

TOWN OF EASTON, MARYLAND
Easton, Maryland

FINANCIAL STATEMENTS
June 30, 2013

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	17
Government-wide Financial Statements	
Statement of Net Position.....	18
Statement of Activities.....	19
Fund Financial Statements	
Balance Sheet – Governmental Funds	20
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position.....	21
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	22
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities.....	23
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund	24
Statement of Net Position – Proprietary Funds.....	27
Statement of Revenues, Expenses and Change in Net Position – Proprietary Funds	28
Statement of Cash Flows – Proprietary Funds.....	29
Statement of Fiduciary Net Position – Fiduciary Fund.....	30
Statement of Changes in Fiduciary Net Position – Fiduciary Fund	31
Notes to Financial Statements	32
REQUIRED SUPPLEMENTARY INFORMATION	62
Schedule of Funding Progress – Defined Benefit Plan	63
Schedule of Funding Progress – Other Postemployment Benefits	64

SUPPLEMENTARY INFORMATION	65
Combining and Individual Fund Statements and Schedules	66
Combining Balance Sheet – Non-Major Governmental Funds	67
Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits) – Non-Major Governmental Funds	68
Combining Statement of Net Position – Non-Major Other Proprietary Funds	69
Combining Statement of Revenues, Expenditures and Changes in Net Position – Non-major Other Proprietary Funds	70
Combining Statements of Cash Flows – Non-Major Other Proprietary Funds	71
OTHER SUPPLEMENTARY INFORMATION	72
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Capital Project Fund	73

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, budgetary comparison of the general fund and the aggregate remaining fund information of the Town of Easton, Maryland, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, budgetary comparison of the general fund and the aggregate remaining fund information of the Town of Easton, Maryland as of June 30, 2013, 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 and schedules of funding progress for the defined benefit plan and other postemployment benefits on pages 3 - 16 and 63 – 64 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 of Easton, Maryland'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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2013, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Baltimore, Maryland
November 26, 2013

TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

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, 2013. 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

- The Town began a recycling program in the current fiscal year with the intent to decrease the amount of trash and waste going to the County Landfill. Recycling containers were provided to the Town residents to allow the residents to have curbside pickup of their recyclables.
- The Town finalized the changeover in the trash collections services with the automated tipper cans that allow for more efficient trash collection for the residents.
- The comfort station at the RTC Park has been completed at this Town owned Park. The athletic stations and playing fields are complete.
- Total assets of the Town at year-end were \$176.6 million and exceeded its liabilities at June 30, 2013 by \$139.3 million (i.e. total net position).
- As of June 30, 2013, the Town's governmental funds reported an ending fund balance of \$16.1 million which is a decrease of \$1.7 million from June 30, 2012. The components of this change are discussed later.

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 categories which are intended to provide economic development and urban redevelopment while recouping the costs involved in accomplishing those goals.

TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-wide Financial Statements (Continued)

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

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. Because it separates program revenue (revenue generated by specific programs through charges for services, grants and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program), it shows to what extent each program has to rely on taxes for funding. All changes in net position are reported using the accrual basis of accounting, similar to the method used by most private-sector companies. The accrual basis of accounting requires that revenues be reported when they are earned and expenses are reported when the goods and services are received, regardless of the timing of the cash flow. Items such as uncollected taxes, unpaid vendor invoices for items received as of June 30, 2013, 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, 2013.

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 of Easton, 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 of Easton can be divided into three categories: governmental, 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, Capital Projects Fund, Infrastructure Development Fund, and other funds not considered major by the Town. GASB defines a major fund as a fund whose assets, liabilities, revenues or expenditures

TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

comprise: 1) at least 10% of the total dollar amount of the same category within either all governmental or enterprise funds, as appropriate, and 2) at least 5% of the total dollar amount of all governmental or 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.

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 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 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, the Land Enterprise Fund, the Airport Industrial Land Fund and the East End Redevelopment Fund. There are no reconciling differences from the Proprietary Funds Statement of Net Position to the business-type activity column on the Government-Wide Statement of Net Position.

TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

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.

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 totaled \$139.3 million at June 30, 2013 which is an increase of approximately \$7.5 million over the June 30, 2012 net position. The following table reflects the Government-Wide Statement of Net Position for Governmental and Business-Type Activities:

	Governmental Activities		Business-Type Activities	
	2013	2012	2013	2012
Current and other assets	\$ 17,275,879	\$ 18,586,819	\$ 33,344,422	\$ 33,440,990
Capital assets and other assets	<u>37,834,800</u>	<u>34,069,687</u>	<u>88,120,568</u>	<u>84,467,397</u>
Total assets	<u>55,110,679</u>	<u>52,656,506</u>	<u>121,464,990</u>	<u>117,908,387</u>
Current liabilities	2,371,341	1,579,837	6,638,374	6,259,737
Long-term debt	<u>9,958,688</u>	<u>9,264,358</u>	<u>18,294,467</u>	<u>21,620,630</u>
Total liabilities	<u>12,330,029</u>	<u>10,844,195</u>	<u>24,932,841</u>	<u>27,880,367</u>
Net investment in capital assets	29,061,944	24,620,301	68,238,242	61,499,469
Restricted	6,594,705	6,620,780	-	-
Unrestricted	<u>7,124,001</u>	<u>10,571,230</u>	<u>28,293,907</u>	<u>28,528,551</u>
Total net position	<u><u>\$ 42,780,650</u></u>	<u><u>\$ 41,812,311</u></u>	<u><u>\$ 96,532,149</u></u>	<u><u>\$ 90,028,020</u></u>

TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Statement of Net Position (Continued)

The Town's total assets were approximately \$176.6 million (compared to \$170.6 million in the prior year) as of June 30, 2013. Of this amount, \$126 million (compared to \$118.5 million in the prior year) is accounted for by capital assets, which includes infrastructure.

Of the remaining assets, approximately \$29.8 million is accounted for in cash and cash equivalents and investments (compared to \$31.6 million in the prior year), approximately \$7.1 million in accounts and notes receivable (compared to \$7.4 million in the prior year), inventory of approximately \$6 million (compared to \$5.8 million in the prior year), with the remainder spread among various other accounts.

Outstanding liabilities totaled approximately \$37.3 million with bonds and other long-term obligations comprising approximately \$12.9 million, loans and notes payable comprising approximately \$18.3 million, and approximately \$6.1 million in accounts payable and accrued expenses at June 30, 2013. This compares with the June 30, 2012 amounts where the Town had outstanding liabilities of approximately \$38.7 million of which approximately \$14.2 million was bonds payable, approximately \$19.1 million was loans and notes payable, and approximately \$5.4 million was in accounts payable and accrued expenses. Of the long-term obligations, approximately \$2.9 million is due within one year, with the remainder due at various dates before 2028. Refer to the notes to the financial statements for a more in-depth discussion of long-term debt.

The largest portion of the Town's net position reflects its investment in capital assets, less any outstanding related debt used to acquire those assets. The Town's capital assets are used to provide services to citizens and customers. Consequently, investments in capital assets are 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 sources, since the capital assets themselves cannot be used to liquidate these liabilities.

At June 30, 2013, the Town had positive balances in all categories of net assets, 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.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Statement of Activities / Changes in Net Position

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

**Statement of Activities and Changes in Net Position
Fiscal Year Ended June 30, 2013**

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
Program Revenues			
Charges for service	\$ 1,877,363	\$ 52,789,279	\$ 54,666,642
Operating and capital grants and contributions	912,112	-	912,112
General Revenues			
Property taxes	12,455,554	-	12,455,554
Other local taxes	2,976,638	-	2,976,638
Other	199,867	332,382	532,249
Total revenues	<u>18,421,534</u>	<u>53,121,661</u>	<u>71,543,195</u>
Expenses			
General government	1,896,866	-	1,896,866
Public safety	8,141,242	-	8,141,242
Public works	4,097,434	-	4,097,434
Recreation and cultural	553,439	-	553,439
Economic development	374,092	-	374,092
Nondepartmental	778,207	-	778,207
Interest expense	412,561	-	412,561
Utilities services	-	47,543,019	47,543,019
Other services	-	273,867	273,867
Total expenses	<u>16,253,841</u>	<u>47,816,886</u>	<u>64,070,727</u>
Excess of revenues over expenses	2,167,693	5,304,775	7,472,468
Transfers in (out)	<u>(1,199,354)</u>	<u>1,199,354</u>	<u>-</u>
Change in net position	<u>968,339</u>	<u>6,504,129</u>	<u>7,472,468</u>
Net position, beginning of year	<u>41,812,311</u>	<u>90,028,020</u>	<u>131,840,331</u>
Net position, end of year	<u>\$ 42,780,650</u>	<u>\$ 96,532,149</u>	<u>\$ 139,312,799</u>

TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Statement of Activities / Changes in Net Position (Continued)

Statement of Activities and Changes in Net Position
Fiscal Year Ended June 30, 2012

	Governmental	Business-Type	
	Activities	Activities	Total
Program Revenues			
Charges for service	\$ 1,832,883	\$ 48,682,753	\$ 50,515,636
Operating grants and contributions	944,534	-	944,534
General Revenues			
Property taxes	12,181,527	-	12,181,527
Other local taxes	3,045,273	-	3,045,273
Other	13,415	1,261,480	1,274,895
Total revenues	<u>18,017,632</u>	<u>49,944,233</u>	<u>67,961,865</u>
Expenses			
General government	1,786,590	-	1,786,590
Public safety	7,763,752	-	7,763,752
Public works	4,120,703	-	4,120,703
Recreation and cultural	502,579	-	502,579
Economic development	359,520	-	359,520
Nondepartmental	771,468	-	771,468
Interest expense	448,181	-	448,181
Utilities services	-	44,785,250	44,785,250
Other services	-	308,542	308,542
Total expenses	<u>15,752,793</u>	<u>45,093,792</u>	<u>60,846,585</u>
Excess of revenues over expenses	2,264,839	4,850,441	7,115,280
Transfers in (out)	<u>(30,000)</u>	<u>30,000</u>	<u>-</u>
Increase in net position	<u>2,234,839</u>	<u>4,880,441</u>	<u>7,115,280</u>
Net position, beginning of year	<u>39,577,472</u>	<u>85,147,579</u>	<u>124,725,051</u>
Net position, end of year	<u>\$ 41,812,311</u>	<u>\$ 90,028,020</u>	<u>\$ 131,840,331</u>

Total revenues for the Town of Easton were approximately \$72 million for the year ended June 30, 2013 compared to approximately \$68 million for the year ending June 30, 2012. Governmental activities provided approximately \$18.4 million, and business-type activities provided \$53.1 million, primarily through charges for services.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

Governmental Funds Revenue and Expenditure 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, unassigned 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, 2013, unassigned fund balance of the General Fund was approximately \$5.9 million.

Revenues Classified by Source

	<u>2013</u>	<u>Percent to Total</u>	<u>2012</u>	<u>Percent to Total</u>
Governmental Funds				
Revenues				
General property taxes	\$ 12,455,554	67.08%	\$ 12,181,527	67.61%
Other local taxes	1,416,370	7.63%	1,366,348	7.58%
Permits and licenses	470,367	2.53%	431,735	2.40%
Fines and forfeitures	44,725	0.24%	55,587	0.30%
Charges for services	1,216,648	6.55%	941,835	5.23%
Miscellaneous	1,932,447	10.41%	2,016,224	11.19%
Intergovernmental	<u>1,032,213</u>	<u>5.56%</u>	<u>1,024,769</u>	<u>5.69%</u>
Total revenues	<u>\$ 18,568,324</u>	<u>100.00%</u>	<u>\$ 18,018,025</u>	<u>100.00%</u>

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)

Governmental Funds Revenue and Expense Analysis (Continued)

The following provides an explanation of revenues by source that changed greater than 1.5% over the prior year:

- **General Property Taxes** – This consists primarily of real property tax revenues, which were approximately \$11.6 million, an increase of 2% or approximately \$236 thousand from last year reflecting an increase in tax base properties. The real estate tax rate was maintained at the FY2012 rate of \$.52 per \$100 of assessed value.
- **Charges for Services** – The increase in charges for services reflects the implementation of a Town wide recycling program. Current year charges for services include approximately \$228 thousand in Recycling Fees.

The following table represents expenditures by function:

Expenditures by Function				
Governmental Funds	<u>2013</u>	<u>Percent to Total</u>	<u>2012</u>	<u>Percent to Total</u>
Expenditures				
Current operations:				
General government				
administration	\$ 1,896,685	9.56%	\$ 2,003,703	10.39%
Public safety	8,571,002	43.17%	8,866,685	46.01%
Public works	6,397,266	32.23%	5,091,950	26.41%
Recreation and cultural	751,020	3.78%	921,742	4.78%
Economic development	251,687	1.27%	236,904	1.23%
Nondepartmental	778,207	3.92%	771,468	4.00%
Debt service:				
Principal	791,307	3.99%	937,476	4.86%
Interest	412,561	2.08%	448,181	2.32%
Total expenditures	<u><u>\$ 19,849,735</u></u>	<u><u>100.00%</u></u>	<u><u>\$ 19,278,109</u></u>	<u><u>100.00%</u></u>

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)

Governmental Funds Revenue and Expense Analysis (Continued)

The following provides an explanation of the expenditures by function that changed greater than 1.5% over the prior year:

- **Public Works** – The increase in Public Works was due in a large part to capital expenditures made in FY2013. Several larger road improvement projects were undertaken as well as completion of installation of pedestrian crosswalk lights at several main intersections.

Enterprise Funds Revenue and Expense Analysis

Proprietary Funds	2013	2012
Operating Revenues		
Charges for services	\$ 45,848,733	\$ 44,907,589
Other operating revenues	<u>6,940,546</u>	<u>3,775,164</u>
Total revenues	<u>\$ 52,789,279</u>	<u>\$ 48,682,753</u>
Operating Expenses		
Cost of service	\$ 39,535,077	\$ 37,685,337
Depreciation	<u>6,403,189</u>	<u>6,295,642</u>
Total operating expenses	<u>\$ 45,938,266</u>	<u>\$ 43,980,979</u>
Other Revenues and (Expenses)		
Investment earnings	\$ 18,390	\$ 17,248
Interest expense	(341,869)	(352,383)
Gain on sale of property	823,575	25,242
Payment in lieu of taxes	(1,536,751)	(1,570,779)
Capital charges	136,250	1,869,184
Miscellaneous	<u>184,954</u>	<u>160,155</u>
Net other revenues and (expenses)	<u>\$ (715,451)</u>	<u>\$ 148,657</u>

TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)

Operating Revenues: Revenues in FY13 increased \$4.1 million, or 8.4%, from FY12. This was largely due to \$3.2 million, or 87.1% higher wholesale generation revenues in the Electric Department. The Electric Department's other revenues increased \$109 thousand primarily as a result of higher unit sales, partially offset by greater net benefits of generation passed back to customers. The Water & Wastewater Department's revenues decreased \$43 thousand, or 1.0%, reflecting a decrease in usage per customer. Cable & Communication's revenues increased \$898 thousand, or 9.0%, over FY12, primarily as a result of a continued growth of higher priced cable TV and modem services, VOIP customers, cable TV terminal rentals, and IT consulting services.

Operating Expenses: The Utility Fund's operating expenses increased \$2.0 million, or 4.5%, versus FY12. The primary driver of the change was \$2.4 million, or 64.0%, higher wholesale generation expenses in the Electric Department, which was partially offset by \$1.2 million, or 211.3%, greater capacity credits related to the Commission's generation assets. The Gas Department's operating expenses were \$57 thousand, or 1.1%, higher during FY13 primarily due to lower charges to capital construction. The Water & Wastewater Department's operating expenses were \$142 thousand, or 3.0%, lower than the prior year due mainly to the receipt of an operations grant and fewer charges for distribution maintenance. Cable & Communications Department experienced a \$737 thousand, or 9.7%, increase in operating expenses as a result of increasing programming costs and lower charges to capital construction, partially offset by a decrease in internet connection fees and lower depreciation expense.

Capital Charges: Capital charges are fees paid by developers for new connections to the Water & Wastewater Departments. These charges are recorded as other income. Total capital charges collected in FY13 were \$136 thousand, compared to \$1.9 million in FY12. The decrease was due to a return to more normal development activity after a large residential development's connection to the Utility Fund's system during the prior fiscal year.

TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

ANALYSIS OF BUDGET AND ACTUAL RESULTS

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Governmental Funds – General Fund				
Revenues				
Taxes	\$ 13,538,493	\$ 13,538,493	\$ 13,871,924	\$ 333,431
Licenses and permits	496,400	496,400	470,367	(26,033)
Intergovernmental	480,309	480,309	560,423	80,114
Charges for services	1,333,188	1,333,188	1,216,648	(116,540)
Fines and forfeitures	29,000	29,000	44,725	15,725
Miscellaneous	<u>1,514,500</u>	<u>1,514,500</u>	<u>1,790,124</u>	<u>275,624</u>
Total revenues	<u>\$ 17,391,890</u>	<u>\$ 17,391,890</u>	<u>\$ 17,954,211</u>	<u>\$ 562,321</u>
Expenditures				
Current operations:				
General government administration	\$ 1,938,882	\$ 1,938,882	\$ 1,709,200	\$ 229,682
Public safety	6,968,151	6,968,151	7,387,038	(418,887)
Public works	3,553,978	3,553,978	3,663,957	(109,979)
Recreation and cultural	406,439	406,439	389,212	17,227
Economic development	358,611	358,611	251,687	106,924
Nondepartmental	939,452	939,452	655,993	283,459
Debt service:				
Principal	52,771	52,771	56,307	(3,536)
Interest	1,569	1,569	17,237	(15,668)
Other financing (sources) uses:				
Transfers	<u>3,172,037</u>	<u>3,172,037</u>	<u>3,275,604</u>	<u>103,567</u>
Total expenditures and other uses	<u>\$ 17,391,890</u>	<u>\$ 17,391,890</u>	<u>\$ 17,406,235</u>	<u>\$ (14,345)</u>

Regarding actual results of the governmental funds to the adopted budgets, variations greater than 1.5% were as follows in summary form:

- Gross actual revenues were slightly above gross budgeted revenues by approximately \$562 thousand dollars or approximately 3.2% of the budgeted revenue of approximately \$17.4 million. This is primarily the result of increases in real property tax revenues.
- Gross budgeted expenditures and other financing uses were greater than the gross actual expenditures and other financing uses by approximately \$14 thousand or .08% of budgeted expenditures and other financing uses. The most significant variance related to public safety.
- Public safety experienced greater than budgeted operating expense (including salaries, benefits, supplies and road construction materials) due to increased benefit costs and capital expenditures for the Fire Department.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

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, 2013, amounted to \$125.8 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 present capital assets by category (net of accumulated depreciation) for fiscal years ending June 30, 2013 and 2012, respectively:

**Capital Assets
(Net of Depreciation)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land	\$ 7,150,141	\$ 6,978,830	\$ 1,130,905	\$ 1,280,964	\$ 8,281,046	\$ 8,259,794
Buildings and improvements	26,968,345	23,607,259	18,420,347	17,998,655	45,388,692	41,605,914
Plants, mains and other equipment	3,646,824	3,414,108	65,324,153	59,385,772	68,970,977	62,799,880
Construction in progress	-	-	<u>3,156,454</u>	<u>5,646,145</u>	<u>3,156,454</u>	<u>5,646,145</u>
Total	<u>\$ 37,765,310</u>	<u>\$ 34,000,197</u>	<u>\$ 88,031,859</u>	<u>\$ 84,311,536</u>	<u>\$ 125,797,169</u>	<u>\$ 118,311,733</u>

During the year ended June 30, 2013, the Town's capital assets grew by approximately \$7.5 million. This is largely due the completion of the Wastewater Treatment Facility in the utility fund with a final cost of approximately \$39.1 million. Additionally, the Fire Department purchased a new Ladder truck and several large road improvement and widening projects were completed.

Long-Term Debt

The Town issued no new bonds during the year ended 2013, however, did originate a loan with the State of Maryland totaling approximately \$99 thousand. The Town's net OPEB obligation decreased by approximately \$125 thousand. Regularly scheduled principal payments were made during 2013 totaling approximately \$2.3 million. Refer to schedule below for balances.

TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Debt (Continued)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Long-term debt	\$ 10,287,879	\$ 9,379,895	\$ 19,864,576	\$ 22,906,677	\$ 30,152,455	\$ 32,286,572
Compensated absences	689,091	659,847	-	-	689,091	659,847
OPEB obligation (asset)	<u>324,136</u>	<u>228,342</u>	<u>(40,528)</u>	<u>180,404</u>	<u>283,608</u>	<u>408,746</u>
Long-term debt	<u>\$ 11,301,106</u>	<u>\$ 10,268,084</u>	<u>\$ 19,824,048</u>	<u>\$ 23,087,081</u>	<u>\$ 31,125,154</u>	<u>\$ 33,355,165</u>

SUBSEQUENT ITEMS FOR FUTURE FINANCIAL STATEMENTS

The Town of Easton has opted to create a separate legal entity known as the Easton Economic Development Commission and to initially fund that entity for the fiscal year beginning July 1, 2013. This activity is intended to be a new approach to Economic Development within the Town and will replace the former staff positions which performed these duties previously.

To improve treatment quality and to meet increasing system demand, construction of a new wastewater treatment facility began in FY05. The facility was placed in service in FY07. Final work on the major components of the project was completed in FY08. During FY13, construction of the facility was completed at a final cost of \$39.1 million. This facility was funded through a combination of grants and state loans.

To mitigate the effect of continually rising expenses, the Utility Fund, in departmental teams, was tasked with finding ways to implement cost reductions, productivity or process improvements of at least \$150 thousand during FY13 and \$150 thousand in FY12. The teams implemented cost reductions, productivity or process improvements of over \$300 thousand and \$290 thousand in FY13 and FY12, respectively.

The Utility Fund's mission is to enhance the quality of life in our community by providing reliable, competitively-priced utility and communications services through skilled, safety-oriented and customer-focused employees. Management regularly reviews both this mission and an accompanying set of values – Cooperation, Innovation, Communication, Equal Opportunity, Integrity, Responsibility, and Pride in our work -- during strategic planning sessions. We believe that our plans for the future continue to be consistent with these values, which help us continue to achieve our mission.

Requests for Information

This financial report is designed to provide a general overview of the Town of Easton'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.

BASIC FINANCIAL STATEMENTS

TOWN OF EASTON, MARYLAND
STATEMENT OF NET POSITION
June 30, 2013

	Primary Government		Total
	Governmental	Business-Type	
	Activities	Activities	
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 18,393,779	\$ 4,591,067	\$ 22,984,846
Investments	12,251	6,844,111	6,856,362
Accounts receivable, net	645,507	5,334,985	5,980,492
Grants and loans receivable	938,987	142,106	1,081,093
Internal balances	(3,000,000)	3,000,000	-
Unrecovered fuel and gas costs	-	687,307	687,307
Interest receivable	-	895	895
Prepaid expenses	285,355	5,240,599	5,525,954
Unbilled revenue	-	1,472,955	1,472,955
Inventory, at average cost	-	6,030,397	6,030,397
Total current assets	<u>17,275,879</u>	<u>33,344,422</u>	<u>50,620,301</u>
NONCURRENT ASSETS			
Unamortized expenses	-	88,709	88,709
Note receivable, non-current	69,490	-	69,490
Capital assets, not being depreciated	7,150,141	4,287,359	11,437,500
Capital assets, net of accumulated depreciation	30,615,169	83,744,500	114,359,669
Total non current assets	<u>37,834,800</u>	<u>88,120,568</u>	<u>125,955,368</u>
Total assets	<u>55,110,679</u>	<u>121,464,990</u>	<u>176,575,669</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	871,874	1,834,557	2,706,431
Accrued liabilities	24,217	2,983,173	3,007,390
Tax collection payable	-	283,563	283,563
Performance deposits	121,259	1,500	122,759
Unearned revenue	11,573	6,000	17,573
Current portion of long-term debt	1,342,418	1,529,581	2,871,999
Total current liabilities	<u>2,371,341</u>	<u>6,638,374</u>	<u>9,009,715</u>
NONCURRENT LIABILITIES			
Long-term liabilities, net of current portion	9,958,688	18,294,467	28,253,155
Total noncurrent liabilities	<u>9,958,688</u>	<u>18,294,467</u>	<u>28,253,155</u>
Total liabilities	<u>12,330,029</u>	<u>24,932,841</u>	<u>37,262,870</u>
NET POSITION			
Net investment in capital assets	29,061,944	68,238,242	97,300,186
Restricted for:			
Debt service	1,663,487	-	1,663,487
Capital Improvements	4,754,999	-	4,754,999
Community Development	176,219	-	176,219
Unrestricted	7,124,001	28,293,907	35,417,908
TOTAL NET POSITION	<u>\$ 42,780,650</u>	<u>\$ 96,532,149</u>	<u>\$ 139,312,799</u>

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

TOWN OF EASTON, MARYLAND
STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

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	\$ 1,896,866	\$ 529,765	\$ -	\$ -	\$ (1,367,101)	\$ -	\$ (1,367,101)
Public safety	8,141,242	290,046	192,321	-	(7,658,875)	-	(7,658,875)
Public works	4,097,434	1,051,415	218,295	446,790	(2,380,934)	-	(2,380,934)
Recreation and cultural	553,439	-	50,206	-	(503,233)	-	(503,233)
Economic development	374,092	-	4,500	-	(369,592)	-	(369,592)
Nondepartmental	778,207	6,137	-	-	(772,070)	-	(772,070)
Interest expense	412,561	-	-	-	(412,561)	-	(412,561)
Total governmental activities	<u>16,253,841</u>	<u>1,877,363</u>	<u>465,322</u>	<u>446,790</u>	<u>(13,464,366)</u>	<u>-</u>	<u>(13,464,366)</u>
Business-type activities:							
Utility	46,006,268	52,592,957	-	-	-	6,586,689	6,586,689
Land enterprise	183,316	193,242	-	-	-	9,926	9,926
Airport industrial	34,727	3,080	-	-	-	(31,647)	(31,647)
East End redevelopment	55,824	-	-	-	-	(55,824)	(55,824)
Total business-type activities	<u>46,280,135</u>	<u>52,789,279</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,509,144</u>	<u>6,509,144</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 62,533,976</u>	<u>\$ 54,666,642</u>	<u>\$ 465,322</u>	<u>\$ 446,790</u>	<u>(13,464,366)</u>	<u>6,509,144</u>	<u>(6,955,222)</u>
General revenues:							
Property taxes					12,455,554	-	12,455,554
Payment in lieu of taxes					1,536,751	(1,536,751)	-
Intergovernmental, unrestricted					1,439,887	-	1,439,887
Interest and investment earnings					1,319	18,390	19,709
Miscellaneous					198,548	313,992	512,540
Transfers					(1,199,354)	1,199,354	-
Total general revenues					<u>14,432,705</u>	<u>(5,015)</u>	<u>14,427,690</u>
CHANGE IN NET POSITION					968,339	6,504,129	7,472,468
NET POSITION, BEGINNING OF YEAR					<u>41,812,311</u>	<u>90,028,020</u>	<u>131,840,331</u>
NET POSITION, ENDING OF YEAR					<u>\$ 42,780,650</u>	<u>\$ 96,532,149</u>	<u>\$ 139,312,799</u>

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

TOWN OF EASTON, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

	General Fund	Capital Projects Projects Fund	Infrastructure Development Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents - pooled	\$ 9,357,241	\$ 2,497,349	\$ 4,759,623	\$ 1,779,566	\$ 18,393,779
Investments	12,251	-	-	-	12,251
Accounts receivable, net	1,180,163	404,331	-	-	1,584,494
Due from other funds	-	-	-	64,916	64,916
Note receivable	-	-	-	69,490	69,490
Prepaid expenses	285,355	-	-	-	285,355
Unamortized expenses	-	-	-	87,611	87,611
TOTAL ASSETS	<u>\$ 10,835,010</u>	<u>\$ 2,901,680</u>	<u>\$ 4,759,623</u>	<u>\$ 2,001,583</u>	<u>\$ 20,497,896</u>
LIABILITIES					
Accounts payable	\$ 283,885	\$ 578,362	\$ 4,624	\$ 5,003	\$ 871,874
Accrued liabilities	162,035	-	-	-	162,035
Due to other funds	-	-	-	64,916	64,916
Performance deposits	121,259	-	-	-	121,259
Deferred revenue	166,413	-	-	-	166,413
Interfund loan payable	3,000,000	-	-	-	3,000,000
Total liabilities	<u>3,733,592</u>	<u>578,362</u>	<u>4,624</u>	<u>69,919</u>	<u>4,386,497</u>
FUND BALANCES					
Nonspendable	285,355	-	-	157,101	442,456
Restricted	-	-	4,754,999	1,839,706	6,594,705
Committed	941,121	-	-	-	941,121
Assigned	-	2,323,318	-	-	2,323,318
Unassigned	5,874,942	-	-	(65,143)	5,809,799
Total fund balances	<u>7,101,418</u>	<u>2,323,318</u>	<u>4,754,999</u>	<u>1,931,664</u>	<u>16,111,399</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 10,835,010</u>	<u>\$ 2,901,680</u>	<u>\$ 4,759,623</u>	<u>\$ 2,001,583</u>	<u>\$ 20,497,896</u>

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

TOWN OF EASTON, MARYLAND
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2013

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 16,111,399

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. The cost of these assets is \$58,672,660 and the accumulated depreciation is \$20,907,350. 37,765,310

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	\$ 8,275,000	
Notes payable	424,919	
DCHD loan payable	1,672,124	
Capital lease obligations	3,447	
Net OPEB obligation	324,136	
Compensated absences - long-term portion	551,273	(11,250,899)

Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. 154,840

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ 42,780,650

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

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2013

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Infrastructure Development Fund</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
REVENUES					
General property taxes	\$ 12,455,554	\$ -	\$ -	\$ -	\$ 12,455,554
Other local taxes	1,416,370	-	-	-	1,416,370
Permits and licenses	470,367	-	-	-	470,367
Fines and forfeitures	44,725	-	-	-	44,725
Charges for services	1,216,648	-	-	-	1,216,648
Miscellaneous	1,790,124	-	42,455	99,868	1,932,447
Revenues from other agencies	560,423	446,790	-	25,000	1,032,213
Total revenues	<u>17,954,211</u>	<u>446,790</u>	<u>42,455</u>	<u>124,868</u>	<u>18,568,324</u>
EXPENDITURES					
Current operations:					
General government	1,709,200	187,485	-	-	1,896,685
Public safety	7,387,038	1,183,964	-	-	8,571,002
Public works	3,663,957	2,702,082	-	31,227	6,397,266
Recreation and cultural	389,212	361,808	-	-	751,020
Economic development	251,687	-	-	-	251,687
Nondepartmental	655,993	-	57,696	64,518	778,207
Debt service:					
Principal	56,307	-	-	735,000	791,307
Interest	17,237	-	-	395,324	412,561
Total expenditures	<u>14,130,631</u>	<u>4,435,339</u>	<u>57,696</u>	<u>1,226,069</u>	<u>19,849,735</u>
Excess (deficiency) of revenues over expenditures	<u>3,823,580</u>	<u>(3,988,549)</u>	<u>(15,241)</u>	<u>(1,101,201)</u>	<u>(1,281,411)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in (out)	<u>(6,275,604)</u>	<u>4,775,195</u>	<u>-</u>	<u>1,131,842</u>	<u>(368,567)</u>
Total other financing sources (uses)	<u>(6,275,604)</u>	<u>4,775,195</u>	<u>-</u>	<u>1,131,842</u>	<u>(368,567)</u>
NET CHANGES IN FUND BALANCES	(2,452,024)	786,646	(15,241)	30,641	(1,649,978)
FUND BALANCES, BEGINNING OF YEAR	<u>9,553,442</u>	<u>1,536,672</u>	<u>4,770,240</u>	<u>1,901,023</u>	<u>17,761,377</u>
FUND BALANCES, END OF YEAR	<u>\$ 7,101,418</u>	<u>\$ 2,323,318</u>	<u>\$ 4,754,999</u>	<u>\$ 1,931,664</u>	<u>\$ 16,111,399</u>

This accompanying notes are an integral part of the 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, 2013

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ (1,649,978)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>	
<p>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 capital outlay \$4,815,636 exceeds depreciation expense \$1,891,860 in the period.</p>	2,923,776
<p>Transfer of liabilities in excess of capital assets from a business type activity.</p>	(830,788)
<p>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). This year, vacation leave earned exceeded the amounts used by \$23,395.</p>	(23,395)
<p>OPEB costs reported in the Statement of Activities do not require the use of current financial resources and, are not reported as expenditures in governmental funds.</p>	(95,794)
<p>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.</p>	791,308
<p>Under the modified accrual basis of accounting, revenues are not recognized unless they are deemed "available" to finance current expenditures. Accrual-basis recognition is not limited by availability, so certain revenues need to be reduced by the amounts that were unavailable at the beginning of the year and increased by the amounts that were unavailable at the end of the year. This adjustment records a net decrease in "unavailable" revenues at the end of the year over the amount at the beginning of the year.</p>	<u>(146,790)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 968,339</u></u>

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

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, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>		<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES				
Taxes				
General property taxes:				
Real property taxes	\$ 11,584,339	\$ 11,584,339	\$ 11,555,794	\$ (28,545)
Personal property taxes - business	926,000	926,000	811,427	(114,573)
Personal property taxes - railroad and public utilities	160,000	160,000	128,307	(31,693)
Abatements/discounts	(135,000)	(135,000)	(117,945)	17,055
Penalties and interest	49,900	49,900	77,971	28,071
Total general property taxes	<u>12,585,239</u>	<u>12,585,239</u>	<u>12,455,554</u>	<u>(129,685)</u>
Local taxes:				
State shared income taxes	900,000	900,000	1,263,222	363,222
State shared highway taxes	48,904	48,904	148,469	99,565
Admission and amusements	3,600	3,600	3,929	329
Franchise-ordinary business corporation	750	750	750	-
Total other local taxes	<u>953,254</u>	<u>953,254</u>	<u>1,416,370</u>	<u>463,116</u>
Total taxes	<u>13,538,493</u>	<u>13,538,493</u>	<u>13,871,924</u>	<u>333,431</u>
Permits and licenses				
Trader's licenses	60,000	60,000	72,873	12,873
Building permits	200,000	200,000	97,882	(102,118)
Plumbing permits	30,000	30,000	24,642	(5,358)
Use and occupancy permits	31,700	31,700	24,945	(6,755)
Rental housing license fees	95,000	95,000	79,610	(15,390)
Permits and other licenses	79,700	79,700	170,415	90,715
Total permits and licenses	<u>496,400</u>	<u>496,400</u>	<u>470,367</u>	<u>(26,033)</u>
Fines and forfeitures				
	<u>29,000</u>	<u>29,000</u>	<u>44,725</u>	<u>15,725</u>
Charges for services				
General government	30,000	30,000	59,397	29,397
Public safety	97,208	97,208	148,292	51,084
Highway and streets	105,000	105,000	89,803	(15,197)
Sanitation and waste removal	992,880	992,880	908,246	(84,634)
Main Street and Recreation fees	108,100	108,100	10,910	(97,190)
Total charges for services	<u>1,333,188</u>	<u>1,333,188</u>	<u>1,216,648</u>	<u>(116,540)</u>
Revenues from other agencies				
Federal:				
Rail Trail Extension Design	40,000	40,000	-	(40,000)
FEMA	-	-	40,716	40,716
Misc Federal Grant	-	-	1,188	1,188
Total federal	<u>40,000</u>	<u>40,000</u>	<u>41,904</u>	<u>1,904</u>
State:				
Police protection	164,886	164,886	179,193	14,307
Fire, rescue and ambulance	12,700	12,700	13,128	428
Conservation and critical areas	7,000	7,000	4,500	(2,500)
Recreation Open Space & Other Projects	-	-	3,228	3,228
Total state	<u>184,586</u>	<u>184,586</u>	<u>200,049</u>	<u>15,463</u>
County:				
Taxes	250,000	250,000	312,747	62,747
Misc County Grant	5,723	5,723	5,723	-
Total county	<u>255,723</u>	<u>255,723</u>	<u>318,470</u>	<u>62,747</u>
Total revenues from other agencies	<u>480,309</u>	<u>480,309</u>	<u>560,423</u>	<u>80,114</u>
Miscellaneous	<u>1,514,500</u>	<u>1,514,500</u>	<u>1,790,124</u>	<u>275,624</u>
TOTAL REVENUES	<u>17,391,890</u>	<u>17,391,890</u>	<u>17,954,211</u>	<u>562,321</u>

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
(NON-GAAP BUDGETARY BASIS) – GENERAL FUND
Year Ended June 30, 2013
(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget		
EXPENDITURES				
General government				
Legislative:				
Town council	\$ 137,888	\$ 137,888	\$ 114,569	\$ 23,319
Town clerk	92,145	92,145	108,535	(16,390)
Total legislative	<u>230,033</u>	<u>230,033</u>	<u>223,104</u>	<u>6,929</u>
Executive Mayor	236,485	236,485	69,188	167,297
Town Manager	532,283	532,283	388,031	144,252
Elections	6,500	6,500	5,140	1,360
Financial administration	448,291	448,291	424,066	24,225
Independent accounting & auditing	38,500	38,500	45,774	(7,274)
Law	50,000	50,000	48,949	1,051
Planning and zoning	285,418	285,418	353,441	(68,023)
General services	111,372	111,372	151,507	(40,135)
Total general government	<u>1,938,882</u>	<u>1,938,882</u>	<u>1,709,200</u>	<u>229,682</u>
Public safety				
Police	6,099,298	6,099,298	6,407,250	(307,952)
Traffic control	54,241	54,241	60,607	(6,366)
Fire and rescue	257,704	257,704	358,715	(101,011)
Code enforcement	444,804	444,804	428,160	16,644
Rental housing	97,104	97,104	128,701	(31,597)
Traffic engineering	15,000	15,000	3,605	11,395
Total public safety	<u>6,968,151</u>	<u>6,968,151</u>	<u>7,387,038</u>	<u>(418,887)</u>
Public works				
Administration	524,696	524,696	459,780	64,916
Sanitation and waste removal	1,175,110	1,175,110	1,722,606	(547,496)
Highways, streets and sidewalks	1,853,472	1,853,472	1,477,075	376,397
Mosquito control	700	700	4,496	(3,796)
Total public works	<u>3,553,978</u>	<u>3,553,978</u>	<u>3,663,957</u>	<u>(109,979)</u>
Parks, recreation and cultural				
Parks and recreation administration	87,858	87,858	92,043	(4,185)
Participation recreation	104,181	104,181	68,198	35,983
Municipal parks	214,400	214,400	228,971	(14,571)
Total parks, recreation and cultural	<u>406,439</u>	<u>406,439</u>	<u>389,212</u>	<u>17,227</u>
Economic development/Main Street	<u>358,611</u>	<u>358,611</u>	<u>251,687</u>	<u>106,924</u>
Nondepartmental	<u>939,452</u>	<u>939,452</u>	<u>655,993</u>	<u>283,459</u>
Debt service				
Principal	52,771	52,771	56,307	(3,536)
Interest	1,569	1,569	17,237	(15,668)
Total debt service	<u>54,340</u>	<u>54,340</u>	<u>73,544</u>	<u>(19,204)</u>
TOTAL EXPENDITURES	<u>14,219,853</u>	<u>14,219,853</u>	<u>14,130,631</u>	<u>89,222</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>3,172,037</u>	<u>3,172,037</u>	<u>3,823,580</u>	<u>651,543</u>

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
(NON-GAAP BUDGETARY BASIS) – GENERAL FUND
Year Ended June 30, 2013
(Continued)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
OTHER FINANCING SOURCES (USES)				
Loan proceeds	\$ -	\$ 3,000,000	\$ 3,000,000	\$ -
Transfers (net):				
Debt service	(1,131,842)	(1,131,842)	(1,131,842)	-
East End Redevelopment	(250,000)	(250,000)	(353,567)	(103,567)
Capital projects	(1,775,195)	(4,775,195)	(4,775,195)	-
Land enterprise	(15,000)	(15,000)	(15,000)	-
TOTAL OTHER FINANCING USES	<u>\$ (3,172,037)</u>	<u>\$ (3,172,037)</u>	<u>(3,275,604)</u>	<u>\$ (103,567)</u>
NET CHANGE IN FUND BALANCE			547,976	
FUND BALANCE, BEGINNING OF YEAR			<u>9,553,442</u>	
FUND BALANCE, END OF YEAR			<u>\$ 10,101,418</u>	

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

TOWN OF EASTON, MARYLAND
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2013

	Business-Type Activities - Enterprise Funds		
	Utility	Other	Totals
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 4,013,904	\$ 577,163	\$ 4,591,067
Investments	6,844,111	-	6,844,111
Accounts receivable, net	5,329,851	5,134	5,334,985
Grants & loans receivable	142,106	-	142,106
Interfund loan receivable	3,000,000	-	3,000,000
Interest receivable	895	-	895
Prepaid expenses	5,240,599	-	5,240,599
Inventory	6,030,397	-	6,030,397
Unrecovered fuel and gas costs	687,307	-	687,307
Unbilled revenue	1,472,955	-	1,472,955
Total current assets	32,762,125	582,297	33,344,422
NONCURRENT ASSETS			
Unamortized expenses	88,709	-	88,709
Capital assets, not being depreciated	4,204,386	82,973	4,287,359
Capital assets, net of accumulated depreciation	82,041,148	1,703,352	83,744,500
Total noncurrent assets	86,334,243	1,786,325	88,120,568
TOTAL ASSETS	\$ 119,096,368	\$ 2,368,622	\$ 121,464,990
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ 1,817,626	\$ 16,931	\$ 1,834,557
Accrued liabilities	2,983,173	-	2,983,173
Tax collection payable	283,563	-	283,563
Performance deposits	-	1,500	1,500
Unearned revenue	6,000	-	6,000
Current portion of long-term debt	1,529,581	-	1,529,581
Total current liabilities	6,619,943	18,431	6,638,374
NONCURRENT LIABILITIES			
Long-term debt, net of current portion	18,294,467	-	18,294,467
Total liabilities	24,914,410	18,431	24,932,841
NET POSITION			
Net investment in capital assets	66,451,917	1,786,325	68,238,242
Unrestricted	27,730,041	563,866	28,293,907
Total net position	94,181,958	2,350,191	96,532,149
TOTAL LIABILITIES AND NET POSITION	\$ 119,096,368	\$ 2,368,622	\$ 121,464,990

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

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2013

	Business-Type Activities - Enterprise Funds		
	Utility	Other	Total
OPERATING REVENUES			
Charges for services	\$ 45,707,329	\$ 141,404	\$ 45,848,733
Other operating revenues	6,885,628	54,918	6,940,546
Total operating revenues	<u>52,592,957</u>	<u>196,322</u>	<u>52,789,279</u>
OPERATING EXPENSES			
Cost of service	39,446,567	88,510	39,535,077
Depreciation	6,217,832	185,357	6,403,189
Total operating expenses	<u>45,664,399</u>	<u>273,867</u>	<u>45,938,266</u>
Operating income (loss)	<u>6,928,558</u>	<u>(77,545)</u>	<u>6,851,013</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment earnings	18,383	7	18,390
Interest expense	(341,869)	-	(341,869)
Net gain (loss) on disposal of capital assets	(7,213)	830,788	823,575
Payment in lieu of taxes	(1,536,751)	-	(1,536,751)
Capital charges	136,250	-	136,250
Miscellaneous	184,954	-	184,954
Total non-operating revenues	<u>(1,546,246)</u>	<u>830,795</u>	<u>(715,451)</u>
Income (loss) before transfers	5,382,312	753,250	6,135,562
Transfers in (out)	<u>-</u>	<u>368,567</u>	<u>368,567</u>
CHANGES IN FUND NET POSITION	5,382,312	1,121,817	6,504,129
TOTAL NET POSITION - BEGINNING OF YEAR	<u>88,799,646</u>	<u>1,228,374</u>	<u>90,028,020</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ 94,181,958</u>	<u>\$ 2,350,191</u>	<u>\$ 96,532,149</u>

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

TOWN OF EASTON, MARYLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2013

	Business-Type Activities - Enterprise Funds		
	Utility	Other	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received for services	\$ 53,470,700	\$ 387,799	\$ 53,858,499
Cash paid to suppliers for goods and services	(32,061,400)	(430,363)	(32,491,763)
Cash paid to employees for services	(8,535,337)	-	(8,535,337)
Net cash provided by (used in) operating activities	<u>12,873,963</u>	<u>(42,564)</u>	<u>12,831,399</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES			
Cash paid in lieu of taxes	(1,536,751)	-	(1,536,751)
Transfers from other funds	-	368,567	368,567
Net cash used in non-capital and related financing activities	<u>(1,536,751)</u>	<u>368,567</u>	<u>(1,168,184)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from disposition of assets	61,482	-	61,482
Proceeds from capital charges	136,250	-	136,250
Purchases/construction of capital assets	(10,718,954)	(185,338)	(10,904,292)
Proceeds from capital grant	240,664	-	240,664
Payment of debt	(1,466,450)	-	(1,466,450)
Interest paid on bond indebtedness	(169,593)	-	(169,593)
Other interest paid	(141,201)	-	(141,201)
Net cash used in capital and related financing activities	<u>(12,057,802)</u>	<u>(185,338)</u>	<u>(12,243,140)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on cash deposits and investments	46,875	8	46,883
Interfund loans	(3,000,000)	-	(3,000,000)
Sales of investments	17,200,000	-	17,200,000
Purchases of investments	(10,319,499)	-	(10,319,499)
Net cash provided by investing activities	<u>3,927,376</u>	<u>8</u>	<u>3,927,384</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,206,786	140,673	3,347,459
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	807,118	436,490	1,243,608
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,013,904</u>	<u>\$ 577,163</u>	<u>\$ 4,591,067</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Operating income (loss)	\$ 6,928,558	\$ (77,545)	\$ 6,851,013
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	6,098,354	185,357	6,283,711
Net accretion	(15,616)	-	(15,616)
Other miscellaneous non-operating revenue	200,929	-	200,929
Effects of changes in operating assets and liabilities:			
Accounts receivable, net	61,733	744	62,477
Inventory	272,458	-	272,458
Due to/from other funds	-	(154,498)	(154,498)
Unrecovered fuel and gas costs	(881,009)	-	(881,009)
Accounts payable and accrued liabilities	208,556	3,378	211,934
Total adjustments	<u>5,945,405</u>	<u>34,981</u>	<u>5,980,386</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 12,873,963</u>	<u>\$ (42,564)</u>	<u>\$ 12,831,399</u>

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

TOWN OF EASTON, MARYLAND
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2013

	Benefits Trust Funds
ASSETS	
Cash and cash equivalents	\$ 366,265
Investments, at fair value	25,139,550
Total assets	\$ 25,505,815
 NET POSITION	
Held in trust for pension benefits	\$ 25,505,815

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

TOWN OF EASTON, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
Year Ended June 30, 2013

	Benefits Trust Funds
ADDITIONS	
Contributions:	
Employer	\$ 2,471,053
Employees	163,690
	2,634,743
Total contributions	2,634,743
Investment earnings:	
Investment income	674,890
Net increase in fair value of plan investments	549,286
	1,224,176
Total investment earnings	1,224,176
Less Investment expense	140,296
	1,083,880
Net investment earnings	1,083,880
Total additions	3,718,623
DEDUCTIONS	
Benefit payments	1,447,078
	1,447,078
NET CHANGE	2,271,545
NET POSITION AT BEGINNING OF YEAR	23,234,270
NET POSITION AT END OF YEAR	\$ 25,505,815

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Easton, Maryland (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.

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 and the primary 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 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 Assets and the Statement of Changes in Net Assets report information on all of the non-fiduciary activities of the Town. Eliminations have been made to remove the effect of 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.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

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

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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. Since all of the Commission's departments are either regulated or self-regulated, the Commission is subject to certain requirements of private sector guidance that provides 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 Commission 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 applies all relevant GASB pronouncements. In December, 2010, the GASB issued 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 previously included in FASB, AICPA and Accounting Principles Board Opinions (APB) issued before November 30, 1989.

In June, 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement Provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and defined the residual of assets and deferred outflows less liabilities and deferred inflows as net position. The Town has implemented the effects of this Statement for the reporting period ending June 30, 2013. The effect of this Statement on the Town was a change in format only to include the concept of net position. The Town had no deferred inflows or outflows, as defined in GASB No. 63, at June 30, 2013.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Estimates

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

Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with an original 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.

Property Taxes and Receivables

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

	Real	Personal and Corporate
Assessment roll validated	December 31	January 1
Tax rate ordinance approved	June 30	June 30
Beginning of fiscal year for tax levy	July 1	July 1
Tax bills rendered and due	July 1	State notification
Owner-occupied residential	July 1/Jan. 1	State notification
Property taxes payable:		
Delinquent	Oct. 1, Feb. 1	After 30 days
Terms	90 days	30 days
Delinquent interest/penalty rate (annual)	18%	18%

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Taxes and Receivables (Continued)

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 of debt during construction 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 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 charge all additions 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.

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

	Governmental Activities	Business-Type Activities
Buildings and improvements (including infrastructure)	7 – 50 years	15 – 50 years
Improvements other than buildings	20 – 30 years	10 – 30 years
Machinery and equipment	3 – 15 years	5 – 15 years

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unbilled Revenue

Customers of the Utility Fund's electric, gas and cable departments are billed in arrears on one of three monthly cycles. As a result of the cycled, 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 customer usage during the later part of the year, but not yet billed at year end. This amount is estimated using prior year's actual billing to represent the current period's activity. The balance at June 30, 2013 is \$1,472,955.

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, 2013, the Commission had unrecovered fuel costs of \$687,307 and over-recovered gas costs of \$89,438 which are included in accrued liabilities.

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.

Inventory

The Utility Fund's inventory, consisting of natural gas, materials, fuels and supplies, is recorded at the lower of cost or market. It is carried and charged as used in the operations of the fund at average cost. Inventory totaled \$6,030,397 at June 30, 2013.

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.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Utility Fund's Cable and Internet Department are billed in advance leaving a portion of June 2013 billings not yet earned at year-end. A provision for unearned revenues was recorded based on the actual billings in June and the days unearned in each cycle at the end of June. The Cable Department also has an arrangement with certain advertising customers for payment in advance of service. These customers' credit balances are also shown as Unearned Revenues. The balance at June 30, 2013 is \$6,000.

Net Assets/Fund Equity

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

- *Net Investment in capital assets* - this category groups all capital assets including infrastructure into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributed to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted net assets* - this category presents external restrictions imposed by creditors, grantors, or laws and regulations of other governments.
- *Unrestricted net assets* - this category presents the net assets of the Town, not 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, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Fund Balances (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 Mayor and 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 Mayor 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, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Fund Balances (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.
2. Prior to June 30th, the budget is passed by vote of the Mayor and Town Council. 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.
3. Monthly statements are provided by the Town Manager and budget review is executed by the Mayor and Town Council periodically. The Town Council legally adopts an annual budget for the General Fund and the Capital Project Fund. The Town has no legally adopted annual budget for the non-major governmental funds or any enterprise funds. However, a budget is used as a management tool for these funds.

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

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

	Revenues	Expenses	Fund Balance
GAAP Basis	\$ 17,954,211	\$ 7,855,027	\$ 7,101,418
Interfund loan	3,000,000	-	3,000,000
Budgetary Basis	\$ 20,954,211	\$ 7,855,027	\$ 10,101,418

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 the John Hancock. Under the terms of the plan, participating employees may have a portion of their salaries withheld, subject to limitations imposed by the Internal Revenue Service, 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.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Compensation and Defined Contribution Plans (Continued)

457 Deferred Compensation Plan (continued)

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.

Defined Contribution

The Town has defined contribution plans established to provide benefits to virtually all employees and certain members of management with the exception of sworn officers. Plan provisions and contribution requirements are established and may be amended periodically by the Mayor and Town Council. The Town's contribution to the plan for the year ended June 30, 2013 was \$813,881. The plan administrator is John Hancock.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

At year-end, the carrying amount of the Town's deposits (including cash on hand of \$1,775) was \$22,984,846 and the bank balance was \$26,406,174.

Investments

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 MLGIP is established under the Annotated Code of Maryland, 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, 2013, the Town had \$6,856,362 invested in this Pool.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

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	\$ 6,513,213
Variable earnings investments:	
American Century Real Est Inv	1,308,098
CIGNA Open-End Real Estate	633
Core Plus Bond/PIMCO	1,349,906
Dryden S&P 500 Index	2,198,907
International Blend / Artio *	1,768,638
Mid Cap Growth/Goldman Sachs	799,221
Mid Cap Value / Systematic	803,470
QMA Emerging Markets Fund *	676,237
Small Cap Grw/Columbus	1,030,910
Small Cap Value/Kennedy Capital	1,048,893
T. Rowe Price Equity Inc Strategy	2,193,187
T. Rowe Price Growth Stock Strategy	<u>2,173,044</u>
Total Investments – Defined Benefit Pension Plan	<u>\$ 21,874,357</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 those mutual funds.

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

AMCAP - Class F2	\$ 365,817
Diamond Hill – Large Cap	366,282
Dodge & Cox – International*	134,522
Eaton Vance Global*	299,157
FMI FDS - Large Cap	396,659
Hartford Floating Rate I	298,513
Keely – Small Cap Value	67,298
MFS International*	132,581
Munder SER TR – Mid Cap	167,824
Royce Value	134,236
T. Rowe Price - Emerging Markets*	102,244
Thornburg - International Value*	169,998
Vanguard Short Term Investment Grade	<u>630,062</u>
Total Investments – OPEB Plan	<u>\$ 3,265,193</u>

* - Foreign Investment

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Mutual fund investment income consists of dividends earned and realized and unrealized gains and losses attributable to those mutual funds.

Interest Rate Risk

Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. To the extent possible, the Defined Benefit Pension Plan and the OPEB Plan (collectively Plans) and the Town attempt to match investments with anticipated cash flow requirements. The Town’s investment policy limits the term of investment maturities. The Town 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, 2013 met the Town’s investment policy. The Plans’ policy guidelines do not address limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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	\$ 6,513,213	<u>N/A</u>
Core Plus Bond/PIMCO	<u>1,349,906</u>	<u>7.40</u>
Total	<u><u>\$ 7,763,119</u></u>	
<u>OPEB Plan</u>		
Hartford Floating Rate I	\$ 298,513	<u>5.25</u>
Vanguard Short Term Investment Grade	<u>630,062</u>	<u>3.20</u>
Total	<u><u>\$ 928,575</u></u>	

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

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 the mutual funds are unrated.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Plans’ or Town’s investment in a single issuer. The Plans’ investments are managed by several fund managers. The concentrations of investments are determined by the participants’ elections to invest in the available investment options as selected by the Board. The individual investments that exceed 5% are identified above.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Town does not allow for investments with foreign currency. The Plans allow the option of investments in mutual funds of countries outside the U.S. that invest in securities; however, these funds do not require disclosure of the individual assets within the fund. The fair value of these investments was \$3,283,377 as of June 30, 2013. The individual funds are identified above.

Town

Town investment policy permits investments in the following types of investments as authorized by the State of Maryland: direct U.S. obligations, U.S. agency obligations, repurchase agreements, bankers' acceptances, municipal securities, commercial paper, money market mutual funds and the MLGIP. The Town invests in the MLGIP which is under the administration of the State Treasurer. The MLGIP is established under the Annotated Code of Maryland and 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.

Custodial Credit Risk

Deposits

Custodial credit risk is the risk that, in the event of a financial 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 policy for custodial credit risk. However, the deposits of the Town were not exposed to custodial credit risk at June 30, 2013.

Investments

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' and the Town's investment custodial credit risk policy requires all investments to be insured or registered, or for which the securities are held by the Plans or their agent in the respective Plans' name or be invested in MLGIP. At June 30, 2013, the Town's investments were invested in the 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.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 3 – RECEIVABLES

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

	Governmental Activities		Business-Type Activities		Total
	General	Other	Utility	Other	
Taxes	\$ 459,483	\$ -	\$ -	\$ -	\$ 459,483
Accounts	562,979	-	5,329,851	5,134	5,897,964
Due from other governments	534,656	404,331	142,106	-	1,018,093
Interest	-	-	895	-	895
Allowance for uncollectibles	<u>(376,955)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(376,955)</u>
Net receivables	<u>\$ 1,180,163</u>	<u>\$ 404,331</u>	<u>\$ 5,472,852</u>	<u>\$ 5,134</u>	<u>\$ 6,999,480</u>

The June 30, 2013 balance of due from other governments is as follows:

State of Maryland:	
Income taxes	\$ 347,638
Grant purposes	546,437
Various purposes	37,777
Talbot County	<u>86,241</u>
Total due from other governments	<u>\$ 1,018,093</u>

Governmental funds report deferred revenue in relation to receivables for revenues that are not considered to be available to liquidate liabilities of the current period such as property taxes not collected within 60 days after fiscal year-end. Deferred revenue also includes revenues which are unearned at year-end such as, rental and program advances, franchise fees and similar prepayments received by the Town, grant revenue received prior to the incurrence of qualifying expenditures and governmental fund non-exchange contributions. Deferred revenue reported in the Governmental Fund Balance Sheet for the General Fund at June 30, 2013 is summarized as follows:

	Unavailable	Unearned	Total
Income taxes	\$ 154,840	\$ -	\$ 154,840
Miscellaneous	<u>-</u>	<u>11,573</u>	<u>11,573</u>
Total	<u>\$ 154,840</u>	<u>\$ 11,573</u>	<u>\$ 166,413</u>

Notes receivable are recorded in the Community Development Block Grant Fund and consist mainly of below market interest rate loans through the Community Legacy Program agreements for the Easton Façade Improvement Program in the remaining principal amount of \$69,490 with a forgivable amount of \$35,000 and a deferred payment of \$31,250 due by December 31, 2013 at zero percent interest. Any amount designated as forgivable shall be forgiven if, at loan maturity the Town determines that the project has been completed in accordance with the terms, conditions and requirements set forth by the respective agreements. If the Town determines the conditions are not met, then the full amounts shall be due and payable at maturity.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 4 – INTER-FUND PAYABLES AND TRANSFERS

Due to/from other funds at June 30, 2013 was as follows:

Receivable fund:	<u>Payable Fund</u>		<u>Total</u>
	<u>General Fund</u>	<u>Law Enforcement</u>	
Utility	\$ 3,000,000	\$ -	\$ 3,000,000
Debt service	-	64,916	64,916
Total	<u>\$ 3,000,000</u>	<u>\$ 64,916</u>	<u>\$ 3,064,916</u>

Inter-fund transfer activity for the year ended June 30, 2013 was as follows:

<u>Governmental Funds</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ -	\$ 6,275,604
Capital Projects	4,775,195	-
Other Governmental	1,131,842	-
	<u>5,907,037</u>	<u>6,275,604</u>
Other Enterprise Funds	368,567	-
	<u>\$ 6,275,604</u>	<u>\$ 6,275,604</u>

	<u>Entity-Wide Activities</u>	
	<u>Governmental</u>	<u>Business-Type</u>
Fund statement transfers	\$ (368,567)	\$ 368,567
Transfer of debt in excess of capital assets	(830,788)	830,788
Transfer in (out)	<u>\$ (1,199,355)</u>	<u>\$ 1,199,355</u>

During the year ended June 30, 2013, the East End Redevelopment enterprise fund was terminated and the remaining assets and liabilities were transferred to the Governmental Activities. The net liabilities in excess of assets was \$830,788. On the fund financial statements of the East End Redevelopment fund this transaction is shown as an other operating revenue titled net gain (loss) on disposal of capital assets.

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 6,978,830	\$ -	\$ 171,311	\$ 7,150,141
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, not being depreciated	<u>6,978,830</u>	<u>-</u>	<u>171,311</u>	<u>7,150,141</u>
Capital assets, being depreciated:				
Buildings and improvements	35,181,406	3,438,883	1,672,124	40,292,413
Equipment	<u>9,989,357</u>	<u>1,376,753</u>	<u>(136,004)</u>	<u>11,230,106</u>
Total capital assets, being depreciated	<u>45,170,763</u>	<u>4,815,636</u>	<u>1,536,120</u>	<u>51,522,519</u>
Less accumulated depreciation:				
Buildings and improvements	11,574,147	746,647	1,003,274	13,324,068
Equipment	<u>6,575,249</u>	<u>1,145,213</u>	<u>(137,180)</u>	<u>7,583,282</u>
Total accumulated depreciation	<u>18,149,396</u>	<u>1,891,860</u>	<u>866,094</u>	<u>20,907,350</u>
Net capital assets, being depreciated	<u>27,021,367</u>	<u>2,923,776</u>	<u>670,026</u>	<u>30,615,169</u>
Governmental activities capital assets, net	<u>\$ 34,000,197</u>	<u>\$ 2,923,776</u>	<u>\$ 841,337</u>	<u>\$ 37,765,310</u>
	<u>Beginning Balance</u>	<u>Increases/ Transfers</u>	<u>Transfers/ Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 1,280,964	\$ 21,252	\$ (171,311)	\$ 1,130,905
Construction in progress	<u>5,646,145</u>	<u>10,888,521</u>	<u>(13,378,212)</u>	<u>3,156,454</u>
Total capital assets, not being depreciated	<u>6,927,109</u>	<u>10,909,773</u>	<u>(13,549,523)</u>	<u>4,287,359</u>
Capital assets, being depreciated:				
Buildings and improvements	30,354,575	2,103,882	(1,672,124)	30,786,333
Equipment and other	138,524,414	11,401,718	(497,283)	149,428,849
Less: amount disallowed for regulation	<u>(1,719,785)</u>	<u>-</u>	<u>-</u>	<u>(1,719,785)</u>
Total capital assets, being depreciated	<u>167,159,204</u>	<u>13,505,600</u>	<u>(2,169,407)</u>	<u>178,495,397</u>
Less accumulated depreciation:				
Buildings and improvements	12,355,920	1,013,340	(1,003,274)	12,365,986
Equipment and other	<u>77,418,857</u>	<u>5,389,849</u>	<u>(423,795)</u>	<u>82,384,911</u>
Total accumulated depreciation	<u>89,774,777</u>	<u>6,403,189</u>	<u>(1,427,069)</u>	<u>94,750,897</u>
Net capital assets, being depreciated	<u>77,384,427</u>	<u>7,102,411</u>	<u>(742,338)</u>	<u>83,744,500</u>
Business-type activities capital assets, net	<u>\$ 84,311,536</u>	<u>\$ 18,012,184</u>	<u>\$ (14,291,861)</u>	<u>\$ 88,031,859</u>

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 5 – CAPITAL ASSETS (CONTINUED)

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

Governmental activities	
General government	\$ 59,237
Public safety	657,882
Public works	891,006
Recreation and cultural	160,661
Non-departmental	<u>123,074</u>
Total governmental activities	<u>\$ 1,891,860</u>
Business-type activities	
Utility	\$ 6,217,832
Other	<u>185,357</u>
Total business-type activities	<u>\$ 6,403,189</u>

NOTE 6 – OPERATING LEASES

Avalon Theatre

The Town (lessor) entered into a five-year operating lease agreement with the Avalon Foundation, Inc. (lessee) for the Avalon Theatre, effective January 1, 2001. The lease is structured with a \$24,000 annual rental fee with the tenant responsible for substantially all routine expenses. Part or all of each monthly installment of rent may be forgiven or subject to rebate by the Town based upon the lessee's use of the premises which primarily benefits the citizens of the Town. As of June 30, 2013, the lease is on a month-to-month basis.

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 January 1, 2013 with an option for one five-year extension. The annual rent is \$138,324.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 7 – LONG-TERM LIABILITIES

Capital Leases

The Town entered into a capital lease agreement as the lessee for office equipment expiring in 2014. The assets and liabilities under these capital leases at inception are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over the lower of their related lease terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense and amounted to \$1,890 for the year ending June 30, 2013.

The following is a summary of property held under capital leases:

Office equipment	\$ 18,895
Less: accumulated depreciation	<u>7,558</u>
Total	<u>\$ 11,337</u>

The future minimum lease payments are as follows:

Years Ending June 30	
2014	\$ 3,517
Less: amount representing interest	<u>(70)</u>
Present value of net minimum lease payments	<u>\$ 3,447</u>

Interest rate on the capitalized lease was 4.434%.

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, 2013

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

Bonds (Continued)

<u>Bond Issue</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Balance at June 30, 2013</u>
Public Facilities Bonds 1999	2019	3.75 – 5.25%	\$ 2,520,000
Public Facilities Bonds 2003	2023	2.00 – 5.00%	1,895,000
Public Facilities Bonds 2008	2028	2.00 – 5.00%	<u>7,515,000</u>
Total general obligation bonds			<u>\$ 11,930,000</u>

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

<u>Years Ending June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 740,000	\$ 367,111	\$ 645,000	\$ 146,313
2015	580,000	340,593	670,000	121,708
2016	585,000	317,321	700,000	95,426
2017	590,000	293,705	720,000	67,732
2018	495,000	271,430	450,000	43,240
2019 – 2023	2,485,000	1,029,279	470,000	22,090
2024 – 2028	2,340,000	432,338	-	-
2029	<u>460,000</u>	<u>12,605</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 8,275,000</u>	<u>\$ 3,064,382</u>	<u>\$ 3,655,000</u>	<u>\$ 496,509</u>

In fiscal year 2003, the Town defeased the Public Facilities Bonds of 1990, the Public Facilities and Refunding Bonds of 1993 and the Public Facilities Bonds of 1996 by placing the proceeds of the new bonds, General Obligation Public Facilities and Refunding Bonds of 2003, in an irrevocable trust to provide for debt service payments on the old bonds due in years 2014 and later. Accordingly, the trust account assets and liability for the defeased bonds are not included in the Town's financial statements. As of June 30, 2013, there remains \$1,925,000 of outstanding defeased debt.

In fiscal year 2006, the Town defeased a portion of the Utility Fund's share of the General Obligation Public Facilities Refunding Bond of 2003 by placing cash reserve funds in an irrevocable trust to provide for debt service payments on the old bond due in year 2017. 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, 2013, there remains \$645,000 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, 2013

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

Government-type Funds (Continued)

The annual debt service requirements to maturity are as follows:

<u>For the Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 3,699	\$ 13,817	\$ 17,516
2015	3,869	13,647	17,516
2016	4,046	13,470	17,516
2017	4,233	13,283	17,516
2018	4,426	13,090	17,516
2019-2023	25,379	62,201	87,580
2024-2028	31,770	55,810	87,580
2029-2033	39,769	47,811	87,580
2034-2038	49,783	37,797	87,580
2039-2043	62,318	25,262	87,580
2044-2048	<u>78,012</u>	<u>9,568</u>	<u>87,580</u>
Total	<u>\$ 307,304</u>	<u>\$ 305,756</u>	<u>\$ 613,060</u>

Additionally, the Town has entered into certain loan agreements with the Department of Housing and Community Development (Department) through the Community Legacy Program agreements for three Projects: The Strategic Acquisition Program, The Easton Façade Improvement Program, and the Upper Store Redevelopment Program. The Façade Improvement Program is for \$69,490 with a forgivable amount of \$35,000 and a deferred payment of \$31,250 due by December 31, 2013 at zero percent interest. The Upper Store Redevelopment Program is for \$48,125 with the same terms and conditions as the Façade Improvement Program. Any amount designated as “forgivable” shall be forgiven if, at loan maturity the Department determines that the project has been completed in accordance with the terms, conditions and requirements set forth by their agreement. If the Department determines the conditions are not met, then the full amounts shall be due and payable at maturity.

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, 2013, Asbury Place met those conditions and interest was forgiven. During fiscal year 2013, this loan was transferred out of the business-type activities to governmental activities.

Business-type Funds

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

The MDE makes funds available to local governments at below market rates for certain water quality and drinking water projects. Proceeds of the loans are dispersed to the Town as draws according to approved construction payments. During FY 2013, the Commission completed construction of the facility. The balance of the loan payable at June 30, 2013 is \$16,090,182. The note bears an interest rate of .40% and has a scheduled maturity of February 2027.

The following are the principal and interest maturities of the outstanding loan as of June 30, 2013:

<u>For the Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 882,497	\$ 64,360	\$ 946,857
2015	923,544	60,831	984,375
2016	964,590	57,137	1,021,727
2017	1,005,636	53,278	1,058,914
2018	1,046,683	49,256	1,095,939
2019-2023	5,849,110	180,194	6,029,304
2024-2028	<u>5,418,122</u>	<u>55,002</u>	<u>5,473,124</u>
Total	<u>\$16,090,182</u>	<u>\$ 520,058</u>	<u>\$ 16,610,240</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 total amount of the loan available to draw on is \$1,589,000. The balance at June 30, 2013 was \$98,557. The note bears an interest rate of 1.8% and has a scheduled maturity of February 2033. The Commission anticipates the remaining required funds to be drawn down by the end of fiscal year 2014. Upon completion of all draws on the note, the final repayment schedule will be determined. The following are the principal and interest maturities anticipated for the outstanding loan as of June 30, 2013:

<u>For the Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ -	\$ 10,977	\$ 10,977
2015	71,843	30,977	102,820
2016	72,118	27,309	99,427
2017	73,416	26,011	99,427
2018	74,738	24,689	99,427
2019-2023	394,358	102,776	497,134
2024-2028	431,151	65,983	497,134
2029-2033	471,376	25,757	497,133
Less: Amounts undrawn	<u>(1,490,443)</u>	<u>(303,502)</u>	<u>(1,793,945)</u>
Total	<u>\$ 98,557</u>	<u>\$ 10,977</u>	<u>\$ 109,534</u>

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

Changes in Long-Term Liabilities

	<u>Beginning Balance</u>	<u>Additions/ Transfers</u>	<u>Principal Repayments & Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
General obligation bonds	\$ 9,010,000	\$ -	\$ 735,000	\$ 8,275,000	\$ 740,000
DHCD loan payable	-	1,672,124	-	1,672,124	-
Note payable – bank loan	48,800	-	48,800	-	-
Note payable – DHCD	117,615	-	-	117,615	107,615
Note payable – USDA	310,840	-	3,536	307,304	3,699
Capital lease obligation	7,418	-	3,971	3,447	3,447
Deferred loss bond refunding	(114,778)	-	(27,167)	(87,611)	(27,167)
Net OPEB Obligation	228,342	95,794	-	324,136	-
Compensated absences	659,847	554,068	524,824	689,091	524,824
Governmental activities long-term liabilities	<u>\$ 10,268,084</u>	<u>\$ 2,321,986</u>	<u>\$ 1,288,964</u>	<u>\$ 11,301,106</u>	<u>\$ 1,342,418</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Principal Repayments, Reductions and Transfers</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities					
General obligation bonds	\$ 4,280,000	\$ -	\$ 625,000	\$ 3,655,000	\$ 645,000
DHCD loan payable	1,672,124	-	1,672,124	-	-
Loan – MDE	-	98,557	-	98,557	-
Loan – State of Maryland	16,931,632	-	841,450	16,090,182	882,497
Net OPEB Obligation	180,404	547,550	768,482	(40,528)	-
Unamortized premium on Long-term liabilities	<u>22,921</u>	<u>-</u>	<u>2,084</u>	<u>20,837</u>	<u>2,084</u>
Business-type activities long-term liabilities	<u>\$ 23,087,081</u>	<u>\$ 646,107</u>	<u>\$ 3,909,140</u>	<u>\$ 19,824,048</u>	<u>\$ 1,529,581</u>

NOTE 8 – LINE-OF-CREDIT

Business-type Funds

The Town, for the benefit of the Easton Utilities Commission, maintains a revolving line-of-credit agreement with a commercial bank for \$5,000,000, which bears interest in the amount of 1.15% above the LIBOR rate (.1932% at June 30, 2013). 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, 2013.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 9 – FUND BALANCE

A summary of fund balances at June 30, 2013 is as follows:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Infrastructure Development Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Nonspendable:</u>					
Prepaid expenses	\$ 285,355	\$ -	\$ -	\$ 87,611	\$ 372,966
Loans to citizens	-	-	-	69,490	69,490
Total nonspendable fund balance	<u>285,355</u>	<u>-</u>	<u>-</u>	<u>157,101</u>	<u>442,456</u>
<u>Restricted:</u>					
Impact fees	-	-	4,754,999	-	4,754,999
Debt service	-	-	-	1,663,487	1,663,487
CDBG grant	-	-	-	176,219	176,219
Total restricted fund balance	<u>-</u>	<u>-</u>	<u>4,754,999</u>	<u>1,839,706</u>	<u>6,594,705</u>
<u>Committed:</u>					
Budget stabilization	941,121				941,121
<u>Assigned:</u>					
Capital projects	-	2,323,318	-	-	2,323,318
<u>Unassigned:</u>					
General Fund	5,874,942	-	-	-	5,874,942
Law Enforcement Fund	-	-	-	(65,143)	(65,143)
Total unassigned fund balance	<u>5,874,942</u>	<u>-</u>	<u>-</u>	<u>(65,143)</u>	<u>5,809,799</u>
Total fund balance	<u>\$ 7,101,418</u>	<u>\$ 2,323,318</u>	<u>\$ 4,754,999</u>	<u>\$ 1,931,664</u>	<u>\$ 16,111,399</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 Membership

As of July 31, 2012 (the date of the last actuarial valuation), the pension plan’s membership consisted of:

Active employees	207
Retirees and beneficiaries currently receiving benefits	99
Terminated employees entitled to benefits but not yet receiving them	<u>90</u>
Total	<u><u>396</u></u>

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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 25 years of service are required to contribute 5.7% of gross annual earnings. For police officers who are employed on a regular full-time basis with service in excess of 25 years, the required contribution rate is 6.7% of gross annual earnings. Participants' actual contributions during the year ended June 30, 2013 were \$175,410. 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 amounts made by the Town are established by the Town Council. The actuarially required and actual contribution to the Plan during the year ended June 30, 2013 was \$1,241,552 and \$1,241,552, 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, 2012, no investment in any one organization, exceeded five percent or more of net assets available for benefits.

Actuarial Methods and Assumptions

The annual required contribution during the year ended June 30, 2013 was determined as part of the July 31, 2012 actuarial valuation using the Projected Unit Credit Actuarial Cost Method. The actuarial assumptions include (a) 7.5% investment rate of return (net of administrative expenses), and (b) projected salary increases of 4.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market of investments over a five-year period. The unfunded actuarial accrued liability is being amortized over a period of 30 years. The remaining amortization period at July 31, 2012 was a weighted average of 15 years.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 10 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Annual Pension Cost and Net Pension Obligation

The Town’s annual pension cost and net pension obligation for the current year were as follows:

Annual required contribution	\$ 1,241,552
Interest on net pension obligation and other adjustment	<u>-</u>
Annual pension cost	1,241,552
Less: contributions made	<u>(1,241,552)</u>
Change net pension obligation	-
Net pension obligation, beginning of year	-
Net pension obligation, end of year	<u>\$ -</u>

Three year trend information:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2013	\$ 1,241,552	100.0%	\$ -
June 30, 2012	1,204,597	100.0%	-
June 30, 2011	1,011,277	100.0%	-

Fund Status and Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Ratio of Assets to AAL	Covered Payroll	UAAL as a % of Covered Payroll
July 31, 2012	\$22,097,446	\$29,466,678	\$7,369,232	75.0%	\$13,947,014	52.84%

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 10 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

The condensed financial statements as of and for the year ended July 31, 2012 are as follows:

Statement of Plan Net Position

Assets

Investments, at fair value other adjustment	<u>\$ 21,874,357</u>
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Net Assets

Net assets held in trust for pension benefits	<u>\$ 21,874,357</u>
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Statement of Plan Net Position

Additions

Contributions:

Employer	\$ 1,204,597
Employee	<u>163,690</u>
Total contributions	<u>1,368,287</u>

Investment earnings:

Investment income	558,315
Net increase in fair value of plan investments	264,735
Less investment expenses	<u>116,705</u>
Net investment income	<u>706,345</u>
Total additions	<u>2,074,632</u>

Deductions

Benefit payments	<u>1,053,180</u>
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Net change	1,021,452
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Net position at beginning of year	<u>20,852,905</u>
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Net position at end of year	<u>\$ 21,874,357</u>
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NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Funding Policy

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%.

Annual OPEB Cost and Net OPEB Obligation

The Town's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution* of the employer (ARC), an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The Town's annual required contribution for the years ended June 30, 2013, 2012 and 2011 were \$1,143,226; \$1,143,226, and \$1,029,630, respectively. The Town's actual contributions for the years ended June 30, 2013, 2012 and 2011 were \$1,266,456; \$958,558, and \$1,029,630, respectively.

The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation:

Annual required contribution (ARC)	\$ 1,143,226
Interest on net OPEB obligation	13,535
ARC Adjustment	<u>(15,443)</u>
Net Annual OPEB cost	1,141,318
Contribution made	<u>(1,266,456)</u>
Net Change in Net OPEB Obligation	(125,138)
Net OPEB obligation - beginning of year	<u>408,746</u>
Net OPEB obligation - end of year	<u><u>\$ 283,608</u></u>

The net OPEB obligation is included in governmental activities long-term liabilities totaling \$324,136 and business-type activities long-term liabilities totaling a prepaid balance of \$40,528 at June 30, 2013, respectively.

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, was as follows:

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation (Continued)

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2013	\$ 1,141,318	110.96%	\$ 283,608
June 30, 2012	1,141,722	83.95%	408,746
June 30, 2011	1,044,172	96.10%	225,582

Funded Status and Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Ratio of Assets to AAL</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
July 1, 2011	\$1,844,690	\$12,681,234	\$10,836,544	14.6%	\$12,886,240	84.22%

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

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2011 actuarial valuation, the Town utilized the projected unit credit actuarial method. The actuarial assumptions included a 7% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 11.0% initially, reduced by decrements to an ultimate rate of 5.0% after five years. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at July 1, 2011, was 30 years.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions (Continued)

Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2011
Actuarial Cost Method	Projected unit credit method
Amortization Method	Level percentage of pay over a 30-year period
Asset Valuation Method	Market value
Actuarial Assumptions:	
Investment Rate of Return	7.0% annual return
Payroll Growth Rate	4.5%
Healthcare Cost Trend Rates:	
Medical	11% initial / 5% ultimate (not applicable to life insurance)
Prescription Drug	11% initial / 5% ultimate

The condensed financial statements as of and for the year ended June 30, 2013 are as follows:

Statement of Plan Net Position

Assets

Cash and cash equivalents	\$ 366,265
Investments, at fair value other adjustment	<u>3,265,193</u>
Total assets	<u>\$ 3,631,458</u>

Net Position

Net assets held in trust for pension benefits	<u>\$ 3,631,458</u>
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Additions

Contributions:	
Employer	<u>\$ 1,266,456</u>
Investment earnings:	
Investment income	116,575
Net increase in fair value of plan investments	284,551
Less investment expenses	<u>23,591</u>
Net investment income	<u>377,535</u>
Total additions	<u>1,643,991</u>

Deductions

Benefit payments	<u>393,898</u>
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Net change	1,250,093
Net position at beginning of year	<u>2,381,365</u>
Net position at end of year	<u>\$ 3,631,458</u>

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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 totaling \$417,193.

The outstanding balance of the above services remaining at June 30, 2013 was \$28,393. The General Fund charged the Utility Fund \$9,231 for street repairs and \$1,536,751 for payments in lieu of taxes during the year ended June 30, 2013.

During the year ended June 30, 2013, the Utility Fund loaned \$3,000,000 to the Town. The balance of the loan at June 30, 2013 was \$3,000,000. The note bears an interest rate of 0.9%, requires equal quarterly payments of principal and interest in the amount of \$153,569 and has a scheduled maturity of April 2018. This loan was eliminated as an internal balance on the statement of net position.

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 coverage's for the past three fiscal years.

Contingent Liabilities and Commitments

Grants and Cost-reimbursable Contracts

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

Fuel Cost and Purchased Gas Adjustment Rates

The fuel cost and purchased gas adjustment rates used in connection with gas and electric charges are subjected to review by the Public Service Commission of Maryland (PSC) on a regular basis. As of the date of this report, the purchased power and gas cost adjustment rates in effect through November 2011 have been reviewed and accepted by the PSC. The purchased gas adjustment rates applied subsequent to November 2011 have been authorized by the PSC subject to detailed review.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF EASTON, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS – DEFINED BENEFIT PLAN
June 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
July 31, 2012	\$ 22,097,446	\$ 29,466,678	\$ 7,369,232	74.99%	\$ 13,947,014	52.84%
July 31, 2011	\$ 21,066,484	\$ 27,881,793	\$ 6,815,309	75.56%	\$ 13,458,869	50.64%
July 31, 2010	\$ 21,054,661	\$ 25,059,492	\$ 4,004,831	84.02%	\$ 13,337,806	30.03%
July 31, 2009	\$ 19,384,777	\$ 23,663,160	\$ 4,278,383	81.92%	\$ 13,142,094	32.55%
July 31, 2008	\$ 17,973,200	\$ 21,494,795	\$ 3,521,595	83.62%	\$ 12,693,536	27.74%
July 31, 2007	\$ 16,410,242	\$ 19,651,003	\$ 3,240,761	83.51%	\$ 10,706,680	30.27%

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Net Pension Obligation
2013	\$ 1,241,552	82%	\$ -
2012	1,203,905	77%	-
2011	1,011,227	100%	(230)
2010	1,015,045	100%	(230)
2009	930,774	129%	(230)
2008	1,019,227	122%	(230)

TOWN OF EASTON, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS
June 30, 2013

Actuarial Valuation Date (*)	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2011	\$ 1,844,690	\$ 12,681,234	\$ 10,836,544	14.55%	\$ 12,866,240	84.22%
July 1, 2009	\$ 502,002	\$ 12,428,558	\$ 11,926,556	4.04%	\$ 12,300,340	96.96%
July 1, 2007	\$ -	\$ 10,468,000	\$ 10,468,000	0.00%	\$ 10,876,234	96.25%

Year Ended June 30 (*)	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
2013	\$ 1,143,226	44%	\$ 283,608
2012	1,143,226	88%	408,746
2011	1,045,305	99%	225,582
2010	1,045,305	92%	211,040
2009	1,008,000	126%	502,000

* 2009 was the first year that OPEB had been adopted

SUPPLEMENTARY INFORMATION

**Combining and Individual Fund
Statements and Schedules**

**TOWN OF EASTON, MARYLAND
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2013**

	<u>Debt Service</u>	<u>Community Development Block Grant</u>	<u>Law Enforcement</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents - Pooled	\$ 1,599,669	\$ 179,897	\$ -	\$ 1,779,566
Due from law enforcement	64,916	-	-	64,916
Notes receivable	-	69,490	-	69,490
Unamortized expense	87,611	-	-	87,611
TOTAL ASSETS	<u>\$ 1,752,196</u>	<u>\$ 249,387</u>	<u>\$ -</u>	<u>\$ 2,001,583</u>
LIABILITIES				
Accounts payable	\$ 1,098	\$ 3,678	\$ 227	\$ 5,003
Due to debt service	-	-	64,916	64,916
Total liabilities	<u>1,098</u>	<u>3,678</u>	<u>65,143</u>	<u>69,919</u>
FUND BALANCES (DEFICITS)				
Nonspendable	87,611	69,490	-	157,101
Restricted	1,663,487	176,219	-	1,839,706
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	(65,143)	(65,143)
Total fund balances (deficits)	<u>1,751,098</u>	<u>245,709</u>	<u>(65,143)</u>	<u>1,931,664</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,752,196</u>	<u>\$ 249,387</u>	<u>\$ -</u>	<u>\$ 2,001,583</u>

TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (DEFICITS)
NON-MAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2013

	Debt Service	Community Development Block Grant	Law Enforcement	Total
REVENUES				
Miscellaneous revenue	\$ -	\$ -	\$ 99,868	\$ 99,868
Revenues from other agencies	-	25,000	-	25,000
Total revenues	-	25,000	99,868	124,868
EXPENDITURES				
Current operations:				
Public works	-	-	31,227	31,227
Miscellaneous	30,190	34,328	-	64,518
Principal	735,000	-	-	735,000
Interest	395,324	-	-	395,324
Total expenditures	1,160,514	34,328	31,227	1,226,069
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,160,514)	(9,328)	68,641	(1,101,201)
OTHER FINANCING SOURCES (USES)				
Operating transfers net	1,131,842	-	-	1,131,842
Total other financing sources	1,131,842	-	-	1,131,842
NET CHANGE IN FUND BALANCES	(28,672)	(9,328)	68,641	30,641
FUND BALANCES (DEFICITS), BEGINNING OF YEAR	1,779,770	255,037	(133,784)	1,901,023
FUND BALANCES (DEFICITS), END OF YEAR	\$ 1,751,098	\$ 245,709	\$ (65,143)	\$ 1,931,664

TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF NET POSITION
NON-MAJOR OTHER PROPRIETARY FUNDS
June 30, 2013

	<u>Land Enterprise</u>	<u>Airport Industrial Land</u>	<u>East End Redevelopment</u>	<u>Total</u>
ASSETS				
Current assets				
Cash and cash equivalents - Pooled	\$ 445,903	\$ 131,260	\$ -	\$ 577,163
Accounts receivable, net	5,134	-	-	5,134
Total current assets	<u>451,037</u>	<u>131,260</u>	<u>-</u>	<u>582,297</u>
Noncurrent assets				
Capital assets, not being depreciated	15,028	67,945	-	82,973
Capital assets, net of accumulated depreciation	<u>1,151,946</u>	<u>551,406</u>	<u>-</u>	<u>1,703,352</u>
Total noncurrent assets	<u>1,166,974</u>	<u>619,351</u>	<u>-</u>	<u>1,786,325</u>
TOTAL ASSETS	<u>\$ 1,618,011</u>	<u>\$ 750,611</u>	<u>\$ -</u>	<u>\$ 2,368,622</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 16,931	\$ -	\$ -	\$ 16,931
Performance deposits	<u>1,500</u>	<u>-</u>	<u>-</u>	<u>1,500</u>
Total current liabilities	18,431	-	-	18,431
NET POSITION				
Invested in capital assets, net of related debt	1,166,974	619,351	-	1,786,325
Unrestricted	<u>432,606</u>	<u>131,260</u>	<u>-</u>	<u>563,866</u>
Total net position	<u>1,599,580</u>	<u>750,611</u>	<u>-</u>	<u>2,350,191</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,618,011</u>	<u>\$ 750,611</u>	<u>\$ -</u>	<u>\$ 2,368,622</u>

TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
NON-MAJOR OTHER PROPRIETARY FUNDS
Year Ended June 30, 2013

	Land <u>Enterprise</u>	Airport <u>Industrial Land</u>	East End <u>Redevelopment</u>	<u>Total</u>
OPERATING REVENUES				
Charges for services	\$ 138,324	\$ 3,080	\$ -	\$ 141,404
Other operating revenues	<u>54,918</u>	<u>-</u>	<u>-</u>	<u>54,918</u>
Total operating revenues	<u>193,242</u>	<u>3,080</u>	<u>-</u>	<u>196,322</u>
OPERATING EXPENSES				
Cost of service	88,488	-	22	88,510
Depreciation	<u>94,828</u>	<u>34,727</u>	<u>55,802</u>	<u>185,357</u>
Total operating expenses	<u>183,316</u>	<u>34,727</u>	<u>55,824</u>	<u>273,867</u>
Operating income (loss)	<u>9,926</u>	<u>(31,647)</u>	<u>(55,824)</u>	<u>(77,545)</u>
NON-OPERATING REVENUES (EXPENSES)				
Net gain on disposal of capital assets	-	-	830,788	830,788
Investment earnings	<u>-</u>	<u>-</u>	<u>7</u>	<u>7</u>
Total non-operating revenues	<u>-</u>	<u>-</u>	<u>830,795</u>	<u>830,795</u>
Income (loss) before transfers	9,926	(31,647)	774,971	753,250
Transfers in	<u>15,000</u>	<u>-</u>	<u>353,567</u>	<u>368,567</u>
CHANGES IN FUND NET POSITION	24,926	(31,647)	1,128,538	1,121,817
TOTAL NET POSITION - BEGINNING OF YEAR	<u>1,574,654</u>	<u>782,258</u>	<u>(1,128,538)</u>	<u>1,228,374</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ 1,599,580</u>	<u>\$ 750,611</u>	<u>\$ -</u>	<u>\$ 2,350,191</u>

TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR OTHER PROPRIETARY FUNDS
Year Ended June 30, 2013

	Land Enterprise	Airport Industrial Land	East End Redevelopment	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 384,719	\$ 3,080	\$ -	\$ 387,799
Cash paid for services	(76,788)	-	(353,575)	(430,363)
Net cash provided by (used in) operating activities	<u>307,931</u>	<u>3,080</u>	<u>(353,575)</u>	<u>(42,564)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Transfers from other funds	<u>15,000</u>	<u>-</u>	<u>353,567</u>	<u>368,567</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of capital asset	<u>(185,338)</u>	<u>-</u>	<u>-</u>	<u>(185,338)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on cash deposits and investments	<u>-</u>	<u>-</u>	<u>8</u>	<u>8</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	137,593	3,080	-	140,673
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>308,310</u>	<u>128,180</u>	<u>-</u>	<u>436,490</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 445,903</u>	<u>\$ 131,260</u>	<u>\$ -</u>	<u>\$ 577,163</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$ 9,926	\$ (31,647)	\$ (55,824)	\$ (77,545)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	94,828	34,727	55,802	185,357
Changes in operating assets and liabilities:				
Accounts receivable, net	744	-	-	744
Due to/from other funds	190,733	-	(345,231)	(154,498)
Accounts payable and accrued expenses	11,700	-	(8,322)	3,378
Total adjustments	<u>298,005</u>	<u>34,727</u>	<u>(297,751)</u>	<u>34,981</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 307,931</u>	<u>\$ 3,080</u>	<u>\$ (353,575)</u>	<u>\$ (42,564)</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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 446,790	\$ 446,790
EXPENDITURES				
General governmental	139,000	139,000	187,485	(48,485)
Public safety	293,353	293,353	1,183,964	(890,611)
Public works	1,990,221	1,990,221	2,702,082	(711,861)
Recreation and cultural	210,654	210,654	361,808	(151,154)
Total expenditures	<u>2,633,228</u>	<u>2,633,228</u>	<u>4,435,339</u>	<u>(1,802,111)</u>
OTHER FINANCING SOURCES				
Transfer from Impact fees				-
Conduit Contributions				-
Operating transfers in	<u>1,775,195</u>	<u>4,775,195</u>	<u>4,775,195</u>	<u>-</u>
Total other financing sources	<u>1,775,195</u>	<u>4,775,195</u>	<u>4,775,195</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u><u>\$ (858,033)</u></u>	<u><u>\$ 2,141,967</u></u>	<u>\$ 786,646</u>	<u><u>\$ (1,355,321)</u></u>
FUND BALANCE, BEGINNING OF YEAR			<u>1,536,672</u>	
FUND BALANCE, END OF YEAR			<u><u>\$ 2,323,318</u></u>	