4,192,953
<b>DEDUCTIONS</b>	
Benefit Payments	2,479,313
Administrative expenses	197,781
	2,677,094
<b>NET CHANGE</b>	1,515,859
Net Position - Beginning of Year	54,423,690
<b>NET POSITION - END OF YEAR</b>	\$ 55,939,549

See accompanying Notes to Financial Statements.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Reporting Entity**

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

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

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

**Government-Wide and Fund Financial Statements**

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

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

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

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

Governmental fund statements are presented using the flow of current financial resources measurement focus and the modified 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 can be determined and "available" means collected within 60 days of year-end. Expenditures are recorded when the related liability is incurred as under accrual accounting. Principal and interest on general long-term debt and expenditures for compensated absences are recorded when the payments are due.

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

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

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Proprietary funds distinguish operating revenues and expenses from 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 reports one major proprietary fund: the Utility Fund. The Utility Fund accounts for the operations of the electric, water, wastewater and cable and communication services for the Town of Easton.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

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

The Town reports two benefit plans as Benefit Trust Funds, the Town of Easton, Maryland - Defined Benefit Plan (a pension fund) and the Town of Easton, Maryland – Other Post Employment Benefit Plan (an OPEB fund). These fiduciary funds are used to account for assets held on behalf of outside parties under the terms of formal trust agreements.

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

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

The Town's Utility Fund gas and electric departments are regulated and are subject to the requirements of Accounting Standards Codification (ASC) ASC 980-10, *Regulated Operations – Overall* and ASC 980-340, *Regulated Operations – Other Asset and Deferred Costs* provide that certain costs that would otherwise be charged to expense should be deferred as regulatory assets, based on the expected recovery from customers in future rates. Utility plant assets donated by developers or constructed with grants received from other agencies are recorded as capital assets to the extent that the depreciation of such costs will be included in rates charged by the utility fund in future years. However, when it becomes probable that part of the cost of an asset will be disallowed for rate-making purposes and a reasonable estimate of the amount of the disallowance can be made, the estimated amount of the probable disallowance is deducted from the reported cost of the plant and recognized as a loss.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**Accounting Estimates**

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

**Cash, Cash Equivalents and Investments**

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

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

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

**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

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

**Receivables and Payables**

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

	<u>Real</u>	<u>Personal and Corporate</u>
Assessment Roll Validated	December 31	January 1
Tax Rate Ordinance Approved	June 30	June 30
Beginning of Fiscal Year for Tax Levy	July 1	July 1
Tax Bills Rendered and Due	July 1	State notification
Owner-Occupied Residential	July 1/Jan. 1	State notification
Property Taxes Payable:		
Delinquent	Oct. 1, Feb. 1	After 30 days
Terms	90 days	30 days
Delinquent Interest/Penalty Rate (Annual)	18%	18%

Information presented is for "full year" levy. "Half year" levy dates are each six months later, and relate to new construction in the first six months of the calendar year. Property taxes are levied on July 1 and are payable by September 30. Simple interest and penalties totaling 1 ½% accrue per month beginning October 1. All taxes attach as an enforceable lien on the property as of July 1. The property tax rates for real and corporate personal property were \$.52 and \$1.30 per \$100 of assessed value, respectively.

All trade and property tax receivables are shown net of an allowance for uncollectibles. The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. Real property taxes are generally fully collectible.

**Capital Assets**

Capital assets, including land, plant, equipment, and infrastructure such as roads, storm drains, and pipe systems, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Town defines capital assets as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of three years. The costs of normal maintenance and repairs that do not add to the value of the asset or extend asset lives are not capitalized.

Expenditures for major assets and improvements in governmental funds are capitalized as projects are constructed or the asset is placed in service. Interest on debt during construction of enterprise fund capital assets is capitalized. The amount of interest to be capitalized is offset by any interest income earned on invested proceeds over the same period. Exhaustible capital assets of the general fund and proprietary funds are depreciated as an expense against related operations. The corresponding accumulated depreciation is reported in the Statement of Net Position.

**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

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

**Capital Assets (Continued)**

Capital assets of the Utility Fund’s regulated gas and electric departments are carried at net cost, whereby capitalized costs are reduced by any amounts received from customers or through governmental grants. Capital assets of other departments and other enterprise funds are carried at gross cost for assets purchased or constructed and at estimated cost for assets contributed by developers. The Utility Fund’s policy is to record all additions that individually exceed \$2,000 and with a useful life greater than one year to the respective asset account in the year in which the project is completed and to charge the cost of minor repairs and maintenance to operations. As required by the Public Service Commission of Maryland, the cost of major repairs incurred by the gas and electric departments is amortized over a period of five years. Land rights represent right of way easements that have an indefinite life and are not depreciated.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives of the assets:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Buildings and Improvements (Including Infrastructure)	7 – 50 Years	15 – 50 Years
Improvements Other Than Buildings	20 – 30 Years	10 – 30 Years
Machinery and Equipment	3 – 15 Years	5 – 15 Years

**Unbilled Revenue**

Customers of the Utility Fund’s electric, gas and cable departments are billed in arrears on one of four monthly cycles. As a result of the cycles, in arrears billing, a portion of June’s usage is not yet billed at year-end. A provision for revenue is recorded based on the actual billings in July and the days unbilled in each cycle at the end of June. Customers of the Commission’s Water and Wastewater Department are billed quarterly. As such, a provision for revenue is recorded representing actual customer billings in July and the days unbilled in each cycle at the end of June. The balance at June 30, 2020, is \$1,840,352.

**Unrecovered and Over-recovered Fuel and Gas Costs**

The Utility Fund recognizes the effects of purchased power and gas costs that have not been recovered from customers by way of fuel cost adjustment and purchased gas adjustment revenues. Unrecovered fuel and gas costs represent purchased power and gas costs that have been incurred by the Utility Fund, but which have not yet been billed to customers. Over-recovered fuel and gas costs represent purchased power and gas costs that have been billed to customers, but which have not yet been incurred by the Utility Fund. As of June 30, 2020, the Commission had net over-recovered costs of \$355,471.

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

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

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**Inventory**

The Utility Fund's inventory, consisting of natural gas, materials, fuels and supplies, is recorded at cost. It is carried and charged as used in the operations of the fund at average cost. Inventory totaled \$3,931,513 at June 30, 2020.

**Compensated Absences**

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

**Long-Term Obligations**

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

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

**Unearned Revenues**

Customers of the Town are billed for parking permit fees that cover part of the next fiscal year. The customers' balances which represent the portion of these fees are shown as Unearned Revenues. The balance at June 30, 2020, is \$12,672.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net Position reports a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The Town has two items that qualify for reporting in this category, actuarially identified future pension costs and other postemployment benefit costs, and unamortized loss or reacquired debt which are reported on the Statement of Net position.

In addition to liabilities, the Statement of Financial Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Town has two items that qualifies for reporting in this category, the actuarially identified future pension costs and other postemployment benefit costs, which are reported on the Statement of Net Position, and unavailable tax revenues, which is reported on the governmental fund balance sheet.



**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**Pensions**

For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions; pension expense; information about the fiduciary net position of the Town of Easton Employee's Pension Plans (the Pension Plan); and additions to/deductions from the Pension Plan's fiduciary net position, have all been determined on the same basis as they are reported by the Pension Plan. Consequently, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms.

**Postemployment Benefits Other Than Pensions (OPEB)**

For purposes of measuring the net OPEB liability (asset), deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Town of Easton Other Post-Employment Benefits Plan (the OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participant interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

**Net Position/Fund Equity**

The government-wide and business-type activities fund financial statements utilize a net position presentation to display equity. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

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

***Governmental Fund Balances***

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

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**Net Position/Fund Equity (Continued)**

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

- *Non-Spendable Fund Balance* - Amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact. This generally includes long-term receivables and prepaid expenses.
- *Restricted Fund Balance* - amounts that can be spent only for specific purposes because of restrictions imposed externally by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by the Town Charter, Town Code or enabling legislation.
- *Committed Fund Balance* - Amounts that can be used only for specific purposes determined by a formal action by the Town Council, the Town's highest level of decision-making authority, and can only be changed by a formal action by the Town Council, ordinance, or resolution.
- *Assigned Fund Balance* - Amounts that are constrained by the Town's intent that they will be used for specific purposes but are neither restricted nor committed. Pursuant to the Town Charter, the Town Manager and the Town Council are authorized to assign amounts for specific purposes.
- *Unassigned Fund Balance* – Represents the residual amount for the general fund that is not contained in the other classifications. The general fund is the only fund that reports a positive unassigned fund balance. Additionally, any deficit fund balance within the other governmental fund types is reported as unassigned.

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

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

**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

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

**Stewardship, Compliance, and Accountability**

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

1. The Mayor submits a proposed operating budget to the Town Council at least forty days before the beginning of the fiscal year. The operating budget includes proposed expenditures, the means of financing them, and the use of federal and/or state grants. Public hearings are held for citizen input.

Prior to June 30<sup>th</sup>, the budget is passed by vote of the Town Council and requires approval by the Mayor. Formal budgetary integration is employed as a management control device during the year for the general fund. Budgets are adopted according to procedures set by the Mayor and Town Council.

2. Monthly statements are provided by the Town Manager and budget review is executed by the Mayor and Town Council periodically. The Town Council legally adopts an annual budget for the General Fund and the Capital Project Fund. The Town has no legally adopted annual budget for the nonmajor governmental funds or any enterprise funds. However, a budget is used as a management tool for these funds.

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

The budget is prepared on a basis consistent with generally accepted accounting principles (GAAP) except that short-term and interfund debt is considered other financing sources for budgetary purposes. The following schedule details the necessary adjustments to convert the results of operating and fund balances at the end of the year on the GAAP to budgetary basis:

	Revenues	Expenses	Other Financing Sources (Uses)	Fund Balance
GAAP Basis	\$ 20,957,617	\$ 17,551,587	\$ (1,443,385)	\$ 10,747,238
Interfund Loan – Effect of Previous Years	-	-	-	(493,827)
Budgetary Basis	<u>\$ 20,957,617</u>	<u>\$ 17,551,587</u>	<u>\$ (1,443,385)</u>	<u>\$ 10,253,411</u>

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**Deferred Compensation and Defined Contribution Plans**

457 Deferred Compensation Plan

All employees of the Town may participate in the deferred compensation plan organized under the Internal Revenue Code Section 457, and administered by Securian Financial effective May 1, 2019. Previously the 457 Plan was administered by John Hancock. Under the terms of the plan, participating employees may have a portion of their salaries withheld, subject to limitations imposed by the IRS, and invested in the plan. All taxes are deferred on these contributions and related earnings until the participant terminates from the plan. The Town is in compliance with the Internal Revenue Code Section 457(g) requiring all assets and income of the plan to be held in trust for the exclusive benefit of participants and their beneficiaries.

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

Pension Plan

The Town of Easton, Maryland Employee's Retirement Plan is a defined benefit pension plan established to provide benefits to virtually all employees hired prior to July 1, 2008. This plan is still the primary plan utilized for the sworn officers. Plan provisions and contribution requirements are established and may be amended by the Town Council. The Town's contribution to the plan for the year ended June 30, 2020 was \$734,655. The plan administrator is Prudential.

**NOTE 2 DEPOSITS AND INVESTMENTS**

**Deposits**

At the end of the year, the carrying amount of the Town deposits (including cash on hand of \$1,200) was \$35,402,072 and the bank balance was \$35,575,886. Custodial credit risk is the risk that in the event of a bank institution failure, the Town would not be able to recover the value of its deposits or collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institutions, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Town's name. The Town does not have a deposit policy for custodial credit risk. However, the deposits of the Town were not exposed to custodial credit risk at June 30, 2020.

**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Investments- Maryland Local Government Investment Pool**

***Town***

Town investment policy permits investments in the following types of investments as authorized by the State of Maryland: direct U.S. agency obligations, repurchase agreements, bankers' acceptances, municipal securities, commercial paper, money market mutual funds and the MLGIP. The Town is a participant of the Maryland Local Government Investment Pool (MLGIP), which provides all local government units of the State a safe investment vehicle for the short-term investment of funds. The State Legislature created MLGIP with the passage of Article 95 22G, of the Annotated Code of Maryland. The MLGIP, under the administrative control of the State Treasurer, has been managed by a single Baltimore-based financial institution, PNC Bank. An MLGIP Advisory Committee of current participants was formed to review, on a quarterly basis, the activities of the Fund and to provide suggestions to enhance the pool. The fair value of the pool is the same as the value of the pooled shares. At June 30, 2020, the Town had \$25,113,019 invested in this Pool. The Pool 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.

At June 30, 2020, the Utility Commission had investments held by M&T Securities, Inc. of \$1,750,000. These investments are comprised of certificates of deposit with maturities of one, or less, at the time of purchase. It is the Utility Commission's intent to hold these securities to maturity. Accordingly, these investments are reported at amortized cost.

***Pension Plan and OPEB Plan***

Investments held by the Defined Benefit Pension Plan include mutual funds and a guaranteed account held by Prudential Financial. A summary of these investments are as follows:

Guaranteed Account	\$ 5,450,707
Variable Earnings Investments:	
Dryden S&P 500 Index	3,994,040
Mid Cap Growth/Waddell & Reed	1,890,552
Mid Cap Value / QMA Fund	1,010,194
SCG I (managed by Brown)	2,166,554
Small Cap Value/Kennedy Capit	1,420,897
T. Rowe Price Eqty Inc Stgy	3,349,351
T. Rowe Price Growth Stk Stgy	4,554,747
EmrgMrkEq / QMA*	1,144,435
International Blend/Wellington*	3,212,267
Core Plus Bond PGIM Fund	10,380,038
Real Estate / Am Century Fund	1,657,529
Total	<u><u>\$ 40,231,311</u></u>

\*-Foreign investment

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 2 DEPOSITS AND INVESTMENTS**

**Investments- Maryland Local Government Investment Pool (Continued)**

***Pension Plan and OPEB Plan (Continued)***

Guaranteed account income is recorded based on contractual interest of the investment contract in force during the period. Mutual fund investment income consists of dividends earned and realized and unrealized gains and losses attributable to the mutual funds.

Investments held by the OPEB Plan include mutual funds held by Davenport & Company LLC. A summary of these investments are as follows:

Mutual Funds:	
FMI Intl	\$ 426,690
John Hancock Small Cap Value	491,620
Lord Abbett Short Duration Income Fund	1,293,665
MFS Intl*	1,130,865
Touchstone Sands Capital Emerging Markets	527,397
Vanguard - Emerging Market*	357,169
Vanguard - Intermediate Term Trust	1,357,743
Vanguard - Short Term	1,331,414
Vanguard - Mid Cap Index	1,894,159
Closed-End Mutual Funds	706,530
	<hr/> 9,517,252
Common Stock:	
Closed End Mutual Funds	63,014
Communication Services	621,193
Consumer Discretionary	674,628
Consumer Staples	324,567
Energy	153,174
Financials	1,105,873
Health Care	792,310
Industrials	307,182
Information Technology	1,426,845
Materials	454,610
Real Estate Investment Trusts	267,330
Rights and Warrants	260
	<hr/> 6,190,986
	<hr/> <b>\$ 15,708,238</b> <hr/>

\*-Foreign investment

**Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the Benefit Plan or OPEB Plan (Plans) will not be able to recover all or a portion of the value of its deposits, investments, or collateral securities that are in the possession of an outside party. The Plans' investment custodial credit risk policy requires all investments to be insured or registered, or for which the securities are held by the Plan or their agent in the respective Plans' name or be invested in MLGIP. All investments of the Plans are held on behalf of the Plans by Prudential Financial and Davenport and are therefore not exposed to custodial credit risk.

**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Custodial Credit Risk (Continued)**

As of June 30, the Plans had the following investments and maturities in its fixed earnings investments and the following mutual funds which include investments in bonds.

	<u>Valuation</u>	<u>Weighted Average Maturity (yrs)</u>
<b><u>Defined Benefit Pension Plan</u></b>		
Guaranteed Account	\$ 5,450,707	3.40
Core Plus Bond/PIMCO	10,380,038	6.80
Total	<u>\$ 15,830,745</u>	
 <b><u>OPEB Plan</u></b>		
Vanguard - Intermediate Term Trust	\$ 1,357,743	7.40
Vanguard Short Term Investment Grade	1,331,414	3.10
Total	<u>\$ 2,689,157</u>	

Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of the investment securities will occur in the near term and those changes could materially affect the amount reported in the statements of net position available for plan benefits.

**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 investment maturities. The Town management believes the liquidity of the portfolio is adequate to meet cash flows requirements and to preclude the Town from having to sell investments below original cost for that purpose. The investments at June 30, 2020 met the Town's investment policy.

**Credit Risk**

Credit risk is the risk that the Plans or the Town will lose money because of the default of the security of the issuer or investment counterparty. The Plans' guaranteed accounts and mutual funds are unrated.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan's or Town's investment in a single issuer. The Plan's investments are managed by several fund managers. The Town's investment policy does not allow for an investment in any one issuer that is in excess of 5 percent of the Town's total investments. At June 30, 2020, the Town held no investments investment in any one issuer that was in excess of 5 percent of the Town's total investments

**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Foreign Currency Risk**

Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair value of an investment. The Town does not allow for investments with foreign currency. The Plans allow the option of investments in mutual funds that invest in securities in countries outside the U.S.; however, these funds do not require disclosure of the individual assets within the funds. The fair value of these funds was \$5,844,736 at June 30, 2020. The individual funds are identified above.

**NOTE 3 RECEIVABLES**

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

	Governmental Activities		Business-Type Activities		Total
	General	Other	Utility	Other	
Taxes	\$ 639,329	\$ -	\$ -	\$ -	\$ 639,329
Accounts	377,091	40	4,752,182	371,076	5,500,389
Due from Other Governments	1,316,066	283,507	-	-	1,599,573
Interest	-	-	20,285	-	20,285
Allowance for Uncollectibles	(645,818)	-	-	-	(645,818)
Net Receivables	<u>\$ 1,686,668</u>	<u>\$ 283,547</u>	<u>\$ 4,772,467</u>	<u>\$ 371,076</u>	<u>\$ 7,113,758</u>

The June 30, 2020 balance of due from other governments is as follows:

State of Maryland:	
Income Taxes	\$ 1,271,874
Capital Projects	152,946
CDBG	130,561
Talbot County	44,192
Total Due from Other Governments	<u>\$ 1,599,573</u>

Governmental funds report deferred inflows of resources in relation to receivables for revenues that are not considered to be available to liquidate liabilities of the current period such as property taxes not collected within 60 days after fiscal year-end. Unearned revenue at year-end consists of 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.



**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 3 RECEIVABLES (CONTINUED)**

Deferred inflows of resources and unearned revenue reported in the Governmental Fund Balance Sheet for the General Fund at June 30, 2020 is summarized as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Income Taxes	\$ 713,763	\$ -	\$ 713,763
Property Taxes	88,164	-	88,164
Miscellaneous	-	12,676	12,676
Total	<u>\$ 801,927</u>	<u>\$ 12,676</u>	<u>\$ 814,603</u>

**NOTE 4 INTER-FUND PAYABLES AND TRANSFERS**

Due to/from other funds at June 30, 2020 was as follows:

<b>Receivable Fund</b>	<u>Payable Fund</u>	
	<u>Community</u>	<u>Total</u>
General Fund	Dev <u>\$ 365,031</u>	<u>\$ 365,031</u>

Inter-fund transfer activity for the year ended June 30, 2020 was as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
<b>Governmental Funds</b>		
General Fund	\$ -	\$ 1,443,385
Capital Projects Fund	3,152,385	-
Nonmajor Governmental Funds	-	1,709,000
Total	<u>\$ 3,152,385</u>	<u>\$ 3,152,385</u>

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

**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 5 CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2020 was as follows:

	Beginning Balance	Increases	Transfers/ Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital Assets, Not Being Depreciated:				
Land	\$ 7,155,203	\$ 337,467	\$ -	\$ 7,492,670
Total Capital Assets, Not Being Depreciated	7,155,203	337,467	-	7,492,670
Capital Assets, Being Depreciated:				
Buildings and Improvements	47,624,747	2,078,186	-	49,702,933
Equipment	17,695,606	1,263,654	(85,841)	18,873,419
Total Capital Assets, Being Depreciated	65,320,353	3,341,840	(85,841)	68,576,352
Less Accumulated Depreciation:				
Buildings and Improvements	18,570,441	1,540,836	-	20,111,277
Equipment	14,299,485	1,213,642	(85,822)	15,427,305
Total Accumulated Depreciation	32,869,926	2,754,478	(85,822)	35,538,582
Net Capital Assets, Being Depreciated	32,450,427	587,362	(19)	33,037,770
Governmental Activities Capital Assets, Net	\$ 39,605,630	\$ 924,829	\$ (19)	\$ 40,530,440
<b>Business-Type Activities</b>				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,148,005	\$ 1,342,477	\$ -	\$ 2,490,482
Construction in Progress	3,698,715	10,681,978	(10,442,577)	3,938,116
Total Capital Assets, Not Being Depreciated	4,846,720	12,024,455	(10,442,577)	6,428,598
Capital Assets, Being Depreciated:				
Buildings and Improvements	31,989,155	161,947	-	32,151,102
Equipment and Other	174,453,724	10,925,118	(74,075)	185,304,767
Less: Amount Disallowed for Regulation	(1,719,785)	-	-	(1,719,785)
Total Capital Assets, Being Depreciated	204,723,094	11,087,065	(74,075)	215,736,084
Less Accumulated Depreciation:				
Buildings and Improvements	15,620,956	756,595	-	16,377,551
Equipment and Other	102,094,873	6,836,980	(74,075)	108,857,778
Total Accumulated Depreciation	117,715,829	7,593,575	(74,075)	125,235,329
Net Capital Assets, Being Depreciated	87,007,265	3,493,490	-	90,500,755
Business-Type Activities Capital Assets, Net	\$ 91,853,985	\$ 15,517,945	\$ (10,442,577)	\$ 96,929,353

**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 5 CAPITAL ASSETS (CONTINUED)**

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

<b>Governmental Activities</b>	
General Government	\$ 97,093
Public Safety	932,358
Public Works	1,268,307
Recreation and Cultural	370,229
Nondepartmental	86,491
Total Governmental Activities	<u>\$ 2,754,478</u>
 <b>Business-Type Activities</b>	
Utility	\$ 7,489,621
Other	103,954
Total Business-Type Activities	<u>\$ 7,593,575</u>

**NOTE 6 OPERATING LEASE**

**District Court**

The Town (lessor) entered into a ten-year operating lease agreement with the State of Maryland (lessee) for the District Court building effective September 1, 1997 with an option for one five-year extension. Upon expiration of that lease, the State of Maryland and the Town renewed the lease effective beginning January 1, 2013 for an additional ten-year term with an additional five-year period automatically available. Annual rent is \$138,324.

**NOTE 7 LONG-TERM LIABILITIES**

The long-term liabilities consist of the following at June 30, 2020:

	Beginning Balance	Additions	Principal Repayments & Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
General Obligation Bonds	\$ 8,775,000	\$ -	\$ 1,180,000	\$ 7,595,000	\$ 1,180,000
Unamortized Premium on Bonds	609,637	-	55,400	554,237	-
DHCD Loan Payable	1,672,124	-	-	1,672,124	-
Capital Leases	-	209,876	13,654	196,222	39,426
Note Payable – USDA	282,399	-	4,630	277,769	5,065
Total Long-Term Debt	<u>11,339,160</u>	<u>209,876</u>	<u>1,253,684</u>	<u>10,295,352</u>	<u>1,224,491</u>
Compensated Absences	769,960	150,783	-	920,743	-
Governmental Activities Long-Term Liabilities	<u>\$ 12,109,120</u>	<u>\$ 360,659</u>	<u>\$ 1,253,684</u>	<u>\$ 11,216,095</u>	<u>\$ 1,224,491</u>

**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 7 LONG-TERM LIABILITIES (CONTINUED)**

	Beginning Balance	Additions	Principal Repayments & Reductions	Ending Balance	Due Within One Year
<b>Business-Type Activities</b>					
Loan – MDE	\$ 961,260	\$ -	\$ 77,453	\$ 883,807	\$ 78,846
Loan – State of Maryland	10,179,503	-	1,128,776	9,050,727	1,169,822
Node+0 Project Loan	6,500,000	-	561,362	5,938,638	581,301
Total Long-Term Debt	17,640,763	-	1,767,591	15,873,172	1,829,969
Compensated Absences	867,630	213,949	-	1,081,579	-
Business-Type Activities					
Long-Term Liabilities	<u>\$ 18,508,393</u>	<u>\$ 213,949</u>	<u>\$ 1,767,591</u>	<u>\$ 16,954,751</u>	<u>\$ 1,829,969</u>

**Bonds**

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

Bond Issue	Maturity	Interest Rates	Balance at June 30, 2020
Public Facilities Bonds 2003	2023	2.00 – 5.00%	\$ 155,000
Public Facilities Bonds 2015	2036	2.00 – 4.00%	7,440,000
Total General Obligation Bonds			<u>\$ 7,595,000</u>

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

Year Ending June 30,	Governmental Activities	
	Principal	Interest
2021	\$ 1,180,000	\$ 240,681
2022	715,000	193,450
2023	710,000	178,375
2024	700,000	156,675
2025	655,000	129,475
2026-2030	2,685,000	357,725
2031-2035	795,000	98,375
2036	155,000	5,038
Total	<u>\$ 7,595,000</u>	<u>\$ 1,359,794</u>

In fiscal year 2016, the Town defeased the Public Facilities Bonds of 2008 by placing cash reserve funds in an irrevocable trust to provide for debt service payments on the old bond. Accordingly, the trust account assets and liability for the defeased portion of the bond are not included in the Town's financial statements. As of June 30, 2020, \$4,860,000 of defeased debt remains outstanding.

**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 7 LONG-TERM LIABILITIES (CONTINUED)**

**Bonds (Continued)**

***Government-Type Funds***

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

The annual debt service requirements to maturity are as follows:

<u>Year Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 5,065	\$ 12,451	\$ 17,516
2022	5,298	12,218	17,516
2023	5,542	11,974	17,516
2024	5,796	11,720	17,516
2025	6,063	11,453	17,516
2026-2030	34,756	52,824	87,580
2031-2035	43,506	44,074	87,580
2036-2040	54,462	33,118	87,580
2041-2045	68,176	19,404	87,580
2046-2048	49,105	3,656	52,761
Total	<u>\$ 277,769</u>	<u>\$ 212,892</u>	<u>\$ 490,661</u>

During fiscal year 1999, the Town borrowed \$1,672,124 from the Department of Housing and Community Development (DHCD) to construct a low-income housing unit known as Asbury Place. The interest payments on this loan are forgiven from year to year by the DHCD as long as the unit meets certain requirements and continues as a low-income housing unit. As of June 30, 2020, Asbury Place met those conditions and interest was forgiven. The balance of this loan was \$1,672,124 at June 30, 2020.

***Business-Type Funds***

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

The MDE makes funds available to local governments at below market rates for certain water quality and drinking water projects. The balance of the loan payable at June 30, 2020 was \$9,050,727. The note bears an interest rate of .40% and has a scheduled maturity of February 2027.

**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 7 LONG-TERM LIABILITIES (CONTINUED)**

**Bonds (Continued)**

***Business-Type Funds (Continued)***

The following are the principal and interest maturities of the outstanding loan as of June 30, 2020:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 1,169,822	\$ 36,203	\$ 1,206,025
2022	1,210,868	31,524	1,242,392
2023	1,251,915	26,680	1,278,595
2024	1,292,961	21,672	1,314,633
2025	1,334,007	16,501	1,350,508
2026-2027	2,791,154	16,829	2,807,983
Total	<u>\$ 9,050,727</u>	<u>\$ 149,409</u>	<u>\$ 9,200,136</u>

During the fiscal year ended June 30, 2013, an agreement was entered into with MDE's WQFA to finance construction of the full cost of a project to relocate certain wastewater force main facilities through the Water Quality State Revolving Fund. The balance at June 30, 2020 was \$883,807. The note bears an interest rate of 1.8% and has a scheduled maturity of February 2031. The following are the principal and interest maturities anticipated for the outstanding loan as of June 30, 2020:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 78,846	\$ 15,909	\$ 94,755
2022	80,266	14,489	94,755
2023	81,710	13,045	94,755
2024	83,181	11,574	94,755
2025	84,679	10,076	94,755
2026-2030	446,812	26,963	473,775
2031	28,313	510	28,823
Total	<u>\$ 883,807</u>	<u>\$ 92,566</u>	<u>\$ 976,373</u>

During fiscal year ended June 30, 2019, an agreement was entered into with PNC Bank to finance the partial construction cost of the "Node + 0 Project" to upgrade the cable distribution plant used to deliver Cable TV, Internet and Voice services. The balance at June 30, 2020 was \$5,938,639, the maximum amount of the loan. The interest rate is fixed at 2.98% for seven years after which the interest rate will be renegotiated for the remaining three years of the loan. The loan matures in 2029.

**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 7 LONG-TERM LIABILITIES (CONTINUED)**

**Bonds (Continued)**

***Business-Type Funds (Continued)***

The following are the principal and interest maturities anticipated for the outstanding loan as of June 30, 2020:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 581,301	\$ 172,784	\$ 754,085
2022	599,110	154,975	754,085
2023	617,464	136,621	754,085
2024	636,067	118,018	754,085
2025	655,867	98,218	754,085
2026-2029	2,848,829	185,930	3,034,759
Total	<u>\$ 5,938,638</u>	<u>\$ 866,546</u>	<u>\$ 6,805,184</u>

**Capital Lease Obligation**

The Town entered into various lease agreements as the lessee for vehicles during fiscal year 2020. The agreements are for a period of five years. Beginning September 18, 2019, principal and interest payments are due each month. The interest rate for the term of the agreements is 2.9% - 4.3%. The assets acquired and capitalized under the capital lease are as follows:

Vehicles Cost	\$ 209,876
Less: Accumulated Depreciation	3,498
Net Book Value	<u>\$ 206,378</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2020, were as follows:

Years Ending June 30,	
2021	\$ 41,532
2022	47,388
2023	47,444
2024	47,498
2025	32,221
Total minimum lease payments	\$ 216,083
Less: amount representing interest	19,861
Present value of minimum lease payments	<u>\$ 196,222</u>

**NOTE 8 LINE-OF-CREDIT**

**Business-Type Funds**

The Town, for the benefit of the Commission, maintains a revolving line-of-credit agreement with a commercial bank for \$2,500,000, which bears interest in the amount of 1.15% above the LIBOR rate (1.33% at June 30, 2020). The purpose of the credit facility is to provide an additional source of financing to meet operating needs, if required. The Town did not draw on this line and there was no balance due at June 30, 2020.

**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 9 FUND BALANCE**

A summary of fund balances at June 30, 2020 is as follows:

	General Fund	Capital Projects Fund	Infrastructure Development Fund	Non-Major Governmental Funds	Total Governmental Funds
<u>Nonspendable:</u>					
Prepaid Expenses and Other	\$ 34,033	\$ -	\$ -	\$ -	\$ 34,033
Total Nonspendable					
Fund Balance	34,033	-	-	-	34,033
<u>Restricted:</u>					
Impact Fees	-	-	4,342,857	-	4,342,857
Debt Service	-	-	-	2,873,885	2,873,885
Total Restricted					
Fund Balance	-	-	4,342,857	2,873,885	7,216,742
<u>Committed:</u>					
Budget Stabilization	3,591,260	-	-	-	3,591,260
<u>Assigned:</u>					
Capital Projects	-	6,109,110	-	-	6,109,110
Law Enforcement Fund	-	-	-	197,811	197,811
Total Assigned					
Fund Balance	-	6,109,110	-	197,811	6,306,921
<u>Unassigned:</u>					
General Fund	7,121,945	-	-	-	7,121,945
CDBG Grant	-	-	-	(248,838)	(248,838)
Total Unassigned					
Fund Balance	7,121,945	-	-	(248,838)	6,873,107
Total Fund Balance	<u>\$ 10,747,238</u>	<u>\$ 6,109,110</u>	<u>\$ 4,342,857</u>	<u>\$ 2,822,858</u>	<u>\$ 24,022,063</u>

**NOTE 10 DEFINED BENEFIT PENSION PLAN**

**Plan Description**

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

**Plan Benefit Information**

	<u>Benefits and Plan Specifications</u>
Earnings	W-2 Earnings
Final Earnings	Highest average earnings received in any five consecutive full calendar years during the last ten years before retirement date or termination of employment.
Credited Service	All years of service with the employer from date of employment to retirement or termination of employment.



**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Plan Benefit Information (Continued)**

Form of Annuity	Life Annuity
Normal Retirement Date	The first day of the month coinciding with or next following the Participants 60 <sup>th</sup> birthday or, if later, the fifth anniversary of the Participant's participation commencement date. For Sworn Police Officers (Division B Employees), the earlier of the day on which the participant's attained age and years of service equal 80 or the day on those becoming participants on and after January 1, 2002.
Social Security Benefit	Amount of basic monthly Social Security benefit at age 62 based on the Employee's earnings while in covered employment; subject to automatic increases under the current law. Employee's earnings from the date service ceases until age 62 are assumed to be at the same rate of compensation as participant received when service ceased.
Social Security Covered Compensation	Average of Taxable Wage Bases for 35 calendar years ending with the last day of the calendar year in which a participant attains Social Security Retirement Age; subject to the automatic increases under the current law.
Participation Eligibility	An employee working more than 20 hours per week and for more than five months per calendar year. Sworn Police Officers must make participant contributions under the Pick Up provisions of the Plan.
Benefit Formula	<p><u>Division A</u> 1.4% of Average Annual Earnings times years of Credited Service (up to a maximum of 25 years) plus .45% of Average Annual Earnings in excess of Covered Compensation times years of Credited Service (up to a maximum of 25 years).</p> <p>Note that plan benefits for Division A participants have been soft frozen as of 7/1/2008, where accrued service is frozen, but future compensation is not frozen for plan benefit purposes.</p> <p><u>Division B</u> For Sworn Police officers (Division B): 50% of Final Earnings multiplied by the ratio that the Participant's Credited Service, up to a maximum of 22 years, bears to 22. Provided however, that the 50% will be increased by 1% (maximum 55%) for each full year of Credited Service in excess of 22 years with total maximum of 30 years of Credit Service.</p>

**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Plan Benefit Information (Continued)**

Income Payable	<p>Amount described in sections (a) or (b) below, whichever applies:</p> <p>a. If Participant has a Spouse as of their retirement date and does not elect otherwise, retirement income shall be paid on the basis of Joint and Survivor Form, as stipulated by ERISA and will be the amount determined under the benefit formula multiplied by the appropriate factor.</p> <p>b. If Participant either has no Spouse as of their retirement date or elects to receive their income under the Normal Form, retirement income will be the amount determined under the benefit formula.</p>
Early Retirement Eligibility	<p><u>Division A</u> Five years early with ten years of Service. Early retirement is not applicable to Sworn Officers (Division B).</p>
Early Benefit Amount	Normal retirement benefit accrued to early retirement, actuarially reduced for the number of months Annuity Commencement Date precedes Normal Retirement Date.
Vesting Schedule	<p><u>Division A</u> 100% vested after five years of service; 100% vested at Normal Retirement Date.</p> <p><u>Division B</u> For Sworn Police Officers; 100% vested after five years of service; 100% vested at Normal Retirement Date.</p>
Vested Benefit	Benefit accrued to date of termination adjusted by the appropriate vesting percentage.
Preretirement Spouse Benefit	
A. Eligibility <i>Benefit Formula</i>	<p>Age 55 with 10 years of service. 50% of the pension benefit accrued to date of death</p>
B. Eligibility <i>Benefit Formula</i>	<p>Eligible for vesting but not age 55 with 10 years of Service. 50% of the vested pension benefit accrued to date of death, payment deferred to no earlier than the early retirement date of the deceased participant and reduced by the appropriate early retirement and joint survivor factors.</p>

**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Plan Benefit Information (Continued)**

Additional Retirement Benefit or  
Cash Refund at Retirement or  
Termination

<i>Eligibility</i>	Participant has prior plan contributions.
<i>Benefit Formula</i>	Choice of either a lump sum cash refund equal to the amount of their prior plan contributions with interest or an additional amount of Retirement Benefit equal to the amount which can be provided by the prior plan contributions with credited interest.

Special Termination Benefit:

<i>Eligibility</i>	<i>Participant who retires early or retires on his Normal Retirement Date.</i>
<i>Benefit Formula</i>	<u>Division A</u> Amount equal to the Social Security Benefit payable from Normal Retirement Date to 62nd Birthday. This benefit is not applicable to Sworn Officers (Division B).

Pre-Tax Participant  
Contributions

<i>Amount</i>	<u>Division B</u> Prior to January 1, 2002: 4% of Earnings for 0 to 25 Years of Service and 5% thereafter
---------------	--------------------------------------------------------------------------------------------------------------

*After January 1, 2002: 5.7% of Earnings for 0 to 25 Years of Service and 6.7% thereafter.*

*After July 1, 2017: 7.2% of Earnings for 0 to 22 Years of Service and 8.2% thereafter.*

<i>Interest Credit</i>	5% per annum.
------------------------	---------------

<i>Death or Termination</i>	Pre-retirement: Refund of Employee contributions with interest to date of termination or death.
	<i>Postretirement: Excess of Employee contributions with interest over annuity payments made, unless another form of benefit becomes payable to the beneficiary.</i>

**Plan Membership**

As of August 1, 2019 (the date of the last actuarial valuation), the pension plan's membership consisted of:

Active Employees	161
Retirees and Beneficiaries Currently Receiving Benefits	130
Terminated Employees Entitled to Benefits but Not Yet Receiving Them	94
Total	398

**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Funding Policy**

The Plan covers all full-time employees who began service prior to the age of 55 and prior to the plan being frozen (see below) except for sworn police officers, voluntary contributions from eligible employees are prohibited. Sworn police officers who are employed on a regular full-time basis with less than 22 years of service are required to contribute 7.2% of gross annual earnings. For police officers who are employed on a regular full-time basis with service in excess of 22 years, the required contribution rate is 8.2% of gross annual earnings. Participants' actual contributions during the year ended June 30, 2020 were \$228,927. Administrative costs are financed through investment earnings.

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

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

Contributions to the Plan made by the Town are based on an actuarially determined basis. The contribution requirements of the Town are established and may be amended by the Town Council. The actuarially required and actual contribution to the Plan during the year ended June 30, 2020 and 2019 was \$956,438 and \$955,282, respectively. Actual employer contributions for the years ended June 30, 2020 and 2019 were \$1,176,000 and \$1,126,459, respectively.

**Valuation of Investments**

The Plan's un-allocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities or pay administrative expenses charged by Prudential. Funds under the contract that have been allocated and applied to purchase annuities are excluded from the pension plan's assets. At July 31, 2019, no investment in any one organization, exceeded five percent or more of net assets available for benefits.

**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Valuation of Investments (Continued)**

The condensed financial statements as of and for the year ended June 30, 2020 are as follows:

**Statement of Plan Net Position**

**Assets**

Investments, at Fair Value Other Adjustment	\$ 40,231,311
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**Net Position**

Net Position Held in Trust for Pension Benefits	\$ 40,231,311
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**Statement of Changes in Plan Net Position**

**Additions**

Contributions:

Employer	\$ 1,176,000
Employee	228,927
Total Contributions	1,404,927

Investment Earnings:

Investment Income	1,767,199
Net Decrease in Fair Value of Plan Investments	(682,893)
Less Investment Expenses	(128,612)
Net Investment Income	955,694

Total Additions	2,360,621
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**Deductions**

Benefit Payments	1,946,840
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**Net Change**

413,781

Net Position - Beginning of Year	39,817,530
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**Net Position - End of Year**

\$ 40,231,311

**Pension Plan Administration**

Management of the Plan is overseen by the Plan Sponsor, the Town, under Article XIV of the Pension Plan Document. The Town, by formal action of the Mayor and Town Council, has delegated the duty of Pension Plan Administrator to the Town Manager of the Town of Easton and also to the Senior Vice President of Finance of the Easton Utilities Commission pursuant to Section 14.1 of the Plan Document. The Pension Plan Administrator has the discretionary right, authority, and power to interpret and construe the Plan, and to determine any disputes arising thereunder, subject to the provisions of Section 14.3 of the Plan Document. The duly appointed Pension Plan Administrator has the authority to carry out any of the sponsor's powers, authority, or responsibilities for the operation and administration of the Plan pursuant to the provisions of the Plan.

**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Investment Policy**

The Plan Administrators are responsible for administering the investment policies of the Plan and providing oversight for the management of the Plan's assets. This responsibility is performed in conjunction with a Joint Investment Committee (consisting of the Mayor, the Town Manager, the Chief of Police, the Easton Utilities President, CEO, and the Easton Utilities Senior Vice President of Finance) at a policy level. Daily investment management is provided by Prudential Investment Management Services pursuant to guidance provided by the Joint Investment Committee.

**Actuarial Assumptions**

The Town's net pension liability was measured as of June 30, 2020 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation dated August 2019 with adjustments made for the eleven-month difference.

The total pension liability was determined by an actuarial valuation as of August 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation:	2.75% per year
	Salary increases: Town=5.25%, Utilities=3.25%, Sworn Officers=7.75%-10 years, 4.75% thereafter
Investment Return:	7.25% compounded annually, net of investment expenses and including inflation
Cost-of-living adjustments:	None assumed

Mortality rates were based on the RP-2000 Blue Collar Tables with Scale BB applied generationally; 1-year setback for Town and Utilities; 50% rates applied for pre-retirement deaths.

More details on the assumptions can be found in the actuarial valuation report.

**Actuarial Methods for Determining Employer Contributions**

The Entry Age Normal method with an open 30-year amortization of unfunded actuarial accrued liability (UAAL) is used for Plan funding. Five-year asset smoothing is also used to determine the UAAL. The Town's contribution requirement is equal to the net normal cost, plus the amortization.

**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Actuarial Assumptions (Continued)**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. This is then modified through a Monte-Carlo simulation process, by which a (downward) risk adjustment is applied to the baseline expected return.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2020 and the final investment return assumption, are summarized in the following table:

Asset Class	Long-Term Expected Real Return Portfolio	Weight
US Equity	5.85%	60%
International Equity	6.15%	15%
Fixed Income – US	1.65%	20%
Real Estate	4.45%	5%
Total Weighted Average Real Return	4.99%	100%
Plus Inflation	2.75%	
Total Return without Adjustment	7.74%	
Risk Adjustment	-0.49%	
Total Expected Return	7.25%	

**Discount Rate**

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Town contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates.

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return in pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The Town's Net Pension Liability (NPL) was established under GASB 67, and updated annually. The purpose of GASB 68 is to track the year-to-year changes in the NPL over time, via the Pension Expense.

**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Discount Rate (Continued)**

The Pension Expense under GASB 68 includes the cost of benefits accrued, interest cost for elapsed time, administrative expenses, decreases for benefits paid and for employee contributions, differences between actual and assumed experience, and other adjustments resulting from changes in assumptions or plan provisions.

The following are the required schedules as of June 30, 2020:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
<b>Balance at June 30, 2019</b>	<u>\$ 45,092,858</u>	<u>\$ 39,817,530</u>	<u>\$ 5,275,328</u>
Changes for the Year			
Service Cost	663,089	-	663,089
Interest	3,247,968	-	3,247,968
Difference Between Expected and Actual Experience	234,882	-	234,882
Changes in Assumptions	-	-	-
Contributions - Employer	-	1,176,000	(1,176,000)
Contributions - Employee	-	228,927	(228,927)
Net Investment Income	-	1,084,306	(1,084,306)
Benefit Payments, Including Refunds of Employee Contributions	(1,946,840)	(1,946,840)	-
Administrative Expenses	-	(128,612)	128,612
Other Changes	-	-	-
Net Change in Total Pension Liability	<u>2,199,099</u>	<u>413,781</u>	<u>1,785,318</u>
<b>Balance at June 30, 2020</b>	<u>\$ 47,291,957</u>	<u>\$ 40,231,311</u>	<u>\$ 7,060,646</u>

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the Town, calculated using the discount rate of 7.25%, as well as what the Town's net pension liability would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Town's Net Pension Liability	<u>\$ 12,381,735</u>	<u>\$ 7,060,646</u>	<u>\$ 2,685,926</u>



**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Deferred Inflows and Outflows**

As of June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net Difference between projected and actual earnings on plan investments	\$ 1,135,019	\$ -
Differences between expected and actual experience	176,161	680,737
Changes in actuarial assumptions	47,865	-
Total	<u>\$ 1,359,045</u>	<u>\$ 680,737</u>
<u>Year Ended June 30</u>		
2020	\$ (245,561)	
2021	86,604	
2022	483,826	
2023	353,439	
Total Amount to be Recognized	<u>\$ 678,308</u>	

**Money Weighted Investment Return**

For the year ended June 30, 2020, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 2.76 percent. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts invested.

**NOTE 11 OTHER POST EMPLOYMENT BENEFITS**

**Plan Description**

The Town provides life insurance policies in the face amount of \$2,500 and pays a portion of the cost of major medical insurance for retired employees. The percentage of contribution is based on the number of years of service. All retired employees are eligible, including those on disability retirement. Coverage may include the retiree, spouse, and dependents. The health care benefits provided vary based on age at retirement and length of service. Coverage does not cease upon death of the retiree. Effective March 1, 2020, the Town increased this benefit to \$10,000.

**Benefits Provided**

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

**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

**Employees Covered by Benefit Terms**

At July 1, 2019, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefit Payments	90
Inactive Employees Entitled to But Not Yet Receiving Benefit Payments	-
Active Employees	278
Total	368

**Contributions**

Contribution requirements for OPEB benefits are established and may be amended by the Town. The contribution rates are based on actuarially determined requirements. Employees are not required to contribute to the plan.

**Valuation of Investments**

The condensed financial statements as of and for the year ended June 30, 2020 are as follows:

**Statement of Plan Net Position**

**Assets**

Cash and Cash Equivalents	\$ 706,530
Investments, at Fair Value	15,001,708
Total Assets	\$ 15,708,238

**Net Position**

Net Position Held in Trust for Pension Benefits	\$ 15,708,238
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**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

**Valuation of Investments (Continued)**

**Statement of Changes in Plan Net Position**

**Additions**

Contributions:	
Employer	\$ 1,427,002
Total Contributions	1,427,002
Investment Earnings:	
Investment Income	276,718
Net Increase in Fair Value of Plan Investments	-
Less Investment Expenses	-
Net Investment Income	276,718
Total Additions	1,703,720
 <b>Deductions</b>	
Benefit Payments	532,473
Administrative Expense	69,169
Total Deductions	601,642
<b>Net Change</b>	1,102,078
Net Position - Beginning of Year	14,606,160
<b>Net Position - End of Year</b>	\$ 15,708,238

**Net OPEB Liability**

The Town's net OPEB liability was measured as of June 30, 2020 and the total OPEB Liability used to calculate the net OPEB liability was determined by an actuarial valuation dated July 1, 2019, rolled forward to June 30, 2020.

Actuarial Assumptions – the total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless other specified:

Inflation	2.75 percent
Salary increases	4.50 percent
Investment rate of return	7.00 percent, net of OPEB plan investment expense and including inflation
Healthcare cost trend rates	5.75 percent initially, decreasing to an ultimate rate of 4.25 percent

Mortality rates were based on the RP-2000 Table with Generational Scale BB Applied for both males and females and setback 1 year. The disabled versions of these tables were used for disabled lives.

**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

**Net OPEB Liability (Continued)**

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Domestic Equity	46%	5.80%
Non - US Equity	24%	6.15%
Fixed Income Funds	21%	1.65%
Global Funds	3%	2.75%
TIPS	3%	1.05%
Cash	3%	0.40%
Total Weighted Average Real Return	100%	4.62%
Plus Inflation		2.75%
Total Return without Adjustment		7.37%
Risk Adjustment		-0.37%
Total Expected Return		7.00%

**Discount Rate**

The discount rate used to measure the total OPEB liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that the Town's contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, it is projected that benefits can be paid from the Plan for all current plan members. Therefore, the expected Plan return of 7.0% was applied to all periods of projected benefit payments to determine the total OPEB liability.

**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

**Changes in Net OPEB Liability**

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
<b>Balances at June 30, 2019</b>	\$ 17,659,585	\$ 14,606,160	\$ 3,053,425
Changes for the Year:			
Service Cost	655,198	-	655,198
Interest	1,263,713	-	1,263,713
Differences Between Expected and Actual Experience	1,150,765	-	1,150,765
Changes in Benefit Terms	215,593	-	215,593
Contributions - Employer	-	1,427,002	(1,427,002)
Net Investment Income	-	276,718	(276,718)
Benefit Payments	(532,473)	(532,473)	-
Administrative Expense and Other	-	(69,169)	69,169
Net Changes	<u>2,752,796</u>	<u>1,102,078</u>	<u>1,650,718</u>
<b>Balances at June 30, 2020</b>	<u>\$ 20,412,381</u>	<u>\$ 15,708,238</u>	<u>\$ 4,704,143</u>

**Money-Weighted Rate of Return**

The money-weighted rate of return on OPEB plan investments, net of investment expense for the year ended June 30, 2020 was 1.80%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Sensitivity of the Net OPEB Liability**

*Sensitivity of the net OPEB liability to changes in the discount rate.* The following presents the net OPEB liability of the Town of Easton, as well as what the Town's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current discount rate:

	1% Decrease	Current	1% Increase
	6.00%	Discount Rate 7.00%	8.00%
Net OPEB Liability	\$ 7,335,652	\$ 4,704,143	\$ 2,517,081

**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

**Sensitivity of the Net OPEB Liability (Continued)**

*Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates.* The following presents the net OPEB liability of the Town, as well as what the Town's net OPEB liability would be if it were calculated using health care cost trend rates that are 1-percentage-point lower (3.25 percent) or 1-percentage-point higher (5.25 percent) than the current healthcare cost trend rates:

	1% Decrease 3.25%	Current Discount Rate 4.25%	1% Increase 5.25%
Net OPEB Liability	\$ 2,852,009	\$ 4,704,143	\$ 6,035,944

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2020, the Town recognized OPEB expense of \$1,242,403. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference Between Projected and Actual Earnings on Plan Investments	\$ 605,239	\$ -
Differences Between Expected and Actual Experience	1,022,902	691,549
Changes in Actuarial Assumptions	-	456,514
Total	\$ 1,628,141	\$ 1,148,063

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30	
2020	\$ 92,159
2021	92,157
2022	97,127
2023	99,192
2024	99,443
Total Amount to be Recognized	\$ 480,078

**NOTE 12 RELATED PARTY TRANSACTIONS**

The General Fund charged the Utility Fund \$2,054,246 for payments in lieu of taxes during the year ended June 30, 2020.

**TOWN OF EASTON, MARYLAND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 13 OTHER INFORMATION**

**Risk Management**

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

**Contingent Liabilities and Commitments**

***Grants and Cost-reimbursable Contracts***

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

***Fuel Cost and Purchased Gas Adjustment Rates***

The fuel cost and purchased gas adjustment rates used in connection with gas and electric charges are subjected to review by the Public Service Commission of Maryland (PSC) on a regular basis. As of the date of this report, the purchased power and gas cost adjustment rates in effect through November 2018 have been reviewed and accepted by the PSC. The adjustment rates applied subsequent to November 2018 have been authorized by the PSC subject to detailed review.

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

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

**NOTE 14 SUBSEQUENT EVENT**

The Town finalized the issuance of the Town of Easton General Obligation Bond of 2020 on October 28, 2020 for \$6,830,000.

**REQUIRED SUPPLEMENTARY INFORMATION**



**TOWN OF EASTON, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY**  
**JUNE 30, 2020**

	2020	2019	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>							
Service Cost	\$ 663,089	\$ 643,776	\$ 649,665	\$ 641,648	\$ 528,061	\$ 504,866	\$ 516,353
Interest	3,247,968	3,116,150	2,994,555	2,749,554	2,824,115	2,473,621	2,489,298
Changes in Benefit Terms	-	-	1,693,833	-	-	-	-
Difference Between Expected and Actual Experience	234,882	(113,788)	(145,760)	(1,696,615)	189,161	(721,292)	-
Changes in Assumptions	-	-	-	143,593	951,200	293,440	-
Benefit Payments, Including Refunds	(1,946,840)	(1,974,776)	(1,695,271)	(1,449,269)	(1,336,758)	(1,262,506)	(1,151,859)
Net Change in Total Pension Liability	2,199,099	1,671,362	3,497,022	388,911	3,155,779	1,288,129	1,853,792
Total Pension Liability - Beginning of Year	45,092,858	43,421,496	39,924,474	39,535,563	36,379,784	35,091,655	33,237,863
Total Pension Liability - End of Year	<u>\$ 47,291,957</u>	<u>\$ 45,092,858</u>	<u>\$ 43,421,496</u>	<u>\$ 39,924,474</u>	<u>\$ 39,535,563</u>	<u>\$ 36,379,784</u>	<u>\$ 35,091,655</u>
<b>Plan Fiduciary Net Position</b>							
Contributions - Employer	\$ 1,176,000	\$ 1,126,459	\$ 1,292,132	\$ 1,292,132	\$ 1,000,000	\$ 1,104,544	\$ 1,224,131
Contributions - Member	228,927	213,994	242,302	168,723	181,459	175,424	192,000
Net Investment Income	1,084,306	2,360,836	2,951,567	3,939,792	225,725	1,035,988	4,278,520
Benefit Payments, Including Refunds	(1,946,840)	(1,974,776)	(1,695,271)	(1,449,269)	(1,336,758)	(1,262,506)	(1,151,859)
Admin. Expenses	(128,612)	(129,974)	(118,380)	(140,173)	(98,412)	(90,839)	(94,256)
Other	-	-	-	-	-	-	-
Net Change in Plan Fiduciary Net Position	413,781	1,596,539	2,672,350	3,811,205	(27,986)	962,611	4,448,536
Plan Fiduciary Net Position - Beginning of Year	39,817,530	38,220,991	35,548,641	31,737,436	31,765,422	30,802,811	26,354,275
Plan Fiduciary Net Position - End of Year	<u>\$ 40,231,311</u>	<u>\$ 39,817,530</u>	<u>\$ 38,220,991</u>	<u>\$ 35,548,641</u>	<u>\$ 31,737,436</u>	<u>\$ 31,765,422</u>	<u>\$ 30,802,811</u>
Net Pension Liability - Beginning of Year	\$ 5,275,328	\$ 5,200,505	\$ 4,375,833	\$ 7,798,127	\$ 4,614,362	\$ 4,288,844	\$ 6,883,587
Net Pension Liability - End of Year	<u>\$ 7,060,646</u>	<u>\$ 5,275,328</u>	<u>\$ 5,200,506</u>	<u>\$ 4,375,833</u>	<u>\$ 7,798,127</u>	<u>\$ 4,614,362</u>	<u>\$ 4,288,844</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	85.1%	88.3%	88.0%	89.0%	80.3%	87.3%	87.8%
Covered Employee Payroll	\$ 12,410,454	\$ 12,287,590	\$ 12,572,073	\$ 14,092,822	\$ 13,991,348	\$ 13,811,971	\$ 13,707,415
Net Pension Liability as a Percentage of Covered Payroll	56.9%	42.9%	41.4%	31.1%	55.7%	33.4%	31.3%

**TOWN OF EASTON, MARYLAND  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF TOWN CONTRIBUTIONS – PENSION  
JUNE 30, 2020**

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Actuarially Determined Contribution	\$ 956,438	\$ 955,282	\$ 994,133	\$ 1,032,915	\$ 1,093,661	\$ 1,104,544	\$ 1,224,131	\$ 1,241,552	\$ 1,204,597	\$ 1,011,277
Contributions in Relation of the Actuarially Determined Contribution	1,176,000	1,126,459	1,292,132	1,292,132	1,000,000	1,104,544	1,224,131	1,241,552	1,204,597	1,011,277
Contribution Deficiency (Excess)	(219,562)	(171,177)	(297,999)	(259,217)	93,661	-	-	-	-	-
Covered-Employee Payroll	\$ 12,410,454	\$ 12,287,590	\$ 12,572,073	\$ 14,092,822	\$ 13,991,348	\$ 13,811,971	\$ 13,707,415	\$ 13,947,014	\$ 13,458,869	\$ 13,337,806
Contributions as a Percentage of Covered Employee Payroll	9.5%	9.2%	10.3%	9.2%	7.1%	8.0%	8.9%	8.9%	9.0%	7.6%

**NOTES TO SCHEDULE:**

Valuation Date: August 1, 2019

Actuarially determined contribution rates are calculated as of August 1, two years prior to the end of the fiscal year in which contributions are reported.

Method and Assumptions Used to Determine the Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	29 years
Asset valuation method	Market value of assets
Inflation	2.75%
Salary increases	4.75%, per year, including inflation
Investment rate of return	7.25% compounded annually, net of pension plan investment expenses, including inflation
Retirement age	In the 2019 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience.
Mortality	Mortality rates were based upon the RP-2000 Blue Collar Tables with scale BB applied generationally.

**TOWN OF EASTON, MARYLAND  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF INVESTMENT RETURNS – PENSION  
JUNE 30, 2020**

<u>Year Ended June 30,</u>	<u>Actual Money Weighted Rate of Return, Net of Investment Expense</u>
2014	16.22%
2015	3.43%
2016	0.71%
2017	12.53%
2018	8.40%
2019	6.29%
2020	2.76%

**TOWN OF EASTON, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES TO NET OPEB LIABILITY AND RELATED RATIOS**  
**JUNE 30, 2020**

	2020	2019	2018	2017
<b>Total OPEB Liability</b>				
Service Cost	\$ 655,198	\$ 630,756	\$ 628,228	\$ 557,690
Interest	1,263,713	1,172,781	1,086,565	1,100,303
Changes in Benefit Terms	215,593	-	-	-
Difference Between Expected and Actual Experience	1,150,765	-	(1,037,323)	-
Changes in Assumptions	-	(395,798)	(223,006)	-
Benefit Payments	(532,473)	(525,544)	(520,648)	(413,896)
<b>Net Change in Total OPEB Liability</b>	<b>2,752,796</b>	<b>882,195</b>	<b>(66,184)</b>	<b>1,244,097</b>
Total OPEB Liability - Beginning	17,659,585	16,777,390	16,843,574	15,599,477
Total OPEB Liability - Ending (a)	<u>\$ 20,412,381</u>	<u>\$ 17,659,585</u>	<u>\$ 16,777,390</u>	<u>\$ 16,843,574</u>
<b>Plan Fiduciary Net Position</b>				
Contributions - Employer	\$ 1,427,002	\$ 4,159,610	\$ 1,488,861	\$ 1,383,467
Net Investment Income	276,718	854,758	660,670	972,269
Benefit Payments	(532,473)	(525,544)	(520,648)	(413,896)
Administrative Expense	(69,169)	(53,081)	(50,517)	(41,952)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>1,102,078</b>	<b>4,435,743</b>	<b>1,578,366</b>	<b>1,899,888</b>
Total Fiduciary Net Position - Beginning	14,606,160	10,170,417	8,592,051	6,692,163
Total Fiduciary Net Position - Ending (b)	<u>\$ 15,708,238</u>	<u>\$ 14,606,160</u>	<u>\$ 10,170,417</u>	<u>\$ 8,592,051</u>
Net OPEB Liability - Beginning of Year	<u>\$ 3,053,425</u>	<u>\$ 6,606,973</u>	<u>\$ 8,251,523</u>	<u>\$ 8,907,314</u>
Net OPEB Liability - End of Year	<u>\$ 4,704,143</u>	<u>\$ 3,053,425</u>	<u>\$ 6,606,973</u>	<u>\$ 8,251,523</u>
Plan fiduciary net position as a percentage of Total OPEB Liability	77.0%	82.7%	60.6%	51.0%
<b>Covered Employee Payroll</b>	<b>\$ 20,290,619</b>	<b>\$ 16,813,459</b>	<b>\$ 16,028,534</b>	<b>\$ 14,609,300</b>
Net OPEB Liability as a percentage of Covered Payroll	23.2%	18.2%	41.2%	56.5%

**Note:** This schedule is to provide 10 years of information. It will be added to as additional years of information becomes available

**TOWN OF EASTON, MARYLAND  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF TOWN CONTRIBUTIONS – OTHER POSTEMPLOYMENT BENEFITS  
JUNE 30, 2020**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarially Determined Contribution	\$ 975,424	\$ 973,045	\$ 973,045	\$ 1,002,817	\$ 914,006	\$ 901,986	\$ 901,986	\$ 1,141,318	\$ 1,141,722	\$ 1,044,172
Contributions in Relation to the Actuarially Determined Contribution	<u>1,427,002</u>	<u>4,158,342</u>	<u>1,488,861</u>	<u>1,383,459</u>	<u>1,594,520</u>	<u>1,450,995</u>	<u>1,594,520</u>	<u>1,266,456</u>	<u>958,558</u>	<u>1,029,630</u>
Contribution Deficiency (Excess)	<u>\$ (451,578)</u>	<u>\$ (3,185,297)</u>	<u>\$ (515,816)</u>	<u>\$ (380,642)</u>	<u>\$ (680,514)</u>	<u>\$ (549,009)</u>	<u>\$ (692,534)</u>	<u>\$ (125,138)</u>	<u>\$ 183,164</u>	<u>\$ 14,542</u>
Covered-Employee Payroll	\$ 20,290,619	\$ 16,813,459	\$ 16,028,534	\$ 14,906,300	\$ 14,609,300	\$ 14,609,300	\$ 13,594,393	\$ 13,595,393	\$ 12,886,240	\$ 12,886,240
Contributions as a Percentage of Covered Employee Payroll	7.0%	24.7%	9.3%	9.3%	10.9%	9.9%	11.7%	9.3%	7.4%	8.0%

**Notes to Schedule:** The assumptions used for funding are the same as those used for recording under GASB 74.

**TOWN OF EASTON, MARYLAND  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF INVESTMENT RETURNS – OTHER POSTEMPLOYMENT BENEFITS  
JUNE 30, 2020**

<u>Year Ended June 30,</u>	<u>Actual Money Weighted Rate of Return, Net of Investment Expense</u>
2018	7.30%
2019	7.10%
2020	1.80%

**STATEMENTS AND SCHEDULES**

**TOWN OF EASTON, MARYLAND  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2020**

	Debt Service	Community Development Block Grant	Law Enforcement	Total
<b>ASSETS</b>				
Cash and Cash Equivalents - Pooled	\$ 2,874,984	\$ -	\$ 200,109	\$ 3,075,093
Accounts Receivable, Net	-	-	40	40
Due from Governments	-	130,561	-	130,561
	<b>\$ 2,874,984</b>	<b>\$ 130,561</b>	<b>\$ 200,149</b>	<b>\$ 3,205,694</b>
<b>LIABILITIES</b>				
Accounts Payable	\$ 1,099	\$ 14,368	\$ 2,338	\$ 17,805
Due to Other Funds	-	365,031	-	365,031
Total Liabilities	1,099	379,399	2,338	382,836
<b>FUND BALANCES (DEFICITS)</b>				
Restricted	2,873,885	-	-	2,873,885
Assigned	-	-	197,811	197,811
Unassigned	-	(248,838)	-	(248,838)
Total Fund Balances (Deficits)	2,873,885	(248,838)	197,811	2,822,858
Total Liabilities and Fund Balances	\$ 2,874,984	\$ 130,561	\$ 200,149	\$ 3,205,694



**TOWN OF EASTON, MARYLAND  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES (DEFICIT)  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2020**

	Debt Service	Community Development Block Grant	Law Enforcement	Total
<b>REVENUES</b>				
Revenues from Other Agencies	\$ -	\$ 388,269	\$ 30,082	\$ 418,351
Miscellaneous Revenue	-	13,000	157,318	170,318
Total Revenues	<u>-</u>	<u>401,269</u>	<u>187,400</u>	<u>588,669</u>
<b>EXPENDITURES</b>				
Current Operations:				
Public Safety	-	-	78,864	78,864
Recreation and Cultural	-	369,235	-	369,235
Miscellaneous	3,067	-	-	3,067
Debt Service:				
Principal	1,180,000	-	-	1,180,000
Interest	287,785	-	-	287,785
Total Expenditures	<u>1,470,852</u>	<u>369,235</u>	<u>78,864</u>	<u>1,918,951</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(1,470,852)	32,034	108,536	(1,330,282)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers Out	<u>(1,709,000)</u>	<u>-</u>	<u>-</u>	<u>(1,709,000)</u>
Total Other Financing Sources	<u>(1,709,000)</u>	<u>-</u>	<u>-</u>	<u>(1,709,000)</u>
<b>NET CHANGE IN FUND BALANCES</b>	(3,179,852)	32,034	108,536	(3,039,282)
Fund Balances (Deficits) - Beginning of Year	<u>6,053,737</u>	<u>(280,872)</u>	<u>89,275</u>	<u>5,862,140</u>
<b>FUND BALANCES (DEFICITS) - END OF YEAR</b>	<u>\$ 2,873,885</u>	<u>\$ (248,838)</u>	<u>\$ 197,811</u>	<u>\$ 2,822,858</u>

**TOWN OF EASTON, MARYLAND  
COMBINING STATEMENT OF NET POSITION  
NONMAJOR OTHER PROPRIETARY FUNDS  
JUNE 30, 2020**

	Land Enterprise	Airport Industrial Land	Total
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents - Pooled	\$ 1,580,733	\$ -	\$ 1,580,733
Accounts Receivable, Net	2,263	368,813	371,076
Total Current Assets	1,582,996	368,813	1,951,809
<b>NONCURRENT ASSETS</b>			
Capital Assets, Not Being Depreciated	15,028	67,945	82,973
Capital Assets, Net of Accumulated Depreciation	440,864	964,919	1,405,783
Total Noncurrent Assets	455,892	1,032,864	1,488,756
Total Assets	\$ 2,038,888	\$ 1,401,677	\$ 3,440,565
<b>LIABILITIES AND NET POSITION</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable	\$ 3,713	\$ 152,371	\$ 156,084
Due to Other Funds	-	358,634	358,634
Performance Deposits	1,500	-	1,500
Total Current Liabilities	5,213	511,005	516,218
<b>NET POSITION</b>			
Net Investment in Capital Assets	455,892	1,032,864	1,488,756
Unrestricted	1,577,783	(142,192)	1,435,591
Total Net Position	2,033,675	890,672	2,924,347
Total Liabilities and Net Position	\$ 2,038,888	\$ 1,401,677	\$ 3,440,565

**TOWN OF EASTON, MARYLAND**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**NONMAJOR OTHER PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2020**

	Land Enterprise	Airport Industrial Land	Total
<b>OPERATING REVENUES</b>			
Charges for Services	\$ 138,324	\$ 3,080	\$ 141,404
Grant Revenues	-	368,813	368,813
Other Operating Revenues	14,995	-	14,995
Total Operating Revenues	<u>153,319</u>	<u>371,893</u>	<u>525,212</u>
<b>OPERATING EXPENSES</b>			
Cost of Service	62,047	5,783	67,830
Depreciation	64,467	39,487	103,954
Total Operating Expenses	<u>126,514</u>	<u>45,270</u>	<u>171,784</u>
Operating Income (Loss)	<u>26,805</u>	<u>326,623</u>	<u>353,428</u>
<b>CHANGES IN FUND NET POSITION</b>	26,805	326,623	353,428
Total Net Position - Beginning of Year	<u>2,006,870</u>	<u>564,049</u>	<u>2,570,919</u>
<b>TOTAL NET POSITION - END OF YEAR</b>	<u>\$ 2,033,675</u>	<u>\$ 890,672</u>	<u>\$ 2,924,347</u>

**TOWN OF EASTON, MARYLAND  
COMBINING STATEMENT OF CASH FLOWS  
NONMAJOR OTHER PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2020**

	Land Enterprise	Airport Industrial Land	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received from Customers	\$ 164,657	\$ 3,080	\$ 167,737
Cash Paid for Services	(62,622)	(2,038)	(64,660)
Net Cash Provided by Operating Activities	<u>102,035</u>	<u>1,042</u>	<u>103,077</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchases/Construction of Capital Assets	(10,460)	(401,216)	(411,676)
Interfund loan	-	358,634	358,634
Net Cash Used by Capital and Related Financing Activities	<u>(10,460)</u>	<u>(42,582)</u>	<u>(53,042)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest on Cash Deposits and Investments	-	-	-
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	91,575	(41,540)	50,035
Cash and Cash Equivalents - Beginning of Year	<u>1,489,158</u>	<u>41,540</u>	<u>1,530,698</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 1,580,733</u>	<u>\$ -</u>	<u>\$ 1,580,733</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Capital Assets, Net of Accumulated Depreciation			
Operating Income (Loss)	\$ 26,805	\$ 326,623	\$ 353,428
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation and Amortization	64,467	39,487	103,954
Effect of Changes in Operating Assets and Liabilities:			
Accounts Receivable, Net	11,338	(368,813)	(357,475)
Asset sold	-	-	-
Accounts Payable and Accrued Expenses	(575)	3,745	3,170
Total Adjustments	<u>75,230</u>	<u>(325,581)</u>	<u>(250,351)</u>
Net Cash Provided by Operating Activities	<u>\$ 102,035</u>	<u>\$ 1,042</u>	<u>\$ 103,077</u>

## **OTHER SUPPLEMENTARY INFORMATION**

**TOWN OF EASTON, MARYLAND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL  
CAPITAL PROJECT FUND  
YEAR ENDED JUNE 30, 2020**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>				
Revenue from Other Agencies	\$ -	\$ -	\$ 152,946	\$ 152,946
Contributions	-	-	209,876	209,876
Total Revenue	<u>-</u>	<u>-</u>	<u>362,822</u>	<u>362,822</u>
<b>EXPENDITURES</b>				
General Governmental	608,000	608,000	665,888	(57,888)
Public Safety	1,841,885	1,841,885	1,411,530	430,355
Public Works	530,000	530,000	778,623	(248,623)
Recreation and Cultural	172,500	172,500	466,366	(293,866)
Total Expenditures	<u>3,152,385</u>	<u>3,152,385</u>	<u>3,322,407</u>	<u>(170,022)</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers In	3,152,385	3,152,385	3,152,385	-
Total Other Financing Sources	<u>3,152,385</u>	<u>3,152,385</u>	<u>3,152,385</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u>192,800</u>	<u><u>\$ 192,800</u></u>
Fund Balance - Beginning of Year			<u>5,916,310</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u><u>\$ 6,109,110</u></u>	