

TOWN OF EASTON, MARYLAND
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

**TOWN OF EASTON, MARYLAND
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YEAR ENDED JUNE 30, 2018**

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INDEPENDENT AUDITORS' REPORT

To The 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 (the Town), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town'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.

To The Honorable Mayor and
Members of the Town Council

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, budgetary comparison of the general fund and the aggregate remaining fund information of the Town as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As described in Note 14, during the fiscal year ended June 30, 2018, the Town adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result of the implementation of GASB Statement No. 75, the Town reported a restatement for the change in accounting principle. Additionally, the Town corrected the accounting for its pension plan year end for the Pension Trust fund which also resulted in restatements to its governmental activities and general fund.

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 the required supplementary information on pages 71-75 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 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.

To The Honorable Mayor and
Members of the Town Council

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.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Town's 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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Baltimore, Maryland
December 18, 2018

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

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, 2018. 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, 2018, the Town's total assets and deferred outflows of resources of the Town were \$200.3 million and exceeded its liabilities and deferred inflows of resources at June 30, 2018 by \$150.1 million.
- As of June 30, 2018, the Town's governmental funds reported an ending fund balance of \$24.2 million and decreased from the prior year by approximately \$9,000 (i.e. total net position).

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town'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, liabilities, and deferred inflows of resources, with the difference between them 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.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-wide Financial Statements (Continued)

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, 2018, and earned but unused vacation leave will be included in the Statement of Activities as revenues and expense, even though the cash associated with these items will not be received or distributed until after June 30, 2018.

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 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, 2018**

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.

Enterprise 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 Funds. Proprietary fund statements follow the governmental fund statements in this report. They provide the same type of information as the government-wide financial statements, only in more detail, since both apply the accrual basis of accounting. The proprietary fund financial statements provide information for the Utility Fund, the Airport Industrial Fund and the Land Enterprise 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, 2018**

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 totals \$150.1 million at June 30, 2018, which is an increase of approximately \$6.5 million over the June 30, 2017 net position. This reflects a decrease from operations of \$3.3 million, offset by a prior year reduction of \$9.7 million resulting from a restatements due to the implementation of GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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	
	2018	2017	2018	2017	2018	2017
Current and Other Assets	\$ 25,938,614	\$ 26,416,264	\$ 44,086,324	\$ 36,902,015	\$ 70,024,938	\$ 63,318,279
Capital Assets and Other Assets	39,146,506	39,543,915	88,880,080	90,084,204	128,026,586	129,628,119
Total Assets	65,085,120	65,960,179	132,966,404	126,986,219	198,051,524	192,946,398
Total Deferred Outflow s of Resources	1,338,450	1,196,398	949,756	807,186	2,288,206	2,003,584
Current Liabilities	2,451,391	2,230,537	7,681,226	6,359,979	10,132,617	8,590,516
Long-Term Debt	20,896,106	17,781,935	15,373,603	13,521,024	36,269,709	31,302,959
Total Liabilities	23,347,497	20,012,472	23,054,829	19,881,003	46,402,326	39,893,475
Total Deferred Inflow s of Resources	1,317,136	651,206	2,534,653	1,051,158	3,851,789	1,702,364
Net Investment in Capital Assets	27,143,961	31,814,154	76,105,544	75,147,167	103,249,505	106,961,321
Restricted	12,726,815	13,601,304	-	-	12,726,815	13,601,304
Unrestricted	1,888,161	1,077,441	32,221,134	31,714,077	34,109,295	32,791,518
Total Net Position	\$ 41,758,937	\$ 46,492,899	\$ 108,326,678	\$ 106,861,244	\$ 150,085,615	\$ 153,354,143

Note: The amounts for 2017 above do not include the effects of GASB 75.

The Town's total assets and deferred outflows of resources were approximately \$200.3 million (compared to \$195 million in the prior year) as of June 30, 2018. Of this amount, \$128 million (compared to \$129.6 million in the prior year) is accounted for by capital assets, which includes infrastructure.

Of the remaining assets, approximately \$56.5 million is accounted for in cash and cash equivalents and investments (compared to \$45.9 million in the prior year), approximately \$6.0 million in accounts and notes receivable (compared to \$6.6 million in the prior year), inventory of approximately \$3.6 million (compared to \$4.6 million in the prior year), with the remainder spread among various other accounts.

Outstanding liabilities totaled approximately \$46.4 million with bonds comprising approximately \$10.4 million, loans from the State or Maryland comprising approximately \$14.2 million, Net OPEB liability comprising approximately \$6.6 million, Net Pension liability comprising approximately \$5.6 million, accounts payable and accrued expenses comprising approximately \$5.2 million, and other liabilities comprising approximately \$4.4 million at June 30, 2018. This compares with the June 30, 2017 amounts where the Town had outstanding liabilities of approximately \$39.9 million of which approximately \$12 million was bonds payable, approximately \$13.4 million was loans from the State of Maryland, approximately \$4.4 million was Net Pension liability, approximately \$3.9 million was in accounts payable and accrued expenses, and approximately \$3.4 million was other liabilities. Of the bonds payable,

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

approximately \$1.6 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. 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, 2018, 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, 2018**

	Governmental Activities	Business-Type Activities	Total
Program Revenues			
Charges for Service	\$ 2,605,225	\$ 56,539,980	\$ 59,145,205
Operating Grants and Contributions	1,615,822	-	1,615,822
General Revenues			
Property Taxes	12,144,352	-	12,144,352
Other Local Taxes	2,087,725	-	2,087,725
Other	3,044,590	897,487	3,942,077
Total Revenues	<u>21,497,714</u>	<u>57,437,467</u>	<u>78,935,181</u>
Expenses			
General Government	2,460,757	-	2,460,757
Public Safety	10,627,378	-	10,627,378
Public Works	6,002,766	-	6,002,766
Recreation and Cultural	1,046,187	-	1,046,187
Economic Development	406,430	-	406,430
Nondepartmental	1,038,779	-	1,038,779
Interest Expense	407,705	-	407,705
Utilities Services	-	50,284,511	50,284,511
Other Services	-	158,814	158,814
Total Expenses	<u>21,990,002</u>	<u>50,443,325</u>	<u>72,433,327</u>
INCREASE (DECREASE) IN NET POSITION	(492,288)	6,994,142	6,501,854
Net Position - Beginning of Year, as restated	<u>42,251,225</u>	<u>101,332,536</u>	<u>143,583,761</u>
NET POSITION - END OF YEAR	<u>\$ 41,758,937</u>	<u>\$ 108,326,678</u>	<u>\$ 150,085,615</u>

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Statement of Activities - Changes in Net Position (Continued)

**Changes in Net Position
Fiscal Year Ended June 30, 2017**

	Governmental Activities	Business-Type Activities	Total
Program Revenues			
Charges for Service	\$ 2,742,975	\$ 48,786,196	\$ 51,529,171
Operating Grants and Contributions	1,692,293	-	1,692,293
General Revenues			
Property Taxes	11,729,190	-	11,729,190
Other Local Taxes	1,955,854	-	1,955,854
Other	2,679,403	844,322	3,523,725
Total Revenues	<u>20,799,715</u>	<u>49,630,518</u>	<u>70,430,233</u>
Expenses			
General Government	2,105,525	-	2,105,525
Public Safety	8,309,717	-	8,309,717
Public Works	5,376,175	-	5,376,175
Recreation and Cultural	770,147	-	770,147
Economic Development	455,011	-	455,011
Nondepartmental	931,870	-	931,870
Interest Expense	637,844	-	637,844
Utilities Services	-	46,381,452	46,381,452
Other Services	-	153,786	153,786
Total Expenses	<u>18,586,289</u>	<u>46,535,238</u>	<u>65,121,527</u>
INCREASE IN NET POSITION	2,213,426	3,095,280	5,308,706
Net Position - Beginning of Year	<u>44,279,473</u>	<u>103,765,964</u>	<u>148,045,437</u>
NET POSITION - END OF YEAR	<u>\$ 46,492,899</u>	<u>\$ 106,861,244</u>	<u>\$ 153,354,143</u>

Note: The amounts for 2017 above do not include the effects of GASB 75.

Total revenues for the Town were approximately \$78.9 million for the year ended June 30, 2018 compared to approximately \$70.4 million for the year ending June 30, 2017. Governmental activities provided approximately \$21.5 million, and business-type activities provided \$57.4 million, primarily through charges for services.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

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.

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, 2018, unassigned fund balance of the General Fund was approximately \$2.8 million.

Revenues Classified by Source

	Revenues Classified by Source			
	2018	Percent to Total	2017	Percent to Total
Governmental Funds				
Revenues:				
General Property Taxes	\$ 12,144,352	58.32%	\$ 11,729,190	56.36%
Other Local Taxes	2,362,805	11.35%	2,913,763	14.00%
Permits and Licenses	641,983	3.08%	666,152	3.20%
Fines and Forfeitures	45,075	0.22%	45,890	0.22%
Charges for Services	1,454,202	6.98%	1,402,177	6.74%
Intergovernmental	1,159,156	5.57%	1,078,104	5.18%
Miscellaneous	3,017,327	14.49%	2,976,452	14.30%
Total Revenues	<u>\$ 20,824,900</u>	<u>100.00%</u>	<u>\$ 20,811,728</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 \$11.2 million, an increase of 3% or approximately \$347 thousand from last year reflecting an increase in value of assessable tax base properties. The real estate tax rate was maintained at the FY2017 rate of \$.52 per \$100 of assessed value. Gross personal property tax revenue increased 8.7% to approximately \$960 thousand as a result of increased assessments. The personal property tax rate remained unchanged from FY2017 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 decreased by approximately \$551 thousand or 30% during FY2018. Primarily the changes are a net result of a State of Maryland shared income correction for prior year allocations of local income tax distributions in the prior year totals.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)

Governmental Funds Revenue and Expense Analysis (Continued)

The following table represents expenditures by function.

	Expenditures by Function			
	<u>2018</u>	<u>Total</u>	<u>2017</u>	<u>Total</u>
Governmental Funds				
Expenditures				
Current Operations:				
General Government				
Administration	\$ 2,287,855	10.98%	\$ 2,133,750	10.40%
Public Safety	8,809,407	42.28%	8,691,302	42.36%
Public Works	5,820,899	27.94%	5,702,062	27.79%
Recreation and Cultural	1,098,161	5.27%	1,169,906	5.70%
Economic Development	299,726	1.44%	253,342	1.23%
Nondepartmental	1,038,779	4.99%	820,723	4.00%
Debt Service:				0.00%
Principal	1,128,690	5.42%	1,224,105	5.97%
Interest	350,567	1.68%	523,514	2.55%
Total Expenditures	<u>\$ 20,834,084</u>	<u>100.00%</u>	<u>\$ 20,518,704</u>	<u>100.00%</u>

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 due to changes in the organization of the general government.
- Debt Service – The largest decrease was in the debt service and was due to a decrease in the interest expense for the debt service.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)

Enterprise Funds Revenue and Expense Analysis

PROPRIETARY FUNDS	<u>2018</u>	<u>2017</u>
Operating Revenues		
Charges for Services	\$ 55,367,009	\$ 48,500,237
Other Operating Revenues	1,172,971	285,959
Total Revenues	<u>\$ 56,539,980</u>	<u>\$ 48,786,196</u>
Operating Expenses		
Cost of Service	\$ 41,543,477	\$ 37,966,676
Depreciation	6,529,674	6,306,295
Total Operating Expenses	<u>\$ 48,073,151</u>	<u>\$ 44,272,971</u>
Other Revenues and Expenses		
Investment Earnings	\$ 310,740	\$ 100,745
Interest Expense	(282,449)	(306,413)
Gain on Sale of Property	18,345	(83,841)
Payment in Lieu of Taxes	(2,087,725)	(1,955,854)
Capital Charges	433,669	823,014
Miscellaneous	134,733	4,404
Total Other Revenues and Expenses	<u>\$ (1,472,687)</u>	<u>\$ (1,417,945)</u>

Operating Revenues: The Commission's FY18 operating revenues totaled \$56.5 million, an increase of \$7.7 million (16%) from FY17. Base revenues increased \$2.3 million due to rate changes approved in June 2017 by the Maryland Public Service Commission (PSC). Additionally, \$275 thousand of base revenues were derived from additional kilowatt hours used by customers during the year. Similarly, in the Gas Department, a PSC approved rate case resulted in \$351 thousand increase in base revenues in FY18. The energy portion of the revenues is very weather dependent, and therefore increased due to the colder winter, which impacted both the volume and price of the commodity. Small commercial gas customers caused base revenues to increase only 1.5% from the prior year. Revenues in the Water and Wastewater Department increased due to the final phase of the July 1, 2017 rate increase resulting in increased revenues of \$821 thousand despite a 3.7% decline in overall unit sales of water. Cable and Communications revenue increased \$1.1 million over FY17. The number of cable TV subscribers continues to decline as annual programming costs increase and utilization of internet-based viewing drives more consumers to alternative viewing options. Total internet subscribers increased 6.5% for the second consecutive year. Total IT professional services revenues grew by 35.2% as IT personnel continue to replicate internal services and functionality to similar utilities and commercial customers both nationally and internationally.

Operating Expenses: The Commission's operating expenses totaled \$48.0 million in FY18, which was \$3.79 million higher than FY17. The increased operating expenses from FY17 to FY18 were primarily attributable to the increased costs of additional generation costs and other additional energy costs and the remainder to base operating expenses.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

ANALYSIS OF BUDGET AND ACTUAL RESULTS

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Governmental Funds – GENERAL FUND				
Revenues				
Taxes	\$ 13,848,750	\$ 13,848,750	\$ 14,507,157	\$ 658,407
Licenses and Permits	597,425	597,425	641,983	44,558
Intergovernmental	595,930	595,930	944,721	348,791
Charges for Services	1,450,810	1,450,810	1,454,202	3,392
Fines and Forfeitures	39,500	39,500	45,075	5,575
Miscellaneous	2,117,850	2,117,850	2,345,332	227,482
Total Revenues	<u>\$ 18,650,265</u>	<u>\$ 18,650,265</u>	<u>\$ 19,938,470</u>	<u>\$ 1,288,205</u>
Expenditures				
Current Operations:				
General Government Administration	\$ 2,339,409	\$ 2,339,409	\$ 2,146,203	\$ 193,206
Public Safety	8,716,124	8,716,124	8,398,363	317,761
Public Works	4,095,707	4,095,707	4,408,517	(312,810)
Recreation and Cultural	425,131	425,131	291,663	133,468
Economic Development	262,890	262,890	299,726	(36,836)
Nondepartmental	520,698	520,698	878,011	(357,313)
Debt Service:				
Principal	610,846	610,846	614,527	(3,681)
Interest	3,442	3,442	13,257	(9,815)
Other Financing (Sources) Uses:				
Transfers	1,676,018	1,676,018	3,208,974	(1,532,956)
Total Expenditures and Other Uses	<u>\$ 18,650,265</u>	<u>\$ 18,650,265</u>	<u>\$ 20,259,241</u>	<u>\$ (1,608,976)</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 \$1.3 million dollars or more than 6.9% of the budgeted revenue of approximately \$18.6 million. This is the net result of: Real Estate tax revenues were \$184 thousand greater than budgeted, state shared highway revenues were \$285 thousand higher than budget, the hotel motel tax revenue was \$269 thousand greater, and other categories coming in slightly over budgeted amounts.
- Gross budgeted expenditures and other financing uses were greater than the gross actual expenditures and other financing (sources) uses by approximately \$1.6 million of the budgeted expenditures and other financing uses. The most significant variances related to transfers for the net transfers. Less than budgeted amounts were transferred to the General Fund from the Impact Fee Fund for reimbursement of expenditures made from the General Fund.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

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, 2018, amounts to \$128.03 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, 2018 and 2017:

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 7,155,203	\$ 7,151,141	\$ 1,148,005	\$ 1,148,005	\$ 8,303,208	\$ 8,299,146
Buildings and Improvements	28,718,503	26,080,331	16,808,398	17,554,741	45,526,901	43,635,072
Plants, Mains and Other Equipment	3,272,800	5,871,734	69,308,373	68,899,017	72,581,173	74,770,751
Construction in Progress	-	-	1,615,304	1,891,395	1,615,304	1,891,395
Total Capital Assets	\$ 39,146,506	\$ 39,103,206	\$ 88,880,080	\$ 89,493,158	\$ 128,026,586	\$ 128,596,364

During the year ended June 30, 2018, the Town's capital assets increased by approximately \$570 thousand.

Long-Term Debt Activity

The Town issued no new bonds during the fiscal year 2018. Regularly scheduled principal payments were made during 2018 totaling approximately \$2.8 million. Refer to the schedule below for balances.

Changes in Long-Term Liabilities

Town of Easton's Outstanding Long-Term Debt

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
General Obligation Bonds*	\$ 10,615,037	\$ 11,795,437	\$ 470,000	\$ 920,000	\$ 11,085,037	\$ 12,715,437
Loans	1,959,153	2,081,195	12,304,574	13,425,995	14,263,727	15,507,190
Compensated Absences	776,511	776,511	802,225	746,450	1,578,736	1,522,961
Total Long-Term Liabilities	\$ 13,350,701	\$ 14,653,143	\$ 13,576,799	\$ 15,092,445	\$ 26,927,500	\$ 29,745,588

* Includes unamortized premiums.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

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, 2018

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 24,486,598	\$ 12,164,563	\$ 36,651,161
Investments	12,508	19,879,075	19,891,583
Accounts Receivable, Net	1,258,869	4,789,942	6,048,811
Grants Receivable	-	-	-
Unrecovered Fuel and Gas Costs	-	120,037	120,037
Interest Receivable	-	43,569	43,569
Prepaid Items	180,639	1,679,815	1,860,454
Unbilled Revenue	-	1,764,820	1,764,820
Internal Balances	-	-	-
Inventory, at Average Cost	-	3,644,503	3,644,503
Total Current Assets	25,938,614	44,086,324	70,024,938
NONCURRENT ASSETS			
Note Receivable, Noncurrent	-	-	-
Net OPEB Asset	-	-	-
Capital Assets, Not Being Depreciated	7,155,203	2,763,309	9,918,512
Capital Assets, Net of Accumulated Depreciation	31,991,303	86,116,771	118,108,074
Total Noncurrent Assets	39,146,506	88,880,080	128,026,586
Total Assets	65,085,120	132,966,404	198,051,524
DEFERRED OUTFLOWS OF RESOURCES			
Unamortized Loss on Reacquired Debt	571,645	-	571,645
Deferred Outflow - Benefit Plans	766,805	949,756	1,716,561
Total Deferred Outflows of Resources	1,338,450	949,756	2,288,206
CURRENT LIABILITIES			
Accounts Payable	617,167	2,185,901	2,803,068
Accrued Liabilities	194,873	2,189,263	2,384,136
Tax Collection Payable	-	378,298	378,298
Performance Deposits	392,002	1,151,523	1,543,525
Unearned Revenue	12,301	22,392	34,693
Over-Recovered Revenue	-	120,037	120,037
Current Portion of Long-Term Debt	1,235,048	1,633,812	2,868,860
Total Current Liabilities	2,451,391	7,681,226	10,132,617
NONCURRENT LIABILITIES			
Compensated Absences, Net of Current Portion	776,511	802,225	1,578,736
Long-Term Debt, Net of Current Portion	11,339,142	11,140,762	22,479,904
Net OPEB Liability	3,176,358	3,430,616	6,606,974
Net Pension Liability	5,604,095	-	5,604,095
Total Noncurrent Liabilities	20,896,106	15,373,603	36,269,709
Total Liabilities	23,347,497	23,054,829	46,402,326
DEFERRED INFLOWS OF RESOURCES			
Over-Recovered Fuel and Gas Costs	-	-	-
Bond Premium	-	-	-
Deferred Inflow - Benefit Plans	1,317,136	2,534,653	3,851,789
Total Deferred Inflows of Resources	1,317,136	2,534,653	3,851,789
NET POSITION			
Net Investment in Capital Assets	27,143,961	76,105,544	103,249,505
Restricted for:			
Debt Service	7,813,641	-	7,813,641
Capital Improvements	4,913,174	-	4,913,174
Community Development	-	-	-
Unrestricted	1,888,161	32,221,134	34,109,295
Total Net Position	\$ 41,758,937	\$ 108,326,678	\$ 150,085,615

**TOWN OF EASTON, MARYLAND
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

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
Primary Government							
Governmental Activities:							
General Government	\$ 2,460,757	\$ 721,621	\$ -	\$ -	\$ (1,739,136)	\$ -	\$ (1,739,136)
Public Safety	10,627,378	396,465	300,539	-	(9,930,374)	-	(9,930,374)
Public Works	6,002,766	1,484,134	695,173	-	(3,823,459)	-	(3,823,459)
Recreation and Cultural	1,046,187	-	208,907	-	(837,280)	-	(837,280)
Economic Development	406,430	-	411,203	-	4,773	-	4,773
Nondepartmental	1,038,779	3,005	-	-	(1,035,774)	-	(1,035,774)
Interest Expense	407,705	-	-	-	(407,705)	-	(407,705)
Total Governmental Activities	<u>21,990,002</u>	<u>2,605,225</u>	<u>1,615,822</u>	<u>-</u>	<u>(17,768,955)</u>	<u>-</u>	<u>(17,768,955)</u>
Business-Type Activities:							
Utility	48,196,786	56,394,159	-	-	-	8,197,373	8,197,373
Land Enterprise	125,478	142,741	-	-	-	17,263	17,263
Airport Industrial	33,336	3,080	-	-	-	(30,256)	(30,256)
Total Business-Type Activities	<u>48,355,600</u>	<u>56,539,980</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,184,380</u>	<u>8,184,380</u>
Total Primary Government	<u>\$ 70,345,602</u>	<u>\$ 59,145,205</u>	<u>\$ 1,615,822</u>	<u>\$ -</u>	<u>(17,768,955)</u>	<u>8,184,380</u>	<u>(9,584,575)</u>
General Revenues:							
Property Taxes					12,144,352	-	12,144,352
Payment in Lieu of Taxes					2,087,725	(2,087,725)	-
Intergovernmental, Unrestricted					2,970,115	-	2,970,115
Interest and Investment Earnings					897	310,740	311,637
Miscellaneous					73,578	586,747	660,325
Total General Revenues					<u>17,276,667</u>	<u>(1,190,238)</u>	<u>16,086,429</u>
CHANGE IN NET POSITION					(492,288)	6,994,142	6,501,854
Net Position - Beginning of Year, as restated					<u>42,251,225</u>	<u>101,332,536</u>	<u>143,583,761</u>
NET POSITION - ENDING OF YEAR					<u>\$ 41,758,937</u>	<u>\$ 108,326,678</u>	<u>\$ 150,085,615</u>

**TOWN OF EASTON, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	General Fund	Capital Projects Fund	Infrastructure Development Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents - Pooled	\$ 6,470,308	\$ 5,288,340	\$ 4,913,174	\$ 7,814,776	\$ 24,486,598
Investments	12,508	-	-	-	12,508
Accounts Receivable, Net	1,258,869	-	-	-	1,258,869
Note Receivable, Noncurrent	-	-	-	-	-
Prepaid Items	180,639	-	-	-	180,639
Due from Other Funds	153,122	-	-	-	153,122
Other Assets	-	-	-	-	-
Total Assets	\$ 8,075,446	\$ 5,288,340	\$ 4,913,174	\$ 7,814,776	\$ 26,091,736
LIABILITIES					
Accounts Payable	\$ 413,568	\$ 173,461	\$ -	\$ 30,138	\$ 617,167
Accrued Liabilities	194,873	-	-	-	194,873
Due to Other Funds	-	-	-	153,122	153,122
Performance Deposits	392,002	-	-	-	392,002
Interfund Loan Payable	-	-	-	-	-
Unearned Revenue	12,301	-	-	-	12,301
Total Liabilities	1,012,744	173,461	-	183,260	1,369,465
DEFERRED INFLOWS OF RESOURCES					
Unavailable Tax Revenue	490,610	-	-	-	490,610
FUND BALANCES					
Nonspendable	180,639	-	-	349	180,988
Restricted	-	-	4,913,174	7,813,641	12,726,815
Committed	3,591,260	-	-	-	3,591,260
Assigned	-	5,114,879	-	-	5,114,879
Unassigned	2,800,193	-	-	(182,474)	2,617,719
Total Fund Balances	6,572,092	5,114,879	4,913,174	7,631,516	24,231,661
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 8,075,446	\$ 5,288,340	\$ 4,913,174	\$ 7,814,776	\$ 26,091,736

**TOWN OF EASTON, MARYLAND
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 24,231,661
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. The cost of these assets is \$65,867,569 and the accumulated depreciation is \$29,644,567.	39,146,506
Net OPEB liability	(3,176,358)
Liabilities such as bonds, notes payable, capital lease obligations and compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental funds as follows:	
General obligation bonds	\$ (9,950,000)
Notes payable	(1,959,153)
Bond premium	(655,019)
Compensated absences	<u>(771,361)</u>
	(13,335,533)
Net pension obligations are not due and payable in the current period, and therefore, are not reported in the funds.	(5,604,095)
Deferred outflow - loss on refunding included in governmental activities	571,645
Deferred outflows and inflows of resources related to Pension 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 \$766,805 of outflows of resources pension/OPEB expense and \$1,317,136 of deferred inflows of resources related to pensions/OPEB.	(550,331)
Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	490,610
Other miscellaneous adjustments	<u>(15,168)</u>
Total Net Position - Governmental Activities	<u><u>\$ 41,758,937</u></u>

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	General Fund	Capital Projects Fund	Infrastructure Development Fund	Non-Major Governmental Fund	Total Governmental Funds
REVENUES					
General Property Taxes	\$ 12,144,352	\$ -	\$ -	\$ -	\$ 12,144,352
Other Local Taxes	2,362,805	-	-	-	2,362,805
Permits and Licenses	641,983	-	-	-	641,983
Fines and Forfeitures	45,075	-	-	-	45,075
Charges for Services	1,454,202	-	-	-	1,454,202
Revenues from Other Agencies	944,721	9,300	-	205,135	1,159,156
Miscellaneous	2,345,332	-	270,792	401,203	3,017,327
Total Revenues	<u>19,938,470</u>	<u>9,300</u>	<u>270,792</u>	<u>606,338</u>	<u>20,824,900</u>
EXPENDITURES					
Current Operations:					
General Government	2,146,203	141,652	-	-	2,287,855
Public Safety	8,398,363	244,906	-	166,138	8,809,407
Public Works	4,408,517	1,412,382	-	-	5,820,899
Recreation and Cultural	291,663	303,967	-	502,531	1,098,161
Economic Development	299,726	-	-	-	299,726
Nondepartmental	1,034,489	-	-	4,290	1,038,779
Debt Service:					
Principal	3,690	-	-	1,125,000	1,128,690
Interest	13,257	-	-	337,310	350,567
Total Expenditures	<u>16,595,908</u>	<u>2,102,907</u>	<u>-</u>	<u>2,135,269</u>	<u>20,834,084</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>3,342,562</u>	<u>(2,093,607)</u>	<u>270,792</u>	<u>(1,528,931)</u>	<u>(9,184)</u>
OTHER FINANCING SOURCES					
Refunding Bonds Issued	-	-	-	-	-
Bond Premium	-	-	-	-	-
Payment to Refund Bond Escrow	-	-	-	-	-
Transfers In (Out)	(3,208,974)	3,089,385	(1,364,341)	1,483,930	-
Total Other Financing Sources (Uses)	<u>(3,208,974)</u>	<u>3,089,385</u>	<u>(1,364,341)</u>	<u>1,483,930</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	133,588	995,778	(1,093,549)	(45,001)	(9,184)
Fund Balances - Beginning of Year, as restated	<u>6,438,504</u>	<u>4,119,101</u>	<u>6,006,723</u>	<u>7,676,517</u>	<u>24,240,845</u>
FUND BALANCES - END OF YEAR	<u>\$ 6,572,092</u>	<u>\$ 5,114,879</u>	<u>\$ 4,913,174</u>	<u>\$ 7,631,516</u>	<u>\$ 24,231,661</u>

**TOWN OF EASTON, MARYLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ (9,184)
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 of \$2,435,842 exceeds capital outlay \$2,325,822 in the period.	(110,020)
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).	5,150
OPEB costs reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.	(527,528)
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.	1,247,042
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.	(57,164)
Government funds report Pension and OPEB benefit plan contributions as expenditures. However, in the Statement of Activities, the cost of plan benefits earned net of employee contributions is reported as Pension/OPEB expense.	(1,176,767)
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.	<u>136,183</u>
Change in Net Position of Governmental Activities	<u><u>\$ (492,288)</u></u>

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
(NON-GAAP BUDGETARY BASIS) – GENERAL FUND
YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget		
REVENUES				
Taxes				
General Property Taxes:				
Real Property Taxes	\$ 10,922,100	\$ 10,922,100	\$ 11,206,421	\$ 284,321
Personal Property Taxes - Business	749,000	749,000	858,272	109,272
Personal Property Taxes - Railroad and Public Utilities	110,000	110,000	101,790	(8,210)
Abatements/Discounts	(64,200)	(64,200)	(68,252)	(4,052)
Penalties and Interest	53,300	53,300	46,121	(7,179)
Total General Property Taxes	<u>11,770,200</u>	<u>11,770,200</u>	<u>12,144,352</u>	<u>374,152</u>
Local Taxes:				
State Shared Income Taxes	1,424,000	1,424,000	1,709,531	285,531
State Shared Highway Taxes	650,200	650,200	648,326	(1,874)
Admission and Amusements	3,600	3,600	4,198	598
Franchise-Ordinary Business Corporation	750	750	750	-
Total Other Local Taxes	<u>2,078,550</u>	<u>2,078,550</u>	<u>2,362,805</u>	<u>284,255</u>
Total Taxes	<u>13,848,750</u>	<u>13,848,750</u>	<u>14,507,157</u>	<u>658,407</u>
Permits and Licenses				
Trader's Licenses	72,000	72,000	70,979	(1,021)
Building Permits	225,000	225,000	268,846	43,846
Plumbing Permits	30,000	30,000	36,333	6,333
Use and Occupancy Permits	38,000	38,000	52,443	14,443
Rental Housing License Fees	105,000	105,000	100,150	(4,850)
Permits and Other Licenses	127,425	127,425	113,232	(14,193)
Total Permits and Licenses	<u>597,425</u>	<u>597,425</u>	<u>641,983</u>	<u>44,558</u>
Fines and Forfeitures				
	<u>39,500</u>	<u>39,500</u>	<u>45,075</u>	<u>5,575</u>
Charges for Services				
General Government	75,750	75,750	79,617	3,867
Public Safety	175,200	175,200	161,240	(13,960)
Highway and Streets	114,000	114,000	72,346	(41,654)
Sanitation and Waste Removal	1,081,860	1,081,860	1,116,399	34,539
Main Street and Recreation Fees	4,000	4,000	24,600	20,600
Total Charges for Services	<u>1,450,810</u>	<u>1,450,810</u>	<u>1,454,202</u>	<u>3,392</u>
Revenues from Other Agencies				
Federal				
Misc Federal Grant	-	-	25,000	25,000
Total Federal	<u>-</u>	<u>-</u>	<u>25,000</u>	<u>25,000</u>
State				
Police Protection	265,000	265,000	262,048	(2,952)
Fire, Rescue and Ambulance	12,700	12,700	15,351	2,651
Conservation and Critical Areas	4,500	4,500	4,500	-
Recreation Open Space & Other Projects	-	-	53,772	53,772
Total State	<u>282,200</u>	<u>282,200</u>	<u>335,671</u>	<u>53,471</u>
County				
Taxes	308,000	308,000	577,112	269,112
Misc County Grant	5,730	5,730	6,938	1,208
Total County	<u>313,730</u>	<u>313,730</u>	<u>584,050</u>	<u>270,320</u>
Total Revenues from Other Agencies	<u>595,930</u>	<u>595,930</u>	<u>944,721</u>	<u>348,791</u>
Miscellaneous				
	<u>2,117,850</u>	<u>2,117,850</u>	<u>2,345,332</u>	<u>227,482</u>
Total Revenues	<u>18,650,265</u>	<u>18,650,265</u>	<u>19,938,470</u>	<u>1,288,205</u>

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
(NON-GAAP BUDGETARY BASIS) – GENERAL FUND
YEAR ENDED JUNE 30, 2018
(CONTINUED)

	Budgeted Amounts		Actual Amounts	Final Budget - Positive (Negative)
	Original Budget	Final Budget		
EXPENDITURES				
General Government				
Legislative				
Town Council	\$ 128,909	\$ 128,909	\$ 100,516	\$ 28,393
Town Clerk	134,602	134,602	152,254	(17,652)
Total Legislative	<u>263,511</u>	<u>263,511</u>	<u>252,770</u>	<u>10,741</u>
Executive Mayor	281,783	281,783	147,182	134,601
Town Manager	438,542	438,542	457,081	(18,539)
Elections	-	-	41	(41)
Financial Administration	793,245	793,245	726,910	66,335
Independent Accounting & Auditing	-	-	27,200	(27,200)
Law	-	-	593	(593)
Planning and Zoning	447,994	447,994	419,009	28,985
General Services	114,334	114,334	115,417	(1,083)
Total General Government	<u>2,339,409</u>	<u>2,339,409</u>	<u>2,146,203</u>	<u>193,206</u>
Public Safety				
Police	7,180,739	7,180,739	6,813,422	367,317
Traffic Control	63,561	63,561	52,165	11,396
Fire and Rescue	304,211	304,211	361,206	(56,995)
Code Enforcement	505,118	505,118	429,075	76,043
Rental Housing	155,910	155,910	146,570	9,340
Traffic Engineering	506,585	506,585	595,925	(89,340)
Total Public Safety	<u>8,716,124</u>	<u>8,716,124</u>	<u>8,398,363</u>	<u>317,761</u>
Public Works				
Administration	549,026	549,026	529,039	19,987
Sanitation and Waste Removal	1,733,871	1,733,871	1,974,801	(240,930)
Highways, Streets and Sidewalks	1,812,810	1,812,810	1,901,919	(89,109)
Mosquito Control	-	-	2,758	(2,758)
Total Public Works	<u>4,095,707</u>	<u>4,095,707</u>	<u>4,408,517</u>	<u>(312,810)</u>
Parks, Recreation and Cultural				
Parks and Recreation Administration	217,631	217,631	150,645	66,986
Participation Recreation	30,350	30,350	51,835	(21,485)
Municipal Parks	177,150	177,150	89,183	87,967
Total Parks, Recreation and Cultural	<u>425,131</u>	<u>425,131</u>	<u>291,663</u>	<u>133,468</u>
Economic Development/Main Street	<u>262,890</u>	<u>262,890</u>	<u>299,726</u>	<u>(36,836)</u>
Nondepartmental	<u>520,698</u>	<u>520,698</u>	<u>878,011</u>	<u>(357,313)</u>
Debt Service				
Principal	610,846	610,846	614,527	(3,681)
Interest	3,442	3,442	13,257	(9,815)
Total Debt Service	<u>614,288</u>	<u>614,288</u>	<u>627,784</u>	<u>(13,496)</u>
Total Expenditures	<u>16,974,247</u>	<u>16,974,247</u>	<u>17,050,267</u>	<u>(76,020)</u>
Excess of Revenues Over Expenditures	<u>1,676,018</u>	<u>1,676,018</u>	<u>2,888,203</u>	<u>1,212,185</u>

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
(NON-GAAP BUDGETARY BASIS) – GENERAL FUND
YEAR ENDED JUNE 30, 2018
(CONTINUED)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget		
OTHER FINANCING SOURCES (USES)				
Debt Proceeds	\$ -	\$ -	\$ -	\$ -
Transfers (Net):				
Debt Service	(1,483,930)	(1,483,930)	(1,483,930)	-
Capital Projects	(3,089,385)	(3,089,385)	(3,089,385)	-
Impact Fee	2,897,297	2,897,297	1,364,341	(1,532,956)
Total Other Financing (Uses)	<u>(1,676,018)</u>	<u>(1,676,018)</u>	<u>(3,208,974)</u>	<u>(1,532,956)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>(320,771)</u>	<u>\$ (320,771)</u>
Fund Balance - Beginning of Year, as restated			<u>6,530,747</u>	
FUND BALANCE - END OF YEAR			<u>\$ 6,209,976</u>	

TOWN OF EASTON, MARYLAND
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018

	Business-Type Activities - Enterprise Funds		
	Utility	Non-Major	Totals
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 10,597,497	\$ 1,567,066	\$ 12,164,563
Investments	19,879,075	-	19,879,075
Accounts Receivable, Net	4,788,747	1,195	4,789,942
Grants & Loans Receivable	-	-	-
Unrecovered Fuel and Gas Costs	120,037	-	120,037
Interest Receivable	43,569	-	43,569
Prepaid Items	1,679,815	-	1,679,815
Unbilled Revenue	1,764,820	-	1,764,820
Interfund Loan Receivable	-	-	-
Inventory	3,644,503	-	3,644,503
Total Current Assets	<u>42,518,063</u>	<u>1,568,261</u>	<u>44,086,324</u>
NONCURRENT ASSETS			
Net OPEB Asset	-	-	-
Capital Assets, Not Being Depreciated	2,680,336	82,973	2,763,309
Capital Assets, Net of Accumulated Depreciation	85,192,315	924,456	86,116,771
Total Noncurrent Assets	<u>87,872,651</u>	<u>1,007,429</u>	<u>88,880,080</u>
DEFERRED OUTFLOWS OF RESOURCES			
Unamortized Loss on Reacquired Debt	-	-	-
Deferred Outflow - Pension	949,756	-	949,756
Total Deferred Outflows of Resources	<u>949,756</u>	<u>-</u>	<u>949,756</u>
Total Assets and Deferred Outflows	<u>\$ 131,340,470</u>	<u>\$ 2,575,690</u>	<u>\$ 133,916,160</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	\$ 2,181,753	\$ 4,148	\$ 2,185,901
Accrued Liabilities	2,189,263	-	2,189,263
Over-Recovered Fuel and Gas Costs	120,037	-	120,037
Tax Collection Payable	378,298	-	378,298
Performance Deposits	1,150,023	1,500	1,151,523
Due to Asbury Place	-	-	-
Unearned Revenue	22,392	-	22,392
Current Portion of Long-Term Debt	1,633,812	-	1,633,812
Total Current Liabilities	<u>7,675,578</u>	<u>5,648</u>	<u>7,681,226</u>
NONCURRENT LIABILITIES			
Net Pension Liability	-	-	-
Net OPEB Liability	3,430,616	-	3,430,616
Compensated Absences, Net of Current Portion	802,225	-	802,225
Long-Term Debt, Net of Current Portion	11,140,762	-	11,140,762
Total Noncurrent Liabilities	<u>15,373,603</u>	<u>-</u>	<u>15,373,603</u>
Total Liabilities	<u>23,049,181</u>	<u>5,648</u>	<u>23,054,829</u>
DEFERRED INFLOWS OF RESOURCES			
Over-Recovered Fuel and Gas Costs	-	-	-
Deferred Inflow - Pension	2,534,653	-	2,534,653
Total Deferred Inflows of Resources	<u>2,534,653</u>	<u>-</u>	<u>2,534,653</u>
NET POSITION			
Net Investment in Capital Assets	75,098,077	1,007,467	76,105,544
Unrestricted	30,658,559	1,562,575	32,221,134
Total Net Position	<u>105,756,636</u>	<u>2,570,042</u>	<u>108,326,678</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 131,340,470</u>	<u>\$ 2,575,690</u>	<u>\$ 133,916,160</u>

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018

	Business-Type Activities - Enterprise Funds		
	Utility	Non-Major	Total
OPERATING REVENUES			
Charges for Services	\$ 55,225,605	\$ 141,404	\$ 55,367,009
Other Operating Revenues	1,168,554	4,417	1,172,971
Total Operating Revenues	<u>56,394,159</u>	<u>145,821</u>	<u>56,539,980</u>
OPERATING EXPENSES			
Cost of Service	41,480,056	63,421	41,543,477
Depreciation	6,434,281	95,393	6,529,674
Total Operating Expenses	<u>47,914,337</u>	<u>158,814</u>	<u>48,073,151</u>
Operating Income (Loss)	<u>8,479,822</u>	<u>(12,993)</u>	<u>8,466,829</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment Earnings	310,740	-	310,740
Interest Expense	(282,449)	-	(282,449)
Gain on Sale of Property	18,345	-	18,345
Payment in Lieu of Taxes	(2,087,725)	-	(2,087,725)
Capital Charges	433,669	-	433,669
Miscellaneous	134,733	-	134,733
Total Non-Operating Revenues (Expenses)	<u>(1,472,687)</u>	<u>-</u>	<u>(1,472,687)</u>
CHANGES IN FUND NET POSITION	7,007,135	(12,993)	6,994,142
Total Net Position - Beginning of Year, as restated	<u>98,749,501</u>	<u>2,583,035</u>	<u>101,332,536</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ 105,756,636</u>	<u>\$ 2,570,042</u>	<u>\$ 108,326,678</u>

TOWN OF EASTON, MARYLAND
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018

	Business-Type Activities - Enterprise Funds		
	Utility	Non-Major	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received for Services	\$ 56,335,986	\$ 168,909	\$ 56,504,895
Cash Paid to Suppliers for Goods and Services	(27,068,589)	(59,673)	(27,128,262)
Cash Paid to Employees for Services	(10,777,358)	-	(10,777,358)
Net Cash Provided by Operating Activities	<u>18,490,039</u>	<u>109,236</u>	<u>18,599,275</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES			
Cash Paid in Lieu of Taxes	(2,206,705)	-	(2,206,705)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from Disposition of Assets	25,028	-	25,028
Proceeds from Capital Charges	433,669	-	433,669
Purchases/Construction of Capital Assets	(6,042,756)	-	(6,042,756)
Proceeds from Grants and Loans Payable	-	-	-
Payment of Debt	(1,571,420)	-	(1,571,420)
Interest Paid on Bond Indebtedness	(43,240)	-	(43,240)
Other Interest Paid	(42,196)	-	(42,196)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(7,240,915)</u>	<u>-</u>	<u>(7,240,915)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on Cash Deposits and Investments	281,793	-	281,793
Loan to Related Party	660,836	-	660,836
Sales of Investments	20,771,976	-	20,771,976
Purchases of Investments	(30,658,241)	-	(30,658,241)
Net Cash Used by Investing Activities	<u>(8,943,636)</u>	<u>-</u>	<u>(8,943,636)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	98,783	109,236	208,019
Cash and Cash Equivalents - Beginning of Year	10,498,714	1,457,830	11,956,544
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 10,597,497</u>	<u>\$ 1,567,066</u>	<u>\$ 12,164,563</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$ 8,479,822	\$ (12,993)	\$ 8,466,829
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation	6,434,281	95,393	6,529,674
Net Accretion	2,220	-	2,220
Other Miscellaneous Non-Operating Revenue	180,428	-	180,428
Effects of Changes in Operating Assets and Liabilities:			
Accounts Receivable, Net	(1,082,967)	23,088	(1,059,879)
Inventory	3,250,616	-	3,250,616
Unamortized Expenses	-	-	-
Deferred Inflows/Outflows - Pension	72,286	-	72,286
Unrecovered Fuel and Gas Costs	501,748	-	501,748
Accounts Payable and Accrued Liabilities	651,605	3,748	655,353
Net Cash Provided by Operating Activities	<u>\$ 18,490,039</u>	<u>\$ 109,236</u>	<u>\$ 18,599,275</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES			
Contributions of Capital Assets	<u>\$ 80,363</u>	<u>\$ -</u>	<u>\$ 80,363</u>

**TOWN OF EASTON, MARYLAND
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018**

	<u>Benefits Trust Funds</u>
ASSETS	
Cash and Cash Equivalents	\$ 521,866
Investments, at Fair Value	<u>47,869,541</u>
Total Assets	<u><u>\$ 48,391,407</u></u>
 NET POSITION	
Held in Trust for Pension Benefits	<u><u>\$ 48,391,407</u></u>

**TOWN OF EASTON, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2018**

	<u>Benefits Trust Funds</u>
ADDITIONS	
Contributions:	
Employer	\$ 2,780,993
Employees	242,302
Total Contributions	<u>3,023,295</u>
Investment Earnings:	
Investment Income	675,027
Net Increase in Fair Value of Plan Investments	2,937,209
Total Investment Earnings	<u>3,612,236</u>
Less Investment Expense	<u>168,897</u>
Net investment Earnings	<u>3,443,339</u>
Total Additions	6,466,634
DEDUCTIONS	
Benefit Payments	<u>2,215,919</u>
NET CHANGE	4,250,715
Net Position - Beginning of Year, as restated	<u>44,140,692</u>
NET POSITION - END OF YEAR	<u><u>\$ 48,391,407</u></u>

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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 non-fiduciary activities of the Town. Eliminations have been made to remove the effect of inter-fund activity from these statements. Governmental activities, which are supported by taxes and intergovernmental activities, are reported separately from business-type activities that are supported by customer service charges.

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

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, 2018

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

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

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

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

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

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.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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 applies all relevant GASB pronouncements, including GASB statement No. 62 *Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989*, Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. GASB No. 62 incorporates into GASB authoritative literature certain accounting and financial reporting guidance issued before November 30, 1989. 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.

The Town's Net Position Liability (NPL) as of June 30, 2014 was established under GASB 67 *Financial Reporting for Pensions* and updated as of June 30, 2015. GASB 68 *Accounting and Financial Reporting for Pensions* is implemented as of June 30, 2015, and includes information on the Town's Pension Expense, Deferred Inflows and Outflows of Resources, and recognition schedules for such.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Town implemented GASB Statement 74 *Financial Reporting for Postemployment Benefit Plans other than Pension Plans* as of June 30, 2017. Under GASB 74, the Net OPEB Liability (NOL) is established as the difference between the Total OPEB Liability and the Plan Fiduciary Net Position.

The Town implemented GASB Statement 75 *Accounting and Reporting for Postemployment Benefits Other than Pension Plans* as of June 30, 2018. This Statement replaces Statement 45, Statement 57 and Statement 74. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expenses/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB are also provided.

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, 2018**

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:

	Real	Personal and Corporate
Assessment Roll Validated	December 31	January 1
Tax Rate Ordinance Approved	June 30	June 30
Beginning of Fiscal Year for Tax Levy	July 1	July 1
Tax Bills Rendered and Due	July 1	State Notification
Owner-Occupied Residential	July 1/Jan. 1	State Notification
Property Taxes Payable:		
Delinquent	Oct. 1, Feb. 1	After 30 Days
Terms	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 1½% 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, 2018**

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:

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

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 cycle, 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, 2018 is \$1,764,820.

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, 2018, the Commission had net over-recovered costs of \$120,037.

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, 2018

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 \$3,644,503 at June 30, 2018.

Compensated Absences

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

Long-Term Obligations

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

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

Unearned Revenues

Customers of the 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, 2018 is \$12,301.

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, the deferred loss on refunding and pension related items, which are reported on the Statement of Net position.

In addition to liabilities, the statements 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 qualify for reporting in this category, over-recovered fuel and gas costs, and differences between expected and actual experience of the pension plan, 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, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions

For the purpose of measuring the net pension liability (asset), 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, 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 invested 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, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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 30th, 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 non-major governmental funds or any enterprise funds. However, a budget is used as a management tool for these funds.

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

The budget is prepared on a basis consistent with generally accepted accounting principles (GAAP) except that short-term 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	Expenditures	Fund Balance
GAAP Basis	\$ 19,938,470	\$ 16,595,908	\$ 6,572,092
Pension Restatement			
Pension Adjustment and Other	-	(156,478)	156,478
Interfund Loan - Principal Payments	-	610,837	(610,837)
Interfund Loan - Effect of Previous Years	-	-	92,243
Budgetary Basis	\$ 19,938,470	\$ 17,050,267	\$ 6,209,976

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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 John Hancock, the Plan Administrator. 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, MD 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, 2018 was \$792,132. The plan administrator is John Hancock.

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

At the end of the year, the carrying amount of the Town deposits (including cash on hand of \$2,075) was \$36,651,161 and the bank balance was \$36,728,058. 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, 2018.

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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, 2018, the Town had \$15,891,583 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, 2018 the Utility Commission had investments held by M&T Securities, Inc. of \$4,000,000. 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.

Investments and Valuation

The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quotes prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below

- Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 – Valuations based on quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in less active markets, such as dealer or broker markets; and
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

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:

Variable Earnings Investments:	
Dryden S&P 500 Index	\$ 3,599,789
Mid Cap Growth/Waddell & Reed	1,434,727
Mid Cap Value / QMA	1,387,706
Small Cap Grw/Columbus	1,773,243
Small Cap Value/Kennedy Capit	1,844,524
T. Rowe Price Eqty Inc Stgy	3,571,734
T. Rowe Price Growth Stk Stgy	3,624,660
EmrgMrkEq / QMA*	1,054,769
International Blend/Wellington*	2,914,572
Core Plus Bond PIMCO Fund	8,893,907
Real Estate / Am Century Fund	2,084,188
Guaranteed Account	6,037,172
	<u>\$ 38,220,991</u>

*-Foreign investment

The investments noted above are measured at Net Asset Value and consist of mutual funds maintained by Prudential Retirement Insurance and Annuity Co. in a separate common account for the pension plan. They are recorded based on net asset value amounts established by the respective fund managers as a practical approximation of fair value. Because alternative investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ materially from the amount reported. There are no unfunded commitments and there are no required notices or restrictions of redemption.

The investment in the OPEB plan consist of publically traded mutual funds and stocks. The fair value is based on published market quotes and are considered Level 1 in the Fair Value Hierarchy as previously defined.

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments- Maryland Local Government Investment Pool (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.

A summary of these investments are as follows:

Mutual Funds:

Dodge & Cox - International*	\$ 419,091
FMI Intl	376,807
John Hancock Small Cap Value	320,780
Hartford Floating Rate	618,344
MFS Intl*	434,327
Touchstone	304,944
Vanguard - Emerging Market	234,819
Vanguard - Intermediate Term Trust	606,051
Vanguard - Short Term	1,310,241
Vanguard - Mid Cap Index	1,250,489
Closed-End Mutual Funds	521,866
	<u>6,397,759</u>

Common Stock:

Consumer Discretionary	496,484
Consumer Staples	306,554
Energy	195,903
Financials	713,191
Health Care	322,598
Industrials	370,888
Information Technology	897,813
Materials	348,845
Real Estate Investment Trusts	120,381
	<u>3,772,657</u>
	<u>\$ 10,170,416</u>

*-Foreign investment

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

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, 2018**

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>
<u>Defined Benefit Plan</u>		
Guaranteed Account	\$ 6,037,172	3.40
Core Plus Bond/PIMCO	8,893,907	6.80
Total	<u>\$ 14,931,079</u>	
<u>OPEB Plan</u>		
Hartford Floating Rate I	\$ 618,344	4.82
Vanguard Short Term Investment Grade	1,310,241	3.10
Total	<u>\$ 1,928,585</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, 2018 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 Plans' 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.

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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 of countries outside the U.S. that invest in securities; however, these funds do not require disclosure of the individual assets within the funds. The fair value of these funds was \$5,227,542 at June 30, 2018. The individual funds are identified above.

NOTE 3 RECEIVABLES

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

	Governmental Activities		Business-Type Activities		Total
	General	Other	Utility	Other	
Taxes	\$ 538,050	\$ -	\$ -	\$ -	\$ 538,050
Accounts	520,233	-	5,824,529	1,195	6,345,957
Due from Other Governments	814,134	-	-	-	814,134
Interest	-	-	43,569	-	43,569
Allowance for Uncollectibles	(613,548)	-	(1,035,782)	-	(1,649,330)
Net Receivables	<u>\$ 1,258,869</u>	<u>\$ -</u>	<u>\$ 4,832,316</u>	<u>\$ 1,195</u>	<u>\$ 6,092,380</u>

The June 30, 2018 balance of due from other governments is as follows:

State of Maryland:	
Income Taxes	\$ 707,123
Talbot County	107,011
Total Due from Other Governments	<u>\$ 814,134</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 non-exchange contributions.

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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, 2018 is summarized as follows:

	Unavailable	Unearned	Total
Income Taxes	\$ 405,787	\$ -	\$ 405,787
Property Taxes	84,823	-	84,823
Miscellaneous	-	12,301	12,301
Total	\$ 490,610	\$ 12,301	\$ 502,911

NOTE 4 INTER-FUND PAYABLES AND TRANSFERS

Due to/from other funds at June 30, 2018 was as follows:

	Payable Fund		Total
	General Fund	Community Dev	
Receivable Fund			
Debt Service	\$ -	\$ 153,122	\$ 153,122
Total	\$ -	\$ 153,122	\$ 153,122

Inter-fund transfer activity for the year ended June 30, 2018 was as follows:

	Transfer In	Transfer Out
Governmental Funds		
General Fund	\$ -	\$ 3,208,974
Capital Projects	3,089,385	-
Infrastructure Development	-	1,364,341
Other Governmental	1,483,930	-
Total	\$ 4,573,315	\$ 4,573,315

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Increases	Adjustments/ Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 7,151,141	\$ 4,062	\$ -	\$ 7,155,203
Construction in Progress	-	-	-	-
Total Capital Assets, Not Being Depreciated	7,151,141	4,062	-	7,155,203
Capital Assets, Being Depreciated:				
Buildings and Improvements	43,364,000	1,254,303	1,131,286	45,749,589
Equipment	18,232,632	1,082,812	(2,734,791)	16,580,653
Total Capital Assets, Being Depreciated	61,596,632	2,337,115	(1,603,505)	62,330,242
Less Accumulated Depreciation:				
Buildings and Improvements	17,283,669	1,473,531	(1,726,114)	17,031,086
Equipment	12,360,898	962,311	(15,356)	13,307,853
Total Accumulated Depreciation	29,644,567	2,435,842	(1,741,470)	30,338,939
Net Capital Assets, Being Depreciated	31,952,065	(98,727)	137,965	31,991,303
Governmental Activities Capital Assets, Net	<u>\$ 39,103,206</u>	<u>\$ (94,665)</u>	<u>\$ 137,965</u>	<u>\$ 39,146,506</u>
Business-type Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,148,005	\$ -	\$ -	\$ 1,148,005
Construction in Progress	1,891,395	6,065,517	(6,341,608)	1,615,304
Total Capital Assets, Not Being Depreciated	3,039,400	6,065,517	(6,341,608)	2,763,309
Capital Assets, Being Depreciated:				
Buildings and Improvements	33,137,103	23,502	-	33,160,605
Equipment and Other	174,062,605	6,302,716	(196,335)	180,168,986
Less: Amount Disallowed for Regulation	(1,719,785)	-	-	(1,719,785)
Total Capital Assets, Being Depreciated	205,479,923	6,326,218	(196,335)	211,609,806
Less Accumulated Depreciation:				
Buildings and Improvements	15,582,362	769,845	-	16,352,207
Equipment and Other	103,443,803	5,879,307	(182,282)	109,140,828
Total Accumulated Depreciation	119,026,165	6,649,152	(182,282)	125,493,035
Net Capital Assets, Being Depreciated	86,453,758	(322,934)	(14,053)	86,116,771
Business-Type Activities Capital Assets, Net	<u>\$ 89,493,158</u>	<u>\$ 5,742,583</u>	<u>\$ (6,355,661)</u>	<u>\$ 88,880,080</u>

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 CAPITAL ASSETS (CONTINUED)

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

Governmental Activities	
General Government	\$ 79,533
Public Safety	810,292
Public Works	1,141,394
Recreation and Cultural	189,782
Non-Departmental	214,841
Total Governmental Activities	<u>\$ 2,435,842</u>
 Business-Type Activities	
Utility	\$ 6,553,759
Other	95,393
Total Business-Type Activities	<u>\$ 6,649,152</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.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 LONG-TERM LIABILITIES

Long-term liabilities consist of the following at June 30, 2018:

	Beginning Balance	Additions	Principal Repayments & Reductions	Ending Balance	Due Within One Year
Governmental Activities					
General Obligation Bonds	\$ 11,075,000	\$ -	\$ 1,125,000	\$ 9,950,000	\$ 1,175,000
Unamortized Premium on Bonds	720,437	-	55,400	665,037	55,418
DHCD Loan Payable	1,672,124	-	-	1,672,124	-
Note Payable – DHCD	117,615	-	117,615	-	-
Note Payable – USDA	291,456	-	4,427	287,029	4,630
Total Long-Term Debt	13,876,632	-	1,302,442	12,574,190	1,235,048
Compensated Absences	776,511	-	-	776,511	-
Governmental Activities Long-Term Liabilities	\$ 14,653,143	\$ -	\$ 1,302,442	\$ 13,350,701	\$ 1,235,048
Business-Type Activities					
General Obligation Bonds	\$ 920,000	\$ -	\$ 450,000	\$ 470,000	\$ 470,000
Loan – MDE	1,112,080	-	74,738	1,037,342	76,083
Loan – State of Maryland	12,313,915	-	1,046,683	11,267,232	1,087,729
Total Long-Term Debt	14,345,995	-	1,571,421	12,774,574	1,633,812
Compensated Absences	746,450	55,775	-	802,225	-
Business-Type Activities Long-Term Liabilities	\$ 15,092,445	\$ 55,775	\$ 1,571,421	\$ 13,576,799	\$ 1,633,812

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, 2018
Public Facilities Bonds 2003	2023	2.00 - 5.00%	\$ 225,000
Public Facilities Bonds 2008	2019	2.00 - 5.00%	460,000
Public Facilities Bonds 2015	2036	2.00 - 4.00%	9,265,000
Total General Obligation			\$ 9,950,000

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 LONG-TERM LIABILITIES (CONTINUED)

Bonds (Continued)

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

Years Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2019	\$ 1,175,000	\$ 319,238	\$ 470,000	\$ 22,090
2020	1,180,000	287,785	-	-
2021	1,180,000	240,681	-	-
2022	715,000	193,450	-	-
2023	710,000	178,375	-	-
2024 - 2028	3,270,000	557,425	-	-
2029 - 2033	1,250,000	159,875	-	-
2034 - 2036	470,000	29,988	-	-
Total	\$ 9,950,000	\$ 1,966,817	\$ 470,000	\$ 22,090

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, 2018, there remains \$4,600,000 of outstanding defeased debt.

Government-type Funds

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

The annual debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest	Total
2019	\$ 4,630	\$ 12,886	\$ 17,516
2020	4,843	12,673	17,516
2021	5,065	12,451	17,516
2022	5,298	12,219	17,517
2023	5,542	11,976	17,518
2024-2028	31,770	55,518	87,288
2029-2033	39,769	47,818	87,587
2034-2038	49,783	37,805	87,588
2039-2043	62,318	25,269	87,587
2044-2048	78,011	9,576	87,587
Total	\$ 287,029	\$ 238,191	\$ 350,046

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 LONG-TERM LIABILITIES (CONTINUED)

Bonds (Continued)

During fiscal year 1999, the Town borrowed \$1,672,124 from 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 DHCD as long as the unit meets certain requirements and continues as a low income housing unit. As of June 30, 2018, Asbury Place met those conditions and interest was forgiven. The balance of this loan was \$1,672,124 at June 30, 2018.

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, 2018 was \$11,267,232. The note bears an interest rate of .40% and has a scheduled maturity of February 2027.

The following are the principal and interest maturities of the outstanding loan as of June 30, 2018:

Year Ending June 30	Principal	Interest	Total
2019	\$ 1,087,729	\$ 45,069	\$ 1,132,798
2020	1,128,776	40,718	1,169,494
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
2024-2027	5,418,122	55,002	5,473,124
Total	<u>\$ 11,267,232</u>	<u>\$ 235,196</u>	<u>\$ 11,502,428</u>

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 LONG-TERM LIABILITIES (CONTINUED)

Bonds (Continued)

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, 2018 was \$1,037,342. 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, 2018:

Year Ending June 30	Principal	Interest	Total
2019	\$ 76,083	\$ 18,672	\$ 94,755
2020	77,452	17,303	94,755
2021	78,846	15,909	94,755
2022	80,266	14,489	94,755
2023	81,710	13,045	94,755
2024-2028	431,151	42,624	473,775
2029-2033	211,834	6,499	218,333
Total	<u>\$ 1,037,342</u>	<u>\$ 128,541</u>	<u>\$ 1,165,883</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 (2.0684% at June 30, 2018). 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, 2018.

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 9 FUND BALANCE

A summary of fund balances at June 30, 2018 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	\$ 180,639	\$ -	\$ -	\$ -	\$ 180,639
Loans to Citizens	-	-	-	-	-
Total Nonspendable	180,639	-	-	-	180,639
<u>Restricted:</u>					
Impact Fees	-	-	4,913,174	-	4,913,174
Debt Service	-	-	-	7,611,911	7,611,911
CDBG Grant	-	-	-	202,079	202,079
Total Restricted Fund	-	-	4,913,174	7,813,990	12,727,164
Balance	-	-	4,913,174	7,813,990	12,727,164
<u>Committed:</u>					
Budget Stabilization	3,591,260	-	-	-	3,591,260
<u>Assigned:</u>					
Capital Projects	-	5,114,879	-	-	5,114,879
<u>Unassigned</u>					
General Fund	2,800,193	-	-	-	2,800,193
Law Enforcement Fund	-	-	-	(182,474)	(182,474)
Total Unassigned Fund	2,800,193	-	-	(182,474)	2,617,719
Balance	2,800,193	-	-	(182,474)	2,617,719
Total Fund Balance	\$ 6,572,092	\$ 5,114,879	\$ 4,913,174	\$ 7,631,516	\$ 24,231,661

NOTE 10 DEFINED BENEFIT PENSION PLAN

Plan Description

The Town of Easton, Maryland Employee's Pension Plan (the 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).

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Plan Benefit Information

	Benefits and Plan Specifications
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.
Form of Annuity	Life Annuity
Normal Retirement Date	The first day of the month coinciding with or next following the Participants 60 th 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	<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 service.

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.

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Plan Benefit Information (Continued)

Division B

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 25 years, bears to 25. Provided however, that the 50% will be increased by 1% (maximum 55%) for each full year of Credited Service in excess of 25 years with total maximum of 30 years of Credit Service.

Income Payable

Amount described in sections (a) or (b) below, whichever applies:

- 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.
- 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.

Early Retirement Eligibility

Division A

Five years early with ten years of Service. Early retirement is not applicable to Sworn Officers (Division B).

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

Division A

100% vested after five years of service; 100% vested at Normal Retirement Date.

Division B

For Sworn Police Officers; 100% vested after one year of service; 100% vested at Normal Retirement Date.

Vested Benefit

Benefit accrued to date of termination adjusted by the appropriate vesting percentage.

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Plan Benefit Information (Continued)

Preretirement Spouse Benefit

- | | | |
|----|---------------------------------------|--|
| A. | Eligibility
<i>Benefit Formula</i> | Age 55 with 10 years of service.
50% of the pension benefit accrued to date of death |
| B. | Eligibility
<i>Benefit Formula</i> | 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. |

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> | Participant who retires early or retires on his Normal Retirement Date. |
| <i>Benefit Formula</i> | <u>Division A</u>
Amount equal to the Social Security Benefit payable from Normal Retirement Date to 62 nd 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. |
|---------------|--|

Interest Credit 5% per annum.

Death or Termination Pre-retirement: Refund of Employee contributions with interest to date of termination or death.

Post retirement: Excess of Employee contributions with interest over annuity payments made, unless another form of benefit becomes payable to the beneficiary.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Plan Membership

As of August 1, 2017 (the date of the last actuarial valuation), the pension plan's membership consisted of:

Active Employees	176
Retirees and Beneficiaries Currently Receiving Benefits	124
Terminated Employees Entitled to Benefits but Not Yet Receiving Them	98
Total	<u>398</u>

Funding Policy

The Plan covers all full-time employees who began service prior to the age of 55 and prior to the plan being frozen (see below) except for sworn police officers, voluntary contributions from eligible employees are prohibited. Sworn police officers who are employed on a regular full-time basis with less than 25 years of service are required to contribute 5.0% of gross annual earnings. For police officers who are employed on a regular full-time basis with service in excess of 25 years, the required contribution rate is 6.7% of gross annual earnings. Participants' actual contributions during the year ended June 30, 2018 were \$242,302. 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 determined employer contributions to the Plan during the years ended June 30, 2018 and June 30, 2017 were \$994,133 and \$1,032,915, respectively. Actual employer contributions for both the years ended June 30, 2018 and June 30, 2017 were \$1,292,132.

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 June 30, 2018, 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, 2018**

NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Valuation of Investments (Continued)

The condensed financial statements as of and for the year ended June 30, 2018 are as follows:

Statement of Plan Net Position

Assets

Investments, at Fair Value Other Adjustment	<u>\$ 38,220,991</u>
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Net Position

Held in Trust for Pension Benefits	<u>\$ 38,220,991</u>
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Additions

Contributions:

Employer	\$ 1,292,132
Employees	242,302
Total Contributions	<u>1,534,434</u>

Investment Earnings:

Investment Income	712,179
Net Increase in Fair Value of Plan Investments	<u>2,239,389</u>
Total Investment Earnings	2,951,568

Less Investment Expense	<u>17,683</u>
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Net Investment Earnings	<u>2,933,885</u>
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Total Additions	4,468,319
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Deductions

Benefit Payments	1,695,271
Administrative expenses	<u>100,698</u>
Total deductions	<u>1,795,969</u>

Net Change	2,672,350
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Net Position - Beginning of Year	<u>35,548,641</u>
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Net Position - End of Year	<u>\$ 38,220,991</u>
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Pension Plan Administration

Management of the Plan is overseen by the Plan Sponsor, the Town of Easton, under Article XIV of the Pension Plan Document. The Town of Easton, 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, 2018**

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 Town of Easton Director of Human Resources, the Easton Utilities President and CEO, the Easton Utilities Senior Vice President of Finance and CFO, and the Easton Utilities Director of Human Resources) 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, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation dated August 1, 2017.

The total pension liability was determined by an actuarial valuation as of August 1, 2017, using the following actuarial assumptions, applied to all period 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.

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.

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

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, 2018 and the final investment return assumption, are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Return Portfolio</u>	<u>Weight</u>
US Equity	5.70%	60%
International Equity	5.90%	15%
Fixed Income – US	2.50%	20%
Real Estate	4.25%	5%
Total Weighted Average Real Return	5.02%	100%
Plus Inflation	2.75%	
Total Return without Adjustment	7.77%	
Risk Adjustment	-0.52%	
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 Utilities 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 rates 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.

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.

GASB 68 was implemented as of June 30, 2015, and includes information on the Town's Pension Expense, Deferred Inflows and Outflows of Resources, and recognition for such.

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)

The following are the required schedules as of June 30, 2018.

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2017	\$ 39,924,474	\$ 35,548,641	\$ 4,375,833
Changes for the Year			
Service Cost	649,665	-	649,665
Interest	2,994,555	-	2,994,555
Difference Between Expected and Actual Experience	1,693,833	-	1,693,833
Changes in Assumptions	(145,760)	-	(145,760)
Contributions - Employer	-	1,292,132	(1,292,132)
Contributions - Employee	-	242,302	(242,302)
Net Investment Income	-	2,951,567	(2,951,567)
Benefit Payments, Including Refunds of Employee Contributions	(1,695,271)	(1,695,271)	-
Administrative Expenses	-	(118,380)	118,380
Other Changes	-	-	-
Net Changes	<u>3,497,022</u>	<u>2,672,350</u>	<u>824,672</u>
Balance at June 30, 2018	\$ 43,421,496	\$ 38,220,991	\$ 5,200,505
		Current	
	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's Net Pension Liability	<u>\$ 10,246,054</u>	<u>\$ 5,200,505</u>	<u>\$ 989,406</u>

Deferred Inflows and Outflows

As of June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 1,105,999	\$ 1,319,655
Changes of Assumptions	75,665	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	534,897	1,391,945
Total	<u>\$ 1,716,561</u>	<u>\$ 2,711,600</u>

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Deferred Inflows and Outflows (Continued)

<u>Year Ended June 30</u>		
2019	\$	117,730
2020		(43,046)
2021		(700,944)
2022		(368,779)
Total Amount to be Recognized	\$	<u>(995,039)</u>

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. Coverage does not cease upon death of the retiree.

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%.

Employees Covered by Benefit Terms

At June 30, 2018, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefit Payments	267
Inactive Employees Entitled to But Not Yet Receiving Benefit Payments	-
Active Employees	<u>77</u>
Total	<u><u>344</u></u>

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.

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Net OPEB Liability

The City's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2017 rolled forward to June 30, 2018. The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	4.50 percent
Investment rate of return	7.0 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	5.75 percent initially, decreasing to an ultimate rate of 4.25 percent
	RP-2000 Table with Generational Scale BB applied to both males and females and setback 1 year. The disable versions of these tables are used for disabled lives
Mortality rates	

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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	69%	5.75%
Fixed Income	30%	2.75%
Cash	1%	0.85%
Total	100%	4.80%
Plus Inflation		2.75%
Total Return Without Risk Adjustment		7.55%
Risk Adjustment		-0.55%
Total Expected Return		7.00%

Discount Rate

The discount rate used to measure the total OPEB liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that City 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 by the Plan until 2080, at which time the Plan will be depleted. Therefore, the expected rate of return of 7.0% is blended with the 20-year Aa municipal bond index of 3.62%. The blended rate is 6.81%.

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan	
		Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at 6/30/17	\$ 16,843,574	\$ 8,592,051	\$ 8,251,523
Changes for the Year:			
Service Cost	628,228	-	628,228
Interest	1,086,565	-	1,086,565
Differences Between Expected and Actual Experience	(1,037,323)	-	(1,037,323)
Change in Assumptions	(223,006)	-	(223,006)
Contributions - Employer	-	1,488,861	(1,488,861)
Net Investment Income	-	660,670	(660,670)
Benefit Payments	(520,648)	(520,648)	-
Administrative Expense	-	(50,517)	50,517
Net Changes	<u>(66,184)</u>	<u>1,578,366</u>	<u>(1,644,550)</u>
Balances at 6/30/18	<u>\$ 16,777,390</u>	<u>\$ 10,170,417</u>	<u>\$ 6,606,973</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, 2018 was 7.3%. 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 to changes in the discount rate. The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.81 percent) or 1-percentagepoint higher (7.81percent) than the current discount rate:

	1% Decrease 5.81%	Discount Rate 6.81%	1% Increase 7.81%
Net OPEB Liability (Asset)	\$ 8,853,256	\$ 6,606,974	\$ 4,748,927

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

	1% Decrease 3.25%	Healthcare Cost Trend Rates 4.25%	1% Increase 5.25%
Net OPEB Liability (Asset)	\$ 4,850,948	\$ 6,606,974	\$ 7,882,353

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

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

For the year ended June 30, 2018, the City recognized OPEB expense of \$984,470. At June 30, 2018, the City 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
Differences Between Expected and Actual Experience	\$ -	\$ 922,065
Changes of Assumptions	-	198,228
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	-	19,866
Total	\$ -	\$ 1,140,159

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:	
2019	\$ 145,002
2020	145,002
2021	145,002
2022	145,004
2023	140,036
Thereafter	420,113

NOTE 12 RELATED PARTY TRANSACTIONS

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

Utility, Cable and Engineering and Other Services	\$ 387,700
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The outstanding balance of the above services remaining at June 30, 2018 was \$27,805. The General Fund charged the Utility Fund \$15,458 for street repairs and \$2,087,725 for payments in lieu of taxes during the year ended June 30, 2018.

In fiscal year 2013, the Commission loaned \$3,000,000 to the Town of Easton. The balance of the loan at June 30, 2018 was zero. The note bears an interest rate of 0.9%, requires equal quarterly payments of principal and interest in the amount of \$153,569 and had a scheduled maturity of April 2018. Total payments received during fiscal year were \$614,276.

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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 for the past three fiscal years.

Contingent Liabilities and Commitments

Grants and Cost-reimbursable Contracts

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

Fuel Cost and Purchased Gas Adjustment Rates

The fuel cost and purchased gas adjustment rates used in connection with gas and electric charges are subjected to review by the Public Service Commission of Maryland (PSC) on a regular basis. As of the date of this report, the purchased power and gas cost adjustment rates in effect through November 2015 have been reviewed and accepted by the PSC. The purchased gas adjustment rates applied subsequent to November 2015 have been authorized by the PSC subject to detailed review.

NOTE 14 RESTATEMENTS

During the year ended June 30, 2018, the Town adopted GASB Statement No. 75. Under GASB 75, the Net OPEB Liability and the Plan Fiduciary Net Position is established based upon the actuarial valuation. The effect of the change has resulted in a restatement of Net Position as of June 30, 2017.

Additionally during the year, certain restatements were made to reflect the effects of a change in the year end of the Pension Trust fund and related corrections of prepaid pension contributions.

The effect of these changes to beginning net position/fund balance are as follows:

	Governmental Activities	Business-type Activities	General Fund	Utility Fund	Trust Fund
Balance at June 30, 2017 as Originally Reported	\$ 46,492,899	\$ 106,861,244	\$ 7,366,318	\$ 104,278,209	\$ 41,170,592
Adjustment to Reflect Change in Pension Year	(927,814)	-	(927,814)	-	2,970,100
Adjustment to Restate Resulting from Change in Accounting Principal	(3,313,860)	(5,528,708)	-	(5,528,708)	-
Balance at June 30, 2017, as Restated	<u>\$ 42,251,225</u>	<u>\$ 101,332,536</u>	<u>\$ 6,438,504</u>	<u>\$ 98,749,501</u>	<u>\$ 44,140,692</u>

REQUIRED SUPPLEMENTARY INFORMATION

**TOWN OF EASTON, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>
Total Pension Liability		
Service Cost	\$ 649,665	\$ 641,648
Interest	2,994,555	2,749,554
Changes in Benefit Terms	1,693,833	-
Difference Between Expected and Actual Experience	(145,760)	(1,696,615)
Changes in Assumptions	-	143,593
Benefit Payments, Including Refunds	<u>(1,695,271)</u>	<u>(1,449,269)</u>
Net Change in Total Pension Liability	3,497,022	388,911
Total Pension Liability - Beginning of Year	<u>39,924,474</u>	<u>39,535,563</u>
Total Pension Liability - End of Year	<u><u>\$ 43,421,496</u></u>	<u><u>\$ 39,924,474</u></u>
Plan Fiduciary Net Position		
Contributions - Employer	\$ 1,292,132	\$ 1,292,132
Contributions - Member	242,302	168,723
Net Investment Income	2,951,567	3,939,792
Benefit Payments, Including Refunds	(1,695,271)	(1,449,269)
Administrative Expenses	(118,380)	(140,173)
Other	<u>-</u>	<u>-</u>
Net Change in Plan Fiduciary Net Position	2,672,350	3,811,205
Plan Fiduciary Net Position - Beginning of Year	<u>35,548,641</u>	<u>31,737,436</u>
Plan Fiduciary Net Position - End of Year	<u><u>\$ 38,220,991</u></u>	<u><u>\$ 35,548,641</u></u>
Net Pension Liability - Beginning of Year	4,375,833	7,798,127
Net Pension Liability - End of Year	\$ 5,200,505	\$ 4,375,833
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	88.0%	89.0%
Covered Employee Payroll	\$ 12,572,073	\$ 14,092,822
Net Pension Liability as a Percentage of Covered Payroll	41.4%	31.1%

**TOWN OF EASTON, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TOWN CONTRIBUTIONS - PENSION
JUNE 30, 2018**

Schedule of Town Contributions

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially Determined Contribution	\$ 994,133	\$ 1,032,915	\$ 1,093,661	\$ 1,104,544	\$ 1,224,131	\$ 1,241,552	\$ 1,204,597	\$ 1,011,277	\$ 1,015,045	\$ 930,774	\$ 1,019,227
Contributions in Relation of the Actuarially Determined Contribution	1,292,132	1,292,132	1,000,000	1,104,544	1,224,131	1,241,552	1,204,597	1,011,277	1,015,045	930,774	1,019,227
Contribution Deficiency (Excess)	(297,999)	(259,217)	93,661	-	-	-	-	-	-	-	-
Covered-Employee Payroll	\$ 12,572,073	\$ 14,092,822	\$ 13,991,348	\$ 13,811,971	\$ 13,707,415	\$ 13,947,014	\$ 13,458,869	\$ 13,337,806	\$ 13,142,094	\$ 12,693,536	\$ 11,653,090
Contributions as a Percentage of Covered Employee Payroll	10.3%	9.2%	7.1%	8.0%	8.9%	8.9%	9.0%	7.6%	7.7%	7.3%	8.7%

NOTES TO SCHEDULE:

Valuation Date: August 1, 2017

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	30 years
Asset valuation method	Market value of assets
Inflation	2.75%
Salary increases	4.50%, per year, including inflation
Investment rate of return	7.25% compounded annually, net of pension plan investment expenses, including inflation
Retirement age	In the 2017 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience.
Mortality	Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Tables for Males and Females, projected to 2014 with Scale AA. Assumptions were based on the 1194 Group Annual Mortality Table.

**TOWN OF EASTON, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>
Total OPEB Liability		
Service Cost	\$ 628,228	\$ 557,690
Interest	1,086,565	1,100,303
Changes of Benefit Terms	-	-
Differences Between Expected and Actual Experience	(1,037,323)	-
Changes of Assumptions	(223,006)	-
Benefit Payments	(520,648)	(413,896)
Net Change in Total OPEB Liability	<u>(66,184)</u>	<u>1,244,097</u>
Total OPEB Liability - Beginning	16,843,574	15,599,477
Total OPEB Liability - Ending (a)	<u><u>\$ 16,777,390</u></u>	<u><u>\$ 16,843,574</u></u>
 Plan Fiduciary Net Position		
Contributions - Employer	\$ 1,488,861	\$ 1,383,467
Net Investment Income	660,670	972,269
Benefit Payments	(520,648)	(413,896)
Administrative Expense	(50,517)	(41,952)
Net Change in Plan Fiduciary Net Position	<u>1,578,366</u>	<u>1,899,888</u>
Total Fiduciary Net Position - Beginning	8,592,051	6,692,163
Total Fiduciary Net Position - Ending (b)	<u><u>\$ 10,170,417</u></u>	<u><u>\$ 8,592,051</u></u>
 City's Net OPEB Liability - Ending (a) - (b)	 <u><u>\$ 6,606,973</u></u>	 <u><u>\$ 8,251,523</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	 60.6%	 51.0%
 Covered-Employee Payroll	 \$ 16,028,534	 \$ 14,609,300
 City's Net OPEB Liability as a Percentage of Covered- Employee Payroll	 41.2%	 56.5%

Note: This schedule is to provide 10 years of information. Additional years information will be added as it becomes available.

**TOWN OF EASTON, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TOWN CONTRIBUTIONS – OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2018**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially Determined Contribution	\$ 973,045	\$ 1,002,817	\$ 914,986	\$ 901,986	\$ 9,901,986	\$ 1,141,318	\$ 1,141,722	\$ 1,044,172	\$ 1,044,172	\$ 1,008,000
Contributions in Relation to the Actuarially Determined Contribution	1,488,861	1,383,459	1,594,520	1,450,995	1,594,520	1,266,456	958,558	1,029,630	1,003,132	838,000
Contribution Deficiency (Excess)	<u>\$ (515,816)</u>	<u>\$ (380,642)</u>	<u>\$ (679,534)</u>	<u>\$ (549,009)</u>	<u>\$ 8,307,466</u>	<u>\$ (125,138)</u>	<u>\$ 183,164</u>	<u>\$ 14,542</u>	<u>\$ 41,040</u>	<u>\$ 170,000</u>
Covered-Employee Payroll	\$ 16,028,534	\$ 14,609,300	\$ 14,609,300	\$ 14,609,300	\$ 13,594,393	\$ 13,594,393	\$ 12,886,240	\$ 12,886,240	\$ 12,300,340	\$ 12,300,340
Contributions as a Percentage of Covered-Employee Payroll	9.3%	9.5%	10.9%	9.9%	11.7%	9.3%	7.4%	8.0%	8.2%	6.8%

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

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

**TOWN OF EASTON, MARYLAND
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018**

	Debt Service	Community Development Block Grant	Law Enforcement	Total
ASSETS				
Cash and Cash Equivalents - Pooled	\$ 7,612,260	\$ -	\$ 202,516	\$ 7,814,776
Accounts Receivable, Net	-	-	-	-
Notes Receivable	-	-	-	-
Due from Other Funds	-	-	-	-
Other Assets	-	-	-	-
Total Assets	\$ 7,612,260	\$ -	\$ 202,516	\$ 7,814,776
LIABILITIES				
Accounts Payable	\$ 349	\$ 29,352	\$ 437	\$ 30,138
Due to Other Funds	-	153,122	-	153,122
Total Liabilities	349	182,474	437	183,260
FUND BALANCES (DEFICITS)				
Nonspendable	-	-	-	-
Restricted	7,611,911	-	202,079	7,813,990
Unassigned	-	(182,474)	-	(182,474)
Total Fund Balances (Deficits)	7,611,911	(182,474)	202,079	7,631,516
Total Liabilities and Fund Balances	\$ 7,612,260	\$ -	\$ 202,516	\$ 7,814,776

**TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (DEFICIT)
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018**

	Debt Service	Community Development Block Grant	Law Enforcement	Total
REVENUES				
Revenues from Other Agencies	\$ -	\$ 401,203	\$ -	\$ 401,203
Miscellaneous Revenue	-	-	205,135	205,135
Total Revenues	<u>-</u>	<u>401,203</u>	<u>205,135</u>	<u>606,338</u>
EXPENDITURES				
Current Operations:				
Public Safety	-	-	166,138	166,138
Recreation and Cultural	-	502,531	-	502,531
Miscellaneous	4,290	-	-	4,290
Debt Service:				
Principal	1,125,000	-	-	1,125,000
Interest	337,310	-	-	337,310
Total Expenditures	<u>1,466,600</u>	<u>502,531</u>	<u>166,138</u>	<u>2,135,269</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,466,600)	(101,328)	38,997	(1,528,931)
OTHER FINANCING SOURCES (USES)				
Transfers net	<u>1,483,930</u>	<u>-</u>	<u>-</u>	<u>1,483,930</u>
Total Other Financing Sources	<u>1,483,930</u>	<u>-</u>	<u>-</u>	<u>1,483,930</u>
NET CHANGE IN FUND BALANCES	17,330	(101,328)	38,997	(45,001)
Fund Balances (Deficits) - Beginning of Year	<u>7,594,581</u>	<u>(81,146)</u>	<u>163,082</u>	<u>7,676,517</u>
YEAR	<u>\$ 7,611,911</u>	<u>\$ (182,474)</u>	<u>\$ 202,079</u>	<u>\$ 7,631,516</u>

**TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF NET POSITION
NON-MAJOR OTHER PROPRIETARY FUNDS
JUNE 30, 2018**

	Land Enterprise	Airport Industrial Land	Total
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents - Pooled	\$ 1,420,406	\$ 146,660	\$ 1,567,066
Accounts Receivable, Net	1,195	-	1,195
Total Current Assets	1,421,601	146,660	1,568,261
NONCURRENT ASSETS			
Capital Assets, Not Being Depreciated	15,028	67,945	82,973
Capital Assets, Net of Accumulated Depreciation	541,088	383,368	924,456
Total Noncurrent Assets	556,116	451,313	1,007,429
 Total Assets	 \$ 1,977,717	 \$ 597,973	 \$ 2,575,690
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Accounts Payable	\$ 4,148	\$ -	\$ 4,148
Performance Deposits	1,500	-	1,500
Total Current Liabilities	5,648	-	5,648
NET POSITION			
Net Investment in Capital Assets	556,116	451,313	1,007,429
Unrestricted	1,415,953	146,660	1,562,613
Total Net Position	1,972,069	597,973	2,570,042
 Total Liabilities and Net Position	 \$ 1,977,717	 \$ 597,973	 \$ 2,575,690

TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
NON-MAJOR OTHER PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018

	<u>Land</u> <u>Enterprise</u>	<u>Airport</u> <u>Industrial Land</u>	<u>Total</u>
OPERATING REVENUES			
Charges for Services	\$ 138,324	\$ 3,080	\$ 141,404
Other Operating Revenues	4,417	-	4,417
Total Operating Revenues	<u>142,741</u>	<u>3,080</u>	<u>145,821</u>
OPERATING EXPENSES			
Cost of Service	63,421	-	63,421
Depreciation	62,057	33,336	95,393
Total Operating Expenses	<u>125,478</u>	<u>33,336</u>	<u>158,814</u>
Operating Income (Loss)	<u>17,263</u>	<u>(30,256)</u>	<u>(12,993)</u>
CHANGES IN FUND NET POSITION	17,263	(30,256)	(12,993)
Total Net Position - Beginning of Year	<u>1,954,806</u>	<u>628,229</u>	<u>2,583,035</u>
TOTAL NET POSITION - END OF YEAR	<u><u>\$ 1,972,069</u></u>	<u><u>\$ 597,973</u></u>	<u><u>\$ 2,570,042</u></u>

**TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR OTHER PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018**

	<u>Land Enterprise</u>	<u>Airport Industrial Land</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 165,829	\$ 3,080	\$ 168,909
Cash Paid for Services	<u>(59,673)</u>	<u>-</u>	<u>(59,673)</u>
Net Cash Provided by Operating Activities	<u>106,156</u>	<u>3,080</u>	<u>109,236</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from the Sale of Assets	<u>-</u>	<u>-</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	106,156	3,080	109,236
Cash and Cash Equivalents - Beginning of Year	<u>1,314,250</u>	<u>143,580</u>	<u>1,457,830</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,420,406</u>	<u>\$ 146,660</u>	<u>\$ 1,567,066</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$ 17,263	\$ (30,256)	\$ (12,993)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	62,057	33,336	95,393
Changes in Operating Assets and Liabilities:			
Accounts Receivable, Net	23,088	-	23,088
Accounts Payable and Accrued Expenses	<u>3,748</u>	<u>-</u>	<u>3,748</u>
Total Adjustments	<u>88,893</u>	<u>33,336</u>	<u>122,229</u>
Net Cash Provided by Operating Activities	<u>\$ 106,156</u>	<u>\$ 3,080</u>	<u>\$ 109,236</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, 2018**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 9,300	\$ 9,300
EXPENDITURES				
General Governmental	203,500	203,500	141,652	61,848
Public Safety	263,675	263,675	244,906	18,769
Public Works	2,145,000	2,145,000	1,412,382	732,618
Recreation and Cultural	477,210	477,210	303,967	173,243
Total Expenditures	<u>3,089,385</u>	<u>3,089,385</u>	<u>2,102,907</u>	<u>986,478</u>
OTHER FINANCING SOURCES				
Transfers In	3,089,385	3,089,385	3,089,385	-
Total Other Financing Sources	<u>3,089,385</u>	<u>3,089,385</u>	<u>3,089,385</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 995,778</u>	<u>\$ 995,778</u>
Fund Balance - Beginning of Year			<u>4,119,101</u>	
FUND BALANCE - END OF YEAR			<u>\$ 5,114,879</u>	