

TOWN OF EASTON, MARYLAND
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

**TOWN OF EASTON, MARYLAND
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2019**

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	15
STATEMENT OF ACTIVITIES	16
FUND FINANCIAL STATEMENTS	
BALANCE SHEET – GOVERNMENTAL FUNDS	17
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION	18
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	19
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	20
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) – GENERAL FUND	21
STATEMENT OF NET POSITION – PROPRIETARY FUNDS	24
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – PROPRIETARY FUNDS	25
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS	26
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS	27
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – FIDUCIARY FUNDS	28
NOTES TO FINANCIAL STATEMENTS	29

**TOWN OF EASTON, MARYLAND
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2019**

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET PENSION LIABILITY	70
SCHEDULE OF TOWN CONTRIBUTIONS - PENSION	71
SCHEDULE OF CHANGES TO NET OPEB LIABILITY AND RELATED RATIOS	72
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	73

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS	75
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICITS) – NONMAJOR GOVERNMENTAL FUNDS	76
COMBINING STATEMENT OF NET POSITION – NONMAJOR OTHER PROPRIETARY FUNDS	77
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – NONMAJOR OTHER PROPRIETARY FUNDS	78
COMBINING STATEMENT OF CASH FLOWS – NONMAJOR OTHER PROPRIETARY FUNDS	79

OTHER SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – CAPITAL PROJECT FUND	81
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Town of Easton, Maryland (the Town), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Honorable Mayor and
Members of the Town Council

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Easton, Maryland as of June 30, 2019, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 4-14 and required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Honorable Mayor and
Members of the Town Council

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2019, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Baltimore, Maryland
December 10, 2019

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

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, 2019. 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, 2019, the Town's total assets and deferred outflows of resources of the Town were \$209.3 million and exceeded its liabilities and deferred inflows of resources at June 30 2019 by \$160.3 million.
- As of June 30, 2019, the Town's governmental funds reported an ending fund balance of \$24.6 million which is an increase of approximately \$.3 million (i.e. total net position).

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

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, 2019, 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, 2019.

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, 2019**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

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

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

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

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

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

Notes to the Financial Statements

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

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town's net position total \$160.3 million at June 30, 2019, which is an increase of approximately \$10.2 million over the June 30, 2018 net position. The following table reflects the Government-Wide Statement of Net Position for Governmental and Business-Type Activities:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Current and Other Assets	\$ 27,346,615	\$ 25,938,614	\$ 49,700,144	\$ 44,086,324	\$ 77,046,759	\$ 70,024,938
Capital Assets and Other Assets	39,605,630	39,146,506	91,853,985	88,880,080	131,459,615	128,026,586
Total Assets	<u>66,952,245</u>	<u>65,085,120</u>	<u>141,554,129</u>	<u>132,966,404</u>	<u>208,506,374</u>	<u>198,051,524</u>
Total Deferred Outflows of Resources	556,419	1,338,450	257,931	949,756	814,350	2,288,206
Current Liabilities	3,344,720	2,451,391	7,090,057	7,681,226	10,434,777	10,132,617
Long-Term Debt	19,027,557	20,896,106	16,961,189	15,373,603	35,988,746	36,269,709
Total Liabilities	<u>22,372,277</u>	<u>23,347,497</u>	<u>24,051,246</u>	<u>23,054,829</u>	<u>46,423,523</u>	<u>46,402,326</u>
Total Deferred Inflows of Resources	855,567	1,317,136	1,710,978	2,534,653	2,566,545	3,851,789
Net Investment in Capital Assets	28,780,950	27,143,961	74,213,222	76,105,544	102,994,172	103,249,505
Restricted	10,056,116	12,726,815	-	-	10,056,116	12,726,815
Unrestricted	5,443,754	1,888,161	41,836,614	32,221,134	47,280,368	34,109,295
Total Net Position	<u>\$ 44,280,820</u>	<u>\$ 41,758,937</u>	<u>\$ 116,049,836</u>	<u>\$ 108,326,678</u>	<u>\$ 160,330,656</u>	<u>\$ 150,085,615</u>

The Town's total assets and deferred outflows of resources were approximately \$209.3 million (compared to \$200.3 million in the prior year) as of June 30, 2019. Of this amount, \$131.5 million (compared to \$128.0 million in the prior year) is accounted for by capital assets, which includes infrastructure.

Of the remaining assets, approximately \$62.3 million is accounted for in cash and cash equivalents and investments (compared to \$56.5 million in the prior year), approximately \$7.1 million in accounts and notes receivable (compared to \$6.0 million in the prior year), inventory of approximately \$4.3 million (compared to \$3.6 million in the prior year), with the remainder spread among various other accounts.

Outstanding liabilities totaled approximately \$46.4 million with bonds comprising approximately \$8.8 million, loans from the State or Maryland comprising approximately \$13.1 million, PNC Bank loan of \$6.5 million, Net OPEB liability comprising approximately \$3.1 million, Net Pension liability comprising approximately \$5.3 million, approximately \$5.0 million in accounts payable and accrued expenses and other liabilities comprising approximately \$4.6 million at June 30, 2019. This compares with the June 30, 2018 amounts where the Town had outstanding liabilities of approximately \$46.4 million of which approximately \$10.4 million was bonds payable, approximately \$14.2 million was loans from the State of Maryland, Net OPEB liability comprising approximately \$6.6 million, Net Pension Liability comprising \$5.6 million and accounts payable and accrued expenses comprising approximately \$5.2 million and other liabilities comprising approximately \$4.4 million at June 30, 2018. Of the bonds payable, approximately \$1.2 million is due within one year, with the remainder due at various dates before 2036. Refer to the notes to the financial statements for a more in-depth discussion of long-term debt.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

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, 2019, 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, 2019**

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

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

Statement of Activities - Changes in Net Position (Continued)

**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	<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>

Total revenues for the Town were approximately \$78.8 million for the year ended June 30, 2019 compared to approximately \$78.9 million for the year ending June 30, 2018. Governmental activities provided approximately \$23.0 million, and business-type activities provided \$55.8 million, primarily through charges for services.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)

Governmental Funds Revenue and Expense Analysis

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

The General Fund is the chief operating fund of the Town. As of June 30, 2019, unassigned fund balance of the General Fund was approximately \$5.2 million.

Revenues Classified by Source

	<u>2019</u>	<u>Percent to Total</u>	<u>2018</u>	<u>Percent to Total</u>
Governmental Funds				
Revenues:				
General Property Taxes	\$ 12,328,798	53.87%	\$ 12,144,352	58.32%
Other Local Taxes	2,709,832	11.84%	2,362,805	11.35%
Permits and Licenses	898,403	3.93%	641,983	3.08%
Fines and Forfeitures	46,464	0.20%	45,075	0.22%
Charges for Services	1,610,146	7.03%	1,454,202	6.98%
Miscellaneous	962,240	4.20%	1,159,156	5.57%
Intergovernmental	4,331,874	18.93%	3,017,327	14.49%
Total Revenues	<u>\$ 22,887,757</u>	<u>100.00%</u>	<u>\$ 20,824,900</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 \$11.4 million, an increase of 2% or approximately \$240 thousand from last year reflecting an increase in value of assessable tax base properties. The real estate tax rate was maintained at the FY2018 rate of \$.52 per \$100 of assessed value. Gross personal property tax revenue decreased 6% to approximately \$903 thousand as a result of decreased assessments. The personal property tax rate remained unchanged from FY2018 at a rate of \$1.30 per \$100 of assessed value of personal property located within the Town limits.
- **Other Local Taxes** – This category is primarily comprised of local income tax share and smaller tax revenues. This revenue increased by approximately \$347 thousand or 30% during FY2019. Primarily the changes are a net result of increased State of Maryland shared income allocations of local income tax distributions.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

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>2019</u>	<u>Percent to Total</u>	<u>2018</u>	<u>Percent to Total</u>
Governmental Funds				
Expenditures:				
Current Operations:				
General Government				
Administration	\$ 2,541,333	11.27%	\$ 2,287,855	10.98%
Public Safety	10,374,840	46.00%	8,809,407	42.28%
Public Works	5,329,508	23.63%	5,820,899	27.94%
Recreation and Cultural	1,919,489	8.51%	1,098,161	5.27%
Economic Development	419,406	1.86%	299,726	1.44%
Nondepartmental	458,699	2.03%	1,038,779	4.99%
Debt Service:				
Principal	1,179,630	5.23%	1,128,690	5.42%
Interest	332,091	1.47%	350,567	1.68%
Total Expenditures	<u>\$ 22,554,996</u>	<u>100.00%</u>	<u>\$ 20,834,084</u>	<u>100.00%</u>

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

- **Public Safety** – in terms of total dollars the largest increase was due to changes in the organization of the Traffic Engineering department.
- **Non-Departmental Expenses** – The largest decrease was in the non-departmental expenses and was increased effort to allocate costs directly.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)

Enterprise Funds Revenue and Expense Analysis

PROPRIETARY FUNDS	2019	2018
Operating Revenues		
Charges for Services	\$ 53,923,367	\$ 55,367,009
Other Operating Revenues	513,364	1,172,971
Total Revenues	\$ 54,436,731	\$ 56,539,980
Operating Expenses		
Cost of Service	\$ 38,991,860	\$ 41,543,477
Depreciation	6,763,012	6,529,674
Total Operating Expenses	\$ 45,754,872	\$ 48,073,151
Other Revenues and Expenses		
Investment Earnings	\$ 650,198	\$ 310,740
Interest Expense	(263,281)	(282,449)
Gain on Sale of Property	(1,097)	18,345
Payment in Lieu of Taxes	(2,067,655)	(2,087,725)
Capital Charges	674,156	433,669
Miscellaneous	48,978	134,733
Total Other Revenues and Expenses	\$ (958,701)	\$ (1,472,687)

Operating Revenues: The Commission's FY2019 operating revenues totaled \$54.3 million, a decrease of \$2.1 million from FY2018. Energy revenues were down \$2.2 million in the Electric Departments as a result of lower costs passed through to customers as well as lower unit sales. Cable and Communication department revenues were \$630 thousand higher in FY2019 versus 2018.

Operating Expenses: The Commission's operating expenses totaled \$45.6 million in FY2019, which was \$2.3 million (4.8%) lower than FY2018.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

ANALYSIS OF BUDGET AND ACTUAL RESULTS

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Governmental Funds – GENERAL FUND				
Revenues				
Taxes	\$ 14,674,188	\$ 14,674,188	\$ 15,038,630	\$ 364,442
Licenses and Permits	794,000	794,000	898,403	104,403
Intergovernmental	606,184	606,184	842,775	236,591
Charges for Services	1,540,849	1,540,849	1,610,146	69,297
Fines and Forfeitures	46,300	46,300	46,464	164
Miscellaneous	2,132,200	2,132,200	2,798,472	666,272
Total Revenues	<u>\$ 19,793,721</u>	<u>\$ 19,793,721</u>	<u>\$ 21,234,890</u>	<u>\$ 1,441,169</u>
Expenditures				
Current Operations:				
General Government Administration	\$ 2,317,158	\$ 2,317,158	\$ 2,272,436	\$ 44,722
Public Safety	9,182,681	9,182,681	8,672,143	510,538
Public Works	4,155,526	4,155,526	4,708,312	(552,786)
Recreation and Cultural	378,629	378,629	370,351	8,278
Economic Development	430,370	430,370	419,406	10,964
Nondepartmental	496,098	496,098	588,383	(92,285)
Debt Service:				
Principal	4,631	4,631	4,630	1
Interest	12,854	12,854	12,854	-
Other Financing (Sources) Uses:				
Transfers	<u>2,815,774</u>	<u>2,815,774</u>	<u>2,105,585</u>	<u>710,189</u>
Total Expenditures and Other Uses	<u>\$ 19,793,721</u>	<u>\$ 19,793,721</u>	<u>\$ 19,154,100</u>	<u>\$ 639,621</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 \$1.4 million dollars or more than 7% of the budgeted revenue of approximately \$19.8 million. This is the net result of miscellaneous revenues that were \$666 thousand greater than budget and tax revenues that were \$364 thousand higher than budget and other categories coming in slightly over budgeted amounts.
- Gross budgeted expenditures and other financing uses were less than the gross actual expenditures and other financing (sources) uses by approximately \$771 thousand or 3.8% of budgeted expenditures and other financing uses. The most significant variances related to non-departmental expenses transfers.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

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, 2019, amounts to \$128.5 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, recreation and park facilities, utilities properties and facilities as well as other typical capital items.

The following table schedules capital assets by category (net of accumulated depreciation) for fiscal years ending June 30, 2019 and 2018, respectively:

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 7,155,203	\$ 7,155,203	\$ 1,148,005	\$ 1,148,005	\$ 8,303,208	\$ 8,303,208
Buildings and Improvements	29,054,306	28,718,503	16,368,199	16,808,398	45,422,505	45,526,901
Plants, Mains and Other Equipment	3,396,121	3,272,800	70,639,066	69,308,373	74,035,187	72,581,173
Construction in Progress	-	-	3,698,715	1,615,304	3,698,715	1,615,304
Total Capital Assets	<u>\$ 39,605,630</u>	<u>\$ 39,146,506</u>	<u>\$ 91,853,985</u>	<u>\$ 88,880,080</u>	<u>\$ 131,459,615</u>	<u>\$ 128,026,586</u>

During the year ended June 30, 2019, the Town's capital assets increased by approximately \$459 thousand.

Long-Term Debt Activity

The Town issued no new bonds during the fiscal year 2019. During FY2019. The Commission entered into a \$6.5 million loan agreement with PNC Bank to partially fund construction of the "Node + 0 Project." The loan will require monthly principal and interest payments of \$62,840 at a fixed 2.98% for 7 years and then will be renegotiated. The Town has guaranteed the borrowings. Regularly scheduled principal payments were made during 2019 totaling approximately \$3.5 million. Refer to the schedule below for balances.

Changes in Long-Term Liabilities

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
General Obligation Bonds	\$ 9,384,637	\$ 10,615,037	\$ -	\$ 470,000	\$ 9,384,637	\$ 11,085,037
Loans	1,954,523	1,959,153	17,640,763	12,304,574	19,595,286	14,263,727
Compensated Absences	769,960	776,511	867,630	802,225	1,637,590	1,578,736
Total Long-Term Liabilities	<u>\$ 12,109,120</u>	<u>\$ 13,350,701</u>	<u>\$ 18,508,393</u>	<u>\$ 13,576,799</u>	<u>\$ 30,617,513</u>	<u>\$ 26,927,500</u>

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, 2019

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 24,894,769	\$ 12,028,785	\$ 36,923,554
Investments	12,786	25,384,598	25,397,384
Accounts Receivable, Net	2,407,033	4,728,395	7,135,428
Unrecovered Fuel and Gas Costs	-	120,037	120,037
Interest Receivable	-	74,090	74,090
Prepaid Items	32,027	1,248,057	1,280,084
Unbilled Revenue	-	1,844,485	1,844,485
Inventory, at Average Cost	-	4,271,697	4,271,697
Total Current Assets	<u>27,346,615</u>	<u>49,700,144</u>	<u>77,046,759</u>
NONCURRENT ASSETS			
Capital Assets, Not Being Depreciated	7,155,203	4,846,720	12,001,923
Capital Assets, Net of Accumulated Depreciation	<u>32,450,427</u>	<u>87,007,265</u>	<u>119,457,692</u>
Total Noncurrent Assets	<u>39,605,630</u>	<u>91,853,985</u>	<u>131,459,615</u>
Total Assets	66,952,245	141,554,129	208,506,374
DEFERRED OUTFLOWS OF RESOURCES			
Unamortized Loss on Reacquired Debt	514,480	-	514,480
Deferred Outflow - Benefit Plans	41,939	257,931	299,870
Total Deferred Outflows of Resources	<u>556,419</u>	<u>257,931</u>	<u>814,350</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	1,553,308	1,883,110	3,436,418
Accrued Liabilities	191,202	1,411,570	1,602,772
Tax Collection Payable	-	356,531	356,531
Performance Deposits	402,895	1,240,659	1,643,554
Unearned Revenue	12,472	18,121	30,593
Over-Recovered Revenue	-	407,389	407,389
Current Portion of Long-Term Debt	<u>1,184,843</u>	<u>1,772,677</u>	<u>2,957,520</u>
Total Current Liabilities	<u>3,344,720</u>	<u>7,090,057</u>	<u>10,434,777</u>
NONCURRENT LIABILITIES			
Compensated Absences, Net of Current Portion	769,960	867,630	1,637,590
Long-Term Debt, Net of Current Portion	10,154,317	15,868,086	26,022,403
Net OPEB Liability	2,827,952	225,473	3,053,425
Net Pension Liability	<u>5,275,328</u>	<u>-</u>	<u>5,275,328</u>
Total Noncurrent Liabilities	<u>19,027,557</u>	<u>16,961,189</u>	<u>35,988,746</u>
Total Liabilities	<u>22,372,277</u>	<u>24,051,246</u>	<u>46,423,523</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflow - Benefit Plans	<u>855,567</u>	<u>1,710,978</u>	<u>2,566,545</u>
Total Deferred Inflows of Resources	855,567	1,710,978	2,566,545
NET POSITION			
Net Investment in Capital Assets	28,780,950	74,213,222	102,994,172
Restricted for:			
Debt Service	6,053,737	-	6,053,737
Capital Improvements	4,002,379	-	4,002,379
Community Development	-	-	-
Unrestricted	<u>5,443,754</u>	<u>41,836,614</u>	<u>47,280,368</u>
Total Net Position	<u>\$ 44,280,820</u>	<u>\$ 116,049,836</u>	<u>\$ 160,330,656</u>

See accompanying Notes to Financial Statements.

**TOWN OF EASTON, MARYLAND
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

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	\$ 2,304,483	\$ 1,020,193	\$ -	\$ -	\$ (1,284,290)	\$ -	\$ (1,284,290)
Public Safety	9,256,276	434,368	325,740	-	(8,496,168)	-	(8,496,168)
Public Works	5,841,966	1,483,563	716,217	-	(3,642,186)	-	(3,642,186)
Recreation and Cultural	2,186,612	-	516,132	-	(1,670,480)	-	(1,670,480)
Economic Development	115,688	-	1,238,484	-	1,122,796	-	1,122,796
Nondepartmental	458,699	-	-	-	(458,699)	-	(458,699)
Interest Expense	332,091	-	-	-	(332,091)	-	(332,091)
Total Governmental Activities	<u>20,495,815</u>	<u>2,938,124</u>	<u>2,796,573</u>	<u>-</u>	<u>(14,761,118)</u>	<u>-</u>	<u>(14,761,118)</u>
Business-Type Activities:							
Utility	45,859,431	54,277,132	-	-	-	8,417,701	8,417,701
Land Enterprise	121,718	156,519	-	-	-	34,801	34,801
Airport Industrial	37,004	3,080	-	-	-	(33,924)	(33,924)
Total Business-Type Activities	<u>46,018,153</u>	<u>54,436,731</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,418,578</u>	<u>8,418,578</u>
Total Primary Government	<u>\$ 66,513,968</u>	<u>\$ 57,374,855</u>	<u>\$ 2,796,573</u>	<u>\$ -</u>	<u>(14,761,118)</u>	<u>8,418,578</u>	<u>(6,342,540)</u>
General revenues:							
Property Taxes					12,328,798	-	12,328,798
Payment in Lieu of Taxes					2,067,655	(2,067,655)	-
Intergovernmental, Unrestricted					2,607,023	-	2,607,023
Interest and Investment Earnings					121,809	650,198	772,007
Miscellaneous					157,716	722,037	879,753
Total General Revenues					<u>17,283,001</u>	<u>(695,420)</u>	<u>16,587,581</u>
CHANGE IN NET POSITION					2,521,883	7,723,158	10,245,041
Net Position - Beginning of Year					<u>41,758,937</u>	<u>108,326,678</u>	<u>150,085,615</u>
NET POSITION - END OF YEAR					<u>\$ 44,280,820</u>	<u>\$ 116,049,836</u>	<u>\$ 160,330,656</u>

See accompanying Notes to Financial Statements.

**TOWN OF EASTON, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019**

	General Fund	Capital Projects Fund	Infrastructure Development Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents - Pooled	\$ 8,177,951	\$ 6,570,979	\$ 4,002,379	\$ 6,143,460	\$ 24,894,769
Investments	12,786	-	-	-	12,786
Accounts Receivable, Net	1,835,055	-	-	571,978	2,407,033
Prepaid Items	32,027	-	-	-	32,027
Due from Other Funds	367,530	-	-	-	367,530
	<u>367,530</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>367,530</u>
Total Assets	<u>\$ 10,425,349</u>	<u>\$ 6,570,979</u>	<u>\$ 4,002,379</u>	<u>\$ 6,715,438</u>	<u>\$ 27,714,145</u>
LIABILITIES					
Accounts Payable	\$ 411,871	\$ 655,669	\$ -	\$ 485,768	\$ 1,553,308
Accrued Liabilities	191,202	-	-	-	191,202
Due to Other Funds	-	-	-	367,530	367,530
Performance Deposits	402,895	-	-	-	402,895
Unearned Revenue	12,472	-	-	-	12,472
Total Liabilities	<u>1,018,440</u>	<u>655,669</u>	<u>-</u>	<u>853,298</u>	<u>2,527,407</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable Tax Revenue	622,316	-	-	-	622,316
FUND BALANCES					
Nonspendable	32,027	-	-	-	32,027
Restricted	-	5,915,310	4,002,379	6,053,737	15,971,426
Committed	3,591,260	-	-	-	3,591,260
Assigned	-	-	-	89,275	89,275
Unassigned	5,161,306	-	-	(280,872)	4,880,434
Total Fund Balances	<u>8,784,593</u>	<u>5,915,310</u>	<u>4,002,379</u>	<u>5,862,140</u>	<u>24,564,422</u>
Total Liabilities, Deferred Inflows or Resources and Fund Balances	<u>\$ 10,425,349</u>	<u>\$ 6,570,979</u>	<u>\$ 4,002,379</u>	<u>\$ 6,715,438</u>	<u>\$ 27,714,145</u>

See accompanying Notes to Financial Statements.

**TOWN OF EASTON, MARYLAND
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2019**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		\$ 24,564,422
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 \$72,475,556 and the accumulated depreciation is \$32,869,485		
		39,605,630
Net OPEB Liability		(2,827,952)
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	(8,775,000)	
Notes payable	(1,954,523)	
Bond Premium	(609,637)	
Compensated absences	<u>(769,960)</u>	(12,109,120)
Net pension obligations are not due and payable in the current period, and therefore, are not reported in the funds		(5,275,328)
Deferred outflow - loss on refunding included in governmental activities		514,480
Deferred outflows and inflows of resources related to pensions and OPEB benefit plans are applicable to future periods and, therefore, are not reported in the funds. Deferred outflows of resources related to benefit plans include \$41,939 outflows of resources pension/OPEB expense and \$855,567 of Deferred inflows of resources related to pensions/OPEB.		
		(813,628)
Certain receivables are not available to pay for current period expenditures and, therefore, are deferred inflows in the governmental funds.		<u>622,316</u>
Total Net Position - Governmental Activities		<u><u>\$ 44,280,820</u></u>

See accompanying Notes to Financial Statements.

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2019

	General Fund	Capital Projects Fund	Infrastructure Development Fund	Non-Major Governmental Fund	Total Governmental Funds
REVENUES					
General Property Taxes	\$ 12,328,798	\$ -	\$ -	\$ -	\$ 12,328,798
Other Local Taxes	2,709,832	-	-	-	2,709,832
Permits and Licenses	898,403	-	-	-	898,403
Fines and Forfeitures	46,464	-	-	-	46,464
Charges for Services	1,610,146	-	-	-	1,610,146
Revenues from Other Agencies	842,775	-	-	119,465	962,240
Miscellaneous	2,798,472	-	239,402	1,294,000	4,331,874
Total Revenues	<u>21,234,890</u>	<u>-</u>	<u>239,402</u>	<u>1,413,465</u>	<u>22,887,757</u>
EXPENDITURES					
Current Operations:					
General Government	2,272,436	268,897	-	-	2,541,333
Public Safety	8,672,143	1,645,483	-	57,214	10,374,840
Public Works	4,708,312	621,196	-	-	5,329,508
Recreation and Cultural	370,351	204,681	-	1,344,457	1,919,489
Economic Development	419,406	-	-	-	419,406
Nondepartmental	456,672	-	-	2,027	458,699
Debt Service:					
Principal	4,630	-	-	1,175,000	1,179,630
Interest	12,854	-	-	319,237	332,091
Total Expenditures	<u>16,916,804</u>	<u>2,740,257</u>	<u>-</u>	<u>2,897,935</u>	<u>22,554,996</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>4,318,086</u>	<u>(2,740,257)</u>	<u>239,402</u>	<u>(1,484,470)</u>	<u>332,761</u>
OTHER FINANCING SOURCES (USES)					
Refunding Bonds Issued	-	-	-	-	-
Bond Premium	-	-	-	-	-
Payment to Refund Bond Escrow Agent	-	-	-	-	-
Transfers In	-	3,540,688	-	-	3,540,688
Transfers Out	(2,105,585)	-	(1,150,197)	(284,906)	(3,540,688)
Total Other Financing Sources (Uses)	<u>(2,105,585)</u>	<u>3,540,688</u>	<u>(1,150,197)</u>	<u>(284,906)</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	2,212,501	800,431	(910,795)	(1,769,376)	332,761
Fund Balances - Beginning 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>
FUND BALANCES - END OF YEAR	<u>\$ 8,784,593</u>	<u>\$ 5,915,310</u>	<u>\$ 4,002,379</u>	<u>\$ 5,862,140</u>	<u>\$ 24,564,422</u>

See accompanying Notes to Financial Statements.

**TOWN OF EASTON, MARYLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 332,761

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

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense \$2,550,068 and a disposal of \$118 was exceeded by capital outlay \$3,009,311 in the period. 459,124

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). 6,551

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. 1,235,030

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. (57,165)

Long-term liabilities for pension and OPEB are presented in the government-wide statements but are not in the governmental fund statements.

Net effect of expenses for recording pension liability from employee retirement plan	245,695
Net effect of expenses for recording OPEB liability from the OPEB plan	168,181

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. 131,706

Change in Net Position of Governmental Activities \$ 2,521,883

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, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget		
REVENUES				
Taxes				
General Property Taxes:				
Real Property Taxes	\$ 11,364,186	\$ 11,364,186	\$ 11,446,876	\$ 82,690
Personal Property Taxes - Business	835,000	835,000	804,923	(30,077)
Personal Property Taxes - Railroad and Public Utilities	101,000	101,000	102,070	1,070
Abatements/Discounts	(68,000)	(68,000)	(69,482)	(1,482)
Penalties and Interest	43,900	43,900	44,411	511
Total General Property Taxes	<u>12,276,086</u>	<u>12,276,086</u>	<u>12,328,798</u>	<u>52,712</u>
Local Taxes:				
State Shared Income Taxes	1,693,315	1,693,315	1,996,954	303,639
State Shared Highway Taxes	701,637	701,637	708,159	6,522
Admission and Amusements	2,400	2,400	3,969	1,569
Franchise-Ordinary Business Corporation	750	750	750	-
Total Other Local Taxes	<u>2,398,102</u>	<u>2,398,102</u>	<u>2,709,832</u>	<u>311,730</u>
Total Taxes	<u>14,674,188</u>	<u>14,674,188</u>	<u>15,038,630</u>	<u>364,442</u>
Permits and Licenses				
Trader's Licenses	72,000	72,000	67,188	(4,812)
Building Permits	375,000	375,000	417,318	42,318
Plumbing Permits	43,500	43,500	40,784	(2,716)
Use and Occupancy Permits	56,500	56,500	60,950	4,450
Rental Housing License Fees	105,000	105,000	107,980	2,980
Permits and Other Licenses	142,000	142,000	204,183	62,183
Total Permits and Licenses	<u>794,000</u>	<u>794,000</u>	<u>898,403</u>	<u>104,403</u>
Fines and Forfeitures				
	<u>46,300</u>	<u>46,300</u>	<u>46,464</u>	<u>164</u>
Charges for Services				
General Government	118,000	118,000	121,790	3,790
Public Safety	171,389	171,389	244,196	72,807
Highway and Streets	107,000	107,000	92,732	(14,268)
Sanitation and Waste Removal	1,136,460	1,136,460	1,126,870	(9,590)
Main Street and Recreation fees	8,000	8,000	24,558	16,558
Total Charges for Services	<u>1,540,849</u>	<u>1,540,849</u>	<u>1,610,146</u>	<u>69,297</u>
Revenues from Other Agencies				
State:				
Police Protection	265,261	265,261	263,610	(1,651)
Fire, Rescue, and Ambulance	12,700	12,700	35,243	22,543
Conservation and Critical Areas	4,500	4,500	4,500	-
Recreation Open Space & Other Projects	-	-	53,995	53,995
Total State	<u>282,461</u>	<u>282,461</u>	<u>357,348</u>	<u>74,887</u>
County:				
Taxes	318,000	318,000	479,704	161,704
Misc County Grant	5,723	5,723	5,723	-
Total County	<u>323,723</u>	<u>323,723</u>	<u>485,427</u>	<u>161,704</u>
Total Revenues from Other Agencies	<u>606,184</u>	<u>606,184</u>	<u>842,775</u>	<u>236,591</u>
Miscellaneous				
	<u>2,132,200</u>	<u>2,132,200</u>	<u>2,798,472</u>	<u>666,272</u>
Total Revenues	<u>19,793,721</u>	<u>19,793,721</u>	<u>21,234,890</u>	<u>1,441,169</u>

See accompanying Notes to Financial Statements.

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
(NON-GAAP BUDGETARY BASIS) – GENERAL FUND (CONTINUED)
YEAR ENDED JUNE 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original Budget	Final Budget		Positive (Negative)
EXPENDITURES				
General Government				
Legislative:				
Town Council	\$ 120,904	\$ 120,904	\$ 118,401	\$ 2,503
Town Clerk	139,228	139,228	198,094	(58,866)
Total Legislative	<u>260,132</u>	<u>260,132</u>	<u>316,495</u>	<u>(56,363)</u>
Executive Mayor	97,856	97,856	90,499	7,357
Town Manager	487,439	487,439	518,871	(31,432)
Elections	7,000	7,000	6,474	526
Financial Administration	843,115	843,115	773,638	69,477
Planning and Zoning	502,142	502,142	418,279	83,863
General Services	119,474	119,474	148,180	(28,706)
Total General Government	<u>2,317,158</u>	<u>2,317,158</u>	<u>2,272,436</u>	<u>44,722</u>
Public Safety				
Police	7,399,861	7,399,861	6,837,608	562,253
Traffic Control	52,109	52,109	52,395	(286)
Fire and Rescue	335,022	335,022	358,985	(23,963)
Code Enforcement	521,756	521,756	499,267	22,489
Rental Housing	172,747	172,747	167,881	4,866
Traffic Engineering	701,186	701,186	756,007	(54,821)
Total Public Safety	<u>9,182,681</u>	<u>9,182,681</u>	<u>8,672,143</u>	<u>510,538</u>
Public Works				
Administration	528,367	528,367	490,421	37,946
Sanitation and Waste Removal	1,901,626	1,901,626	2,164,100	(262,474)
Highways, Streets, and Sidewalks	1,725,533	1,725,533	2,051,029	(325,496)
Mosquito Control	-	-	2,762	(2,762)
Total Public Works	<u>4,155,526</u>	<u>4,155,526</u>	<u>4,708,312</u>	<u>(552,786)</u>
Parks, Recreation, and Cultural				
Parks and Recreation Administration	219,479	219,479	186,874	32,605
Participation Recreation	15,450	15,450	70,456	(55,006)
Municipal Parks	143,700	143,700	113,021	30,679
Total Parks, Recreation, and Cultural	<u>378,629</u>	<u>378,629</u>	<u>370,351</u>	<u>8,278</u>
Economic Development/Main Street				
	<u>430,370</u>	<u>430,370</u>	<u>419,406</u>	<u>10,964</u>
Nondepartmental				
	<u>496,098</u>	<u>496,098</u>	<u>588,383</u>	<u>(92,285)</u>
Debt Service				
Principal	4,631	4,631	4,630	1
Interest	12,854	12,854	12,854	-
Total Debt Service	<u>17,485</u>	<u>17,485</u>	<u>17,484</u>	<u>1</u>
Total Expenditures	<u>16,977,947</u>	<u>16,977,947</u>	<u>17,048,515</u>	<u>(70,568)</u>
Excess of Revenues Over Expenditures	<u>2,815,774</u>	<u>2,815,774</u>	<u>4,186,375</u>	<u>1,370,601</u>

See accompanying Notes to Financial Statements.

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
(NON-GAAP BUDGETARY BASIS) – GENERAL FUND (CONTINUED)
YEAR ENDED JUNE 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget		
OTHER FINANCING SOURCES (USES)				
Debt Proceeds	\$ -	\$ -	\$ -	\$ -
Transfers (Net):				
Debt Service	61,914	61,914	(1,494,238)	(1,556,152)
Law Enforcement	223,000	223,000	-	(223,000)
Capital Projects	(3,100,688)	(3,100,688)	(3,100,688)	-
Impact Fee	-	-	2,489,341	2,489,341
	<u>(2,815,774)</u>	<u>(2,815,774)</u>	<u>(2,105,585)</u>	<u>710,189</u>
Total Other Financing Uses				
	<u>(2,815,774)</u>	<u>(2,815,774)</u>	<u>(2,105,585)</u>	<u>710,189</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	2,080,790	<u>\$ 2,080,790</u>
Fund Balance - Beginning of Year			<u>6,209,976</u>	
FUND BALANCE - END OF YEAR			<u>\$ 8,290,766</u>	

See accompanying Notes to Financial Statements.

TOWN OF EASTON, MARYLAND
STATEMENT NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2019

	Business-Type Activities - Enterprise Funds		
	Utility	Non-Major	Totals
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 10,498,087	\$ 1,530,698	\$ 12,028,785
Investments	25,384,598	-	25,384,598
Accounts Receivable, Net	4,714,794	13,601	4,728,395
Unrecovered Fuel and Gas Costs	120,037	-	120,037
Interest Receivable	74,090	-	74,090
Prepaid Items	1,248,057	-	1,248,057
Unbilled Revenue	1,844,485	-	1,844,485
Inventory	4,271,697	-	4,271,697
Total Current Assets	<u>48,155,845</u>	<u>1,544,299</u>	<u>49,700,144</u>
NONCURRENT ASSETS			
Capital Assets, Not Being Depreciated	4,763,747	82,973	4,846,720
Capital Assets, Net of Accumulated Depreciation	86,057,830	949,435	87,007,265
Total Noncurrent Assets	<u>90,821,577</u>	<u>1,032,408</u>	<u>91,853,985</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflow - Pension	257,931	-	257,931
Total Deferred Outflows of Resources	<u>257,931</u>	<u>-</u>	<u>257,931</u>
Total Assets and Deferred Outflows	<u>\$ 139,235,353</u>	<u>\$ 2,576,707</u>	<u>\$ 141,812,060</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	\$ 1,878,822	\$ 4,288	\$ 1,883,110
Accrued Liabilities	1,411,570	-	1,411,570
Over-Recovered Fuel and Gas Costs	407,389	-	407,389
Tax Collection Payable	356,531	-	356,531
Performance Deposits	1,239,159	1,500	1,240,659
Due to Asbury Place	-	-	-
Unearned Revenue	18,121	-	18,121
Current Portion of Long-Term Debt	1,772,677	-	1,772,677
Total Current Liabilities	<u>7,084,269</u>	<u>5,788</u>	<u>7,090,057</u>
NONCURRENT LIABILITIES			
Net OPEB Liability	225,473	-	225,473
Compensated Absences, Net of Current Portion	867,630	-	867,630
Long-Term Debt, Net of Current Portion	15,868,086	-	15,868,086
Total Noncurrent Liabilities	<u>16,961,189</u>	<u>-</u>	<u>16,961,189</u>
Total Liabilities	<u>24,045,458</u>	<u>5,788</u>	<u>24,051,246</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflow - Pension and OPEB	1,710,978	-	1,710,978
Total Deferred Inflows of Resources	<u>1,710,978</u>	<u>-</u>	<u>1,710,978</u>
NET POSITION			
Net Investment in Capital Assets	73,180,814	1,032,408	74,213,222
Unrestricted	40,298,103	1,538,511	41,836,614
Total Net Position	<u>113,478,917</u>	<u>2,570,919</u>	<u>116,049,836</u>
Total Liabilities, Deferred Inflows of Resources and Net Pension	<u>\$ 139,235,353</u>	<u>\$ 2,576,707</u>	<u>\$ 141,812,060</u>

See accompanying Notes to Financial Statements.

TOWN OF EASTON, MARYLAND
STATEMENT REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2019

	Business-Type Activities - Enterprise Funds		
	Utility	Non-Major	Total
OPERATING REVENUES			
Charges for Services	\$ 53,781,963	\$ 141,404	\$ 53,923,367
Other Operating Revenues	495,169	18,195	513,364
Total Operating Revenues	<u>54,277,132</u>	<u>159,599</u>	<u>54,436,731</u>
OPERATING EXPENSES			
Cost of Service	38,930,283	61,577	38,991,860
Depreciation	6,665,867	97,145	6,763,012
Total Operating Expenses	<u>45,596,150</u>	<u>158,722</u>	<u>45,754,872</u>
Operating Income (Loss)	<u>8,680,982</u>	<u>877</u>	<u>8,681,859</u>
NONOPERATING REVENUES (EXPENSES)			
Investment Earnings	650,198	-	650,198
Interest Expense	(263,281)	-	(263,281)
Gain on Sale of Property	(1,097)	-	(1,097)
Payment in Lieu of Taxes	(2,067,655)	-	(2,067,655)
Capital Charges	674,156	-	674,156
Miscellaneous	48,978	-	48,978
Total Nonoperating Revenues (Expenses)	<u>(958,701)</u>	<u>-</u>	<u>(958,701)</u>
CHANGES IN FUND NET POSITION	7,722,281	877	7,723,158
Total Net Position - Beginning of Year	<u>105,756,636</u>	<u>2,570,042</u>	<u>108,326,678</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ 113,478,917</u>	<u>\$ 2,570,919</u>	<u>\$ 116,049,836</u>

See accompanying Notes to Financial Statements.

TOWN OF EASTON, MARYLAND
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2019

	Business-Type Activities - Enterprise Funds		
	Utility	Non-Major	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received for Services	\$ 55,112,899	\$ 147,193	\$ 55,260,092
Cash Paid to Suppliers for Goods and Services	(31,521,318)	(78,561)	(31,599,879)
Cash Paid to Employees for Services	(12,389,263)	-	(12,389,263)
Net Cash Provided by Operating Activities	<u>11,202,318</u>	<u>68,632</u>	<u>11,270,950</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES			
Cash Paid in Lieu of Taxes	(2,065,746)	-	(2,065,746)
Net Cash Used by Noncapital and Related Financing Activities	<u>(2,065,746)</u>	<u>-</u>	<u>(2,065,746)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from Disposition of Assets	(1,097)	-	(1,097)
Proceeds from Capital Charges	674,156	-	674,156
Purchases/Construction of Capital Assets	(9,734,278)	(105,000)	(9,839,278)
Proceeds from Loans Payable	6,500,000	-	6,500,000
Payment of Debt	(1,633,811)	-	(1,633,811)
Interest Paid on Bond Indebtedness	(22,089)	-	(22,089)
Other Interest Paid	(133,019)	-	(133,019)
Net Cash Used by Capital and Related Financing Activities	<u>(4,350,138)</u>	<u>(105,000)</u>	<u>(4,455,138)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on Cash Deposits and Investments	619,679	-	619,679
Sales of Investments	18,800,000	-	18,800,000
Purchases of Investments	(24,305,523)	-	(24,305,523)
Net Cash Used by Investing Activities	<u>(4,885,844)</u>	<u>-</u>	<u>(4,885,844)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(99,410)	(36,368)	(135,778)
Cash and Cash Equivalents - Beginning of Year	10,597,497	1,567,066	12,164,563
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 10,498,087</u>	<u>\$ 1,530,698</u>	<u>\$ 12,028,785</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income	\$ 8,680,982	\$ 877	\$ 8,681,859
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	6,665,867	97,145	6,763,012
Net Accretion	72,875	-	72,875
Other Miscellaneous Nonoperating Revenue	125,624	-	125,624
Effects of Changes in Operating Assets and Liabilities:			
Accounts Receivable, Net	80,168	(12,406)	67,762
Inventory	(495,890)	-	(495,890)
Unamortized Expenses	-	-	-
Deferred Inflows/Outflows - Pension	(131,850)	-	(131,850)
Unrecovered Fuel and Gas Costs	287,352	-	287,352
Accounts Payable and Accrued Liabilities	(4,082,810)	(16,984)	(4,099,794)
Total Adjustments	<u>2,521,336</u>	<u>67,755</u>	<u>2,589,091</u>
Net Cash Provided by Operating Activities	<u>\$ 11,202,318</u>	<u>\$ 68,632</u>	<u>\$ 11,270,950</u>

See accompanying Notes to Financial Statements.

**TOWN OF EASTON, MARYLAND
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2019**

	<u>Benefits Trust Funds</u>
ASSETS	
Cash and Cash Equivalents	\$ 2,314,882
Investments, at Fair Value	<u>52,108,808</u>
Total Assets	<u><u>\$ 54,423,690</u></u>
NET POSITION	
Held in Trust for Pension Benefits	<u><u>\$ 54,423,690</u></u>

See accompanying Notes to Financial Statements.

**TOWN OF EASTON, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2019**

	Benefits Trust Funds
ADDITIONS	
Contributions:	
Employer	\$ 5,286,069
Employees	213,994
Total Contributions	5,500,063
Investment Earnings:	
Investment Income	2,310,896
Net Increase in Fair Value of Plan Investments	959,048
Total Investment Earnings	3,269,944
Less: Investment Expense	184,323
Net Investment Earnings	3,085,621
Total Additions	8,585,684
DEDUCTIONS	
Benefit Payments	2,500,320
Administrative expenses	53,081
	6,032,283
NET CHANGE	6,032,283
Net Position - Beginning of Year	48,391,407
NET POSITION - END OF YEAR	\$ 54,423,690

See accompanying Notes to Financial Statements.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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, 2019

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 nonoperating revenues and expenses.

The Town reports one major proprietary fund: the Utility Fund. The Utility Fund accounts for the operations of the electric, water, wastewater and cable and communication services for the Town of Easton.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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) was established under GASB 67 *Financial Reporting for Pensions* and is reported under the requirements of GASB 68 *Accounting and Financial Reporting for Pensions*. The required recognition and disclosure include information on the Town's Pension Expense, Deferred Inflows and Outflows of Resources, and amortization schedules for the deferred inflows and outflows.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Town implemented GASB Statement 74 under which 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*, which 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, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables and Payables

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

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

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

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

Capital Assets

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

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

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

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

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

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

Unbilled Revenue

Customers of the Utility Fund's electric, gas and cable departments are billed in arrears on one of four monthly cycles. As a result of the cycles, in arrears billing, a portion of June's usage is not yet billed at year-end. A provision for revenue is recorded based on the actual billings in July and the days unbilled in each cycle at the end of June. Customers of the Commission's Water and Wastewater Department are billed quarterly. As such, a provision for revenue is recorded representing actual customer billings in July and the days unbilled in each cycle at the end of June. The balance at June 30, 2019 is \$1,844,485.

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, 2019, the Commission had net over-recovered costs of \$407,389.

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, 2019

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 \$4,271,697 at June 30, 2019.

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, 2019 is \$12,472.

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, actuarial identified future pension costs and other post-employment benefit costs, and unamortized loss or reacquired debt which are reported on the Statement of Net position.

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position/Fund Equity (Continued)

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

- *Non-Spendable Fund Balance* - Amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact. This generally includes long-term receivables and prepaid expenses.
- *Restricted Fund Balance* - amounts that can be spent only for specific purposes because of restrictions imposed externally by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by the Town Charter, Town Code or enabling legislation.
- *Committed Fund Balance* - Amounts that can be used only for specific purposes determined by a formal action by the Town Council, the Town's highest level of decision-making authority, and can only be changed by a formal action by the Town Council, ordinance, or resolution.
- *Assigned Fund Balance* - Amounts that are constrained by the Town's intent that they will be used for specific purposes but are neither restricted nor committed. Pursuant to the Town Charter, the Town Manager and the Town Council are authorized to assign amounts for specific purposes.
- *Unassigned Fund Balance* - 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, 2019**

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 nonmajor governmental funds or any enterprise funds. However, a budget is used as a management tool for these funds.

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

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

	<u>Revenues</u>	<u>Expenses</u>	<u>Other Financing Sources (Uses)</u>	<u>Fund Balance</u>
GAAP Basis	\$ 21,234,890	\$ 16,916,804	\$ (2,105,585)	\$ 8,784,593
Interfund Loan – Principal Payments	-	131,711	-	(131,711)
Interfund loan – Effect of Previous Years	-	-	-	(362,116)
Budgetary Basis	<u>\$ 21,234,890</u>	<u>\$ 17,048,515</u>	<u>\$ (2,105,585)</u>	<u>\$ 8,290,766</u>

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Compensation and Defined Contribution Plans

457 Deferred Compensation Plan

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

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

Pension Plan

The Town of Easton, Maryland Employee's Retirement Plan is a defined benefit pension plan established to provide benefits to virtually all employees hired prior to July 1, 2008. This plan is still the primary plan utilized for the sworn officers. Plan provisions and contribution requirements are established and may be amended by the Town Council. The Town's contribution to the plan for the year ended June 30, 2019 was \$826,459. The plan administrator is Prudential.

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

At the end of the year, the carrying amount of the Town deposits (including cash on hand of \$2,075) was \$36,923,554 and the bank balance was \$37,193,145. 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, 2019.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 DEPOSITS AND INVESTMENTS

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, 2019, the Town had \$21,397,384 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, 2019, 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.

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments- Maryland Local Government Investment Pool (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:

Guaranteed Account	\$ 5,285,860
Variable Earnings Investments:	
Dryden S&P 500 Index	3,959,756
Mid Cap Growth/Waddell & Reed	1,576,866
Mid Cap Value / QMA Fund	1,293,304
SCG I (managed by Brown)	2,048,561
Small Cap Value/Kennedy Capit	1,637,270
T. Rowe Price Eqty Inc Stgy	3,803,075
T. Rowe Price Growth Stk Stgy	3,973,899
EmrgMrkEq / QMA*	1,176,161
International Blend/Wellington*	3,121,471
Core Plus Bond PGIM Fund	9,697,413
Real Estate / Am Century Fund	2,243,894
Total	<u><u>\$ 39,817,530</u></u>

*-Foreign investment

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.

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments- Maryland Local Government Investment Pool (Continued)

Pension Plan and OPEB Plan (Continued)

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

Mutual Funds:	
Dodge & Cox - International*	\$ 487,164
FMI Intl	384,678
John Hancock Small Cap Value	476,612
Lord Abbett	953,966
MFS Intl*	389,543
Touchstone	398,289
Vanguard - Emerging Market*	292,493
Vanguard - Intermediate Term Trust	972,199
Vanguard - Short Term	957,731
Vanguard - Mid Cap Index	1,566,854
Closed-End Mutual Funds	<u>2,314,882</u>
	9,194,411
Common Stock:	
Communication Services	379,687
Consumer Discretionary	487,620
Consumer Staples	433,608
Energy	352,134
Financials	1,018,737
Health Care	634,687
Industrials	370,804
Information Technology	1,032,648
Materials	476,315
Real Estate Investment Trusts	<u>225,509</u>
	<u>5,411,749</u>
	<u>\$ 14,606,160</u>

*-Foreign investment

Custodial Credit Risk

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

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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.

	Valuation	Weighted Average Maturity (yrs)
<u>Defined Benefit Pension Plan</u>		
Guaranteed Account	\$ 5,285,860	3.40
Core Plus Bond/PIMCO	9,697,413	6.80
Total	\$ 14,983,273	
 <u>OPEB Plan</u>		
Vanguard Short Term Investment Grade	\$ 957,731	3.10
Total	\$ 957,731	

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, 2019 met the Town's investment policy.

Credit Risk

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

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan's or Town's investment in a single issuer. The Plan's investments are managed by several fund managers. The Town's investment policy does not allow for an investment in any one issuer that is in excess of 5 percent of the Town's total investments.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Foreign Currency Risk

Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair value of an investment. The Town does not allow for investments with foreign currency. The Plans allow the option of investments in mutual funds that invest in securities in countries outside the U.S.; however, these funds do not require disclosure of the individual assets within the funds. The fair value of these funds was \$5,466,832 at June 30, 2019. The individual funds are identified above.

NOTE 3 RECEIVABLES

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

	Governmental Activities		Business-Type Activities		Total
	General	Other	Utility	Other	
Taxes	\$ 547,332	\$ -	\$ -	\$ -	\$ 547,332
Accounts	601,771	-	4,871,559	13,601	5,486,931
Due from Other Governments	1,304,782	571,978	-	-	1,876,760
Interest	-	-	74,090	-	74,090
Allowance for Uncollectibles	(618,830)	-	(156,765)	-	(775,595)
Net Receivables	<u>\$ 1,835,055</u>	<u>\$ 571,978</u>	<u>\$ 4,788,884</u>	<u>\$ 13,601</u>	<u>\$ 7,209,518</u>

The June 30, 2019 balance of due from other governments is as follows:

State of Maryland:	
Income Taxes	\$ 1,172,294
CDBG	571,978
Talbot County	132,488
Total Due from Other Governments	<u>\$ 1,876,760</u>

Governmental funds report deferred inflows of resources in relation to receivables for revenues that are not considered to be available to liquidate liabilities of the current period such as property taxes not collected within 60 days after fiscal year-end. Unearned revenue at year-end consists of rental and program advances, franchise fees and similar prepayments received by the Town, grant revenue received prior to the incurrence of qualifying expenditures and governmental fund nonexchange contributions.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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, 2019 is summarized as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Income Taxes	\$ 547,584	\$ -	\$ 547,584
Property Taxes	74,732	-	74,732
Miscellaneous	-	12,472	12,472
Total	<u>\$ 622,316</u>	<u>\$ 12,472</u>	<u>\$ 634,788</u>

NOTE 4 INTER-FUND PAYABLES AND TRANSFERS

Due to/from other funds at June 30, 2019 was as follows:

	<u>Payable Fund</u>	
	<u>Community</u>	<u>Total</u>
Receivable Fund	<u>Dev</u>	<u>Total</u>
Debt Service	<u>\$ 367,530</u>	<u>\$ 367,530</u>
Total	<u>\$ 367,530</u>	<u>\$ 367,530</u>

Inter-fund transfer activity for the year ended June 30, 2019 was as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental Funds		
General Fund	\$ -	\$ 2,105,585
Capital Projects Fund	3,540,688	-
Infrastructure Development Fund	-	1,150,197
Nonmajor Governmental Funds	-	284,906
Total	<u>\$ 3,540,688</u>	<u>\$ 3,540,688</u>

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Increases	Transfers/ Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 7,155,203	\$ -	\$ -	\$ 7,155,203
Total Capital Assets, Not Being Depreciated	<u>7,155,203</u>	<u>-</u>	<u>-</u>	<u>7,155,203</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	45,749,589	1,875,158	-	47,624,747
Equipment	16,580,653	1,134,152	(19,199)	17,695,606
Total Capital Assets, Being Depreciated	<u>62,330,242</u>	<u>3,009,310</u>	<u>(19,199)</u>	<u>65,320,353</u>
Less Accumulated Depreciation:				
Buildings and Improvements	17,031,086	1,539,355	-	18,570,441
Equipment	13,307,853	1,010,713	(19,081)	14,299,485
Total Accumulated Depreciation	<u>30,338,939</u>	<u>2,550,068</u>	<u>(19,081)</u>	<u>32,869,926</u>
Net Capital Assets, Being Depreciated	<u>31,991,303</u>	<u>459,242</u>	<u>(118)</u>	<u>32,450,427</u>
Governmental Activities Capital Assets, Net	<u>\$ 39,146,506</u>	<u>\$ 459,242</u>	<u>\$ (118)</u>	<u>\$ 39,605,630</u>
	Beginning Balance	Increases	Transfers/ Decreases	Ending Balance
Business-Type Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,148,005	\$ -	\$ -	\$ 1,148,005
Construction in Progress	1,615,304	9,789,188	(7,705,777)	3,698,715
Total Capital Assets, Not Being Depreciated	<u>2,763,309</u>	<u>9,789,188</u>	<u>(7,705,777)</u>	<u>4,846,720</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	33,160,605	336,951	(1,508,401)	31,989,155
Equipment and Other	180,168,986	7,477,914	(13,193,176)	174,453,724
Less: Amount Disallowed for Regulation	(1,719,785)	-	-	(1,719,785)
Total Capital Assets, Being Depreciated	<u>211,609,806</u>	<u>7,814,865</u>	<u>(14,701,577)</u>	<u>204,723,094</u>
Less Accumulated Depreciation:				
Buildings and Improvements	16,352,207	756,904	(1,488,155)	15,620,956
Equipment and Other	109,140,828	6,125,591	(13,171,546)	102,094,873
Total Accumulated Depreciation	<u>125,493,035</u>	<u>6,882,495</u>	<u>(14,659,701)</u>	<u>117,715,829</u>
Net Capital Assets, Being Depreciated	<u>86,116,771</u>	<u>932,370</u>	<u>(41,876)</u>	<u>87,007,265</u>
Business-Type Activities Capital Assets, Net	<u>\$ 88,880,080</u>	<u>\$ 10,721,558</u>	<u>\$ (7,747,653)</u>	<u>\$ 91,853,985</u>

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 CAPITAL ASSETS (CONTINUED)

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

Governmental Activities

General Government	\$ 68,178
Public Safety	822,562
Public Works	1,223,375
Recreation and Cultural	349,461
Nondepartmental	86,492
Total Governmental Activities	<u>\$ 2,550,068</u>

Business-Type Activities

Utility	\$ 6,785,351
Other	97,144
Total Business-Type Activities	<u>\$ 6,882,495</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, 2019

NOTE 7 LONG-TERM LIABILITIES

The long-term liabilities consist of the following at June 30, 2019:

	Beginning Balance	Additions	Principal Repayments & Reductions	Ending Balance	Due Within One Year
Governmental Activities					
General Obligation Bonds	\$ 9,950,000	\$ -	\$ 1,175,000	\$ 8,775,000	\$ 1,180,000
Unamortized Premium on Bonds	665,037	-	55,400	609,637	-
DHCD Loan Payable	1,672,124	-	-	1,672,124	-
Note Payable – USDA	287,029	-	4,630	282,399	4,843
Total Long-Term Debt	12,574,190	-	1,235,030	11,339,160	1,184,843
Compensated Absences	776,511	-	6,551	769,960	-
Governmental Activities Long-Term Liabilities	<u>\$ 13,350,701</u>	<u>\$ -</u>	<u>\$ 1,241,581</u>	<u>\$ 12,109,120</u>	<u>\$ 1,184,843</u>
Business-Type Activities					
General Obligation Bonds	\$ 470,000	\$ -	\$ 470,000	\$ -	\$ -
Loan – MDE	1,037,342	-	76,082	961,260	77,452
Loan – State of Maryland	11,267,232	-	1,087,729	10,179,503	1,128,776
Node+0 Project loan	-	6,500,000	-	6,500,000	566,449
Total Long-Term Debt	12,774,574	6,500,000	1,633,811	17,640,763	1,772,677
Compensated absences	802,225	65,405	-	867,630	-
Business-Type Activities Long-Term Liabilities	<u>\$ 13,576,799</u>	<u>\$ 6,565,405</u>	<u>\$ 1,633,811</u>	<u>\$ 18,508,393</u>	<u>\$ 1,772,677</u>

Bonds

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

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 LONG-TERM LIABILITIES (CONTINUED)

Bonds (Continued)

<u>Bond Issue</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Balance at June 30, 2019</u>
Public Facilities Bonds 2003	2023	2.00 – 5.00%	\$ 190,000
Public Facilities Bonds 2015	2036	2.00 – 4.00%	8,585,000
Total General Obligation Bonds			<u>\$ 8,775,000</u>

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

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$ 1,180,000	\$ 287,785
2021	1,180,000	240,681
2022	715,000	193,450
2023	710,000	178,375
2024	700,000	156,675
2025-2029	3,180,000	453,125
2030-2035	955,000	132,450
2036	155,000	5,038
Total	<u>\$ 8,775,000</u>	<u>\$ 1,647,579</u>

In fiscal year 2016, the Town defeased the Public Facilities Bonds of 2008 by placing cash reserve funds in an irrevocable trust to provide for debt service payments on the old bond. Accordingly, the trust account assets and liability for the defeased portion of the bond are not included in the Town's financial statements. As of June 30, 2019, there remains \$4,860,000 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.

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 LONG-TERM LIABILITIES (CONTINUED)

Bonds (Continued)

Government-Type Funds (Continued)

The annual debt service requirements to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 4,843	\$ 12,673	\$ 17,516
2021	5,065	12,451	17,516
2022	5,298	12,218	17,516
2023	5,542	11,974	17,516
2024	5,796	11,720	17,516
2025-2029	33,229	54,351	87,580
2030-2034	41,596	45,984	87,580
2035-2039	52,070	35,510	87,580
2040-2044	65,181	22,399	87,580
2045-2048	63,779	6,329	70,108
Total	<u>\$ 282,399</u>	<u>\$ 225,609</u>	<u>\$ 508,008</u>

Business-Type Funds

During fiscal year 1999, the Town borrowed \$1,672,124 from the Department of Housing and Community Development (DHCD) to construct a low-income housing unit known as Asbury Place. The interest payments on this loan are forgiven from year to year by the DHCD as long as the unit meets certain requirements and continues as a low-income housing unit. As of June 30, 2019, Asbury Place met those conditions and interest was forgiven. The balance of this loan was \$1,672,124 at June 30, 2019.

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, 2019 was \$10,179,503. The note bears an interest rate of .40% and has a scheduled maturity of February 2027.

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 LONG-TERM LIABILITIES (CONTINUED)

Bonds (Continued)

Business-Type Funds (Continued)

The following are the principal and interest maturities of the outstanding loan as of June 30, 2019:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,292,961	21,672	1,314,633
2025-2027	4,125,161	33,330	4,158,491
Total	<u>\$ 10,179,503</u>	<u>\$ 190,127</u>	<u>\$ 10,369,630</u>

During the fiscal year ended June 30, 2013, an agreement was entered into with MDE's WQFA to finance construction of the full cost of a project to relocate certain wastewater force main facilities through the Water Quality State Revolving Fund. The balance at June 30, 2019 was \$961,260. 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, 2019:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	83,181	11,574	94,755
2025-2029	438,912	34,863	473,775
2030-2031	120,893	2,686	123,579
Total	<u>\$ 961,260</u>	<u>\$ 109,869</u>	<u>\$ 1,071,129</u>

During fiscal year ended June 30, 2019, an agreement was entered into with PNC Bank to finance the partial construction cost of the "Node + 0 Project" to upgrade the cable distribution plant used to deliver Cable TV, Internet and Voice services. The balance at June 30, 2019 was \$6,500,000, the maximum amount of the loan. The interest rate is fixed at 2.98% for seven years after which the interest rate will be renegotiated for the remaining three years of the loan. The loan matures in 2029.

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 LONG-TERM LIABILITIES (CONTINUED)

Bonds (Continued)

Business-Type Funds (Continued)

The following are the principal and interest maturities anticipated for the outstanding loan as of June 30, 2019:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 566,449	\$ 186,005	\$ 752,454
2021	583,562	168,892	752,454
2022	601,191	151,263	752,454
2023	619,354	133,100	752,454
2024	638,065	114,389	752,454
2025-2029	3,491,379	170,368	3,661,747
Total	<u>\$ 6,500,000</u>	<u>\$ 924,017</u>	<u>\$ 7,424,017</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 (3.55% at June 30, 2019). 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, 2019.

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 FUND BALANCE

A summary of fund balances at June 30, 2019 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	\$ 32,027	\$ -	\$ -	\$ -	\$ 32,027
Total Nonspendable					
Fund Balance	32,027	-	-	-	32,027
<u>Restricted:</u>					
Impact Fees	-	-	4,002,379	-	4,002,379
Debt Service	-	-	-	6,053,737	6,053,737
Capital Projects	-	5,915,310	-	-	5,915,310
Total Restricted					
Fund Balance	-	5,915,310	4,002,379	6,053,737	15,971,426
<u>Committed:</u>					
Budget Stabilization	3,591,260	-	-	-	3,591,260
<u>Assigned:</u>					
Law Enforcement Fund	-	-	-	89,275	89,275
<u>Unassigned:</u>					
General Fund	5,161,306	-	-	-	5,161,306
CDBG Grant	-	-	-	(280,872)	(280,872)
Total Unassigned					
Fund Balance	5,161,306	-	-	(280,872)	4,880,434
Total Fund Balance	<u>\$ 8,784,593</u>	<u>\$ 5,915,310</u>	<u>\$ 4,002,379</u>	<u>\$ 5,862,140</u>	<u>\$ 24,564,422</u>

NOTE 10 DEFINED BENEFIT PENSION PLAN

Plan Description

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

Plan Benefit Information

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

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Plan Benefit Information (Continued)

Form of Annuity	Life Annuity
Normal Retirement Date	The first day of the month coinciding with or next following the Participants 60 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	<p><u>Division A</u> 1.4% of Average Annual Earnings times years of Credited Service (up to a maximum of 25 years) plus .45% of Average Annual Earnings in excess of Covered Compensation times years of Credited Service (up to a maximum of 25 years).</p> <p>Note that plan benefits for Division A participants have been soft frozen as of 7/1/2008, where accrued service is frozen, but future compensation is not frozen for plan benefit purposes.</p> <p><u>Division B</u> For Sworn Police officers (Division B): 50% of Final Earnings multiplied by the ratio that the Participant's Credited Service, up to a maximum of 22 years, bears to 22. Provided however, that the 50% will be increased by 1% (maximum 55%) for each full year of Credited Service in excess of 22 years with total maximum of 30 years of Credit Service.</p>

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Plan Benefit Information (Continued)

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

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Plan Benefit Information (Continued)

Additional Retirement Benefit or
Cash Refund at Retirement or
Termination

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

Special Termination Benefit:

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

Pre-Tax Participant
Contributions

<i>Amount</i>	<u>Division B</u> Prior to January 1, 2002: 4% of Earnings for 0 to 25 Years of Service and 5% thereafter
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After January 1, 2002: 5.7% of Earnings for 0 to 25 Years of Service and 6.7% thereafter.

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

<i>Interest Credit</i>	5% per annum.
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<i>Death or Termination</i>	Pre-retirement: Refund of Employee contributions with interest to date of termination or death.
	<i>Postretirement: Excess of Employee contributions with interest over annuity payments made, unless another form of benefit becomes payable to the beneficiary.</i>

Plan Membership

As of August 1, 2018 (the date of the last actuarial valuation), the pension plan's membership consisted of:

Active Employees	164
Retirees and Beneficiaries Currently Receiving Benefits	130
Terminated Employees Entitled to Benefits but Not Yet Receiving Them	95
Total	398

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Funding Policy

The Plan covers all full-time employees who began service prior to the age of 55 and prior to the plan being frozen (see below) except for sworn police officers, voluntary contributions from eligible employees are prohibited. Sworn police officers who are employed on a regular full-time basis with less than 22 years of service are required to contribute 7.2% of gross annual earnings. For police officers who are employed on a regular full-time basis with service in excess of 22 years, the required contribution rate is 8.2% of gross annual earnings. Participants' actual contributions during the year ended June 30, 2019 were \$213,994. Administrative costs are financed through investment earnings.

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

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

Contributions to the Plan made by the Town are based on an actuarially determined basis. The contribution requirements of the Town are established and may be amended by the Town Council. The actuarially required and actual contribution to the Plan during the year ended June 30, 2019 and 2018 was \$955,282 and \$994,133, respectively. Actual employer contributions for the years ended June 30, 2019 and 2018 were \$1,126,459 and \$1,292,132, respectively.

Valuation of Investments

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

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Valuation of Investments (Continued)

The condensed financial statements as of and for the year ended June 30, 2019 are as follows:

Statement of Plan Net Position

Assets

Investments, at Fair Value Other Adjustment	<u>\$ 39,817,530</u>
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Net Position

Net Position Held in Trust for Pension Benefits	<u>\$ 39,817,530</u>
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Statement of Changes in Plan Net Position

Additions

Contributions:

Employer	\$ 1,126,459
Employee	<u>213,994</u>
Total Contributions	<u>1,340,453</u>

Investment Earnings:

Investment Income	2,002,493
Net Increase in Fair Value of Plan Investments	358,343
Less Investment Expenses	<u>(129,974)</u>
Net Investment Income	<u>2,230,862</u>

Total Additions	3,571,315
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Deductions

Benefit Payments	<u>1,974,776</u>
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Net Change

1,596,539

Net Position - Beginning of Year

38,220,991

Net Position - End of Year

\$ 39,817,530

Pension Plan Administration

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

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Investment Policy

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

Actuarial Assumptions

The Town's net pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation dated August 2018 with adjustments made for the eleven-month difference.

The total pension liability was determined by an actuarial valuation as of August 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

Actuarial Methods for Determining Employer Contributions

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

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019 and the final investment return assumption, are summarized in the following table:

Asset Class	Long-Term Expected Real Return Portfolio	Weight
US Equity	5.60%	60%
International Equity	5.75%	15%
Fixed Income – US	2.25%	20%
Real Estate	4.20%	5%
Total Weighted Average Real Return	4.88%	100%
Plus Inflation	2.75%	
Total Return without Adjustment	7.63%	
Risk Adjustment	-0.38%	
Total Expected Return	7.25%	

Discount Rate

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

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

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

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

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Discount Rate (Continued)

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

The following are the required schedules as of June 30, 2019:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2018	<u>\$ 43,421,496</u>	<u>\$ 38,220,991</u>	<u>\$ 5,200,505</u>
Changes for the Year			
Service Cost	643,776	-	643,776
Interest	3,116,150	-	3,116,150
Difference Between Expected and Actual Experience	-	-	-
Changes in Assumptions	(113,788)	-	(113,788)
Contributions - Employer	-	1,126,459	(1,126,459)
Contributions - Employee	-	213,994	(213,994)
Net Investment Income	-	2,360,836	(2,360,836)
Benefit Payments, Including Refunds of Employee Contributions	(1,974,776)	(1,974,776)	-
Administrative Expenses	-	(129,974)	129,974
Other Changes	-	-	-
Net Change in Total Pension Liability	<u>1,671,362</u>	<u>1,596,539</u>	<u>74,823</u>
Balance at June 30, 2019	<u>\$ 45,092,858</u>	<u>\$ 39,817,530</u>	<u>\$ 5,275,328</u>

Sensitivity of the net pension liability to changes in the discount rate

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Town's Net Pension Liability	<u>\$ 10,458,683</u>	<u>\$ 5,275,328</u>	<u>\$ 951,044</u>

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Deferred Inflows and Outflows

As of June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net Difference between projected and actual earnings on plan investments	\$ -	\$ 190,201
Differences between expected and actual experience	37,833	1,021,105
Changes in actuarial assumptions	262,037	-
Total	<u>\$ 299,870</u>	<u>\$ 1,211,306</u>
 <u>Year Ended June 30</u>		
2020	\$ 176	
2021	(657,722)	
2022	(325,557)	
2023	71,667	
Total Amount to be Recognized	<u>\$ (911,436)</u>	

Money Weighted Investment Return

For the year ended June 30, 2019, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was about 6.29 percent. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts invested.

NOTE 11 OTHER POST EMPLOYMENT BENEFITS

Plan Description

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

Benefits Provided

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

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Employees Covered by Benefit Terms

At July 1, 2017, the following employees were covered by the benefit terms:

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

Contributions

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

Valuation of Investments

The condensed financial statements as of and for the year ended June 30, 2019 are as follows:

Statement of Plan Net Position

Assets

Cash and Cash Equivalents	\$ 2,314,882
Investments, at Fair Value	12,291,278
Total Assets	\$ 14,606,160

Net Position

Net Position Held in Trust for Pension Benefits	\$ 14,606,160
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**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Valuation of Investments (Continued)

Statement of Changes in Plan Net Position

Additions

Contributions:	
Employer	\$ 4,159,610
Total Contributions	4,159,610
Investment Earnings:	
Investment Income	308,403
Net Increase in Fair Value of Plan Investments	600,705
Less Investment Expenses	(54,349)
Net Investment Income	854,759
Total Additions	5,014,369

Deductions

Benefit Payments	525,544
Administrative Expense	53,081
Total Deductions	578,625

Net Change

4,435,744

Net Position - Beginning of Year

10,170,416

Net Position - End of Year

\$ 14,606,160

Net OPEB Liability

The Town's net OPEB liability was measured as of June 30, 2019 and the total OPEB Liability used to calculate the net OPEB liability was determined by an actuarial valuation dated July 1, 2017, rolled forward to June 30, 2019.

Actuarial Assumptions – the total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless other specified:

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

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

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Net OPEB Liability (Continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Domestic Equity	69%	5.60%
Fixed Income Funds	30%	2.25%
Cash	1%	0.60%
Total Weighted Average Real Return	<u>100%</u>	<u>4.55%</u>
Plus Inflation		<u>2.75%</u>
Total Return without Adjustment		<u>7.30%</u>
Risk Adjustment		<u>-0.30%</u>
Total Expected Return		<u>7.00%</u>

Discount Rate

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

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Changes in Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2018	\$ 16,777,390	\$ 10,170,417	\$ 6,606,973
Changes for the Year:			
Service Cost	630,756	-	630,756
Interest	1,172,781	-	1,172,781
Differences Between Expected and Actual Experience	-	-	-
Changes in Assumptions	(395,798)	-	(395,798)
Contributions - Employer	-	4,159,610	(4,159,610)
Net Investment Income	-	854,758	(854,758)
Benefit Payments	(525,544)	(525,544)	-
Administrative Expense and Other	-	(53,081)	53,081
Net Changes	<u>882,195</u>	<u>4,435,743</u>	<u>(3,553,548)</u>
Balances at June 30, 2019	<u>\$ 17,659,585</u>	<u>\$ 14,606,160</u>	<u>\$ 3,053,425</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, 2019 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

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

	1% Decrease	Current	1% Increase
	6.00%	Discount Rate 7.00%	8.00%
Net OPEB Liability	\$ 5,367,412	\$ 3,053,425	\$ 1,138,710

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Sensitivity of the Net OPEB Liability (Continued)

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

	1% Decrease 3.25%	Current Discount Rate 4.25%	1% Increase 5.25%
Net OPEB Liability	\$ 1,131,042	\$ 3,053,425	\$ 4,446,073

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

For the year ended June 30, 2019, the Town recognized OPEB expense of \$819,874. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference Between Projected and Actual Earnings on Plan Investments	\$ -	\$ 23,162
Differences Between Expected and Actual Experience	-	806,807
Changes in Actuarial Assumptions	-	525,270
Total	\$ -	\$ 1,355,239

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

<u>Year Ended June 30</u>	
2020	\$ (191,046)
2021	(191,046)
2022	(191,048)
2023	(186,078)
2024	(184,014)
After 2024	(412,007)
Total Amount to be Recognized	\$ (1,355,239)

**TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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	\$ <u>399,961</u>
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The outstanding balance of the above services remaining at June 30, 2019 was \$27,113. The General Fund charged the Utility Fund \$24,952 for street repairs and \$2,067,655 for payments in lieu of taxes during the year ended June 30, 2019.

NOTE 13 OTHER INFORMATION

Risk Management

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

Contingent Liabilities and Commitments

Grants and Cost-reimbursable Contracts

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

Fuel Cost and Purchased Gas Adjustment Rates

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF EASTON, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
JUNE 30, 2019

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

**TOWN OF EASTON, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TOWN CONTRIBUTIONS – PENSION
JUNE 30, 2019**

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially Determined Contribution	\$ 955,282	\$ 994,133	\$ 1,032,915	\$ 1,093,661	\$ 1,104,544	\$ 1,224,131	\$ 1,241,552	\$ 1,204,597	\$ 1,011,277	\$ 1,015,045
Contributions in Relation of the Actuarially Determined Contribution	1,126,459	1,292,132	1,292,132	1,000,000	1,104,544	1,224,131	1,241,552	1,204,597	1,011,277	1,015,045
Contribution Deficiency (Excess)	(171,177)	(297,999)	(259,217)	93,661	-	-	-	-	-	-
Covered-Employee Payroll	\$ 12,287,590	\$ 12,572,073	\$ 14,092,822	\$ 13,991,348	\$ 13,811,971	\$ 13,707,415	\$ 13,947,014	\$ 13,458,869	\$ 13,337,806	\$ 13,142,094
Contributions as a Percentage of Covered Employee Payroll	9.2%	10.3%	9.2%	7.1%	8.0%	8.9%	8.9%	9.0%	7.6%	7.7%

NOTES TO SCHEDULE:

Valuation Date: August 1, 2018

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 2018 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience.
Mortality	Mortality rates were based upon the RP-2000 Blue Collar Tables with scale BB applied generationally.

TOWN OF EASTON, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES TO NET OPEB LIABILITY AND RELATED RATIOS
JUNE 30, 2019

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

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

**TOWN OF EASTON, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TOWN CONTRIBUTIONS – OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2019**

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially Determined Contribution	\$ 973,045	\$ 973,045	\$ 1,002,817	\$ 914,006	\$ 901,986	\$ 901,986	\$ 1,141,318	\$ 1,141,722	\$ 1,044,172	\$ 1,044,172
Contributions in Relation to the Actuarially Determined Contribution	4,158,342	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
Contribution Deficiency (Excess)	<u>\$ (3,185,297)</u>	<u>\$ (515,816)</u>	<u>\$ (380,642)</u>	<u>\$ (680,514)</u>	<u>\$ (549,009)</u>	<u>\$ (692,534)</u>	<u>\$ (125,138)</u>	<u>\$ 183,164</u>	<u>\$ 14,542</u>	<u>\$ 41,040</u>
Covered-Employee Payroll	\$ 16,813,459	\$ 16,028,534	\$ 14,906,300	\$ 14,609,300	\$ 14,609,300	\$ 13,594,393	\$ 13,595,393	\$ 12,886,240	\$ 12,886,240	\$ 12,300,340
Contributions as a Percentage of Covered Employee Payroll	24.7%	9.3%	9.3%	10.9%	9.9%	11.7%	9.3%	7.4%	8.0%	8.2%

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

STATEMENTS AND SCHEDULES

**TOWN OF EASTON, MARYLAND
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2019**

	Debt Service	Community Development Block Grant	Law Enforcement	Total
ASSETS				
Cash and Cash Equivalents - Pooled	\$ 6,054,086	\$ -	\$ 89,374	\$ 6,143,460
Accounts Receivable, Net	-	-	-	-
Notes Receivable	-	-	-	-
Due from Governments	-	571,640	338	571,978
Due from Other Funds	-	-	-	-
Other Assets	-	-	-	-
	\$ 6,054,086	\$ 571,640	\$ 89,712	\$ 6,715,438
LIABILITIES				
Accounts Payable	\$ 349	\$ 484,982	\$ 437	\$ 485,768
Due to Other Funds	-	367,530	-	367,530
Total Liabilities	349	852,512	437	853,298
FUND BALANCES (DEFICITS)				
Nonspendable	-	-	-	-
Restricted	6,053,737	-	-	6,053,737
Assigned	-	-	89,275	89,275
Unassigned	-	(280,872)	-	(280,872)
Total Fund Balances (Deficits)	6,053,737	(280,872)	89,275	5,862,140
Total Liabilities and Fund Balances	\$ 6,054,086	\$ 571,640	\$ 89,712	\$ 6,715,438

**TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES (DEFICIT)
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2019**

	Debt Service	Community Development Block Grant	Law Enforcement	Total
REVENUES				
Revenues from Other Agencies	\$ -	\$ 1,246,059	\$ 47,941	\$ 1,294,000
Miscellaneous Revenue	-	-	119,465	119,465
Total Revenues	<u>-</u>	<u>1,246,059</u>	<u>167,406</u>	<u>1,413,465</u>
EXPENDITURES				
Current Operations:				
Public Safety	-	-	57,214	57,214
Recreation and Cultural	-	1,344,457	-	1,344,457
Miscellaneous	2,027	-	-	2,027
Debt Service:				
Principal	1,175,000	-	-	1,175,000
Interest	319,237	-	-	319,237
Total Expenditures	<u>1,496,264</u>	<u>1,344,457</u>	<u>57,214</u>	<u>2,897,935</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,496,264)	(98,398)	110,192	(1,484,470)
OTHER FINANCING SOURCES (USES)				
Transfers Out	<u>(61,910)</u>	<u>-</u>	<u>(222,996)</u>	<u>(284,906)</u>
Total Other Financing Sources	<u>(61,910)</u>	<u>-</u>	<u>(222,996)</u>	<u>(284,906)</u>
NET CHANGE IN FUND BALANCES	(1,558,174)	(98,398)	(112,804)	(1,769,376)
Fund Balances (Deficits) - Beginning of Year	<u>7,611,911</u>	<u>(182,474)</u>	<u>202,079</u>	<u>7,631,516</u>
FUND BALANCES (DEFICITS) - END OF YEAR	<u>\$ 6,053,737</u>	<u>\$ (280,872)</u>	<u>\$ 89,275</u>	<u>\$ 5,862,140</u>

**TOWN OF EASTON, MARYLAND
 COMBINING STATEMENT OF NET POSITION
 NONMAJOR OTHER PROPRIETARY FUNDS
 JUNE 30, 2019**

	Land Enterprise	Airport Industrial Land	Total
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents - Pooled	\$ 1,489,158	\$ 41,540	\$ 1,530,698
Accounts Receivable, Net	13,601	-	13,601
Total Current Assets	1,502,759	41,540	1,544,299
NONCURRENT ASSETS			
Capital Assets, Not Being Depreciated	15,028	67,945	82,973
Capital Assets, Net of Accumulated Depreciation	494,871	454,564	949,435
Total Noncurrent Assets	509,899	522,509	1,032,408
Total Assets	\$ 2,012,658	\$ 564,049	\$ 2,576,707
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Accounts Payable	\$ 4,288	\$ -	\$ 4,288
Performance Deposits	1,500	-	1,500
Total Current Liabilities	5,788	-	5,788
NET POSITION			
Net Investment in Capital Assets	509,899	522,509	1,032,408
Unrestricted	1,496,971	41,540	1,538,511
Total Net Position	2,006,870	564,049	2,570,919
Total Liabilities and Net Position	\$ 2,012,658	\$ 564,049	\$ 2,576,707

TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
NONMAJOR OTHER PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2019

	<u>Land Enterprise</u>	<u>Airport Industrial Land</u>	<u>Total</u>
OPERATING REVENUES			
Charges for Services	\$ 138,324	\$ 3,080	\$ 141,404
Other Operating Revenues	<u>18,195</u>	<u>-</u>	<u>18,195</u>
Total Operating Revenues	<u>156,519</u>	<u>3,080</u>	<u>159,599</u>
OPERATING EXPENSES			
Cost of Service	58,377	3,200	61,577
Depreciation	<u>63,341</u>	<u>33,804</u>	<u>97,145</u>
Total Operating Expenses	<u>121,718</u>	<u>37,004</u>	<u>158,722</u>
Operating Income (Loss)	<u>34,801</u>	<u>(33,924)</u>	<u>877</u>
CHANGES IN FUND NET POSITION	34,801	(33,924)	877
Total Net Position - Beginning of Year	<u>1,972,069</u>	<u>597,973</u>	<u>2,570,042</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ 2,006,870</u>	<u>\$ 564,049</u>	<u>\$ 2,570,919</u>

**TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR OTHER PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2019**

	Land Enterprise	Airport Industrial Land	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 144,113	\$ 3,080	\$ 147,193
Cash Paid for Services	(75,361)	(3,200)	(78,561)
Net Cash Provided by Operating Activities	<u>68,752</u>	<u>(120)</u>	<u>68,632</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases/Construction of Capital Assets	-	(105,000)	(105,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	68,752	(105,120)	(36,368)
Cash and Cash Equivalents - Beginning of Year	<u>1,420,406</u>	<u>146,660</u>	<u>1,567,066</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,489,158</u>	<u>\$ 41,540</u>	<u>\$ 1,530,698</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$ 34,801	\$ (33,924)	\$ 877
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation and Amortization	63,341	33,804	97,145
Effect of Changes in Operating Assets and Liabilities:			
Accounts Receivable, Net	(12,406)	-	(12,406)
Accounts Payable and Accrued Expenses	(16,984)	-	(16,984)
Total Adjustments	<u>33,951</u>	<u>33,804</u>	<u>67,755</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 68,752</u>	<u>\$ (120)</u>	<u>\$ 68,632</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, 2019**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Contributions	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
General Governmental	1,373,120	1,373,120	268,897	1,104,223
Public Safety	1,392,068	1,392,068	1,645,483	(253,415)
Public Works	566,500	566,500	621,196	(54,696)
Recreation and Cultural	209,000	209,000	204,681	4,319
Total Expenditures	<u>3,540,688</u>	<u>3,540,688</u>	<u>2,740,257</u>	<u>800,431</u>
OTHER FINANCING SOURCES				
Transfers In	<u>3,540,688</u>	<u>3,540,688</u>	<u>3,540,688</u>	-
Total Other Financing Sources	<u>3,540,688</u>	<u>3,540,688</u>	<u>3,540,688</u>	-
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	800,431	<u>\$ 800,431</u>
Fund Balance - Beginning of Year			<u>5,114,879</u>	
FUND BALANCE - END OF YEAR			<u>\$ 5,915,310</u>	